PNC FINANCIAL SERVICES GROUP, INC.
Form 10-K
February 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2011

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, including zip code)

Registrant s telephone number, including area code **- (412) 762-2000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $5.00	New York Stock Exchange
Depositary Shares Each Representing 1/4000 Interest in a Share of 9.875% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series L, par value $1.00	New York Stock Exchange
12.000% Fixed-to-Floating Rate Normal Automatic Preferred Enhanced Capital Securities (issued by National City Preferred Capital Trust I)	New York Stock Exchange
6.625% Trust Preferred Securities (issued by National City Capital Trust III)	New York Stock Exchange
8.000% Trust Preferred Securities (issued by National City Capital Trust IV)	New York Stock Exchange
6.125% Capital Securities (issued by PNC Capital Trust D)	New York Stock Exchange
7 3/4% Trust Preferred Securities (issued by PNC Capital Trust E)	New York Stock Exchange

Warrants (expiring December 31, 2018) to purchase Common Stock New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

$1.80 Cumulative Convertible Preferred Stock - Series B, par value $1.00

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No __

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No X

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No __

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer X Accelerated filer __ Non-accelerated filer __ Smaller reporting company __

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

The aggregate market value of the registrant s outstanding voting common stock held by nonaffiliates on June 30, 2011, determined using the per share closing price on that date on the New York Stock Exchange of $59.61, was approximately $31.3 billion. There is no non-voting common equity of the registrant outstanding.

Number of shares of registrant s common stock outstanding at February 17, 2012: 527,568,487

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of The PNC Financial Services Group, Inc. to be filed pursuant to Regulation 14A for the 2012 annual meeting of shareholders (Proxy Statement) are incorporated by reference into Part III of this Form 10-K.

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PART I

Forward-Looking Statements: From time to time, The PNC Financial Services Group, Inc. (PNC or the Corporation) has made and may continue to make written or oral forward-looking statements regarding our outlook for earnings, revenues, expenses, capital levels and ratios, liquidity levels, asset levels, asset quality and other matters regarding or affecting PNC and its future business and operations or the impact of legal, regulatory or supervisory matters on our business operations or performance. This Annual Report on Form 10-K (the Report or Form 10-K) also includes forward-looking statements. With respect to all such forward-looking statements, you should review our Risk Factors discussion in Item 1A, our Risk Management, Critical Accounting Estimates And Judgments, and Cautionary Statement Regarding Forward-Looking Information sections included in Item 7, and Note 22 Legal Proceedings and Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

ITEM 1 BUSINESS

BUSINESS OVERVIEW

Headquartered in Pittsburgh, Pennsylvania, we are one of the largest diversified financial services companies in the United States. We have businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking, providing many of our products and services nationally and others in our primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, Kentucky, Florida, Washington, D.C., Delaware, Virginia, Missouri, Wisconsin and Georgia. We also provide certain products and services internationally. At December 31, 2011, our consolidated total assets, deposits and total shareholders equity were

$271.2 billion, $188.0 billion and $34.1 billion, respectively.

We were incorporated under the laws of the Commonwealth of Pennsylvania in 1983 with the consolidation of Pittsburgh National Corporation and Provident National Corporation. Since 1983, we have diversified our geographical presence, business mix and product capabilities through internal growth, strategic bank and non-bank acquisitions and equity investments, and the formation of various non-banking subsidiaries.

Pending Acquisition of RBC Bank (USA)

On June 19, 2011, we entered into a definitive agreement with Royal Bank of Canada and RBC USA Holdco Corporation to acquire RBC Bank (USA), the US retail banking subsidiary of Royal Bank of Canada, for $3.45 billion. The purchase price is subject to certain adjustments, including adjustments based on the closing date tangible net asset value of RBC Bank (USA), as defined in the definitive agreement. RBC Bank (USA) has approximately $25 billion in proforma assets as reflected in the definitive agreement to be included in the transaction and more than 400 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The transaction is expected to close in March 2012, subject to remaining customary closing conditions.

Flagstar Branch Acquisition

Effective December 9, 2011, PNC acquired 27 branches in the northern metropolitan Atlanta, Georgia area from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc. We assumed approximately $210 million of deposits associated with these branches. No loans were acquired in the transaction.

BankAtlantic Branch Acquisition

Effective June 6, 2011, PNC acquired 19 branches in the greater Tampa, Florida area from BankAtlantic, a subsidiary of BankAtlantic Bancorp, Inc. We assumed approximately $324 million of deposits associated with these branches. No loans were acquired in the transaction.

Review of Business Segments

In addition to the following information relating to our lines of business, we incorporate the information under the captions

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Business Segment Highlights, Product Revenue, and Business Segments Review in Item 7 of this Report here by reference. Also, we include the financial and other information by business in Note 25 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report here by reference.

Assets, revenue and earnings attributable to foreign activities were not material in the periods presented. Business segment results for periods prior to 2011 have been reclassified to reflect current methodologies and current business and management structure and to present those periods on the same basis. Business segment information does not include PNC Global Investment Servicing Inc. (GIS). Results of operations of GIS through June 30, 2010 and the related after-tax gain on its sale in the third quarter of 2010 are reflected in discontinued operations.

Retail Banking provides deposit, lending, brokerage, investment management, and cash management services to consumer and small business customers within our primary geographic markets. Our customers are serviced through our branch network, call centers and online banking channels. The branch network is principally located in our primary geographical markets.

Our core strategy is to acquire and retain customers who maintain their primary checking and transaction relationships with PNC. We also seek revenue growth by deepening our share of our customers financial assets, including savings and liquidity deposits, loans and investable assets. A key element of our strategy is to expand the use of lower-cost alternative distribution channels while continuing to optimize the traditional branch network. In addition, we have a disciplined process to continually improve the engagement of both our employees and customers, which is a strong indicator of customer growth, retention and relationship expansion.

Corporate & Institutional Banking provides lending, treasury management, and capital markets-related products and services to mid-sized corporations, government and not-for-profit entities, and selectively to large corporations. Lending products include secured and unsecured loans, letters of credit and equipment leases. Treasury management services include cash and investment management, receivables management, disbursement services, funds transfer services, information reporting, and global trade services. Capital markets-related products and services include foreign exchange, derivatives, loan syndications, mergers and acquisitions advisory and related services to middle-market companies, our multi-seller conduit, securities underwriting, and securities sales and trading. Corporate & Institutional Banking also provides commercial loan servicing, and real estate advisory and technology solutions for the commercial real estate finance industry. Corporate & Institutional Banking provides products and services generally within our primary geographic markets, with certain products and services offered nationally and internationally.

Corporate & Institutional Banking is focused on becoming a premier provider of financial services in each of the markets it serves. The value proposition to its customers is driven by providing a broad range of competitive and high quality products and services by a team fully committed to delivering the comprehensive resources of PNC to help each client succeed. Corporate & Institutional Banking s primary goals are to achieve market share growth and enhanced returns by means of expansion and retention of customer relationships and prudent risk and expense management.

Asset Management Group includes personal wealth management for high net worth and ultra high net worth clients and institutional asset management. Wealth management products and services include financial and retirement planning, customized investment management, private banking, tailored credit solutions and trust management and administration for individuals and their families. Institutional asset management provides investment management, custody, and retirement planning services. The institutional clients include corporations, unions, municipalities, non-profits, foundations and endowments located primarily in our geographic footprint.

Asset Management Group is focused on being one of the premier bank-held individual and institutional asset managers in each of the markets it serves. The business seeks to deliver high quality advice and investment management to our high net worth, ultra high net worth and institutional client sectors through a broad array of products and services. Asset Management Group s primary goals are to service its clients, grow its business and deliver solid financial performance with prudent risk and expense management.

Residential Mortgage Banking directly originates primarily first lien residential mortgage loans on a nationwide basis with a significant presence within the retail banking footprint, and also originates loans through majority owned affiliates. Mortgage loans represent loans collateralized by one-to-four-family residential real estate. These loans are typically underwritten to government agency and/or third-party standards, and sold, servicing retained, to secondary mortgage conduits Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks and third-party investors, or are securitized and issued under the Government National Mortgage Association (GNMA) program, as described in more detail in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in Item 8 of this Report and included here by reference. The mortgage servicing operation performs all functions related to servicing mortgage loans primarily those in first lien position for various investors and for loans owned by PNC. Certain loans originated through majority owned affiliates are sold to others.

Residential Mortgage Banking is focused on adding value to the PNC franchise by building stronger customer relationships, providing quality investment loans, and

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delivering acceptable returns under a moderate risk profile. Our national distribution capability provides volume that drives economies of scale, risk dispersion, and cost-effective extension of the retail banking footprint for cross-selling opportunities.

BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. BlackRock provides diversified investment management services to institutional clients, intermediary and individual investors through various investment vehicles. Investment management services primarily consist of the management of equity, fixed income, multi-asset class, alternative investment and cash management products. BlackRock offers its investment products in a variety of vehicles, including open-end and closed-end mutual funds, *iShares*® exchange-traded funds (ETFs), collective investment trusts and separate accounts. In addition, BlackRock provides market risk management, financial markets advisory and enterprise investment system services to a broad base of clients. Financial markets advisory services include valuation services relating to illiquid securities, dispositions and workout assignments (including long-term portfolio liquidation assignments), risk management and strategic planning and execution.

We hold an equity investment in BlackRock. Our investment in BlackRock is a key component of our diversified revenue strategy. BlackRock s ability to increase revenue, earnings and shareholder value over time is predicated on its ability to generate new business in investment management and *BlackRock Solutions* products and services. New business efforts are dependent on BlackRock s ability to achieve clients investment objectives in a manner consistent with their risk preferences and to deliver excellent client service. All of these efforts require the commitment and contributions of BlackRock employees. Accordingly, the ability to attract and retain talented professionals is critical to BlackRock s long-term success.

Non-Strategic Assets Portfolio (formerly, Distressed Assets Portfolio) includes commercial residential development loans, cross-border leases, consumer brokered home equity loans, retail mortgages, non-prime mortgages, and residential construction loans. We obtained the majority of these non-strategic assets through acquisitions of other companies, and they fall outside of our core business strategy.

Subsidiaries

Our corporate legal structure at December 31, 2011 consisted of one domestic subsidiary bank, including its subsidiaries, and approximately 122 active non-bank subsidiaries. Our bank subsidiary is PNC Bank, National Association (PNC Bank, N.A.), headquartered in Pittsburgh, Pennsylvania. For additional information on our subsidiaries, see Exhibit 21 to this Report.

Statistical Disclosure By Bank Holding Companies

The following statistical information is included on the indicated pages of this Report and is incorporated herein by reference:

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Average Consolidated Balance Sheet And Net Interest Analysis	208
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Short-term borrowings not included as average balances during 2011, 2010 and 2009 were less than 30% of total shareholders equity at the end of each period.

European Exposure

As of December 31, 2011, our loans, leases, securities, derivatives, letters of credit, unfunded contractual commitments and other direct financial exposure (exposure) with European entities totaled $2.1 billion of which $1.6 billion or .59% of our total assets represent outstanding balances. European entities are defined as supranational, sovereign, financial institutions and non-financial entities within the countries that comprise the European Union, European Union candidate countries and other European countries. Of the $2.1 billion in direct financial exposure, $357 million are securities issued by AAA-rated sovereigns, $625 million represents cross-border leases in support of national infrastructure and supported by letters of credit having trigger mechanisms that require collateral in the form of cash or United States Treasury securities, and $440 million of unfunded contractual commitments primarily to United Kingdom local office commitments for Business Credit corporate customers on a secured basis. There was no individual country where the exposure was greater than .75% of total assets.

We also track other European financial exposures where PNC is appointed as a fronting bank by our clients and we elect to assume the joint probability of default risk. For PNC to incur a loss in these types of indirect exposures, the obligor and the financial counterparty participating bank would need to default. As of December 31, 2011, PNC had $2.0 billion of indirect exposure where PNC is the fronting bank.

Foreign exposure underwriting and approvals are centralized. Country exposures are monitored and reported on a regular basis. We actively monitor sovereign risk, banking system health, and market conditions and adjust limits as appropriate. We rely on information from internal and external sources including international financial institutions, economists and analysts, industry trade organizations, rating agencies, econometric data analytical service providers, and geopolitical news analysis services.

Among the regions and nations that PNC monitors, we have identified eight countries for which we are more closely monitoring their economic and financial situation. The basis for the increased monitoring includes, but is not limited to, sovereign debt burden, near term financing risk, political instability, GDP trends, balance of payments, market confidence, banking system distress and/or holdings of stressed sovereign debt. The countries identified are: Greece, Ireland, Italy, Portugal, Spain (collectively GIIPS), Belgium, France and Turkey. Direct and indirect exposure to entities in the GIIPS countries totaled $181 million as of December 31, 2011 of which $118 million is direct exposure in the form of cross-border leases within Portugal and indirect exposure primarily composed of $48 million from letters of credit with strong underlying obligors and $15 million of unfunded commitments to Spain. Direct and indirect exposure to entities in Belgium, France, and Turkey totaled $924 million as of December 31, 2011 of which, there is direct exposure of $75 million in the form of cross-border leases

within Belgium, and $11 million of 90% Overseas Private Investment Corporation (OPIC) guaranteed Turkish loans and indirect exposure primarily composed of $770 million in letters of credit with strong underlying obligors in France and Belgium.

Supervision And Regulation

Overview

PNC is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (BHC Act) and a financial holding company under the Gramm-Leach-Bliley Act (GLB Act).

We are subject to numerous governmental regulations, some of which are highlighted below. You should also read Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, included here by reference, for additional information regarding our regulatory matters. Applicable laws and regulations restrict our permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, investment management and other customers, among other things. They also restrict our ability to repurchase stock or pay dividends, or to receive dividends from bank subsidiaries, and impose capital adequacy requirements. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions.

In addition, we are subject to comprehensive examination and supervision by, among other regulatory bodies, the Board of Governors of the Federal Reserve System (Federal Reserve) and the Office of the Comptroller of the Currency (OCC), which results in examination reports and ratings (which are not publicly available) that can impact the conduct and growth of our businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. The results of examination activity by any of our federal bank regulators potentially can result in the imposition of significant limitations on our activities and growth. These regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the relevant agency determines, among other things, that such operations are conducted in an unsafe or unsound manner, fail to comply with applicable law or are otherwise inconsistent with the regulations or supervisory policies of the agency. This supervisory framework could materially impact the conduct, growth and profitability of our operations.

We also are subject to regulation by the Securities and Exchange Commission (SEC) by virtue of our status as a public company and by the SEC and the Commodity Futures Trading Commission (CFTC) due to the nature of some of our businesses. Our banking and securities businesses with operations outside the United States, including those conducted by BlackRock, are also subject to regulation by

appropriate authorities in the foreign jurisdictions in which they do business.

Effective as of July 21, 2011, the Consumer Financial Protection Bureau (CFPB), a new agency established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), assumed responsibility for examining PNC Bank, N.A. and its affiliates (including PNC) for compliance with consumer financial protection laws and enforcing such laws with respect to PNC Bank, N.A. and its affiliates. This authority previously was exercised by the OCC and Federal Reserve. Starting July 21, 2011, the CFPB also assumed authority for prescribing rules governing the provision of consumer financial products and services such as credit cards, student and other loans, deposits and residential mortgages. After this date, the subsidiaries of PNC Bank, N.A. are generally subject to state consumer protection laws. Additionally, new provisions concerning the applicability of state consumer protection laws to national banks became effective on July 21, 2011. Questions may arise as to whether certain state consumer financial laws may be preempted with respect to PNC Bank, N.A. after this date. We expect to experience an increase in regulation of our retail banking business and additional compliance obligations, revenue and costs impacts.

As a regulated financial services firm, our relationships and good standing with regulators are of fundamental importance to the operation and growth of our businesses. The Federal Reserve, OCC, SEC, and other domestic and foreign regulators have broad enforcement powers, and powers to approve, deny, or refuse to act upon our applications or notices to conduct new activities, acquire or divest businesses or assets and deposits, or reconfigure existing operations. Dodd-Frank provides the CFPB with broad enforcement powers over PNC Bank, N.A. and its affiliates with respect to compliance with consumer financial protection laws. The CFPB also has the ability to issue rules that affect a wide range of the consumer financial products and services that we provide.

We anticipate new legislative and regulatory initiatives over the next several years, focused specifically on banking and other financial services in which we are engaged. These initiatives would be in addition to the actions already taken by Congress and the regulators, including the Emergency Economic Stabilization Act of 2008 (EESA), the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit CARD Act), the Secure and Fair Enforcement for Mortgage Licensing Act (the SAFE Act), and Dodd-Frank, as well as changes to the regulations implementing the Real Estate Settlement Procedures Act, the Federal Truth in Lending Act, and the Electronic Fund Transfer Act, including the new rules set forth in Regulation E related to overdraft charges.

Dodd-Frank, which was signed into law on July 21, 2010, comprehensively reforms the regulation of financial institutions, products and services. Dodd-Frank requires various federal regulatory agencies to implement numerous rules and regulations. Because the federal agencies are granted broad discretion in drafting these rules and regulations, and many implementing rules either have not yet been issued or have only been issued in proposed form, many of the details and much of the impact of Dodd-Frank may not be known for many months or years. Among other things, Dodd-Frank provides for new capital standards that eliminate the treatment of trust preferred securities as Tier 1 regulatory capital; requires that deposit insurance assessments be calculated based on an insured depository institution s assets rather than its insured deposits, and raises the minimum Designated Reserve Ratio (the balance in the Deposit Insurance Fund divided by estimated insured deposits) to 1.35%; establishes a comprehensive regulatory regime for the derivatives activities of financial institutions; limits proprietary trading and owning or sponsoring hedge funds and private equity funds by banking entities; requires the Federal Reserve to establish a variety of enhanced prudential standards for bank holding companies with $50 billion or more in total assets; places limitations on the interchange fees we can charge for debit card transactions; and establishes new minimum mortgage underwriting standards for residential mortgages.

Legislative and regulatory developments to date, as well as those that come in the future, have had and are likely to continue to have an impact on the conduct of our business. The more detailed description of the significant regulations to which we are subject included in this Report is based on the current regulatory environment and is subject to potentially material change. See also the additional information included in Item 1A of this Report under the risk factors discussing the impact of financial regulatory reform initiatives, including Dodd-Frank and regulations promulgated to implement it, on the regulatory environment for the financial services industry. Among other areas that have been receiving a high level of regulatory focus over the last several years are compliance with anti-money laundering laws and the protection of confidential customer information. In addition, at least in part driven by the current economic and financial situation, there is an increased focus on fair lending and other issues related to the mortgage industry. Ongoing mortgage-related regulatory reforms include measures aimed at reducing mortgage foreclosures.

Additional legislation, changes in rules promulgated by the Federal Reserve, the OCC, the Federal Deposit Insurance Corporation (FDIC), the CFPB, the SEC, the CFTC, other federal and state regulatory authorities and self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules may directly affect the method of operation and profitability of our businesses. The profitability of our businesses could also be affected by rules and regulations that impact the business and financial communities

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There are numerous rules governing the regulation of financial services institutions and their holding companies. Accordingly, the following discussion is general in nature and does not purport to be complete or to describe all of the laws and regulations that apply to us. To a substantial extent, the purpose of the regulation and supervision of financial services institutions and their holding companies is not to protect our shareholders and our non-customer creditors, but rather to protect our customers (including depositors) and the financial markets in general.

BANKING REGULATION AND SUPERVISION

On November 22, 2011, the Federal Reserve adopted a final rule implementing an annual capital plan review process for domestic bank holding companies (BHCs) that have $50 billion or more in total consolidated assets. In addition, on that date, the Federal Reserve launched its annual review process, referred to as the Comprehensive Capital Analysis and Review (CCAR), for 2012. In connection with the 2012 CCAR, and as part of the annual capital planning process in future years, the Federal Reserve will undertake a supervisory assessment of the capital adequacy of the BHCs, including PNC, that have $50 billion or more in total consolidated assets. This capital adequacy assessment will be based on a review of a comprehensive capital plan submitted by each participating BHC to the Federal Reserve. In connection with the 2012 CCAR, PNC filed its capital plan with the Federal Reserve on January 9, 2012.

The Federal Reserve will evaluate PNC s capital plan based on PNC s risk profile and the strength of PNC s internal capital assessment process under the regulatory capital standards currently applicable and in accordance with PNC s plans to address proposed revisions to the regulatory capital framework developed by the Basel Committee on Banking Supervision (Basel III) and as set forth in relevant provisions of Dodd-Frank. The Federal Reserve s evaluation will take into consideration any capital distribution plans, such as plans to pay or increase common stock dividends or to reinstate or increase common stock repurchase programs. In conducting this analysis, the Federal Reserve will consider the projected capital adequacy and performance of PNC under base case and adverse economic scenarios developed by both PNC and the Federal Reserve. After completing its review, the Federal Reserve may object or not object to the firm s proposed capital actions. The Federal Reserve has stated that, after completion of the 2012 CCAR exercise, it expects to publish the Federal Reserve s estimates of certain capital, revenue and loss information under the Federal Reserve s own supervisory stress scenario for each of the largest 19 BHCs participating in the 2012 reviews, including PNC.

PNC expects to receive the Federal Reserve s response (either a non-objection or objection) to the capital plan submitted as part of the 2012 CCAR by the end of the first quarter 2012. The Basel III capital framework has yet to be finalized by the Federal banking agencies and is therefore subject to further

change. Using management s assumptions relevant to calculation of ratios under Basel III, PNC expects its proforma Tier 1 common ratio under Basel III to reach about 8.0 to 8.5 percent during 2013. This estimate is based on available data and information as of December 31, 2011 and on the phase-in of Basel III rules. It also represents our assumptions and interpretations regarding the Basel II advanced measurement approaches regarding the calculation of risk-weighted assets related to credit, operational and market risk. Both our Basel II and Basel III estimates are point in time estimates and will be subject to both further regulatory guidance and clarity, and the refinement of internal estimates and methodologies.

As a result of Dodd-Frank, subsidiaries of PNC Bank, N.A. will be subject to state law and regulation to the same extent as if they were not subsidiaries of a national bank. Additionally, based on Dodd-Frank, state authorities may assert that certain state consumer financial laws that provide different requirements or limitations than Federal law may apply to national banks, including PNC Bank, N.A. Such state laws may be preempted if they meet certain standards set forth in Dodd-Frank or other applicable law.

Dodd-Frank established the 10-member inter-agency Financial Stability Oversight Council (FSOC), which is charged with identifying systemic risks and strengthening the regulation of in general, including changes to the laws governing taxation, antitrust regulation and electronic commerce. financial holding companies and certain non-bank companies deemed to be systemically important and could, in extraordinary cases and in conjunction with the Federal Reserve, break up financial firms that are deemed to be too big to fail. Dodd-Frank also requires the Federal Reserve to establish prudential standards for bank holding companies with total consolidated assets equal to or greater than $50 billion that are more stringent than the standards and requirements applicable to bank holding companies with assets below this threshold, and that increase in stringency for bank holding companies that present heightened risk to the financial system. Additional information concerning these enhanced prudential standards is provided in Item 1A of this Report. The FSOC may make recommendations to the Federal Reserve concerning the establishment and refinement of these prudential standards and reporting and disclosure requirements.

Because of PNC s ownership interest in BlackRock, BlackRock is subject to the supervision and regulation of the Federal Reserve.

Parent Company Liquidity and Dividends. The principal source of our liquidity at the parent company level is dividends from PNC Bank, N.A. PNC Bank, N.A. is subject to various federal restrictions on its ability to pay dividends to PNC Bancorp, Inc., its direct parent. PNC Bank, N.A. is also subject to federal laws limiting extensions of credit to its parent holding company and non-bank affiliates as discussed

in Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference. Further information on bank level liquidity and parent company liquidity and on certain contractual restrictions is also available in Liquidity Risk Management in the Risk Management section and Trust Preferred Securities in the Off-Balance Sheet Arrangements and VIEs section of Item 7 of this Report, and in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Under Federal Reserve policy, a bank holding company is expected to serve as a source of financial strength to its subsidiary banks and to commit resources to support such banks. Consistent with the source of strength policy for subsidiary banks, the Federal Reserve has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the corporation s capital needs, asset quality and overall financial condition. Further, in providing guidance to the large BHCs participating in the 2012 CCAR, discussed above, the Federal Reserve stated that it expects plans submitted in 2012 will reflect conservative dividend payout ratios and net share repurchase programs, and that requests that imply common dividend payout ratios above 30% of projected after-tax net income available to common shareholders will receive particularly close scrutiny. The Federal Reserve stated that it expects BHCs that meet the minimum capital ratio requirements under Basel III during the transition periods provided by Basel III, but that do not meet the fully-phased in Basel III ratio of 7 percent Tier 1 common equity (plus any applicable capital surcharge for globally systemically important banks), to maintain prudent earnings retention policies with a view to meeting the fully-phased in requirement as soon as reasonably possible.

Additional Powers Under the GLB Act. The Gramm Leach Bliley Act (GLB Act) permits a qualifying bank holding company to become a financial holding company and thereby engage in, or affiliate with financial companies engaging in, a broader range of activities than would otherwise be permitted for a bank holding company. Permitted affiliates include securities underwriters and dealers, insurance companies and companies engaged in other activities that are determined by the Federal Reserve, in consultation with the Secretary of the Treasury, to be financial in nature or incidental thereto or are determined by the Federal Reserve unilaterally to be complementary to financial activities. We became a financial holding company as of March 13, 2000. In order to be and remain a financial holding company, a bank holding company and its subsidiary depository institutions must be well capitalized and well managed. In addition, a

financial holding company generally may not engage in a new financial activity if any of its insured depository institutions received a less than Satisfactory rating at its most recent evaluation under the Community Reinvestment Act (CRA).

The Federal Reserve is the umbrella regulator of a financial holding company, with its operating entities, such as its subsidiary broker-dealers, investment managers, investment companies, insurance companies and banks, also subject to the jurisdiction of various federal and state functional regulators with normal regulatory responsibility for companies in their lines of business.

As subsidiaries of a financial holding company under the GLB Act, our non-bank subsidiaries are generally allowed to conduct new financial activities, and PNC is generally permitted to acquire non-bank financial companies that have less than $10 billion in assets, with after-the-fact notice to the Federal Reserve. In addition, our non-bank subsidiaries (and any financial subsidiaries of subsidiary banks) are permitted to engage in certain activities that were not permitted for bank holding companies and banks prior to enactment of the GLB Act, and to engage on less restrictive terms in certain activities that were previously permitted. Among other activities, we currently rely on our status as a financial holding company to conduct merchant banking activities and securities underwriting and dealing activities. In addition, the GLB Act permits national banks, such as PNC Bank, N.A., to engage in expanded activities through the formation of a financial subsidiary. PNC Bank, N.A. has filed a financial subsidiary certification with the OCC and currently engages in insurance agency activities through financial subsidiaries. PNC Bank, N.A. may also generally engage through a financial subsidiary in any activity that is financial in nature or incidental to a financial activity. Certain activities, however, are impermissible for a financial subsidiary of a national bank, including insurance underwriting, insurance company investment activities, real estate investment or development, and merchant banking.

Other Federal Reserve and OCC Regulation and Supervision. The federal banking agencies possess broad powers to take corrective action as deemed appropriate for an insured depository institution and its holding company. In some cases, the extent of these powers depends upon whether the institution in question is considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. Generally, the smaller an institution s capital base in relation to its risk-weighted or total assets, the greater the scope and severity of the agencies powers, ultimately permitting the agencies to appoint a receiver for the institution. Business activities may also be influenced by an institution s capital classification. For instance, only a well capitalized depository institution may accept brokered deposits without prior regulatory approval and an adequately capitalized depository institution may

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Laws and regulations limit the scope of our permitted activities and investments. In addition to the activities that would be permitted to be conducted by a financial subsidiary, national banks (such as PNC Bank, N.A.) and their operating subsidiaries may engage in any activities that are determined by the OCC to be part of or incidental to the business of banking.

Moreover, examination ratings of 3 or lower, lower capital ratios than peer group institutions, regulatory concerns regarding management, controls, assets, operations or other factors, can all potentially result in practical limitations on the ability of a bank or bank holding company to engage in new activities, grow, acquire new businesses, repurchase its stock or pay dividends, or to continue to conduct existing activities.

The Federal Reserve s prior approval is required whenever we propose to acquire all or substantially all of the assets of any bank or thrift, to acquire direct or indirect ownership or control of more than 5% of any class of voting shares of any bank or thrift, or to merge or consolidate with any other bank holding company or thrift holding company. The BHC Act enumerates the factors the Federal Reserve Board must consider when reviewing the merger of bank holding companies or the acquisition of banks. These factors include the competitive effects of the proposal in the relevant geographic markets; the financial and managerial resources and future prospects of the companies and banks involved in the transaction; the effect of the transaction on financial stability; the organizations compliance with anti-money laundering laws and regulations; the convenience and needs of the communities to be served; and the records of performance under the CRA of the insured depository institutions involved in the transaction. In cases involving interstate bank acquisitions, the Board also must consider the concentration of deposits nationwide and in certain individual states. OCC prior approval is required for PNC Bank, N.A. to acquire another insured bank or thrift by merger. In deciding whether to approve such a transaction, the OCC is required to consider factors similar to those that must be considered by the Federal Reserve. Our ability to grow through acquisitions could be limited by these approval requirements.

At December 31, 2011, PNC Bank, N.A. was rated Outstanding with respect to CRA.

FDIC Insurance. PNC Bank, N.A. is insured by the FDIC and subject to premium assessments. Regulatory matters could increase the cost of FDIC deposit insurance premiums to an insured bank as FDIC deposit insurance premiums are risk based. Therefore, higher fee percentages would be charged to banks that have lower capital ratios or higher risk profiles. These risk profiles take into account weaknesses that are found by the primary banking regulator through its examination and supervision of the bank. A negative evaluation by the FDIC or a bank s primary federal banking regulator could increase the costs to a bank and result in an

aggregate cost of deposit funds higher than that of competing banks in a lower risk category. Under Dodd-Frank, in April 2011, the deposit insurance base calculation shifted from deposits to average assets less Tier 1 capital. This methodology change did not materially impact the premiums due to the FDIC.

*CFPB Regulation and Supervision***.** The Dodd-Frank Act gives the CFPB authority to examine PNC and PNC Bank, N.A. for compliance with a broad range of federal consumer financial laws and regulations, including the laws and regulations that relate to credit card, deposit, mortgage and other consumer financial products and services we offer. In addition, Dodd-Frank gives the CFPB broad authority to take corrective action against PNC Bank, N.A. and PNC as it deems appropriate. The CFPB also has powers that it was assigned in Dodd-Frank to issue regulations and take enforcement actions to prevent and remedy acts and practices relating to consumer financial accept brokered deposits only with prior regulatory approval. At December 31, 2011, PNC Bank, N.A. exceeded the required ratios for classification as well capitalized. For additional discussion of capital adequacy requirements, we refer you to Funding and Capital Sources in the Consolidated Balance Sheet Review section of Item 7 of this Report and to Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report. products and services that it deems to be unfair, deceptive or abusive. The agency also has authority to impose new disclosure requirements for any consumer financial product or service. These authorities are in addition to the authority the CFPB assumed on July 21, 2011 under existing consumer financial law governing the provision of consumer financial products and services.

SECURITIES AND DERIVATIVES REGULATION

The SEC is the functional regulator of our registered broker-dealer and investment advisor subsidiaries. The registered broker-dealer subsidiaries are also subject to rules and regulations promulgated by the Financial Industry Regulatory Authority (FINRA), among others.

Several of our subsidiaries are registered with the SEC as investment advisers and provide services to clients, other PNC affiliates and related entities, including registered investment companies. Under rules adopted under Dodd-Frank, we have been required to register additional subsidiaries as investment advisors to private equity funds. Broker-dealer subsidiaries are subject to the requirements of the Securities Exchange Act of 1934, as amended, and the regulations thereunder. Investment advisor subsidiaries are subject to the requirements of the Investment Advisers Act of 1940, as amended, and the regulations thereunder. An investment advisor to registered investment companies is also subject to the requirements of the Investment Company Act of 1940, as amended, and the regulations thereunder.

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Our broker-dealer and investment advisory subsidiaries also may be subject to state securities laws and regulations. Over the past several years, the SEC and other governmental agencies have been focused on the mutual fund, hedge fund and broker-dealer industries. Congress and the SEC have adopted regulatory reforms and are continuing additional reforms that have increased, and are likely to continue to increase, the extent of regulation of the mutual fund, hedge fund and broker-dealer industries and impose additional compliance obligations and costs on our subsidiaries involved with those industries.

Under provisions of the federal securities laws applicable to broker-dealers, investment advisers and registered investment companies and their service providers, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in fines, restitution, a limitation on permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations can also affect a public company in its timing and ability to expeditiously issue new securities into the capital markets. In addition, certain changes in the activities of a broker-dealer require approval from FINRA, and FINRA takes into account a variety of considerations in acting upon applications for such approval, including internal controls, capital levels, management experience and quality, prior enforcement and disciplinary history and supervisory concerns.

BlackRock has subsidiaries in securities and related businesses subject to SEC and FINRA regulation, as described above, and a federally chartered nondepository trust company subsidiary subject to supervision and regulation by the OCC. For additional information about the regulation of BlackRock, we refer you to the discussion under the Regulation section of Item 1 Business in BlackRock s most recent Annual Report on Form 10-K, which may be obtained electronically at the SEC s website at www.sec.gov.

In addition, Title VII of Dodd-Frank subjects virtually all derivative transactions (swaps) to regulation by either the CFTC (in the case of non security-based swaps) or the SEC (in the case of security-based swaps). This legislation was enacted, among other reasons, to reduce systemic risk, increase transparency, and promote market integrity within the financial system by, among other things: (i) providing for the registration and comprehensive regulation of swap dealers (SDs) and major swap participants (MSPs); (ii) imposing mandatory clearing and trade execution requirements on all standardized swaps, with certain limited exemptions; (iii) creating robust recordkeeping and real-time public data reporting regimes with respect to swaps; (iv) imposing capital and margin requirements on SDs and MSPs; (v) imposing business conduct requirements on SDs and MSPs in their dealings with counterparties; and (vi) enhancing the CFTC s

and SEC s rulemaking and enforcement authorities with respect to SDs and MSPs. Under the rules anticipated under Dodd-Frank, we expect one or more of our subsidiaries to register with the CFTC as a SD for interest rate and foreign exchange swaps and accordingly be subject to all of the new regulations and requirements imposed on a SD with respect to these types of swaps.

Competition

We are subject to intense competition from various financial institutions and from non-bank entities that can offer a number of similar products and services without being subject to bank regulatory supervision and restrictions.

In making loans, PNC Bank, N.A. competes with traditional banking institutions as well as consumer finance companies, leasing companies and other non-bank lenders, and institutional investors including collateralized loan obligation (CLO) managers, hedge funds, mutual fund complexes and private equity firms. Loan pricing, structure and credit standards are extremely important in the current environment as we seek to achieve appropriate risk-adjusted returns. Traditional deposit-taking activities are also subject to pricing pressures and to customer migration as a result of intense competition for consumer investment dollars.

PNC Bank, N.A. competes for deposits with:

- Other commercial banks,
- Savings banks,
- Savings and loan associations,
- Credit unions,
- Treasury management service companies,
- Insurance companies, and
- Issuers of commercial paper and other securities, including mutual funds.

Our various non-bank businesses engaged in investment banking and alternative investment activities compete with:

- Commercial banks,
- Investment banking firms,
- Merchant banks,

- Insurance companies,
- Private equity firms, and
- Other investment vehicles.

In providing asset management services, our businesses compete with:

- Investment management firms,
- Large banks and other financial institutions,
- Brokerage firms,
- Mutual fund complexes, and
- Insurance companies.

We include here by reference the additional information regarding competition included in the Item 1A Risk Factors section of this Report.

EMPLOYEES

Employees totaled 51,891 at December 31, 2011. This total includes 45,940 full-time and 5,951 part-time employees.

SEC REPORTS AND CORPORATE GOVERNANCE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (Exchange Act), and, in accordance with the Exchange Act, we file annual, quarterly and current reports, proxy statements, and other information with the SEC. Our SEC File Number is 001-09718. You may read and copy this information at the SEC s Public Reference Room located at 100 F Street NE, Room 1580, Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

You can also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street NE, Washington, D.C. 20549, at prescribed rates.

The SEC also maintains an internet website that contains reports, proxy and information statements, and other information about issuers, like us, who file electronically with the SEC. The address of that site is www.sec.gov. You can also inspect reports, proxy statements and other information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We also make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge on our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. PNC s corporate internet address is www.pnc.com and you can find this information at www.pnc.com/secfilings. Shareholders and bondholders may also obtain copies of these filings without charge by contacting Shareholder Services at 800-982-7652 or via the online contact form at www.computershare.com/contactus for copies without exhibits, and by contacting Shareholder Relations at 800-843-2206 or via e-mail at investor.relations@pnc.com for copies of exhibits, including financial statement and schedule exhibits where applicable. The interactive data file (XBRL) exhibit is only available electronically.

Information about our Board of Directors and its committees and corporate governance at PNC is available on PNC s corporate website at www.pnc.com/corporategovernance. Our PNC Code of Business Conduct and Ethics is available on our corporate website at www.pnc.com/corporategovernance. In addition, any future amendments to, or waivers from, a provision of the PNC Code of Business Conduct and Ethics that applies to our directors or executive officers (including the Chairman and Chief Executive Officer, the Chief Financial Officer and the Controller) will be posted at this internet address.

Shareholders who would like to request printed copies of the PNC Code of Business Conduct and Ethics or our Corporate Governance Guidelines or the charters of our Board s Audit, Nominating and Governance, Personnel and Compensation, or Risk Committees (all of which are posted on the PNC corporate website) may do so by sending their requests to George P. Long, III, Chief Governance Counsel and Corporate Secretary, at corporate headquarters at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707. Copies will be provided without charge to shareholders.

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol PNC.

INTERNET INFORMATION

The PNC Financial Services Group, Inc. s financial reports and information about its products and services are available on the internet at www.pnc.com. We provide information for investors on our corporate website under About PNC Investor Relations, such as Investor Events, Quarterly Earnings, SEC Filings, Financial Information, Financial Press Releases and Message from the Chairman. Under Investor Relations, we will from time to time post information that we believe may be important or useful to investors. We generally post the following shortly before or promptly following its first use or release: financially-related press releases (including earnings releases), various SEC filings, presentation materials associated with earnings and other investor conference calls or events, and access to live and taped audio from such calls or events. When warranted, we will also use our website to expedite public access to time-critical information regarding PNC in advance of distribution of a press release or a filing with the SEC disclosing the same information. You can also find the SEC reports and corporate governance information described in the sections above in the Investor Relations section of our website.

Where we have included web addresses in this Report, such as our web address and the web address of the SEC, we have included those web addresses as inactive textual references only. Except as specifically incorporated by reference into this Report, information on those websites is not part hereof.

ITEM 1A RISK FACTORS

We are subject to a number of risks potentially impacting our business, financial condition, results of operations and cash flows. As a financial services organization, certain elements of risk are inherent in our transactions and are present in the business decisions we make. Thus, we encounter risk as part of the normal course of our business, and we design risk management processes to help manage these risks.

There are risks that are known to exist at the outset of a transaction. For example, every loan transaction presents credit risk (the risk that the borrower may not perform in accordance with contractual terms) and market risk (a

potential loss in earnings or economic value due to adverse movement in market interest rates or credit spreads), with the nature and extent of these risks principally depending on the financial profile of the borrower and overall economic conditions. We focus on lending that is within the boundaries of our risk framework, and manage these risks by adjusting the terms and structure of the loans we make and through our oversight of the borrower relationship, as well as through management of our deposits and other funding sources.

