PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
August 08, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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

One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant 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 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 Exchange Act). Yes ¨ No x

As of August 1, 2012, there were 529,405,539 shares of the registrant s common stock ($5 par value) outstanding.

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to Second Quarter 2012 Form 10-Q

	Pages
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited).	
Consolidated Income Statement	77
Consolidated Statement of Comprehensive Income	78
Consolidated Balance Sheet	79
Consolidated Statement Of Cash Flows	80
Notes To Consolidated Financial Statements (Unaudited)	
Note 1 Accounting Policies	82
Note 2 Acquisition and Divestiture Activity	85
Note 3 Loan Sale and Servicing Activities and Variable Interest Entities	87
Note 4 Loans and Commitments to Extend Credit	93
Note 5 Asset Quality	94
Note 6 Purchased Loans	108
Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit	111
Note 8 Investment Securities	115
Note 9 Fair Value	121
Note 10 Goodwill and Other Intangible Assets	139
Note 11 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities	141
Note 12 Certain Employee Benefit And Stock Based Compensation Plans	142
Note 13 Financial Derivatives	145
Note 14 Earnings Per Share	152
Note 15 Total Equity And Other Comprehensive Income	153
Note 16 Income Taxes	157
Note 17 Legal Proceedings	158
Note 18 Commitments and Guarantees	160
Note 19 Segment Reporting	164
Note 20 Subsequent Events	167
Statistical Information (Unaudited)	
Average Consolidated Balance Sheet And Net Interest Analysis	168
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.	
Financial Review	
Consolidated Financial Highlights	1
Executive Summary	3
Consolidated Income Statement Review	9
Consolidated Balance Sheet Review	13
Off-Balance Sheet Arrangements And Variable Interest Entities	24
Fair Value Measurements	25
European Exposure	26
Business Segments Review	27
Critical Accounting Estimates And Judgments	43
Status Of Qualified Defined Benefit Pension Plan	45
Recourse And Repurchase Obligations	45
Risk Management	49
Internal Controls And Disclosure Controls And Procedures	71
Glossary Of Terms	71
Cautionary Statement Regarding Forward-Looking Information	75
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	49-70 and 145-152

Item 4. Controls and Procedures.	71
PART II OTHER INFORMATION	
Item 1. Legal Proceedings.	170
Item 1A. Risk Factors.	170
Item 2. Unregistered Sales Of Equity Securities And Use Of Proceeds.	170
Item 6. Exhibits.	170
Exhibit Index.	170
Signature	170
Corporate Information	171

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to Second Quarter 2012 Form 10-Q (continued)

MD&A TABLE REFERENCE

Table	Description	Page
1	Consolidated Financial Highlights	1
2	Net Interest Income and Net Interest Margin	9
3	Summarized Balance Sheet Data	13
4	Details Of Loans	14
5	Accretion Purchased Impaired Loans	15
6	Accretable Net Interest Purchased Impaired Loans	15
7	Valuation of Purchased Impaired Loans	15
8	Weighted Average Life of the Purchased Impaired Portfolios	16
9	Accretable Difference Sensitivity Total Purchased Impaired Loans	16
10	Net Unfunded Credit Commitments	16
11	Details of Investment Securities	17
12	Vintage, Current Credit Rating, and FICO Score for Asset-Backed Securities	18
13	Other-Than-Temporary Impairments	19
14	Net Unrealized Gains and Losses on Non-Agency Securities	20
15	Loans Held For Sale	21
16	Details Of Funding Sources	22
17	Risk-Based Capital	23
18	Fair Value Measurements Summary	25
19	Summary of European Exposure	26
20	Results Of Businesses Summary	28
21	Retail Banking Table	29
22	Corporate & Institutional Banking Table	33
23	Asset Management Group Table	36
24	Residential Mortgage Banking Table	39
25	BlackRock Table	40
26	Non-Strategic Assets Portfolio Table	42
27	Pension Expense Sensitivity Analysis	45
28	Analysis of Quarterly Residential Mortgage Repurchase Claims by Vintage	47
29	Analysis of Quarterly Residential Mortgage Unresolved Asserted Indemnification and Repurchase Claims	47
30	Analysis of Residential Mortgage Indemnification and Repurchase Claim Settlement Activity	47
31	Analysis of Home Equity Unresolved Asserted Indemnification and Repurchase Claims	49
32	Analysis of Home Equity Indemnification and Repurchase Claim Settlement Activity	49
33	Nonperforming Assets By Type	52
34	OREO and Foreclosed Assets	53
35	Change in Nonperforming Assets	53
36	Accruing Loans Past Due 30 To 59 Days	54
37	Accruing Loans Past Due 60 To 89 Days	54
38	Accruing Loans Past Due 90 Days Or More	55
39	Home Equity Lines of Credit Draw Period End Dates	56
40	Bank-Owned Consumer Real Estate Related Loan Modifications	57
41	Bank-Owned Consumer Real Estate Related Loan Modifications Re-Default by Vintage	58
42	Summary of Troubled Debt Restructurings	59
43	Loan Charge-Offs And Recoveries	60
44	Allowance for Loan and Lease Losses	61
45	Credit ratings as of June 30, 2012 for PNC and PNC Bank, N.A.	64
46	Contractual Obligations	65

47	Other Commitments	65
48	Interest Sensitivity Analysis	66
49	Net Interest Income Sensitivity to Alternative Rate Scenarios (Second Quarter 2012)	66
50	Alternate Interest Rate Scenarios: One Year Forward	67
51	Enterprise-Wide Trading-Related Gains/Losses Versus Value at Risk	67
52	Trading Revenue	68
53	Equity Investments Summary	68
54	Financial Derivatives	70

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to Second Quarter 2012 Form 10-Q (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE

Table	Description	Page
55	RBC Bank (USA) Purchase Accounting	86
56	RBC Bank (USA) Intangible Assets	86
57	RBC Bank (USA) and PNC Pro Forma Results	87
58	Certain Financial Information and Cash Flows Associated with Loan Sale and Servicing Activities	89
59	Consolidated VIEs Carrying Value	90
60	Assets and Liabilities of Consolidated VIEs	91
61	Non-Consolidated VIEs	91
62	Loans Outstanding	93
63	Net Unfunded Credit Commitments	93
64	Age Analysis of Past Due Accruing Loans	94
65	Nonperforming Assets	95
66	Commercial Lending Asset Quality Indicators	97
67	Home Equity and Residential Real Estate Balances	98
68	Consumer Real Estate Secured Asset Quality Indicators Excluding Purchased Impaired Loans	98
69	Consumer Real Estate Secured Asset Quality Indicators Purchased Impaired Loans	100
70	Credit Card and Other Consumer Loan Classes Asset Quality Indicators	102
71	Summary of Troubled Debt Restructurings	103
72	Financial Impact and TDRs by Concession Type	104
73	TDRs which have Subsequently Defaulted	106
74	Impaired Loans	108
75	Purchased Impaired Loans Balances	109
76	Accretable Yield	109
77	RBC Bank (USA) Acquisition Purchased Loans Balances	110
78	Purchased Impaired Loans RBC Bank (USA) Acquisition	110
79	Purchased Non-Impaired Loans Fair Value	111
80	Purchased Non-Impaired Loans Cash Flows	111
81	Rollforward of Allowance for Loan and Lease Losses and Associated Loan Data	113
82	Rollforward of Allowance for Unfunded Loan Commitments and Letters of Credit	114
83	Investment Securities Summary	115
84	Gross Unrealized Loss and Fair Value of Securities Available for Sale	116
85	Credit Impairment Assessment Assumptions Non-Agency Residential Mortgage-Backed and Asset-Backed Securities	117
86	Summary of OTTI Credit Losses Recognized in Earnings	118
87	Summary of OTTI Noncredit (Losses) Recoveries Included in Accumulated Other Comprehensive Loss	118
88	Rollforward of Cumulative OTTI Credit Losses Recognized in Earnings	119
89	Gains (Losses) on Sales of Securities Available for Sale	119
90	Contractual Maturity of Debt Securities	120
91	Weighted-Average Expected Maturity of Mortgage and Other Asset-Backed Debt Securities	120
92	Fair Value of Securities Pledged and Accepted as Collateral	120
93	Fair Value Measurements Summary	126
94	Reconciliation of Level 3 Assets and Liabilities	127
95	Fair Value Measurement Recurring Quantitative Information	131
96	Fair Value Measurements Nonrecurring	134
97	Fair Value Measurements Nonrecurring Quantitative Information	134
98	Fair Value Option Changes in Fair Value	135
99	Fair Value Option Fair Value and Principal Balances	136

100	Additional Fair Value Information Related to Financial Instruments	137
101	Changes in Goodwill by Business Segment	139
102	Summary of Changes in Goodwill and Other Intangible Assets	139
103	Other Intangible Assets	139
104	Amortization Expense on Existing Intangible Assets	140

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to Second Quarter 2012 Form 10-Q (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE (Continued)

Table	Description	Page
105	Commercial Mortgage Servicing Rights	140
106	Residential Mortgage Servicing Rights	140
107	Commercial Mortgage Loan Servicing Assets Key Valuation Assumptions	141
108	Residential Mortgage Loan Servicing Assets Key Valuation Assumptions	141
109	Fees from Mortgage and Other Loan Servicing	141
110	Net Periodic Pension and Postretirement Benefits Costs	143
111	Option Pricing Assumptions	143
112	Stock Option Rollforward	144
113	Nonvested Incentive/Performance Unit Share Awards and Restricted Stock/Unit Awards Rollforward	144
114	Nonvested Cash-Payable Restricted Share Unit Rollforward	145
115	Derivatives Total Notional or Contractual Amounts and Estimated Net Fair Values	148
116	Derivatives Designated in GAAP Hedge Relationships Fair Value Hedges	149
117	Derivatives Designated in GAAP Hedge Relationships Cash Flow Hedges	149
118	Derivatives Designated in GAAP Hedge Relationships Net Investment Hedges	150
119	Gains (Losses) on Derivatives Not Designated as Hedging Instruments under GAAP	150
120	Credit Default Swaps	151
121	Credit Ratings of Credit Default Swaps	151
122	Referenced/Underlying Assets of Credit Default Swaps	151
123	Risk Participation Agreements Sold	152
124	Internal Credit Ratings of Risk Participation Agreements Sold	152
125	Basic and Diluted Earnings per Common Share	152
126	Rollforward of Total Equity	153
127	Other Comprehensive Income	154
128	Accumulated Other Comprehensive Income (Loss) Components	157
129	Net Operating Loss Carryforwards and Tax Credit Carryforwards	157
130	Net Outstanding Standby Letters of Credit	160
131	Analysis of Commercial Mortgage Recourse Obligations	162
132	Analysis of Indemnification and Repurchase Liability for Asserted Claims and Unasserted Claims	163
133	Reinsurance Agreements Exposure	163
134	Reinsurance Reserves Rollforward	163
135	Results Of Businesses	166

Table of Contents

Financial Review

Table 1: Consolidated Financial Highlights

The PNC Financial Services Group, Inc.

Dollars in millions, except per share data	Three months ended June 30		Six months ended June 30	
Unaudited	2012	2011	2012	2011
Financial Results (a)				
Revenue				
Net interest income	$ 2,526	$ 2,150	$ 4,817	$ 4,326
Noninterest income	1,097	1,452	2,538	2,907
Total revenue	3,623	3,602	7,355	7,233
Noninterest expense	2,648	2,176	5,103	4,246
Pretax, pre-provision earnings (b)	975	1,426	2,252	2,987
Provision for credit losses	256	280	441	701
Income before income taxes and noncontrolling interests (pretax earnings)	$ 719	$ 1,146	$ 1,811	$ 2,286
Net Income	$ 546	$ 912	$ 1,357	$ 1,744
Less: Net income (loss) attributable to noncontrolling interests	(5)	(1)	1	(6)
Preferred stock dividends and discount accretion	25	25	64	29
Net income attributable to common shareholders	$ 526	$ 888	$ 1,292	$ 1,721
Diluted earnings per common share	$ .98	$ 1.67	$ 2.42	$ 3.24
Cash dividends declared per common share	$ .40	$ .35	$ .75	$ .45
Integration costs:				
Pretax	$ 52	$ 5	$ 197	$ 6
After-tax	$ 34	$ 3	$ 128	$ 4
Impact on diluted earnings per share	$ .06	$ .01	$ .24	$ .01
Noncash charges for unamortized discounts related to redemption of trust preferred securities:				
Pretax	$ 130		$ 130	
After-tax	$ 85		$ 85	
Impact on diluted earnings per share	$ .16		$ .16	
Provision for residential mortgage repurchase obligations:				
Pretax	$ 438	$ 21	$ 470	$ 35
After-tax	$ 284	$ 14	$ 305	$ 23
Impact on diluted earnings per share	$ .54	$ .03	$ .58	$ .04
Performance Ratios				
Net interest margin (c)	4.08%	3.93%	3.99%	3.93%
Noninterest income to total revenue	30	40	35	40
Efficiency	73	60	69	59
Return on:				
Average common shareholders equity	6.23	11.44	7.80	11.29
Average assets	.74	1.40	.94	1.34

See page 71 for a glossary of certain terms used in this Report.

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. The after-tax amounts in this table and notes below were calculated using a marginal federal income tax rate of 35% and include applicable income tax adjustments.

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

(b) We believe that pretax, pre-provision earnings, a non-GAAP measure, is useful as a tool to help evaluate the ability to provide for credit costs through operations.

(c) Calculated as annualized 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 generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended June 30, 2012 and June 30, 2011 were $35 million and $25 million, respectively. The taxable-equivalent adjustments to net interest income for the six months ended June 30, 2012 and June 30, 2011 were $66 million and $49 million.

Table of Contents

TABLE 1: CONSOLIDATED FINANCIAL HIGHLIGHTS (CONTINUED) (a)

Unaudited	June 30 2012	December 31 2011	June 30 2011
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$ 299,575	$ 271,205	$ 263,117
Loans (b) (c)	180,425	159,014	150,319
Allowance for loan and lease losses (b)	4,156	4,347	4,627
Interest-earning deposits with banks (b)	3,995	1,169	4,508
Investment securities (b)	61,937	60,634	59,414
Loans held for sale (c)	3,333	2,936	2,679
Goodwill and other intangible assets	10,962	10,144	10,594
Equity investments (b) (d)	10,617	10,134	9,776
Noninterest-bearing deposits	64,476	59,048	52,683
Interest-bearing deposits	142,447	128,918	129,208
Total deposits	206,923	187,966	181,891
Transaction deposits	166,043	147,637	137,109
Borrowed funds (b)	43,689	36,704	35,176
Shareholders equity	37,005	34,053	32,235
Common shareholders equity	33,884	32,417	31,588
Accumulated other comprehensive income (loss)	402	(105)	69
Book value per common share	64.00	61.52	60.02
Common shares outstanding (millions)	529	527	526
Loans to deposits	87%	85%	83%
Client Assets (billions)			
Discretionary assets under management	$ 109	$ 107	$ 109
Nondiscretionary assets under administration	105	103	110
Total assets under administration	214	210	219
Brokerage account assets	36	34	35
Total client assets	$ 250	$ 244	$ 254
Capital Ratios			
Tier 1 common	9.3%	10.3%	10.5%
Tier 1 risk-based (e)	11.4	12.6	12.8
Total risk-based (e)	14.2	15.8	16.2
Leverage (e)	10.1	11.1	11.0
Common shareholders equity to assets	11.3	12.0	12.0
Asset Quality			
Nonperforming loans to total loans	1.92%	2.24%	2.57%
Nonperforming assets to total loans, OREO and foreclosed assets	2.31	2.60	2.97
Nonperforming assets to total assets	1.39	1.53	1.70
Net charge-offs to average loans (for the three months ended) (annualized)	.71	.83	1.11
Allowance for loan and lease losses to total loans	2.30	2.73	3.08
Allowance for loan and lease losses to nonperforming loans (f)	120	122	120
Accruing loans past due 90 days or more (g)	$ 2,483	$ 2,973	$ 2,646

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

(b) Amounts include consolidated variable interest entities. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information.

(c) Amounts include assets for which we have elected the fair value option. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information.

(d) Amounts include our equity interest in BlackRock.

(e) The minimum US regulatory capital ratios under Basel I are 4.0% for Tier 1 risk-based, 8.0% for Total risk-based, and 4.0% for Leverage. The comparable well-capitalized levels are 6.0% for Tier 1 risk-based, 10.0% for Total risk-based, and 5.0% for Leverage.

(f) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.

(g) Excludes loans held for sale and purchased impaired loans. In the first quarter of 2012, we adopted a policy stating that home equity loans past due 90 days or more would be placed on nonaccrual status. Prior policy required that these loans be past due 180 days before being placed on nonaccrual status.

Table of Contents

Financial Review

The PNC Financial Services Group, Inc.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2011 Annual Report on Form 10-K as amended by Amendment No. 1 on Form 10-K/A (2011 Form 10-K). We have reclassified certain prior period amounts 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 the following sections as they appear in this Report and in our 2011 Form 10-K and our First Quarter 2012 Form 10-Q: the Risk Management section of the Financial Review portion of the respective report; Item 1A Risk Factors included in our 2011 Form 10-K; and the Legal Proceedings and Commitments and Guarantees Notes of the Notes to Consolidated Financial Statements included in the respective report. Also, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and the Critical Accounting Estimates And Judgments section in this Financial Review and in our 2011 Form 10-K 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 Note 19 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis.

Executive Summary

PNC is one of the largest diversified financial services companies in the United States and is headquartered in Pittsburgh, Pennsylvania.

PNC has businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking, providing many of its products and services nationally and others in PNC s primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, North Carolina, Florida, Kentucky, Washington, D.C., Alabama, Delaware, Georgia, Virginia, Missouri, Wisconsin and South Carolina. PNC also provides certain products and services internationally.

Key Strategic Goals

We manage our company for the long term and seek to manage risk in keeping with a moderate risk philosophy. We emphasize maintaining strong capital and liquidity positions, investing in our markets and products, and embracing our corporate responsibility to the communities where we do business.

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 a 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.

PNC faces a variety of risks that may impact different aspects of our risk profile from time to time, the extent of each varies depending on factors such as the current economic, political and regulatory environment, the impact of mergers and acquisition activity, and operational challenges. Many of these risks and our risk management strategies are described in more detail in our 2011 Form 10-K and elsewhere in this Report.

We expect to build capital via retained earnings while having opportunities to return capital to shareholders during 2012. See the 2012 Capital and Liquidity Actions section of this Executive Summary, the Funding and Capital Sources section of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 of our 2011

Form 10-K.

RBC Bank (USA) Acquisition

On March 2, 2012, we acquired 100% of the issued and outstanding common stock of RBC Bank (USA), the US retail banking subsidiary of Royal Bank of Canada. As part of the acquisition, PNC also purchased a credit card portfolio from RBC Bank (Georgia), National Association. PNC paid $3.6 billion in cash as the consideration for the acquisition of both RBC Bank (USA) and the credit card portfolio. The transaction added approximately $18.1 billion in deposits, $14.5 billion of loans and $1.1 billion of goodwill and intangible assets to PNC s Consolidated Balance Sheet. Our Consolidated Income Statement includes the impact of business activity associated with the RBC Bank (USA) acquisition subsequent to March 2, 2012.

Table of Contents

RBC Bank (USA), based in Raleigh, North Carolina, operated more than 400 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The primary reasons for the acquisition of RBC Bank (USA) were to enhance shareholder value, to improve PNC s competitive position in the financial services industry, and to further expand PNC s existing branch network in the states where it currently operates as well as expanding into new markets. When combined with PNC s existing network, PNC now has 2,888 branches across 17 states and the District of Columbia, ranking it fifth among U.S. banks in branches. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in this Report for additional information regarding this acquisition and 2011 branch acquisition activity.

Pending Sale of Smartstreet

On April 20, 2012, PNC signed a purchase and assumption agreement with Union Bank, N.A. pursuant to which Union Bank will assume the deposits and acquire certain assets of the Smartstreet business unit, which was acquired by PNC as part of the RBC Bank (USA) acquisition. Smartstreet is a nationwide business focused on homeowner or community association managers and has approximately $1 billion of assets and deposits as of June 30, 2012. The transaction is expected to close in the fall of 2012 and is subject to certain closing conditions, including regulatory approval.

2012 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. As we announced on March 13, 2012, the Federal Reserve accepted the capital plan that we submitted for their review and did not object to our capital actions proposed as part of that plan. The capital actions included recommendations to increase the quarterly common stock dividend and a modest share repurchase program. 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 included in our 2011 Form 10-K.

On April 5, 2012, consistent with our capital plan submitted to the Federal Reserve in 2012, our Board of Directors approved an increase to PNC s quarterly common stock dividend from $.35 per common share to $.40 per common share. Additionally, also consistent with that capital plan, PNC plans

to purchase up to $250 million of common stock under our existing 25 million share repurchase program in open market or privately negotiated transactions during 2012. Such purchases were initiated in the second quarter with approximately $50 million repurchased as of June 30, 2012. The discussion of capital within the Consolidated Balance Sheet Review section of this Financial Review includes additional information regarding our common stock repurchase program.

On March 8, 2012, PNC Funding Corp issued $1 billion of senior notes, unconditionally guaranteed by The PNC Financial Services Group, Inc., due March 8, 2022. Interest is paid semi-annually at a fixed annual rate of 3.30%. The offering resulted in gross proceeds to us of $990 million before offering related expenses. We intend to use the net proceeds from this offering for general corporate purposes, which may include: advances to PNC and its subsidiaries to finance their activities, repayment of outstanding indebtedness, and repurchases and redemptions of issued and outstanding securities of PNC and its subsidiaries.

On April 24, 2012, we issued 60 million depositary shares, each representing a 1/4,000th interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series P, in an underwritten public offering resulting in gross proceeds of $1.5 billion to us before commissions and expenses. We intend to use the net proceeds from the sale of the depositary shares for general corporate purposes, which may include repurchases and redemptions of issued and outstanding securities of PNC and its subsidiaries, including trust preferred securities.