Risk management is an important part of our business model. The success of our business is dependent on our ability to identify, understand and manage the risks presented by our business activities so that we can appropriately balance revenue generation and profitability. These risks include credit risk, market risk, liquidity risk, operational risk, model risk, compliance and legal risk, and strategic and reputation risk. We discuss our principal risk management processes and, in appropriate places, related historical performance in the Risk Management section included in Item 7 of this Report.

The following are the key risk factors that affect us. Any one or more of these risk factors could have a material adverse impact on our business, financial condition, results of operations or cash flows, in addition to presenting other possible adverse consequences, which are described below. These risk factors and other risks are also discussed further in other sections of this Report.

The possibility of the moderate economic recovery returning to recessionary conditions or of turmoil or volatility in the financial markets would likely have an adverse effect on our business, financial position and results of operations.

Although the United States economy has shown modest improvement recently, economic conditions continue to pose a risk to financial institutions, including PNC. The economic recovery, although continuing, did so at a slower pace in 2011 than previously anticipated. Job growth has not yet been sufficient to significantly reduce high unemployment in the United States. Consumer and business confidence remains low. There continues to be concern regarding the possibility of a return to recessionary conditions, as well as regarding the possibility of increased turmoil or volatility in financial markets.

The global recession and disruption of the financial markets has led to concerns over capital markets access and the solvency of certain European Union member states, including Greece, Portugal, Ireland, Italy and Spain, and of financial institutions that have significant direct or indirect exposure to debt issued by these countries. Certain of the major rating agencies have downgraded the sovereign debt of Greece, Portugal and Ireland to below investment grade. The sovereign debt of Italy and Spain were also downgraded. These ratings downgrades and implementation of European Union and private sector support programs have increased

concerns that other European Union member states could experience similar financial troubles. A failure to adequately address sovereign debt concerns in Europe could hamper economic recovery or contribute to a return to recessionary economic conditions and contribute to severe stress in the financial markets, including in the United States.

On August 5, 2011, Standard & Poors s Rating Services lowered its long term sovereign credit rating on the United States of America from AAA to AA+. It is possible that the downgrade and continued concerns about U.S. fiscal policy and trajectory of the national debt of the U.S. could have severe repercussions on the U.S. and global credit and financial markets, further exacerbate concerns over sovereign debt of other countries and could disrupt economic activity in the U.S. and elsewhere.

Current economic conditions have had an adverse effect on our business and financial performance and may not improve in the near future. We expect these conditions to continue to have an ongoing negative impact on us and a worsening of conditions would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry.

In particular, we may face the following risks in connection with the current economic and market environment:

- Investors may have less confidence in the equity markets in general and in financial services industry stocks in particular, which could place downward pressure on PNC s stock price and resulting market valuation.
- Economic and market developments, in the United States, Europe or elsewhere, may further affect consumer and business confidence levels and may cause declines in credit usage and adverse changes in payment patterns, causing increases in delinquencies and default rates.
- The continuation of the current very low interest rate environment, which is expected to continue at least through late 2014 based on statements by the Chairman of the Federal Reserve Board, could affect consumer and business behavior in ways that are adverse to us and could also hamper our ability to increase our net interest income.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors.

The process we use to estimate losses in our credit exposures requires difficult, subjective, and complex judgments, including with respect to economic conditions and how economic conditions might impair the ability of our borrowers to repay their loans. At any point in time or for any length of time, such losses may no longer be capable of accurate

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estimation, which may, in turn, adversely impact the reliability of the process for estimating losses and, therefore, the establishment of adequate reserves for those losses.
We could suffer decreases in customer desire to do business with us, whether as a result of a decreased demand for loans or other financial products and services or decreased deposits or other investments in accounts with PNC.
Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions, or otherwise.
Increased regulation of compensation at financial services companies as part of government efforts to reform the industry may hinder our ability to attract, retain and incentivize well-qualified individuals in key positions.
Investors in mortgage loans and other assets that we sell or sold are more likely to seek indemnification from us against losses or otherwise seek to have us share in such losses or to request us to repurchase loans that they believe do not comply with applicable representations and warranties or other contractual provisions.
We may be subject to additional fees and taxes as the government seeks to recover some of the costs of its recovery efforts, reduce the national debt or pay for additional government programs, in particular from the financial services industry.

The regulatory environment for the financial services industry is being significantly impacted by financial regulatory reform initiatives in the United States and elsewhere, including Dodd-Frank and regulations promulgated to implement it.

The United States and other governments have undertaken major reform of the regulatory oversight structure of the financial services industry, including engaging in new efforts to impose requirements designed to reduce systemic risks and protect consumers and investors from financial abuse. We expect to face further increased regulation of our industry as a result of current and future initiatives intended to provide economic stimulus, financial market stability and enhanced regulation of financial services companies and to enhance the liquidity and solvency of financial institutions and markets. We also expect in many cases more intense scrutiny from our bank supervisors in the examination process and more aggressive enforcement of laws and regulations on both the federal and state levels. Compliance with regulations and other supervisory initiatives will likely increase our cost and reduce our revenue, and may limit our ability to pursue certain desirable business opportunities.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) mandates the most wide-ranging

overhaul of financial industry regulation in decades. Dodd-Frank was signed into law on July 21, 2010. Many parts of the law are now in effect and others are now in the implementation stage, which is likely to continue for several years. The law requires that regulators, some of which are new regulatory bodies created by Dodd-Frank, draft, review and approve more than 300 implementing regulations and conduct numerous studies that are likely to lead to more regulations, a process that, while well underway, is proceeding somewhat slower than originally anticipated, thus extending the uncertainty surrounding the ultimate impact of Dodd-Frank on us. A number of reform provisions are likely to significantly impact the ways in which banks and bank holding companies, including PNC, do business.

Newly created regulatory bodies include the Consumer Financial Protection Bureau (CFPB) and the Financial Stability Oversight Council (FSOC). The CFPB has been given authority to regulate consumer financial products and services sold by banks and non-bank companies and to supervise banks with assets of more than $10 billion and their affiliates for compliance with Federal consumer protection laws. The FSOC has been charged with identifying systemic risks, promoting stronger financial regulation and identifying those non-bank companies that are systemically important and thus should be subject to regulation by the Federal Reserve. In addition, in extraordinary cases and together with the Federal Reserve, the FSOC could break up financial firms that are deemed to present a grave threat to the financial stability of the United States.

Dodd-Frank (through provisions commonly known as the Volcker Rule) prohibits banks from engaging in some types of proprietary trading and restricts the ability of banks to sponsor, invest in or have other financial relationships with private equity or hedge funds. In October 2011, four of the five agencies with authority for rulemaking issued proposed rules to implement the Volcker Rule. In January 2012, the fifth agency issued substantially similar proposed rules. The rules set forth a complex and detailed compliance, reporting and monitoring program for large banks, and seek comments on numerous questions. Comments are due in February 2012 on the four agency proposals and later in 2012 on the single agency proposal and a final rule will not be published until some time after those dates. The proposed rules currently require that banking entities have the necessary compliance programs in place by July 2012. Even with the publication of proposed rules, however, there remains considerable uncertainty and we are closely monitoring regulatory developments related to the Volcker Rule. The manner in which the questions posed by the proposed rules are addressed by the agencies will have an

important influence on the impact of the final rules on PNC. Although PNC no longer has a designated proprietary trading operation, the proposed rules broadly define what constitutes potentially prohibited proprietary trading, thereby making the scope of the statutory and regulatory exemptions for trading activities, including the exemptions for hedging activities and customer trading, all the more important. Until more is known about how the final rules will define proprietary trading and the scope of permissible trading activities, it is not possible to determine the impact to PNC of the proprietary trading prohibition. However, any meaningful limitation on PNC s ability to hedge its risks in the ordinary course or to trade on behalf of customers would likely be adverse to PNC s business and results of operations. In addition, the proposed rules contain extensive compliance and recordkeeping requirements related to permissible trading activities. Such requirements, if included in a final rule, could increase the costs of hedging or other types of permissible transactions and potentially result in PNC not engaging in certain transactions, or types of transactions, in which we would otherwise engage. With respect to the restrictions on private equity and hedge fund activities, as of December 31, 2011, PNC held interests in such funds likely to be covered totaling approximately $880 million and sponsored three such funds with total invested capital of approximately $441 million. PNC expects that over time it will need to eliminate these investments and cease sponsoring these funds, although it is likely that at least some of these amounts will reduce over time in the ordinary course before compliance is required, and the Volcker Rule also permits extensions of the compliance date under some circumstances. A forced sale of some of these investments due to the Volcker Rule could result in PNC receiving less value than it would otherwise have received. Depending on the provisions of the final rule, it is possible that other structures through which PNC conducts business, such as operating subsidiaries, joint ventures or securitization vehicles, but that are not typically referred to as private equity or hedge funds, could be restricted, with an impact that cannot now be evaluated.

Dodd-Frank requires the Federal Reserve to establish enhanced prudential standards governing capital, liquidity, risk management, stress testing and related disclosures, and single-counterparty credit exposure limits for bank holding companies and certain foreign banking organizations with $50 billion or more in consolidated total assets (covered companies). Dodd-Frank also requires the Federal Reserve to establish an early remediation regime for covered companies under which the Federal Reserve must or may take increasingly stringent actions against a covered company as its financial health deteriorates. In December 2011, the Federal Reserve requested comment on proposed rules that would implement these requirements for domestic covered companies, including PNC. The proposed enhanced prudential standards would include, among other things, heightened liquidity risk management and stress testing requirements; new standards governing oversight by a covered company s board of directors and board-level risk committee; and new limits on the aggregate amount of credit exposure a covered company may have to any single customer or counterparty. These proposed rules also would establish an early remediation regime for covered companies, under which the Federal Reserve would be required to take increasingly stringent actions against a covered company as its financial condition or risk management deteriorated as reflected by the company s current or projected post-stress capital levels, compliance with supervisory liquidity and risk management standards and, in some instances, market-based indicators, such as credit default swap spreads. Comments on the proposed rules will be accepted until at least March 31, 2012. Final rules will not be issued until some time after such date, and as such the impact of these rules cannot now be evaluated. Many aspects of the rules, at least as proposed, would not become effective until mid-2013 at the earliest.

In addition, the relevant regulatory agencies have proposed rules to implement the Dodd-Frank provisions requiring retention of risk by certain securitization participants through holding interests in the securitization vehicles, but the rules are not yet finalized or effective. As a result, the ultimate impact of these Dodd-Frank provisions on PNC remains unpredictable. That impact on PNC could be direct, by requiring PNC to hold interests in a securitization vehicle or other assets that represent a portion of the credit risk of the assets held by the securitization vehicle, or indirect, by impacting markets in which PNC participates. Since the beginning of the financial crisis, there has been and continues to be substantially less private (that is, non-government backed) securitization activity than had previously been the case. It is unclear at present whether and to what extent the private securitization markets will rebound. In recent years PNC has only engaged in a limited extent in securitization transactions under circumstances where we might expect to be required to retain additional risk on our balance sheet as a result of implementation of these Dodd-Frank provisions. If the market for private securitizations rebounds and PNC decides to increase its participation in that market, we would likely be required under the regulations to retain more risk

On the indirect impact side, PNC originates loans of a variety of types, including residential and commercial mortgages, credit card, auto, and student, that historically have commonly been securitized, and PNC is also a significant servicer of residential and commercial mortgages held by others, including securitization vehicles. PNC anticipates that the risk retention requirements will impact the market for loans of types that historically have been securitized, potentially affecting the volumes of loans securitized, the types of loan products made available, the terms on which loans are offered, consumer and business demand for loans, and the need for third-party loan servicers. It should be noted that the risk retention rules themselves could have the effect of slowing the rebound in the securitization markets. One effect of having substantially reduced opportunities to securitize loans would likely be a reduction in the willingness of banks, including PNC, to make loans due to balance sheet management requirements. Any of these potential impacts of the Dodd-Frank risk retention rules could affect the way in which PNC conducts its business, including its product offerings, and could also affect PNC s revenue and profitability, although, as noted above, not in ways that are currently predictable.

Dodd-Frank imposes a new regulatory regime on the U.S. derivatives markets. While some of the provisions related to derivatives came into effect July 16, 2011, most of the new requirements await final regulations from the relevant regulatory agencies for derivatives, the Commodity Futures Trading Commission (CFTC) (in the case of non security-based swaps) and the Securities and Exchange Commission (SEC) (in the case of security-based swaps). One aspect of the Dodd-Frank regulatory regime for non security-based swaps is that substantial oversight responsibility has been provided to the CFTC, which, as a result, will for the first time have a meaningful supervisory role with respect to some of PNC s businesses. Although the ultimate impact will depend on the final regulations, PNC expects that its derivatives business will be subject to new substantive requirements, including registration with the CFTC, margin requirements in excess of current market practice, capital requirements specific to this business, real time trade reporting and robust record keeping requirements, business conduct requirements (including daily valuations, disclosure of material risks associated with swaps, and disclosure of PNC s material incentives and conflicts of interest related to its derivatives business), and mandatory clearing and exchange trading of all standardized swaps designated by the relevant regulatory agencies as required to be cleared. To the extent PNC enters into act in the best interests of the special entity. In addition, the final rules for the registration of municipal advisors (which currently remain at the proposal stage) could result in changes in the nature and extent of our municipal swaps business. The above described requirements will collectively impose implementation and ongoing compliance burdens on PNC and will introduce additional legal risk (including as a result of newly applicable antifraud and anti-manipulation provisions and private rights of action).

New provisions under Dodd-Frank concerning the applicability of state consumer protection laws to national banks, such as PNC Bank, N.A., became effective on July 21, 2011. Questions may arise as to whether certain state consumer financial laws that may have previously been preempted by federal law are no longer preempted as a result of the effectiveness of these new provisions. Depending on how such questions are resolved, we may experience an increase in state-level regulation of our retail banking business and additional compliance obligations, revenue impacts and costs. In addition, provisions under Dodd-Frank that also took effect on July 21, 2011 permit state attorneys general to bring civil actions against national banks, such as PNC Bank, N.A., for violations of law, as well as regulations issued by the CFPB.

Dodd-Frank requires bank holding companies that have $50 billion or more in assets, such as PNC, to periodically submit to the Federal Reserve, the FDIC and the FSOC a resolution plan that includes, among other things, an analysis of how the company could be resolved in a rapid and orderly fashion if the company were to fail or experience material financial distress. The Federal Reserve and the FDIC may jointly impose restrictions on PNC, including additional capital requirements or limitations on growth, if the agencies jointly determine that the company s plan is not credible or would not facilitate a rapid and orderly resolution of PNC under the U.S. Bankruptcy Code, and additionally could require PNC to divest assets or take other actions if we did not submit an acceptable resolution plan within two years after any such restrictions were imposed. The FDIC also has adopted a rule that requires large insured depository institutions, including PNC Bank, N.A., to periodically submit a resolution plan to the FDIC that includes, among other things, an analysis of how the institution could be resolved under the Federal Deposit Insurance Act (FDI Act) in a manner that protects depositors and limits losses or costs to creditors of the bank in accordance with the FDI Act. PNC and PNC Bank, N.A. must file their first plans

under these rules by December 31, 2013. Depending resolution plans submitted by PNC and PNC Bank, N.A., it is possible that these requirements could affect the ways in which PNC structures and conducts its business and result in higher compliance and operating costs.

Other provisions of Dodd-Frank will affect regulatory oversight, holding company capital requirements, and residential mortgage products.

While much of how the Dodd-Frank and other financial industry reforms will change our current business operations depends on the specific regulatory promulgations and interpretations, many of which have yet to be released or finalized, it is clear that the reforms, both under Dodd-Frank and otherwise, will have a significant effect on our entire industry. Although Dodd-Frank and other reforms will affect a number of the areas in which we do business, it is not clear at this time the full extent of the adjustments that will be required and the extent to which we will be able to adjust our businesses in response to the requirements. Although it is difficult to predict the magnitude and extent of these effects at this stage, we believe compliance with Dodd-Frank and its implementing regulations and other initiatives will continue to negatively impact revenue, at least to some extent, and increase the cost of doing business, both in terms of transition expenses and on an ongoing basis, and may also limit our ability to pursue certain desirable business opportunities.

Capital requirements imposed by Dodd-Frank, together with new capital and liquidity standards adopted by the Basel Committee on Banking Supervision (the Basel Committee), will result in banks and bank holding companies needing to maintain more and higher quality capital and greater liquidity than has historically been the case.

New and evolving capital standards, both as a result of Dodd-Frank and implementation of new capital standards adopted by the Basel Committee, including the so-called Basel III capital accord issued in December 2010, will have a significant effect on banks and bank holding companies, including PNC. Basel III, among other things, narrows the definition of regulatory capital and establishes higher minimum risk-based capital ratios that, when fully phased-in, will require banking organizations, including PNC, to maintain a minimum Tier 1 common ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0%. A capital conservation buffer of 2.5% above each of these levels also is required, which potentially may be supplemented by an additional countercyclical capital buffer. In addition, Basel III introduces an international leverage ratio. The capital standards adopted by the Basel Committee and to be implemented in the United States also increase the capital requirements for specific types of exposures (including sub-investment grade securitization exposures) and requires

that unconsolidated investments in financial entities on how the agencies conduct their review of the a swap with a special entity such as any federal agency, state or state agency, city, county, municipality, or other political subdivisions of a state, additional business conduct requirements will be imposed on PNC, including the requirement that PNC have a reasonable basis to believe that the special entity has a qualified representative that undertakes a duty to act in the best interests of the special entity and that is independent of PNC and the requirement that PNC disclose to the special entity the capacity in which PNC is acting in connection with the swap (and if PNC is acting in more than one capacity, the material differences between such capacities). Further, to the extent PNC acts as an advisor to a special entity, PNC will be required to than would otherwise have been the case, and as a result could be required to consolidate certain securitization vehicles on our balance sheet, with currently an uncertain financial impact. (potentially including PNC s investment in BlackRock), as well as mortgage servicing rights and deferred tax assets, above certain thresholds be deducted from regulatory capital.

Basel III also includes new short-term liquidity standards (the Liquidity Coverage Ratio) and long-term funding standards (the Net Stable Funding Ratio). The Liquidity Coverage Ratio, which is scheduled to take effect on January 1, 2015, is designed to ensure that banking organizations maintain an adequate level of cash, or assets that can readily be converted to cash, to meet potential short-term liquidity needs. The Net Stable Funding Ratio, which is scheduled to take effect by January 1, 2018, is designed to promote a stable maturity structure of assets and liabilities of banking organizations over a one-year time horizon.

In November 2011, the Basel Committee also adopted a framework that would require globally systemically important banks (G-SIBs) to maintain additional Tier 1 common capital ranging between 1.0% to 2.5% of risk-weighted assets, with the actual required amount varying based on the firm s global systemic importance as determined using five criteria (size, interconnectedness, lack of substitutability, cross-jurisdictional activity, and complexity). Regulatory authorities have not yet definitively determined the banking organizations that would be subject to a surcharge as a G-SIB although, based on the criteria included in the Basel Committee s framework, PNC believes that it is unlikely to be deemed a G-SIB. Dodd-Frank directs the Federal Reserve to establish heightened risk-based and leverage capital requirements and liquidity requirements for bank holding companies, like PNC, that have $50 billion or more in assets. The Federal Reserve has proposed to rely primarily on the forthcoming Basel III capital and liquidity rules, as well as certain existing or proposed rules, to fulfill this directive. However, the Federal Reserve has stated that it is still considering whether to impose an additional capital surcharge on bank holding companies that have $50 billion or more in consolidated total assets, but that are not subject to a G-SIB surcharge.

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Because implementation of the new Basel III capital and liquidity standards, as well as any additional heightened capital or liquidity standards that may be established by the Federal Reserve under the Dodd-Frank Act, remain subject to rule making in the U.S. and, in many cases, to extended observation and phase-in periods, the full effect of these standards on PNC s regulatory capital is uncertain at this time. However, pursuant to the Collins Amendment to Dodd-Frank, the U.S. federal banking agencies recently adopted a final rule that requires the phase-out of trust preferred securities from Tier 1 regulatory capital, and defined the risk-based capital standards generally applicable to all banking organizations. As of December 31, 2011, PNC had $2.4 billion of trust preferred securities included in Tier 1 capital which, under these rules and to the extent the securities remain outstanding, will no longer qualify as Tier 1 capital over time.

In December 2011, the Federal banking agencies also requested comment on proposed rules that would replace the use of credit ratings as a means of determining regulatory capital requirements under the agencies market risk capital rule with alternative methodologies, as required by Section 939A of Dodd-Frank. The agencies have indicated that the credit rating alternatives developed through this rulemaking likely would be incorporated into the agencies general risk-based capital rules affecting so-called banking book exposures. Accordingly, the credit rating alternatives that are adopted by the agencies through the market risk rulemaking are likely to significantly influence the amount of capital that PNC and other U.S. banking organizations must hold with respect to a wide range of exposures including sovereign, state, municipal, corporate, financial institution and securitization exposures, although the extent to which the final rules will ultimately lead to increased or decreased capital requirements for specific types of exposures or for PNC in the aggregate is not known at this time.

The need to maintain more and higher quality capital, as well as greater liquidity, going forward than historically has been required could limit PNC s business activities, including lending, and its ability to expand, either organically or through acquisitions. It could also result in PNC taking steps to increase its capital that may be dilutive to shareholders or being limited in its ability to pay dividends or otherwise return capital to shareholders, or selling or refraining from acquiring assets, the capital requirements for which are inconsistent with the assets underlying risks. In addition, the new liquidity standards could require PNC to increase its holdings of highly liquid short-term investments, thereby reducing PNC s ability to invest in longer-term assets even if more desirable from a balance sheet management perspective. Moreover, although these new requirements are being phased in over time, U.S. federal banking agencies have been taking into account expectations regarding the ability of banks to meet these new requirements, including under stressed conditions, in approving actions that represent uses of capital, such as dividend increases, share repurchases and acquisitions.

Our lending and servicing businesses and the value of the loans and debt securities we hold may be adversely affected by economic conditions, including a reversal or slowing of the current moderate recovery. Downward valuation of debt securities could also negatively impact our capital position.

Given the high percentage of our assets represented directly or indirectly by loans, and the importance of lending to our overall business, weak economic conditions are likely to have a negative impact on our business and our results of operations. This could adversely impact loan utilization rates as well as delinquencies, defaults and customer ability to meet obligations under the loans. This is particularly the case during the period in which the aftermath of recessionary conditions continues and the positive effects of economic recovery appear to be slow to materialize and unevenly spread among our customers.

Further, weak economic conditions would likely have a negative impact on our business, our ability to serve our customers, and our results of operations. Such conditions are

likely to lead to increases in the number of borrowers who become delinquent or default or otherwise demonstrate a decreased ability to meet their obligations under their loans. This would result in higher levels of non-performing loans, net charge-offs, provision for credit losses and valuation adjustments on loans held for sale. The value to us of other assets such as investment securities, most of which are debt securities or other financial instruments supported by loans, similarly would be negatively impacted by widespread decreases in credit quality resulting from a weakening of the economy.

We have historically not considered government insured or guaranteed loans to be higher risk loans as defaults are materially mitigated by payments of insurance or guaranteed amounts for approved claims by the applicable government agency. While the level of claim denials by government agencies, including the Department of Housing and Urban Development, has historically been low, if financial conditions prompt government agencies to deny or curtail an increasing number of these claims, we could face additional losses in our lending business. In addition, in the event that submitted claims are denied or curtailed as a result of our failure as a servicer of the loan to adhere to applicable agency servicing guidelines, we will be required to remit the difference between the claims proceeds that should have been received and the claim amounts actually received to the holder of the loan.

A failure to sustain reduced amounts of the provision for credit losses, which has benefitted results of operations in recent periods, could result in decreases in net income.

As was typical in the banking industry, the economic downturn that started in 2007 resulted in PNC experiencing

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high levels of provision for credit losses. In the quarters from the fourth quarter of 2008 through the second quarter of 2010, PNC s provision for credit losses ranged from $751 million to $1.1 billion in each quarter. Subsequently, in part due to improvement in economic conditions, as well as actions taken by PNC to manage its portfolio, PNC s provision for credit losses has declined substantially, reaching a level of $190 million in the fourth quarter of 2011. This decline in provision for credit losses has been a major contributor to PNC s ability to maintain and grow its net income during this period. If PNC s provision for credit losses were to rise back towards levels experienced during the height of the economic downturn, it would have an adverse effect on PNC s net income and could result in lower levels of net income than PNC has reported in recent periods.

Our regional concentrations make us particularly at risk to adverse economic conditions in our primary retail banking footprint.

Although many of our businesses are national in scope, our retail banking business is concentrated within our retail branch network footprint, located principally in our primary geographic markets. Following the expected acquisition of RBC Bank (USA), this footprint will expand to include North Carolina, South Carolina, and Alabama. Thus, we are or in the future may be particularly vulnerable to adverse changes in economic conditions in the Mid-Atlantic, Midwest, and Southeast regions.

Our business and performance are vulnerable to the impact of volatility in debt and equity markets.

As most of our assets and liabilities are financial in nature, we tend to be particularly sensitive to the performance of the financial markets. Turmoil and volatility in U.S. and global financial markets, such as that experienced during the recent financial crisis, can be a major contributory factor to overall weak economic conditions, leading to some of the risks discussed above, including the impaired ability of borrowers and other counterparties to meet obligations to us. Financial market volatility also can have some of the following adverse effects on PNC and our business and financial performance:

- It can affect the value or liquidity of our on-balance sheet and off-balance sheet financial instruments.
- It can affect the value of servicing rights, including those we carry at fair value.
- It can affect our ability to access capital markets to raise funds necessary to support our businesses and maintain our overall liquidity position. Inability to access capital markets as needed, or at cost effective rates, could adversely affect our liquidity and results of operations.
- It can affect the value of the assets that we manage or otherwise administer for others or the assets for which we provide processing and information
services. Although we are not directly impacted by changes in the value of such assets, decreases in the value of those assets would affect related fee income and could result in decreased demand for our services.
- It can affect the required funding of our pension obligations to the extent that the value of the assets supporting those obligations drops below minimum levels.
- In general, it can impact the nature, profitability or risk profile of the financial transactions in which we engage.

Volatility in the markets for real estate and other assets commonly securing financial products has been and is likely

to continue to be a significant contributor to overall volatility in financial markets.

Our business and financial performance is impacted significantly by market interest rates and movements in those rates. The monetary, tax and other policies of governmental agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance over which we have no control and which we may not be able to predict adequately.

As a result of the high percentage of our assets and liabilities that are in the form of interest-bearing or interest-related instruments, changes in interest rates, in the shape of the yield curve or in spreads between different market interest rates can have a material effect on our business, our profitability and the value of our financial assets and liabilities. For example:

- Changes in interest rates or interest rate spreads can affect the difference between the interest that we earn on assets and the interest that we pay on liabilities, which impacts our overall net interest income and profitability.
- Such changes can affect the ability of borrowers to meet obligations under variable or adjustable rate loans and other debt instruments, and can, in turn, affect our loss rates on those assets.
- Such changes may decrease the demand for interest rate based products and services, including loans and deposit accounts.
- Such changes can also affect our ability to hedge various forms of market and interest rate risk and may decrease the profitability or increase the risk associated with such hedges.
- Movements in interest rates also affect mortgage prepayment speeds and could result in impairments of mortgage servicing assets or otherwise affect the profitability of such assets.

The monetary, tax and other policies of the government and its agencies, including the Federal Reserve, have a significant

impact on interest rates and overall financial market performance. These governmental policies can thus affect the activities and results of operations of banking companies such as PNC. An important function of the Federal Reserve is to regulate the national supply of bank credit and certain interest rates. The actions of the Federal Reserve influence the rates of interest that we charge on loans and that we pay on borrowings and interest-bearing deposits and can also affect the value of our on-balance sheet and off-balance sheet financial instruments. Both due to the impact on rates and by controlling access to direct funding from the Federal Reserve Banks, the Federal Reserve s policies also influence, to a significant extent, our cost of funding. We cannot predict the nature or timing of future changes in monetary, tax and other policies or the effect that they may have on our activities and financial results.

PNC faces increased risk arising out of its residential mortgage businesses.

Numerous federal and state governmental, legislative and regulatory authorities are investigating practices in the mortgage lending, servicing and mortgage-related insurance and reinsurance industries. PNC has received inquiries from governmental, legislative and regulatory authorities on these topics and is responding to these inquiries. These inquiries and investigations could lead to administrative, civil or criminal proceedings, possibly resulting in remedies including fines, penalties, restitution, alterations in our business practices and additional expenses and collateral costs. See Note 22 Legal Proceedings in the Notes to Consolidated Financial Statements in Item 8 of this Report for additional information regarding federal and state governmental, legislative and regulatory inquiries and investigations, including the consent orders entered into by PNC and PNC Bank, N. A. with the Federal Reserve and the OCC, respectively.

In addition to governmental or regulatory inquiries and investigations, PNC, like other companies with residential mortgage origination and servicing operations, faces the risk of class actions, other litigation and claims from the owners of, investors in or purchasers of mortgages originated or serviced by PNC (or securities backed by such mortgages); homeowners involved in foreclosure proceedings or various mortgage-related insurance programs; downstream purchasers of homes sold after foreclosure; title insurers; and other potential claimants. At this time PNC cannot predict the ultimate overall cost to or effect upon PNC from governmental, legislative or regulatory actions and private litigation or claims arising out of residential mortgage lending, servicing or reinsurance practices, although such actions, litigation and claims could, individually or in the aggregate, result in significant expense.

The issues described above may affect the value of our ownership interests, direct or indirect, in property subject to foreclosure. In addition, possible delays in the schedule for

processing foreclosures may result in an increase in nonperforming loans, additional servicing costs and possible demands for contractual fees or penalties under servicing agreements.

There is also an increased risk of incurring costs related to further remedial and related efforts required by the consent orders and related to repurchase requests arising out of either the foreclosure process or origination issues. Reputational damage arising out of this industry-wide inquiry could also have an adverse effect upon our existing mortgage business and could reduce future business opportunities.

One or more of the foregoing could adversely affect PNC s business, financial condition, results of operations or cash flows.

We grow our business in part by acquiring other financial services companies from time to time, and these acquisitions present 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.

Acquisitions of other financial services companies, financial services assets and related deposits and other liabilities present risks and uncertainties to PNC in addition to those presented by the nature of the business acquired.

In general, acquisitions may be substantially more expensive to complete than anticipated (including unanticipated costs incurred in connection with the integration of the acquired company). Anticipated benefits (including anticipated cost savings and strategic gains) may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events.

Our ability to achieve anticipated results from acquisitions is

often dependent also on the extent of credit losses in the acquired loan portfolios and the extent of deposit attrition, which are, in part, related to the state of economic and financial markets. Also, litigation and governmental investigations that may be filed or commenced, as a result of an acquisition or otherwise, could impact the timing or realization of anticipated benefits to PNC.

Integration of an acquired company s business and operations into PNC, including conversion of the acquired company s different systems and procedures, may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to the acquired company s or PNC s existing businesses. In some cases, acquisitions involve our entry into new businesses or new geographic or other markets, and these situations also present risks and uncertainties in instances where we may be inexperienced in these new areas.

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Our ability to analyze the risks presented by prospective acquisitions, as well as our ability to prepare in advance of closing for integration, depends, in part, on the information we can gather with respect to the target, which is more limited than the information we have regarding companies we already own.

Our pending acquisition of RBC Bank (USA) presents many of the risks and uncertainties related to acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing described above.

As a regulated financial institution, our ability to pursue or complete attractive acquisition opportunities could be negatively impacted by regulatory delays or other regulatory issues. In addition, legal and regulatory or other governmental proceedings, claims, investigations or inquiries relating to pre-acquisition business and activities of acquired companies may result in future monetary judgments or settlements or other remedies, including damages, fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to PNC. The processes of integrating acquired businesses, as well as the deconsolidation of divested businesses, also pose many additional possible risks which could result in increased costs, liability or other adverse consequences to PNC. Note 22 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report describes several legal proceedings related to pre-acquisition activities of companies we have acquired, including National City. Other such legal proceedings may be commenced in the future.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized

upon or is liquidated at prices that are not sufficient to recover the full amount of the loan or derivative exposure due us.

We operate in a highly competitive environment, in terms of the products and services we offer and the geographic markets in which we conduct business, as well as in our labor markets where we compete for talented employees. Competition could adversely impact our customer acquisition, growth and retention, as well as our credit spreads and product pricing, causing us to lose market share and deposits and revenues.

We are subject to intense competition from various financial institutions as well as from non-bank entities that engage in many similar activities without being subject to bank regulatory supervision and restrictions. This competition is described in Item 1 of this Report under Competition.

In all, the principal bases for competition are pricing (including the interest rates charged on loans or paid on interest-bearing deposits), product structure, the range of products and services offered, and the quality of customer service (including convenience and responsiveness to customer needs and concerns). The ability to access and use technology is an increasingly important competitive factor in the financial services industry, and it is a critically important component to customer satisfaction as it affects our ability to deliver the right products and services.

Another increasingly competitive factor in the financial services industry is the competition to attract and retain talented employees across many of our business and support areas. This competition leads to increased expenses in many business areas and can also cause us to not pursue certain business opportunities.

A failure to adequately address the competitive pressures we face could make it harder for us to attract and retain customers across our businesses. On the other hand, meeting these competitive pressures could require us to incur significant additional expense or to accept risk beyond what we would otherwise view as desirable under the circumstances. In addition, in our interest rate sensitive businesses, pressures to increase rates on deposits or decrease rates on loans could reduce our net interest margin with a resulting negative impact on our net interest income.

The performance of our asset management businesses may be adversely impacted by overall economic and market conditions as well as the relative performance of our products compared with the offerings by competitors.

Asset management revenue is primarily based on a percentage of the value of the assets and thus is impacted by general changes in market valuations, customer preferences and needs. In addition, investment performance is an important factor influencing the level of assets. Poor investment performance could impair revenue and growth as existing clients might

withdraw funds in favor of better performing products. Additionally, the ability to attract funds from existing and new clients might diminish. Overall economic conditions may limit the amount that customers are able or willing to invest as well as the value of the assets they do invest.

The failure or negative performance of products of other financial institutions could lead to a loss of confidence in similar products offered by us without regard to the performance of our products. Such a negative contagion could lead to withdrawals, redemptions and liquidity issues in such

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products and have a material adverse impact on our assets under management and asset management revenues and earnings.

As a regulated financial services firm, we are subject to numerous governmental regulations and to comprehensive examination and supervision by regulators, which affect our business as well as our competitive position.

PNC is a bank holding company and a financial holding company and is subject to numerous governmental regulations involving both its business and organization.

Our businesses are subject to regulation by multiple bank regulatory bodies as well as multiple securities industry regulators. Applicable laws and regulations restrict our ability to repurchase stock or to receive dividends from subsidiaries

that operate in the banking and securities businesses and impose capital adequacy requirements. PNC s ability to service its obligations is dependent on the receipt of dividends and advances from its subsidiaries. Applicable laws and regulations also restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, and for the protection of customer information, among other things. We are also subject to laws and regulations designed to combat money laundering, terrorist financing, and transactions with persons, companies or foreign governments designated by U.S. authorities. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions as well as damage to our reputation and businesses.

In addition, we are subject to comprehensive examination and supervision by banking and other regulatory bodies. Examination reports and ratings (which often are not publicly available) and other aspects of this supervisory framework can materially impact the conduct, growth, and profitability of our businesses.

Due to the current economic environment and issues facing the financial services industry, we anticipate that there will be new legislative and regulatory initiatives over the next several years, including many focused specifically on banking and other financial services in which we are engaged. These initiatives will be in addition to the actions already taken by Congress and the regulators, through enactment of the Credit CARD Act, the SAFE Act, and Dodd-Frank, as well as changes to the regulations implementing the Real Estate

Settlement Procedures Act, the Federal Truth in Lending Act, and the Electronic Fund Transfer Act. Legislative and regulatory initiatives have had and are likely to continue to have an impact on the conduct of our business. This impact could include rules and regulations that affect the nature and profitability of our business activities, how we use our capital, how we compensate and incent our employees, the type and amount of instruments we hold for liquidity purposes, and other matters potentially having a negative effect on our overall business results and prospects.

Under the regulations of the Federal Reserve, a bank holding company is expected to act as a source of financial and managerial strength for its subsidiary banks. As a result, the Federal Reserve could require PNC to commit resources to PNC Bank, N.A. when doing so is not otherwise in the interests of PNC or its shareholders or creditors.

Our ability to pay dividends to shareholders is largely dependent on dividends from our operating subsidiaries, principally PNC Bank, N.A. Banks are subject to regulation on the amount and circumstances of dividends they can pay to their holding companies.

We discuss these and other regulatory issues applicable to PNC, including some particular areas of current regulatory focus or concern, in the Supervision and Regulation section included in Item 1 of this Report and in Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report and here by reference.

A failure to comply, or to have adequate policies and procedures designed to comply, with regulatory requirements could expose us to damages, fines and regulatory penalties and other regulatory actions, which could be significant, and could also injure our reputation with customers and others with whom we do business.

We must comply with generally accepted accounting principles established by the Financial Accounting Standards Board, accounting, disclosure and other rules set forth by the SEC, income tax and other regulations established by the US Treasury and state and local taxing authorities, and revenue rulings and other guidance issued by the Internal Revenue Service, which affect our financial condition and results of operations.

Changes in accounting standards, or interpretations of those standards, can impact our revenue recognition and expense policies and affect our estimation methods used to prepare the consolidated financial statements. Changes in income tax regulations, revenue rulings, revenue procedures, and other guidance can impact our tax liability and alter the timing of cash flows associated with tax deductions and payments. New guidance often dictates how changes to standards and regulations are to be presented in our consolidated financial statements, as either an adjustment to beginning retained earnings for the period or as income or expense in current

period earnings. In some cases, changes may be applied to previously reported disclosures.

The determination of the amount of loss allowances and impairments taken on our assets is highly subjective, and inaccurate estimates could materially impact our results of operations or financial position.

The determination of the amount of loss allowances and asset impairments varies by asset type and is based upon our

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periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations are revised. Although we have policies and procedures in place to determine loss allowance and asset impairments, due to the substantial subjective nature of this area, there can be no assurance that our management has accurately assessed the level of impairments taken and allowances reflected in our financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

Our asset valuation may include methodologies, estimations and assumptions that are subject to differing interpretations and this, along with market factors such as volatility in one or more markets, could result in changes to asset valuations that may materially adversely affect our results of operations or financial condition.

We must use estimates, assumptions, and judgments when assets and liabilities are measured and reported at 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 quoted market prices and/or other observable inputs provided by 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 utilizing assumptions such as credit quality, liquidity, interest rates and other relevant inputs. Changes in underlying factors or assumptions in any of the areas underlying our estimates could materially impact our future financial condition and results of operations.

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be more difficult to value certain of our assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were historically in active markets with significant observable data that rapidly become illiquid due to market volatility, a loss in market confidence or other factors. In such cases, valuations in certain asset classes may require more subjectivity and management judgment; valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented market conditions in any particular market (e.g. credit, equity, fixed income, foreign exchange) could materially impact the valuation of assets as reported within our consolidated financial statements, and the period-to-period changes in value could vary significantly.

We are subject to operational risk.