On April 25, 2012 we redeemed $300 million of trust preferred securities issued by PNC Capital Trust D with a current distribution rate of 6.125% and $6 million of trust preferred securities issued by Yardville Capital Trust III with a current distribution rate of 10.18%. In addition, on May 25, 2012 we redeemed $500 million of trust preferred securities issued by National City Capital Trust III with a current distribution rate of 6.625%. These redemptions together resulted in a noncash charge for unamortized discounts of approximately $130 million in the second quarter of 2012.

On June 20, 2012, PNC Bank, N.A. issued $1.0 billion of senior extendible floating rate bank notes with an initial maturity date of July 20, 2013, subject to the holder s monthly option to extend, and a final maturity date of June 20, 2014. Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points, which spread is subject to four potential one basis point increases in the event of certain

extensions of maturity by the holder.

On June 28, 2012 we announced the July 30, 2012 redemption of $450 million of trust preferred securities issued by PNC Capital Trust E with a current distribution rate of 7.750% and $517.5 million of enhanced trust preferred securities issued by

Table of Contents

National City Capital Trust IV with a current distribution rate of 8.000%. These redemptions together will result in a noncash charge for unamortized discounts of approximately $95 million in the third quarter of 2012. As a result of these redemptions and assuming the redemption of other trust preferred securities redeemable at par in the fourth quarter of 2012, PNC expects its total second half noncash charges to be $162 million rather than $150 million, as disclosed in PNC s first quarter 2012 Form 10-Q.

Our Tier 1 risk-based capital ratio at June 30, 2012 reflected second quarter capital actions of issuing approximately $1.5 billion of preferred stock and redeeming or announcing the redemption of approximately $1.8 billion of trust preferred securities. The discussion of capital within the Consolidated Balance Sheet Review section of this Financial Review includes additional information regarding our capital ratios.

RECENT MARKET AND INDUSTRY DEVELOPMENTS

The following updates our previous disclosures on recent market and industry developments, including with respect to regulatory developments, mortgage matters and governmental programs. We provide additional information on these matters in the Recent Market and Industry Developments, Residential Mortgage Matters and PNC s Participation in Select Government Programs sections of the Financial Review in Item 7 of our 2011 Form 10-K and Part I, Item 2 of our First Quarter 2012 Form 10-Q. We also refer you to Item 1 Business Supervision and Regulation and Item 1A Risk Factors included in our 2011 Form 10-K with respect to reforms and regulatory developments affecting PNC and the financial services industry.

Among the recent legislative and regulatory developments affecting the banking industry are evolving regulatory capital standards for banking organizations. These evolving standards 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.

In June 2012, the US banking regulators requested comment on three sets of proposed rules that implement the Basel III capital framework and also make other changes to US regulatory capital standards for banking institutions. The Basel III proposed rules include heightened capital requirements for banking institutions in terms of both higher quality capital and higher regulatory capital ratios. These proposed rules, among other things, would revise the capital levels at which a banking institution would be subject to the prompt corrective action framework (including the establishment of a new tier 1 common capital requirement), eliminate or reduce the ability of certain types of capital instruments to count as regulatory capital, eliminate the Tier 1 treatment of trust preferred securities (as required by Dodd-

Frank) following a phase-in period beginning in 2013, and require new deductions from capital for investments in unconsolidated financial institutions, mortgage servicing assets and deferred tax assets that exceed specified thresholds. The proposed rules also would establish a new capital conservation buffer and, for large or internationally active banks, a supplemental leverage capital requirement that would take into account certain off-balance sheet exposures and a countercyclical capital buffer that would initially be set at zero. The proposed Basel III rules would become effective under a phase-in period beginning January 1, 2013 and to be in full effect on January 1, 2019.

The other proposed rules issued by the US banking regulators in June 2012 would revise the manner in which a banking institution determines its risk-weighted assets for risk-based capital purposes under the Basel II framework applicable to large or internationally active banks (referred to as the advanced approach) and under the Basel I framework applicable to all banking institutions (referred to as the standardized approach). These rules would replace references to credit ratings with alternative methodologies for assessing creditworthiness. In addition, among other things, the advanced approach proposal would implement the changes to counterparty credit risk weightings included in the Basel III capital framework, and the standardized approach would modify the risk-weighting framework for residential mortgage assets. The standardized approach changes to the Basel I risk-weighting rules are proposed to become effective no later than July 1, 2015.

In June 2012, the US banking regulators also adopted final market risk capital rules to implement the enhancements to the market risk framework adopted by the Basel Committee (commonly referred to as Basel II.5). The final rules are effective January 1, 2013 and, among other things, establish new stressed Value at Risk (VaR) and incremental risk charges for covered trading positions and replace references to credit ratings in the market risk rules with alternative methodologies for assessing credit risk.

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 in our 2011 Form 10-K, our First Quarter 2012 Form 10-Q and elsewhere in this Report, and
- The impact of market credit spreads on asset valuations.

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

- 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 and integration of the acquired RBC Bank (USA) businesses into PNC,
- 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,
- Continuing to maintain and grow our deposit base as a low-cost funding source,
- Prudent risk and capital management related to our efforts to manage risk in keeping with a moderate risk philosophy, and to meet evolving regulatory capital standards,
- Actions we take within the capital and other financial markets,
- The impact of legal and regulatory-related contingencies, and
- The appropriateness of reserves needed for critical estimates and related contingencies.

For additional information, please see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2011 Form 10-K.

INCOME STATEMENT HIGHLIGHTS

- Net income for the second quarter of 2012 of $546 million decreased 40 percent compared to the second quarter of 2011. Net income for the second quarter of 2012 was reduced by higher provision for residential mortgage repurchase obligations, noncash charges related to redemption of trust preferred securities, and higher integration costs. For additional detail, please see the Consolidated Income Statement Review section in this Financial Review.
- Net interest income of $2.5 billion for the second quarter of 2012 increased 17 percent compared with the second quarter of 2011 due to the full quarter benefit of the RBC Bank (USA) acquisition, organic loan growth and lower funding costs.
- Net interest margin increased to 4.08% for the second quarter of 2012 compared to 3.93% for the second quarter of 2011, primarily driven by a decline in the cost of interest-bearing deposits and borrowed funds and the contribution to margin of the loans acquired in the RBC Bank (USA) acquisition.
- Noninterest income of $1.1 billion for the second quarter of 2012 decreased $355 million compared to the second quarter of 2011. The overall decrease was primarily due to higher provision for residential mortgage repurchase obligations and lower consumer service fees from the regulatory impact of lower interchange fees on debit card transactions. These declines were partially offset by an increase in residential mortgage loan sales revenue related to an increase in loan origination volume as well as higher corporate services fee income from higher commercial mortgage banking revenue and higher merger and advisory fees.
- The provision for credit losses declined to $256 million for the second quarter of 2012 compared to $280 million for the second quarter of 2011 as overall credit quality improved, partially offset by credit provisions related to the RBC Bank (USA) acquisition.
- Noninterest expense of $2.6 billion for the second quarter of 2012 increased $472 million compared with the second quarter of 2011 primarily driven by operating expense for the RBC Bank (USA) acquisition, noncash charges related to redemption of trust preferred securities, higher integration costs, additions to legal reserves, increased expenses for other real estate owned and residential mortgage foreclosure-related matters, and higher pension costs.

CREDIT QUALITY HIGHLIGHTS

- Overall credit quality improved during the second quarter of 2012.
- Nonperforming assets of $4.2 billion at June 30, 2012 declined 4 percent during the second quarter of 2012 and remained flat compared to December 31, 2011.
- Accruing loans past due 90 days or more of $2.5 billion at June 30, 2012 decreased $490 million, or 16 percent, from December 31, 2011, primarily due to a change in policy for home equity loans past due 90 days being placed on nonaccrual status, compared to prior policy of past due 180 days and a decline in government insured residential real estate loans.

Table of Contents

Net charge-offs of $315 million declined $18 million, or 5 percent, during the second quarter and declined 24 percent compared to the second quarter of 2011. Net charge-offs for the six months ended June 30, 2012 were $648 million or an annualized .76% of average loans, compared to $947 million or an annualized 1.27% of average loans for the six months ended June 30, 2011, which is a decrease of 32 percent in net charge-offs in the comparison.

The allowance for loan and lease losses was 2.30% of total loans and 120% of nonperforming loans at June 30, 2012, compared with 2.73% and 122% at December 31, 2011.

BALANCE SHEET HIGHLIGHTS

PNC continued to expand and deepen customer relationships through new client acquisition and cross sales.

- In Retail Banking, net checking relationships grew 128,000 organically in the first half of 2012, or 4 percent on an annualized basis.
- Nearly 500 new primary clients in corporate banking were added in the first half of 2012.

Total loans increased by $21 billion, or 13 percent, to $180 billion at June 30, 2012 compared to December 31, 2011.

- Total commercial lending continued to have strong growth, increasing $15.8 billion, or 18 percent, from December 31, 2011, which includes the impact from the RBC Bank (USA) acquisition.
- Total consumer lending increased $5.6 billion from December 31, 2011 primarily in home equity and automobile loans, including the impact from the RBC Bank (USA) acquisition.

Total deposits were $207 billion at June 30, 2012 compared with $188 billion at December 31, 2011.

- Transaction deposits increased by $18.4 billion, or 12 percent, to $166 billion, or 80 percent of deposits, at June 30, 2012 compared to December 31, 2011, which includes the impact from the RBC Bank (USA) acquisition.
- Time deposits increased by $2.5 billion at June 30, 2012 compared to December 31, 2011 reflecting higher Eurodollar deposits in the second quarter.
- Retail certificates of deposit declined by $3.2 billion at June 30, 2012 from December 31, 2011 as the final wave of higher rate accounts matured in the second quarter.

PNC s balance sheet remained core funded with a loans to deposits ratio of 87 percent at June 30, 2012 and retained a strong bank holding company liquidity position.

PNC maintained strong capital levels with a Tier 1 common capital ratio of 9.3 percent at June 30, 2012 and 10.3 percent at December 31, 2011. The impact
on the ratio of the acquisition of RBC Bank (USA) was a decrease of approximately 1.2 percentage points.

- PNC expects to reach its Basel III Tier 1 common capital ratio goal of 8.0 to 8.5 percent by year end 2013 without benefit of phase-ins, based on Basel III proposed rules and including application of Basel II (including proposed modifications) and Basel II.5 rules as issued by the US banking agencies.
- Among other effects, the recently issued notices of proposed rules suggest an estimated benefit of approximately 90 basis points to our Basel III Tier 1 common capital ratio as a result of the treatment of sub-investment grade securities under the proposed rules, as compared to the Basel III framework.
- The Tier 1 risk-based capital ratio of 11.4 percent at June 30, 2012 reflected second quarter capital actions of issuing approximately $1.5 billion of preferred stock and redeeming or announcing the redemption of approximately $1.8 billion of trust preferred securities.

In April 2012 the PNC board of directors raised the quarterly cash dividend on common stock to 40 cents per share, an increase of 5 cents per share, or 14 percent. PNC plans to purchase up to $250 million of common stock under its existing 25 million share repurchase program in open market or privately negotiated transactions during 2012. Such purchases were initiated in the second quarter with approximately $50 million repurchased as of June 30, 2012.

Our Consolidated Income Statement and Consolidated Balance Sheet Review sections of this Financial Review describe in greater detail the various items that impacted our results for the first six months of 2012 and 2011 and balances at June 30, 2012 and December 31, 2011, respectively.

AVERAGE CONSOLIDATED BALANCE SHEET HIGHLIGHTS

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 Financial Review provides information on changes in selected Consolidated Balance Sheet categories at June 30, 2012 compared with December 31, 2011.

Total average assets were $288.8 billion for the first six months of 2012 compared with $261.8 billion for the first six months of 2011, primarily due to assets added from the March 2, 2012 acquisition of RBC Bank (USA). Average interest-earning assets were $243.9 billion for the first six months of 2012, compared with $222.4 billion in the first six months of 2011, primarily driven by a $21.2 billion increase

Table of Contents

in average total loans reflecting the impact of loans added from the RBC Bank (USA) acquisition and organic growth.

Average total loans increased by $21.2 billion to $171.2 billion for the first six months of 2012 compared with the first six months of 2011, primarily due to an increase in average commercial loans of $16.1 billion and an increase in average consumer loans of $4.3 billion.

Loans represented 70% of average interest-earning assets for the first six months of 2012 and 67% of average interest-earning assets for the first six months of 2011.

Average investment securities increased $1.1 billion to $61.5 billion in the first six months of 2012 compared with the first six months of 2011. Total investment securities comprised 25% of average interest-earning assets for the first six months of 2012 and 27% for the first six months of 2011.

Average noninterest-earning assets totaled $44.9 billion in the first six months of 2012 compared with $39.4 billion in the first six months of 2011. The increase primarily related to the impact of the RBC Bank (USA) acquisition, including goodwill recorded from the acquisition, as well as the impact of increases in valuations on securities and increases in equity investments.

Average total deposits were $197.4 billion for the first six months of 2012 compared with $180.8 billion for the first six months of 2011. The increase of $16.6 billion resulted from an increase in average noninterest-bearing deposits of $10.4 billion, an increase in average interest-bearing demand deposits of $6.4 billion and an increase in average money market deposits of $5.5 billion, partially offset by a decrease in retail certificates of deposit of $7.6 billion. The growth also reflects customer preferences for liquidity in this prolonged period of low interest rates, in addition to the impact of deposits added in the RBC Bank (USA) acquisition. The decline in retail certificates of deposit included the impact of higher rate acquired accounts that matured in the past 12 months. Total deposits at June 30, 2012 were $206.9 billion compared with $188.0 billion at December 31, 2011 and are further discussed within the Consolidated Balance Sheet Review section of this Report.

Average total deposits represented 68% of average total assets for the first six months of 2012 and 69% for the first six months of 2011.

Average transaction deposits were $156.2 billion for the first six months of 2012 compared with $133.9 billion for the first six months of 2011. Organic deposit growth along with the continued corporate and personal customer preference for liquidity, as well as the impact from the RBC Bank (USA) acquisition, contributed to the year-over-year increase in average balances.

Average borrowed funds increased to $41.7 billion for the first six months of 2012 compared with $36.7 billion for the first six months of 2011 primarily to fund loan growth. Net issuances of Federal Home Loan Bank (FHLB) borrowings during the first six months of 2012 and an increase in commercial paper issued drove the increase compared with the first six months of 2011. Total borrowed funds at June 30, 2012 were $43.7 billion compared with $36.7 billion at December 31, 2011 and are further discussed within the Consolidated Balance Sheet Review section of this Financial Review. The Liquidity Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding our sources and uses of borrowed funds.

Business Segment Highlights

Total business segment earnings were $1.6 billion for the first six months of 2012 and the first six months of 2011. Highlights of results for the first six months and the second quarters of 2012 and 2011 are included below. Enhancements were made to the internal funds transfer pricing methodology during the second quarter of 2012. Prior period amounts have been reclassified to conform with the current period presentation, which we believe is more meaningful to readers of our financial statements. The Business Segments Review section of this Financial Review includes a Results of Businesses-Summary table and further analysis of our business segment results over the first six months of 2012 and 2011 including presentation differences from Note 19 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

We provide a reconciliation of total business segment earnings to PNC total consolidated net income as reported on a GAAP basis in Note 19 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

Retail Banking

Retail Banking earned $283 million in the first six months of 2012 compared with $188 million for the same period a year ago. Earnings increased from the prior year as a result of improved net interest income and a lower provision for credit losses partially offset by higher noninterest expense and a decline in noninterest income. Retail Banking continued to maintain its focus on growing core customers, selectively investing in the business for future growth, and disciplined expense management.

In the second quarter of 2012, Retail Banking earned $136 million compared with earnings of $129 million for the second quarter 2011. The increase was primarily due to an increase in net interest income and a lower provision for credit losses partially offset by higher noninterest expense and a decline in noninterest income. The increase in net interest income was attributable to higher deposit balances and improvements in spread as the business continued to execute on customer

growth initiatives. The increase in noninterest expense was due to a full quarter of operating expense for the RBC Bank (USA) acquisition and higher additions to legal reserves.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $1.1 billion in the first six months of 2012 as compared with $.9 billion in the first six months of 2011. The increase in earnings was primarily due to higher net interest income resulting from higher average loans and deposits. We continued to focus on adding new clients, increasing cross sales and remaining committed to strong expense discipline.

In the second quarter of 2012, Corporate & Institutional Banking earned $577 million compared with earnings of $462 million in the second quarter of 2011. The increase reflected higher net interest income primarily due to the full quarter benefit of the RBC Bank (USA) acquisition and higher loan balances.

Asset Management Group

Asset Management Group earned $74 million in the first six months of 2012 compared with $103 million in the first six months of 2011. Assets under administration were $214 billion at June 30, 2012 and $219 billion at June 30, 2011. Earnings for the first six months of 2012 reflected an increase in the provision for credit losses and an increase in noninterest expense partially offset by growth in net interest income and noninterest income. Noninterest expense increased due to continued investments in the business including additional headcount. The core growth strategies for the business continue to include: investing in higher growth geographies, increasing internal referral sales and adding new front line sales staff.

In the second quarter of 2012, Asset Management Group earned $38 million compared with $54 million in the second quarter of 2011. The decrease is primarily due to a lower benefit from provision for credit losses and higher noninterest expense from strategic business investments.

Residential Mortgage Banking

Residential Mortgage Banking reported a loss of $152 million in the first six months of 2012 compared with earnings of $127 million in the first six months of 2011. Earnings declined from the prior year period primarily as a result of lower noninterest income reflecting the impact of higher provision for residential mortgage repurchase obligations and higher noninterest expense, partially offset by increased loan sales revenue driven by higher loan origination volume.

In the second quarter of 2012, Residential Mortgage Banking reported a loss of $213 million compared with earnings of $55 million in the second quarter of 2011 driven by the provision for residential mortgage repurchase obligations, partially offset by increased loan sales revenue driven by higher loan origination volume.

BlackRock

Our BlackRock business segment earned $178 million in the first six months of 2012 and $179 million in the first six months of 2011. Second quarter 2012 business segment earnings from BlackRock were $88 million compared with $93 million in the second quarter of 2011. The lower business segment earnings from BlackRock for the second quarter of 2012 compared to the second quarter of 2011 was primarily due to PNC s lower earnings from BlackRock.

Non-Strategic Assets Portfolio

This business segment consists primarily of acquired non-strategic assets. Non-Strategic Assets Portfolio had earnings of $138 million for the first six months of 2012 compared with $109 million in the first six months of 2011. The increase was driven primarily by a lower provision for credit losses partially offset by a decline in revenue.

In the second quarter of 2012, Non-Strategic Assets Portfolio had earnings of $67 million compared with $84 million for the second quarter of 2011. The decrease was due to a decline in net interest income from lower loan yields and loan balances partially offset by a decrease in the provision for credit losses reflecting overall improvement in credit quality. Our intent is to wind-down this portfolio.

Other

Other reported a loss of $236 million for the six months of 2012 compared with earnings of $132 million for the first six months of 2011. In the second quarter of 2012, Other reported a loss of $147 million compared with earnings of $35 million in the second quarter of 2011. The decreases in both 2012 periods were primarily due to higher integration costs and noncash charges related to redemption of trust preferred securities.

CONSOLIDATED INCOME STATEMENT REVIEW

Our Consolidated Income Statement is presented in Part I, Item 1 of this Report.

Net income for the first six months of 2012 was $1.4 billion, a decrease of 22 percent compared with $1.7 billion for the first six months of 2011. Net income for the second quarter of 2012 was $546 million, a decrease of 40 percent, compared with $912 million for the second quarter of 2011. Net income for both periods in 2012 was reduced by higher provision for residential mortgage repurchase obligations, noncash charges related to redemption of trust preferred securities, and higher integration costs.

Table 2: Net Interest Income and Net Interest Margin

	Three months ended June 30		Six months ended June 30	
Dollars in millions	2012	2011	2012	2011
Net interest income	$ 2,526	$ 2,150	$ 4,817	$ 4,326
Net interest margin	4.08%	3.93%	3.99%	3.93%

Table of Contents

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) Average Consolidated Balance Sheet And Net Interest Analysis section of this Report for additional information.

The increases in net interest income compared with both the second quarter of 2011 and the first six months of 2011 were primarily due to the full quarter benefit of the RBC Bank (USA) acquisition, organic loan growth, and lower funding costs.

The net interest margin was 3.99% for the first six months of 2012 and 3.93% for the first six months of 2011. The following factors impacted the comparison:

- A weighted-average 32 basis point decrease in the rate accrued on interest-bearing liabilities. The rate accrued on interest-bearing deposits, the largest component, decreased 28 basis points, and the rate on total borrowed funds decreased by 54 basis points. The rate on interest-bearing deposits declined primarily due to higher rate retail certificates of deposit that matured in the last 12 months. The decline in the rate on total borrowed funds is primarily attributable to the redemption of trust preferred securities in the second quarter of 2012.
- These factors were partially offset by a 20 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 26 basis points primarily due to lower rates on new loan volume in the current low rate environment.

The net interest margin was 4.08% for the second quarter of 2012 and 3.93% for the second quarter of 2011. The following factors impacted the comparison:

- A weighted-average 37 basis decrease in the rate accrued on interest-bearing liabilities. The rate accrued on interest-bearing deposits, the largest component, decreased 31 basis points, and the rate on total borrowed funds decreased by 74 basis points. Similar to the six months comparison, the decreases were primarily due to higher rate retail certificates of deposit that matured in the last 12 months as well as the redemption of trust preferred securities during the second quarter.
- These factors were partially offset by a 13 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 21 basis points, due to lower rates on new loan volume in the current low rate environment.