Like all businesses, we are subject to operational risk, which represents the risk of loss resulting from human error, inadequate or failed internal processes and systems, and external events. Operational risk also encompasses compliance and legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards, as well as the risk of our noncompliance with contractual and other obligations. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to perform operational functions necessary to our business. Although we seek to mitigate operational risk through a system of internal controls which we review and

update, no system of controls, however well designed and maintained, is infallible. Control weaknesses or failures or other operational risks could result in charges, increased operational costs, harm to our reputation or foregone business opportunities.

We continually encounter technological change and we could falter in our ability to remain competitive in this arena.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our continued success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that satisfy customer demands and create efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services that allow us to remain competitive or be successful in marketing these products and services to our customers.

Our information systems may experience interruptions or breaches in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in disruptions to our accounting, deposit, loan and other systems, and adversely affect our customer relationships. While we have policies and

procedures designed to prevent or limit the effect of these possible events, there can be no assurance that any such failure, interruption or security breach will not occur or, if any does occur, that it can be sufficiently remediated.

There have been increasing efforts on the part of third parties to breach data security at financial institutions or with respect to financial transactions, including through the use of social engineering schemes such as phishing. In addition, because the techniques used to cause such security breaches change

frequently, often are not recognized until launched against a target and may originate from less regulated and remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventative measures. The ability of our customers to bank remotely, including online and through mobile devices, requires secure transmission of confidential information and increases the risk of data security breaches.

Although to date efforts to breach our data security have not had a material impact on PNC, the occurrence of any such failure, interruption or security breach of our systems, particularly if widespread or resulting in financial losses to our customers, could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and financial liability.

Our business and financial results could be impacted materially by adverse results in legal proceedings.

Many aspects of our business involve substantial risk of legal liability. We have been named or threatened to be named as defendants in various lawsuits arising from our business activities (and in some cases from the activities of companies we have acquired). In addition, we are regularly the subject of governmental investigations and other forms of regulatory inquiry. We also are at risk when we have agreed to indemnify others for losses related to legal proceedings, including litigation and governmental investigations and inquiries, they face, such as in connection with the sale of a business or assets by us. The results of these legal proceedings could lead to significant monetary damages or penalties, restrictions on the way in which we conduct our business, or reputational harm.

Although we establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, we do not have accruals for all legal proceedings where we face a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, amounts accrued may not represent the ultimate loss to us from the legal proceedings in question. Thus, our ultimate losses may be higher, and possibly significantly so, than the amounts accrued for legal loss contingencies.

We discuss further the unpredictability of legal proceedings and describe some of our pending legal proceedings in Note 22 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Our business and financial performance could be adversely affected, directly or indirectly, by disasters, by terrorist activities or by international hostilities.

Neither the occurrence nor the potential impact of disasters, terrorist activities and international hostilities can be

predicted. However, these occurrences could impact us directly (for example, by causing significant damage to our facilities or preventing us from conducting our business in the ordinary course), or indirectly as a result of their impact on our borrowers, depositors, other customers, suppliers or other counterparties. We could also suffer adverse consequences to the extent that disasters, terrorist activities or international hostilities affect the financial markets or the economy in general or in any particular region. These types of impacts could lead, for example, to an increase in delinquencies, bankruptcies or defaults that could result in our experiencing higher levels of nonperforming assets, net charge-offs and provisions for credit losses.

Our ability to mitigate the adverse consequences of such occurrences is in part dependent on the quality of our resiliency planning, and our ability, if any, to anticipate the nature of any such event that occurs. The adverse impact of disasters or terrorist activities or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon but have no control over.

ITEM 1B UNRESOLVED STAFF COMMENTS

There are no SEC staff comments regarding PNC s periodic or current reports under the Exchange Act that are pending resolution.

ITEM 2 PROPERTIES

Our executive and primary administrative offices are located at One PNC Plaza, Pittsburgh, Pennsylvania. The 30-story structure is owned by PNC Bank, N.A.

We own or lease numerous other premises for use in conducting business activities, including operations centers, offices, and branch and other facilities. We consider the facilities owned or occupied under lease by our subsidiaries to be adequate. We include here by reference the

additional information regarding our properties in Note 10 Premises, Equipment and Leasehold Improvements in the Notes To Consolidated Financial Statements in Item 8 of this Report.

ITEM 3 LEGAL PROCEEDINGS

See the information set forth in Note 22 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated here by reference.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable

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EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding each of our executive officers as of February 17, 2012 is set forth below. Executive officers do not have a stated term of office. Each executive officer has held the position or positions indicated or another executive position with the same entity or one of its affiliates for the past five years unless otherwise indicated below.

Name	Age	Position with PNC	Year Employed (1)
James E. Rohr	63	Chairman and Chief Executive Officer (2)	1972
Joseph C. Guyaux	61	Senior Vice Chairman and Chief Risk Officer	1972
William S. Demchak	49	Senior Vice Chairman	2002
Thomas K. Whitford	55	Vice Chairman	1983
Joan L. Gulley	64	Executive Vice President and Chief Human Resources Officer	1986
Michael J. Hannon	55	Executive Vice President and Chief Credit Officer	1982
Robert F. Hoyt	47	Executive Vice President, Senior Deputy General Counsel, and Chief Regulatory Affairs Officer	2009
Richard J. Johnson	55	Executive Vice President and Chief Financial Officer	2002
Michael P. Lyons	41	Executive Vice President	2011
E. William Parsley, III	46	Executive Vice President, Chief Investment Officer and Treasurer	2003
Helen P. Pudlin	62	Executive Vice President and General Counsel	1989
Robert Q. Reilly	47	Executive Vice President	1987
Gregory H. Kozich	48	Senior Vice President and Controller	2010

(1) Where applicable, refers to year employed by predecessor company.
(2) Also serves as a director of PNC. Biographical information for Mr. Rohr is included in Election of Directors (Item 1) in our proxy statement for the 2012 annual meeting of shareholders.

Joseph C. Guyaux was appointed Senior Vice Chairman and Chief Risk Officer in February 2012, prior to which he served as President.

William S. Demchak has served as Senior Vice Chairman since February 2009. Since August 2005, he has had oversight responsibilities for the Corporation s Corporate & Institutional Banking business, as well as PNC s asset and liability management activities. Beginning in September 2010, he assumed supervisory responsibility for all PNC businesses.

Thomas K. Whitford has served as Vice Chairman since February 2009. He was appointed Chief Administrative Officer in May 2007. From April 2002 through May 2007 and then from November 2009 until April 2010, he served as Chief Risk Officer.

Joan L. Gulley has served as Chief Human Resources Officer since April 2008. She was appointed Senior Vice President in April 2008 and then Executive Vice President in February 2009. She served as Chief Executive Officer for PNC s wealth management business from 2002 to 2006. From 1998 until April 2008, she served as Executive Vice President of PNC Bank, N.A. and was responsible for product and segment management, as well as advertising and brand management for PNC.

Michael J. Hannon has served as Executive Vice President since February 2009, prior to which he served as Senior Vice President. He has served as Chief Credit Officer since November 2009. From February 2009 to November 2009 he also served as Chief Risk Officer and served as Interim Chief Risk Officer from December 2011 to February 2012.

Robert F. Hoyt has served as PNC s Chief Regulatory Affairs Officer since May 2009. He has also served as Senior Deputy General Counsel since October 2009, and served as director of business planning from May 2009 to November 2011. He was appointed Executive Vice President in November 2011 and was previously Senior Vice President. From December 2006 to January 2009, Hoyt served as General Counsel of the U.S. Department of the Treasury.

Richard J. Johnson has served as Chief Financial Officer since August 2005. He was appointed Executive Vice President in February 2009 and was previously Senior Vice President.

Michael P. Lyons joined PNC in October 2011 and is head of Corporate and Institutional Banking. Previously he served as head of corporate development and strategic planning for Bank of America, principal investment advisor at Maverick Capital, and as a director in Morgan Stanley s financial institutions group. He was appointed Executive Vice President in November 2011.

E. William Parsley, III has served as Treasurer and Chief Investment Officer since January 2004. He was appointed Executive Vice President of PNC in February 2009.

Helen P. Pudlin has served as General Counsel since 1994. She was appointed Executive Vice President in February 2009 and was previously Senior Vice President.

Robert Q. Reilly has served as the head of PNC s Asset Management Group since 2005. Previously, he held numerous management roles in both Corporate Banking and Asset Management. He was appointed Executive Vice President in February 2009.

Gregory H. Kozich joined PNC as Senior Vice President of PNC Bank, N.A. in October 2010. He has served as Senior Vice President of PNC since February 2011 and Corporate Controller for PNC since March 2011. Prior to joining PNC, he was with Fannie Mae as its corporate controller and PricewaterhouseCoopers LLP as a partner in its National Banking Group.

DIRECTORS OF THE REGISTRANT

The name, age and principal occupation of each of our directors as of February 17, 2012, and the year he or she first became a director is set forth below:

Richard O. Berndt, 69, Managing Partner of Gallagher, Evelius & Jones LLP (*law firm*) (2007)
Charles E. Bunch, 62, Chairman and Chief Executive Officer of PPG Industries, Inc. (*coatings, sealants and glass products*) (2007)
Paul W. Chellgren, 69, Operating Partner, Snow Phipps Group, LLC (*private equity*) (1995)
Kay Coles James, 62, President and Founder of The Gloucester Institute (*non-profit*) (2006)
Richard B. Kelson, 65, President and Chief Executive Officer, ServCo, LLC (*strategic sourcing, supply chain management*) (2002)
Bruce C. Lindsay, 70, Chairman and Managing Member of 2117 Associates, LLC (*business consulting firm)* (1995)
Anthony A. Massaro, 67, Retired Chairman and Chief Executive Officer of Lincoln Electric Holdings, Inc. (*manufacturer of welding and cutting products*) (2002)
Jane G. Pepper, 66, Retired President of the Pennsylvania Horticultural Society (*non-profit*) (1997)
James E. Rohr, 63, Chairman and Chief Executive Officer of PNC (1990)
Donald J. Shepard, 65, Retired Chairman of the Executive Board and Chief Executive Officer of AEGON N.V. (*insurance*) (2007)
Lorene K. Steffes, 66, Independent Business Advisor (*technology and technical services*) (2000)
Dennis F. Strigl, 65, Retired President and Chief Operating Officer of Verizon Communications Inc. (*telecommunications*) (2001)
Thomas J. Usher, 69, Non-executive Chairman of Marathon Petroleum Corporation (*oil and gas industry*) (1992)
George H. Walls, Jr., 69, former Chief Deputy Auditor for the State of North Carolina (2006)
Helge H. Wehmeier, 69, Retired Vice Chairman of Bayer Corporation (*healthcare, crop protection, and chemicals*) (1992)

PART II

ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) (1) Our common stock is listed on the New York Stock Exchange and is traded under the symbol PNC. At the close of business on February 17, 2012, there were 77,045 common shareholders of record.

Holders of PNC common stock are entitled to receive dividends when declared by the Board of Directors out of funds legally available for this purpose. Our Board of Directors may not pay or set apart dividends on the common stock until dividends for all past dividend periods on any series of outstanding preferred stock have been paid or declared and set apart for payment. The Board presently intends to continue the policy of paying quarterly cash dividends. The amount of any future dividends will depend on economic and market conditions, our financial condition and operating results, and other factors, including contractual restrictions and applicable government regulations and policies (such as those relating to the ability of bank and non-bank subsidiaries to pay dividends to the parent company and regulatory capital limitations). Our ability to increase our dividend is currently subject to the results of the Federal Reserve s 2012 Comprehensive Capital Analysis and Review (CCAR) as part of its supervisory assessment of capital adequacy described under Supervision and Regulation in Item 1 of this Report.

The Federal Reserve has the power to prohibit us from paying dividends without its approval. For further information concerning dividend restrictions and restrictions on loans, dividends or advances from bank subsidiaries to the parent company, you may review Supervision and Regulation in Item 1 of this Report, Funding and Capital Sources in the Consolidated Balance Sheet Review section, Liquidity Risk Management in the Risk Management section, and Trust Preferred Securities in the Off-Balance Sheet Arrangements and VIEs section of Item 7 of this Report, and Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities and Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, which we include here by reference.

We include here by reference additional information relating to PNC common stock under the caption Common Stock Prices/Dividends Declared in the Statistical Information (Unaudited) section of Item 8 of this Report.

We include here by reference the information regarding our compensation plans under which PNC equity securities are authorized for issuance as of December 31, 2011 in the table (with introductory paragraph and notes) that appears in Item 12 of this Report.

Our registrar, stock transfer agent, and dividend disbursing agent is:

Computershare Trust Company, N.A.

250 Royall Street

Canton, MA 02021

800-982-7652

We include here by reference the information that appears under the caption Common Stock Performance Graph at the end of this Item 5.

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(a) (2) None.

(b) Not applicable.

(c) Details of our repurchases of PNC common stock during the fourth quarter of 2011 are included in the following table:
In thousands, except per share data

2011 period	Total shares purchased (a)	Average price paid per share	Total shares purchased as part of publicly announced programs (b)	Maximum number of shares that may yet be purchased under the programs (b)
October 1 31	133	$ 52.03		24,710
November 1 30	4	$ 55.51		24,710
December 1 31	1	$ 57.86		24,710
Total	138	$ 52.16		

(a) Reflects PNC common stock purchased in connection with our various employee benefit plans. No shares were purchased under the program referred to in note (b) to this table during the fourth quarter of 2011. Effective January 2011, employer matching contributions to the PNC Incentive Savings Plan are no longer made in PNC common stock, but rather in cash. Note 14 Employee Benefit Plans and Note 15 Stock Based Compensation Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report include additional information regarding our employee benefit plans that use PNC common stock.
(b) Our current stock repurchase program allows us to purchase up to 25 million shares on the open market or in privately negotiated transactions. This program was authorized on October 4, 2007 and will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of 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, the potential impact on our credit ratings, and contractual and regulatory limitations, including the impact of the Federal Reserve s current supervisory assessment of capital adequacy program.

COMMON STOCK PERFORMANCE GRAPH

This graph shows the cumulative total shareholder return (i.e., price change plus reinvestment of dividends) on our common stock during the five-year period ended December 31, 2011, as compared with: (1) a selected peer group of our competitors, called the Peer Group; (2) an overall stock market index, the S&P 500 Index; and (3) a published industry index, the S&P 500 Banks. The yearly points marked on the horizontal axis of the graph correspond to December 31 of that year. The stock performance graph assumes that $100 was invested on January 1, 2007 for the five-year period and that any dividends were reinvested. The table below the graph shows the resultant compound annual growth rate for the performance period.

	Base Period	Assumes $100 investment at Close of Market on December 31, 2006 — Total Return = Price change plus reinvestment of dividends					5-Year Compound Growth Rate
	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11	
PNC	100	91.71	71.37	78.70	91.14	88.35	(2.45)%
S&P 500 Index	100	105.49	66.46	84.05	96.71	98.76	(0.25)%
S&P 500 Banks	100	70.22	36.87	34.44	41.27	36.89	(18.08)%
Peer Group	100	76.73	43.02	57.56	72.45	59.35	(9.91)%

The Peer Group for the preceding chart and table consists of the following companies: BB&T Corporation; Comerica Inc.; Fifth Third Bancorp; KeyCorp; The PNC Financial Services Group, Inc.; SunTrust Banks, Inc.; U.S. Bancorp; Regions Financial Corporation; Wells Fargo &

Company; Capital One Financial, Inc.; Bank of America Corporation; M&T Bank; and JP Morgan Chase and Company. This Peer Group was approved by the Board s Personnel and Compensation Committee (the Committee) for 2011. The Committee has approved the same Peer Group for 2012.

Each yearly point for the Peer Group is determined by calculating the cumulative total shareholder return for each company in the Peer Group from December 31, 2006 to December 31 of that year (End of Month Dividend Reinvestment Assumed) and then using the median of these returns as the yearly plot point.

In accordance with the rules of the SEC, this section, captioned Common Stock Performance Graph, shall not be incorporated by reference into any of our future filings made under the Securities Exchange Act of 1934 or the Securities Act of 1933. The Common Stock Performance Graph, including its accompanying table and footnotes, is not deemed to be soliciting material or to be filed under the Exchange Act or the Securities Act.

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ITEM 6 SELECTED FINANCIAL DATA

Dollars in millions, except per share data	2011 (a)	Year ended December 31 2010 (a)	2009 (a)	2008	2007
Summary Of Operations					
Interest income	**$ 10,194**	$ 11,150	$ 12,086	$ 6,301	$ 6,144
Interest expense	**1,494**	1,920	3,003	2,447	3,197
Net interest income	**8,700**	9,230	9,083	3,854	2,947
Noninterest income (b)	**5,626**	5,946	7,145	2,442	2,944
Total revenue	**14,326**	15,176	16,228	6,296	5,891
Provision for credit losses (c)	**1,152**	2,502	3,930	1,517	315
Noninterest expense	**9,105**	8,613	9,073	3,685	3,652
Income from continuing operations before income taxes and noncontrolling interests	**4,069**	4,061	3,225	1,094	1,924
Income taxes	**998**	1,037	867	298	561
Income from continuing operations before noncontrolling interests	**3,071**	3,024	2,358	796	1,363
Income from discontinued operations (net of income taxes of zero, $338, $54, $63 and $66) (d)		373	45	118	128
Net income	**3,071**	3,397	2,403	914	1,491
Less: Net income (loss) attributable to noncontrolling interests	**15**	(15)	(44)	32	24
Preferred stock dividends (e)	**56**	146	388	21	
Preferred stock discount accretion and redemptions (e)	**2**	255	56		
Net income attributable to common shareholders (e)	**$ 2,998**	$ 3,011	$ 2,003	$ 861	$ 1,467
Per Common Share					
Basic earnings					
Continuing operations	**$ 5.70**	$ 5.08	$ 4.30	$ 2.15	$ 4.02
Discontinued operations (d)		.72	.10	.34	.38
Net income	**$ 5.70**	$ 5.80	$ 4.40	$ 2.49	$ 4.40
Diluted earnings					
Continuing operations	**$ 5.64**	$ 5.02	$ 4.26	$ 2.10	$ 3.94
Discontinued operations (d)		.72	.10	.34	.38
Net income	**$ 5.64**	$ 5.74	$ 4.36	$ 2.44	$ 4.32
Book value	**$ 61.52**	$ 56.29	$ 47.68	$ 39.44	$ 43.60
Cash dividends declared	**$ 1.15**	$ .40	$ .96	$ 2.61	$ 2.44

(a) Includes the impact of National City, which we acquired on December 31, 2008.

(b) Amount for 2009 includes recognition of a $1.1 billion pretax gain on our portion of the increase in BlackRock s equity resulting from the value of BlackRock shares issued in connection with BlackRock s acquisition of Barclays Global Investors (BGI) on December 1, 2009.

(c) Amount for 2008 includes the $504 million conforming provision for credit losses related to our National City acquisition.

(d) Includes results of operations for GIS through June 30, 2010 and the related after-tax gain on sale. We sold GIS effective July 1, 2010, resulting in a gain of $639 million, or $328 million after taxes, recognized during the third quarter of 2010. See Sale of PNC Global Investment Servicing in the Executive Summary section of Item 7 and Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information.

(e) We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of $250 million in the first quarter of 2010. This resulted in a noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share. The Series N Preferred Stock was issued on December 31, 2008.

Certain prior period amounts have been reclassified to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements.

For information regarding certain business, regulatory and legal risks, see Item 1A Risk Factors and the Risk Management section of Item 7 of this Report, and Note 22 Legal Proceedings and Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information. Also, see the Cautionary Statement Regarding Forward-Looking Information and Critical Accounting Estimates And Judgments sections included in Item 7 of this Report for certain other factors that could cause actual results

or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See also the Executive Summary section in Item 7 of this Report for additional information affecting financial performance.

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Dollars in millions, except as noted	At or for the year ended December 31 **2011 (a)**	2010 (a)	2009 (a)	2008 (b)	2007
BALANCE SHEET HIGHLIGHTS					
Assets	**$ 271,205**	$ 264,284	$ 269,863	$ 291,081	$ 138,920
Loans	**159,014**	150,595	157,543	175,489	68,319
Allowance for loan and lease losses	**4,347**	4,887	5,072	3,917	830
Interest-earning deposits with banks	**1,169**	1,610	4,488	14,859	346
Investment securities	**60,634**	64,262	56,027	43,473	30,225
Loans held for sale	**2,936**	3,492	2,539	4,366	3,927
Goodwill and other intangible assets	**10,144**	10,753	12,909	11,688	9,551
Equity investments	**10,134**	9,220	10,254	8,554	6,045
Noninterest-bearing deposits	**59,048**	50,019	44,384	37,148	19,440
Interest-bearing deposits	**128,918**	133,371	142,538	155,717	63,256
Total deposits	**187,966**	183,390	186,922	192,865	82,696
Transaction deposits (c)	**147,637**	134,654	126,244	110,997	53,672
Borrowed funds (d)	**36,704**	39,488	39,261	52,240	30,931
Total shareholders equity	**34,053**	30,242	29,942	25,422	14,854
Common shareholders equity	**32,417**	29,596	22,011	17,490	14,847
CLIENT ASSETS (billions)					
Discretionary assets under management	**$ 107**	$ 108	$ 103	$ 103	$ 74
Nondiscretionary assets under management	**103**	104	102	125	112
Total assets under administration	**210**	212	205	228	186
Brokerage account assets (e)	**34**	34	32	29	19
Total client assets	**$ 244**	$ 246	$ 237	$ 257	$ 205
SELECTED RATIOS					
Net interest margin (f)	**3.92%**	4.14%	3.82%	3.37%	3.00%
Noninterest income to total revenue	**39**	39	44	39	50
Efficiency	**64**	57	56	59	62
Return on					
Average common shareholders equity	**9.56**	10.88	9.78	6.52	10.70
Average assets	**1.16**	1.28	.87	.64	1.21
Loans to deposits	**85**	82	84	91	83
Dividend payout	**20.2**	6.8	21.4	104.6	55.0
Tier 1 common	**10.3**	9.8	6.0	4.8	5.4
Tier 1 risk-based	**12.6**	12.1	11.4	9.7	6.8
Common shareholders equity to total assets	**12.0**	11.2	8.2	6.0	10.7
Average common shareholders equity to average assets	**11.9**	10.4	7.2	9.6	11.3
SELECTED STATISTICS					
Employees	**51,891**	50,769	55,820	59,595	28,320
Retail Banking branches	**2,511**	2,470	2,513	2,581	1,102
ATMs	**6,806**	6,673	6,473	6,233	3,900
Residential mortgage servicing portfolio (billions)	**$ 131**	$ 139	$ 158	$ 187	
Commercial mortgage servicing portfolio (billions)	**$ 267**	$ 266	$ 287	$ 270	$ 243

(a) Includes the impact of National City, which we acquired on December 31, 2008.

(b) Includes the impact of National City except for the following Selected Ratios: Net Interest Margin, Noninterest income to total revenue, Efficiency, Return on Average common shareholders equity, Return on Average assets, Dividend payout, and Average common shareholders equity to average assets.

(c) Represents the sum of interest-bearing money market deposits, interest-bearing demand deposits, and noninterest-bearing deposits.

(d) Includes long-term borrowings of $20.9 billion, $24.8 billion, $26.3 billion, $33.6 billion, and $12.6 billion for 2011, 2010, 2009, 2008 and 2007, respectively. Borrowings which mature more than one year after December 31, 2011 are considered to be long-term.

(e) Amounts for 2011 and 2010 include cash and money market balances.

(f) Calculated as taxable-equivalent net interest income divided by average earning assets. 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 taxable investments. To provide more

meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under accounting principles generally accepted in the United States of America (GAAP) on the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the years 2011, 2010, 2009, 2008 and 2007 were $104 million, $81 million, $65 million, $36 million and $27 million, respectively.

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EXECUTIVE SUMMARY

KEY STRATEGIC GOALS

We manage our company for the long term and focus on operating within a moderate risk profile while maintaining strong capital and liquidity positions, investing in our markets and products, and embracing our corporate responsibility to the communities where we do business. PNC operates under a moderate risk profile which has been primarily attributable to continued improvement in our credit profile as we have experienced overall positive trends in a number of key measures.

Our strategy to enhance shareholder value centers on driving growth in pre-tax, pre-provision earnings by achieving growth in revenue from our balance sheet and diverse business mix that exceeds growth in expenses controlled through disciplined cost management.

The primary drivers of revenue are the acquisition, expansion and retention of customer relationships. We strive to expand our customer base by offering convenient banking options and leading technology solutions, providing a broad range of fee-based and credit products and services, focusing on customer service, and managing a significantly enhanced branding initiative. This strategy is designed to give our customers choices based on their needs. Rather than striving to optimize fee revenue in the short term, our approach is focused on effectively growing targeted market share and share of wallet. We may also grow revenue through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

We are focused on our strategies for quality growth. We remain committed to maintaining a moderate risk philosophy characterized by continued improvement in a number of key measures, disciplined credit management, and the successful execution and implementation of strategic business initiatives. We have made substantial progress in transitioning our balance sheet over the past two years, working to return to our moderate risk profile throughout our expanded franchise. Our actions have resulted in strong capital measures, created a well-positioned balance sheet, and helped us to maintain strong liquidity and investment flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

We also expect to build capital via retained earnings while having opportunities to return capital to shareholders during 2012 subject to regulatory approvals. See the Funding and

Capital Sources section of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this Item 7 and the Supervision and Regulation section in Item 1 of this Report.

PENDING ACQUISITION OF RBC BANK (USA)

On June 19, 2011, PNC entered into a definitive agreement to acquire RBC Bank (USA), the US retail banking subsidiary of Royal Bank of Canada, with more than 400 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The transaction is expected to add approximately $18 billion of deposits and $16 billion of loans to PNC s Consolidated Balance Sheet and to close in March 2012, subject to remaining customary closing conditions. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in Item 8 of this Report.

FLAGSTAR BRANCH ACQUISITION

Effective December 9, 2011, PNC acquired 27 branches in the northern metropolitan Atlanta, Georgia area from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc. We assumed approximately $210.5 million of deposits associated with these branches. No loans were acquired in the transaction. Our Consolidated Income Statement includes the impact of the branch activity subsequent to our December 9, 2011 acquisition. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in Item 8 of this Report.

BANKATLANTIC BRANCH ACQUISITION

Effective June 6, 2011, PNC acquired 19 branches in the greater Tampa, Florida area from BankAtlantic, a subsidiary of BankAtlantic Bancorp, Inc. We assumed approximately $324.5 million of deposits associated with these branches. No loans were acquired in the transaction. Our

Consolidated Income Statement includes the impact of the branch activity subsequent to our June 6, 2011 acquisition. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Sale of PNC Global Investment Servicing

On July 1, 2010, we sold PNC Global Investment Servicing Inc. (GIS), a leading provider of processing, technology and business intelligence services to asset managers, broker-dealers and financial advisors worldwide, for $2.3 billion in cash. The pretax gain in discontinued operations recorded in the third quarter of 2010 related to this sale was $639 million, net of transaction costs, or $328 million after taxes.

Results of operations of GIS through June 30, 2010 are presented as income from discontinued operations, net of income taxes, on our Consolidated Income Statement in this Report. Once we entered into the sales agreement, GIS was no longer a reportable business segment. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Capital and Liquidity Actions

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Board of Governors of the Federal Reserve System (Federal Reserve) and our primary bank regulators as part of the Comprehensive Capital Analysis and Review (CCAR) process. This capital adequacy assessment is based on a review of a comprehensive capital plan submitted to the Federal Reserve. In connection with the annual review process for 2012 (2012 CCAR), PNC filed its capital plan with the Federal Reserve on January 9, 2012. PNC expects to receive its results under the 2012 CCAR from the Federal Reserve by the end of the first quarter 2012. For additional information concerning the CCAR process and the factors the Federal Reserve takes into consideration in evaluating capital plans, see Item 1 Business Supervision and Regulation of this Report.

A summary of 2011 capital and liquidity actions follows.

On April 7, 2011, consistent with our capital plan submitted to the Federal Reserve earlier in 2011, our Board of Directors approved an increase to PNC s quarterly common stock dividend from $.10 per common share to $.35 per common share. That capital plan also included plans to repurchase, during the remainder of 2011, up to $500 million of common stock in open market or privately negotiated transactions under our existing share repurchase program; however, we placed those plans on hold pending regulatory approval for the RBC Bank (USA) acquisition and did not repurchase any PNC common shares under the program during 2011. As noted above, 2012 capital actions, including dividends and repurchase plans, are subject to the results of the 2012 CCAR review process. The discussion of capital within the Consolidated Balance Sheet Review section of this Item 7 includes additional information regarding our common stock repurchase program.

After entering into the acquisition agreement for RBC Bank (USA) in June 2011, we submitted an updated capital plan reflecting the proposed acquisition of RBC Bank (USA) to the Federal Reserve for review and approval. We announced on November 29, 2011, that PNC had been notified that the Federal Reserve had no objections to the proposed revisions to the capital actions submitted by PNC as they pertain to the acquisition of RBC Bank (USA). Accordingly, we do not plan to issue any shares of PNC common stock as part of the consideration payable to the seller at closing. On December 27, 2011 we announced that the Federal Reserve approved our acquisition of RBC Bank (USA) and that the OCC approved the merger of RBC Bank (USA) with and into PNC Bank, N.A., which is planned to occur immediately following PNC s acquisition of RBC Bank (USA). The closing of these transactions is scheduled for March 2012, subject to remaining customary closing conditions.

On July 27, 2011, we issued one million depositary shares, each representing a $1/100^{th}$ interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series O, in an underwritten public offering resulting in gross proceeds of $1 billion to us before commissions and expenses. We intend to use the net proceeds from this offering for general corporate purposes, including funding for the pending RBC Bank (USA) acquisition.

On September 19, 2011, PNC Funding Corp issued $1.25 billion of senior notes due September 2016. Interest is paid semi-annually at a fixed rate of 2.70%. The offering resulted in gross proceeds to us before offering related expenses of $1.24 billion. We intend to use the net proceeds from this offering for general corporate purposes, including funding for the pending RBC Bank (USA) acquisition.

On November 15, 2011, we redeemed $750 million of trust preferred securities issued by National City Capital Trust II with a current distribution rate of 6.625% and an original scheduled maturity date of November 15, 2036. The redemption price was $25 per trust preferred security plus any accrued and unpaid distributions to the redemption date of November 15, 2011. The redemption resulted in a noncash charge for the unamortized discount of $198 million in the fourth quarter of 2011.

Recent Market and Industry Developments

There have been numerous legislative and regulatory developments and dramatic changes in the competitive landscape of our industry over the last several years.

The United States and other governments have undertaken major reform of the regulation of the financial services industry, including engaging in new efforts to impose requirements designed to strengthen the stability of the financial system and protect consumers and investors from financial abuse. We expect to face further increased regulation of our industry as a result of current and future initiatives intended to provide economic stimulus, financial market stability and enhanced regulation of financial services companies and to enhance the liquidity and solvency of financial institutions and markets. We also expect in many cases more intense scrutiny from our bank supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state levels. Compliance with new regulations will increase our costs and reduce our revenue. Some new regulations may limit our ability to pursue certain desirable business opportunities.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), enacted in July 2010, mandates the most wide-ranging overhaul of financial industry regulation in decades. Many parts of the law are now in effect and others are now in the implementation stage, which is likely to continue for several years.

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Until such time as the regulatory agencies issue final regulations implementing all of the numerous provisions of Dodd-Frank, PNC will not be able to fully assess the impact the legislation will have on its businesses. However, we believe that the expected changes will be manageable for PNC and will have a smaller impact on us than on our larger peers.

Included in these recent legislative and regulatory developments are evolving regulatory capital standards for

financial institutions. Dodd-Frank requires the Federal Reserve Board to establish capital requirements that would, among other things, eliminate the Tier 1 treatment of trust preferred securities following a phase-in period expected to begin in 2013. Evolving standards also include the so-called Basel III initiatives that are part of the effort by international banking supervisors to improve the ability of the banking sector to absorb shocks in periods of financial and economic stress and changes by the federal banking agencies to reduce the use of credit ratings in the rules governing regulatory capital. The recent Basel III capital initiative, which has the support of US banking regulators, includes heightened capital requirements for major banking institutions in terms of both higher quality capital and higher regulatory capital ratios. Basel III capital standards require implementing regulations and standards by the banking regulators. Under the Basel III accord, the new Basel III capital standards will become effective under a phase-in period beginning January 1, 2013 and will be in full effect January 1, 2019.

A number of reform provisions are likely to significantly impact the ways in which banks and bank holding companies, including PNC, do business. We provide additional information on a number of these provisions (including new regulatory agencies (such as the Consumer Financial Protection Bureau (CFPB)), consumer protection regulation, enhanced capital requirements, limitations on investment in and sponsorship of funds, risk retention by securitization participants, new regulation of derivatives, potential applicability of state consumer protection laws, and limitations on interchange fees) and some of their potential impacts on PNC in Item 1 Business Supervision and Regulation and Item 1A Risk Factors of this Report.

Residential Mortgage Matters

Beginning in the third quarter of 2010, mortgage foreclosure documentation practices among US financial institutions received heightened attention by regulators and the media. PNC s US market share for residential servicing is approximately 1.4% according to the National Mortgage News. The vast majority of our servicing business is on behalf of other investors, principally the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA).

Similar to other banks, however, we identified issues regarding some of our foreclosure practices. Accordingly, after implementing a delay in pursuing individual

foreclosures, we have been moving forward in most jurisdictions on such matters under procedures designed to address as appropriate any documentation issues. We are also proceeding with new foreclosures under enhanced procedures designed as part of this review to minimize the risk of errors related to the processing of documentation in foreclosure cases.

There have been, and continue to be, numerous governmental, legislative and regulatory inquiries and investigations on this topic and other issues related to mortgage lending and servicing. These inquiries and investigations may result in significant additional actions, penalties or other remedies.

For additional information, including with respect to some of the governmental, legislative and regulatory inquiries and investigations, please see Risk Factors in Item 1A of this Report, and Note 22 Legal Proceedings and Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report.

PNC s Participation in Select Government Programs

TARP Capital Purchase Program

We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of $250 million in the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share. See Repurchase of Outstanding TARP Preferred Stock and Sale by US Treasury of TARP Warrant in Note 18 Equity in the Notes To Consolidated Financial Statements in Part II, Item 8 of this Report for additional information.

FDIC Temporary Liquidity Guarantee Program (TLGP)

The FDIC s TLGP is designed to strengthen confidence and encourage liquidity in the banking system by:

- Guaranteeing newly issued senior unsecured debt of eligible institutions, including FDIC-insured banks and thrifts, as well as certain holding companies (TLGP-Debt Guarantee Program), and
- Providing full deposit insurance coverage for non-interest bearing transaction accounts in FDIC-insured institutions, regardless of the dollar amount (TLGP-Transaction Account Guarantee Program).

PNC did not issue any securities under the TLGP-Debt Guarantee Program during 2011.

In December 2008, PNC Funding Corp issued fixed and floating rate senior notes totaling $2.9 billion under the FDIC s TLGP-Debt Guarantee Program. In March 2009, PNC Funding Corp issued floating rate senior notes totaling $1.0 billion under this program. Each of these series of senior notes is guaranteed through maturity by the FDIC.

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From October 14, 2008 through December 31, 2009, PNC Bank, National Association (PNC Bank, N.A.) participated in the TLGP-Transaction Account Guarantee Program. Under this program, all non-interest bearing transaction accounts were fully guaranteed by the FDIC for the entire amount in the account.

Beginning January 1, 2010, PNC Bank, N.A. ceased participating in the FDIC s TLGP-Transaction Account Guarantee Program. Dodd-Frank, however, extended for two years, beginning December 31, 2010, unlimited deposit insurance coverage for non-interest bearing transaction accounts held at all banks. Therefore, eligible accounts at PNC Bank, N.A. are again eligible for unlimited deposit insurance, through December 31, 2012. Coverage under this extension is in addition to, and separate from, the coverage available under the FDIC s general deposit insurance rules.

Home Affordable Modification Program (HAMP)

As part of its effort to stabilize the US housing market, in March 2009 the Obama Administration published detailed guidelines implementing HAMP, and authorized servicers to begin loan modifications. PNC began participating in HAMP through its then subsidiary National City Bank in May 2009 and directly through PNC Bank, N.A. in July 2009, and entered into an agreement on October 1, 2010 to participate in the Second Lien Program. HAMP was scheduled to terminate as of December 31, 2012; however, the Administration has announced that the HAMP program deadline will be extended to December 31, 2013.

Home Affordable Refinance Program (HARP)

Another part of its efforts to stabilize the US housing market is the Obama Administration s Home Affordable Refinance Program (HARP), which provided a means for certain borrowers to refinance their mortgage loans. PNC began participating in HARP in May 2009. In 2011, the Obama Administration revised the program to increase borrower eligibility and extended it for another twelve months with a new termination date of December 31, 2013.

KEY FACTORS AFFECTING FINANCIAL PERFORMANCE

Our financial performance is substantially affected by a number of external factors outside of our control, including the following:

- General economic conditions, including the continuity, speed and stamina of the moderate economic recovery in general and on our customers in particular,
- The level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve,
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets,
- Loan demand, utilization of credit commitments and standby letters of credit, and asset quality,
- Customer demand for non-loan products and services,
- Changes in the competitive and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment,
- The impact of the extensive reforms enacted in the Dodd-Frank legislation and other legislative, regulatory and administrative initiatives, including those outlined elsewhere in this Report, and
- The impact of market credit spreads on asset valuations.

In addition, our success will depend, among other things, upon:

- Further success in the acquisition, growth and retention of customers,
- Continued development of the geographic markets related to our recent acquisitions, including full deployment of our product offerings,
- Closing the pending RBC Bank (USA) acquisition and integrating its business into PNC after closing,
- Revenue growth and our ability to provide innovative and valued products to our customers,
- Our ability to utilize technology to develop and deliver products and services to our customers,
- Our ability to manage and implement strategic business objectives within the changing regulatory environment,
- A sustained focus on expense management,
- Managing the non-strategic assets portfolio and impaired assets,
- Improving our overall asset quality and continuing to meet evolving regulatory capital standards,
- Continuing to maintain and grow our deposit base as a low-cost funding source,
- Prudent risk and capital management related to our efforts to maintain our desired moderate risk profile,
- Actions we take within the capital and other financial markets, and
- The impact of legal and regulatory contingencies.

For additional information, please see Risk Factors in Item 1A of this Report and the Cautionary Statement Regarding Forward-Looking Information section in this Item 7.

SUMMARY FINANCIAL RESULTS

Year ended December 31	**2011**	2010
Net income (millions)	**$ 3,071**	$ 3,397
Diluted earnings per common share		
Continuing operations	**$ 5.64**	$ 5.02
Discontinued operations		.72
Net income	**$ 5.64**	$ 5.74
Return from net income on:		
Average common shareholders equity	**9.56%**	10.88%
Average assets	**1.16%**	1.28%

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Our performance in 2011 included the following:

- Net income for 2011 of $3.1 billion was down 10% from 2010. Results for 2011 included $324 million for residential mortgage foreclosure-related expenses primarily as a result of ongoing governmental matters and a noncash charge of $198 million related to the redemption of trust preferred securities. Results for 2010 included $71 million of residential mortgage-related expenses, $328 million after-tax gain on our sale of GIS, and integration expenses of $387 million, whereas the comparable amount of integration expenses for 2011 was $42 million. For 2010, net income attributable to common shareholders and diluted earnings per common share were impacted by a noncash reduction of $250 million related to our redemption of TARP preferred stock.
- Net interest income of $8.7 billion for 2011 was down 6% from 2010; net interest margin was down to 3.92% in 2011 compared with 4.14% for 2010 primarily due to the impact of lower purchase accounting accretion, a decline in average loan balances and the low interest rate environment.
- Noninterest income of $5.6 billion in 2011 declined 5% compared with 2010. Noninterest income for 2011 reflected higher asset management fees that were offset by lower corporate service fees primarily due to a reduction in the value of commercial mortgage servicing rights and the impact of the rules set forth in Regulation E. The fourth quarter impact of Dodd-Frank on interchange revenue was offset by increased customer-initiated volumes throughout 2011.
- The provision for credit losses declined to $1.2 billion in 2011 compared with $2.5 billion in 2010 as overall credit quality continued to improve due to slowly improving economic conditions and actions we took to reduce exposure levels during the year.
- Noninterest expense for 2011 increased by 6% compared with 2010, to $9.1 billion primarily due to higher residential mortgage foreclosure-related expenses and a charge for the unamortized discount related to the redemption of trust preferred securities.
- Overall credit quality continued to improve during 2011. Nonperforming assets declined $967 million, or 19%, to $4.2 billion as of December 31, 2011 from December 31, 2010. Accruing loans past due increased $12 million, or less than 1%, during 2011 to $4.5 billion at year end primarily attributable to government insured or guaranteed loans. The allowance for loan and lease losses (ALLL) was $4.3 billion, or 2.73% of total loans and 122% of nonperforming loans, as of December 31, 2011.
- We remain committed to responsible lending to support economic growth. Total loan originations and new commitments and renewals totaled approximately $147 billion for 2011, including $4.1 billion of small business loans. Total loans were $159.0 billion at December 31, 2011, an increase of
6% from $150.6 billion at December 31, 2010. The growth in total loans exceeded the $2.4 billion decrease in Non-Strategic Assets Portfolio loans driven by customer payment activity and portfolio management activities to reduce under-performing assets.
- Consolidated growth in commercial loans of $10.5 billion, auto loans of $2.2 billion, and education loans of $.4 billion was partially offset by declines of $1.7 billion in commercial real estate loans, $1.5 billion of residential real estate loans and $1.1 billion of home equity loans compared with December 31, 2010. The $3.2 billion decrease in consolidated commercial and residential real estate loans included $1.4 billion of Non-Strategic Assets
Portfolio loans, accounting for approximately 43% of the consolidated decline.
- Total deposits were $188.0 billion at December 31, 2011 compared with $183.4 billion at the prior year end. Growth in transaction deposits (interest-bearing money market, interest-bearing demand and noninterest-bearing) continued with an increase of $13 billion, or 10%, for the year. Retail certificates of deposit were reduced by $7.8 billion, or 21%, during 2011 and deposit costs were 51 basis points, which was 19 basis points lower than in 2010.
- Our higher quality balance sheet during 2011 reflected core funding with a loans to deposits ratio of 85% at year end and strong bank and holding company liquidity positions to support growth.
- We grew common shareholders equity by $2.8 billion during 2011. The Tier 1 common capital ratio was 10.3% at December 31, 2011, up 50 basis points from December 31, 2010.

Our Consolidated Income Statement Review section of this Item 7 describes in greater detail the various items that impacted our results for 2011 and 2010.

Balance Sheet Highlights

Total assets were $271.2 billion at December 31, 2011 compared with $264.3 billion at December 31, 2010. The increase from year end 2010 resulted primarily from an increase in loans and other assets somewhat offset by a decrease in investment securities and short term investments.

Various seasonal and other factors impact our period-end balances whereas average balances are generally more indicative of underlying business trends apart from the impact of acquisitions and divestitures. The Consolidated Balance Sheet Review section of this Item 7 provides information on changes in selected Consolidated Balance Sheet categories at December 31, 2011 compared with December 31, 2010.

Total average assets were $265.3 billion for 2011 compared with $264.9 billion for 2010. Average interest-earning assets were $224.3 billion for 2011, compared with $224.7 billion in 2010. Both comparisons were primarily driven by a $1.8

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billion decrease in average total loans partially offset by a $1.7 billion increase in average total investment securities. The overall decline in average loans reflected lower loan demand, loan repayments, dispositions and net charge-offs. The increase in total investment securities reflected net investments of excess liquidity primarily in agency residential mortgage-backed securities.

Total loans at December 31, 2011 increased $8.4 billion to $159.0 billion compared with $150.6 billion at December 31, 2010. Average total loans decreased $1.8 billion or 1%, to $152.0 billion, in 2011 compared with 2010 primarily as loan growth during the second half of 2011 was offset by loan decreases during the first half of 2011. The decrease in average total loans primarily reflected declines in commercial real estate of $3.7 billion and residential real estate of $2.8 billion, partially offset by a $5.1 billion increase in commercial loans. Commercial real estate loans declined due to loan sales, paydowns, and charge-offs. The decrease in residential real estate was impacted by portfolio management activities, paydowns and net charge-offs. Commercial loans increased due to a combination of new client acquisition and improved utilization. Loans represented 68% of average interest-earning assets for 2011 and for 2010.

Average investment securities increased $1.7 billion, to $59.7 billion, in 2011 compared with 2010. Average securities held to maturity increased $2.3 billion, to $9.4 billion, in 2011 compared with 2010. This increase was partially offset by the decrease in average securities available for sale of $.6 billion, to $50.3 billion, in 2011 compared with 2010. The increase in average securities held to maturity was primarily a result of transfers totalling $6.3 billion from securities available for sale to securities held to maturity during the second and third quarters of 2011.

Total investment securities comprised 27% of average interest-earning assets for 2011 and 26% for 2010.

Average noninterest-earning assets totaled $41.0 billion in 2011 compared with $40.2 billion 2010.

Average total deposits were $183.0 billion for 2011 compared with $181.9 billion for 2010. Average deposits remained essentially flat from the prior year period primarily as a result of decreases of $8.9 billion in average retail certificates of deposit, $.4 billion in average other time deposits, and $.4 billion in average time deposits in foreign offices, which were offset by increases of $6.6 billion in average noninterest-bearing deposits, $2.5 billion in average interest-bearing demand deposits and $1.2 billion in average savings deposits. Total deposits at December 31, 2011 were $188.0 billion compared with $183.4 billion at December 31, 2010 and are further discussed within the Consolidated Balance Sheet Review section of this Report.

Average total deposits represented 69% of average total assets for 2011 and 2010.

Average transaction deposits were $138.0 billion for 2011 compared with $128.4 billion for 2010. The continued execution of the retail deposit strategy and customer preference for liquidity contributed to the year-over-year increase in average balances. In addition, commercial and corporate deposit growth was very strong in 2011.

Average borrowed funds were $35.7 billion for 2011 compared with $40.2 billion for 2010. Maturities of Federal Home Loan Bank (FHLB) borrowings drove the decline compared to 2010. Total borrowed funds at December 31, 2011 were $36.7 billion compared with $39.5 billion at December 31, 2010 and are further discussed within the Consolidated Balance Sheet Review section of this Item 7. In addition, the Liquidity Risk Management portion of the Risk Management section of this Item 7 includes additional information regarding our sources and uses of borrowed funds.

BUSINESS SEGMENT HIGHLIGHTS

Highlights of results for 2011 and 2010 are included below. As a result of its sale, GIS is no longer a reportable business segment.

We refer you to Item 1 of this Report under the captions Business Overview and Review of Business Segments for an overview of our business segments and to the Business Segments Review section of this Item 7 for a Results Of Businesses Summary table and further analysis of business segment results for 2011 and 2010, including presentation differences from Note 25 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report.

We provide a reconciliation of total business segment earnings to PNC consolidated income from continuing operations before noncontrolling interests as reported according to accounting principles generally accepted in the United States of America (GAAP) in Note 25 Segment Reporting in our Notes To Consolidated Financial Statements of Item 8 of this Report.

Retail Banking

Retail Banking earned $31 million for 2011 compared with earnings of $144 million in 2010. Earnings declined from the prior year as lower revenues from the impact of Regulation E rules related to overdraft fees, a low interest rate environment, and the regulatory impact of lower interchange fees on debit card transactions, were partially offset by a lower provision for credit losses and higher volumes of customer-initiated transactions. Retail Banking continued to maintain its focus on growing core customers, selectively investing in the business for future growth, and disciplined expense management.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $1.9 billion in 2011 and $1.8 billion in 2010. The increase in earnings was primarily due to an improvement in the provision for credit losses, which was a benefit in 2011, partially offset by a reduction in the value of commercial mortgage servicing rights and lower net interest income. We continued to focus on adding new clients, increasing cross sales, and remaining committed to strong expense discipline.

Asset Management Group

Asset Management Group earned $141 million for 2011 compared with $137 million for 2010. Assets under administration were $210 billion at December 31, 2011 and $212 billion at December 31, 2010. Earnings for 2011 reflected a benefit from the provision for credit losses and growth in noninterest income, partially offset by higher noninterest expense and lower net interest income. For 2011, the business delivered strong sales production, grew high value clients and benefitted from significant referrals from other PNC lines of business. Over time and with stabilized market conditions, the successful execution of these strategies and the accumulation of our strong sales performance are expected to create meaningful growth in assets under management and noninterest income.

Residential Mortgage Banking

Residential Mortgage Banking earned $87 million in 2011 compared with $269 million in 2010. The decline in earnings was driven by an increase in noninterest expense associated with increased costs for residential mortgage foreclosure-related expenses, primarily as a result of ongoing governmental matters, and lower net interest income, partially offset by an increase in loan originations and higher loans sales revenue.

BlackRock

Our BlackRock business segment earned $361 million in 2011 and $351 million in 2010. The higher business segment earnings from BlackRock for 2011 compared with 2010 were primarily due to an increase in revenue.

Non-Strategic Assets Portfolio

This business segment (formerly Distressed Assets Portfolio) consists primarily of acquired non-strategic assets that fall outside of our core business strategy. Non-Strategic Assets Portfolio had earnings of $200 million in 2011 compared with a loss of $57 million in 2010. The increase was primarily attributable to a lower provision for credit losses partially offset by lower net interest income.

Other

Other reported earnings of $376 million for 2011 compared with earnings of $386 million for 2010. The decrease in

earnings primarily reflected the noncash charge related to the redemption of trust preferred securities in the fourth quarter of 2011 and the gain related to the sale of a portion of PNC s BlackRock shares in 2010 partially offset by lower integration costs in 2011.

Consolidated Income Statement Review

Our Consolidated Income Statement is presented in Item 8 of this Report.

Net income for 2011 was $3.1 billion compared with $3.4 billion for 2010. Results for 2011 include the impact of $324 million of residential mortgage foreclosure-related expenses primarily as a result of ongoing governmental matters, a $198 million noncash charge related to redemption of trust preferred securities and $42 million for integration costs. Results for 2010 included the $328 million after-tax gain on our sale of GIS, $387 million for integration costs, and $71 million of residential mortgage foreclosure-related expenses. For 2010, net income attributable to common shareholders was also impacted by a noncash reduction of $250 million in connection with the redemption of TARP preferred stock. PNC s results for 2011 were driven by good performance in a challenging environment of low interest rates, slow economic growth and new regulations.

Net Interest Income and Net Interest Margin

Year ended December 31

Dollars in millions	**2011**	2010
Net interest income	**$ 8,700**	$ 9,230
Net interest margin	**3.92%**	4.14%

Changes in net interest income and margin result from the interaction of the volume and composition of interest-earning assets and related yields, interest-bearing liabilities and related rates paid, and noninterest-bearing sources of funding. See the Statistical Information (Unaudited) Analysis Of Year-To-Year Changes In Net Interest Income and Average Consolidated Balance Sheet And Net Interest Analysis in Item 8 and the discussion of purchase accounting accretion in the Consolidated Balance Sheet Review in Item 7 of this Report for additional information.

The decreases in net interest income and net interest margin for 2011 compared with 2010 were primarily attributable to a decrease in purchase accounting accretion on purchased impaired loans primarily due to lower excess cash recoveries. A decline in average loan balances and the low interest rate environment, partially offset by lower funding costs, also contributed to the decrease.

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The net interest margin was 3.92% for 2011 and 4.14% for 2010. The following factors impacted the comparison:

- A 41 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 38 basis points.
- These factors were partially offset by a 20 basis point decline in the rate accrued on interest-bearing liabilities. The rate accrued on interest-bearing deposits, the largest component, decreased 19 basis points primarily in retail certificates of deposit.

We expect our 2012 net interest income, including the results of our pending RBC Bank (USA) acquisition following closing, to increase in percentage terms by mid-to-high single digits compared to 2011 as core net interest income should continue to grow offset by the expected decline in purchase accounting accretion, assuming the economic outlook for 2012 will be a continuation of the 2011 environment.

Noninterest Income

Noninterest income totaled $5.6 billion for 2011 and $5.9 billion for 2010. Noninterest income for 2011 reflected higher asset management fees and other income, higher residential mortgage banking revenue, and lower net other-than-temporary impairments (OTTI), that were offset by a decrease in corporate service fees primarily due to a reduction in the value of commercial mortgage servicing rights, lower service charges on deposits from the impact of Regulation E rules pertaining to overdraft fees, a decrease in net gains on sales of securities and lower consumer services fees due, in part, to a decline in interchange fees on individual debit card transactions in the fourth quarter partially offset by higher transaction volumes throughout 2011.

Asset management revenue, including BlackRock, increased $34 million to $1.1 billion in 2011 compared with 2010. The increase was driven by strong sales performance by our Asset Management Group and somewhat higher equity earnings from our BlackRock investment. Discretionary assets under management at December 31, 2011 totaled $107 billion compared with $108 billion at December 31, 2010.

For 2011, consumer services fees totaled $1.2 billion compared with $1.3 billion in 2010. The decrease was due to lower interchange rates on debit card transactions, lower brokerage related revenue, and lower ATM related fees, partially offset by higher volumes of customer-initiated transactions including debit and credit cards. As further discussed in the Retail Banking section of the Business Segments Review portion of this Item 7, the Dodd-Frank limits on interchange rates were effective October 1, 2011 and had a negative impact on revenues of approximately $75 million in the fourth quarter of 2011, and are expected to have an additional incremental reduction on 2012 annual revenue of approximately $175 million, based on 2011 transaction volumes.

Corporate services revenue totaled $.9 billion in 2011 and $1.1 billion in 2010. Lower values of commercial mortgage servicing rights, largely driven by lower interest rates and higher loan prepayment rates, and lower special servicing fees drove the decline.

Residential mortgage revenue totaled $713 million in 2011 and $699 million in 2010. Higher loans sales revenue drove the comparison, largely offset by lower net hedging gains on mortgage servicing rights and lower servicing fees.

Service charges on deposits totaled $534 million for 2011 and $705 million for 2010. The decline resulted primarily from the impact of Regulation E rules pertaining to overdraft fees. As further discussed in the Retail Banking section of the Business Segments Review portion of this Item 7, the new Regulation E rules related to overdraft charges negatively impacted our 2011 revenue by approximately $200 million compared with 2010.

Net gains on sales of securities totaled $249 million for 2011 and $426 million for 2010. The net credit component of OTTI of securities recognized in earnings was a loss of $152 million in 2011, compared with a loss of $325 million in 2010.

Gains on BlackRock related transactions included a fourth quarter 2010 pretax gain of $160 million from our sale of 7.5 million BlackRock common shares as part of a BlackRock secondary common stock offering.

Other noninterest income totaled $1.1 billion for 2011 compared with $.9 billion for 2010.

The diversity of our revenue streams should enable us to achieve a solid performance in an environment that will continue to be affected by regulatory reform headwinds and implementation challenges. Looking to 2012, we see opportunities for growth as a result of our larger franchise and the pending acquisition, our ability to cross-sell our products and services to existing clients and our progress in adding new clients. We expect noninterest income to increase in percentage terms by the mid-single digits despite further regulatory impacts on debit card interchange fees, assuming the economic outlook for 2012 will be a continuation of the 2011 environment.

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, capital markets-related products and services, and commercial mortgage banking activities for customers in all business segments. A portion of the revenue and expense related to these products is reflected in Corporate & Institutional Banking and the remainder is reflected in the results of other businesses. The Other Information section in the Corporate & Institutional Banking table in the Business Segments Review section of

this Item 7 includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue from these services follows.

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, totaled $1.2 billion for both 2011 and 2010. Declining deposit spreads were offset by increases in core processing products, such as lockbox and information reporting, and in growth products such as commercial card and healthcare related services.

Revenue from capital markets-related products and services totaled $622 million in 2011 compared with $606 million in 2010. The comparison reflects higher derivatives and foreign exchange sales and the reduced impact of counterparty credit risk on valuations of derivative positions. These increases were partially offset by lower underwriting activity.

Commercial mortgage banking activities resulted in revenue of $112 million in 2011 compared with $262 million in 2010. This decline was primarily due to a reduction in the value of commercial mortgage servicing rights largely driven by lower interest rates and higher loan prepayment rates. 2010 included a higher level of ancillary commercial mortgage servicing fees and revenue from a duplicative agency servicing operation that was sold in that year.

Provision For Credit Losses

The provision for credit losses declined to $1.2 billion in 2011 compared with $2.5 billion in 2010 as overall credit quality continued to improve due to improved economic conditions and actions we took to reduce exposure levels during the year.

We expect our provision for credit losses in 2012 to remain stable relative to 2011 assuming the economic outlook for 2012 will be a continuation of the 2011 environment. This includes consideration of the impact of the pending RBC Bank (USA) acquisition.

The Credit Risk Management portion of the Risk Management section of this Item 7 includes additional information regarding factors impacting the provision for credit losses. See also Item 1A Risk Factors and the Cautionary Statement Regarding Forward-Looking Information section of Item 7 of this Report.

Noninterest Expense

Noninterest expense was $9.1 billion for 2011 and $8.6 billion for 2010. Noninterest expense for 2011 included $324 million of residential mortgage foreclosure-related expenses primarily as a result of ongoing governmental matters, a noncash charge of $198 million for the unamortized discount related to redemption of trust preferred securities, and $42 million for integration costs. The comparable amounts for 2010 were $71 million, $0 and $387 million, respectively.

Apart from the possible impact of legal and regulatory contingencies, charges on further trust preferred redemptions, and RBC Bank (USA) integration expenses in 2012, and excluding the fourth quarter charge for residential mortgage foreclosure-related expenses of $240 million and the noncash charge of $198 million related to the trust preferred securities redemption in 2011, we expect that total noninterest expense for 2012 will increase in percentage terms by mid single-digits compared to 2011. This expectation reflects flat-to-down expense for PNC stand alone and 10 months of RBC Bank (USA) operating expenses of approximately $600 million.

In connection with the pending acquisition of RBC Bank (USA) in March 2012, we expect to incur total merger and integration costs of approximately $170 million in the first quarter of 2012.

Effective Income Tax Rate

The effective income tax rate was 24.5% in 2011 compared with 25.5% in 2010. The decrease in the effective tax rate was primarily attributable to the impact of higher tax-exempt income and tax credits.

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Consolidated Balance Sheet Review

Summarized Balance Sheet Data

In millions	Dec. 31 2011	Dec. 31 2010
Assets		
Loans	**$ 159,014**	$ 150,595
Investment securities	**60,634**	64,262
Cash and short-term investments	**9,992**	10,437
Loans held for sale	**2,936**	3,492
Goodwill and other intangible assets	**10,144**	10,753
Equity investments	**10,134**	9,220
Other, net	**18,351**	15,525
Total assets	**$ 271,205**	$ 264,284
Liabilities		
Deposits	**$ 187,966**	$ 183,390
Borrowed funds	**36,704**	39,488
Other	**9,289**	8,568
Total liabilities	**233,959**	231,446
Total shareholders equity	**34,053**	30,242
Noncontrolling interests	**3,193**	2,596
Total equity	**37,246**	32,838
Total liabilities and equity	**$ 271,205**	$ 264,284

The summarized balance sheet data above is based upon the Consolidated Balance Sheet in Item 8 of this Report.

The increase in total assets at December 31, 2011 compared with December 31, 2010 was primarily due to an increase in loans and other assets, partially offset by a decrease in investment securities.

An analysis of changes in selected balance sheet categories follows.

Loans

Outstanding loan balances of $159.0 billion at December 31, 2011 and $150.6 billion at December 31, 2010 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums of $2.3 billion at December 31, 2011 and $2.7 billion at December 31, 2010, respectively. The balances do not include future accretable net interest (i.e., the difference between the undiscounted expected cash flows and the carrying value of the loan) on purchased impaired loans.

Loans increased $8.4 billion as of December 31, 2011 compared with December 31, 2010. Growth in commercial loans of $10.5 billion, auto loans of $2.2 billion, and education loans of $.4 billion was partially offset by declines of $1.7 billion in commercial real estate loans, $1.5 billion of residential real estate loans and $1.1 billion of home equity loans compared with December 31, 2010. Commercial loans increased due to a combination of new client acquisition and

improved utilization. Auto loans increased due to the expansion of sales force and product introduction to acquired markets, as well as overall increases in auto sales. Education loans increased due to portfolio purchases in 2011. Commercial and residential real estate along with home equity loans declined due to loan demand being outpaced by paydowns, refinancing, and charge-offs.

Loans represented 59% of total assets at December 31, 2011 and 57% of total assets at December 31, 2010. Commercial lending represented 56% of the loan portfolio at December 31, 2011 and 53% at December 31, 2010. Consumer lending represented 44% of the loan portfolio at December 31, 2011 and 47% at December 31, 2010.

Commercial real estate loans represented 6% of total assets at December 31, 2011 and 7% of total assets at December 31, 2010.

Details Of Loans

In millions	**Dec. 31 2011**	Dec. 31 2010
Commercial		
Retail/wholesale trade	**$ 11,539**	$ 9,901
Manufacturing	**11,453**	9,334
Service providers	**9,717**	8,866
Real estate related (a)	**8,488**	7,500
Financial services	**6,646**	4,573
Health care	**5,068**	3,481
Other industries	**12,783**	11,522
Total commercial	**65,694**	55,177
Commercial real estate		
Real estate projects	**10,640**	12,211
Commercial mortgage	**5,564**	5,723
Total commercial real estate	**16,204**	17,934
Equipment lease financing	**6,416**	6,393
TOTAL COMMERCIAL LENDING (b)	**88,314**	79,504
Consumer		
Home equity		
Lines of credit	**22,491**	23,473
Installment	**10,598**	10,753
Residential real estate		
Residential mortgage	**13,885**	15,292
Residential construction	**584**	707
Credit card	**3,976**	3,920
Other consumer		
Education	**9,582**	9,196
Automobile	**5,181**	2,983
Other	**4,403**	4,767
TOTAL CONSUMER LENDING	**70,700**	71,091
Total loans	**$ 159,014**	$ 150,595

(a) Includes loans to customers in the real estate and construction industries.
(b) Construction loans with interest reserves, and A/B Note restructurings are not significant to PNC.

Total loans above include purchased impaired loans of $6.7 billion, or 4% of total loans, at December 31, 2011, and $7.8 billion, or 5% of total loans, at December 31, 2010.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $147 billion for 2011.

Our loan portfolio continued to be diversified among numerous industries and types of businesses in our principal geographic markets.

Commercial lending is the largest category and is the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan and lease losses (ALLL). This estimate also considers other relevant factors such as:

- Industry concentrations and conditions,
- Recent credit quality trends,
- Recent loss experience in particular portfolios,
- Recent macro economic factors,
- Changes in risk selection and underwriting standards, and
- Timing of available information.

Higher Risk Loans

Our loan portfolio includes certain loans deemed to be higher risk. As of December 31, 2011, we established specific and pooled reserves on the total commercial lending category of $2.0 billion. This commercial lending reserve included what we believe to be appropriate loss coverage on the higher risk commercial loans in the total commercial portfolio. The commercial lending reserve represented 46% of the total ALLL of $4.3 billion at that date. The remaining 54% of ALLL pertained to the total consumer lending category, including loans with certain attributes that we would consider to be higher risk. We do not consider government insured or guaranteed loans to be higher risk as defaults are materially mitigated by payments of insurance or guarantee amounts for approved claims. Additional information regarding our higher risk loans is included in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

Purchase Accounting

Information related to purchased impaired loans, purchase accounting accretion and accretable net interest recognized during 2011, 2010 and 2009 follows.

Total Purchase Accounting Accretion

Year ended December 31

In millions	**2011**	2010
Non-impaired loans	**$ 288**	$ 366
Impaired loans		
Scheduled accretion	**666**	885
Reversal of contractual interest on impaired loans	**(395)**	(529)
Scheduled accretion net of contractual interest	**271**	356
Excess cash recoveries	**254**	483
Total impaired loans	**525**	839
Securities	**49**	54
Deposits	**358**	545
Borrowings	**(101)**	(155)
Total	**$ 1,119**	$ 1,649

Total Remaining Purchase Accounting Accretion

In billions	Dec. 31 2011	Dec. 31 2010	Dec. 31 2009
Non-impaired loans	**$ .9**	$ 1.2	$ 1.6
Impaired loans	**2.1**	2.2	3.5
Total loans (gross)	**3.0**	3.4	5.1
Securities	**.4**	.5	.5
Deposits	**.1**	.5	1.0
Borrowings	**(.8)**	(1.1)	(1.2)
Total	**$ 2.7**	$ 3.3	$ 5.4

Accretable Net Interest – Purchased Impaired Loans

In billions	
January 1, 2010	$ 3.5
Accretion	(.9)
Excess cash recoveries	(.5)
Net reclassifications to accretable from non-accretable and other activity (a)	.1
December 31, 2010	$ 2.2
Accretion	**(.7)**
Excess cash recoveries	**(.2)**
Net reclassifications to accretable from non-accretable and other activity (a)	**.8**
December 31, 2011 (b)	**$ 2.1**

(a) The net reclass includes the impact of improvements in the excess cash expected to be collected from credit improvements, as well as accretable differences related to cash flow extensions.

(b) As of December 31, 2011, we estimate that the reversal of contractual interest on purchased impaired loans will total approximately $1.4 billion. This will reduce the benefit of purchase accounting accretion and offset the total net accretable interest income of $2.1 billion on purchased impaired loans.

Valuation of Purchased Impaired Loans

Dollars in billions	December 31, 2011 Balance	December 31, 2011 Net Investment	December 31, 2010 Balance	December 31, 2010 Net Investment	December 31, 2009 Balance	December 31, 2009 Net Investment
Commercial and commercial real estate loans:						
Unpaid principal balance	**$ 1.0**		$ 1.8		$ 3.5	
Purchased impaired mark	**(.1)**		(.4)		(1.3)	
Recorded investment	**.9**		1.4		2.2	
Allowance for loan losses	**(.2)**		(.3)		(.2)	
Net investment	**.7**	**70%**	1.1	61%	2.0	57%
Consumer and residential mortgage loans:						
Unpaid principal balance	**6.5**		7.9		11.7	
Purchased impaired mark	**(.7)**		(1.5)		(3.6)	
Recorded investment	**5.8**		6.4		8.1	
Allowance for loan losses	**(.8)**		(.6)		(.3)	
Net investment	**5.0**	**77%**	5.8	73%	7.8	67%
Total purchased impaired loans:						
Unpaid principal balance	**7.5**		9.7		15.2	
Purchased impaired mark	**(.8)**		(1.9)		(4.9)	
Recorded investment	**6.7**		7.8		10.3	
Allowance for loan losses	**(1.0)**		(.9)		(.5)	
Net investment	**$ 5.7**	**76%**	$ 6.9	71%	$ 9.8	64%

The unpaid principal balance of purchased impaired loans declined from $9.7 billion at December 31, 2010 to $7.5 billion at December 31, 2011 due to payments, disposals, and charge-offs of amounts determined to be uncollectible. The remaining purchased impaired mark at December 31, 2011 was $.8 billion, which was a decline from $1.9 billion at December 31, 2010. The associated allowance for loan losses increased slightly by $.1 billion to $1.0 billion at December 31, 2011. The net investment of $6.9 billion at December 31, 2010 declined 17% to $5.7 billion at December 31, 2011. At December 31, 2011, our largest individual purchased impaired loan had a recorded investment of $25.2 million.

We currently expect to collect total cash flows of $7.8 billion on purchased impaired loans, representing the $5.7 billion net investment at December 31, 2011 and the accretable net interest of $2.1 billion shown in the Accretable Net Interest-Purchased Impaired Loans table. These represent the net future cash flows on purchased impaired loans, as contractual interest will be reversed.

Net unfunded credit commitments are comprised of the following:

Net Unfunded Credit Commitments

	Dec. 31 2011	Dec. 31 2010
Commercial/commercial real estate (a)	**$ 64,955**	$ 59,256
Home equity lines of credit	**18,317**	19,172
Credit card	**16,216**	14,725
Other	**3,783**	2,652
Total	**$ 103,271**	$ 95,805

(a) Less than 4% of these amounts at each date relate to commercial real estate.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments reported above exclude syndications, assignments and participations, primarily to financial institutions, totaling $20.2 billion at December 31, 2011 and $16.7 billion at December 31, 2010.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $742 million at December 31, 2011 and $458 million at December 31, 2010 and are included in the preceding table primarily within the Commercial / commercial real estate category.

In addition to the credit commitments set forth in the table above, our net outstanding standby letters of credit totaled $10.8 billion at December 31, 2011 and $10.1 billion at December 31, 2010. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

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INVESTMENT SECURITIES

Details of Investment Securities

In millions	Amortized Cost	Fair Value
December 31, 2011		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	**$ 3,369**	**$ 3,717**
Residential mortgage-backed		
Agency	**26,081**	**26,792**
Non-agency	**6,673**	**5,557**
Commercial mortgage-backed		
Agency	**1,101**	**1,140**
Non-agency	**2,693**	**2,756**
Asset-backed	**3,854**	**3,669**
State and municipal	**1,779**	**1,807**
Other debt	**2,691**	**2,762**
Corporate stocks and other	**368**	**368**
Total securities available for sale	**$ 48,609**	**$ 48,568**
SECURITIES HELD TO MATURITY		
Debt securities		
US Treasury and government agencies	**$ 221**	**$ 261**
Residential mortgage-backed (agency)	**4,761**	**4,891**
Commercial mortgage-backed		
Agency	**1,332**	**1,382**
Non-agency	**3,467**	**3,573**
Asset-backed	**1,251**	**1,262**
State and municipal	**671**	**702**
Other debt	**363**	**379**
Total securities held to maturity	**$ 12,066**	**$ 12,450**
December 31, 2010		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	$ 5,575	$ 5,710
Residential mortgage-backed		
Agency	31,697	31,720
Non-agency	8,193	7,233
Commercial mortgage-backed		
Agency	1,763	1,797
Non-agency	1,794	1,856
Asset-backed	2,780	2,582
State and municipal	1,999	1,957
Other debt	3,992	4,077
Corporate stocks and other	378	378
Total securities available for sale	$ 58,171	$ 57,310
SECURITIES HELD TO MATURITY		
Debt securities		
Commercial mortgage-backed (non-agency)	$ 4,316	$ 4,490
Asset-backed	2,626	2,676
Other debt	10	11
Total securities held to maturity	$ 6,952	$ 7,177

The carrying amount of investment securities totaled $60.6 billion at December 31, 2011, a decrease of $3.6 billion, or 6%, from $64.3 billion at December 31, 2010. The decline resulted from principal payments and net sales activity related to US Treasury and government agency and non-agency residential mortgage-backed securities. Investment securities represented 22% of total assets at December 31, 2011 and 24% of total

assets at December 31, 2010.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. US Treasury and government agencies, agency residential mortgage-backed securities and agency commercial mortgage-backed securities collectively represented 63% of the investment securities portfolio at December 31, 2011.

During 2011, we transferred securities with a fair value of $6.3 billion from available for sale to held to maturity. The securities were reclassified at fair value at the time of transfer. Accumulated other comprehensive income included net pretax unrealized gains of $183 million on the securities at transfer, which are being accreted over the remaining life of the related securities as an adjustment of yield in a manner consistent with the amortization of the net premium on the same transferred securities, resulting in no impact on net income.

At December 31, 2011, the securities available for sale portfolio included a net unrealized loss of $41 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2010 was a net unrealized loss of $861 million. The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa.

The improvement in the net unrealized pretax loss compared with December 31, 2010 was primarily due to the effect of lower market interest rates. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders equity as accumulated other comprehensive income or loss from continuing operations, net of tax.

Unrealized gains and losses on available for sale securities do not impact liquidity or risk-based capital. However, reductions in the credit ratings of these securities could have an impact on the liquidity of the securities or the determination of risk-weighted assets which could reduce our regulatory capital ratios. In addition, the amount representing the credit-related portion of OTTI on available for sale securities would reduce our earnings and regulatory capital ratios.

The expected weighted-average life of investment securities (excluding corporate stocks and other) was 3.7 years at December 31, 2011 and 4.7 years at December 31, 2010.

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We estimate that, at December 31, 2011, the effective duration of investment securities was 2.6 years for an immediate 50 basis points parallel increase in interest rates and 2.4 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2010 were 3.1 years and 2.9 years, respectively.

The following table provides detail regarding the vintage, current credit rating, and FICO score of the underlying collateral at origination, where available, for residential mortgage-backed, commercial mortgage-backed and other asset-backed securities held in the available for sale and held to maturity portfolios:

	December 31, 2011				
	Agency		Non-agency		
Dollars in millions	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Asset-Backed Securities
Fair Value Available for Sale	**$ 26,792**	**$ 1,140**	**$ 5,557**	**$ 2,756**	**$ 3,669**
Fair Value Held to Maturity	**4,891**	**1,382**		**3,573**	**1,262**
Total Fair Value	**$ 31,683**	**$ 2,522**	**$ 5,557**	**$ 6,329**	**$ 4,931**
% of Fair Value:					
By Vintage					
2011	**28%**	**46%**		**4%**	
2010	**33%**	**19%**		**4%**	**6%**
2009	**13%**	**18%**		**3%**	**10%**
2008	**4%**	**2%**			**4%**
2007	**5%**	**1%**	**18%**	**10%**	**6%**
2006	**2%**	**3%**	**24%**	**26%**	**8%**
2005 and earlier	**9%**	**10%**	**58%**	**52%**	**10%**
Not Available	**6%**	**1%**		**1%**	**56%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By Credit Rating (at December 31, 2011)					
Agency	**100%**	**100%**			
AAA			**2%**	**78%**	**65%**
AA			**1%**	**6%**	**17%**
A			**3%**	**9%**	**1%**
BBB			**5%**	**4%**	
BB			**5%**	**1%**	
B			**7%**		**2%**
Lower than B			**76%**		**12%**
No rating			**1%**	**2%**	**3%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By FICO Score (at origination)					
>720			**55%**		**3%**
<720 and >660			**35%**		**8%**
<660			**1%**		**2%**
No FICO score			**9%**		**87%**
Total			**100%**		**100%**

We conduct a comprehensive security-level impairment assessment quarterly on all securities in an unrealized loss position to determine whether the loss represents OTTI. Our assessment considers the security structure, recent security collateral performance metrics, external credit ratings, failure of the issuer to make scheduled interest or principal payments, our judgment and expectations of future performance, and relevant independent industry research, analysis and forecasts.

We also consider the severity of the impairment in our assessment. Results of the periodic assessment are reviewed

by a cross-functional senior management team representing Asset & Liability Management, Finance, and Market Risk Management. The senior management team considers the results of the assessments, as well as other factors, in determining whether the impairment is other-than-temporary.

We recognize the credit portion of OTTI charges in current earnings for those debt securities where we do not intend to sell and believe we will not be required to sell the securities prior to expected recovery. The noncredit portion of OTTI is included in accumulated other comprehensive loss.

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We recognized OTTI for 2011 and 2010 as follows:

Other-Than-Temporary Impairments

Year ended December 31

In millions	**2011**	2010
Credit portion of OTTI losses (a)		
Non-agency residential mortgage-backed	**$ (130)**	$ (242)
Non-agency commercial mortgage-backed		(5)
Asset-backed	**(21)**	(78)
Other debt	**(1)**	
Total credit portion of OTTI losses	**(152)**	(325)
Noncredit portion of OTTI losses (b)	**(268)**	(283)
Total OTTI losses	**$ (420)**	$ (608)

(a) Reduction of noninterest income in our Consolidated Income Statement.
(b) Included in accumulated other comprehensive loss, net of tax, on our Consolidated Balance Sheet.

The following table summarizes net unrealized gains and losses recorded on non-agency residential and commercial mortgage-backed and other asset-backed securities, which represent our most significant categories of securities not backed by the US government or its agencies. A summary of all OTTI credit losses recognized for 2011 by investment type is included in Note 7 Investment Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

	December 31, 2011					
In millions	Residential Mortgage-Backed Securities		Commercial Mortgage-Backed Securities		Asset-Backed Securities (a)	
Available for Sale Securities (Non-Agency)						
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
Credit Rating Analysis						
AAA	**$ 97**	**$ (1)**	**$ 1,586**	**$ 47**	**$ 2,253**	
Other Investment Grade (AA, A, BBB)	**509**	**(35)**	**979**	**23**	**713**	**$ (13)**
Total Investment Grade	**606**	**(36)**	**2,565**	**70**	**2,966**	**(13)**
BB	**303**	**(27)**	**85**	**(8)**		
B	**403**	**(48)**			**107**	**(7)**
Lower than B	**4,210**	**(1,005)**			**568**	**(148)**
Total Sub-Investment Grade	**4,916**	**(1,080)**	**85**	**(8)**	**675**	**(155)**
Total No Rating	**35**		**106**	**1**	**25**	**(17)**
Total	**$ 5,557**	**$ (1,116)**	**$ 2,756**	**$ 63**	**$ 3,666**	**$ (185)**
OTTI Analysis						
Investment Grade:						
OTTI has been recognized						
No OTTI recognized to date	**$ 606**	**$ (36)**	**$ 2,565**	**$ 70**	**$ 2,966**	**$ (13)**
Total Investment Grade	**606**	**(36)**	**2,565**	**70**	**2,966**	**(13)**
Sub-Investment Grade:						
OTTI has been recognized	**3,417**	**(987)**			**548**	**(168)**
No OTTI recognized to date	**1,499**	**(93)**	**85**	**(8)**	**127**	**13**
Total Sub-Investment Grade	**4,916**	**(1,080)**	**85**	**(8)**	**675**	**(155)**
No Rating:						
OTTI has been recognized					**25**	**(17)**
No OTTI recognized to date	**35**		**106**	**1**		

Total No Rating	**35**		**106**	**1**	**25**	**(17)**
Total	**$ 5,557**	**$ (1,116)**	**$ 2,756**	**$ 63**	**$ 3,666**	**$ (185)**
Securities Held to Maturity (Non-Agency)						
Credit Rating Analysis						
AAA			**$ 3,364**	**$ 99**	**$ 931**	**$ 9**
Other Investment Grade (AA, A, BBB)			**209**	**7**	**219**	**(2)**
Total Investment Grade			**3,573**	**106**	**1,150**	**7**
BB					**5**	
B					**1**	
Lower than B						
Total Sub-Investment Grade					**6**	
Total No Rating					**99**	**4**
Total			**$ 3,573**	**$ 106**	**$ 1,255**	**$ 11**

(a) Excludes $3 million and $7 million of available for sale and held to maturity agency asset-backed securities, respectively.

Residential Mortgage-Backed Securities

At December 31, 2011, our residential mortgage-backed securities portfolio was comprised of $31.7 billion fair value of US government agency-backed securities and $5.6 billion fair value of non-agency (private issuer) securities. The agency securities are generally collateralized by 1-4 family, conforming, fixed-rate residential mortgages**.** The non-agency securities are also generally collateralized by 1-4 family residential mortgages. The mortgage loans underlying the non-agency securities are generally non-conforming (i.e., original balances in excess of the amount qualifying for agency securities) and predominately have interest rates that are fixed for a period of time, after which the rate adjusts to a floating rate based upon a contractual spread that is indexed to a market rate (i.e., a hybrid ARM), or interest rates that are fixed for the term of the loan.