We believe our net interest margin will come under pressure in future quarters, assuming the current low rate environment continues.

Based on commercial loan growth, reduced deposit and funding costs and the impact of acquisitions, we expect our net interest income for full year 2012 versus 2011 to increase in percentage terms by 10 to 12 percent, assuming the economic outlook for the remainder of 2012 will be a continuation of the recent trends. We expect future benefits to our funding costs related to calling certain trust preferred securities. In addition to the $806 million of trust preferred securities redeemed in the second quarter with an average rate of almost 6.5 percent, we redeemed $968 million of trust preferred securities in July of 2012 with an average rate of almost 8 percent. By utilizing the regulatory call feature of these securities as discussed in our Form 8-K filed on June 28, 2012, we will save an additional $25 million between the redemption date of July 30, 2012 and what would otherwise have been their first available par redemption dates. Our Tier 1 risk-based capital ratio at June 30, 2012 reflected both the second quarter and the announced July redemptions of $1.8 billion of trust preferred securities.

As we look beyond 2012 and given our anticipation of the continuing low rate environment, our ability to sustain or grow our net interest income will be dependent primarily on our ability to grow loans and lower-cost deposits.

Noninterest Income

Noninterest income totaled $2.5 billion for the first six months of 2012 and $2.9 billion for the first six months of 2011. Noninterest income was $1.1 billion for the second quarter of 2012 and $1.5 billion for the second quarter of 2011. The decreases were primarily due to the higher provision for residential mortgage repurchase obligations and lower consumer service fees from the regulatory impact of lower interchange fees on debit card transactions. These declines were partially offset by an increase in residential mortgage loan sales revenue related to an increase in loan origination volume as well as higher commercial mortgage banking revenue and higher merger and acquisition advisory fees.

Asset management revenue, including BlackRock, increased $11 million to $562 million in the first six months of 2012 compared with the first six months of 2011, primarily due to higher earnings from our BlackRock investment. Asset management revenue was $278 million in the second quarter of 2012 compared with $288 million in the second quarter of 2011 due to lower earnings during the second quarter 2012 from our BlackRock investment. Discretionary assets under management totaled $109 billion at both June 30, 2012 and June 30, 2011.

For the first six months of 2012, consumer services fees totaled $554 million compared with $644 million in the first six months of 2011. Consumer services fees were $290 million in the second quarter of 2012 compared with $333 million in the second quarter of 2011. Lower consumer services fees for both periods reflected the regulatory impact of lower interchange fees on debit card transactions partially offset by higher volumes of customer-initiated transactions. As further discussed in the Retail Banking section of the Business Segments Review portion of this Financial Review, the Dodd-Frank limits on interchange rates were effective October 1, 2011 and had a negative impact on revenues of approximately $150 million in the first six months of 2012, including $80 million in the second quarter of 2012.

Corporate services revenue totaled $522 million in the first six months of 2012 and $445 million in the first six months of 2011. Corporate services revenue was $290 million in the second quarter of 2012 compared with $228 million in the second quarter of 2011. Higher commercial mortgage banking revenue and merger and acquisition advisory fees led to the increase in corporate services revenue for both periods.

Residential mortgage revenue totaled $57 million in the first six months of 2012 and $358 million in the first six months of 2011. The second quarter comparables were a loss of $173 million for the second quarter of 2012 and revenue of $163 million in the second quarter of 2011. Residential mortgage revenue for the first six months of 2012 included provision for residential mortgage repurchase obligations of $470 million compared to $35 million for the first six months of 2011. The comparable amounts for the second quarters of 2012 and 2011 were $438 million and $21 million, respectively. These decreases in residential mortgage revenue for both periods were partially offset by an increase in loan sales revenue driven by higher loan origination volume.

We have recently and expect to continue to experience elevated levels of residential mortgage repurchase demands, primarily related to the 2006 to 2008 vintages of loans, particularly those that defaulted more than two years ago. As a result, we have increased our residential mortgage repurchase reserve to $462 million at June 30, 2012, resulting in the provision of $438 million for the second quarter of 2012. Management believes our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all loans sold and outstanding as of June 30, 2012 and 2011. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. Our expected lifetime losses on our total portfolio are $1.7 billion, which includes $1.2 billion of losses incurred to date. Barring a significant change in the expected future behaviors and demand patterns of our investors or other unforeseen circumstances, we believe we are appropriately reserved.

Service charges on deposits totaled $271 million for the first six months of 2012 and $254 million for the first six months of 2011. Service charges on deposits totaled $144 million for the second quarter of 2012 and $131 million for the second quarter of 2011. The increases in both periods reflected success in growing customers, as well as the impact of the RBC Bank (USA) acquisition.

Net gains on sales of securities totaled $119 million for both the first six months of 2012 and 2011. Net gains on sales of securities were $62 million for the second quarter of 2012 and $82 million for the second quarter of 2011.

The net credit component of OTTI of securities recognized in earnings was a loss of $72 million in the first six months of 2012, including a loss of $34 million in the second quarter, compared with losses of $73 million and $39 million for the same periods in 2011, respectively.

Other noninterest income totaled $525 million for the first six months of 2012 compared with $609 million for the first six months of 2011. Other noninterest income totaled $240 million for the second quarter of 2012 and $266 million for the second quarter of 2011. The decreases over the comparable periods were driven by several individually insignificant items.

Other noninterest income typically fluctuates from period to period depending on the nature and magnitude of transactions completed. Further details regarding our trading activities are included in the Market Risk Management Trading Risk portion of the Risk Management section of this Financial Review, further details regarding private and other equity investments are included in the Market Risk Management-Equity And Other Investment Risk section, and further details regarding gains or losses related to our equity investment in BlackRock are included in the Business Segments Review section.

Looking to full year 2012, we expect noninterest income to be essentially flat and continue to see total revenue increasing in the high single digits in percentage terms, excluding any future significant provisions for residential mortgage repurchase obligations and assuming the economic outlook for 2012 will be a continuation of the current 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 the Corporate & Institutional Banking segment results 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 Financial Review 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 $697 million for the first six months of 2012 and $624 million for the first six months of 2011. For the second quarter of 2012, treasury management revenue was $354 million compared with $309 million for the second quarter of 2011. Higher deposit balances along with strong growth in commercial card and lockbox products led to the favorable results.

Revenue from capital markets-related products and services totaled $307 million in the first six months of 2012 compared with $304 million in the first six months of 2011. The year-to-date comparison reflects higher mergers and acquisition advisory fees and strong customer driven capital markets activity, offset by lower loan sale activity and the increased impact of counterparty credit risk on the valuations of customer derivatives positions. For the second quarter of 2012, capital markets-related revenue was $151 million compared with $165 million for the second quarter of 2011. This comparison reflects the increased impact of counterparty credit risk on the valuations of customer derivatives positions and lower loan syndications and underwriting fees, partially offset by higher mergers and acquisition advisory fees and higher client sales revenues.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income from loan servicing and ancillary services, net of commercial mortgage servicing rights amortization, and commercial mortgage servicing rights valuations net of hedge), and revenue derived from commercial mortgage loans intended for sale and related hedges (including loan origination fees, net interest income, valuation adjustments and gains or losses on sales).

Commercial mortgage banking activities resulted in revenue of $129 million in the first six months of 2012 compared with $64 million in the first six months of 2011. For the second quarter of 2012, revenue from commercial mortgage banking activities was $81 million compared to $18 million for the second quarter of 2011. Both comparisons benefited from higher revenue from commercial mortgage servicing, and in the second quarter comparison, higher revenue from loan originations.

Provision For Credit Losses

The provision for credit losses totaled $441 million for the first six months of 2012 compared with $701 million for the first six months of 2011. The provision for credit losses totaled $256 million for the second quarter of 2012 compared

with $280 million for the second quarter of 2011. The decline in the comparison was driven by overall credit quality improvement and continuation of actions to reduce exposure levels, partially offset by credit provisions related to the RBC Bank (USA) acquisition.

We expect our provision for credit losses for full year 2012 to improve relative to full year 2011 assuming the economic outlook for the full year 2012 will be a continuation of the current environment and excluding unexpected legal and regulatory-related contingencies to the extent that the nature of the resolution of such contingencies causes us to recognize additional provision.

The Credit Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding factors impacting the provision for credit losses.

Noninterest Expense

Noninterest expense was $5.1 billion for the first six months of 2012 and $4.2 billion for the first six months of 2011. Noninterest expense for the first six months of 2012 included integration costs of $197 million, operating expenses of $189 million for the RBC Bank (USA) acquisition and noncash charges of $130 million related to redemption of trust preferred securities. The impacts of these items were not significant to noninterest expense for the first six months of 2011. In addition to the above items, additions to legal reserves, increased expenses for other real estate owned and higher pension costs contributed to the increase in noninterest expense in the first six months of 2012.

Noninterest expense totaled $2.6 billion for the second quarter of 2012 compared with noninterest expense of $2.2 billion for the second quarter of 2011. Second quarter 2012 expense included a full quarter of operating expenses for the RBC Bank (USA) acquisition of $149 million, noncash charges of $130 million related to redemption of trust preferred securities and integration costs of $52 million. The impacts of these items were not significant to noninterest expense for the second quarter of 2011. Similar to the six month comparison, additions to legal reserves, increased expenses for other real estate owned and higher pension costs also contributed to the increase in noninterest expense compared to the prior year quarter.

Excluding noncash charges for trust preferred securities redemptions and integration expenses for both years, we expect that total noninterest expense for full year 2012 will increase in percentage terms by high single-digits compared to full year 2011. This expectation is primarily due to the inclusion of RBC Bank (USA) related expenses. This guidance excludes future significant legal and regulatory-related costs.

Table of Contents

We expect integration costs of $68 million and $28 million in the third and fourth quarters of 2012, respectively, and we are looking to achieve a total of $550 million in annualized cost savings at PNC and in integration savings at RBC Bank (USA). Noninterest expense for the third quarter of 2012 will include $95 million in non-cash charges for trust preferred securities redemptions and we expect potentially an additional $67 million in the fourth quarter assuming another redemption of approximately $500 million.

Effective Income Tax Rate

The effective income tax rate was 25.1% in the first six months of 2012 compared with 23.7% in the first six months of 2011. For the second quarter of 2012, our effective income tax rate was 24.1% compared with 20.4% for the second quarter of 2011. The increase in the effective tax rate in both comparisons was primarily attributable to a $54 million benefit in the second quarter of 2011 related to the reversal of deferred tax liabilities.

Consolidated Balance Sheet Review

Table 3: Summarized Balance Sheet Data

In millions	June 30 2012	Dec. 31 2011
Assets		
Loans	$ 180,425	$ 159,014
Investment securities	61,937	60,634
Cash and short-term investments	11,898	9,992
Loans held for sale	3,333	2,936
Goodwill and other intangible assets	10,962	10,144
Equity investments	10,617	10,134
Other, net	20,403	18,351
Total assets	$ 299,575	$ 271,205
Liabilities		
Deposits	$ 206,923	$ 187,966
Borrowed funds	43,689	36,704
Other	8,749	9,289
Total liabilities	259,361	233,959
Total shareholders equity	37,005	34,053
Noncontrolling interests	3,209	3,193
Total equity	40,214	37,246
Total liabilities and equity	$ 299,575	$ 271,205

The summarized balance sheet data above is based upon our Consolidated Balance Sheet in this Report.

The increase in total assets of $28.4 billion at June 30, 2012 compared with December 31, 2011 was primarily due to the addition of assets from the RBC Bank (USA) acquisition and organic loan growth. Total liabilities increased $25.4 billion from June 30, 2012 compared with December 31, 2011 primarily due to the addition of deposits from the RBC Bank (USA) acquisition and an increase in borrowed funds activity.

An analysis of changes in selected balance sheet categories follows.

Loans

A summary of the major categories of loans outstanding follows. Outstanding loan balances of $180.4 billion at June 30, 2012 and $159.0 billion at December 31, 2011 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums of $3.1 billion at June 30, 2012 and $2.3 billion at December 31, 2011, 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 the purchased impaired loans.

Loans increased $21.4 billion as of June 30, 2012 compared with December 31, 2011. On March 2, 2012, our RBC Bank (USA) acquisition added $14.5 billion of loans, which included $6.4 billion of commercial, $2.5 billion of commercial real estate, $3.4 billion of consumer

(including $3.0 billion of home equity loans and $.3 billion of credit card loans), $2.1 billion of residential real estate, and $.1 billion of equipment lease financing loans. Excluding acquisition activity, the growth in commercial loans was due to organic growth in the portfolio while the growth in consumer loans was primarily driven by automobile loans due to automobile paper securitizations and indirect automobile lending. In addition, excluding acquisition activity, the decline in residential real estate loans was due to loan demand being outpaced by paydowns, refinancing, and charge-offs.

Loans represented 60% of total assets at June 30, 2012 and 59% of total assets at December 31, 2011. Commercial lending represented 58% of the loan portfolio at June 30, 2012 and 56% at December 31, 2011. Consumer lending represented 42% at June 30, 2012 and 44% at December 31, 2011.

Commercial real estate loans represented 10% of total loans and 6% of total assets at both June 30, 2012 and December 31, 2011. See the Credit Risk Management portion of the Risk Management section of this Financial Review for additional details of loans.

Table of Contents

Table 4: Details Of Loans

In millions	June 30 2012	Dec. 31 2011
Commercial Lending		
Commercial		
Retail/wholesale trade	$ 13,434	$ 11,539
Manufacturing	13,442	11,453
Service providers	11,875	9,717
Real estate related (a)	10,051	8,488
Financial services	9,397	6,646
Health care	6,240	5,068
Other industries	14,462	12,783
Total commercial	78,901	65,694
Commercial real estate		
Real estate projects	12,837	10,640
Commercial mortgage	5,643	5,564
Total commercial real estate	18,480	16,204
Equipment lease financing	6,764	6,416
Total Commercial Lending	104,145	88,314
Consumer Lending		
Home equity		
Lines of credit	24,360	22,491
Installment	11,478	10,598
Total home equity	35,838	33,089
Residential real estate		
Residential mortgage	14,927	13,885
Residential construction	896	584
Total residential real estate	15,823	14,469
Credit card	4,123	3,976
Other consumer		
Education	8,807	9,582
Automobile	7,166	5,181
Other	4,523	4,403
Total other consumer	20,496	19,166
Total Consumer Lending	76,280	70,700
Total loans (b)	$ 180,425	$ 159,014

(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 $8.1 billion, or 4% of total loans, at June 30, 2012, and $6.7 billion, or 4% of total loans, at December 31, 2011. The increase is related to the addition of purchased impaired loans from the RBC Bank (USA) acquisition.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $76 billion for the first six months of 2012, including $41 billion in the second quarter.

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 considers 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 total ALLL of $4.2 billion at June 30, 2012 consisted of $1.9 billion and $2.3 billion established for the commercial lending and consumer lending categories, respectively. The ALLL included what we believe to be appropriate loss coverage on higher risk loans in the commercial and consumer portfolios. 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 and ALLL is included in Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in this Report.

Purchase Accounting Accretion and Valuation of Purchased Impaired Loans

Information related to purchase accounting accretion and valuation for purchased impaired loans for the second quarter and first six months of 2012 and 2011 follows.

Table of Contents

Table 5: Accretion Purchased Impaired Loans

In millions	Three months ended June 30 2012 (a)	Three months ended June 30 2011 (b)	Six months ended June 30 2012 (a)	Six months ended June 30 2011 (b)
Impaired loans				
Scheduled accretion	$ 178	$ 186	$ 336	$ 346
Reversal of contractual interest on impaired loans	(111)	(88)	(208)	(194)
Scheduled accretion net of contractual interest	67	98	128	152
Excess cash recoveries	51	40	91	121
Total impaired loans	$ 118	$ 138	$ 219	$ 273

(a) Represents National City and RBC Bank (USA) acquisitions.
(b) Represents National City acquisition.

Table 6: Accretable Net Interest Purchased Impaired Loans

In billions	2012	2011
January 1	$ 2.1	$ 2.2
Addition of accretable yield due to RBC Bank (USA) acquisition on March 2, 2012	.6	
Accretion	(.3)	(.4)
Excess cash recoveries	(.1)	(.1)
Net reclassifications to accretable from non-accretable and other activity	.1	.6
June 30 (a)	$ 2.4	$ 2.3

(a) As of June 30, 2012, we estimate that the reversal of contractual interest on purchased impaired loans will total approximately $1.5 billion in future periods. This will offset the total net accretable interest in future interest income of $2.4 billion on purchased impaired loans.

Table 7: Valuation of Purchased Impaired Loans

Dollars in billions	June 30, 2012 (a) Balance	June 30, 2012 (a) Net Investment	December 31, 2011 (b) Balance	December 31, 2011 (b) Net Investment
Commercial and commercial real estate loans:				
Unpaid principal balance	$ 2.2		$ 1.0	
Purchased impaired mark	(.7)		(.1)	
Recorded investment	1.5		.9	
Allowance for loan losses	(.2)		(.2)	
Net investment	1.3	59%	.7	70%
Consumer and residential mortgage loans:				
Unpaid principal balance	7.3		6.5	
Purchased impaired mark	(.7)		(.7)	
Recorded investment	6.6		5.8	
Allowance for loan losses	(.8)		(.8)	
Net investment	5.8	79%	5.0	77%
Total purchased impaired loans:				
Unpaid principal balance	9.5		7.5	
Purchased impaired mark	(1.4)		(.8)	
Recorded investment	8.1		6.7	
Allowance for loan losses	(1.0)		(1.0)	
Net investment	$ 7.1	75%	$ 5.7	76%

(a) Represents National City and RBC Bank (USA) acquisitions.
(b) Represents National City acquisition.

The unpaid principal balance of purchased impaired loans increased from $7.5 billion at December 31, 2011 to $9.5 billion at June 30, 2012 due to the acquisition of RBC Bank (USA), partially offset by payments, disposals, and charge-offs of amounts determined to be uncollectible. The remaining purchased impaired mark at June 30, 2012 was $1.4 billion, which was an increase from $0.8 billion at December 31, 2011. The associated allowance for loan losses remained flat at June 30, 2012 compared to December 31, 2011. The net investment of $5.7 billion at December 31, 2011 also increased 25% to $7.1 billion at June 30, 2012. At June 30, 2012, our largest individual purchased impaired loan had a recorded investment of $17.5 million.

We currently expect to collect total cash flows of $9.5 billion on purchased impaired loans, representing the $7.1 billion net investment (carrying value) at June 30, 2012 and the accretable net interest of $2.4 billion shown in the Accretable Net Interest-Purchased Impaired Loans table. These represent the net future expected cash flows on purchased impaired loans, as contractual interest will be reversed.

Weighted Average Life of the Purchased Impaired Portfolios

The table below provides the weighted average life (WAL) for each of the purchased impaired portfolios as of the second quarter of 2012.

Table 8: Weighted Average Life of the Purchased Impaired Portfolios

in millions	Recorded Investment	WAL (a)
Commercial	$ 405	2.6 years
Commercial real estate	1,127	2.2 years
Consumer (b)	2,774	4.5 years
Residential real estate	3,777	4.7 years
Total	$ 8,083	4.2 years

(a) Weighted average life represents the average number of years for which each dollar of unpaid principal remains outstanding.
(b) Portfolio primarily consists of nonrevolving home equity products.

Purchased Impaired Loans Accretable Difference Sensitivity Analysis

The following table provides a sensitivity analysis on the Purchased Impaired Loan portfolio. The analysis reflects hypothetical changes in key drivers for expected cash flows under declining and improving conditions. Any unusual significant economic events or changes, as well as other variables not considered below (e.g., natural disasters), could result in impacts outside of the ranges represented below. Additionally, commercial and commercial real estate loan settlements or sales proceeds can vary widely from appraised values due to a number of factors including, but not limited to special use considerations, liquidity premiums, and improvements / deterioration in other income sources.

Table 9: Accretable Difference Sensitivity Total Purchased Impaired Loans

In billions	For quarter ended June 30, 2012	Declining Scenario (a)	Improving Scenario (b)
Expected Cash Flows	$ 9.5	$ (0.5)	$ 0.8
Accretable Difference	2.4	(0.1)	0.5
Allowance for Loan and Lease Losses	(1.0)	(0.4)	0.3

(a) Declining Scenario Reflects hypothetical changes that would decrease future cash flow expectations. For consumer loans we assume home price forecast decreases by 10% and unemployment rate forecast increases by 2 percentage points; for commercial loans we assume that collateral values decrease by 10%.
(b) Improving Scenario Reflects hypothetical changes that would increase future cash flow expectations. For consumer loans we assume home price forecast increases by 10%, unemployment rate forecast decreases by 2 percentage points and interest rate forecast increases by 2 percentage points; for commercial loans we assume that collateral values increase by 10%.

The impact of declining cash flows is primarily reflected as immediate impairment (allowance for loan losses). The impact of increased cash flows is first recognized as a reversal of the allowance with any additional cash flow increases reflected as an increase in accretable yield over the life of the loan.

Net Unfunded Credit Commitments

Net unfunded credit commitments are comprised of the following:

Table 10: Net Unfunded Credit Commitments

In millions	June 30 2012	December 31 2011
Commercial / commercial real estate (a)	$ 70,808	$ 64,955
Home equity lines of credit	20,486	18,317
Credit card	17,896	16,216
Other	4,446	3,783
Total	$ 113,636	$ 103,271

(a) Less than 5% 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 $20.7 billion at June 30, 2012 and $20.2 billion at December 31, 2011.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $780 million at June 30, 2012 and $742 million at December 31, 2011 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 $11.3 billion at June 30, 2012 and $10.8 billion at December 31, 2011. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Table of Contents

Information regarding our allowance for unfunded loan commitments and letters of credit is included in Note 7 Allowance for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements of this Report.