Substantially all of the non-agency securities are senior tranches in the securitization structure and at origination had credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

During 2011, we recorded OTTI credit losses of $130 million on non-agency residential mortgage-backed securities. Almost all of the losses were associated with securities rated below investment grade. As of December 31, 2011, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for non-agency residential mortgage-backed securities totaled $987 million and the related securities had a fair value of $3.4 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of December 31, 2011 totaled $1.5 billion, with unrealized net losses of $93 million. The results of our security-level assessments indicate that we will recover the entire cost basis of these securities. Note 7 Investment Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report provides further detail regarding our process for assessing OTTI for these securities.

Commercial Mortgage-Backed Securities

The fair value of the non-agency commercial mortgage-backed securities portfolio was $6.3 billion at December 31, 2011 and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. The agency commercial mortgage-backed securities portfolio was $2.5 billion fair value at December 31, 2011 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

There were no OTTI credit losses on commercial mortgage-backed securities during 2011.

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $4.9 billion at December 31, 2011 and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including residential mortgage loans, credit cards, automobile loans, and student loans. Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

We recorded OTTI credit losses of $21 million on asset-backed securities during 2011. All of the securities are collateralized by first and second lien residential mortgage loans and are rated below investment grade. As of December 31, 2011, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for asset-backed securities totaled $185 million and the related securities had a fair value of $573 million.

For the sub-investment grade investment securities (available for sale and held to maturity) for which we have not recorded an OTTI loss through December 31, 2011, the remaining fair value was $133 million, with unrealized net gains of $13 million. The results of our security-level assessments indicate that we will recover the cost basis of these securities. Note 7 Investment Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report provides further detail regarding our process for assessing OTTI for these securities.

If current housing and economic conditions were to worsen, and if market volatility and illiquidity were to worsen, or if market interest rates were to increase appreciably, the valuation of our investment securities portfolio could continue to be adversely affected and we could incur additional OTTI credit losses that would impact our Consolidated Income Statement.

Loans Held For Sale

In millions	Dec. 31 2011	Dec. 31 2010
Commercial mortgages at fair value	**$ 843**	$ 877
Commercial mortgages at lower of cost or market	**451**	330
Total commercial mortgages	**1,294**	1,207
Residential mortgages at fair value	**1,522**	1,878
Residential mortgages at lower of cost or market		12
Total residential mortgages	**1,522**	1,890
Other	**120**	395
Total	**$ 2,936**	$ 3,492

We stopped originating certain commercial mortgage loans designated as held for sale in 2008 and continue pursuing opportunities to reduce these positions at appropriate prices. We sold $25 million of these commercial mortgage loans held for sale carried at fair value in 2011 and sold $241 million in 2010.

We recognized total net gains of $48 million in 2011 on the valuation and sale of commercial mortgage loans held for sale, net of hedges. Net losses of $18 million on the valuation and sale of commercial mortgage loans held for sale, net of hedges, were recognized in 2010.

Residential mortgage loan origination volume was $11.4 billion in 2011. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $11.9 billion of loans and recognized related gains of $282 million during 2011. The comparable amounts for 2010 were $10.0 billion and $231 million, respectively.

Interest income on loans held for sale was $193 million in 2011. Comparable amounts for 2010 were $263 million. These amounts are included in Other interest income on our Consolidated Income Statement.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $10.1 billion at December 31, 2011 and $10.8 billion at December 31, 2010. Goodwill increased $.1 billion, to $8.3 billion, at December 31, 2011 compared with the December 31, 2010 balance due to the BankAtlantic and Flagstar branch acquisitions and the correction of amounts for an acquisition affecting prior periods. The $.7 billion decline in other intangible assets from December 31, 2010 included $.2 billion and $.4 billion declines in commercial and residential mortgage servicing rights, respectively. Note 9 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in Item 8 of this Report provides further information on these items.

Funding and Capital Sources

Details Of Funding Sources

In millions	Dec. 31 2011	Dec. 31 2010
Deposits		
Money market	**$ 89,912**	$ 84,581
Demand	**57,717**	50,069
Retail certificates of deposit	**29,518**	37,337
Savings	**8,705**	7,340
Other time	**327**	549
Time deposits in foreign offices	**1,787**	3,514
Total deposits	**187,966**	183,390
Borrowed funds		
Federal funds purchased and repurchase agreements	**2,984**	4,144
Federal Home Loan Bank borrowings	**6,967**	6,043

Bank notes and senior debt	**11,793**	12,904
Subordinated debt	**8,321**	9,842
Other	**6,639**	6,555
Total borrowed funds	**36,704**	39,488
Total	**$ 224,670**	$ 222,878

Total funding sources increased $1.8 billion at December 31, 2011 compared with December 31, 2010.

Total deposits increased $4.6 billion, or 2%, at December 31, 2011 compared with December 31, 2010 due to an increase in money market and demand deposits, partially offset by net redemptions of retail certificates of deposit. Interest-bearing deposits represented 69% of total deposits at December 31, 2011 compared to 73% at December 31, 2010. Total borrowed funds decreased $2.8 billion since December 31, 2010. The decline from December 31, 2010 was primarily due to maturities of federal funds purchased and repurchase agreements, bank notes and senior debt, and subordinated debt partially offset by issuances of FHLB borrowings.

Capital

See Capital and Liquidity Actions in the Executive Summary section of this Item 7 for additional information regarding our December 2011 announcement that the Federal Reserve approved the acquisition of RBC Bank (USA) and that the OCC approved the merger of RBC Bank (USA) with and into PNC Bank, N.A. with this transaction scheduled to close in March 2012, our November 2011 redemption of trust preferred securities, our September 2011 issuance of senior notes, our July 2011 issuance of preferred stock, and our April 2011 increase to PNC s quarterly common stock dividend.

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

Total shareholders equity increased $3.8 billion, to $34.1 billion, at December 31, 2011 compared with December 31, 2010 as retained earnings increased $2.4 billion. The issuance of $1.0 billion of preferred stock in July 2011 contributed to the increase in capital surplus preferred stock from $.6 billion at December 31, 2010 to $1.6 billion at December 31, 2011. Accumulated other comprehensive loss decreased to a loss of $.1 billion, at December 31, 2011 compared with a loss of $.4 billion at December 31, 2010 due to net unrealized gains on securities and cash flow hedge derivatives, offset by an increase in accumulated other comprehensive losses related to the change in the funded status of our pension and other postretirement benefit plans. Common shares outstanding were 527 million at December 31, 2011 and 526 million at December 31, 2010.

Our current common stock repurchase program permits us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of 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, the potential impact on our credit ratings, and regulatory and contractual limitations. We did not purchase any shares in 2011 under this program. See Supervision and Regulation in Item 1 of this Report for further information concerning restrictions on dividends and stock repurchases, including the impact of the Federal Reserve s current supervisory assessment of capital adequacy program which is also discussed in the Capital and Liquidity portion of the Executive Summary section of this Item 7.

Risk-Based Capital

Dollars in millions	**Dec. 31 2011**	Dec. 31 2010
Capital components		
Shareholders equity		
Common	**$ 32,417**	$ 29,596
Preferred	**1,636**	646
Trust preferred capital securities	**2,354**	2,907
Noncontrolling interests	**1,351**	1,351
Goodwill and other intangible assets	**(9,027)**	(9,053)
Eligible deferred income taxes on goodwill and other intangible assets	**431**	461
Pension, other postretirement benefit plan adjustments	**755**	380
Net unrealized securities losses, after-tax	**41**	550
Net unrealized gains on cash flow hedge derivatives, after-tax	**(717)**	(522)
Other	**(168)**	(224)
Tier 1 risk-based capital	**29,073**	26,092
Subordinated debt	**4,571**	4,899
Eligible allowance for credit losses	**2,904**	2,733
Total risk-based capital	**$ 36,548**	$ 33,724
Tier 1 common capital		
Tier 1 risk-based capital	**$ 29,073**	$ 26,092
Preferred equity	**(1,636)**	(646)
Trust preferred capital securities	**(2,354)**	(2,907)
Noncontrolling interests	**(1,351)**	(1,351)
Tier 1 common capital	**$ 23,732**	$ 21,188
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$ 230,705**	$ 216,283
Adjusted average total assets	**261,958**	254,693
Capital ratios		
Tier 1 common	**10.3%**	9.8%
Tier 1 risk-based	**12.6**	12.1
Total risk-based	**15.8**	15.6
Leverage	**11.1**	10.2

Federal banking regulators have stated that they expect all bank holding companies to have a level and composition of Tier 1 capital well in excess of the 4% regulatory minimum, and they have required the largest US bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet credit needs of their customers through estimated stress scenarios. They have also stated their view that common equity should be the dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels, although a formal ratio for this metric is not provided for in current regulations. We seek to manage our capital consistent with these regulatory principles, and believe that our December 31, 2011 capital levels were aligned with them.

Dodd-Frank requires the Federal Reserve Board to establish capital requirements that would, among other things, eliminate the Tier 1 treatment of trust preferred securities following a phase-in period expected to begin in 2013. Accordingly, PNC will evaluate its alternatives, including the potential for redemption on the first call date of some or all of its trust preferred securities, based on such considerations it may consider relevant, including dividend rates, the specifics of the future capital requirements, capital market conditions, replacement capital covenants with respect to certain trust preferred securities, and other factors. See Capital and Liquidity Actions in the Executive Summary section of this Item 7 for additional information regarding our November 2011 redemption of trust preferred securities and Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on trust preferred securities.

Our Tier 1 common capital ratio was 10.3% at December 31, 2011, an increase of 50 basis points compared with 9.8% at December 31, 2010. Our Tier 1 risk-based capital ratio increased 50 basis points to 12.6% at December 31, 2011 from 12.1% at December 31, 2010. The Tier 1 common capital ratio increased when compared with December 31, 2010 due to the retention of earnings partially offset by higher risk-weighted assets primarily from loan growth. The increase in the Tier 1 risk-based capital ratio compared with December 31, 2010 resulted from the issuance of preferred stock in July 2011 and retention of earnings somewhat offset by the redemption of trust preferred securities in November 2011 and higher risk-weighted assets. See Note 18 Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report for

additional information regarding the Series O Preferred Stock issuance.

At December 31, 2011, PNC Bank, N.A., our domestic bank subsidiary, was considered well capitalized based on US regulatory capital ratio requirements under Basel I. To qualify as well-capitalized , regulators currently require banks to maintain capital ratios of at least 6% for Tier 1 risk-based, 10% for total risk-based, and 5% for leverage. See the Supervision and Regulation section of Item 1 and Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information. We believe PNC Bank, N.A., will continue to meet these requirements during 2012.

The access to, and cost of, funding for 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.

We provide additional information regarding enhanced capital requirements and some of their potential impacts on PNC in Item 1A Risk Factors of this Report.

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Off-Balance Sheet Arrangements And Variable Interest Entities

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

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Item 7,
- Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements included in Item 8 of this Report,
- Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements included in Item 8 of this Report, and
- Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

PNC consolidates variable interest entities (VIEs) when we are deemed to be the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE.

A summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements, as of December 31, 2011 and December 31, 2010 is included in Note 3 in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

Trust Preferred Securities

In connection with the $950 million in principal amount of junior subordinated debentures associated with the trust preferred securities issued by PNC Capital Trusts C, D and E, as well as in connection with the obligations that remain outstanding assumed by PNC with respect to $1.7 billion in principal amount of junior subordinated debentures issued by acquired entities in association with trust preferred securities issued by various subsidiary statutory trusts, we are subject to certain restrictions, including restrictions on dividend payments. Generally, if there is (i) an event of default under the debentures, (ii) PNC elects to defer interest on the debentures, (iii) PNC exercises its right to defer payments on the related trust preferred securities issued by the statutory trusts, or (iv) there is a default under PNC s guarantee of such payment obligations, as specified in the applicable governing documents, then PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Also, in connection with the Trust E Securities sale, we are subject to a replacement capital covenant, which is described in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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Fair Value Measurements

In addition to the following, see Note 8 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report for further information regarding fair value.

Assets recorded at fair value represented 25% of total assets at December 31, 2011 and 27% at December 31, 2010. Liabilities recorded at fair value represented 4% of total liabilities at December 31, 2011 and 3% at December 31, 2010, respectively.

The following table includes the assets and liabilities measured at fair value and the portion of such assets and liabilities that are classified within Level 3 of the valuation hierarchy.

	December 31, 2011		December 31, 2010	
In millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Assets				
Securities available for sale	**$ 48,568**	**$ 6,729**	$ 57,310	$ 8,583
Financial derivatives	**9,463**	**67**	5,757	77
Residential mortgage loans held for sale	**1,522**		1,878	
Trading securities	**2,513**	**39**	1,826	69
Residential mortgage servicing rights	**647**	**647**	1,033	1,033
Commercial mortgage loans held for sale	**843**	**843**	877	877
Equity investments	**1,504**	**1,504**	1,384	1,384
Customer resale agreements	**732**		866	
Loans	**227**	**5**	116	2
Other assets	**639**	**217**	853	403
Total assets	**$ 66,658**	**$ 10,051**	$ 71,900	$ 12,428
Level 3 assets as a percentage of total assets at fair value		**15%**		17%
Level 3 assets as a percentage of consolidated assets		**4%**		5%
Liabilities				
Financial derivatives	**$ 7,606**	**$ 308**	$ 4,935	$ 460
Trading securities sold short	**1,016**		2,530	
Other liabilities	**3**		6	
Total liabilities	**$ 8,625**	**$ 308**	$ 7,471	$ 460
Level 3 liabilities as a percentage of total liabilities at fair value		**4%**		6%
Level 3 liabilities as a percentage of consolidated liabilities		**<1%**		<1%

The majority of Level 3 assets represent non-agency residential mortgage-backed and asset-backed securities in the available for sale securities portfolio for which there was a lack of observable market activity.

During 2011, no material transfers of assets or liabilities between the hierarchy levels occurred.

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Business Segments Review

We have six reportable business segments:

- Retail Banking
- Corporate & Institutional Banking
- Asset Management Group
- Residential Mortgage Banking
- BlackRock
- Non-Strategic Assets Portfolio

Once we entered into an agreement to sell GIS, it was no longer a reportable business segment. We sold GIS on July 1, 2010.

Business segment results, including inter-segment revenues, and a description of each business are included in Note 25 Segment Reporting included in the Notes To Consolidated Financial Statements in Item 8 of this Report. Certain amounts included in this Item 7 differ from those amounts shown in Note 25 primarily due to the presentation in this Item 7 of business net interest revenue on a taxable-equivalent basis.

Results of individual businesses are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our 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. Certain prior period amounts have been reclassified to reflect current methodologies and our current business and management structure. Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis. Additionally, we have aggregated the results for corporate support functions within Other for financial reporting purposes.

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product maturities, duration and other factors.

A portion of capital is intended to cover unexpected losses and is assigned to our business segments using our risk-based economic capital model, including consideration of the goodwill and other intangible assets at those business segments, as well as the diversification of risk among the business segments. We have revised certain capital allocations among our business segments, including amounts for prior periods. PNC s total capital did not change as a result of these adjustments for any periods presented. However, capital allocations to the segments were lower in the year-over-year comparisons primarily due to improving credit quality.

We have allocated the allowances for loan and lease losses and for unfunded loan commitments and letters of credit based on our assessment of risk in the business segment loan portfolios. Our allocation of the costs incurred by operations and other shared 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 from continuing operations before noncontrolling interests, which itself excludes the earnings and revenue attributable to GIS through June 30, 2010 and the related third quarter 2010 after-tax gain on the sale of GIS that are reflected in discontinued operations. The impact of these differences is reflected in the Other category. Other for purposes of this Business Segments Review and the Business Segment Highlights in the Executive Summary includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions, integration costs, asset and liability management activities including net securities gains or losses, other-than-temporary impairment of investment securities and certain trading activities, exited businesses, alternative investments, including private equity, intercompany eliminations, most corporate overhead, tax adjustments that are not allocated to business segments, and differences between business segment performance reporting and financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests, as the segments results exclude their portion of net income attributable to noncontrolling interests.

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Results Of Businesses Summary

(Unaudited)

Year ended December 31 - in millions	Income (Loss)		Revenue		Average Assets (a)	
	2011	2010	**2011**	2010	**2011**	2010
Retail Banking	**$ 31**	$ 144	**$ 5,042**	$ 5,386	**$ 66,448**	$ 67,428
Corporate & Institutional Banking	**1,875**	1,794	**4,669**	4,950	**81,043**	77,540
Asset Management Group	**141**	137	**887**	884	**6,719**	6,954
Residential Mortgage Banking	**87**	269	**948**	992	**11,270**	9,247
BlackRock	**361**	351	**464**	462	**5,516**	5,428
Non-Strategic Assets Portfolio	**200**	(57)	**960**	1,136	**13,119**	17,517
Total business segments	**2,695**	2,638	**12,970**	13,810	**184,115**	184,114
Other (b) (c)	**376**	386	**1,356**	1,366	**81,220**	80,788
Income from continuing operations before noncontrolling interests (d) (e)	**$ 3,071**	$ 3,024	**$ 14,326**	$ 15,176	**$ 265,335**	$ 264,902

(a) Period-end balances for BlackRock.

(b) For our segment reporting presentation in this Item 7, Other earnings for 2011 included a $129 million after-tax noncash charge ($198 million pretax) for the unamortized discount related to redemption of $750 million of trust preferred securities during the fourth quarter of 2011 and $27 million of after-tax ($42 million pretax) integration costs. Other earnings and revenue for 2010 included a $102 million after-tax ($160 million pretax) gain related to our gain on the sale of a portion of our investment in BlackRock stock as part of a BlackRock secondary common stock offering in November 2010. Other earnings for 2010 included $251 million of after-tax ($387 million pretax) integration costs primarily related to acquisitions.

(c) Other average assets include securities available for sale associated with asset and liability management activities.

(d) Amounts are presented on a continuing operations basis and therefore exclude the earnings, revenue, and assets of GIS for the first six months of 2010 and the related third quarter 2010 gain on the sale of GIS.

(e) Amounts for income for 2011 and 2010 include after-tax expenses of $210 million and $46 million ($324 million and $71 million pretax, respectively) for residential mortgage foreclosure-related expenses, primarily as a result of ongoing governmental matters. These amounts have been allocated among the following: Residential Mortgage Banking, Non-Strategic Assets Portfolio, and Other.

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Retail Banking

(Unaudited)

Year ended December 31 Dollars in millions, except as noted	2011	2010
Income Statement		
Net interest income	**$ 3,280**	$ 3,435
Noninterest income		
Service charges on deposits	**510**	681
Brokerage	**201**	213
Consumer services	**927**	912
Other	**124**	145
Total noninterest income	**1,762**	1,951
Total revenue	**5,042**	5,386
Provision for credit losses	**891**	1,103
Noninterest expense	**4,103**	4,056
Pretax earnings	**48**	227
Income taxes	**17**	83
Earnings	**$ 31**	$ 144
Average Balance Sheet		
Loans		
Consumer		
Home equity	**$ 25,874**	$ 26,450
Indirect auto	**3,089**	2,098
Indirect other	**1,478**	1,875
Education	**9,103**	8,497
Credit cards	**3,738**	3,938
Other	**1,866**	1,804
Total consumer	**45,148**	44,662
Commercial and commercial real estate	**10,567**	11,177
Floor plan	**1,450**	1,336
Residential mortgage	**1,180**	1,599
Total loans	**58,345**	58,774
Goodwill and other intangible assets	**5,751**	5,861
Other assets	**2,352**	2,793
Total assets	**$ 66,448**	$ 67,428
Deposits		
Noninterest-bearing demand	**$ 18,183**	$ 17,223
Interest-bearing demand	**22,196**	19,776
Money market	**41,002**	40,125
Total transaction deposits	**81,381**	77,124
Savings	**8,098**	6,938
Certificates of deposit	**33,006**	41,539
Total deposits	**122,485**	125,601
Other liabilities	**855**	1,458
Capital	**8,168**	8,439
Total liabilities and equity	**$ 131,508**	$ 135,498
Performance Ratios		
Return on average capital	**%**	2%
Return on average assets	**.05**	.21
Noninterest income to total revenue	**35**	36
Efficiency	**81**	75
Other Information (a)		

Credit-related statistics:		
Commercial nonperforming assets	**$ 336**	$ 297
Consumer nonperforming assets	**513**	422
Total nonperforming assets (b)	**$ 849**	$ 719

Year ended December 31 Dollars in millions, except as noted	**2011**	2010
OTHER INFORMATION (CONTINUED) (a)		
Purchased impaired loans (c)	**$ 757**	$ 895
Commercial lending net charge-offs	**$ 219**	$ 330
Credit card lending net charge-offs	**211**	316
Consumer lending (excluding credit card) net charge-offs	**427**	424
Total net charge-offs	**$ 857**	$ 1,070
Commercial lending net charge-off ratio	**1.82%**	2.64%
Credit card lending net charge-off ratio	**5.64%**	8.02%
Consumer lending (excluding credit card) net charge-off ratio	**1.00%**	1.00%
Total net charge-off ratio	**1.47%**	1.82%
Home equity portfolio credit statistics: (d)		
% of first lien positions at origination (e)	**39%**	36%
Weighted-average original loan-to-value ratios (LTVs) (e)	**72%**	73%
Weighted-average updated FICO scores (f)	**743**	726
Net charge-off ratio	**1.09%**	.90%
Loans 30 59 days past due	**.58%**	.49%
Loans 60 89 days past due	**.38%**	.30%
Loans 90 days past due	**1.22%**	1.02%
Other statistics:		
ATMs	**6,806**	6,673
Branches (g)	**2,511**	2,470
Customer-related statistics: (in thousands)		
Retail Banking checking relationships	**5,761**	5,465
Retail online banking active customers	**3,519**	3,057
Retail online bill payment active customers	**1,105**	977
Brokerage statistics:		
Financial consultants (h)	**686**	694
Full service brokerage offices	**38**	34
Brokerage account assets (billions)	**$ 34**	$ 34

(a) Presented as of December 31, except for net charge-offs and annualized net charge-off ratios, which are for the year ended.
(b) Includes nonperforming loans of $810 million at December 31, 2011 and $694 million at December 31, 2010.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Lien position, LTV, FICO and delinquency statistics are based upon balances and other data that exclude the impact of accounting for acquired loans.
(e) Lien positions and LTV are based upon data from loan origination. Original LTV excludes certain acquired portfolio loans where this data is not available.
(f) Represents FICO scores that are updated monthly for home equity lines and quarterly for the home equity installment loans.
(g) Excludes satellite offices (e.g., drive-ups, electronic branches, retirement centers) that provide limited products and/or services.
(h) Financial consultants provide services in full service brokerage offices and traditional bank branches.

Retail Banking earned $31 million for 2011 compared with earnings of $144 million in 2010. Earnings declined from the prior year as lower revenues from the impact of Regulation E rules related to overdraft fees, a low interest rate environment, and the regulatory impact of lower interchange fees on debit card transactions were partially offset by a lower provision for credit losses and higher volumes of customer-initiated transactions. Retail Banking continued to maintain its focus on growing core customers, selectively investing in the business for future growth, and disciplined expense management.

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Retail Banking s core strategy is to grow checking deposits as a low-cost funding source and as the cornerstone product to build valuable customer relationships. The goal is to acquire and retain customers who maintain their primary checking and transaction relationships with PNC. The business is focused on deepening its share of customers financial assets, including savings and liquid deposits, investable assets and loans through sales strategies, differentiated product offerings and customer satisfaction. In this challenging economic environment, Retail Banking is also focused on expanding the use of alternative, lower cost distribution channels while continuing to optimize its traditional branch network. The business has an expansive and growing branch footprint covering nearly one-third of the U.S. population in 14 states and Washington, D.C. with a network of 2,511 branches and 6,806 ATMs at December 31, 2011.

Successful execution of the Retail Banking strategy in 2011 is reflected in the following:

- Net new checking relationships grew 296,000 in 2011, including 41,000 from the BankAtlantic and Flagstar branch acquisitions. The growth reflects strong results and gains in all of our markets. We are seeing strong customer retention in the overall network.
- Continued success in implementing Retail Banking s deposit strategy resulted in growth in average transaction deposits and a reduction in higher rate certificates of deposit. In 2011 average transaction deposits grew $4.3 billion, or 6%, over 2010 and average certificates of deposit declined $8.5 billion, or 21% in accordance with our business plan.
- In December 2011, Retail Banking added approximately $210 million in deposits, 9,000 checking relationships, 27 branches and 29 ATMs through the branch acquisition from Flagstar Bank, FSB, in the northern metropolitan Atlanta, Georgia area.
- In June 2011, Retail Banking added approximately $280 million in deposits, 32,000 checking relationships, 19 branches and 27 ATMs through the branch acquisition from BankAtlantic in the greater Tampa, Florida area.
- The planned acquisition of RBC Bank (USA) is expected to expand PNC s footprint to 17 states and Washington, D.C. and nearly 2,900 branches. The transaction is currently expected to close in March 2012 subject to remaining customary closing conditions. PNC and RBC Bank (USA) have both received regulatory approvals in relation to the respective applications filed with the regulators.
- Our investment in online banking capabilities continues to pay off as active online banking customers and active online bill payment customers grew by 15% and 13%, respectively, in 2011.
- Retail Banking launched new checking account and credit card products during the first quarter of 2011.
- These new products are designed to provide more choices for customers and grow value of clients for PNC.
- Our award-winning Virtual Wallet® product is providing strong momentum for customer growth.

Total revenue for 2011 was $5.0 billion compared with $5.4 billion for 2010. Net interest income of $3.3 billion declined $155 million compared with 2010. The decrease over the prior period resulted from lower interest credits assigned to deposits, reflective of the rate environment, and lower average loan balances somewhat offset by higher demand deposit balances and a decrease in higher rate certificates of deposit balances.

Noninterest income for 2011 declined $189 million compared to 2010. The decline was driven by lower overdraft fees resulting from the impact of Regulation E rules and lower interchange rates on debit card transactions, partially offset by higher volumes of customer-initiated transactions including debit and credit cards.

For 2011, Retail Banking revenue was negatively impacted by approximately $275 million compared with 2010 due to the impact of the rules set forth in Regulation E related to overdraft fees and the Dodd-Frank limits related to interchange rates on debit card transactions.

- Regulation E, which became effective in the third quarter of 2010, had an incremental negative impact to 2011 revenues of approximately $200 million compared with 2010.
- The Dodd-Frank limits related to interchange fees were effective October 1, 2011 and had a negative impact on revenues of approximately $75 million in the fourth quarter of 2011 and are expected to have an additional incremental reduction in 2012 annual revenue of approximately $175 million, based on 2011 transaction volumes.

The provision for credit losses was $.9 billion in 2011 compared with $1.1 billion in 2010. Net charge-offs were $.9 billion for 2011 compared with $1.1 billion in the prior year. Improvements in credit quality are evident in the small business and credit card portfolios. We have continued to see increases in home equity delinquencies and as a result, we have worked with borrowers as employment and home values have been slow to recover in this economy. The level of provisioning will be dependent on general economic conditions, loan growth, utilization of credit commitments and asset quality.

Noninterest expense in 2011 increased $47 million from 2010. The increase was primarily attributable to selective investment in key areas of the business largely offset by lower FDIC expenses.

Growing core checking deposits is key to the Retail Banking strategy, and is critical to growing our overall payments business. The deposit product strategy of Retail Banking is to remain disciplined on pricing, target specific products and

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markets for growth, and focus on the retention and growth of balances for relationship customers.

In 2011, average total deposits of $122.5 billion decreased $3.1 billion, or 2%, compared with 2010.

- Average demand deposits increased $3.4 billion, or 9%, over 2010. The increase was primarily driven by customer growth and customer preferences for liquidity.
- Average money market deposits increased $877 million, or 2%, from 2010. The increase was primarily due to core money market growth as customers generally preferred more liquid deposits in a low rate environment.
- Average savings deposits increased $1.2 billion, or 17%, over 2010. The increase was attributable to net customer growth and new product offerings.
- Average consumer certificates of deposit decreased $8.5 billion or 21% from 2010. The decline is expected to continue through 2012 due to the continued run-off of higher rate certificates of deposit.

Currently, our primary focus is on a relationship-based lending strategy that targets specific customer sectors including mass and mass affluent consumers, small businesses and auto dealerships. In 2011, average total loans were $58.3 billion, a decrease of $429 million, or 1%, over 2010.

- Average indirect auto loans increased $991 million, or 47%, over 2010. The increase was due to the expansion of our indirect sales force and product introduction to acquired markets, as well as overall increases in auto sales.
- Average education loans grew $606 million, or 7%, compared with 2010, primarily due to portfolio purchases in December 2010, July 2011, and November 2011 of approximately $450 million, $445 million, and $560 million, respectively.
- Average auto dealer floor plan loans grew $114 million, or 9%, compared with 2010, primarily resulting from additional dealer relationships and higher line utilization.
- Average credit card balances decreased $200 million, or 5%, over 2010. The decrease was primarily the result of fewer active accounts generating balances coupled with increased paydowns on existing accounts.
- Average commercial and commercial real estate loans declined $610 million, or 5%, compared with 2010. The decline was primarily due to refinancings, paydowns, and charge-offs outpacing loan demand.
- Average home equity loans declined $576 million, or 2%, compared with 2010. Home equity loan demand remained soft in the current economic climate. The decline is driven by loan demand being outpaced by paydowns, refinancings, and charge-offs. Retail Banking s home equity loan portfolio is relationship based, with 96% of the portfolio attributable to borrowers in our primary geographic footprint. The nonperforming assets and charge-offs that we have experienced are within our expectations given current market conditions.
- Average indirect other and residential mortgages are primarily run-off portfolios and declined $397 million and $419 million, respectively, compared with 2010. The indirect other portfolio is comprised of marine, RV, and other indirect loan products.

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Corporate & Institutional Banking

(Unaudited)

Year ended December 31 Dollars in millions, except as noted	**2011**	2010
Income Statement		
Net interest income	**$ 3,417**	$ 3,587
Noninterest income		
Corporate service fees	**767**	961
Other	**485**	402
Noninterest income	**1,252**	1,363
Total revenue	**4,669**	4,950
Provision for credit losses (benefit)	**(124)**	303
Noninterest expense	**1,830**	1,821
Pretax earnings	**2,963**	2,826
Income taxes	**1,088**	1,032
Earnings	**$ 1,875**	$ 1,794
Average Balance Sheet		
Loans		
Commercial	**$ 35,764**	$ 32,787
Commercial real estate	**13,938**	16,466
Commercial real estate related	**3,782**	3,076
Asset-based lending	**8,171**	6,318
Equipment lease financing	**5,506**	5,487
Total loans	**67,161**	64,134
Goodwill and other intangible assets	**3,405**	3,613
Loans held for sale	**1,257**	1,473
Other assets	**9,220**	8,320
Total assets	**$ 81,043**	$ 77,540
Deposits		
Noninterest-bearing demand	**$ 31,462**	$ 24,713
Money market	**12,925**	12,153
Other	**5,651**	6,980
Total deposits	**50,038**	43,846
Other liabilities	**13,323**	11,949
Capital	**8,010**	8,588
Total liabilities and equity	**$ 71,371**	$ 64,383

Year ended December 31 Dollars in millions, except as noted	**2011**	2010
Performance Ratios		
Return on average capital	**23%**	21%
Return on average assets	**2.31**	2.31
Noninterest income to total revenue	**27**	28
Efficiency	**39**	37
Commercial Mortgage Servicing Portfolio (in billions)		
Beginning of period	**$ 266**	$ 287
Acquisitions/additions	**43**	35
Repayments/transfers	**(42)**	(56)
End of period	**$ 267**	$ 266
Other Information		

Consolidated revenue from: (a)		
Treasury Management	**$ 1,187**	$ 1,220
Capital Markets	**$ 622**	$ 606
Commercial mortgage loans held for sale (b)	**$ 113**	$ 58
Commercial mortgage loan servicing income, net of amortization (c)	**156**	244
Commercial mortgage servicing rights (impairment)/recovery	**(157)**	(40)
Total commercial mortgage banking activities	**$ 112**	$ 262
Total loans (d)	**$ 73,417**	$ 63,695
Net carrying amount of commercial mortgage servicing rights (d)	**$ 468**	$ 665
Credit-related statistics:		
Nonperforming assets (d) (e)	**$ 1,889**	$ 2,594
Purchased impaired loans (d) (f)	**$ 404**	$ 714
Net charge-offs	**$ 375**	$ 1,074

(a) Represents consolidated PNC amounts. See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of the Consolidated Income Statement Review.

(b) Includes valuations on commercial mortgage loans held for sale and related commitments, derivatives valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.

(c) Includes net interest income and noninterest income from loan servicing and ancillary services, net of commercial mortgage servicing rights amortization. Commercial mortgage servicing rights (impairment)/recovery is shown separately. Higher amortization and impairment charges in 2011 were due primarily to decreased interest rates and related prepayments by borrowers.

(d) As of December 31.

(e) Includes nonperforming loans of $1.7 billion at December 31, 2011 and $2.4 billion at December 31, 2010.

(f) Recorded investment of purchased impaired loans related to acquisitions.

Corporate & Institutional Banking earned $1.9 billion in 2011 and $1.8 billion in 2010. The increase in earnings was primarily due to an improvement in the provision for credit losses, which was a benefit in 2011, partially offset by a reduction in the value of commercial mortgage servicing rights and lower net interest income. We continued to focus on adding new clients, increasing cross sales, and remaining committed to strong expense discipline.

Highlights of Corporate & Institutional Banking s performance during 2011 include the following:

- Overall results benefited from successful sales efforts to new clients and product penetration of the existing customer base.
- New primary client acquisitions in Corporate Banking of 1,165 exceeded the 1,000 new primary clients goal for the year and represented a 15% increase over 2010 new primary clients.
- Loan commitments increased 12% to $147 billion at year end 2011, primarily in our Business Credit, Healthcare, and Public Finance businesses.
- Loan balances have increased steadily each quarter during 2011, including an increase in average loans for the fourth quarter of 2011 of $8.8 billion or 14%, compared to the fourth quarter of 2010.
- Our Treasury Management business, which ranks among the top providers in the country, continued to invest in markets, products and infrastructure as well as major initiatives such as healthcare.
- Cross sales of treasury management and capital markets products to customers in PNC s markets continued to be successful and were ahead of both targets and 2010.
- Midland Loan Services, one of the leading third-party providers of servicing for the commercial real estate industry, received the highest U.S. servicer and special servicer ratings from Fitch Ratings and Standard & Poor s for the 11th consecutive year.
- Midland Loan Services was the number one servicer of FNMA and FHLMC multifamily and healthcare loans and was the second leading servicer of commercial and multifamily loans by volume as of December 31, 2011 according to Mortgage Bankers Association.
- Mergers and Acquisitions Journal named Harris Williams & Co. Advisor of the Year in its March 2011 issue.

Net interest income in 2011 was $3.4 billion, a 5% decline from 2010, reflecting lower purchase accounting accretion and lower interest credits assigned to deposits, partially offset by impacts from increases in average deposits and loans.

Corporate service fees were $767 million in 2011, a decrease of $194 million from 2010, primarily due to a reduction in the value of commercial mortgage servicing rights largely driven by lower interest rates and higher loan prepayment rates, and

lower special servicing fees. The major components of corporate service fees are treasury management, corporate finance fees and commercial mortgage servicing revenue.

Other noninterest income was $485 million in 2011 compared with $402 million in 2010. The increase of $83 million was primarily due to valuations associated with the commercial mortgage held-for-sale portfolio, higher revenue from multi-family agency loan production and customer driven capital markets activity.

The provision for credit losses was a benefit of $124 million in 2011 compared with a provision of $303 million in 2010. The improvement reflected continued positive migration in portfolio credit quality which more than offset the impact of higher loan and commitment levels. Net charge-offs in 2011 of $375 million decreased $699 million, or 65%, compared with 2010. The decline was attributable primarily to the commercial real estate and aviation portfolios. Nonperforming assets declined for the seventh consecutive quarter, and at $1.9 billion represented a 27% decrease from December 31, 2010.

Noninterest expense was $1.8 billion in both 2011 and 2010. Higher compensation-related costs were offset by the impact of the sale of a duplicative agency servicing operation in 2010, costs associated with aviation assets held for sale in 2010, and lower legal expenses.

Average loans were $67.2 billion in 2011 compared with $64.1 billion in 2010, an increase of 5%.

- The Corporate Banking business provides lending, treasury management, and capital markets-related products and services to mid-sized corporations, government and not-for-profit entities, and selectively to large corporations. Average loans for this business increased $2.4 billion or 8% in 2011 compared with 2010. Loan commitments have increased since the second quarter of 2010 due to new customers and increased demand from existing customers.
- PNC Real Estate provides commercial real estate and real-estate related lending and is one of the industry s top providers of both conventional and affordable multifamily financing. Average loans for this business declined $1.1 billion or 7% in 2011 compared to 2010 due to loan sales, paydowns and charge-offs, partially offset by improved originations.

PNC Business Credit is one of the top asset-based lenders in the country. The loan portfolio is relatively high yielding, with moderate risk, as the loans are mainly secured by liquid assets. Average loans increased $1.9 billion or 30% in 2011 compared with 2010 due to customers seeking stable lending sources, loan usage rates, and market expansion. We expanded our operations with the acquisition of an asset-based lending group in the United Kingdom, completed in November 2010. Total loans acquired were approximately $300 million.

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PNC Equipment Finance is the 4th largest bank-affiliated leasing company with over $9 billion in equipment finance assets. Average deposits were $50.0 billion in 2011, an increase of $6.2 billion, or 14%, compared with 2010.

Deposit growth has been very strong, particularly in the second half of 2011, and is an industry-wide trend as clients are holding record levels of cash and liquidity.
Deposit inflows into noninterest-bearing demand deposits continued as FDIC insurance has been an attraction for customers maintaining liquidity during this prolonged period of low interest rates.
The repeal of Regulation Q limitations on interest-bearing commercial demand deposit accounts became effective in the third quarter of 2011. As expected, interest in this product has been muted due to the current rate environment and the limited amount of FDIC insurance coverage.
The commercial mortgage servicing portfolio was $267 billion at December 31, 2011 compared with $266 billion December 31, 2010. Servicing additions were mostly offset by portfolio run-off.

See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of the Consolidated Income Statement Review.

Asset Management Group

(Unaudited)

Year ended December 31

Dollars in millions, except as noted	**2011**	2010
Income Statement		
Net interest income	**$ 238**	$ 256
Noninterest income	**649**	628
Total revenue	**887**	884
Provision for credit losses (benefit)	**(24)**	20
Noninterest expense	**687**	647
Pretax earnings	**224**	217
Income taxes	**83**	80
Earnings	**$ 141**	$ 137
Average Balance Sheet		
Loans		
Consumer	**$ 4,108**	$ 4,025
Commercial and commercial real estate	**1,301**	1,434
Residential mortgage	**706**	850
Total loans	**6,115**	6,309
Goodwill and other intangible assets	**361**	399
Other assets	**243**	246
Total assets	**$ 6,719**	$ 6,954
Deposits		
Noninterest-bearing demand	**$ 1,209**	$ 1,324
Interest-bearing demand	**2,361**	1,835
Money market	**3,589**	3,283
Total transaction deposits	**7,159**	6,442
CDs/IRAs/savings deposits	**632**	748
Total deposits	**7,791**	7,190
Other liabilities	**74**	89
Capital	**349**	402
Total liabilities and equity	**$ 8,214**	$ 7,681
Performance Ratios		
Return on average capital	**40%**	34%
Return on average assets	**2.10**	1.97

Noninterest income to total revenue	**73**	71
Efficiency	**77**	73
Other Information		
Total nonperforming assets (a) (b)	**$ 60**	$ 90
Purchased impaired loans (a) (c)	**$ 127**	$ 146
Total net charge-offs	**$**	$ 42

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Year ended December 31

Dollars in millions, except as noted	**2011**	2010
ASSETS UNDER ADMINISTRATION (in billions) (a) (d)		
Personal	**$ 100**	$ 99
Institutional	**110**	113
Total	**$ 210**	$ 212
Asset Type		
Equity	**$ 111**	$ 115
Fixed Income	**66**	63
Liquidity/Other	**33**	34
Total	**$ 210**	$ 212
Discretionary assets under management		
Personal	**$ 69**	$ 69
Institutional	**38**	39
Total	**$ 107**	$ 108
Asset Type		
Equity	**$ 53**	$ 55
Fixed Income	**38**	36
Liquidity/Other	**16**	17
Total	**$ 107**	$ 108
Nondiscretionary assets under administration		
Personal	**$ 31**	$ 30
Institutional	**72**	74
Total	**$ 103**	$ 104
Asset Type		
Equity	**$ 58**	$ 60
Fixed Income	**28**	27
Liquidity/Other	**17**	17
Total	**$ 103**	$ 104

(a) As of December 31.
(b) Includes nonperforming loans of $56 million at December 31, 2011 and $82 million at December 31, 2010.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account assets.

Asset Management Group earned $141 million for 2011 compared with $137 million for 2010. Assets under administration were $210 billion at December 31, 2011 and $212 billion at December 31, 2010. Earnings for 2011 reflected a benefit from the provision for credit losses and growth in noninterest income, partially offset by higher noninterest expense and lower net interest income. Noninterest expense increased due to continued strategic investments in the business including front-line sales staff and new client facing technology. The core growth strategies for the business include: increasing channel penetration; investing in higher growth geographies; and investing in differentiated

client-facing technology. For 2011, the business delivered strong sales production, grew high value clients and benefited

from significant referrals from other PNC lines of business. Over time and with stabilized market conditions, the successful execution of these strategies and the accumulation of our strong sales performance are expected to create meaningful growth in assets under management and noninterest income.

Highlights of Asset Management Group s performance during 2011 include the following:

- Positive net flows in both discretionary assets under management and total assets under administration;
- Strong sales production, up nearly 40% over the prior year including a 26% increase in the acquisition of new high value clients;
- Significant referrals from other PNC lines of business, an increase of approximately 50% over 2010;
- Improved credit quality and performance;
- Continuing levels of new business investment and focused hiring to drive growth with nearly 300 external new hires; and
- Roll-out of PNC Wealth Insight[SM], our new online client reporting tool.

Assets under administration were $210 billion at December 31, 2011 compared with $212 billion at December 31, 2010. Discretionary assets under management were $107 billion at December 31, 2011 compared with $108 billion at December 31, 2010. The decrease in the comparisons was driven by the exit of pension related assets and flat equity markets on a comparative period end basis, offsetting strong sales performance

and successful client retention.

Total revenue for 2011 was $887 million compared with $884 million for 2010. Net interest income was $238 million for 2011 compared with $256 million for 2010. The decrease was

attributable to lower loan yields, lower loan balances and lower interest credits assigned to deposits reflective of the current low rate environment. Noninterest income was $649 million for 2011, up $21 million from the prior year due to stronger average equity markets, increased sales and new client acquisition. Noninterest income in the prior year benefitted from approximately $19 million of tax, termination, integration, and litigation related items that were not repeated in 2011. Excluding these items in the comparison, total noninterest income grew 6%.

Provision for credit losses was a benefit of $24 million for 2011 reflecting improved credit quality compared with provision of $20 million for 2010. Net charge-offs were immaterial in 2011 as charge-off activity was mitigated by significant recoveries compared with net charge-offs of $42 million in 2010.

Noninterest expense was $687 million in 2011, an increase of $40 million or 6% from the prior year. The increase was attributable to investments in the business to drive growth and higher compensation-related costs. Asset Management Group remains focused on disciplined expense management as it invests in these strategic growth opportunities.

Average deposits of $7.8 billion for 2011 increased $601 million, or 8%, over the prior year. Average transaction deposits grew 11% compared with 2010 and were partially offset by the strategic run-off of higher rate certificates of deposit in the comparison. Average loan balances of $6.1

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billion decreased $194 million, or 3%, from the prior year primarily due to credit risk management activities within the portfolio offsetting new client acquisition.

Residential Mortgage Banking

(Unaudited)

Year ended December 31 Dollars in millions, except as noted	**2011**	2010
Income Statement		
Net interest income	**$ 201**	$ 256
Noninterest income		
Loan servicing revenue		
Servicing fees	**226**	242
Net MSR hedging gains	**220**	245
Loan sales revenue	**282**	231
Other	**19**	18
Total noninterest income	**747**	736
Total revenue	**948**	992
Provision for credit losses	**5**	5
Noninterest expense	**797**	563
Pretax earnings	**146**	424
Income taxes	**59**	155
Earnings	**$ 87**	$ 269
Average Balance Sheet		
Portfolio loans	**$ 2,771**	$ 2,649
Loans held for sale	**1,492**	1,322
Mortgage servicing rights (MSR)	**905**	1,017
Other assets	**6,102**	4,259
Total assets	**$ 11,270**	$ 9,247
Deposits	**$ 1,675**	$ 2,716
Borrowings and other liabilities	**3,877**	2,823
Capital	**731**	919
Total liabilities and equity	**$ 6,283**	$ 6,458
Performance Ratios		
Return on average capital	**12%**	29%
Return on average assets	**.77**	2.91
Noninterest income to total revenue	**79**	74
Efficiency	**84**	57
Residential Mortgage Servicing Portfolio (in billions)		
Beginning of period	**$ 125**	$ 145
Acquisitions	**6**	
Additions	**12**	10
Repayments/transfers	**(25)**	(30)
End of period	**$ 118**	$ 125
Servicing portfolio statistics: (a)		
Fixed rate	**90%**	89%
Adjustable rate/balloon	**10%**	11%
Weighted-average interest rate	**5.38%**	5.62%
MSR capitalized value (in billions)	**$ .7**	$ 1.0
MSR capitalization value (in basis points)	**54**	82
Weighted-average servicing fee (in basis points)	**29**	30
Year ended December 31	**2011**	2010

Dollars in millions, except as noted

Other Information		
Loan origination volume (in billions)	**$ 11.4**	$ 10.5
Percentage of originations represented by:		
Agency and government programs	**100%**	99%
Refinance volume	**76%**	74%
Total nonperforming assets (a) (b)	**$ 76**	$ 172
Purchased impaired loans (a) (c)	**$ 112**	$ 161

(a) As of December 31.
(b) Includes nonperforming loans of $31 million at December 31, 2011 and $109 million at December 31, 2010.
(c) Recorded investment of purchased impaired loans related to acquisitions.

Residential Mortgage Banking earned $87 million in 2011 compared with $269 million in 2010. The decline in earnings was driven by an increase in noninterest expense associated with increased costs for residential mortgage foreclosure-related expenses, primarily as a result of ongoing governmental matters, and lower net interest income, partially offset by an increase in loan originations and higher loans sales revenue.

Highlights of Residential Mortgage Banking s performance during 2011 include the following:

- Total loan originations were $11.4 billion for 2011 compared with $10.5 billion in 2010. Refinance volume increased compared to the 2010 period. Loans continue to be originated primarily through direct channels under FNMA, FHLMC and FHA/VA agency guidelines.
- Investors having purchased mortgage loans may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. At December 31, 2011, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $83 million compared with $144 million at December 31, 2010. See the Recourse And Repurchase Obligations section of this Item 7 and Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.
- Residential mortgage loans serviced for others totalled $118 billion at December 31, 2011 compared with $125 billion at December 31, 2010 as payoffs continued to outpace new direct loan origination volume.
- Noninterest income was $747 million in 2011 compared with $736 million in 2010. The increase resulted from higher loan sales revenue driven by higher loan origination volume, partially offset by lower net hedging gains on residential mortgage servicing rights and lower loan servicing revenue.

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Net interest income was $201 million in 2011 compared with $256 million in 2010. The decrease in the comparison was primarily due to lower interest earned on escrow deposits.
Noninterest expense was $797 million in 2011 compared with $563 million in 2010. The increase from the prior year period was primarily due to higher residential mortgage foreclosure-related expenses, primarily as a result of ongoing governmental matters.
The fair value of residential mortgage servicing rights was $.7 billion at December 31, 2011 compared with $1.0 billion at December 31, 2010. The decline in fair value was primarily due to lower mortgage rates which has resulted in higher prepayment rates.

BlackRock

(Unaudited)

Information related to our equity investment in BlackRock follows:

Year ended December 31 Dollars in millions	2011	2010
Business segment earnings (a)	**$ 361**	$ 351
PNC s economic interest in BlackRock (b)	**21%**	20%

(a) Includes PNC s share of BlackRock s reported GAAP earnings net of additional income taxes on those earnings incurred by PNC.
(b) At December 31.

In billions	Dec. 31 2011	Dec. 31 2010
Carrying value of PNC s investment in BlackRock (c)	**$ 5.3**	$5.1
Market value of PNC s investment in BlackRock (d)	**6.4**	6.9

(c) PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $1.7 billion at December 31, 2011 and $1.8 billion at December 31, 2010.
(d) Does not include liquidity discount.

PNC accounts for its BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock to partially fund BlackRock LTIP programs. The fair value amount of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 8 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report.

On September 29, 2011, PNC transferred 1.3 million shares of BlackRock Series C Preferred Stock to BlackRock to satisfy a portion of our LTIP obligation. Upon transfer, Other assets and Other liabilities on our Consolidated Balance Sheet were reduced by $172 million, representing the fair value of the shares transferred. Additional information regarding our BlackRock LTIP shares obligation is included in Note 15 Stock Based Compensation Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report.

At December 31, 2011, approximately 1.5 million shares of BlackRock Series C Preferred Stock were available to fund a portion of awards under future BlackRock LTIP programs.

PNC accounts for its remaining investment in BlackRock under the equity method of accounting. Our voting interest in BlackRock common stock (approximately 24% at December 31, 2011) is higher than our overall share of BlackRock s equity and earnings.

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Non-Strategic Assets Portfolio

(Unaudited)

Year ended December 31 Dollars in millions	**2011**	2010
Income Statement		
Net interest income	**$ 913**	$ 1,229
Noninterest income	**47**	(93)
Total revenue	**960**	1,136
Provision for credit losses	**366**	976
Noninterest expense	**275**	250
Pretax earnings (loss)	**319**	(90)
Income taxes (benefit)	**119**	(33)
Earnings (loss)	**$ 200**	$ (57)
Average Balance Sheet		
Commercial Lending:		
Commercial/Commercial real estate	**$ 1,277**	$ 2,240
Lease financing	**712**	781
Total commercial lending	**1,989**	3,021
Consumer Lending:		
Consumer	**5,257**	6,240
Residential real estate	**6,161**	7,585
Total consumer lending	**11,418**	13,825
Total portfolio loans	**13,407**	16,846
Other assets (a)	**(288)**	671
Total assets	**$ 13,119**	$ 17,517
Deposits and other liabilities	**$ 111**	154
Capital	**1,319**	1,621
Total liabilities and equity	**$ 1,430**	$ 1,775
Performance Ratios		
Return on average capital	**15%**	(4)%
Return on average assets	**1.52**	(.33)
Other Information		
Nonperforming assets (b) (c)	**$ 1,024**	$ 1,242
Purchased impaired loans (b) (d)	**$ 5,251**	$ 5,879
Net charge-offs (e)	**$ 370**	$ 677
Net charge-off ratio (e)	**2.76%**	4.02%
Loans (b)		
Commercial Lending		
Commercial/Commercial real estate	**$ 976**	$ 1,684
Lease financing	**670**	764
Total commercial lending	**1,646**	2,448
Consumer Lending		
Consumer	**4,930**	5,769
Residential real estate	**5,840**	6,564
Total consumer lending	**10,770**	12,333
Total loans	**$ 12,416**	$ 14,781

(a) Other assets includes deferred taxes and loan reserves.
(b) As of December 31.
(c) Includes nonperforming loans of $.7 billion at December 31, 2011 and $.9 billion at December 31, 2010.
(d) Recorded investment of purchased impaired loans related to acquisitions. At December 31, 2011, this segment contained 79% of PNC s purchased impaired loans.
(e) For the year ended December 31.

This business segment (formerly Distressed Assets Portfolio) consists primarily of acquired non-strategic assets that fall outside of our core business strategy. Non-Strategic Assets Portfolio had earnings of $200 million in 2011 compared with a loss of $57 million in 2010. The increase was primarily attributable to a lower provision for credit losses partially offset by lower net interest income.

Highlights of Non-Strategic Assets Portfolio s performance during 2011 include the following:

- Average loans declined to $13.4 billion in 2011 compared with $16.8 billion in 2010. The expected decline was driven by customer payment activity and portfolio management activities to reduce under-performing assets.
- Net interest income was $.9 billion in 2011 compared with $1.2 billion in 2010. The decrease reflected lower loan balances and related purchase accounting accretion.
- Noninterest income was $47 million in 2011 compared with a loss of $93 million in 2010. 2010 included an increase to the liability for estimated losses on repurchase and indemnification claims on brokered home equity loans sold to investors.
- The provision for credit losses was $366 million in 2011 compared with $976 million in 2010. The decline was driven primarily by lower losses in first mortgage and residential construction portfolios.
- Noninterest expense in 2011 was $275 million compared with $250 million in 2010. The increase was driven by residential mortgage foreclosure-related expenses, primarily as a result of ongoing governmental matters.
- Nonperforming loans decreased to $.7 billion at December 31, 2011 compared with $.9 billion at December 31, 2010. The consumer lending portfolio comprised 66% of the nonperforming loans at December 31, 2011. Nonperforming consumer loans increased $20 million.
- Net charge-offs were $370 million in 2011 and $677 million in 2010. The decrease was due to lower charge-offs on residential real estate and commercial real estate loans.

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The majority of assets within this portfolio were obtained through acquisitions and fall outside of our core business strategy. Consequently, the business activity of this segment is to manage the wind-down of the portfolio assigned to it while maximizing the value and mitigating risk. The fair value marks taken upon acquisition of the assets, the team we have in place, and targeted asset resolution strategies help us to manage these assets. Additionally, our capital and liquidity positions provide us flexibility in a challenging environment to optimize returns on this portfolio for our shareholders.

The $12.4 billion of loans held in this portfolio at December 31, 2011 are stated inclusive of a fair value adjustment on purchased impaired loans at
acquisition. Taking the adjustment and the ALLL into account, the net carrying basis of this loan portfolio is 79% of customer outstandings.

The Commercial Lending portfolio within this segment is comprised of $1.0 billion in residential development loans (i.e. condominiums, townhomes, developed and undeveloped land) and $.7 billion of performing cross-border leases. This portfolio has been reduced by 33% since December 31, 2010 driven by the decline in residential development loans. The cross-border lease portfolio has been relatively stable. These assets are long-term and are of high credit quality.

The performance of the Consumer Lending portfolio within this segment is dependent upon economic growth, unemployment rates, the housing market recovery and the interest rate environment. The portfolio s credit quality performance has stabilized through actions taken by management over the last three years. Approximately 76% of customers have been current with principal and interest payments for the past 12 months. Consumer Lending consists of consumer loans, which are mainly brokered home equity loans and lines of credit, and residential real estate mortgages. The residential real estate mortgage portfolio is composed of jumbo and ALT-A first lien mortgages, non-prime first and second lien mortgages and, to a lesser extent, residential construction loans. Management has implemented various refinance programs, line management programs, and loss mitigation programs to mitigate risks within these portfolios while assisting borrowers to maintain homeownership when possible.

When loans are sold, we may assume certain loan repurchase obligations associated with those loans primarily relating to situations where investors may request PNC to indemnify them against losses or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. From 2005 to 2007, home equity loans were sold with such contractual provisions. At December 31, 2011, the liability for estimated losses
on repurchase and indemnification claims for the Non-Strategic Assets Portfolio business segment was $47 million. No substantial additional reserves were recorded in 2011. See the Recourse And Repurchase Obligations section of this Item 7 and Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information.

Critical Accounting Estimates And Judgments

Our consolidated financial statements are prepared by applying certain accounting policies. Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report describes the most significant accounting policies that we use. Certain of these policies require us to make estimates or economic assumptions that may vary under different assumptions or conditions and such variations may significantly affect our reported results and financial position for the period or in future periods.

Fair Value Measurements

We must use estimates, assumptions, and judgments when 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 independent third-party sources, including appraisers and valuation specialists, 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.

PNC applies Fair Value Measurements and Disclosures (ASC 820). This guidance defines fair value as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. This guidance requires a three level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable.

The following sections of this Report provide further information on this type of activity:

- Fair Value Measurements included within this Item 7, and
- Note 8 Fair Value included in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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

We maintain the ALLL and the Allowance for Unfunded Loan Commitments and Letters of Credit at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan portfolio and on these unfunded credit facilities as of the balance sheet date. Our determination of the allowances is based on periodic evaluations of the loan and lease portfolios and unfunded credit facilities and other relevant factors. This evaluation is inherently subjective as it requires material estimates, all of which may be susceptible to significant change, including, among others:

- Probability of default (PD),
- Loss given default (LGD),
- Exposure at date of default (EAD),
- Movement through delinquency stages,
- Amounts and timing of expected future cash flows,
- Value of collateral, and
- Qualitative factors such as changes in current economic conditions that may not be reflected in historical results.

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans. We also allocate reserves to provide coverage for probable losses incurred in the portfolio at the balance sheet date based upon current market conditions, which may not be reflected in historical loss data. While allocations are made to specific loans and pools of loans, the total reserve is available for all credit losses.

Commercial lending is the largest category of credits and is the most sensitive to changes in assumptions and judgments underlying the determination of the ALLL. We have allocated approximately $2.0 billion, or 46%, of the ALLL at December 31, 2011 to the commercial lending category. Consumer lending allocations are made based on historical loss experience adjusted for recent activity. Approximately $2.3 billion, or 54%, of the ALLL at December 31, 2011 have been allocated to these consumer lending categories.

To the extent actual outcomes differ from our estimates, additional provision for credit losses may be required that would reduce future earnings. See the following for additional information:

- Allowances For Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Credit Risk Management section of this Item 7
  (which includes an illustration of the estimated impact on the aggregate of the ALLL and allowance for unfunded loan commitments and letters of credit assuming we increased pool reserve loss rates for certain loan categories), and
- Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements and Allocation Of Allowance For Loan And Lease Losses in the Statistical Information (Unaudited) section of Item 8 of this Report.

Estimated Cash Flows On Purchased Impaired Loans

ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly SOP 03-3) provides the GAAP guidance for accounting for certain loans. These loans have experienced a deterioration of credit quality from origination to acquisition for which it is probable that the investor will be unable to collect all contractually required payments receivable, including both principal and interest.

In our assessment of credit quality deterioration, we must make numerous assumptions, interpretations and judgments, using internal and third-party credit quality information to determine whether it is probable that we will be able to collect all contractually required payments. This point in time assessment is inherently subjective due to the nature of the available information and judgment involved.

Those loans that qualify under ASC 310-30 are recorded at fair value at acquisition, which involves estimating the expected cash flows to be received. Measurement of the fair value of the loan is based on the provisions of ASC 820. ASC 310-30 prohibits the carryover or establishment of an allowance for loan losses on the acquisition date.

Subsequent to the acquisition of the loan, we are required to continue to estimate cash flows expected to be collected over the life of the loan. The measurement of expected cash flows involves assumptions and judgments as to credit risk, interest rate risk, prepayment risk, default rates, loss severity, payment speeds and collateral values. All of these factors are inherently subjective and can result in significant changes in the cash

flow estimates over the life of the loan. Such changes in expected cash flows could increase future earnings volatility due to increases or decreases in the accretable yield (i.e., the difference between the undiscounted expected cash flows and the recorded investment in the loan). The accretable yield is recognized as interest income on a constant effective yield method over the life of the loan. In addition, changes in expected cash flows could result in the recognition of impairment through provision for credit losses if the decline in expected cash flows is attributable to a decline in credit quality.

Goodwill

Goodwill arising from business acquisitions represents the value attributable to unidentifiable intangible elements in the business acquired. Most of our goodwill relates to value inherent in the Retail Banking and Corporate & Institutional Banking businesses. The value of this goodwill is dependent upon our ability to provide quality, cost effective services in the face of competition from other market participants on a national and, with respect to some products and services, an international basis. We also rely upon continuing investments in processing systems, the development of value-added service features, and the ease of access by customers to our services.

As such, the value of goodwill is supported by earnings, which is driven by transaction volume and, for certain businesses, the market value of assets under administration or for which processing services are provided. Lower earnings resulting from a lack of growth or our inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could result in a current period charge to earnings. At least annually, in the fourth quarter, or more frequently if events occur or circumstances have changed significantly from the annual test date, management reviews the current operating environment and strategic direction of each reporting unit taking into consideration any events or changes in circumstances that may have an effect on the unit. For this review, inputs are generated and used in calculating the fair value of the reporting unit, which is compared to its carrying value. A reporting unit is defined as an operating segment or one level below an operating segment. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit is not considered impaired. However, if the fair value of the reporting unit is less than its carrying amount, the reporting unit s goodwill would be evaluated for impairment. In this circumstance, the implied fair value of reporting unit goodwill would be compared to the carrying amount of that goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, the difference is recognized as an impairment loss. The implied fair value of reporting unit goodwill is determined by assigning the fair value of a reporting unit to its assets and liabilities (including any unrecognized intangible assets) with the residual amount equal to the implied fair value of goodwill as if the reporting unit had been acquired in a business combination.

The fair values of our reporting units are determined using a discounted cash flow valuation model, with assumptions based upon market comparables, and in certain instances we may also consider additional fair value market indicators. Based on the results of our analysis, there have been no impairment charges related to goodwill in 2011, 2010 or 2009. Despite the impact of challenging market conditions and Dodd-Frank regulations on earnings, we believe our Retail Banking reporting unit is well positioned given expected long-term growth in deposits (including the impact of continued run off of higher rate CDs), its demonstrated ability to acquire

new customers while retaining existing ones, based in part upon a suite of best-in-class products that are continually enhanced (e.g., Virtual Wallet®, Business Banking s Cash Flow Options℠, and credit cards), expansion into new markets with above average demographic growth attributes, cross-sell opportunities for existing and new customers, a focus on retirement and investment services for the mass and mass affluent customer sectors, a scale that helps lower per unit cost for increased regulatory costs, and disciplined expense management.

See Note 9 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Lease Residuals

We provide financing for various types of equipment, aircraft, energy and power systems, and rolling stock and automobiles through a variety of lease arrangements. Direct financing leases are carried at the sum of lease payments and the estimated residual value of the leased property, less unearned income. Residual value insurance or guarantees by governmental entities provide support for a significant portion of the residual value. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors and insurers. Residual values are derived from historical remarketing experience, secondary market contacts, and industry publications. To the extent not guaranteed or assumed by a third-party, or otherwise insured against, we bear the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the residual value, which could result in an impairment charge and reduce earnings in the future. Residual values are reviewed for impairment on an annual basis.

Revenue Recognition

We earn net interest and noninterest income from various sources, including:

- Lending,
- Securities portfolio,
- Asset management,

- Customer deposits,
- Loan sales and servicing,
- Brokerage services,
- Sale of loans and securities,
- Certain private equity activities, and
- Securities and derivatives trading activities including foreign exchange.

We also earn fees and commissions from issuing loan commitments, standby letters of credit and financial guarantees, selling various insurance products, providing treasury management services, providing merger and acquisition advisory and related services, and participating in certain capital markets transactions. Revenue earned on

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interest-earning assets including unearned income in the accretion of fair value adjustments on discounts recognized on acquired or purchased loans is recognized based on the constant effective yield of the financial instrument.

The timing and amount of revenue that we recognize in any period is dependent on estimates, judgments, assumptions, and interpretation of contractual terms. Changes in these factors can have a significant impact on revenue recognized in any period due to changes in products, market conditions or industry norms.

Residential And Commercial Mortgage Servicing Rights

We elect to measure our residential mortgage servicing rights (MSRs) at fair value. This election was made to be consistent

with our risk management strategy to hedge changes in the fair value of these assets as described below. The fair value of residential MSRs is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors which are determined based on current market conditions.

Assumptions incorporated into the residential MSRs valuation model reflect management s best estimate of factors that a market participant would use in valuing the residential MSRs. Although sales of residential MSRs do occur, residential MSRs do not trade in an active market with readily observable prices so the precise terms and conditions of sales are not available. As a benchmark for the reasonableness of its residential MSRs fair value, PNC obtains opinions of value from independent parties (brokers). These brokers provided a range (+/- 10 bps) based upon their own discounted cash flow calculations of our portfolio that reflected conditions in the secondary market, and any recently executed servicing transactions. PNC compares its internally-developed residential MSRs value to the ranges of values received from the brokers. If our residential MSRs fair value falls outside of the brokers ranges, management will assess whether a valuation adjustment is warranted. For 2011 and 2010, PNC s residential MSRs value has not fallen outside of the brokers ranges. We consider our residential MSRs value to represent a reasonable estimate of fair value.

Commercial MSRs are purchased or originated when loans are sold with servicing retained. Commercial MSRs do not trade in an active market with readily observable prices so the precise terms and conditions of sales are not available. Commercial MSRs are initially recorded at fair value and are subsequently accounted for at the lower of amortized cost or fair value. Commercial MSRs are periodically evaluated for impairment. For purposes of impairment, the commercial mortgage servicing rights are stratified based on asset type, which characterizes the predominant risk of the underlying financial asset. The fair value of commercial MSRs is estimated by using an internal valuation model. The model

calculates the present value of estimated future net servicing cash flows considering estimates of servicing revenue and costs, discount rates and prepayment speeds.

PNC employs risk management strategies designed to protect the value of MSRs from changes in interest rates and related market factors. Residential MSRs values are economically hedged with securities and derivatives, including interest-rate swaps, options, and forward mortgage-backed and futures contracts. As interest rates change, these financial instruments are expected to have changes in fair value negatively correlated to the change in fair value of the hedged residential MSRs portfolio. The hedge relationships are actively managed in response to changing market conditions over the life of the residential MSRs assets. Commercial MSRs are economically hedged at a macro level or with specific derivatives to protect against a significant decline in interest rates. Selecting appropriate financial instruments to economically hedge residential or commercial MSRs requires significant management judgment to assess how mortgage rates and prepayment speeds could affect the future values of MSRs. Hedging results can frequently be less predictable in the short term, but over longer periods of time are expected to protect the economic value of the MSRs.

The fair value of residential and commercial MSRs and significant inputs to the valuation model as of December 31, 2011 are shown in the tables below. The expected and actual rates of mortgage loan prepayments are significant factors driving the fair value. Management uses a third-party model to estimate future residential loan prepayments and internal proprietary models to estimate future commercial loan prepayments. These models have been refined based on current market conditions. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied forward interest rates to estimate the future direction of mortgage and discount rates. The forward rates utilized are derived from the current yield curve for U.S. dollar interest rate swaps and are consistent with pricing of capital markets instruments. Changes in the shape and slope of the forward curve in future periods may result in volatility in the fair value estimate.

Residential Mortgage Servicing Rights

Dollars in millions	**December 31 2011**	December 31 2010
Fair value	**$ 647**	$ 1,033
Weighted-average life (in years) (a)	**3.6**	5.8
Weighted-average constant prepayment rate (a)	**22.10%**	12.61%
Weighted-average option adjusted spread	**11.77%**	12.18%

(a) Changes in weighted-average life and weighted-average constant prepayment rate reflect the cumulative impact of changes in rates, prepayment expectations and model changes.

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Commercial Mortgage Servicing Rights

Dollars in millions	December 31 2011	December 31 2010
Fair value	$ 471	$ 674
Weighted-average life (in years) (a)	5.9	6.3
Prepayment rate range (a) (b)	13% 28%	10% 24%
Effective discount rate range	6% 9%	7% 9%

(a) Changes in weighted-average life and prepayment rate reflect the cumulative impact of changes in rates, prepayment expectations and model changes.
(b) Represents modeled prepayment rates considering the effective dates of prepayment penalties.

A sensitivity analysis of the hypothetical effect on the fair value of MSRs to adverse changes in key assumptions is presented below. These sensitivities do not include the impact of the related hedging activities. Changes in fair value generally cannot be extrapolated because the relationship of

the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in mortgage interest rates, which drive changes in prepayment rate estimates, could result in changes in the interest rate spread), which could either magnify or counteract the sensitivities.

Residential Mortgage Servicing Rights

Dollars in millions	December 31 2011	December 31 2010
Weighted-average constant prepayment rate:		
Decline in fair value from 10% adverse change	$ 44	$ 41
Decline in fair value from 20% adverse change	$ 84	$ 86
Weighted-average option adjusted spread:		
Decline in fair value from 10% adverse change	$ 25	$ 43
Decline in fair value from 20% adverse change	$ 48	$ 83

Commercial Mortgage Servicing Rights

Dollars in millions	December 31 2011	December 31 2010
Prepayment rate range:		
Decline in fair value from 10% adverse change	$ 6	$ 8
Decline in fair value from 20% adverse change	$ 11	$ 16
Effective discount rate range:		
Decline in fair value from 10% adverse change	$ 9	$ 13
Decline in fair value from 20% adverse change	$ 18	$ 26

Income Taxes

In the normal course of business, we and our subsidiaries enter into transactions for which the tax treatment is unclear or subject to varying interpretations. In addition, filing requirements, methods of filing and the calculation of taxable income in various state and local jurisdictions are subject to differing interpretations.

We evaluate and assess the relative risks and merits of the appropriate tax treatment of transactions, filing positions, filing methods and taxable income calculations after considering statutes, regulations, judicial precedent, and other information, and maintain tax accruals consistent with our evaluation of these relative risks and merits. The result of our evaluation and assessment is by its nature an estimate. We and our subsidiaries are routinely subject to audit and challenges from taxing authorities. In the event we resolve a challenge for an amount different than amounts previously accrued, we will account for the difference in the period in which we resolve the matter.

Proposed Accounting Standards

The Financial Accounting Standards Board (FASB) issued several Exposure Drafts for comment during 2011 as well as the beginning of 2012.

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In November 2011, the FASB issued Proposed Accounting Standards Update Consolidation (Topic 810) Principal versus Agent Analysis. This proposal would require a reporting entity to evaluate whether a decision maker is using its power as a principal or an agent. This evaluation would affect whether an entity is a variable interest entity and, if so, whether the reporting entity should consolidate the entity. The principal or agent decision would be based on the rights held by other parties, the compensation received by the decision maker and the decision maker s exposure to variability of returns from any other interests that it holds in the entity. This proposal would change the evaluation of kick-out and participating rights held by noncontrolling shareholders in a consolidation analysis. Additionally, the proposal would impact the requirements for determining when a general partner controls a limited partnership. Lastly, the proposal would rescind the indefinite deferral of variable interest entity analysis provided for an investment manager and other similar entities. The comment period ended February 15, 2012. We are evaluating the impact of this proposal on our financial statements.

In November 2011, the FASB issued Proposed Accounting Standards Update (Revised) Revenue Recognition (Topic 605) Revenue from Contracts with Customers. Under the proposal, an entity would recognize revenue from contracts with customers when it transfers promised goods or services to the customer. The revenue recognized would be the transaction price based upon the consideration promised by the customer in exchange for the transferred goods or services. The proposal includes guidance on how to determine when a

good or service is transferred over time, how to account for warranties, how to determine a transaction price (including collectability, time value of money, and variable consideration), and a practical expedient that permits an entity to recognize as an expense costs of obtaining a contract (if one year or less). The effective date has not yet been determined. The comment period ends on March 13, 2012. On January 4, 2012, the FASB issued a second proposal on Revenue Recognition that illustrates the proposed amendments to the FASB Accounting Standards Codification, which were excluded from the first proposal issued in November 2011. The comment period for the second proposal also ends on March 13, 2012. We are evaluating the impact of these proposals on our financial statements.

In October 2011, the FASB issued Proposed Accounting Standards Update Financial Services Investment Companies (Topic 946). This proposal would change the

definition of an investment company. Additionally, it would require that an investment company consolidate another

investment company in which it holds a controlling financial interest. Consistent with current U.S. GAAP, a noninvestment company parent of an investment company would continue to retain the specialized consolidation accounting. The effective date has not yet been determined. The comment period ended February 15, 2012. We are evaluating the impact of this proposal on our financial statements.

In October 2011, the FASB also issued Proposed Accounting Standards Update Real Estate Investment Property Entities (Topic 973). This proposal provides accounting guidance for an entity that meets the criteria to be an investment property entity. Investment properties acquired by an investment property entity would be required to be recorded at fair value with changes in value recorded in earnings. The effective date has not yet been determined. The comment period ended February 15, 2012. We are evaluating the impact of this proposal on our financial statements.

In January 2011, the FASB issued Supplementary Document Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities Impairment. Subsequent to this proposal, in June 2011, the FASB and IASB proposed a credit impairment model that would divide loans into three buckets for purposes of calculating impairment. The three buckets are: (1) portfolios with little to no evidence of credit impairment, (2) portfolios with observable evidence of credit impairment, and (3) individual instruments that are credit impaired. The proposed impairment calculations for the three buckets are as follows: (1) expected losses for the next 12 months for portfolios of instruments, (2) expected lifetime losses for portfolios of instruments, and (3) expected lifetime losses for individual instruments, respectively. All instruments would be initially classified in bucket 1 and transition to

buckets 2 and 3 if credit performance deteriorates from origination or acquisition. This proposal continues to be discussed among the FASB and IASB. A new exposure draft is expected to be issued in the second quarter of 2012. We are evaluating the impact of this proposal on our financial statements.

Recent Accounting Pronouncements

See Note 1 Accounting Policies in the Notes To the Consolidated Financial Statements in Item 8 of this Report regarding the impact of new accounting pronouncements.

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Status Of Qualified Defined Benefit Pension Plan

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are a percentage of eligible compensation. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. Consistent with our investment strategy, plan assets are primarily invested in equity investments and fixed income instruments. Plan fiduciaries determine and review the plan s investment policy, which is described more fully in Note 14 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report.

We calculate the expense associated with the pension plan and the assumptions and methods that we use include 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. The primary assumptions used to measure pension obligations and costs are the discount rate, compensation increase and expected long-term return on assets. Among these, the compensation increase assumption does not significantly affect pension expense.

The discount rate used to measure pension obligations is determined by comparing the expected future benefits that will be paid under the plan with yields available on high quality corporate bonds of similar duration. In lower interest rate environments, the sensitivity of pension expense to the assumed discount rate increases. The impact on pension expense of a 0.5% decrease in discount rate in the current environment is $23 million per year. In contrast, the sensitivity to the same change in discount rate in a higher interest rate environment is less significant.

The expected long-term return on assets assumption also has a significant effect on pension expense. The expected return on plan assets is a long-term assumption established by considering historical and anticipated returns of the asset classes invested in by the pension plan and the asset allocation policy currently in place. For purposes of setting and reviewing this assumption, long term refers to the period over which the plan s projected benefit obligations will be disbursed. We review this assumption at each measurement date and adjust it if warranted. Our selection process references certain historical data and the current environment, but primarily utilizes qualitative judgment regarding future return expectations. Accordingly, we generally do not change the assumption unless we modify our investment strategy or identify events that would alter our expectations of future returns.

To evaluate the continued reasonableness of our assumption, we examine a variety of viewpoints and data. Various studies have shown that portfolios comprised primarily of US equity securities have historically returned approximately 10% annually over long periods of time, while US debt securities have returned approximately 6% annually over long periods. Application of these historical returns to the plan s allocation ranges for equities and bonds produces a result between 7.25% and 8.75% and is one point of reference, among many other factors, that is taken into consideration. We also examine the plan s actual historical returns over various periods. Recent experience is considered in our evaluation with appropriate consideration that, especially for short time periods, recent returns are not reliable indicators of future returns. While annual returns can vary significantly (rates of return for 2011, 2010, and 2009 were +.11%, +14.87%, and +20.61%, respectively), the selected assumption represents our estimated long-term average prospective returns.

Acknowledging the potentially wide range for this assumption, we also annually examine the assumption used by other companies with similar pension investment strategies, so that we can ascertain whether our determinations markedly differ from others. In all cases, however, this data simply informs our process, which places the greatest emphasis on our qualitative judgment of future investment returns, given the conditions existing at each annual measurement date.

Taking into consideration all of these factors, the expected long-term return on plan assets for determining net periodic pension cost for 2011 was 7.75%, down from 8.00% for 2010. This reduction was made after considering the views of both internal and external capital market advisors, particularly with regard to the effects of the recent economic environment on long-term prospective fixed income returns. We are maintaining our expected long-term return on assets at 7.75% for determining pension cost for 2012.

Under current accounting rules, the difference between expected long-term returns and actual returns is accumulated and amortized to pension expense over future periods. Each one percentage point difference in actual return compared with our expected return causes expense in subsequent years to increase or decrease by up to $8 million as the impact is amortized into results of operations.

We currently estimate a pretax pension expense of $93 million in 2012 compared with pretax expense of $3 million in 2011. This year-over-year expected increase is primarily due to the amortization impact of the unfavorable 2011 investment returns as compared with the expected long-term return assumption and the increase in obligations due to the drop in the discount rate. In addition, the estimate for 2012 includes approximately $2 million for employees expected to join the plan after the RBC Bank (USA) acquisition.

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The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2012 estimated expense as a baseline.

Change in Assumption (a)	Estimated Increase to 2012 Pension Expense (In millions)
.5% decrease in discount rate	$ 23
.5% decrease in expected long-term return on assets	$ 18
.5% increase in compensation rate	$ 2

(a) The impact is the effect of changing the specified assumption while holding all other assumptions constant.

Our pension plan contribution requirements are not particularly sensitive to actuarial assumptions. Investment performance has the most impact on contribution requirements and will drive the amount of permitted contributions in future years. Also, current law, including the provisions of the Pension Protection Act of 2006, sets limits as to both minimum and maximum contributions to the plan. We do not expect to be required by law to make any contributions to the plan during 2012.

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

Recourse And Repurchase Obligations

As discussed in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Item 8 of this Report, PNC has sold commercial mortgage and residential mortgage loans directly or indirectly in securitizations and whole-loan sale transactions with continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets in these transactions.

Commercial Mortgage Loan Recourse Obligations

We originate, close, and service certain multi-family commercial mortgage loans which are sold to FNMA under FNMA s Delegated Underwriting and Servicing (DUS) program. We participated in a similar program with the FHLMC.

Under these programs, we generally assume up to a one-third pari passu risk of loss on unpaid principal balances through a loss share arrangement. At December 31, 2011 and December 31, 2010, the unpaid principal balance outstanding of loans sold as a participant in these programs was $13.0 billion and $13.2 billion, respectively. The potential maximum exposure under the loss share arrangements was $4.0 billion at

both December 31, 2011 and December 31, 2010. We maintain a reserve for estimated losses based on our exposure. The reserve for losses under these programs totaled $47 million and $54 million as of December 31, 2011 and December 31, 2010, respectively, and is included in Other liabilities on our Consolidated Balance Sheet. If payment is required under these programs, we would not have a contractual interest in the collateral underlying the mortgage loans on which losses occurred, although the value of the collateral is taken into account in determining our share of such losses. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment.