INVESTMENT SECURITIES

Table 11: Details of Investment Securities

	June 30, 2012		December 31, 2011	
In millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale (a)	$ 50,585	$ 51,251	$ 48,609	$ 48,568
Securities held to maturity	10,686	11,146	12,066	12,450
Total securities	$ 61,271	$ 62,397	$ 60,675	$ 61,018

(a) Includes $355 million of both amortized cost and fair value of securities classified as corporate stocks and other at June 30, 2012. Comparably, at December 31, 2011, amortized cost and fair value of these corporate stocks and other was $368 million.

The carrying amount of investment securities totaled $61.9 billion at June 30, 2012, an increase of $1.3 billion, or 2%, from $60.6 billion at December 31, 2011. The increase primarily reflected an increase of $1.8 billion in available for sale asset-backed securities which is primarily due to securities added in the RBC Bank (USA) acquisition and an increase of $1.0 billion in available for sale agency residential mortgage-backed securities due to net purchase activity. These increases were partially offset by a $1.4 billion decrease in held to maturity debt securities due to principal payments of the held to maturity securities. Investment securities represented 21% of total assets at June 30, 2012 and 22% at December 31, 2011.

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 and agency commercial mortgage-backed securities collectively represented 60% of the investment securities portfolio at June 30, 2012.

At June 30, 2012, the securities available for sale portfolio included a net unrealized gain of $666 million, which represented the difference between fair value and amortized

cost. The comparable amount at December 31, 2011 was a net unrealized loss of $41 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 gain as compared with a loss at December 31, 2011 was primarily due to the effect of higher valuations of non-agency residential mortgage-backed securities which had a decrease in net unrealized losses of $430 million. 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 on our Consolidated Balance Sheet.

Additional information regarding our investment securities is included in Note 8 Investment Securities and Note 9 Fair Value in our Notes to Consolidated Financial Statements included in this Report.

Unrealized gains and losses on available for sale securities do not impact liquidity or risk-based capital under currently effective capital rules. 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 under currently effective capital rules. In addition, the amount representing the credit-related portion of OTTI on available for sale securities would reduce our earnings and regulatory capital ratios. Reductions in credit ratings of these securities would not have a direct impact on the risk-weightings of these securities under the proposed capital rules issued by the US banking regulators in June 2012.

The expected weighted-average life of investment securities (excluding corporate stocks and other) was 3.9 years at June 30, 2012 and 3.7 years at December 31, 2011.

We estimate that, at June 30, 2012, the effective duration of investment securities was 2.4 years for an immediate 50 basis points parallel increase in interest rates and 2.3 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31,

2011 were 2.6 years and 2.4 years, respectively.

Table of Contents

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:

Table 12: Vintage, Current Credit Rating, and FICO Score for Asset-Backed Securities

	June 30, 2012				
	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	$ 27,814	$ 876	$ 5,887	$ 2,802	$ 5,423
Fair Value Held to Maturity	4,324	1,367		3,102	984
Total Fair Value	$ 32,138	$ 2,243	$ 5,887	$ 5,904	$ 6,407
<u>% of Fair Value:</u>					
By Vintage					
2012	10%	1%		4%	
2011	29%	43%		5%	
2010	28%	17%		4%	4%
2009	11%	20%		3%	3%
2008	3%	2%			3%
2007	3%	2%	24%	8%	4%
2006	1%	4%	22%	22%	6%
2005 and earlier	7%	11%	53%	52%	6%
Not Available	8%		1%	2%	74%
Total	100%	100%	100%	100%	100%
By Credit Rating (at June 30, 2012)					
Agency	100%	100%			
AAA			1%	77%	60%
AA			1%	7%	28%
A			2%	10%	1%
BBB			5%	2%	
BB			12%	2%	
B			7%		1%
Lower than B			71%		8%
No rating			1%	2%	2%
Total	100%	100%	100%	100%	100%
By FICO Score (at origination)					
>720			56%		2%
<720 and >660			30%		6%
<660					3%
No FICO score			14%		89%
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 and the length of time that the security has been impaired 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.

Table of Contents

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 income (loss). Also see our Consolidated Statement of Comprehensive Income.

We recognized OTTI for the second quarter and first six months of 2012 and 2011 as follows:

Table 13: Other-Than-Temporary Impairments

	Three months ended June 30		Six months ended June 30	
In millions	2012	2011	2012	2011
Credit portion of OTTI losses (a)				
Non-agency residential mortgage-backed	$ 31	$ 35	$ 63	$ 63
Asset-backed	3	4	8	9
Other debt			1	1
Total credit portion of OTTI losses	34	39	72	73
Noncredit portion of OTTI (recoveries) (b)	(2)	34	(24)	30
Total OTTI losses	$ 32	$ 73	$ 48	$ 103

(a) Reduction of Noninterest income on our Consolidated Income Statement.
(b) Included in Accumulated other comprehensive income (loss), net of tax, on our Consolidated Balance Sheet. Also see our Consolidated Statement of Comprehensive Income.

Table of Contents

The following table summarizes net unrealized gains and losses recorded on non-agency residential and commercial mortgage-backed securities 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 the first six months of 2012 by investment type is included in Note 8 Investment Securities in the Notes To Consolidated Financial Statements in this Report.

Table 14: Net Unrealized Gains and Losses on Non-Agency Securities

	June 30, 2012					
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	Fair Value	Net Unrealized Gain (Loss)
Credit Rating Analysis						
AAA	$ 81		$ 1,675	$ 70	$ 3,148	$ 15
Other Investment Grade (AA, A, BBB)	507	$ 13	925	51	1,662	2
Total Investment Grade	588	13	2,600	121	4,810	17
BB	710	(107)	94	1	4	
B	369	(27)			56	(4)
Lower than B	4,190	(565)			529	(110)
Total Sub-Investment Grade	5,269	(699)	94	1	589	(114)
Total No Rating	30		108	3	21	(19)
Total	$ 5,887	$ (686)	$ 2,802	$ 125	$ 5,420	$ (116)
OTTI Analysis						
Investment Grade:						
OTTI has been recognized						
No OTTI recognized to date	$ 588	$ 13	$ 2,600	$ 121	$ 4,810	$ 17
Total Investment Grade	588	13	2,600	121	4,810	17
Sub-Investment Grade:						
OTTI has been recognized	3,393	(627)			555	(110)
No OTTI recognized to date	1,876	(72)	94	1	34	(4)
Total Sub-Investment Grade	5,269	(699)	94	1	589	(114)
No Rating:						
OTTI has been recognized					21	(19)
No OTTI recognized to date	30		108	3		
Total No Rating	30		108	3	21	(19)
Total	$ 5,887	$ (686)	$ 2,802	$ 125	$ 5,420	$ (116)
Securities Held to Maturity (Non-Agency)						
Credit Rating Analysis						
AAA			$ 2,861	$ 89	$ 655	$ 4
Other Investment Grade (AA, A, BBB)			241	8	220	1
Total Investment Grade			3,102	97	875	5
BB					4	
B						
Lower than B						
Total Sub-Investment Grade					4	
Total No Rating					99	4
Total			$ 3,102	$ 97	$ 978	$ 9

(a) Excludes $3 million and $6 million of available for sale and held to maturity agency asset-backed securities, respectively.

Residential Mortgage-Backed Securities

At June 30, 2012, our residential mortgage-backed securities portfolio was comprised of $32.1 billion fair value of US government agency-backed securities and $5.9 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 the first half of 2012, we recorded OTTI credit losses of $63 million on non-agency residential mortgage-backed securities. All of the losses were associated with securities rated below investment grade. As of June 30, 2012, the noncredit portion of OTTI losses recorded in Accumulated other comprehensive income for non-agency residential mortgage-backed securities totaled $627 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 June 30, 2012 totaled $1.9 billion, with unrealized net losses of $72 million. The results of our security-level assessments indicate that we will recover the entire cost basis of these securities. Note 8 Investment Securities in the Notes To Consolidated Financial Statements in 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 $5.9 billion at June 30, 2012 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 $2.2 billion fair value at June 30, 2012 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 the first six months of 2012.

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $6.4 billion at June 30, 2012 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 $8 million on asset-backed securities during the first six months of 2012. All of the securities are collateralized by first lien and second lien residential mortgage loans and are rated below investment grade. As of June 30, 2012, the noncredit portion of OTTI losses recorded in Accumulated other comprehensive income for asset-backed securities totaled $129 million and the related securities had a fair value of $576 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 June 30, 2012, the remaining fair value was $38 million, with unrealized net losses of $4 million. The results of our security-level assessments indicate that we will recover the cost basis of these securities. Note 8 Investment Securities in the Notes To Consolidated Financial Statements in 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.

Table 15: Loans Held For Sale

In millions	June 30 2012	December 31 2011
Commercial mortgages at fair value	$ 837	$ 843
Commercial mortgages at lower of cost or fair value	184	451
Total commercial mortgages	1,021	1,294
Residential mortgages at fair value	1,939	1,522
Other	373	120
Total	$ 3,333	$ 2,936

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 $10 million in unpaid principal balance of these commercial mortgage loans held for sale carried at fair value in the first six months of 2012. We sold $25 million of these loans in the first six months of 2011.

We recognized total net gains of $15 million in the first six months of 2012, including gains of $18 million in the second quarter, on the valuation and sale of commercial mortgage loans held for sale, net of hedges. Total net gains of $20 million on the valuation and sale of commercial mortgage loans held for sale, net of hedges, were recognized in the first six months of 2011, including gains of $7 million in the second quarter.

Residential mortgage loan origination volume was $7.0 billion in the first six months of 2012 compared to $5.8 billion for the first six months of 2011. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards.

We sold $6.4 billion of loans and recognized related gains of $318 million during the first six months of 2012, of which $177 million occurred in the second quarter. The comparable amounts for the first six months of 2011 were $6.5 billion and $171 million, respectively, including $73 million in the second quarter.

Interest income on loans held for sale was $95 million in the first six months of 2012, including $45 million in the second quarter. Comparable amounts for 2011 were $107 million and $38 million, respectively. These amounts are included in Other interest income on our Consolidated Income Statement.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $11.0 billion at June 30, 2012 and $10.1 billion at December 31, 2011. During the first six months of 2012, PNC recorded goodwill of $944 million and other intangible assets of $180 million associated with the RBC Bank (USA) acquisition. See Note 2 Acquisition and Divestiture Activity and Note 10 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in this Report.

Funding and Capital Sources

Table 16: Details Of Funding Sources

In millions	June 30 2012	December 31 2011
Deposits		
Money market	$ 99,661	$ 89,912
Demand	66,378	57,717
Retail certificates of deposit	26,274	29,518
Savings	10,068	8,705
Time deposits in foreign offices and other time	4,542	2,114
Total deposits	206,923	187,966
Borrowed funds		
Federal funds purchased and repurchase agreements	4,166	2,984
Federal Home Loan Bank borrowings	10,440	6,967
Bank notes and senior debt	10,185	11,793
Subordinated debt	7,593	8,321
Other	11,305	6,639
Total borrowed funds	43,689	36,704
Total	$ 250,612	$ 224,670

Total funding sources increased $25.9 billion at June 30, 2012 compared with December 31, 2011.

Total deposits increased $19.0 billion, or 10%, at June 30, 2012 compared with December 31, 2011. On March 2, 2012, our RBC Bank (USA) acquisition added $18.1 billion of deposits, including $6.9 billion of money market, $6.7 billion of demand deposit, $4.1 billion of retail certificates of deposit, and $.4 billion of savings accounts. Excluding acquisition activity, money market, demand deposits, savings and time deposits in foreign offices and other time deposit accounts increased for the six months ended June 30, 2012, partially offset by the maturity of retail certificates of deposit. Interest-bearing deposits represented 69% of total deposits at both June 30, 2012 and December 31, 2011. Total borrowed funds increased $7.0 billion since December 31, 2011. The change from December 31, 2011 was due to an increase in Federal funds purchased and repurchase agreements along with an increase in FHLB borrowings, commercial paper, and the issuance of $2.1 billion of bank notes and senior debt, partially offset by repayments, maturities and the redemption of trust preferred securities.

Capital

See 2012 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our June 2012 announcement of the July 2012 redemption of trust preferred securities, our June 2012 issuance of senior bank notes, our May 2012 redemption of trust preferred securities, our plans to purchase shares under PNC s existing common stock repurchase program (described

below) during 2012, our April 2012 increase to PNC s quarterly common stock dividend, redemption of trust preferred securities and issuance of preferred securities, and our March 2012 issuance of senior notes.

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 $3.0 billion, to $37.0 billion, at June 30, 2012 compared with December 31, 2011 and included an increase in retained earnings of $0.9 billion. The issuance of $1.5 billion of preferred stock in April 2012 contributed to the increase in capital surplus. Accumulated other comprehensive income increased $0.5 billion, to $0.4 billion, at June 30, 2012 compared with a loss of $0.1 billion at December 31, 2011 primarily due to higher net unrealized gains on securities and lower OTTI losses on debt securities. Common shares outstanding were 529 million at June 30, 2012 and 527 million at December 31, 2011.

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, regulatory and contractual limitations, and the potential impact on our credit ratings. Consistent with our capital plan submitted to the Federal Reserve in the first quarter of 2012, we plan to purchase up to $250 million of common stock under this program during 2012. Such purchases were initiated in the second quarter with approximately $50 million repurchased as of June 30, 2012.

Table 17: Risk-Based Capital

Dollars in millions	June 30 2012	December 31 2011
Capital components		
Shareholders equity		
Common	$ 33,885	$ 32,417
Preferred	3,120	1,636
Trust preferred capital securities	770	2,354
Noncontrolling interests	1,346	1,351
Goodwill and other intangible assets	(9,981)	(9,027)
Eligible deferred income taxes on goodwill and other intangible assets	372	431
Pension, other postretirement benefit plan adjustments	699	755
Net unrealized securities (gains) losses, after-tax	(472)	41
Net unrealized gains on cash flow hedge derivatives, after-tax	(664)	(717)
Other	(148)	(168)
Tier 1 risk-based capital	28,927	29,073
Subordinated debt	4,084	4,571
Eligible allowance for credit losses	3,201	2,904
Total risk-based capital	$ 36,212	$ 36,548
Tier 1 common capital		
Tier 1 risk-based capital	$ 28,927	$ 29,073
Preferred equity	(3,120)	(1,636)
Trust preferred capital securities	(770)	(2,354)
Noncontrolling interests	(1,346)	(1,351)
Tier 1 common capital	$ 23,691	$ 23,732
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	$ 254,875	$ 230,705
Adjusted average total assets	285,788	261,958
Capital ratios		
Tier 1 common	9.3%	10.3%
Tier 1 risk-based	11.4	12.6
Total risk-based	14.2	15.8
Leverage	10.1	11.1

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

Table of Contents

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 June 30, 2012 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 has started to and will further consider redeeming on the first call date some of its trust preferred securities, based on such considerations as dividend rates, future capital requirements, capital market conditions and other factors. See 2012 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our April 2012 and May 2012 redemptions of trust preferred securities and June 2012 announcement of the July 2012 redemption of trust preferred securities. See Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in Item 8 of our 2011 Form 10-K and Note 11 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes to Consolidated Financial Statements in this Report for additional information on trust preferred securities.

Our Tier 1 common capital ratio was 9.3% at June 30, 2012, compared with 10.3% at December 31, 2011. Our Tier 1 risk-based capital ratio decreased 120 basis points to 11.4% at June 30, 2012 from 12.6% at December 31, 2011. Our total risk-based capital ratio declined 160 basis points to 14.2% at June 30, 2012 from 15.8% at December 31, 2011. The decline in these ratios was primarily due to an increase in goodwill and risk-weighted assets as a result of the RBC Bank (USA) acquisition. Our Tier 1 risk-based capital ratio reflected second quarter 2012 capital actions of issuing approximately $1.5 billion of preferred stock and redeeming or announcing the redemption of approximately $1.8 billion of trust preferred securities. Risk-weighted assets increased $23.3 billion from $230.7 billion at December 31, 2011 to $254.0 billion at June 30, 2012 due to the RBC Bank (USA) acquisition and loan growth for the first six months of 2012.

At June 30, 2012, PNC and PNC Bank, National Association (PNC Bank), our domestic bank subsidiary, were both considered well capitalized based on US regulatory capital ratio requirements under Basel I. To qualify as well-capitalized , regulators currently require bank holding companies and banks to maintain capital ratios of at least 6% for Tier 1 risk-based, 10% for total risk-based, and 5% for leverage. We believe PNC and PNC Bank will continue to meet these requirements during the remainder of 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 included in our 2011 Form 10-K.

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 our 2011 Form 10-K and in the following sections of this Report:

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Financial Review,
- Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements,
- Note 11 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements, and
- Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements.

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 June 30, 2012 and December 31, 2011 is included in Note 3 of this Report.

Trust Preferred Securities

In connection with $1.9 billion in principal amount of junior subordinated debentures associated with trust preferred securities outstanding as of June 30, 2012 that were 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

Table of Contents

PNC Preferred Funding Trust II and Trust III, as described in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in our 2011 Form 10-K. See 2012 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our April 2012 and May 2012 redemptions of trust preferred securities and June 2012 announcement of the July 2012 redemption of trust preferred securities.

The replacement capital covenant described in Note 13 in our 2011 Form 10-K, for which the holders of our 6 7/8% Subordinated Notes due May 15, 2019 are the beneficiaries, is no longer applicable due to the July 2012 redemption of trust preferred securities issued by PNC Capital Trust E.

Fair Value Measurements

In addition to the following, see Note 9 Fair Value in the Notes To Consolidated Financial Statements in this Report for further information regarding fair value.

The following table summarizes 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.

Table 18: Fair Value Measurements Summary

In millions	June 30, 2012 Total Fair Value	June 30, 2012 Level 3	December 31, 2011 Total Fair Value	December 31, 2011 Level 3
Total assets	$ 69,521	$ 10,391	$ 66,658	$ 10,051
Total assets at fair value as a percentage of consolidated assets	23%		25%	
Level 3 assets as a percentage of total assets at fair value		15%		15%
Level 3 assets as a percentage of consolidated assets		3%		4%
Total liabilities	$ 8,363	$ 289	8,625	308
Total liabilities at fair value as a percentage of consolidated liabilities	3%		4%	
Level 3 liabilities as a percentage of total liabilities at fair value		3%		4%
Level 3 liabilities as a percentage of consolidated liabilities		<1%		<1%

The majority of assets recorded at fair value are included in the securities available for sale portfolio. The majority of Level 3 assets represent non-agency residential mortgage-backed and asset-backed securities in the securities available for sale portfolio for which there was limited market activity.

An instrument s categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. PNC reviews and updates fair value hierarchy classifications quarterly. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification (transfer) of assets or liabilities between hierarchy levels. During the first six months of 2012 there were transfers of assets and liabilities from Level 2 to Level 3 of $460 million consisting primarily of mortgage-backed securities as a result of a ratings downgrade which reduced the observability of valuation inputs. During the first six months of 2012 and 2011 there were no other material transfers of assets or liabilities between the hierarchy levels.

Table of Contents

EUROPEAN EXPOSURE

Table 19: Summary of European Exposure

In millions	Direct	Indirect	Total
June 30, 2012			
Greece, Ireland, Italy, Portugal, and Spain (GIIPS)	$ 121	$ 28	$ 149
Belgium, France, and Turkey	174	912	1,086
Subtotal	295	940	1,235
United Kingdom	978	466	1,444
Others (a)	872	859	1,731
Total	$ 2,145	$ 2,265	$ 4,410
December 31, 2011			
Greece, Ireland, Italy, Portugal, and Spain (GIIPS)	$ 118	$ 63	$ 181
Belgium, France, and Turkey	154	770	924
Subtotal	272	833	1,105
United Kingdom	847	396	1,243
Others (a)	968	803	1,771
Total	$ 2,087	$ 2,032	$ 4,119

(a) Others consist of Denmark, Germany, the Netherlands, Sweden, and Switzerland.

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. Foreign exposure underwriting and approvals are centralized. PNC currently underwrites new foreign activities if the credit is generally associated with activities of its US commercial customers, and in the case of PNC Business Credit s UK operations, transactions that are predominantly well collateralized by self liquidating assets such as receivables, inventories or in limited situations, the borrower s appraised value of certain fixed assets, such that PNC is at minimal risk of loss. Formerly PNC had underwritten foreign infrastructure leases supported by highly rated bank letters of credit, US Treasury securities and the underlying assets of the lease. 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.

Direct exposure primarily consists of loans, leases, securities, derivatives, letters of credit and unfunded contractual commitments with European entities, and totaled $2.1 billion at June 30, 2012. Direct exposure outstanding was $1.6 billion and other direct exposure was $498 million primarily for unfunded contractual commitments. The $1.6 billion outstanding balance (.55% of PNC total assets) primarily represents $635 million for cross-border leases in support of

national infrastructure, which are supported by letters of credit and other collateral having trigger mechanisms that require replacement or collateral in the form of cash or United States Treasury or government securities, $555 million for United Kingdom foreign office loans and $224 million of securities issued by AAA-rated sovereigns. The remaining $498 million of our direct exposure is largely comprised of $436 million for unfunded contractual commitments primarily for United Kingdom local office commitments to PNC Business Credit corporate customers on a secured basis or activities supporting our domestic customers export activities through the confirmation of trade letters of credit.

The comparable level of direct exposure at December 31, 2011 was $2.1 billion, including $1.6 billion outstanding and $485 million primarily for unfunded contractual commitments. The $1.6 billion outstanding balance (.59% of PNC total assets) primarily included $625 million for cross-border leases in support of national infrastructure, $382 million for United Kingdom foreign office loans and $357 million of securities issued by AAA-rated sovereigns. The remaining $485 million of our direct exposure is largely comprised of $440 million for unfunded contractual commitments primarily for United Kingdom local office commitments to PNC Business Credit corporate customers on a secured basis.