Residential Mortgage Loan and Home Equity Repurchase Obligations

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to situations where PNC is alleged to have breached certain origination covenants and representations and warranties made to purchasers of the loans in the respective purchase and sale agreements. Residential mortgage loans covered by these loan repurchase obligations include first and second-lien mortgage loans we have sold through Agency securitizations, Non-Agency securitizations, and whole-loan sale transactions. As discussed in Note 3 in the Notes To Consolidated Financial Statements in Item 8 of this Report, Agency securitizations consist of mortgage loans sale transactions with FNMA, FHLMC, and the

Government National Mortgage Association (GNMA) program, while Non-Agency securitizations and whole-loan sale transactions consist of mortgage loans sale transactions with private investors. Our historical exposure and activity associated with Agency securitization repurchase obligations has primarily been related to transactions with FNMA and FHLMC, as indemnification and repurchase losses associated with Federal Housing Agency (FHA) and Department of Veterans Affairs (VA)-insured and uninsured loans pooled in GNMA securitizations historically have been minimal. Repurchase obligation activity associated with residential mortgages is reported in the Residential Mortgage Banking segment.

PNC s repurchase obligations also include certain brokered home equity loans/lines that were sold to a limited number of private investors in the financial services industry by National City prior to our acquisition. PNC is no longer engaged in the brokered home equity lending business, and our exposure under these loan repurchase obligations is limited to repurchases of the whole-loans sold in these transactions. Repurchase activity associated with brokered home equity lines/loans are reported in the Non-Strategic Assets Portfolio segment.

Loan covenants and representations and warranties are established through loan sale agreements with various investors to provide assurance that PNC has sold loans to

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investors of sufficient investment quality. Key aspects of such covenants and representations and warranties include the loan s compliance with any applicable loan criteria established by the investor, including underwriting standards, delivery of all required loan documents to the investor or its designated party, sufficient collateral valuation, and the validity of the lien securing the loan. As a result of alleged breaches of these contractual obligations, investors may request PNC to indemnify them against losses on certain loans or to repurchase loans.

Indemnifications for loss or loan repurchases typically occur when, after review of the claim, we agree insufficient evidence exists to dispute the investor s claim that a breach of a loan covenant and representation and warranty has occurred, such breach has not been cured, and the effect of such breach is deemed to have had a material and adverse effect on the value of the transferred loan. Depending on the sale agreement and upon proper notice from the investor, we typically respond to such indemnification and repurchase requests within 60 days, although final resolution of the claim may take a longer period of time. With the exception of the sales agreements associated with the Agency securitizations, most sale agreements do not provide for penalties or other remedies if we do not respond timely to investor indemnification or repurchase requests.

Investor indemnification or repurchase claims are typically settled on an individual loan basis through make-whole payments or loan repurchases; however, on occasion we may negotiate pooled settlements with investors. In connection with pooled settlements, we typically do not repurchase loans and the consummation of such transactions generally results in

us no longer having indemnification and repurchase exposure with the investor in the transaction.

The following table details the unpaid principal balance of our unresolved indemnification and repurchase claims at December 31, 2011 and December 31, 2010.

Analysis of Unresolved Asserted Indemnification and Repurchase Claims

In millions	**Dec. 31 2011**	Dec. 31 2010
Residential mortgages:		
Agency securitizations	**$ 302**	$ 110
Private investors (a)	**73**	100
Home equity loans/lines:		
Private investors (b)	**110**	299
Total unresolved claims	**$ 485**	$ 509

(a) Activity relates to loans sold through Non-Agency securitization and whole-loan sale transactions.
(b) Activity relates to brokered home equity loans/lines sold through whole-loan sale transactions which occurred during 2005-2007.

To mitigate losses associated with indemnification and repurchase claims, we have established quality assurance programs designed to ensure loans sold meet specific underwriting and origination criteria provided for in the investor sale agreements. In addition, we investigate every investor claim on a loan by loan basis to determine the existence of a legitimate claim, and that all other conditions for indemnification or repurchase have been met prior to the settlement with an investor.

The table below details our indemnification and repurchase claim settlement activity during 2011 and 2010.

Analysis of Indemnification and Repurchase Claim Settlement Activity

		2011			2010		
Year ended December 31	In millions	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)

Residential mortgages (d):						
Agency securitizations	**$ 220**	**$ 115**	**$ 74**	$ 358	$ 151	$ 150
Private investors (e)	**76**	**48**	**14**	127	54	31
Home equity loans/lines:						
Private investors Repurchases (f) (g)	**42**	**107**	**3**	28	35	3
Total indemnification and repurchase settlements	**$ 338**	**$ 270**	**$ 91**	$ 513	$ 240	$ 184

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date. Excluded from these balances are amounts associated with pooled settlement payments as loans are typically not repurchased in these transactions.
(b) Represents both i) amounts paid for indemnification/settlement payments and ii) the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability.
(c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification/settlement payments are made to investors.
(d) Repurchase activity associated with insured loans, government-guaranteed loans, and loans repurchased through the exercise of our removal of account provision (ROAP) option are excluded from this table. Refer to Note 3 in the Notes To Consolidated Financial Statements in Item 8 of this Report for further discussion of ROAPs.
(e) Activity relates to loans sold through Non-Agency securitizations and whole-loan sale transactions.
(f) Activity relates to brokered home equity loans/lines sold through whole-loan sale transactions which occurred during 2005-2007.
(g) Included in the Losses Incurred column are payments associated with pooled settlement activities. These payments were made to settle disputed pending repurchase claims as well as any future repurchase claims made by investors. No loans were repurchased in these transactions and accordingly, balances associated with these activities are not included in the Unpaid Principal Balance and Fair Value of Repurchased Loans columns in this table.

During 2011 and 2010, unresolved and settled investor indemnification and repurchase claims were primarily related to one of the following alleged breaches in representations and warranties: 1) misrepresentation of income, assets or employment; 2) property evaluation or status issues (e.g., appraisal, title, etc.); 3) underwriting guideline violations; or 4) mortgage insurance rescissions. During 2011, the volume of residential mortgage indemnification and repurchase claims increased reflecting the prolonged weak residential housing sector and the continuing industry trend of Agency investors pursuing strategies to aggressively reduce their exposure to losses on purchased loans. This increase, along with an increase in the average time to resolve investor claims, has contributed to the higher balances of unresolved claims for residential mortgages at December 31, 2011. The extended period of time to resolve these investor claims coupled with higher claim rescission rates drove the decline in residential mortgage indemnification and repurchase settlement activity in 2011. As the level of residential mortgage claims increased over the past couple of years, management focused its efforts on improving its process to review and respond to these claims. The lower balance of unresolved indemnification and repurchase claims for home equity loans/lines at December 31, 2011 was primarily attributed to pooled settlement activity and higher claim rescission rates during 2011. Management also implemented enhancements to its process of reviewing and responding to investor claims for this sold portfolio. The pooled settlement activity also drove the year-over-year increase in home equity indemnification and repurchase settlements. As a result, certain investor indemnification and repurchase requests received in 2010 were not resolved until the pooled settlement activity occurred in 2011.

For the first and second-lien mortgage balances of unresolved and settled claims contained in the tables above, a significant amount of these claims were associated with sold loans originated through correspondent lender and broker origination channels. For the home equity loans/lines sold portfolio, all unresolved and settled claims relate to loans originated through the broker origination channel. In certain instances when indemnification or repurchase claims are settled for these types of sold loans, we have recourse back to the correspondent lenders, brokers and other third-parties (e.g., contract underwriting companies, closing agents, appraisers, etc.). Depending on the underlying reason for the investor claim, we determine our ability to pursue recourse with these parties and file claims with them accordingly. Our historical recourse recovery rate has been insignificant as our efforts have been impacted by the inability of such parties to reimburse us for their recourse obligations (e.g., their capital availability or whether they remain in business) or contractual limitations that limit our ability to pursue recourse with these parties (e.g., loss caps, statutes of limitations, etc.). Broker recourse activities, to the extent material, as well as the trends in unresolved claim and indemnification and repurchase activity described above are considered in the determination

of our estimated indemnification and repurchase liability detailed below.

Origination and sale of residential mortgages is an ongoing business activity and, accordingly, management continually assesses the need to recognize indemnification and repurchase liabilities pursuant to the associated investor sale agreements. We establish indemnification and repurchase liabilities for estimated losses on sold first and second-lien mortgages and home equity loans/lines for which indemnification is expected to be provided or for loans that are expected to be repurchased. For the first and second-lien mortgage sold portfolio, we have established an indemnification and repurchase liability pursuant to investor sale agreements based on claims made and our estimate of future claims on a loan by loan basis. These relate primarily to loans originated during 2006-2008. For the home equity loans/lines sold portfolio, we have established indemnification and repurchase liabilities based upon this same methodology for loans sold during 2005-2007.

Indemnification and repurchase liabilities, which are included in Other liabilities on the Consolidated Balance Sheet, are initially recognized when loans are sold to investors and are subsequently evaluated by management. Initial recognition and subsequent adjustments to the indemnification and repurchase liability for the sold residential mortgage portfolio are recognized in Residential mortgage revenue on the Consolidated Income Statement. Since PNC is no longer engaged in the brokered home equity lending business, only subsequent adjustments are recognized to the home equity loans/lines indemnification and repurchase liability. These adjustments are recognized in Other noninterest income on the Consolidated Income Statement.

Management s subsequent evaluation of these indemnification and repurchase liabilities is based upon trends in indemnification and repurchase requests, actual loss experience, risks in the underlying serviced loan portfolios, and current economic conditions. As part of its evaluation, management considers estimated loss projections over the life of the subject loan portfolio. We believe our indemnification and repurchase liabilities appropriately reflect the estimated probable losses on investor indemnification and repurchase claims at December 31, 2011 and December 31, 2010.

At December 31, 2011 and December 31, 2010, the liability for estimated losses on indemnification and repurchase claims for residential mortgages totaled $83 million and $144 million, respectively. The year-over-year decline in this liability reflects lower estimated losses driven primarily by the seasoning of the sold portfolio and higher claim rescission rates as described above. This decrease resulted despite higher levels of investor indemnification and repurchase claim activity. The indemnification and repurchase liability for home equity loans/lines was $47 million and $150 million at

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December 31, 2011 and December 31, 2010, respectively. The year-over-year reduction in this liability was reflective of lower anticipated indemnification and repurchase activity for the sold portfolio due to pooled settlement activities, improved investor rescission rates as described above, and the seasoning of the sold home equity portfolio.

Risk Management

We encounter risk as part of the normal course of operating our business and we design risk management processes to help manage these risks. This Risk Management section describes our risk management philosophy, principles, governance and various aspects of our corporate-level risk management program. We also provide an analysis of our primary areas of risk: credit, operational, model, liquidity, and market. The discussion of market risk is further subdivided into interest rate, trading, and equity and other investment risk areas. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the Risk Management section of this Item 7. In appropriate places within this section, historical performance is also addressed.

Risk Management Philosophy and Profile

We fundamentally believe that risk management is a critical activity in successfully operating our business. We have adopted and implemented a risk philosophy with a goal of managing to an overall moderate level of risk to capture opportunities and optimize shareholder value. We actively support a risk management culture which promotes communication, teamwork, and our governance structure to help us manage our risks in the best interest of our business and shareholders. We dynamically set our strategies and make distinct risk taking decisions with consideration for the impact to our aggregate risk position. During 2011, our corporate risk profile returned to an overall moderate level due to continued improvement in a number of key measures, disciplined credit management, and the successful execution and implementation of strategic business initiatives.

Risk Management Principles

In managing the risks we encounter, we employ the following accepted guiding principles to establish boundaries for the risks which we are willing to accept in the course of doing business. These include being able to effectively:

- Identify and Understand Risks and Returns
- Make Balanced Risk Decisions
- Monitor and Manage Risks

Risk Management Governance

We employ a comprehensive Risk Management governance structure to help ensure that risks are identified; balanced decisions are made that consider risk and return; and risks are adequately monitored and managed. Risk committees established within this governance structure provide oversight for risk management activities at the Board, Corporate, and Business level. We utilize our governance structure to assess

the effectiveness of our Risk Management practices on an ongoing basis, based on how we manage our day-to-day business activities and on our development and execution of more specific strategies to mitigate risks. Our businesses strive to enhance risk management and internal control processes in light of heightened regulatory expectations focused on large financial institutions. We have integrated and comprehensive processes in place that are designed to adequately identify, measure, manage, monitor, and report risks which may significantly impact our business. The roles and responsibilities for our Risk Management activities rest with the following groups:

Line of Business Management and corporate support functions have the responsibility for identifying and managing risks generated in day-to-day business activities. This includes performing quality assurance testing on processes to identify risks and implementing necessary mitigation measures; setting control level policies and procedures designed to manage program execution within boundaries defined by risk management; and supporting risk reporting activities and escalation of key risks.

Risk Management supports business management in meeting their responsibilities for managing risk in a partnership role by proactively assessing risk, as well as an oversight role of measuring, monitoring, and challenging firm-wide risk management capabilities. This includes establishing enterprise level risk management policies that govern the control level policies, performing quality control on process outcomes, establishing appropriate governance and challenge functions via the risk committees, and creating risk transparency through ownership of risk reporting activities.

Internal Audit develops a risk-based audit program to help provide assurance on the management of risk throughout the organization. This includes auditing business processes across the organization and reporting on the effectiveness of controls, as well as auditing the risk management policy and infrastructure implemented by the enterprise risk management function.

Corporate-Level Risk Management Program

The corporate risk management organization has the following key roles:

- Facilitate the identification, assessment and monitoring of risk across PNC,
- Provide support and oversight to the businesses,
- Help identify and implement risk management best practices, as appropriate, and
- Work with the lines of business to shape and define PNC s business risk limits.

Risk Measurement

We conduct risk measurement activities specific to each area of risk utilizing a variety of methodologies. The primary vehicle for aggregation of enterprise-wide risk is a comprehensive risk management methodology which focuses on maximizing economic capital. This primary risk

aggregation measure is supplemented with secondary

measures of risk to arrive at an estimate of corporate-wide risk. The economic capital framework is a measure of potential losses above and beyond expected losses. Our capital management practices incorporate risks associated with potential credit losses (Credit Risk); fluctuations of the estimated market value of financial instruments (Market Risk); failure of people, processes or systems (Operational Risk); calculations, assumptions, and validation of internal measurements (Model Risk); and losses associated with declining margins and/or fees, and the fixed cost structure of the business. We estimate credit and market risks at pool and exposure levels while we estimate the remaining risk types at an institution or business segment level.

Risk Management Strategies

Risk management is not about eliminating risks, but about identifying and accepting risks and then working to effectively manage them so as to optimize all aspects of shareholder value.

We centrally manage policy development, exception approval, and oversight through our corporate-level risk management structure. Some of these policies express our risk appetite through limits to the acceptable level of risk. If we are in excess of certain limits, we implement strategies designed to progressively manage our risks to be within acceptable tolerances. We also review and revise certain policies to better reflect specific business requirements of our changing organization. This risk management structure also affords us opportunities to take action in either preventing or mitigating unapproved exceptions to policies. PNC s Internal Audit function also performs its own assessment of our internal control environment. Internal Audit plays a critical role in risk management, testing the operation of the internal control system and reporting findings to management and to the Audit Committee of the Board.

Risk Monitoring and Reporting

Monitoring and evaluation of controls help to provide assurance that controls are effective, and can also result in the identification of opportunities to improve risk controls. Our risk reporting provides an overall risk aggregation and transparent communication of these aggregated risks. Risk reports are produced at the line of business level, the functional level (credit, market, operational), and at the corporate level. Our enterprise risk profile is a point-in-time assessment of corporate-wide risk. The risk profile represents PNC s overall risk position in relation to the desired corporate risk appetite. The determination of the risk profile s position is based on comprehensive and subjective analysis of reported risk limits, metrics, operating guidelines, and qualitative assessments.

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 and certain guarantee contracts. Credit risk is one of our most significant risks. Our processes for managing credit risk are embedded in PNC s risk culture and in our decision-making processes using a systematic approach whereby credit risks and related exposures are: identified and assessed; managed through specific policies and processes; measured and evaluated against our risk tolerance limits; and reported, along with specific mitigation activities, to management and the board through our governance structure.

Asset Quality Overview

Overall asset quality trends for 2011 were positive and included the following:

- Overall loan delinquencies, excluding government insured or guaranteed loans, have declined from year-end 2010 levels helped by the slowly improving economy.
- Aided by a continued, albeit slowly, improving economy, nonperforming loans declined $906 million, or 20%, to $3.6 billion as of December 31, 2011 compared with December 31, 2010. Similarly, nonperforming assets decreased $967 million, or 19%, to $4.2 billion as of December 31, 2011, compared with December 31, 2010.
- Commercial credit quality trends improved noticeably with levels of criticized commercial loan outstandings declining by approximately $3.8 billion, or 28% compared with December 31, 2010, to $9.9 billion at December 31, 2011. See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.
- Net charge-offs declined significantly to $1.6 billion, down 44% from 2010 net charge-offs of $2.9 billion.

Reflecting improvements in asset quality, the provision for credit losses declined to $1.2 billion for 2011 compared with $2.5 billion for 2010.

The level of ALLL has decreased to $4.3 billion at December 31, 2011 from $4.9 billion at December 31, 2010.

These positive trends were partially offset by our ongoing loan modification efforts to assist homeowners and other borrowers. These efforts continued to increase our overall level of troubled debt restructurings (TDRs). In particular, TDRs included in nonperforming loans increased to 32% of total nonperforming loans. However, as the economy has slowly improved, the amount of TDRs returning to performing status has increased.

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NONPERFORMING ASSETS AND LOAN DELINQUENCIES

Nonperforming Assets, including OREO and Foreclosed Assets

Nonperforming assets include nonaccrual loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include TDRs, OREO and foreclosed assets. Loans held for sale, government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report. A summary of nonperforming assets is presented in the table below.

Nonperforming assets decreased $967 million from December 31, 2010, to $4.2 billion at December 31, 2011. Nonperforming loans decreased $906 million to $3.6 billion while OREO and foreclosed assets decreased $61 million to $596 million. The ratio of nonperforming assets to total loans and OREO and foreclosed assets was 2.60% at December 31, 2011 and 3.39% at December 31, 2010. The ratio of nonperforming loans to total loans declined to 2.24% at December 31, 2011, compared to 2.97% at December 31, 2010. The decrease in nonperforming loans from December 31, 2010 occurred across all loan classes except for home equity and credit card. Home equity nonperforming loans continued to increase as a result of the extended period of time to exit problem loans from the portfolio and the additions of modifications which result in TDRs. Total nonperforming assets have declined $2.3 billion, or 35%, from their peak of $6.4 billion at March 31, 2010.

At December 31, 2011, TDRs included in nonperforming loans increased to $1.1 billion or 32% of total nonperforming loans compared to $784 million or 18% of nonperforming loans as of December 31, 2010. Within consumer nonperforming loans, residential real estate TDRs comprise 51% of total residential real estate nonperforming loans at December 31, 2011, up from 30% at December 31, 2010. Similarly, home equity TDRs comprise 77% of home equity nonperforming loans at December 31, 2011, up slightly from 75% at December 31, 2010. The level of TDRs in these portfolios is expected to result in elevated nonperforming loan levels for longer periods because TDRs remain in nonperforming status until a borrower has made at least six consecutive months of payments under the modified terms or ultimate resolution occurs.

At December 31, 2011, our largest nonperforming asset was $28 million in the Accommodation and Food Services Industry and our average nonperforming loan associated with commercial lending was under $1 million. Our ten largest outstanding nonperforming assets are all from the commercial lending portfolio and represent 9% and 5% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of December 31, 2011.

Nonperforming Assets By Type

In millions	**Dec. 31 2011**	Dec. 31 2010
Nonperforming loans		
Commercial		
Retail/wholesale trade	**$ 109**	$ 197
Manufacturing	**117**	250
Service providers	**147**	218
Real estate related (a)	**252**	233
Financial services	**36**	16
Health care	**29**	50
Other industries	**209**	289
Total commercial	**899**	1,253
Commercial real estate		
Real estate projects	**1,051**	1,422
Commercial mortgage	**294**	413
Total commercial real estate	**1,345**	1,835
Equipment lease financing	**22**	77
TOTAL COMMERCIAL LENDING	**2,266**	3,165
Consumer (b)		
Home equity	**529**	448
Residential real estate		
Residential mortgage (c)	**685**	764

Residential construction	**41**	54
Credit card (d)	**8**	
Other consumer	**31**	35
TOTAL CONSUMER LENDING	**1,294**	1,301
Total nonperforming loans (e)	**3,560**	4,466
OREO and foreclosed assets		
Other real estate owned (OREO) (f)	**561**	589
Foreclosed and other assets	**35**	68
TOTAL OREO AND FORECLOSED ASSETS	**596**	657
Total nonperforming assets	**$ 4,156**	$ 5,123
Amount of commercial lending nonperforming loans contractually current as to remaining principal and interest	**$ 632**	$ 988
Percentage of total commercial lending nonperforming loans	**28%**	31%
Amount of TDRs included in nonperforming loans	**$ 1,141**	$ 784
Percentage of total nonperforming loans	**32%**	18%
Nonperforming loans to total loans	**2.24%**	2.97%
Nonperforming assets to total loans, OREO and foreclosed assets	**2.60**	3.39
Nonperforming assets to total assets	**1.53**	1.94
Allowance for loan and lease losses to total nonperforming loans (e) (g)	**122**	109

(a) Includes loans related to customers in the real estate and construction industries.

(b) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.

(c) Effective in 2011, nonperforming residential mortgage excludes loans of $61 million accounted for under the fair value option as of December 31, 2011. The comparable balance at December 31, 2010 was not material.

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(d) Effective in the second quarter 2011, the commercial nonaccrual policy was applied to certain small business credit card balances. This change resulted in loans being placed on nonaccrual status when they become 90 days or more past due. We continue to charge off these loans at 180 days past due.
(e) Nonperforming loans do not include government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.
(f) Other real estate owned excludes $280 million and $178 million at December 31, 2011 and December 31, 2010, respectively, related to residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).
(g) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

OREO and Foreclosed Assets

In millions	**Dec. 31 2011**	Dec. 31 2010
Other real estate owned (OREO):		
Residential properties	**$ 191**	$ 304
Residential development properties	**183**	166
Commercial properties	**187**	119
Total OREO	**561**	589
Foreclosed and other assets	**35**	68
OREO and foreclosed assets	**$ 596**	$ 657

Total OREO and foreclosed assets decreased $61 million during 2011 from $657 million at December 31, 2010, to $596 million at December 31, 2011, which represents 14% of total nonperforming assets. As of December 31, 2011 and December 31, 2010, 32% and 46%, respectively, of our OREO and foreclosed assets were comprised of single family residential properties. The lower level of OREO and foreclosed assets was driven by lower levels of residential properties as new foreclosures have fallen from the very high levels of early 2010 and sales of foreclosed properties have rebounded from the low point in the fourth quarter 2010, partially offset by an increase in commercial properties which was due to an increase in the average balance added to OREO with commercial property sales remaining constant year over year. Excluded from OREO at December 31, 2011 and December 31, 2010, respectively, was $280 million and $178 million of residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

Change in Nonperforming Assets

In millions	**2011**	2010
January 1	**$ 5,123**	$ 6,204
New nonperforming assets	**3,625**	5,213
Charge-offs and valuation adjustments	**(1,220)**	(2,071)
Principal activity, including paydowns and payoffs	**(1,960)**	(1,316)
Asset sales and transfers to loans held for sale	**(613)**	(1,446)
Returned to performing status	**(799)**	(1,461)
December 31	**$ 4,156**	$ 5,123

The table above presents nonperforming asset activity for the years ended December 31, 2011 and 2010. Nonperforming assets decreased $967 million from $5.1 billion at December 31, 2010, to $4.2 billion at December 31, 2011. Approximately 80% of total nonperforming loans are secured by collateral, which would be expected to reduce credit losses and require less reserves in the event of default, and 28% of commercial lending nonperforming loans are contractually current as to principal and interest. As of December 31, 2011, commercial nonperforming loans are carried at approximately 62% of their unpaid principal balance, due to charge-offs recorded to date, before consideration of the allowance for loan and lease losses.

Purchased impaired loans are considered performing, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans. The accretable yield represents the excess of the expected cash flows on the loans at the measurement date over the carrying value. Generally decreases, other than interest rate decreases for variable rate notes, in the net present value of expected cash flows of individual commercial or pooled consumer purchased impaired loans would result in an impairment charge to the provision for loan losses in the period in which the change is deemed probable. Generally increases in the net present value of expected cash flows of purchased impaired loans would first result in a recovery of previously

recorded allowance for loan losses, to the extent applicable, and then an increase to accretable yield for the remaining life of the purchased impaired loans. Total nonperforming loans and assets in the tables above are significantly lower than they would have been due to this accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of nonperforming loans to total loans and a higher ratio of ALLL to nonperforming loans. See Note 6 Purchased Impaired Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on these loans.

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Loan Delinquencies

We regularly monitor the level of loan delinquencies and believe these levels may be a key indicator of loan portfolio asset quality. Measurement of delinquency status is based on the contractual terms of each loan. Loans that are 30 days or more past due in terms of payment are considered delinquent. Loan delinquencies exclude loans held for sale and purchased impaired loans, but include government insured or guaranteed loans.

Total early stage loan delinquencies (accruing loans past due 30 to 89 days) decreased by $252 million from December 31, 2010, to $1.6 billion at December 31, 2011. Commercial lending early stage delinquencies declined by $245 million from December 31, 2010, while consumer lending delinquencies fell by $7 million. Improvement in early stage delinquency levels was experienced across most loan classes, offset by modest increases in government insured, primarily other consumer education loans, and home equity.

Accruing loans past due 90 days or more are referred to as late stage delinquencies. These loans are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines. These loans increased 10% from $2.7 billion at December 31, 2010, to $3.0 billion at December 31, 2011, reflecting higher government insured delinquent residential real estate and other consumer loans, primarily education loans, and higher delinquent home equity loans, partially offset by improvement in commercial lending delinquency levels, primarily commercial real estate. The following tables display the delinquency status of our accruing loans past due at December 31, 2011 and December 31, 2010. Additional information regarding accruing loans past due is included in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Accruing Loans Past Due 30 To 59 Days

		Amount	Percent of Total Outstandings	
Dollars in millions	**Dec. 31 2011**	Dec. 31 2010	**Dec. 31 2011**	Dec. 31 2010
Commercial	**$ 122**	$ 251	**.19%**	.45%
Commercial real estate	**96**	128	**.59**	.71
Equipment lease financing	**22**	37	**.34**	.58
Home equity	**173**	159	**.52**	.47
Residential real estate				
Non government insured	**180**	226	**1.24**	1.41
Government insured	**122**	105	**.84**	.66
Credit card	**38**	46	**.96**	1.17
Other consumer				
Non government insured	**58**	95	**.30**	.56
Government insured	**207**	165	**1.08**	.97
Total	**$ 1,018**	$ 1,212	**.64**	.81

Accruing Loans Past Due 60 To 89 Days

		Amount	Percent of Total Outstandings	
Dollars in millions	**Dec. 31 2011**	Dec. 31 2010	**Dec. 31 2011**	Dec. 31 2010
Commercial	**$ 47**	$ 92	**.07%**	.17%
Commercial real estate	**35**	62	**.22**	.35
Equipment lease financing	**5**	2	**.08**	.03
Home equity	**114**	91	**.34**	.27
Residential real estate				

Non government insured	**72**	107	**.50**	.67
Government insured	**104**	118	**.72**	.74
Credit card	**25**	32	**.63**	.82
Other consumer				
Non government insured	**21**	32	**.11**	.19
Government insured	**124**	69	**.65**	.41
Total	**$ 547**	$ 605	**.34**	.40

Accruing Loans Past Due 90 Days Or More

	Amount		Percent of Total Outstandings	
Dollars in millions	**Dec. 31 2011**	Dec. 31 2010	**Dec. 31 2011**	Dec. 31 2010
Commercial	**$ 49**	$ 59	**.07%**	.11%
Commercial real estate	**6**	43	**.04**	.24
Equipment lease financing		1		.02
Home equity	**221**	174	**.67**	.51
Residential real estate				
Non government insured	**152**	160	**1.05**	1.00
Government insured	**2,129**	1,961	**14.71**	12.26
Credit card	**48**	77	**1.21**	1.96
Other consumer				
Non government insured	**23**	28	**.12**	.16
Government insured	**345**	206	**1.80**	1.22
Total	**$ 2,973**	$ 2,709	**1.87**	1.80

Our Special Asset Committee closely monitors primarily commercial loans that are not included in the nonperforming or accruing past due categories and for which we are uncertain about the borrower s ability to comply with existing repayment terms over the next six months. These loans totaled $438 million at December 31, 2011 and $574 million at December 31, 2010.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $33.1 billion as of December 31, 2011, or 21% of the total loan portfolio. Of that total, $22.5 billion, or 68%, was outstanding under primarily variable-rate home equity lines of credit and $10.6 billion, or 32%, consisted of closed-end home equity installment loans. Less than 2% of the home equity portfolio was on nonperforming status as of December 31, 2011.

As of December 31, 2011, we are in an originated first lien position for approximately 33% of the total portfolio and, where originated as a second lien, we currently hold or service the first lien position for approximately an additional 2% of the portfolio. Historically, we have originated and sold first mortgages which has resulted in a low percentage of home equity loans where we hold the first lien mortgage position. The remaining 65% of the portfolio was secured by second liens where we do not hold the first lien position. For the majority of the home equity portfolio where we are in, hold or service the first lien position, the credit performance of this portion of the portfolio is superior to the portion of the portfolio where we hold the second lien position but do not hold the first lien.

Subsequent to origination, PNC is not typically notified when a senior lien position that is not held by PNC is satisfied. Therefore, information about the current lien status of the loans is limited, for loans that were originated in subordinated lien positions where PNC does not also hold the senior lien, to what can be obtained from external sources.

PNC contracted with a third-party service provider to provide updated loan, lien and collateral data that is aggregated from public and private sources. We started receiving the data in late 2011 and we are working with the third-party provider to enhance the information we are receiving. As we have made progress in our efforts, we have incrementally enhanced our risk management processes and reporting to incorporate this updated loan, lien, and collateral data, and we anticipate being substantially complete by the end of second quarter 2012.

We track borrower performance monthly and other credit metrics at least quarterly, including historical performance of any mortgage loans regardless of lien position that we may or may not hold, updated FICO scores and original and updated LTVs. This information is used for internal risk management reporting and monitoring. We segment the population into pools based on product type (e.g., home equity loans, brokered home equity loans, home equity lines of credit, brokered home equity lines of credit). We also further segment certain loans based upon the delinquency status of any mortgage loan with the same borrower (regardless of whether it is a first lien senior to our second lien).

In establishing our ALLL, we utilize a delinquency roll-rate methodology for pools of loans. In accordance with accounting principles, under this methodology, we establish our allowance based upon incurred losses and not lifetime expected losses. The roll-rate methodology estimates transition/roll of loan balances from one delinquency state (e.g., 30-59 days past due) to another delinquency state (e.g., 60-89 days past due)

and ultimately charge-off. The roll through to charge-off is based on PNC s actual loss experience for each type of pool. Since a pool may consist of first and second liens, the charge-off amounts for the pool are proportionate to the composition of first and second liens in the pool. Our experience has been that the ratio of first to second lien loans has been consistent over time and is appropriately represented in our pools used for roll-rate calculations.

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Generally, our variable-rate home equity lines of credit have either a seven or ten year draw period, followed by a 20 year amortization term. During the draw period, we have home equity lines of credit where borrowers pay interest only and home equity lines of credit where borrowers pay principal and interest. Based upon outstanding balances at December 31, 2011, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

Home Equity Lines of Credit - Draw Period End Dates

In millions	Interest Only Product	Principal and Interest Product
2012	**$ 904**	**$ 266**
2013	**1,211**	**331**
2014	**2,043**	**598**
2015	**1,988**	**820**
2016 and thereafter	**6,961**	**5,601**
Total (a)	**$ 13,107**	**$ 7,616**

(a) Includes approximately $306 million, $44 million, $60 million, $100 million, and $246 million of home equity lines of credit with balloon payments with draw periods scheduled to end in 2012, 2013, 2014, 2015, and 2016 and thereafter, respectively.

We view home equity lines of credit where borrowers are paying principal and interest under the draw period as less risky than those where the borrowers are paying interest only, as these borrowers have a demonstrated ability to make some level of principal and interest payments.

Based upon outstanding balances, and excluding purchased impaired loans, at December 31, 2011, for home equity lines of credit for which the borrower can no longer draw (e.g., draw period has ended or borrowing privileges have been terminated), approximately 4.32% were 30-89 days past due and approximately 5.57% were greater than or equal to 90 days past due. Generally, when a borrower becomes 60 days past due, we terminate borrowing privileges, and those privileges are not subsequently reinstated. At that point, we continue our collection/recovery processes, which may include a loss mitigation loan modification resulting in a loan that is classified as a TDR.

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

LOAN MODIFICATIONS AND TROUBLED DEBT RESTRUCTURINGS

Consumer Loan Modifications

We modify loans under government and PNC-developed programs based upon our commitment to help eligible homeowners and borrowers avoid foreclosure, where

appropriate. Initially, a borrower is evaluated for a modification under a government program. If a borrower does not qualify under a government program, the borrower is then evaluated under a PNC program. Our programs utilize both temporary and permanent modifications and typically reduce the interest rate, extend the term and/or defer principal. Temporary and permanent modifications under programs involving a change to loan terms are generally classified as TDRs. Further, certain payment plans and trial payment arrangements which do not include a contractual change to loan terms may be classified as TDRs. Additional detail on TDRs is discussed below as well as in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report.

A temporary modification, with a term between three and 60 months, involves a change in original loan terms for a period of time and reverts to the original loan terms as of a specific date or the occurrence of an event, such as a failure to pay in accordance with the terms of the modification. Typically, these modifications are for a period of up to 24 months after which the interest rate reverts to the original loan rate. A permanent modification, with a term greater than 60 months, is a modification in which the terms of the original loan are changed. Permanent modifications primarily include the government-created Home Affordable Modification Program (HAMP) or PNC-developed HAMP-like modification programs.

For consumer loan programs, such as residential mortgages and home equity loans and lines, we will enter into a temporary modification when the borrower has indicated a temporary hardship and a willingness to bring current the delinquent loan balance. Examples of this situation often include delinquency due to illness or death in the family, or a loss of employment. Permanent modifications are entered into when it is

confirmed that the borrower does not possess the income necessary to continue making loan payments at the current amount, but our expectation is that payments at lower amounts can be made. Residential mortgage and home equity loans and lines have been modified with changes in terms for up to 60 months, although the majority involve periods of three to 24 months.

We also monitor the success rates and delinquency status of our loan modification programs to assess their effectiveness in serving our customers needs while mitigating credit losses. The following tables provide the number of accounts and unpaid principal balance of modified consumer real estate related loans as well as the number of accounts and unpaid principal balance of modified loans that were 60 days or more past due as of six months, nine months and twelve months after the modification date.

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Bank-Owned Consumer Real Estate Related Loan Modifications

Dollars in millions	December 31, 2011 Number of Accounts	December 31, 2011 Unpaid Principal Balance	December 31, 2010 Number of Accounts	December 31, 2010 Unpaid Principal Balance
Home Equity				
Temporary Modifications	**13,352**	**$ 1,215**	12,643	$ 1,151
Permanent Modifications	**1,533**	**92**	163	17
Total Home Equity	**14,885**	**1,307**	12,806	1,168
Residential Mortgages				
Permanent Modifications	**7,473**	**1,342**	5,517	1,137
Non-Prime Mortgages				
Permanent Modifications	**4,355**	**610**	3,405	441
Residential Construction				
Permanent Modifications	**1,282**	**578**	470	235
Total Bank-Owned Consumer Real Estate Related Loan Modifications	**27,995**	**$ 3,837**	22,198	$ 2,981

Bank-Owned Consumer Real Estate Related Loan Modifications Re-Default by Vintage (a) (b)

December 31, 2011 Dollars in millions, except as noted	Six Months Number of Accounts Re-defaulted	Six Months % of Vintage Re-defaulted	Nine Months Number of Accounts Re-defaulted	Nine Months % of Vintage Re-defaulted	Twelve Months Number of Accounts Re-defaulted	Twelve Months % of Vintage Re-defaulted	Unpaid Principal Balance (c)
Permanent Modifications							
Home Equity (d)							
Second Quarter 2011	**17**	**4.9%**					
First Quarter 2011	**1**	**2.8**	**2**	**5.6%**			
Fourth Quarter 2010	**4**	**14.3**	**6**	**21.4**	**5**	**17.9%**	
Third Quarter 2010	**1**	**9.1**	**2**	**18.2**	**1**	**9.1**	
Second Quarter 2010	**2**	**12.5**	**4**	**25.0**	**4**	**25.0**	
Residential Mortgages							
Second Quarter 2011	**391**	**28.0**					**$ 68.1**
First Quarter 2011	**361**	**21.9**	**511**	**31.0**			**82.6**
Fourth Quarter 2010	**338**	**18.3**	**536**	**29.1**	**689**	**37.4**	**111.7**
Third Quarter 2010	**479**	**24.6**	**577**	**29.6**	**684**	**35.1**	**112.4**
Second Quarter 2010	**303**	**21.3**	**384**	**26.9**	**447**	**31.4**	**68.2**
Non-Prime Mortgages							
Second Quarter 2011	**119**	**19.6**					**20.7**
First Quarter 2011	**78**	**18.4**	**105**	**24.8**			**13.3**
Fourth Quarter 2010	**13**	**13.5**	**24**	**25.0**	**28**	**29.2**	**4.4**
Third Quarter 2010	**93**	**18.3**	**110**	**21.6**	**137**	**26.9**	**17.4**
Second Quarter 2010	**99**	**23.2**	**107**	**25.1**	**123**	**28.9**	**16.6**
Residential Construction							
Second Quarter 2011	**4**	**3.8**					**1.2**
First Quarter 2011	**7**	**4.2**	**10**	**6.0**			**3.1**
Fourth Quarter 2010	**11**	**4.7**	**17**	**7.2**	**25**	**10.6**	**6.8**
Third Quarter 2010	**24**	**8.2**	**26**	**8.9**	**27**	**9.2**	**4.0**
Second Quarter 2010	**37**	**13.6**	**38**	**13.9**	**39**	**14.3**	**10.6**
Temporary Modifications							
Home Equity							
Second Quarter 2011	**74**	**10.8**					**7.0**
First Quarter 2011	**99**	**6.6**	**169**	**11.3**			**15.2**
Fourth Quarter 2010	**131**	**6.5**	**265**	**13.1**	**344**	**17.0**	**31.6**

Third Quarter 2010	**142**	**6.9**	**246**	**12.0**	**368**	**18.0**	**32.5**
Second Quarter 2010	**165**	**7.9**	**260**	**12.4**	**347**	**16.6**	**29.0**

(a) An account is considered in re-default if it is 60 days or more delinquent after modification. The data in this table represents loan modifications completed during the quarter ending June 30, 2010 through June 30, 2011 and represents a vintage look at all quarterly accounts and the number of those modified accounts (for each quarterly vintage) 60 days or more delinquent at six, nine, and twelve months after modification. Account totals include active and inactive accounts that were delinquent when they achieved inactive status.
(b) Vintage refers to the quarter in which the modification occurred.
(c) Reflects December 31, 2011 unpaid principal balances of the re-defaulted accounts for the Second Quarter 2011 Vintage at Six Months, for the First Quarter 2011 Vintage at Nine Months, and for Fourth Quarter 2010 and prior Vintages at Twelve Months.
(d) The unpaid principal balance for permanent home equity modifications totals less than $1 million for each vintage.