We also track 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. As of June 30, 2012 and December 31, 2011, PNC had $2.3 billion and $2.0 billion, respectively, of indirect exposure. For PNC to incur a loss in these indirect exposures, both the obligor and the financial counterparty participating bank would need to default. PNC assesses both the corporate customer and the participating banks for counterparty risk and where PNC has found that a participating bank exposes PNC to unacceptable risk, PNC will reject the participating bank as an acceptable counterparty and will ask the

corporate customer to find an acceptable participating bank.

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 $149 million as of June 30, 2012, of which $120

million is direct exposure for cross-border leases within Portugal and indirect exposure of $28 million for letters of credit with strong underlying obligors within Ireland, Italy and Spain. The comparable amounts as of December 31, 2011 were total direct and indirect exposure of $181 million, consisting of $118 million of direct exposure for cross-border leases within Portugal, indirect exposure of $48 million for letters of credit with strong underlying obligors within Ireland, Italy and Spain and $15 million for unfunded contractual commitments to Spain.

Direct and indirect exposure to entities in Belgium, France, and Turkey totaled $1.1 billion as of June 30, 2012. Direct exposure of $174 million primarily consists of $70 million for cross-border leases within Belgium, and $62 million for unfunded contractual commitments in France and $29 million of covered bonds issued by a financial institution in France. Indirect exposure is $912 million for letters of credit with strong underlying obligors in France and Belgium. The comparable amounts as of December 31, 2011 were total direct and indirect exposure of $924 million as of December 31, 2011 of which there was $154 million of direct exposure primarily consisting of $75 million for cross-border leases within Belgium, $62 million for unfunded contractual commitments in France and $11 million for 90% Overseas Private Investment Corporation (OPIC) guaranteed Turkish loans. Indirect exposure was $770 million for letters of credit with strong underlying obligors in France and Belgium.

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

Business segment results, including inter-segment revenues, and a description of each business are included in Note 19 Segment Reporting included in the Notes To Consolidated Financial Statements of this Report. Certain amounts included in this Financial Review differ from those amounts shown in Note 19 primarily due to the presentation in this Financial Review of business net interest revenue on a taxable-equivalent basis.

Results of individual businesses are presented based on our internal management reporting practices. 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 periodically refine our internal methodologies

as management reporting practices are enhanced. Retrospective application of new methodologies is made to prior period reportable business segment results and disclosures to create comparability to the current period presentation to reflect any such refinements. Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis. We have aggregated the business results for certain similar operating segments for financial reporting purposes.

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product maturities, duration and other factors. During the second quarter of 2012, enhancements were made to the funds transfer pricing methodology. Retrospective application of our new funds transfer pricing methodology has been made to the prior period reportable business segment results and disclosures to create comparability to the current period presentation, which we believe is more meaningful to readers of our financial statements.

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 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 net income. 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.

Table of Contents

Table 20: Results Of Businesses Summary (a)

(Unaudited)

Six months ended June 30 in millions	Income		Revenue		Average Assets (b)	
	2012	2011	2012	2011	2012	2011
Retail Banking	$ 283	$ 188	$ 2,987	$ 2,773	$ 71,420	$ 66,211
Corporate & Institutional Banking	1,072	906	2,705	2,320	97,866	78,002
Asset Management Group	74	103	483	467	6,613	6,786
Residential Mortgage Banking	(152)	127	184	478	11,745	11,218
BlackRock	178	179	227	229	5,597	5,596
Non-Strategic Assets Portfolio	138	109	421	515	12,407	13,743
Total business segments	1,593	1,612	7,007	6,782	205,648	181,556
Other (c) (d)	(236)	132	348	451	83,199	80,270
Net income	$ 1,357	$ 1,744	$ 7,355	$ 7,233	$ 288,847	$ 261,826

(a) During the second quarter of 2012, enhancements were made to the funds transfer pricing methodology. Retrospective application of our new funds transfer pricing methodology has been made to the prior period reportable business segment results and disclosures to create comparability to the current period presentation, which we believe is more meaningful to readers of our financial statements.

(b) Period-end balances for BlackRock.

(c) For our segment reporting presentation in this Financial Review, Other for the first six months of 2012 included $197 million of pretax integration costs related to acquisitions.

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

Table of Contents

Retail Banking

(Unaudited)

Table 21: Retail Banking Table

Six months ended June 30 Dollars in millions, except as noted	2012	2011
Income Statement		
Net interest income	$ 2,159	$ 1,878
Noninterest income		
Service charges on deposits	258	242
Brokerage	94	105
Consumer services	404	481
Other	72	67
Total noninterest income	828	895
Total revenue	2,987	2,773
Provision for credit losses	300	456
Noninterest expense	2,240	2,021
Pretax earnings	447	296
Income taxes	164	108
Earnings	$ 283	$ 188
Average Balance Sheet		
Loans		
Consumer		
Home equity	$ 27,499	$ 25,984
Indirect auto	4,735	2,579
Indirect other	1,242	1,565
Education	9,270	8,991
Credit cards	4,001	3,705
Other	2,222	1,816
Total consumer	48,969	44,640
Commercial and commercial real estate	11,083	10,711
Floor plan	1,733	1,523
Residential mortgage	1,002	1,241
Total loans	62,787	58,115
Goodwill and other intangible assets	6,058	5,759
Other assets	2,575	2,337
Total assets	$ 71,420	$ 66,211
Deposits		
Noninterest-bearing demand	$ 19,572	$ 18,274
Interest-bearing demand	26,986	21,397
Money market	45,436	40,583
Total transaction deposits	91,994	80,254
Savings	9,489	7,858
Certificates of deposit	27,309	34,709
Total deposits	128,792	122,821
Other liabilities	410	955
Capital	8,391	8,148
Total liabilities and equity	$ 137,593	$ 131,924

Table of Contents

Six months ended June 30

Dollars in millions, except as noted	2012	2011
Performance Ratios		
Return on average capital	7%	5%
Return on average assets	.80	.57
Noninterest income to total revenue	28	32
Efficiency	75	73
Other Information (a)		
Credit-related statistics:		
Commercial nonperforming assets	$ 275	$ 301
Consumer nonperforming assets	685	403
Total nonperforming assets (b)	$ 960	$ 704
Purchased impaired loans (c)	$ 886	$ 826
Commercial lending net charge-offs	$ 66	$ 132
Credit card lending net charge-offs	99	122
Consumer lending (excluding credit card) net charge-offs	213	226
Total net charge-offs	$ 378	$ 480
Commercial lending annualized net charge-off ratio	1.04%	2.18%
Credit card lending annualized net charge-off ratio	4.98%	6.64%
Consumer lending (excluding credit card) annualized net charge-off ratio	.93%	1.08%
Total annualized net charge-off ratio	1.21%	1.67%
Home equity portfolio credit statistics: (d)		
% of first lien positions at origination	39%	37%
Weighted-average loan-to-value ratios (LTVs) (e)	78%	73%
Weighted-average updated FICO scores (f)	742	743
Annualized net charge-off ratio	1.01%	1.16%
Loans 30 59 days past due	.54%	.48%
Loans 60 89 days past due	.33%	.30%
Loans 90 days past due (g)	1.24%	1.02%
Other statistics:		
ATMs	7,206	6,734
Branches (h)	2,888	2,459
Customer-related statistics: (in thousands)		
Retail Banking checking relationships	6,349	5,627
Retail online banking active customers	3,953	3,354
Retail online bill payment active customers	1,189	1,045
Brokerage statistics:		
Financial consultants (i)	684	712
Full service brokerage offices	40	37
Brokerage account assets (billions)	$ 36	$ 35

(a) Presented as of June 30, except for net charge-offs and annualized net charge-off ratios, which are for the six months ended.
(b) Includes nonperforming loans of $924 million at June 30, 2012 and $679 million at June 30, 2011. In the first quarter of 2012, we adopted a policy stating that Home equity loans past due 90 days or more would be placed on nonaccrual status. The prior policy required that these loans be past due 180 days before being placed on nonaccrual status.
(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) Updated LTV is reported for June 30, 2012. For June 30, 2011, LTV is 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) Includes non-accrual loans.
(h) Excludes satellite offices (e.g., drive-ups, electronic branches, and retirement centers) that provide limited products and/or services.
(i) Financial consultants provide services in full service brokerage offices and traditional bank branches.

Retail Banking earned $283 million for the first six months of 2012 compared with earnings of $188 million for the same period a year ago. The increase in earnings resulted from a lower provision for credit losses, organic growth in loan and transaction deposit balances, lower rates paid on deposits, higher levels of customer-initiated transactions, and the impact of the RBC Bank (USA) acquisition, partially offset by the regulatory impact of lower interchange fees on debit card transactions and additions to legal reserves.

The results for the first six months of 2012 include the impact of the retail business associated with the acquisition of RBC Bank (USA) and the credit card portfolio purchase from RBC Bank (Georgia), National Association in March 2012. Retail Banking added approximately $12.1 billion in deposits, $4.9 billion in loans, 460,000 checking relationships, over 400 branches, and over 400 ATMs through this acquisition. Retail Banking s footprint extends across 17 states and Washington, D.C. covering nearly half the US population and serving 5,612,000 consumers and 737,000 small businesses with 2,888 branches and 7,206 ATM s.

Retail Banking s core strategy is to grow consumer and small business checking households by providing an experience that builds customer loyalty and creates opportunities to sell other products and services including loans, savings, investment products and money management services. Net new checking relationships grew 588,000 in the first six months of 2012, including 460,000 from the RBC Bank (USA) acquisition. The growth reflects strong results and gains in all of our markets as well as strong customer retention in the overall network. The business is also focused on expanding the use of technology, using services such as online banking and mobile deposit taking to improve customer service convenience and lower our service delivery costs. Active online banking customers and active online bill payment customers increased by 18% and 14%, respectively, from June 30 of the prior year.

Total revenue for the first six months of 2012 was $3.0 billion compared with $2.8 billion for the same period of 2011. Net interest income of $2.2 billion increased $281 million compared with the first six months of 2011. The increase resulted from higher organic loan and transaction deposit balances, lower rates paid on deposits, and the impact of the RBC (USA) acquisition.

Noninterest income declined $67 million compared to the first half of 2011. The decline was driven by the regulatory impact of lower interchange fees on debit card transactions, and lower brokerage annuity fees as a result of the low rate environment, partially offset by higher volumes of customer-initiated transactions, including debit and credit cards, and the impact of RBC Bank (USA). The Dodd-Frank limits related to interchange rates on debit card transactions were effective October 1, 2011. In the first six months of 2012, the negative impact on Retail Banking revenue from these limits was approximately $150 million.

The provision for credit losses was $300 million in the first six months of 2012 compared with $456 million in prior year. Net charge-offs were $378 million for the first half of 2012 compared with $480 million for the same period in 2011. Improvements in credit quality over the prior year were evident in the small business, home equity and credit card portfolios. The level of provisioning going forward will be dependent on general economic conditions, loan growth, utilization of credit commitments and asset quality.

Noninterest expense increased $219 million in the first six months of 2012 compared to the same period of 2011. The increase was primarily attributable to the operating expenses associated with RBC Bank (USA) and additions to legal reserves.

Growing core checking deposits is key to Retail Banking s growth and to providing a source of low-cost funding to PNC. The deposit product strategy of Retail Banking is to remain disciplined on pricing, target specific products and markets for growth, and focus on the retention and growth of balances for relationship customers. In the first six months of 2012, average total deposits of $128.8 billion increased $6.0 billion, or 5%, compared with the same period in 2011.

- Average transaction deposits grew $11.7 billion, or 15% and average savings deposit balances grew $1.6 billion or 21% year over year as a result of organic deposit growth along with the continued customer preference for liquidity and the RBC Bank (USA) acquisition. In the first half of 2012, compared with the same period a year ago, average demand deposits increased $6.9 billion, or 17% to $46.6 billion; average money market deposits increased $4.9 billion, or 12% to $45.4 billion.
- Total average certificates of deposit decreased $7.4 billion or 21% compared to the same period in 2011. The decline in average certificates of deposit was due to the run-off of high rate certificates of deposit partially offset by the impact of the RBC Bank (USA) acquisition.

Retail Banking continues to focus on a relationship-based lending strategy that targets specific customer sectors, including mass and mass affluent consumers, small businesses and auto dealerships. In the first six months of 2012, average total loans were $62.8 billion, an increase of $4.7 billion, or 8%, over the same period in 2011, of which $3.1 billion was attributable to the RBC Bank (USA) acquisition, primarily in the home equity portfolio.

- Average indirect auto loans increased $2.2 billion, or 84%, over the first six months of 2011. 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 home equity loans increased $1.5 billion, or 6%, compared with the same period in 2011. The increase was due to the RBC Bank (USA)

acquisition. The remainder of the portfolio showed a decline as loan demand was outpaced by paydowns, refinancings, and charge-offs. Retail Banking s home equity loan portfolio is relationship based, with 97% of the portfolio attributable to borrowers in our primary geographic footprint.

Average commercial and commercial real estate loans increased $372 million, or 3%, compared with the same period in 2011. The increase was due to the acquisition of RBC Bank (USA). The remainder of the portfolio showed a decline as loan demand was outpaced by paydowns, refinancings, and charge-offs.

Average credit card balances increased $296 million, or 8%, compared with the first six months of 2011 as a result of an increase in active accounts and the portfolio purchase from RBC Bank (Georgia), National Association in March 2012.

Average education loans were $279 million, or 3%, higher in the first half of 2012 compared with the same period in 2011, primarily due to portfolio purchases in July 2011 and November 2011 of approximately $445 million and $560 million, respectively.

Average auto dealer floor plan loans grew $210 million, or 14%, compared with the first six months of 2011, primarily resulting from dealer line utilization and additional dealer relationships.

Average indirect other and residential mortgages in this segment are primarily run-off portfolios and declined $323 million and $239 million, respectively, compared with the same period in 2011. The indirect other portfolio is comprised of marine, RV, and other indirect loan products.

Corporate & Institutional Banking

(Unaudited)

Table 22: Corporate & Institutional Banking Table

Six months ended June 30 Dollars in millions, except as noted	2012	2011
Income Statement		
Net interest income	$ 2,023	$ 1,697
Noninterest income		
Corporate service fees	448	376
Other	234	247
Noninterest income	682	623
Total revenue	2,705	2,320
Provision for credit losses	52	1
Noninterest expense	959	889
Pretax earnings	1,694	1,430
Income taxes	622	524
Earnings	$ 1,072	$ 906
Average Balance Sheet		
Loans		
Commercial	$ 46,004	$ 33,939
Commercial real estate	15,158	14,091
Commercial real estate related	5,258	3,478
Asset-based lending	9,510	7,667
Equipment lease financing	5,808	5,511
Total loans	81,738	64,686
Goodwill and other intangible assets	3,595	3,470
Loans held for sale	1,217	1,285
Other assets	11,316	8,561
Total assets	$ 97,866	$ 78,002
Deposits		
Noninterest-bearing demand	$ 37,519	$ 28,678
Money market	14,803	12,388
Other	5,653	5,601
Total deposits	57,975	46,667
Other liabilities	16,769	12,540
Capital	8,676	7,893
Total liabilities and equity	$ 83,420	$ 67,100
Performance Ratios		
Return on average capital	25%	23%
Return on average assets	2.20	2.34
Noninterest income to total revenue	25	27
Efficiency	35	38
Commercial Mortgage Servicing Portfolio (in billions)		
Beginning of period	$ 267	$ 266
Acquisitions/additions	17	23
Repayments/transfers	(20)	(21)
End of period	$ 264	$ 268
Other Information		
Consolidated revenue from: (a)		
Treasury Management	$ 697	$ 624
Capital Markets	$ 307	$ 304
Commercial mortgage loans held for sale (b)	$ 47	$ 52
Commercial mortgage loan servicing income, net of amortization (c)	107	87
Commercial mortgage servicing rights (impairment)/recovery, net of hedge	(25)	(75)
Total commercial mortgage banking activities	$ 129	$ 64
Total loans (d)	$ 88,810	$ 66,142
<u>Credit-related statistics:</u>		

Nonperforming assets (d) (e)	$ 1,686	$ 2,260
Purchased impaired loans (d) (f)	$ 1,088	$ 603
Net charge-offs	$ 73	$ 238
Net carrying amount of commercial mortgage servicing rights (d)	$ 398	$ 592

(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, derivative 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, net of hedge is shown separately.

(d) As of June 30.

(e) Includes nonperforming loans of $1.5 billion at June 30, 2012 and $2.1 billion at June 30, 2011.

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

Corporate & Institutional Banking earned $1.1 billion in the first six months of 2012 compared with $.9 billion in the first six months of 2011. The increase in earnings was primarily due to higher net interest income. We continued to focus on adding new clients, increasing cross sales, and remaining committed to strong expense discipline.

Results in 2012 include the impact of the RBC Bank (USA) acquisition in March 2012 which added approximately $7.5 billion of loans and $4.8 billion of deposits at acquisition date.

Highlights of Corporate & Institutional Banking s performance during the first six months of 2012 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 were nearly 500 in the first half of 2012.
- Loan commitments increased 23% to $169 billion at June 30, 2012 compared to June 30, 2011, primarily due to the RBC Bank (USA) acquisition and growth in our Financial Services Advisory and Banking (FSAB), Corporate Finance, Public Finance, Healthcare, Real Estate and Business Credit businesses.
- Period-end loan balances have increased for seven consecutive quarters, including an increase of 5% at June 30, 2012 compared with March 31, 2012 and 34% compared with June 30, 2011.
- 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-related products and services to customers in PNC s markets continued to be successful and were ahead of 2011.
- 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 March 31, 2012 according to Mortgage Bankers Association and has also received the highest U.S. servicer and special servicer ratings from Fitch Ratings and Standard & Poor s for the 11th consecutive year.

Net interest income for the first six months of 2012 was $2.0 billion, a 19% increase from the first six months of 2011, reflecting higher average loans and deposits including the impact of the RBC Bank (USA) acquisition.

Corporate service fees were $448 million in the first half of 2012, a increase of $72 million from the first half of 2011, primarily due to higher commercial mortgage banking revenue

and merger and acquisition advisory fees. The major components of corporate service fees are treasury management, corporate finance fees and commercial mortgage servicing revenue.

Other noninterest income was $234 million in the first six months of 2012 compared with $247 million in the first six months of 2011. The decrease of $13 million was primarily due to increased impact of counterparty credit risk on the valuations of customer derivatives positions.

The provision for credit losses was $52 million in the first six months of 2012 compared with $1 million in the first six months of 2011. The increase reflected the impact of higher loan and commitment levels. Net charge-offs were $73 million in the first six months of 2012, which decreased $165 million, or 69%, compared with the first six months of 2011. The decline was attributable primarily to the commercial real estate portfolio. Nonperforming assets declined for the ninth consecutive quarter, and at $1.7 billion represented a 25% decrease from June 30, 2011.

Noninterest expense was $959 million in the first half of 2012, an increase of $70 million from the first half of 2011. Higher compensation-related costs were driven by higher staffing, including the impact of the RBC Bank (USA) acquisition.

Average loans were $81.7 billion in the first six months of 2012 compared with $64.7 billion in the first six months of 2011, an increase of 26%.

- 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 $10.1 billion or 31% in the first half of 2012 compared with the first half of 2011, primarily due to an increase in loan commitments from new 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 increased $2.1 billion or 14% in the first half of 2012 compared to the first half of 2011 due to improved originations.
- PNC Business Credit is one of the top five asset-based lenders in the country with increasing market share according to the Commercial Finance Association. The loan portfolio is relatively high yielding, with moderate risk, as the loans are mainly secured by short-term assets. Average loans increased $1.8 billion or 24% in the first six months of 2012 compared with the first six months

of 2011 due to customers seeking stable lending sources, loan usage rates, and market share expansion.

Table of Contents

PNC Equipment Finance is the 4th largest bank-affiliated leasing company with over $10 billion in equipment finance assets.
Average deposits were $58.0 billion in the first six months of 2012, an increase of $11.3 billion, or 24%, compared with the first six months of 2011.

- Deposit growth has been very strong, consistent with the industry-wide trend, as clients hold record levels of cash.
- 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. Interest in this product has been muted due to the current rate environment.

The commercial mortgage servicing portfolio was $264 billion at June 30, 2012 compared with $268 billion at June 30, 2011. Servicing additions were more than 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.

Table of Contents

Asset Management Group

(Unaudited)

Table 23: Asset Management Group Table

Six months ended June 30

Dollars in millions, except as noted	2012	2011
Income Statement		
Net interest income	$ 150	$ 138
Noninterest income	333	329
Total revenue	483	467
Provision for credit losses (benefit)	9	(24)
Noninterest expense	357	328
Pretax earnings	117	163
Income taxes	43	60
Earnings	$ 74	$ 103
Average Balance Sheet		
Loans		
Consumer	$ 4,252	$ 4,062
Commercial and commercial real estate	1,112	1,395
Residential mortgage	692	713
Total loans	6,056	6,170
Goodwill and other intangible assets	339	370
Other assets	218	246
Total assets	$ 6,613	$ 6,786
Deposits		
Noninterest-bearing demand	$ 1,468	$ 1,112
Interest-bearing demand	2,656	2,301
Money market	3,593	3,577
Total transaction deposits	7,717	6,990
CDs/IRAs/savings deposits	519	664
Total deposits	8,236	7,654
Other liabilities	70	70
Capital	405	349
Total liabilities and equity	$ 8,711	$ 8,073
Performance Ratios		
Return on average capital	37%	60%
Return on average assets	2.25	3.06
Noninterest income to total revenue	69	70
Efficiency	74	70
Other Information		
Total nonperforming assets (a) (b)	$ 67	$ 69
Purchased impaired loans (a) (c)	$ 122	$ 135
Total net charge-offs (recoveries)	$ 5	$ (11)
Assets Under Administration (in billions) (a) (d)		
Personal	$ 102	$ 102
Institutional	112	117
Total	$ 214	$ 219

Table of Contents

Six months ended June 30

Dollars in millions, except as noted	2012	2011
Asset Type		
Equity	$ 116	$ 121
Fixed Income	66	65
Liquidity/Other	32	33
Total	$ 214	$ 219
Discretionary assets under management		
Personal	$ 71	$ 70
Institutional	38	39
Total	$ 109	$ 109
Asset Type		
Equity	$ 56	$ 56
Fixed Income	38	37
Liquidity/Other	15	16
Total	$ 109	$ 109
Nondiscretionary assets under administration		
Personal	$ 31	$ 32
Institutional	74	78
Total	$ 105	$ 110
Asset Type		
Equity	$ 60	$ 65
Fixed Income	28	28
Liquidity/Other	17	17
Total	$ 105	$ 110

(a) As of June 30.
(b) Includes nonperforming loans of $63 million at June 30, 2012 and $64 million at June 30, 2011.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account assets.