In addition to temporary loan modifications, we may make available to a borrower a payment plan or a HAMP trial payment period. Under a payment plan or a HAMP trial payment period, there is no change to the loan s contractual terms so the borrower remains legally responsible for payment of the loan under its original terms. A payment plan involves the borrower making payments that differ from the contractual payment amount for a short period of time, generally three months, during which time a borrower is brought current. Our motivation is to allow for repayment of an outstanding past due amount through payment of additional amounts over the short period of time. Due to the short term nature of the payment plan there is a minimal impact to the ALLL.

Under a HAMP trial payment period, we allow a borrower to demonstrate successful payment performance before establishing an alternative payment amount. Subsequent to successful borrower performance under the trial payment period, we will change a loan s contractual terms. As the borrower is often already delinquent at the time of participation in the HAMP trial payment period, upon successful completion, there is not a significant increase in the ALLL. If the trial payment period is unsuccessful, the loan will be charged off at the end of the trial payment period to its estimated fair value of the underlying collateral less costs to sell.

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under PNC-developed programs, which in some cases may operate similarly to HAMP. These programs first require a reduction of the interest rate followed by an extension of term and, if appropriate, deferral of principal payments. As of December 31, 2011 and December 31, 2010, 2,701 accounts with a balance of $478 million and 1,027 accounts with a balance of $262 million, respectively, of residential real estate loans have been modified under HAMP and were still outstanding on our balance sheet.

We do not re-modify a defaulted modified loan except for subsequent significant life events, as defined by the OCC. A re-modified loan continues to be classified as a TDR for the remainder of its term regardless of subsequent payment performance.

Commercial Loan Modifications and Payment Plans

Modifications of terms for large commercial loans are based on individual facts and circumstances. Commercial loan modifications may involve reduction of the interest rate, extension of the term of the loan and/or forgiveness of principal. Modified large commercial loans are usually already nonperforming prior to modification.

Beginning in 2010, we established certain commercial loan modification and payment programs for small business loans, Small Business Administration loans, and investment real estate loans. As of December 31, 2011 and December 31, 2010, $81 million and $88 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $24 million have been determined to be TDRs as of December 31, 2011. No balances were considered TDRs at December 31, 2010. As noted below, we adopted new TDR guidance, effective retroactively to January 1, 2011.

Troubled Debt Restructurings

In the third quarter of 2011, we adopted new accounting guidance pertaining to TDRs, which was effective retroactive to January 1, 2011. For additional information, see Note 1 Accounting Policies and Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report. A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs typically result from our loss mitigation activities and include rate reductions, principal forgiveness, postponement/reduction of scheduled amortization, and extensions, which are intended to minimize economic loss and to avoid foreclosure or repossession of collateral. For the year ended December 31, 2011, $2.7 billion of loans held for sale, loans accounted for under the fair value option, pooled purchased impaired loans, as well as certain consumer government insured or guaranteed loans which were evaluated for TDR consideration, are not classified as TDRs.

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Summary of Troubled Debt Restructurings

In millions	Dec. 31 2011	Dec. 31 2010
Consumer lending:		
Real estate-related	**$ 1,492**	$ 1,087
Credit card (a)	**291**	331
Other consumer	**15**	4
Total consumer lending	**1,798**	1,422
Total commercial lending	**405**	236
Total TDRs	**$ 2,203**	$ 1,658
Nonperforming	**$ 1,141**	$ 784
Accruing (b)	**771**	543
Credit card (a)	**291**	331
Total TDRs	**$ 2,203**	$ 1,658

(a) Includes credit cards and certain small business and consumer credit agreements whose terms have been restructured and are TDRs. However, since our policy is to exempt these loans from being placed on nonaccrual status as permitted by regulatory guidance as generally these loans are directly charged off in the period that they become 180 days past due, these loans are excluded from nonperforming loans.

(b) Accruing loans have demonstrated a period of at least six months of performance under the restructured terms and are excluded from nonperforming loans.

Total TDRs increased $545 million or 33% during 2011 to $2.2 billion as of December 31, 2011. Of this total, nonperforming TDRs totaled $1.1 billion, which represents approximately 32% of total nonperforming loans. However, as the economy has continued to slowly improve, the amount of TDRs returning to performing status has been increasing as noted below.

TDRs that have returned to performing (accruing) status are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of consecutive performance under the restructured terms. These TDRs increased $228 million or 42% during 2011 to $771 million as of December 31, 2011. This increase reflects the further seasoning and performance of the TDRs. See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

ALLOWANCES FOR LOAN AND LEASE LOSSES AND UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

We recorded $1.6 billion in net charge-offs for the full year of 2011, compared to $2.9 billion in the full year of 2010. Commercial lending net charge-offs fell from $1.6 billion in the full year of 2010 to $712 million in the full year of 2011. Consumer lending net charge-offs declined from $1.3 billion in the full year of 2010 to $927 million in the full year of 2011.

Loan Charge-Offs And Recoveries

Year ended

December 31

Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2011				
Commercial	**$ 700**	**$ 332**	**$ 368**	**.62%**
Commercial real estate	**464**	**105**	**359**	**2.14**
Equipment lease financing	**35**	**50**	**(15)**	**(.24)**
Home equity	**484**	**48**	**436**	**1.30**
Residential real estate	**153**	**11**	**142**	**.95**
Credit card	**235**	**23**	**212**	**5.62**
Other consumer	**193**	**56**	**137**	**.79**
Total	**$ 2,264**	**$ 625**	**$ 1,639**	**1.08**
2010				
Commercial	$ 1,227	$ 294	$ 933	1.72%

Commercial real estate	670	77	593	2.90
Equipment lease financing	120	56	64	1.02
Home equity	488	41	447	1.28
Residential real estate	406	19	387	2.19
Credit card	335	20	315	7.94
Other consumer	246	49	197	1.74
Total	$ 3,492	$ 556	$ 2,936	1.91

Total net charge-offs are significantly lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. See Note 6 Purchased Impaired Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on net charge-offs related to these loans.

We maintain an ALLL to absorb losses from the loan portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan portfolio. We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan portfolio as of the balance sheet date. While we make allocations to specific loans and pools of loans, the total reserve is available for all loan and lease losses. Although quantitative modeling factors as discussed below are constantly changing as the financial strength of the borrower and overall economic conditions change, there were no significant changes during the full year of 2011 to the methodology we follow to determine our ALLL.

We establish specific allowances for loans considered impaired using methods prescribed by GAAP. All impaired loans are subject to individual analysis, except leases and large groups of smaller-balance homogeneous loans which may include, but are not limited to, credit card, residential mortgage, and consumer installment loans. Specific allowances for individual loans (including commercial and consumer TDRs) are determined based on an analysis of the present value of expected future cash flows from the loans discounted at their effective interest rate, observable market price, or the fair value of the underlying collateral.

Allocations to non-impaired commercial loan classes are based on PD and LGD credit risk ratings.

Our pool reserve methodology is sensitive to changes in key risk parameters such as PDs, LGDs and EADs. In general, a given change in any of the major risk parameters will have a corresponding change in the pool reserve allocations for non-impaired commercial loans. Our commercial loans are the largest category of credits and are most sensitive to changes in the key risk parameters and pool reserve loss rates. To illustrate, if we increase the pool reserve LGD by 5% for all categories of non-impaired commercial loans, then the aggregate of the ALLL and allowance for unfunded loan commitments and letters of credit would increase by $72 million.

The majority of the commercial portfolio is secured by collateral, including loans to asset-based lending customers that continue to show demonstrably lower loss given default. Further, the large investment grade or equivalent portion of the loan portfolio has performed well and has not been subject to significant deterioration. Additionally, guarantees on loans greater than $1 million and owner guarantees for small business loans do not significantly impact our ALLL.

Allocations to non-impaired consumer loan classes are based upon a roll-rate model which uses statistical relationships, calculated from historical data that estimate the movement of loan outstandings through the various stages of delinquency and ultimately charge-off.

The ALLL is lower than it would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of ALLL to total loans. Loan loss reserves on the purchased impaired loans were not carried over on the date of acquisition. As of December 31, 2011, we have established reserves of $998 million for purchased impaired loans.

A portion of the ALLL related to qualitative and measurement factors has been assigned to loan categories. These factors include, but are not limited to, the following:

- Industry concentrations and conditions,
- Recent credit quality trends,
- Recent loss experience in particular portfolios,
- Recent macro economic factors,
- Changes in risk selection and underwriting standards, and
- Timing of available information.

In addition to the ALLL, 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 maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is appropriate to absorb estimated probable losses on these unfunded credit facilities. We determine this amount using estimates of the probability of the ultimate funding and losses related to those credit exposures. This methodology is very similar to the one we use for determining our ALLL.

We refer you to Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report for further information on key asset quality indicators that we use to evaluate our portfolio and establish the allowances.

Allowance for Loan and Lease Losses

Dollars in millions	**2011**	2010
January 1	**$ 4,887**	$ 5,072
Total net charge-offs	**(1,639)**	(2,936)
Provision for credit losses	**1,152**	2,502
Adoption of ASU 2009-17, *Consolidations*		141
Net change in allowance for unfunded loan commitments and letters of credit	**(52)**	108

Other	**(1)**	
December 31	**$ 4,347**	$ 4,887
Net charge-offs to average loans (for the year ended)	**1.08%**	1.91%
Allowance for loan and lease losses to total loans	**2.73**	3.25
Commercial lending net charge-offs	**$ (712)**	$ (1,590)
Consumer lending net charge-offs	**(927)**	(1,346)
Total net charge-offs	**$ (1,639)**	$ (2,936)
Net charge-offs to average loans (for the year ended)		
Commercial lending	**.86%**	1.96%
Consumer lending	**1. 33**	1.85

As further described in the Consolidated Income Statement Review section of this Item 7, the provision for credit losses totaled $1.2 billion for the full year of 2011 compared to $2.5 billion for the full year of 2010. For the full year of 2011, the provision for commercial lending credit losses declined by $527 million or 75% from the full year of 2010. Similarly, the provision for consumer lending credit losses decreased $823 million or 46% from the full year of 2010.

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At December 31, 2011, total ALLL to total nonperforming loans was 122%. The comparable amount for December 31, 2010 was 109%. The allowance allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans, which are both excluded from nonperforming loans, totaled $1.4 billion at both December 31, 2011, and 2010. See the Nonperforming Assets By Type table within this Credit Risk Management section for additional information. Excluding these balances, the allowance as a percent of nonperforming loans was 84% and 77% as of December 31, 2011 and December 31, 2010, respectively.

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 6 Purchased Impaired Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report regarding changes in the ALLL and in the allowance for unfunded loan commitments and letters of credit.

Credit Default Swaps

From a credit risk management perspective, we use credit default swaps (CDS) as a tool to manage risk concentrations in the credit portfolio. That risk management could come from protection purchased or sold in the form of single name or index products. When we buy loss protection by purchasing a CDS, we pay a fee to the seller, or CDS counterparty, in return for the right to receive a payment if a specified credit event occurs for a particular obligor or reference entity.

When we sell protection, we receive a CDS premium from the buyer in return for PNC s obligation to pay the buyer if a specified credit event occurs for a particular obligor or reference entity.

We evaluate the counterparty credit worthiness for all our CDS activities. Counterparty credit lines are approved based on a review of credit quality in accordance with our traditional credit quality standards and credit policies. The credit risk of our counterparties is monitored in the normal course of business. In addition, all counterparty credit lines are subject to collateral thresholds and exposures above these thresholds are secured.

CDSs are included in the Derivatives not designated as hedging instruments under GAAP table in the Financial Derivatives section of this Risk Management discussion.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human factors, or external events. This includes losses that may arise as a result of non-compliance with laws or regulations, failure to fulfill fiduciary responsibilities, as well as litigation or other legal actions. Operational risk may occur in any of our business activities and manifests itself in various ways, including but not limited to:

- Transaction processing errors,
- Unauthorized transactions and fraud by employees or third parties,
- Material disruption in business activities,
- System breaches and misuse of sensitive information,
- Regulatory or governmental actions, fines or penalties, and
- Significant legal expenses, judgments or settlements.

Operational Risk Management focuses on balancing business needs, regulatory expectations and risk management priorities through a balanced, adaptive and proactive program that is designed to provide a strong governance model, sound and consistent management processes and transparent operational risk reporting across the enterprise.

We manage operational risk based upon a comprehensive framework that enables the company to determine the enterprise and individual business unit s operational risk profile in comparison to the established risk appetite and identify operational risks that may require further mitigation. This framework is established around a set of enterprise-wide policies and a system of internal controls that are designed to manage risk and to provide management with timely and accurate information about the operations of PNC. This framework employs a number of techniques to manage operational risk, including:

- Risk and Control Self-Assessments (RCSAs) are performed at least annually across PNC s businesses, processes, systems and products. RCSA methodology is a standard process for management to self assess operational risks, evaluate control effectiveness, and determine if risk exposure is within established tolerances;
- Scenario Analysis is leveraged to proactively evaluate operational loss events with the potential for severe business, financial, operational or regulatory impact on the company or a major business unit. This methodology leverages standard processes and tools

to evaluate a wide range of business and operational risks encompassing both external and internal events relevant to the company. Based upon scenario analysis conclusions, management may implement additional controls or risk management activities to reduce exposure to an acceptable level;

A Key Risk Indicator (KRI) framework allows management to assess actual operational risk results compared to expectations and thresholds, as well as proactively identify unexpected shifts in operational risk exposure or control effectiveness. Enterprise-level KRIs are designed to monitor exposure across the different inherent operational risk types. Business-specific KRIs are established in support of the individual risk and control self assessments; and

Operational loss events across the enterprise are continuously captured and maintained in a central repository. This information is analyzed and used to help determine the root causes of these events and to identify trends that could indicate changes in the company s risk exposure or control effectiveness.

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PNC utilizes a number of sources to identify external loss events occurring across the financial services industry. These events are evaluated to determine whether PNC is exposed to similar events, and if so, whether the appropriate controls are in place. Operational Risk Management, Compliance and Legal professionals work closely with business areas to evaluate risks and help ensure the appropriate controls are established prior to the introduction of new or enhanced products, services, and technologies. These risk professionals also consult with business areas in the design and implementation of mitigation strategies to address risks and issues identified through ongoing assessment and monitoring activities.

We are in the process of implementing a methodology to estimate capital requirements for Operational Risk using a proprietary version of an Advanced Measurement Approach (AMA). Under the AMA approach, the results of the program elements described above are key inputs directly incorporated into the capital calculation methodology.

PNC s technology risk management and business resiliency programs are aligned with the operational risk framework. Our integrated security and technology risk management framework is designed to help ensure a secure, sound, and compliant infrastructure for information and system management. The technology risk management process is aligned with the strategic direction of the businesses and is integrated into the technology management culture, structure and practices.

Our business resiliency program manages the organization s capabilities to provide services in the case of an event that results in material disruption of business activities. Prioritization of investments in people, processes, technology and facilities is based on different types of events, business risk and criticality. Detailed testing validates our resiliency capabilities on an ongoing basis, and an integrated governance model is designed to help assure appropriate management reporting.

PNC uses insurance where appropriate to mitigate the effects of operational risk events. PNC purchases direct coverage provided by various insurers, and retains certain corporate risks via one of its two wholly owned captive insurance companies, Alpine Indemnity Limited. PNC s retention of corporate risks associated with its participation as an insurer is mitigated through policy limits. Insurance purchased in the external market is governed by PNC s Financial Stability Carrier guidelines.

As a component of PNC s risk management practices, we purchase insurance designed to protect us against accidental loss or losses, which, in the aggregate, may significantly affect

personnel, property, financial objectives, or our ability to continue to meet our responsibilities to our various stakeholder groups.

On a quarterly basis, an enterprise operational risk report is made reporting key operational risks to senior management and the Board of Directors. The report encompasses key operational risk management conclusions, including the overall operational risk level, risk management effectiveness and outlook, grounded in quantitative measures and qualitative factors. Key enterprise operational risks are also included in the enterprise risk report. In addition, operational risk is an integrated part of the quarterly business-specific risk reports.

Model Risk Management

PNC relies on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading and granting loans, measuring interest rate risks and other market risks, predicting losses, and assessing capital adequacy, as well as to estimate the value of financial instruments and balance sheet items. There are risks involved in the use of models as they have the potential to provide inaccurate output or results, could be used for purposes other than those for which they have been designed, or may be operated in an uncontrolled environment where unauthorized changes can take place and where other control risks exist. Model Risk Management is responsible for policies and procedures describing how model risk is evaluated and managed, and the application of the governance process to implement these practices throughout the enterprise.

To better manage our business, our practices around the use of models, and to comply with regulatory guidance and requirements, we have in place policies and procedures that define our governance processes for assessing and controlling model risk. These processes focus on identifying, reporting, and remediating any problems with the soundness, accuracy, improper use, or operating environment of our models. We recognize that models must be monitored over time to ensure their continued accuracy and functioning, and our policies also address the type and frequency of monitoring that is appropriate according to the importance of each model.

There are a number of practices we undertake to identify and control model risk. A primary consideration is that models be well understood by those who use them as well as by other parties. Our policies require detailed written model documentation for significant models to assist in making their use transparent and understood by users, independent reviewers, and regulatory and auditing bodies. The documentation must include details on the data and methods used to develop each model, assumptions utilized within the model, and a description of model

limitations and circumstances in which a model should not be relied upon.

Our modeling methods and data are reviewed by independent model reviewers not involved in the development of the model to identify possible errors or areas where the soundness of the model could be in question. Issues identified by the independent reviewer are tracked and reported using our existing governance structure until the issue has been fully remediated. It is important that models operate in a controlled environment where access to code or the ability to make changes is limited to those so authorized. Additionally, proper back-up and recovery mechanisms are needed for the ongoing functioning of models. Our use of independent model control reviewers aids in the evaluation of the existing control mechanisms to help ensure that controls are appropriate and are functioning properly.

Liquidity Risk Management

Liquidity risk has two fundamental components. The first is potential loss assuming we were unable to meet our funding requirements at a reasonable cost. The second is the potential inability to operate our businesses because adequate contingent liquidity is not available in a stressed environment. We manage liquidity risk at the consolidated company level (bank, parent company, and nonbank subsidiaries combined) 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, and to help ensure that we maintain an appropriate level of contingent liquidity.

Spot and forward funding gap analyses are used to measure and monitor consolidated liquidity risk. Funding gaps represent the difference in projected sources of liquidity available to offset projected uses. We calculate funding gaps for the overnight, thirty-day, ninety-day, one hundred eighty-day and one-year time intervals. Management also monitors liquidity through a series of early warning indicators that may indicate a potential market, or PNC-specific, liquidity stress event. Finally, management performs a set of liquidity stress tests and maintains a contingency funding plan to address a potential liquidity crisis. In the most severe liquidity stress simulation, we assume that PNC s liquidity position is under pressure, while the market in general is under systemic pressure. The simulation considers, among other things, the impact of restricted access to both secured and unsecured external sources of funding, accelerated run-off of customer deposits, valuation pressure on assets, and heavy demand to fund contingent obligations. Risk limits are established within our Liquidity Risk Policy. Management s Asset and Liability Committee regularly reviews compliance with the established limits.

Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet our parent company obligations over the succeeding 24-month period. Risk limits for parent company liquidity are established within our Enterprise Capital and Liquidity Management Policy. The

Board of Directors Risk Committee regularly reviews compliance with the established limits.

Bank Level Liquidity Uses

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. At the bank level, primary contractual obligations include funding loan commitments, satisfying deposit withdrawal requests and maturities and debt service related to bank borrowings. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary. As of December 31, 2011, there were approximately $7.3 billion of bank borrowings with contractual maturities of less than one year.

Bank Level Liquidity Sources

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

At December 31, 2011, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning deposits with banks) totaling $5.9 billion and securities available for sale totaling $48.6 billion. Of our total liquid assets of $54.5 billion, we had $20.1 billion pledged as collateral for borrowings, trust, and other commitments. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and active balance sheet management.

In addition to the customer deposit base, which has historically provided the single largest source of relatively stable and low-cost funding and liquid assets, the bank also obtains liquidity through the issuance of traditional forms of funding including long-term debt (senior notes and subordinated debt and FHLB advances) and short-term borrowings (Federal funds purchased, securities sold under repurchase agreements, commercial paper issuances, and other short-term borrowings).

PNC Bank, N.A. has the ability to offer up to $20 billion in senior and subordinated unsecured debt obligations with maturities of more than nine months. Through December 31, 2011, PNC Bank, N.A. had issued $6.9 billion of debt under this program. Total senior and subordinated

debt declined to $4.1 billion at December 31, 2011 from $5.5 billion at December 31, 2010 due to contractual maturities.

PNC Bank, N.A. is a member of the FHLB-Pittsburgh and as such has access to advances from FHLB-Pittsburgh secured generally by residential mortgage and other mortgage-related loans. At December 31, 2011, our unused secured borrowing capacity was $10.6 billion with FHLB-Pittsburgh. Total

FHLB borrowings increased to $7.0 billion at December 31, 2011 from $6.0 billion at December 31, 2010 due to $2.0 billion in new borrowings partially offset by maturities.

PNC Bank, N.A. has the ability to offer up to $3.0 billion of its commercial paper to provide additional liquidity. As of December 31, 2011, there were no issuances outstanding under this program. Other borrowed funds on our Consolidated Balance Sheet includes $4.3 billion of commercial paper issued by Market Street Funding LLC, a consolidated VIE.

PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland s (Federal Reserve Bank) discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by securities and commercial loans. At December 31, 2011, our unused secured borrowing capacity was $26.9 billion with the Federal Reserve Bank.

Parent Company Liquidity Uses

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. The parent company s contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. Additionally, the parent company maintains adequate liquidity to fund discretionary activities such as paying dividends to PNC shareholders, share repurchases, and acquisitions. As of December 31, 2011, there were approximately $4.0 billion of parent company borrowings with contractual maturities of less than one year. In addition, we will use approximately $3.5 billion of parent company cash and short-term investments to acquire RBC Bank (USA) in March 2012.

See Supervision and Regulation in Item 1 of this Report for information regarding the Federal Reserve s current supervisory assessment of capital adequacy program (the 2012 CCAR), including its impact on our ability to take certain capital actions, including plans to pay or increase common stock dividends or to reinstate or increase common stock repurchase programs.

See Capital and Liquidity Actions in the Executive Summary section of this Item 7 for additional information regarding our December 2011 announcement that the Federal Reserve approved the acquisition of RBC Bank (USA) and that the OCC approved the merger of RBC Bank (USA) with and into PNC Bank, N.A. with these transactions scheduled to close March 2012, our November 2011 redemption of trust preferred securities, our September 2011 issuance of senior notes, our July 2011 issuance of preferred stock, and our April 2011 increase to PNC s quarterly common stock dividend. We did not repurchase any shares under PNC s existing common stock repurchase program in 2011.

Parent Company Liquidity Sources

The principal source of parent company liquidity is the dividends it receives from its subsidiary bank, which may be impacted by the following:

- Bank-level capital needs,
- Laws and regulations,
- Corporate policies,
- Contractual restrictions, and
- Other factors.

The amount available for dividend payments by PNC Bank, N.A. to the parent company without prior regulatory approval was approximately $1.7 billion at December 31, 2011. 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. See Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report for a further discussion of these limitations. Dividends may also be impacted by the bank s capital needs and by contractual restrictions. We provide additional information on certain contractual restrictions under the Trust Preferred Securities section of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Item 7 and in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and short-term investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of December 31, 2011, the parent company had approximately $7.8 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 debt securities and equity securities, including certain capital securities, in public or private markets and commercial paper. We have effective shelf registration statements pursuant to which we can issue additional debt and equity securities, including certain hybrid capital instruments. Total senior and subordinated

debt and hybrid capital instruments declined to $16.0 billion at December 31, 2011 from $17.3 billion at December 31, 2010 due to maturities.

During 2011 we issued the following securities under our shelf registration statement:

- $1.25 billion of senior notes issued September 19, 2011 and due September 2016. Interest is paid semi-annually at a fixed rate of 2.70%,
- One million depositary shares, each representing a 1/100th interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series O, issued July 27, 2011, resulting in gross proceeds to us before commissions and expenses of $1 billion.

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The parent company, through its subsidiary PNC Funding Corp, has the ability to offer up to $3.0 billion of commercial paper to provide additional liquidity. As of December 31, 2011, there were no issuances outstanding under this program.

Note 18 Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report describes our February 2010 redemption of all 75,792 shares of our Fixed Rate Cumulative Perpetual Preferred Shares, Series N (Series N Preferred Stock) that had been issued on December 31, 2008 to the US Treasury under the TARP Capital Purchase Program, the acceleration of the accretion of the remaining issuance discount on the Series N Preferred Stock in the first quarter of 2010 (and a corresponding reduction in retained earnings of $250 million in the first quarter of 2010), and the exchange by the US Treasury of the TARP warrant issued to it on December 31, 2008 into warrants, each to purchase one share of PNC common stock at an exercise price of $67.33, sold by the US Treasury in a secondary public offering in May 2010. These common stock warrants will expire December 31, 2018.

Status of Credit Ratings

The cost and availability of short-term and long-term funding, as well as collateral requirements for certain derivative instruments, is influenced by PNC s debt ratings.

In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and

quality of earnings, and the current legislative and regulatory environment, including implied government support. In addition, rating agencies themselves have been subject to scrutiny arising from the financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in Dodd-Frank. Potential changes in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above, could impact our liquidity and financial condition. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect liquidity and financial condition.

Credit ratings as of December 31, 2011 for PNC and PNC Bank, N.A. follow:

	Moody s	Standard & Poor s	Fitch
The PNC Financial Services Group, Inc.			
Senior debt	A3	A-	A+
Subordinated debt	Baa1	BBB+	A
Preferred stock	Baa3	BBB	A-
PNC Bank, N.A.			
Subordinated debt	A3	A-	A
Long-term deposits	A2	A	AA-
Short-term deposits	P-1	A-1	F1+

Commitments

The following tables set forth contractual obligations and various other commitments as of December 31, 2011 representing required and potential cash outflows.

Contractual Obligations		Payment Due By Period
December 31, 2011 in millions	Total	

		Less than one year	One to three years	Four to five years	After five years
Remaining contractual maturities of time deposits (a)	**$ 31,632**	**$ 25,021**	**$ 4,146**	**$ 1,267**	**$ 1,198**
Borrowed funds (a) (b)	**36,704**	**15,794**	**6,088**	**4,679**	**10,143**
Minimum annual rentals on noncancellable leases	**2,489**	**342**	**586**	**409**	**1,152**
Nonqualified pension and postretirement benefits	**558**	**64**	**122**	**116**	**256**
Purchase obligations (c)	**616**	**343**	**202**	**55**	**16**
Total contractual cash obligations	**$ 71,999**	**$ 41,564**	**$ 11,144**	**$ 6,526**	**$ 12,765**

(a) Includes purchase accounting adjustments.
(b) Includes basis adjustment relating to accounting hedges.
(c) Includes purchase obligations for goods and services covered by noncancellable contracts and contracts including cancellation fees.

At December 31, 2011, unrecognized tax benefits totaled $209 million. This liability for unrecognized tax benefits represents an estimate of tax positions that we have taken in our tax returns which ultimately may not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the contractual obligations table. See Note 20 Income Taxes in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

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Our contractual obligations totaled $84.6 billion at December 31, 2010. The decline in the comparison is primarily attributable to decreases in the remaining contractual maturities of time deposits and borrowed funds.

Other Commitments (a)

December 31, 2011 in millions	Total Amounts Committed	Amount Of Commitment Expiration By Period Less than one year	One to three years	Four to five years	After five years
Net unfunded credit commitments	**$ 103,271**	**$ 48,011**	**$ 31,491**	**$ 23,167**	**$ 602**
Standby letters of credit (b)	**10,769**	**4,537**	**5,004**	**1,107**	**121**
Reinsurance agreements (c)	**6,432**	**2,959**	**105**	**50**	**3,318**
Other commitments (d)	**707**	**367**	**251**	**85**	**4**
Total commitments	**$ 121,179**	**$ 55,874**	**$ 36,851**	**$ 24,409**	**$ 4,045**

(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 syndications, assignments and participations.

(b) Includes $7.4 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.

(c) Reinsurance agreements are with third-party insurers related to insurance sold to our customers.

(d) Includes unfunded commitments related to private equity investments of $247 million and other investments of $3 million that are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $420 million and other direct equity investments of $37 million that are included in Other liabilities on our Consolidated Balance Sheet.

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. We are exposed to market risk primarily by our involvement in the following activities, among others:

- Traditional banking activities of taking deposits and extending loans,
- Equity and other investments and activities whose economic values are directly impacted by market factors, and
- Trading in fixed income products, equities, derivatives, and foreign exchange, as a result of customer activities and underwriting.

We have established enterprise-wide policies and methodologies to identify, measure, monitor, and report market risk. Market Risk Management provides independent oversight by monitoring compliance with these limits and guidelines, and reporting significant risks in the business to the Risk Committee of the Board.

MARKET RISK MANAGEMENT INTEREST RATE RISK

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

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

Sensitivity results and market interest rate benchmarks for the fourth quarters of 2011 and 2010 follow:

Interest Sensitivity Analysis

	Fourth Quarter 2011	Fourth Quarter 2010
Net Interest Income Sensitivity Simulation		

Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	**2.3%**	1.4%
100 basis point decrease (a)	**(1.5)%**	(1.4)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**7.1%**	4.1%
100 basis point decrease (a)	**(4.4)%**	(4.8)%
Duration of Equity Model (a)		
Base case duration of equity (in years):	**(6.2)**	(.5)
Key Period-End Interest Rates		
One-month LIBOR	**.30%**	.26%
Three-year swap	**.82%**	1.28%

(a) Given the inherent limitations in certain of these measurement tools and techniques, results become less meaningful as interest rates approach zero.

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 Alternative Rate Scenarios table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist s most likely rate forecast, (ii) implied market forward rates, and (iii) a Two-Ten Slope decrease (a 200 basis point decrease between two-year and ten-year rates superimposed on current base rates) scenario.

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Net Interest Income Sensitivity to Alternative Rate Scenarios (Fourth Quarter 2011)

	PNC Economist	Market Forward	Two-Ten Slope
First year sensitivity	**.9%**	**.8%**	**.4%**
Second year sensitivity	**4.1%**	**3.1%**	**.9%**

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

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

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

The fourth quarter 2011 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates and an upward sloping interest rate yield curve. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

MARKET RISK MANAGEMENT TRADING RISK

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

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in trading activities. We calculate VaR at both a 99% non diversified and 95% diversified confidence interval. The 99% VaR is used for computing our regulatory market risk capital charge while 95% VaR is used for internal management reporting. PNC began measuring enterprise wide VaR internally on a diversified basis at a 95% confidence interval in the second quarter of 2011. We believe a diversified VaR is a better representation of risk as it reflects empirical correlations across different asset classes. Additionally, moving to a 95% confidence level provides a more stable measure of the VaR for day-to-day risk management. During 2011, our 95% VaR ranged between $.4 million and $3.5 million, averaging $.8 million.

During 2011, our 99% non-diversified VaR ranged between $1.0 million and $6.8 million, averaging $1.8 million. During 2010, our VaR ranged between $2.3 million and $8.8 million, averaging $5.4 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. Over a typical business cycle, we would expect an average of twelve to thirteen instances a year in which actual losses exceeded the prior day VaR measure at the enterprise-wide level at a 95% confidence interval. There were no such instances during the year ended December 31, 2011 under our diversified VaR measure. We use a 500 day look back period for backtesting and include customer related revenue. Including customer revenue helps to reduce trading losses and therefore, there were no instances of actual losses exceeding the prior day VaR measure.

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

Total trading revenue was as follows:

Trading Revenue

Year ended December 31

In millions	**2011**	2010	2009
Net interest income	**$ 43**	$ 55	$ 61
Noninterest income	**225**	183	170
Total trading revenue	**$ 268**	$ 238	$ 231
Securities underwriting and trading (a)	**$ 81**	$ 94	$ 75
Foreign exchange	**88**	76	73
Financial derivatives and other	**99**	68	83
Total trading revenue	**$ 268**	$ 238	$ 231

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

The trading revenue disclosed above includes results from providing investing and risk management services to our customers as well as results from hedges of customer activity. Trading revenue excludes the impact of economic hedging activities which we transact to manage risk primarily related to residential mortgage servicing rights, residential and commercial mortgage loans held-for-sale, and certain residential mortgage-backed agency securities with embedded derivatives. Derivatives used for economic hedges are not designated as accounting hedges because the contracts they are hedging are typically also carried at fair value on the balance sheet, resulting in symmetrical accounting treatment for both the hedging instrument and the hedged item. Economic hedge results are reported in noninterest income along with the associated hedge items.

Trading revenue for 2011 increased $30 million compared with 2010 primarily due to higher derivatives and foreign exchange client sales revenues, improved client related trading results, and the reduced impact of counterparty credit risk on valuations of derivative positions. These increases were partially offset by lower underwriting activity.

Trading revenue increased $7 million in 2010 compared with 2009 primarily due to higher underwriting and derivatives client sales revenue, partially offset by reduced proprietary and customer related trading results. Proprietary trading positions were essentially eliminated by the end of the second quarter of 2010.

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. PNC invests primarily in private equity markets. In addition to extending credit, taking deposits, and underwriting and trading financial instruments, we make and manage direct investments in a variety of transactions, including management buyouts, recapitalizations, and growth financings in a variety of industries. We also have investments in affiliated and non-affiliated funds that make similar investments in private equity and in debt and equity-oriented hedge funds. The

economic and/or book value of these investments and other assets such as loan servicing rights are directly affected by changes in market factors.

The primary risk measurement for equity and other investments is economic capital. Economic capital is a common measure of risk for credit, market and operational risk. It is an estimate of the potential value depreciation over a one year horizon commensurate with solvency expectations of an institution rated single-A by the credit rating agencies. Given the illiquid nature of many of these types of investments, it can be a challenge to determine their fair values. See Note 8 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Various PNC business units manage our equity and other investment activities. Our businesses are responsible for making investment decisions within the approved policy limits and associated guidelines.

A summary of our equity investments follows:

In millions	Dec. 31 2011	Dec. 31 2010
BlackRock	**$ 5,291**	$5,017
Tax credit investments	**2,646**	2,054
Private equity	**1,491**	1,375
Visa	**456**	456
Other	**250**	318
Total	**$ 10,134**	$ 9,220

BlackRock

PNC owned approximately 36 million common stock equivalent shares of BlackRock equity at December 31, 2011, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Item 7 includes additional information about BlackRock.

Tax Credit Investments

Included in our equity investments are tax credit investments which are accounted for under the equity method. These investments, as well as equity investments held by consolidated partnerships, totaled $2.6 billion at December 31, 2011 and $2.1 billion at December 31, 2010.

Private Equity

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

Private equity investments carried at estimated fair value totaled $1.5 billion at December 31, 2011 and $1.4 billion at December 31, 2010. As of December 31, 2011, $856 million was invested directly in a variety of companies and $635 million was invested indirectly through various private equity

funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The noncontrolling interests of these funds totaled $241 million as of December 31, 2011. The indirect private equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee.

Our unfunded commitments related to private equity totaled $247 million at December 31, 2011 compared with $319 million at December 31, 2010.

Visa

At December 31, 2011, our investment in Visa Class B common shares totaled approximately 23 million shares. In March 2011, Visa funded $400 million to their litigation escrow account and reduced the conversion ratio of Visa B to A shares. We consequently recognized our estimated $38 million share of the $400 million as a reduction of our previously established indemnification liability and a reduction of noninterest expense. In December 2011, Visa funded $1.6 billion to their litigation escrow account and reduced the conversion ratio of Visa B to A shares. We consequently recognized $32 million as a reduction of our previously established indemnification liability and a reduction of noninterest expense. As of December 31, 2011, our recognized Visa indemnification liability was zero. As we continue to have an obligation to indemnify Visa for judgments and settlements for the remaining specified litigation, we may have additional exposure in the future to the specified Visa litigation.

As of December 31, 2011, we had recognized $456 million of our Visa ownership. Based on the December 31, 2011 closing price of $101.53 for the Visa Class A shares, the market value of our total investment was approximately $1.0 billion at the current conversion ratio which considers all litigation funding by Visa to date. The Visa Class B common shares we own generally will not be transferable, except under limited circumstances, until they can be converted into shares of the publicly traded class of stock, which cannot happen until the settlement of all of the specified litigation. It is expected that Visa will continue to adjust the conversion ratio of Visa Class B to Class A shares in connection with any settlements in excess of any amounts then in escrow for that purpose and will also reduce the conversion ratio to the extent that it adds any funds to the escrow in the future.

Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report has further information on our Visa indemnification obligation.

Other Investments

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

December 31, 2011, other investments totaled $250 million compared with $318 million at December 31, 2010. We recognized net gains related to these investments of $1 million during 2011, compared with $43 million during 2010.

Given the nature of these investments, if market conditions affecting their valuation were to worsen, we could incur future losses.

Our unfunded commitments related to other investments totaled $3 million at December 31, 2011 and $11 million at December 31, 2010.

Impact of Inflation

Our assets and liabilities are primarily financial in nature and typically have varying maturity dates. Accordingly, future changes in prices do not affect the obligations to pay or receive fixed and determinable amounts of money. However, during periods of inflation, there may be a subsequent impact affecting certain fixed costs or expenses, an erosion of consumer and customer purchasing power, and fluctuations in the needs or demand for our products and services. Should significant levels of inflation occur, our business could potentially be impacted by, among other things, reducing our tolerance for extending credit or causing us to incur additional credit losses resulting from possible increased default rates.

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, swaptions, options, forwards and futures contracts are the primary instruments

we use for interest rate risk management. We also enter into derivatives with customers to facilitate their risk management activities.

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 is presented in Note 1 Accounting Policies and Note 16 Financial Derivatives in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated here by reference.

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 changes, among other reasons.

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The following table provides the notional or contractual amounts and estimated net fair value of financial derivatives at December 31, 2011 and December 31, 2010.

Financial Derivatives	**December 31, 2011**		December 31, 2010	
In millions	Notional/ Contractual Amount	Estimated Net Fair Value	Notional/ Contractual Amount	Estimated Net Fair Value
Derivatives designated as hedging instruments under GAAP				
Interest rate contracts (a)				
Asset rate conversion				
Receive fixed swaps	**$ 13,902**	**$ 529**	$ 14,452	$ 332
Pay fixed swaps (c) (d)	**1,797**	**(116)**	1,669	12
Liability rate conversion				
Receive fixed swaps	**10,476**	**1,316**	9,803	834
Forward purchase commitments	**2,733**	**43**	2,350	(8)
Total interest rate risk management	**28,908**	**1,772**	28,274	1,170
Foreign exchange contracts				
FX forward	**326**			
Total derivatives designated as hedging instruments (b)	**$ 29,234**	**$ 1,772**	$ 28,274	$ 1,170
Derivatives not designated as hedging instruments under GAAP				
Derivatives used for residential mortgage banking activities:				
Interest rate contracts				
Swaps	**$ 98,406**	**$ 454**	$ 83,421	$ 63
Futures	**64,250**		51,699	
Future options	**8,000**		31,250	21
Bond options	**1,250**	**3**		
Swaptions	**10,312**	**49**	11,040	28
Commitments related to residential mortgage assets	**14,773**	**59**	16,652	47
Total residential mortgage banking activities	**$ 196,991**	**$ 565**	$ 194,062	$ 159
Derivatives used for commercial mortgage banking activities:				
Interest rate contracts				