Asset Management Group earned $74 million through the first six-months of 2012 compared with $103 million through the same period in 2011. Assets under administration were $214 billion as of June 30, 2012 compared to $219 billion as of June 30, 2011 driven by the exit of pension related assets. Revenue increased $16 million or 3% in the year-over-year comparison as higher average deposit balances increased net interest income by 9% and stronger average equity markets and strong sales drove a 1% increase in noninterest income. This revenue increase was offset by higher noninterest expense from strategic business investments and higher provision for credit losses. Net charge-offs were $5 million compared with net recoveries of $11 million through the first six months of 2011.

The core growth strategies for the business continue to include: investing in higher growth geographies, increasing internal referral sales and adding new front line sales staff. Through the second quarter of 2012, the business delivered strong sales production 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 the first six months of 2012 include the following:

- Net flows of approximately $0.2 billion in discretionary assets under management after adjustments to total net flows for cyclical client activities;
- New primary client acquisition has increased nearly 25% over 2011;
- Strong sales as production has increased for five consecutive quarters, including an increase of nearly 40% over the first six months of 2011;
- Significant referrals from other PNC lines of business, an increase of 45% over 2011; and
- Continuing levels of new business investment and focused hiring to drive growth with nearly 170 external new hires.

Assets under administration were $214 billion at June 30, 2012, compared to $219 billion at June 30, 2011. Discretionary assets under management were $109 billion at both June 30, 2012 and June 30, 2011. Nondiscretionary assets under administration of $105 billion decreased by $5 billion from June 30, 2011.

Table of Contents

Total revenue for the first half of 2012 was $483 million compared with $467 million for the same period in 2011. Net interest income was $150 million for the first six months of 2012 compared with $138 million in the same period in 2011. The increase was primarily attributable to higher average deposit balances. Noninterest income was $333 million for the first six months of 2012, an increase of $4 million from the prior year due to stronger average equity markets and strong sales.

Provision for credit losses was $9 million for the first six months of 2012 compared to a benefit of $24 million for the same period of 2011.

Noninterest expense was $357 million in the first half of 2012, an increase of $29 million or 9% from the prior year. The increase was attributable to investments in the business to

drive growth including front-line sales staff, client-facing technology and aggressive marketing. Over the last 12 months, total full-time headcount has increased by approximately 166 positions or 5%. Asset Management Group remains focused on disciplined expense management as it invests in these strategic growth opportunities.

Average deposits for the first half of 2012 increased $582 million, or 8%, over the prior year period. Average transaction deposits grew 10% compared with the 2011 period and were partially offset by the strategic run-off of higher rate certificates of deposit in the comparison. Average loan balances of $6.1 billion for the first half of 2012 decreased $114 million, or 2%, from the prior year period as portfolio repositioning and loan pay downs exceeded new loan production.

Table of Contents

Residential Mortgage Banking

(Unaudited)

Table 24: Residential Mortgage Banking Table

Six months ended June 30

Dollars in millions, except as noted	2012	2011
Income Statement		
Net interest income	$ 104	$ 103
Noninterest income		
Loan servicing revenue		
Servicing fees	108	113
Net MSR hedging gains	110	116
Loan sales revenue		
Provision for residential mortgage repurchase obligations	(470)	(35)
Loan sales revenue	318	171
Other	14	10
Total noninterest income	80	375
Total revenue	184	478
Provision for credit losses (benefit)	(9)	
Noninterest expense	433	277
Pretax earnings (loss)	(240)	201
Income taxes (benefit)	(88)	74
Earnings (loss)	$ (152)	$ 127
Average Balance Sheet		
Portfolio loans	$ 2,836	$ 2,718
Loans held for sale	1,753	1,632
Mortgage servicing rights (MSR)	655	1,037
Other assets	6,501	5,831
Total assets	$ 11,745	$ 11,218
Deposits	$ 1,723	$ 1,578
Borrowings and other liabilities	4,209	3,696
Capital	995	698
Total liabilities and equity	$ 6,927	$ 5,972
Performance Ratios		
Return on average capital	(31)%	37%
Return on average assets	(2.60)	2.28
Noninterest income to total revenue	43	78
Efficiency	235	58
Residential Mortgage Servicing Portfolio Third-Party		
(in billions)		
Beginning of period	$ 118	$ 125
Acquisitions	7	5
Additions	6	7
Repayments/transfers	(15)	(12)
End of period	$ 116	$ 125
Servicing portfolio third-party statistics: (a)		
Fixed rate	91%	90%
Adjustable rate/balloon	9%	10%
Weighted-average interest rate	5.21%	5.49%
MSR capitalized value (in billions)	$ .6	$ 1.0
MSR capitalization value (in basis points)	50	80
Weighted-average servicing fee (in basis points)	29	29
Other Information		
Loan origination volume (in billions)	$ 7.0	$ 5.8
Percentage of originations represented by:		
Agency and government programs	100%	100%
Refinance volume	77%	77%
Total nonperforming assets (a) (b)	$ 78	$ 65

Purchased impaired loans (a) (c)	$ 84	$ 141

(a) As of June 30.
(b) Includes nonperforming loans of $37 million at June 30, 2012 and $10 million at June 30, 2011.
(c) Recorded investment of purchased impaired loans related to acquisitions.

Table of Contents

Residential Mortgage Banking reported a loss of $152 million in the first six months of 2012 compared with earnings of $127 million in the first six months of 2011. Earnings declined from the prior year six month period primarily as a result of lower noninterest income reflecting higher provision for residential mortgage repurchase obligations and higher noninterest expense, partially offset by increased loan sales revenue driven by higher loan origination volume.

The strategic focus of the business is the acquisition of new customers through a retail loan officer sales force with an emphasis on home purchase transactions. Two key aspects of this strategy are: (1) Competing on the basis of superior service to new and existing customers in serving their home purchase and refinancing needs; and (2) pursuing strategic partnerships with reputable residential real estate franchises to acquire new customers. A key consideration in pursuing this approach is the cross-sell opportunity, especially in the bank footprint markets.

Residential Mortgage Banking overview:

- Total loan originations were $7.0 billion for the first six months of 2012 compared with $5.8 billion in the comparable period of 2011. Loans continue to be originated primarily through direct channels under FNMA, FHLMC and FHA/VA agency guidelines. Refinancings were 77% of originations in both periods. During the first six months of 2012, 30% of loan originations were under the original or revised Home Affordable Refinance Program (HARP or HARP 2).
- 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 June 30, 2012, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $462 million compared with $95 million at June 30, 2011. See the Recourse And Repurchase Obligations section of this Financial Review and Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.
  - PNC has and expects to experience elevated levels of residential mortgage loan repurchase demands reflecting a change in behavior and demand patterns of two government-sponsored enterprises, FNMA and FHLMC, primarily related to loans sold in 2006 through 2008 in agency securitizations.
- Residential mortgage loans serviced for others totaled $116 billion at June 30, 2012 compared with $125 billion at June 30, 2011 as payoffs continued to outpace new direct loan origination volume and acquisitions.
- Noninterest income was $80 million in the first six months of 2012 compared with $375 million in the first six months of 2011. The decrease resulted from additions to reserves of $470 million for residential mortgage loan repurchase obligations, partially offset by increased loan sales revenue driven by higher loan origination volume.
- Net interest income was $104 million in the first six months of 2012 compared with $103 million in the first six months of 2011.
- Noninterest expense was $433 million in the first six months of 2012 compared with $277 million in the first six months of 2011. The increase from the prior year period was primarily driven by additions to legal reserves and higher residential mortgage foreclosure-related expenses.
- The fair value of mortgage servicing rights was $0.6 billion at June 30, 2012 compared with $1.0 billion at June 30, 2011. The decline was due to lower mortgage rates at June 30, 2012 and a smaller mortgage servicing portfolio.

BlackRock

(Unaudited)

Table 25: BlackRock Table

Information related to our equity investment in BlackRock follows:

Six months ended June 30 Dollars in millions	2012	2011
Business segment earnings (a)	$ 178	$ 179
PNC s economic interest in BlackRock (b)	22%	22%

(a) Includes PNC s share of BlackRock s reported GAAP earnings and additional income taxes on those earnings incurred by PNC.
(b) At June 30.

In billions	June 30 2012	Dec. 31 2011
Carrying value of PNC s investment in BlackRock (c)	$ 5.4	$ 5.3
Market value of PNC s investment in BlackRock (d)	6.1	6.4

(c) PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $1.8 billion at June 30, 2012 and $1.7 billion at December 31, 2011.
In May 2012, we exchanged 2 million shares of BlackRock Series B Preferred Stock for an equal number of shares of BlackRock common stock. The exchange transaction had no impact on the carrying value of our investment in BlackRock nor our use of the equity method of accounting.

(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 9 Fair Value in the Notes To Consolidated Financial Statements of this Report.

Table of Contents

At June 30, 2012, 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 was approximately 21% at June 30, 2012.

Our 2011 Form 10-K includes additional information about our investment in BlackRock, including the September 2011 transfer of 1.3 million shares of BlackRock Series C Preferred Stock from PNC to BlackRock to satisfy a portion of our LTIP obligation.

Non-Strategic Assets Portfolio

(Unaudited)

Table 26: Non-Strategic Assets Portfolio Table

Six months ended June 30 Dollars in millions	2012	2011
Income Statement		
Net interest income	$ 438	$ 493
Noninterest income	(17)	22
Total revenue	421	515
Provision for credit losses	68	233
Noninterest expense	135	109
Pretax earnings	218	173
Income taxes	80	64
Earnings	$ 138	$ 109
Average Balance Sheet		
Commercial Lending:		
Commercial/Commercial real estate	$ 1,006	$ 1,477
Lease financing	672	727
Total commercial lending	1,678	2,204
Consumer Lending:		
Consumer	4,758	5,429
Residential real estate	6,291	6,293
Total consumer lending	11,049	11,722
Total portfolio loans	12,727	13,926
Other assets (a)	(320)	(183)
Total assets	$ 12,407	$ 13,743
Deposits and other liabilities	$ 179	$ 148
Capital	1,244	1,397
Total liabilities and equity	$ 1,423	$ 1,545
Performance Ratios		
Return on average capital	22%	16%
Return on average assets	2.24	1.60
Other Information		
Nonperforming assets (b) (c)	$ 1,120	$ 1,087
Purchased impaired loans (b) (d)	$ 5,889	$ 5,543
Net charge-offs (e)	$ 174	$ 219
Annualized net charge-off ratio (e)	2.75%	3.17%
Loans (b)		
Commercial Lending		
Commercial/Commercial real estate	$ 945	$ 1,222
Lease financing	677	701
Total commercial lending	1,622	1,923
Consumer Lending		
Consumer	4,575	5,240
Residential real estate	6,475	6,250
Total consumer lending	11,050	11,490
Total loans	$ 12,672	$ 13,413

(a) Other assets includes deferred taxes, ALLL and OREO. Other assets were negative in both periods due to the ALLL.
(b) As of June 30.
(c) Includes nonperforming loans of $.7 billion at June 30, 2012 and $.8 billion at June 30, 2011.
(d) Recorded investment of purchased impaired loans related to acquisitions. At June 30, 2012, this segment contained 73% of PNC s purchased impaired loans.
(e) For the six months ended June 30.

Table of Contents

This business segment consists primarily of acquired non-strategic assets. Non-Strategic Assets Portfolio had earnings of $138 million in the first six months of 2012 compared with $109 million in the first six months of 2011. The increase was primarily attributable to a lower provision for credit losses partially offset by a decline in revenue.

The first six months of 2012 included the impact of the RBC Bank (USA) acquisition which added approximately $1.0 billion of residential real estate loans, $.2 billion of commercial/commercial real estate loans and $.2 billion of OREO assets. Of these assets, $1.0 billion were deemed purchased impaired loans.

Non-Strategic Assets Portfolio overview:

- Average portfolio loans declined to $12.7 billion in the first six months of 2012 compared with $13.9 billion in the first six months of 2011. The overall decline was driven by customer payment activity and portfolio management activities to reduce under-performing assets partially offset by the addition of loans from the RBC Bank (USA) acquisition.
- Net interest income was $438 million in the first six months of 2012 compared with $493 million in the first six months of 2011. The decrease was driven by lower loan yields and loan balances.
- Noninterest income was a loss of $17 million in the first six months of 2012 compared with earnings of $22 million in the first six months of 2011. The decline was driven mainly by larger valuation adjustments to liabilities for estimated repurchase losses on home equity loans sold.
- The provision for credit losses was $68 million in the first six months of 2012 compared with $233 million in the first six months of 2011. The decrease in the provision for credit losses reflected overall improvement in credit quality.
- Noninterest expense in the first six months of 2012 was $135 million compared with $109 million in the first six months of 2011. The increase was primarily due to higher other real estate owned expenses.
- Nonperforming loans decreased to $0.7 billion as of June 30, 2012 compared with $0.8 billion at June 30, 2011. The consumer lending portfolio comprised 71% of the nonperforming loans at June 30, 2012. Nonperforming consumer loans increased $81 million, from June 30, 2011.
- Net charge-offs were $174 million in the first six months of 2012 and $219 million in the first six months of 2011. The decrease was due to lower net charge-offs on residential real estate and commercial real estate loans.

The majority of assets within this portfolio were obtained through acquisitions. 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.

- The $12.7 billion of loans held in this portfolio at June 30, 2012 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 80% of customer outstandings.
- The Commercial Lending portfolio declined 16% since June 30, 2011. Loans to residential developers declined 23% to $0.9 billion while the lease financing portfolio remained relatively flat at $0.7 billion. The leases are long-term with relatively low credit risk.
- Consumer Lending portfolio declined $0.4 billion or 4% when compared to the same period last year. The decline was 12% before including $1.0 billion of recently acquired RBC Bank (USA) residential mortgages and lot loans. The portfolio s credit quality performance has stabilized through actions taken by management. 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 June 30, 2012, the liability for estimated losses on repurchase and indemnification claims for the Non-Strategic Assets Portfolio business segment was $61 million compared to $55 million at June 30, 2011. See the Recourse And Repurchase Obligations section of this Financial Review and Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in this Report for additional information.

Critical Accounting Estimates And Judgments

Note 1 Accounting Policies in Part II, Item 8 of our 2011 Form 10-K and in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report describe the most significant accounting policies that we use. Certain of these policies require us to make estimates or

economic assumptions that may prove inaccurate or be subject to variations that may significantly affect our reported results and financial position for the period or in future periods.

Table of Contents

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 could materially impact our future financial condition and results of operations.

We discuss the following critical accounting policies and judgments under this same heading in Item 7 of our 2011 Form 10-K:

- Fair Value Measurements
- Allowances For Loan And Lease Losses And Unfunded Loan Commitments And Letters of Credit
- Estimated Cash Flows on Purchased Impaired Loans
- Goodwill
- Lease Residuals
- Revenue Recognition
- Residential and Commercial Mortgage Servicing Rights
- Income Taxes
- Proposed Accounting Standards

We provide additional information about many of these items in the Notes To Consolidated Financial Statements included in Part l, Item l of this Report.

The following critical accounting estimate and judgment has been updated during the first six months of 2012:

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 amount (the step 1 goodwill impairment test) as further discussed below. 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.

A reporting unit s carrying amount is based upon assigned economic capital as determined by PNC s internal management methodologies. In performing step 1 of our goodwill impairment testing, we utilize three equity metrics:

- Assigned reporting unit economic capital as determined by our internal management methodologies, inclusive of goodwill.
- A 6%, well capitalized , Tier 1 common ratio for the reporting unit.

The capital levels for comparable companies (as reported in comparable company public financial statements), adjusted for differences in risk characteristics between the comparable companies and the reporting unit.

In determining a reporting unit s fair value and comparing it to its carrying value, we utilize the highest of these three amounts (the targeted equity) in our discounted cash flow methodology. Under this methodology, we will infuse capital to achieve the targeted equity amount.

As of October 1, 2011 (annual goodwill impairment testing date), unallocated excess capital (difference between shareholders equity, minus total economic capital, and increased by the incremental targeted equity capital infusion) was mainly attributable to our pending acquisitions.

Table of Contents

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®, PNC 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.

During the second quarter of 2012, PNC recorded additional provision for residential mortgage repurchase obligations of approximately $438 million. Due to the amount of repurchase provision recorded during the second quarter, we performed an interim period goodwill impairment test for the Residential Mortgage Banking reporting unit, which had $45 million of goodwill at June 30, 2012. Based on the results of this analysis, the fair value of the Residential Mortgage Banking reporting unit exceeded its carrying amount and no impairment was recorded.

See Note 10 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements in Part 1, Item 1 of this Report for additional information.

Recent Accounting Pronouncements

For information on Recent Accounting Pronouncements, see Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item I of our First Quarter 2012 Form 10-Q regarding the impact of the adoption of new accounting guidance issued by the Financial Accounting Standards Board.

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. We calculate the expense associated with the pension plan and the assumptions and methods that we use reflect trust assets at their fair market value. On an annual basis, we review the actuarial assumptions related to the pension plan.

We currently estimate a pretax pension expense of $89 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 $1 million for employees expected to join the plan from the RBC Bank (USA) acquisition upon attainment of certain eligibility criteria.

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

Table 27: Pension Expense Sensitivity Analysis

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.

We provide additional information on our pension plan in Item 7 of our 2011 Form 10-K Status of Qualified Defined Benefit Pension Plan section.

Recourse And Repurchase Obligations

As discussed in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in our 2011 Form 10-K, PNC has sold commercial mortgage, residential mortgage and home equity loans directly or indirectly through securitization and loan sale transactions in which we have continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets.

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 June 30, 2012 and December 31, 2011, the unpaid principal balance outstanding of loans sold as a participant in these programs was $12.9 billion and $13.0 billion, respectively. The potential maximum exposure under the loss share arrangements was $3.9 billion at June 30, 2012 and $4.0 billion at December 31, 2011. We maintain a reserve for estimated losses based on our exposure. The reserve for losses under these programs totaled $48 million and $47 million as of June 30, 2012 and December 31, 2011, 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 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 loan sale transactions. As discussed in Note 3 in our 2011 Form 10-K, Agency securitizations consist of mortgage loan sale transactions with FNMA, FHLMC, and the GNMA program, while Non-Agency securitizations consist of mortgage loan sale transactions with private investors. Mortgage loan sale transactions that are not part of a securitization may involve FNMA, FHLMC or 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.

Loan covenants and representations and warranties are established through loan sale agreements with various investors to provide assurance that PNC has sold loans that are of sufficient investment quality. Key aspects of such covenants and representations and warranties include the loan s compliance with any applicable loan criteria established for the transaction, 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.

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 that investor. 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 90 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.

Indemnification and 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.

For the first and second-lien mortgage balances of unresolved and settled claims contained in the tables below, a significant amount of these claims were associated with sold loans originated through correspondent lender and broker origination channels. 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 factors that limit our ability to pursue recourse from these parties (e.g., contractual loss caps, statutes of limitations).

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 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. To estimate the mortgage repurchase liability arising from breaches of representations and warranties, we consider the following factors: 1) borrower performance in our historically sold portfolio (both actual and estimated future defaults), 2) the level of outstanding unresolved repurchase claims,

Table of Contents

3) estimated probable future repurchase claims, considering information about file requests, delinquent and liquidated loans, resolved and unresolved mortgage insurance rescission notices and our historical experience with claim rescissions, 4) the potential ability to cure the defects identified in the repurchase claims (rescission rate), and 5) the estimated severity of loss upon repurchase of the loan or collateral, make-whole settlement, or indemnification.

See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

The following tables present repurchase claims by vintage and total unresolved repurchase claims for the past five quarters.

Table 28: Analysis of Quarterly Residential Mortgage Repurchase Claims by Vintage

Dollars in millions	June 30 2012	March 31 2012	December 31 2011	September 30 2011	June 30 2011
2004 & Prior	$ 31	$ 10	$ 11	$ 14	$ 18
2005	19	12	13	14	15
2006	56	41	28	22	36
2007	182	100	90	78	107
2008	49	17	18	9	18
2008 & Prior	337	180	160	137	194
2009 - 2012	42	33	29	26	22
Total	$ 379	$ 213	$ 189	$ 163	$ 216
FNMA, FHLMC, and GNMA %	86%	88%	91%	84%	78%

Table 29: Analysis of Quarterly Residential Mortgage Unresolved Asserted Indemnification and Repurchase Claims

Dollars in millions	June 30 2012	March 31 2012	December 31 2011	September 30 2011	June 30 2011
FNMA, FHLMC, and GNMA Securitizations	$ 419	$ 337	$ 302	$ 242	$ 204
Private Investors (a)	83	69	73	72	65
Total unresolved claims	$ 502	$ 406	$ 375	$ 314	$ 269
FNMA, FHLMC, and GNMA %	83%	83%	81%	77%	76%

(a) Activity relates to loans sold through Non-Agency securitization and loan sale transactions.

The table below details our indemnification and repurchase claim settlement activity during the first six months and the second quarter of 2012 and 2011.

Table 30: Analysis of Residential Mortgage Indemnification and Repurchase Claim Settlement Activity

	2012			2011		
Six months ended June 30 - 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):						
FNMA, FHLMC, and GNMA securitizations	$ 153	$ 89	$ 38	$ 110	$ 54	$ 42
Private investors (e)	46	28	4	56	30	12
Total indemnification and repurchase settlements	$ 199	$ 117	$ 42	$ 166	$ 84	$ 54

Three months ended June 30 - In millions	2012 Unpaid Principal Balance (a)	2012 Losses Incurred (b)	2012 Fair Value of Repurchased Loans (c)	2011 Unpaid Principal Balance (a)	2011 Losses Incurred (b)	2011 Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
FNMA, FHLMC, and GNMA securitizations	$ 103	$ 60	$ 25	$ 51	$ 25	$ 18
Private investors (e)	25	17	1	35	25	6
Total indemnification and repurchase settlements	$ 128	$ 77	$ 26	$ 86	$ 50	$ 24

(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 this Report for further discussion of ROAPs.
(e) Activity relates to loans sold through Non-Agency securitizations and loan sale transactions.

During 2011 and the first six months of 2012, 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. In the second quarter of 2012, FNMA and FHLMC enhanced efforts to reduce their exposure to losses on purchased loans resulted in a dramatic increase in repurchase claims, primarily on the 2006-2008 vintages, but also on other vintages, while loss severity and claim rescission rates remained relatively unchanged from prior quarters. Included in this higher volume were repurchase claims made on loans in later stages of default than had previously been observed. For example, in the second quarter of 2012, we experienced repurchase claims on loans which had defaulted more than two years prior to the claim date, which was inconsistent with historical activity. In response to these changes in behavior, we held discussions with both FNMA and FHLMC to clarify their intentions and to confirm our expectations of future claim activity. We anticipate that both entities will continue to aggressively pursue loss mitigation strategies.

This increase in repurchase claim activity has contributed to the higher balances of unresolved claims for residential mortgages at June 30, 2012, as well as the increase in residential mortgage indemnification and repurchase settlement activity in 2012. In response to the significant increase in claims and change in FNMA s and FHLMC s behavior, management revised its estimates of future claims resulting in an increase to the indemnification and repurchase liability in the second quarter of 2012.

At June 30, 2012 and December 31, 2011, the liability for estimated losses on indemnification and repurchase claims for residential mortgages totaled $462 million and $83 million, respectively. We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all residential mortgage loans sold and outstanding as of June 30, 2012 and December 31, 2011. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

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.

Home Equity Repurchase Obligations

PNC s repurchase obligations include obligations with respect to 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 of National City. 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 loans sold in these transactions. Repurchase activity associated with brokered home equity lines/loans is reported in the Non-Strategic Assets Portfolio segment.

Loan covenants and representations and warranties were established through loan sale agreements with various investors to provide assurance that PNC sold loans to the 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 for the transaction, 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.

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 settlement with that investor. 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 home equity indemnification and repurchase requests within 60 days, although final resolution of the claim may take a longer period of time. Most home equity 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 home equity indemnification and repurchase claims at June 30, 2012 and December 31, 2011.

Table of Contents

Table 31: Analysis of Home Equity Unresolved Asserted Indemnification and Repurchase Claims

In millions	June 30 2012	Dec. 31 2011
Home equity loans/lines:		
Private investors (a)	$ 72	$ 110

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

To mitigate losses associated with indemnification and repurchase claims, 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 home equity indemnification and repurchase claim settlement activity during the first six months and the second quarter of 2012 and 2011.

Table 32: Analysis of Home Equity Indemnification and Repurchase Claim Settlement Activity

	2012			2011		
Six months ended June 30 - 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)
Home equity loans/lines:						
Private investors Repurchases (d)	$ 16	$ 13	$ 3	$ 30	$ 98	$ 1

	2012			2011		
Three months ended June 30 - 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)
Home equity loans/lines:						
Private investors Repurchases (d)	$ 6	$ 5	$ 1	$ 8	$ 76	$ 1

(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 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. 2011 also includes amounts for settlement payments.
(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) Activity relates to brokered home equity loans/lines sold through loan sale transactions which occurred during 2005-2007.

During 2011 and the first six months of 2012, 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.); or 3) underwriting guideline violations. The lower balance of unresolved indemnification and repurchase claims at June 30, 2012 is attributed to lower claims submissions and lower inventories of claims undergoing review due to elevated settlement activity in 2011. The lower first half 2012 indemnification and repurchase settlement activity was also affected by the lower claim activity and the lower inventory of claims mentioned above as well as a higher rate of claim rescissions.

An indemnification and repurchase liability for estimated losses for which indemnification is expected to be provided or for loans that are expected to be repurchased was established at the acquisition of National City. Management s evaluation of these indemnification and repurchase liabilities is based upon trends in indemnification and repurchase claims, actual loss experience, risks in the underlying serviced loan portfolios, current economic conditions and the periodic negotiations that management may enter into with investors to settle existing and potential future claims.

At June 30, 2012 and December 31, 2011, the liability for estimated losses on indemnification and repurchase claims for home equity loans/lines was $61 million and $47 million, respectively. We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all home equity loans/lines sold and outstanding as of June 30, 2012 and December 31, 2011. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

Indemnification and repurchase liabilities, which are included in Other liabilities on the Consolidated Balance Sheet, are evaluated by management on a quarterly basis. Initial recognition and subsequent adjustments to the indemnification and repurchase liability for home equity loans/lines are recognized in Other noninterest income on the Consolidated Income Statement.

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.

Table of Contents

The Risk Management section included in Item 7 of our 2011 Form 10-K describes our risk management philosophy, principles, governance and various aspects of our corporate-level risk management program. Additionally, our 2011 Form 10-K provides an analysis of our primary areas of risk: credit, operational, model, liquidity, and market, as well as a discussion of our use of financial derivatives as part of our overall asset and liability risk management process, and addresses historical performance in appropriate places within the Risk Management section of that report.

The following information updates our 2011 Form 10-K risk management disclosures.

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 the first six months of 2012 improved from both December 31, and June 30, 2011 and included the following:

- Overall loan delinquencies have decreased $628 million, or 14%, from year-end 2011 levels. The reduction was mainly due to a change in policy for home equity loans past due 90 days being placed on nonaccrual status, compared to prior policy of past due 180 days in addition to a decline in residential real estate and government insured other consumer. These decreases were partially offset by an increase in commercial real estate related to RBC Bank (USA).
- Nonperforming loans decreased $102 million, or 3%, to $3.5 billion as of June 30, 2012 compared with $3.6 billion as of December 31, 2011 mainly attributable to decreases in commercial real estate and commercial which were partially offset by the change in home equity policy as discussed above.
- Nonperforming assets increased $20 million, or less than 1%, to $4,176 million as of June 30, 2012 compared with December 31, 2011 primarily driven by OREO assets due to the acquisition of RBC Bank (USA) offset by the decrease in nonperforming loans.
- Second quarter 2012 net charge-offs were $315 million, down 24% from second quarter 2011 net charge-offs of $414 million. Six months ending June 30, 2012 net charge-offs were $648 million, down 32% from six months ending June 30, 2011 net charge-offs of $947 million.
- The provision for credit losses declined to $256 million in the second quarter of 2012 compared with $280 million for the second quarter of 2011 as overall credit quality improved, partially offset by credit provisions related to the RBC Bank (USA) acquisition. The provision for credit losses declined to $441 million for the six months ending June 30, 2012 compared with $701 million for the six months ending June 30, 2011.
- The level of ALLL has decreased to $4.2 billion at June 30, 2012 from $4.3 billion at December 31, 2011 and $4.6 billion at June 30, 2011.

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, certain 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 this Report. The major categories of nonperforming assets are presented in the following table.

Nonperforming assets increased $20 million from December 31, 2011, to $4,176 million at June 30, 2012. The increase in nonperforming assets at June 30, 2012 compared with year end was primarily attributable to OREO added in the acquisition of RBC Bank (USA) and higher nonperforming home equity loans from a change in policy which places home equity loans on nonaccrual status when past due 90 days or more compared with 180 days under the prior policy. This increase was partially offset by a decline in nonperforming commercial real estate and commercial loans. Nonperforming loans decreased $102 million to $3.5 billion while OREO and foreclosed assets increased $122 million to $718 million. The ratio of nonperforming assets to total loans, OREO and foreclosed assets decreased to 2.31% at June 30, 2012 from 2.60% at December 31, 2011. The ratio of nonperforming loans to total loans declined to 1.92% at June 30, 2012, compared to 2.24% at December 31, 2011. Total nonperforming assets have declined $2.2 billion, or 34%, from their peak of $6.4 billion at March 31, 2010.

Management continues to evaluate nonaccrual and charge off policies for second-lien consumer loans (residential mortgages

Table of Contents

and home equity loans and lines) pursuant to interagency supervisory guidance on practices for loans and lines of credit secured by junior liens on 1-4 family residential properties. This may result in future classification of performing second-lien consumer loans as nonperforming, including where the first-lien loan is 90 days or more past due. The credit loss policies for these loans are considered in our reserving process.

At June 30, 2012, TDRs included in nonperforming loans was $1.2 billion or 34% of total nonperforming loans compared to $1.1 billion or 32% of nonperforming loans as of December 31, 2011. Within consumer nonperforming loans, residential real estate TDRs comprise 49% of total residential real estate nonperforming loans at June 30, 2012, down from 51% at December 31, 2011. Home equity TDRs comprise

56% of home equity nonperforming loans at June 30, 2012, down from 77% at December 31, 2011. 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 June 30, 2012, our largest nonperforming asset was $45 million in the Real Estate Rental and Leasing Industry and our average nonperforming loans associated with commercial lending was under $1 million. Our ten largest outstanding nonperforming assets are all from the commercial lending portfolio and represent 32% and 6% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of June 30, 2012.

Table of Contents

Table 33: Nonperforming Assets By Type

In millions	June 30 2012	Dec. 31 2011
Nonperforming loans		
Commercial lending		
Commercial		
Retail/wholesale trade	$ 110	$ 109
Manufacturing	141	117
Service providers	145	147
Real estate related (a)	214	252
Financial services	15	36
Health care	22	29
Other industries	144	209
Total commercial	791	899
Commercial real estate		
Real estate projects	924	1,051
Commercial mortgage	218	294
Total commercial real estate	1,142	1,345
Equipment lease financing	19	22
Total commercial lending	1,952	2,266
Consumer lending (b)		
Home equity (c)	722	529
Residential real estate		
Residential mortgage (d)	707	685
Residential construction	32	41
Credit card	6	8
Other consumer	39	31
Total consumer lending	1,506	1,294
Total nonperforming loans (e)	3,458	3,560
OREO and foreclosed assets		
Other real estate owned (OREO) (f)	670	561
Foreclosed and other assets	48	35
Total OREO and foreclosed assets	718	596
Total nonperforming assets	$ 4,176	$ 4,156
Amount of commercial lending nonperforming loans contractually current as to remaining principal and interest	$ 642	$ 632
Percentage of total commercial lending nonperforming loans	33%	28%
Amount of TDRs included in nonperforming loans	$ 1,189	$ 1,141
Percentage of total nonperforming loans	34%	32%
Nonperforming loans to total loans	1.92%	2.24%
Nonperforming assets to total loans, OREO and foreclosed assets	2.31	2.60
Nonperforming assets to total assets	1.39	1.53
Allowance for loan and lease losses to total nonperforming loans (e) (g)	120	122

(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) In the first quarter of 2012, we adopted a policy stating that Home equity loans past due 90 days or more would be placed on nonaccrual status. Prior policy required that these loans be past due 180 days before being placed on nonaccrual status.

(d) Nonperforming residential mortgage excludes loans of $55 million and $61 million accounted for under the fair value option as of June 30, 2012 and December 31, 2011, respectively.

(e) Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.

(f) OREO excludes $262 million and $280 million at June 30, 2012 and December 31, 2011, 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 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in this Report for additional information.

Table of Contents

Table 34: OREO and Foreclosed Assets

In millions	June 30 2012	Dec. 31 2011
Other real estate owned (OREO):		
Residential properties	$ 188	$ 191
Residential development properties	201	183
Commercial properties	281	187
Total OREO	670	561
Foreclosed and other assets	48	35
Total OREO and foreclosed assets	$ 718	$ 596

Total OREO and foreclosed assets increased $122 million during the first six months of 2012 from $596 million at December 31, 2011, to $718 million at June 30, 2012, which represents 17% of total nonperforming assets. As of June 30, 2012 and December 31, 2011, 26% and 32%, respectively, of our OREO and foreclosed assets were comprised of single family residential properties. The higher level of OREO and foreclosed assets was driven mainly by the acquisition of RBC Bank (USA). This was partially offset by higher valuation losses and higher sales related to commercial OREO. Excluded from OREO at June 30, 2012 and December 31, 2011, respectively, was $262 million and $280 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).

Table 35: Change in No nperforming Assets

In millions	2012	2011
January 1	$ 4,156	$ 5,123
New nonperforming assets	1,983	1,846
Charge-offs and valuation adjustments	(529)	(713)
Principal activity, including paydowns and payoffs	(842)	(983)
Asset sales and transfers to loans held for sale	(314)	(306)
Returned to performing status	(278)	(486)
June 30	$ 4,176	$ 4,481

The table above presents nonperforming asset activity for the six months ended June 30, 2012 and 2011. For the six months ended June 30, 2012, nonperforming assets increased $20 million from $4,156 million at December 31, 2011, to $4,176 million at June 30, 2012, driven primarily by other real estate owned added in the acquisition of RBC Bank (USA) and higher nonperforming home equity loans arising from a change in policy which places home equity loans on nonaccrual status when past due 90 days or more compared with 180 days under the prior policy. These increases were partially offset by a decline in nonperforming commercial real estate and commercial loans. Approximately 82% 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 33% of commercial lending nonperforming loans are contractually current as to principal and interest. As of June 30, 2012, commercial nonperforming loans are carried at approximately 59% 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 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 Loans in the Notes To Consolidated Financial Statements in this Report for additional information on these loans.

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 from December 31, 2011, to $1.4 billion at June 30, 2012. Consumer lending early stage delinquencies decreased by $241 million. This reduction included government insured other consumer amounts. This reduction was offset by an increase in commercial lending early stage delinquencies of $103 million mainly due to commercial real estate related to RBC Bank (USA).

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 and/or restoration to current status, or are managed in

Table of Contents

homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines. These loans decreased $490 million, or 16%, from $3.0 billion at December 31, 2011, to $2.5 billion at June 30, 2012, mainly due to the change in policy for home equity loans and improvements in government insured delinquent residential real estate loans.

The following tables display the delinquency status of our loans at June 30, and March 31, 2012 and December 31, 2011. Additional information regarding accruing loans past due is included in Note 5 Asset Quality in the Notes To Consolidated Financial Statements in this Report.

Table 36: Accruing Loans Past Due 30 To 59 Days

	Amount			Percent of Total Outstandings		
Dollars in millions	June 30 2012	Mar. 31 2012	Dec. 31 2011	June 30 2012	Mar. 31 2012	Dec. 31 2011
Commercial	$ 130	$ 195	$ 122	.16%	.26%	.19%
Commercial real estate	123	144	96	.67	.78	.59
Equipment lease financing	5	25	22	.07	.38	.34
Home equity (a)	124	127	173	.35	.36	.52
Residential real estate						
Non government insured (b)	148	198	180	.94	1.22	1.24
Government insured	123	122	122	.78	.75	.84
Credit card	33	34	38	.80	.83	.96
Other consumer						
Non government insured	43	50	58	.21	.26	.30
Government insured	164	171	207	.80	.88	1.08
Total	$ 893	$ 1,066	$ 1,018	.49	.60	.64

Table 37: Accruing Loans Past Due 60 To 89 Days

	Amount			Percent of Total Outstandings		
Dollars in millions	June 30 2012	Mar. 31 2012	Dec. 31 2011	June 30 2012	Mar. 31 2012	Dec. 31 2011
Commercial	$ 65	$ 53	$ 47	.08%	.07%	.07%
Commercial real estate	105	44	35	.57	.24	.22
Equipment lease financing	2	2	5	.03	.03	.08
Home equity (a)	68	79	114	.19	.22	.34
Residential real estate						
Non government insured (b)	52	56	72	.33	.35	.50
Government insured	91	100	104	.58	.62	.72
Credit card	22	24	25	.53	.59	.63
Other consumer						
Non government insured	16	20	21	.08	.10	.11
Government insured	113	98	124	.55	.50	.65
Total	$ 534	$ 476	$ 547	.30	.27	.34

Table of Contents

Table 38: Accruing Loans Past Due 90 Days Or More

	Amount					
Dollars in millions	June 30 2012	Mar. 31 2012	Dec. 31 2011	June 30 2012	Mar. 31 2012	Dec. 31 2011
Commercial	$ 34	$ 28	$ 49	.04%	.04%	.07%
Commercial real estate	16	5	6	.09	.03	.04
Equipment lease financing	1	5		.01	.08	
Home equity (c)			221			.67
Residential real estate						
Non government insured (b)	104	116	152	.66	.72	1.05
Government insured	1,925	2,012	2,129	12.17	12.41	14.71
Credit card	38	47	48	.92	1.15	1.21
Other consumer						
Non government insured	17	21	23	.08	.11	.12
Government insured	348	351	345	1.70	1.80	1.80
Total	$ 2,483	$ 2,585	$ 2,973	1.38	1.47	1.87

(a) In the second quarter of 2012, the Home equity amounts as of March 31, 2012 were reduced by $47 million and $24 million for the Accruing Loans Past Due 30 to 59 Days and 60 to 89 Days, respectively, to correct for immaterial amounts. Prior periods have not been adjusted.

(b) In the second quarter of 2012, the Residential real estate amounts as of March 31, 2012 were reduced by $24 million, $17 million and $24 million for the Accruing Loans Past Due 30 to 59 Days, 60 to 89 Days and 90 Days or More, respectively, to correct for immaterial amounts. Prior periods have not been adjusted.

(c) In the first quarter of 2012, we adopted a policy stating that Home equity loans past due 90 days or more would be placed on nonaccrual status. Prior policy required that these loans be past due 180 days before being placed on nonaccrual status.

On a regular basis our Special Asset Committee closely monitors loans, 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 $268 million at June 30, 2012 and $438 million at December 31, 2011.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $35.8 billion as of June 30, 2012, or 20% of the total loan portfolio. Of that total, $24.3 billion, or 68%, was outstanding under primarily variable-rate home equity lines of credit and $11.5 billion, or 32%, consisted of closed-end home equity installment loans. Approximately 2% of the home equity portfolio was on nonperforming status as of June 30, 2012.

As of June 30, 2012, we are in an originated first lien position for approximately 34% 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 64% 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 track borrower performance monthly, including obtaining updated FICO scores at least quarterly, original LTVs, updated LTVs semi-annually, and other credit metrics at least quarterly, including the historical performance of any mortgage loans regardless of lien position that we may or may not hold. This information is used for internal reporting and risk management purposes. For internal reporting and risk management purposes we also 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). As part of our overall risk analytics monitoring, we segment the home equity portfolio based upon the delinquency, modification status, and bankruptcy status of these loans, as well as based upon the delinquency, modification status, and bankruptcy 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

Table of Contents

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.

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 June 30, 2012, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

Table 39: Home Equity Lines of Credit Draw Period End Dates

In millions	Interest Only Product	Principal and Interest Product
Remainder of 2012	$ 684	$ 111
2013	1,334	308
2014	2,047	607
2015	2,090	741
2016	1,625	584
2017 and thereafter	6,228	7,401
Total (a)	$ 14,008	$ 9,752

(a) Includes approximately $106 million, $157 million, $186 million, $189 million, $23 million and $343 million of home equity lines of credit with balloon payments with draw periods scheduled to end in the remainder of 2012, 2013, 2014, 2015, 2016, and 2017 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 June 30, 2012, 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 4.29% were 30-89 days past due and approximately 6.13% 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 in the Notes To Consolidated Financial Statements in 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 in the Notes To Consolidated Financial Statements in 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

Table of Contents

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, twelve months and fifteen months after the modification date.

Table 40: Bank-Owned Consumer Real Estate Related Loan Modifications

	June 30, 2012		December 31, 2011	
Dollars in millions	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Home equity				
Temporary Modifications	11,249	$ 1,002	13,352	$ 1,215
Permanent Modifications	4,759	318	1,533	92
Total home equity	16,008	1,320	14,885	1,307
Residential Mortgages				
Permanent Modifications	8,379	1,450	7,473	1,342
Non-Prime Mortgages				
Permanent Modifications	4,458	627	4,355	610
Residential Construction				
Permanent Modifications	1,462	596	1,282	578
Total Bank-Owned Consumer Real Estate Related Loan Modifications	30,307	$ 3,993	27,995	$ 3,837

Table of Contents

Table 41: Bank-Owned Consumer Real Estate Related Loan Modifications Re-Default by Vintage (a) (b)

June 30, 2012	Six Months		Nine Months		Twelve Months		Fifteen Months		
Dollars in millions, except as noted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Unpaid Principal Balance (c)
Permanent Modifications									
Home Equity									
Fourth Quarter 2011	9	1.9%							$ 1,097
Third Quarter 2011	24	4.2	33	5.7%					2,494
Second Quarter 2011	20	5.3	29	7.8	39	10.4%			2,615
First Quarter 2011	9	9.5	9	9.5	12	12.6	12	12.6%	1,179
Fourth Quarter 2010	6	17.1	9	25.7	8	22.9	9	25.7	481
Residential Mortgages									
Fourth Quarter 2011	212	22.2							36,202
Third Quarter 2011	281	22.8	375	30.4					61,995
Second Quarter 2011	367	26.8	459	33.6	508	37.1			84,358
First Quarter 2011	322	20.1	465	29.1	529	33.1	557	34.8	90,984
Fourth Quarter 2010	300	17.0	467	26.5	610	34.7	639	36.3	112,240
Non-Prime Mortgages									
Fourth Quarter 2011	38	14.7							5,890
Third Quarter 2011	86	23.2	104	28.0					14,974
Second Quarter 2011	114	18.9	153	25.4	174	28.9			29,673
First Quarter 2011	76	18.1	101	24.1	116	27.7	137	32.7	15,541
Fourth Quarter 2010	13	14.3	20	22.0	24	26.4	26	28.6	3,840
Residential Construction									
Fourth Quarter 2011 (d)	5	5.6							
Third Quarter 2011	2	1.8	2	1.8					635
Second Quarter 2011	4	3.9	4	3.9	3	2.9			651
First Quarter 2011	7	4.2	10	6.0	17	10.2	18	10.8	9,443
Fourth Quarter 2010	10	4.3	16	6.9	23	9.9	25	10.7	5,768
Temporary Modifications									
Home Equity									
Fourth Quarter 2011 (d)	29	5.6%							
Third Quarter 2011	43	9.8	53	12.1%					$ 6,663
Second Quarter 2011	64	10.3	94	15.1	117	18.8%			13,187
First Quarter 2011	89	6.5	156	11.4	197	14.4	224	17.8%	22,571
Fourth Quarter 2010	127	6.6	255	13.3	328	17.2	383	20.0	42,166

(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 December 31, 2010 through December 31, 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, twelve, and fifteen 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 June 30, 2012 unpaid principal balances of the re-defaulted accounts for the Fourth Quarter 2011 Vintage at Six Months, for the Third Quarter 2011 Vintage at Nine Months, for the Second Quarter 2011 Vintage at Twelve Months, and for the First Quarter 2011 and prior Vintages at Fifteen Months.

(d) The unpaid principal balance for this vintage totals less than $1 million.

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 paying the past due amounts over a short period of time, generally three months, in addition to the contractual payment amounts over that period upon which a borrower is brought current. 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 establish an alternate payment, generally at an amount less than the contractual payment amount, for the borrower during this short time period. This allows a borrower to demonstrate successful payment performance before permanently restructuring the loan into a HAMP modification. Subsequent to successful borrower performance under the trial payment period, we will capitalize the original contractual amount past due and restructure the loan s contractual terms, along with bringing the restructured account to current. As the borrower is often already delinquent at the time of participation in the HAMP

trial payment period, there is not a significant increase in the ALLL. If the trial payment period is unsuccessful, the loan will be evaluated for further action based upon our existing policies.

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 June 30, 2012 and December 31, 2011, 3,646 accounts with a balance of $565 million and 2,701 accounts with a balance of $478 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 Office of the Comptroller of the Currency (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. We evaluate these modifications for TDR classification based upon whether we granted a concession to a borrower experiencing financial difficulties. Additional detail on TDRs is discussed below as well as in Note 5 Asset Quality in the Notes To Consolidated Financial Statements in this Report.

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 June 30, 2012 and December 31, 2011, $76 million and $81 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $27 million and $24 million have been determined to be TDRs as of June 30, 2012 and December 31, 2011.

Troubled Debt Restructurings

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 six months ended June 30, 2012, $1.6 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. The comparable amount for the six months ended June 30, 2011 was $1.1 billion.

Table 42: Summary of Troubled Debt Restructurings

In millions	June 30 2012	Dec. 31 2011
Consumer lending:		
Real estate-related	$ 1,560	$ 1,492
Credit card (a)	252	291
Other consumer	24	15
Total consumer lending	1,836	1,798
Total commercial lending	483	405
Total TDRs	$ 2,319	$ 2,203
Nonperforming	$ 1,189	$ 1,141
Accruing (b)	878	771
Credit card (a)	252	291
Total TDRs	$ 2,319	$ 2,203

(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 $116 million or 5% during the first six months of 2012 to $2.3 billion as of June 30, 2012. Of this total, nonperforming TDRs totaled $1.2 billion, which represents approximately 34% of total nonperforming loans.

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 $107 million or 14% during the first six months of 2012 to $878 million as of June 30, 2012. This increase reflects the further seasoning and performance of the TDRs. See Note 5 Asset Quality in the Notes to Consolidated Financial Statements in this Report for additional information.

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

We recorded $648 million in net charge-offs for the first six months of 2012, compared to $947 million in the first six months of 2011. Commercial lending net charge-offs fell from $429 million in the first six months of 2011 to $189 million in the first six months of 2012. Consumer lending net charge-offs declined from $518 million in the first six months of 2011 to $459 million in the first six months of 2012.

Table of Contents

Table 43: Loan Charge-Offs And Recoveries

Six months ended June 30 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans (annualized)
2012				
Commercial	$ 234	$ 147	$ 87	.24%
Commercial real estate	159	52	107	1.22
Equipment lease financing	10	15	(5)	(.16)
Home equity	252	30	222	1.28
Residential real estate	67		67	.87
Credit card	110	11	99	4.95
Other consumer	97	26	71	.73
Total	$ 929	$ 281	$ 648	.76
2011				
Commercial	$ 364	$ 178	$ 186	.66%
Commercial real estate	282	40	242	2.84
Equipment lease financing	25	24	1	.03
Home equity	252	21	231	1.38
Residential real estate	101	2	99	1.31
Credit card	134	12	122	6.58
Other consumer	100	34	66	.79
Total	$ 1,258	$ 311	$ 947	1.27

Total net charge-offs are 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 Loans in the Notes To Consolidated Financial Statements in 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 first six months of 2012 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.

Reserves allocated to non-impaired commercial loan classes are based on probability of default (PD) and loss given default (LGD) credit risk ratings.

Our pool reserve methodology is sensitive to changes in key risk parameters such as PD, LGD and exposure at date of default (EAD). 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.

The majority of the commercial portfolio is secured by collateral, including loans to asset-based lending customers that continue to show demonstrably lower LGD. Further, the large investment grade or equivalent portion of the loan portfolio has performed well and has not been subject to significant deterioration.

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.

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, including the performance of first lien positions.

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. Other than the estimation of the probability of funding, this methodology is very similar to the one we use for determining our ALLL.

We refer you to Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in this Report for further information on key asset quality indicators that we use to evaluate our portfolio and establish the allowances.

Table 44: Allowance for Loan and Lease Losses

Dollars in millions	2012	2011
January 1	$ 4,347	$ 4,887
Total net charge-offs	(648)	(947)
Provision for credit losses	441	701
Net change in allowance for unfunded loan commitments and letters of credit	16	(14)
June 30	$ 4,156	$ 4,627
Net charge-offs to average loans (for the six months ended) (annualized)	.76%	1.27%
Allowance for loan and lease losses to total loans	2.30	3.08
Commercial lending net charge-offs	$ (189)	$ (429)
Consumer lending net charge-offs	(459)	(518)
Total net charge-offs	$ (648)	$ (947)
Net charge-offs to average loans (for the six months ended) (annualized)		
Commercial lending	.39%	1.07%
Consumer lending	1.25	1.50

As further described in the Consolidated Income Statement Review section of this Report, the provision for credit losses totaled $441 million for the first six months of 2012 compared to $701 million for the first six months of 2011. For the first six months of 2012, the provision for commercial lending credit losses declined by $154 million or 64% from the first

six months of 2011. Similarly, the provision for consumer lending credit losses decreased $106 million or 23% from the first six months of 2011.

Purchased impaired loans are recorded at fair value and applicable accounting guidance prohibits the carry over or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At June 30, 2012, we had established reserves of $1.0 billion for purchased impaired loans. In addition, all loans (purchased impaired and non-impaired) acquired in the RBC Bank (USA) acquisition were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at acquisition. See Note 6 Purchased Loans for additional information.

At June 30, 2012, total ALLL to total nonperforming loans was 120%. The comparable amount for December 31, 2011 was 122%. These ratios are 81% and 84%, respectively, when excluding the $1.4 billion of allowance at June 30, 2012 and December 31, 2011 allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded consumer loans and lines of credit not secured by real estate as they are charged off after 120 to 180 days past due and not placed on nonperforming status. Additionally, we have excluded purchased impaired loans as they are considered performing regardless of their delinquency status as interest is accreted based on our estimate of expected cash flows and additional allowance is recorded when these cash flows are below recorded investment. See the Nonperforming Assets By Type table within this Credit Risk Management section for additional information.

See Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 6 Purchased Loans in the Notes To Consolidated Financial Statements 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.

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. As of June 30, 2012, there were approximately $19.7 billion of bank borrowings with maturities of less than one year. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary. See the Bank Level Liquidity Sources section below.

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. Total deposits increased to $206.9 billion at June 30, 2012 from $188.0 billion at December 31, 2011, primarily due to the RBC Bank (USA) acquisition. 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 June 30, 2012, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning deposits with banks) totaling $7.8 billion and securities available for sale totaling $51.3 billion. Of our total liquid assets of $59.1 billion, we had $22.3 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 June 30, 2012, PNC Bank, N.A. had issued $9.4 billion of debt under this program including the following during 2012:

$100 million of senior bank notes issued March 5, 2012 and due April 8, 2015. Interest is paid semi-annually at a fixed rate of 1.07%,

- $1.0 billion of senior extendible floating rate bank notes issued June 20, 2012 with an initial maturity date of July 20, 2013, subject to the holder s monthly option to extend, and a final maturity date of June 20, 2014. Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder,
- $900 million of senior extendible floating rate bank notes issued to an affiliate on June 27, 2012 with an initial maturity date of July 27, 2013, subject to the holder s monthly option to extend, and a final maturity date of April 27, 2014. Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points, and
- $500 million of senior extendible floating rate bank notes issued to an affiliate on June 27, 2012 with an initial maturity date of July 27, 2013, subject to the holder s monthly option to extend, and a final maturity date of January 27, 2014. Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points.

Total senior and subordinated debt increased to $6.6 billion at June 30, 2012 from $4.1 billion at December 31, 2011 due to issuances.

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 June 30, 2012, our unused secured borrowing capacity was $11.2 billion with FHLB-Pittsburgh. Total FHLB borrowings increased to $10.4 billion at June 30, 2012 from $7.0 billion at December 31, 2011 due to $4.0 billion in new borrowings partially offset by maturities.

PNC Bank, N.A. has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of June 30, 2012, there was $3.1 billion outstanding under this program. Other borrowed funds on our Consolidated Balance Sheet also includes $6.3 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 June 30, 2012, our unused secured borrowing capacity was $28.2 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. As of June 30, 2012, there were approximately $550 million of parent company borrowings with maturities of less than one year.

Additionally, the parent company maintains adequate liquidity to fund discretionary activities such as paying dividends to PNC shareholders, share repurchases, and acquisitions. See the Parent Company Liquidity Sources section below. In March 2012, we used approximately $3.6 billion of parent company cash to acquire both RBC Bank (USA) and a credit card portfolio from RBC Bank (Georgia), National Association. Additionally, in June 2012, we used $1.4 billion of parent company cash to purchase senior extendible floating rate bank notes issued by PNC Bank, N.A.

See 2012 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for information regarding the Federal Reserve s 2012 CCAR process, including their acceptance of the capital plan filed by PNC on January 9, 2012 and their not objecting to our capital actions proposed as part of that plan, as well as additional information regarding our April 2012 increase to PNC s quarterly common stock dividend, our plans to purchase shares under PNC s existing common stock repurchase program during the remainder of 2012, our March 2012 issuance of $1 billion of senior notes, our April 2012 issuance of $1.5 billion of preferred stock, our April 2012 redemption of $306 million of trust preferred securities, our May 2012 redemption of $500 million of trust preferred securities, and our June 2012 announcement of the July 2012 redemption of $450 million of trust preferred securities and $518 million of enhanced trust preferred securities. We repurchased approximately $50 million of common stock under PNC s existing common stock repurchase program during the second quarter of 2012.

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 $1.3 billion at June 30, 2012. 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

Table of Contents

Consolidated Financial Statements in Item 8 of our 2011 Form 10-K 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 Financial Review and in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of our 2011 Form 10-K.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of June 30, 2012, the parent company had approximately $3.2 billion in funds available from its cash and 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 decreased to $12.6 billion at June 30, 2012 from $16.0 billion at December 31, 2011 due to $3.0 billion in maturities and $816 million in redemptions partially offset by $1.0 billion in new borrowings.

During 2012 we issued the following securities under our shelf registration statement:

- $1.0 billion of senior notes issued March 8, 2012 and due March 2022. Interest is paid semi-annually at a fixed rate of 3.30%. The offering resulted in gross proceeds to us, before offering related expenses, of $990 million,
- Sixty million depositary shares, each representing a 1/4,000th interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series P, issued April 24, 2012, resulting in gross proceeds to us, before commissions and expenses, of $1.5 billion.

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 June 30, 2012, there were no issuances outstanding under this program.

Note 18 Equity in Item 8 of our 2011 Form 10-K describes the 16,885,192 warrants we have outstanding, each to purchase one share of PNC common stock at an exercise price of $67.33 per share. These warrants were sold by the US Treasury in a secondary public offering in May 2010 after the US Treasury exchanged its TARP Warrant. These 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.

Table 45: Credit ratings as of June 30, 2012 for PNC and PNC Bank, N.A.

	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	BBB-

PNC Bank, N.A.			
Subordinated debt	A3	A-	A
Long-term deposits	A2	A	AA-
Short-term deposits	P-1	A-1	F1+

Table of Contents

Commitments

The following tables set forth contractual obligations and various other commitments as of June 30, 2012 representing required and potential cash outflows.

Table 46: Contractual Obligations

		Payment Due By Period			
June 30, 2012 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)	$ 30,816	$ 21,981	$ 5,045	$ 1,948	$ 1,842
Borrowed funds (a) (b)	43,689	24,772	5,199	5,339	8,379
Minimum annual rentals on noncancellable leases	2,762	382	653	472	1,255
Nonqualified pension and postretirement benefits	558	64	122	116	256
Purchase obligations (c)	604	385	147	43	29
Total contractual cash obligations	$ 78,429	$ 47,584	$ 11,166	$ 7,918	$ 11,761

(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 June 30, 2012, unrecognized tax benefits totaled $231 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 16 Income Taxes in the Notes To Consolidated Financial Statements of this Report for additional information.

Our contractual obligations totaled $72.0 billion at December 31, 2011. The increase in the comparison is primarily attributable to the increase in borrowed funds. See the Funding and Capital Sources section in the Consolidated Balance Sheet Review section of this Financial Review for additional information.

Table 47: Other Commitments (a)

		Amount Of Commitment Expiration By Period			
June 30, 2012 in millions	Total Amounts Committed	Less than one year	One to three years	Four to five years	After five years
Net unfunded credit commitments	$ 113,636	$ 49,958	$ 35,422	$ 27,805	$ 451
Standby letters of credit (b)	11,311	5,074	4,705	1,458	74
Reinsurance agreements (c)	6,004	2,771	92	46	3,095
Other commitments (d)	713	459	177	73	4
Total commitments	$ 131,664	$ 58,262	$ 40,396	$ 29,382	$ 3,624

(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 $7.3 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. Balances represent estimates based on availability of financial information.
(d) Includes unfunded commitments related to private equity investments of $215 million and other investments of $3 million that are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $447 million and other direct equity investments of $48 million that are included in Other liabilities on our Consolidated Balance Sheet.

Table of Contents

Market Risk Management

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
- Fixed income, equities, derivatives, and foreign exchange activities, 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 as 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 second quarters of 2012 and 2011 follow:

Table 48: Interest Sensitivity Analysis

	Second Quarter 2012	Second Quarter 2011
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	2.5%	1.4%
100 basis point decrease (a)	(1.9)%	(1.1)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	7.9%	4.5%
100 basis point decrease (a)	(5.1)%	(3.8)%
Duration of Equity Model (a)		
Base case duration of equity (in years):	(8.2)	(1.0)
Key Period-End Interest Rates		
One-month LIBOR	.25%	.19%
Three-year swap	.62%	1.15%

(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) Yield Curve Slope Flattening (a 100 basis point yield curve slope flattening between 1-month and ten-year rates superimposed on current base rates) scenario.

Table 49: Net Interest Income Sensitivity to Alternative Rate Scenarios (Second Quarter 2012)

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	%	.7%	(1.0)%
Second year sensitivity	2.2%	2.1%	(3.9)%

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

Table of Contents

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.

Table 50: Alternate Interest Rate Scenarios: One Year Forward

The second quarter 2012 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, as well as the daily mark-to-market impact from the credit valuation adjustment (CVA) on the customer derivatives portfolio. 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 a diversified VaR at a 95% confidence interval. VaR is used to estimate the probability of portfolio losses based on the statistical analysis of historical market risk factors.

We believe a diversified VaR is a better representation of risk than a non-diversified VaR as it reflects empirical correlations across different asset classes. PNC began to include the daily

mark-to-market impact from the CVA in determining the diversified VaR measure during the first quarter of 2012 and comparative periods are stated on a comparable basis.

During the first six months of 2012, our 95% VaR ranged between $2.5 million and $5.3 million, averaging $3.9 million. During the first six months of 2011, our 95% VaR ranged between $2.1 million and $4.8 million, averaging $3.6 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. Over a normal 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. This assumes that market exposures remain constant throughout the day and that recent historical market variability is a good predictor of future variability. Also, including customer revenue and intraday hedging helps to reduce trading losses and may reduce the number of instances of actual losses exceeding the prior day VaR measure. There were two such instances during the first six months of 2012 under our diversified VaR measure. In comparison, there were no such instances during the first six months of 2011. We use a 500 day look back period for backtesting and include customer related revenue.

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

Table 51: Enterprise-Wide Trading-Related Gains/Losses Versus Value at Risk

Table of Contents

Total trading revenue was as follows:

Table 52: Trading Revenue

Six months ended June 30

In millions	2012	2011
Net interest income	$ 20	$ 22
Noninterest income	105	108
Total trading revenue	$ 125	$ 130
Securities underwriting and trading (a)	$ 43	$ 45
Foreign exchange	47	36
Financial derivatives and other	35	49
Total trading revenue	$ 125	$ 130

Three months ended June 30

In millions	2012	2011
Net interest income	$ 11	$ 11
Noninterest income	33	58
Total trading revenue	$ 44	$ 69
Securities underwriting and trading (a)	$ 18	$ 29
Foreign exchange	27	19
Financial derivatives and other	(1)	21
Total trading revenue	$ 44	$ 69

(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 and commercial 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, along with the associated hedged items, are reported in the respective income statement line items, as appropriate.

Trading revenue for the first six months of 2012 decreased $5 million compared with the first six months of 2011 primarily due to the increased impact of counterparty credit risk on valuations of customer derivative positions and to a lesser extent, lower underwriting activity. These decreases were partially offset by higher derivative, foreign exchange, and securities client sales revenue and improved client related trading results.

Trading revenue for the second quarter of 2012 decreased $25 million compared with the second quarter of 2011 primarily due to the increased impact of counterparty credit risk on valuations of customer derivative positions and to a lesser extent, lower underwriting activity. These decreases

were partially offset by higher derivative and foreign exchange client sales revenues and improved client related trading results.

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 9 Fair Value in the Notes To Consolidated Financial Statements in 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:

Table 53: Equity Investments Summary

In millions	June 30 2012	Dec. 31 2011
BlackRock	$ 5,397	$ 5,291
Tax credit investments	2,905	2,646
Private equity	1,621	1,491
Visa	459	456
Other	235	250
Total	$ 10,617	$ 10,134

BlackRock

PNC owned approximately 36 million common stock equivalent shares of BlackRock equity at June 30, 2012, 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 Financial Review 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 $2.9 billion at June 30, 2012 and $2.6 billion at December 31, 2011.

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 $1.6 billion at June 30, 2012 and $1.5 billion at December 31, 2011. As of June 30, 2012, $957 million was invested directly in a variety of companies and $664 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 $250 million as of June 30, 2012. 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. See Item 1 Business   Supervision and Regulation and Item 1A Risk Factors included in our 2011 Form 10-K for discussion of potential impacts of the Volcker Rule provisions of Dodd-Frank on our holding interests in and sponsorship of private equity or hedge funds.

Our unfunded commitments related to private equity totaled $215 million at June 30, 2012 compared with $247 million at December 31, 2011.

Visa

At June 30, 2012, our investment in Visa Class B common shares totaled approximately 23 million shares and was recorded at $459 million. Based on the June 30, 2012 closing price of $123.63 for the Visa Class A shares, the market value of our total investment was approximately $1.2 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.

Our 2011 Form 10-K has additional information regarding the October 2007 Visa restructuring, our involvement with judgment and loss sharing agreements with Visa and certain other banks, and the status of pending interchange litigation.

See Note 17 Legal Proceedings and Note 18 Commitments and Guarantees in our Notes To Consolidated Financial Statements of this Report for additional information.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At June 30, 2012, other investments totaled $235 million compared with $250 million at December 31, 2011. We recognized net gains related to these investments of $13 million during both the first six months of 2012 and 2011, including net losses of $2 million during both the second quarter of 2012 and 2011.

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 both June 30, 2012 and December 31, 2011.

Financial Derivatives

We use a variety of financial derivatives as part of the overall asset and liability risk management process to help manage exposure to 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 in our Notes To Consolidated Financial Statements under Item 8 of our 2011 Form 10-K and in Note 13 Financial Derivatives in the Notes To Consolidated Financial Statements in 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.

Table of Contents

The following table provides the notional or contractual amounts and estimated net fair value of financial derivatives at June 30, 2012 and December 31, 2011.

Table 54: Financial Derivatives

	June 30, 2012		December 31, 2011	
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	$ 13,707	$ 551	$ 13,902	$ 529
Pay fixed swaps (c) (d)	2,073	(140)	1,797	(116)
Liability rate conversion				
Receive fixed swaps	11,000	1,402	10,476	1,316
Forward purchase commitments	1,480	29	2,733	43
Total interest rate risk management	28,260	1,842	28,908	1,772
Foreign exchange contracts				
FX forward	590		326	
Total derivatives designated as hedging instruments (b)	$ 28,850	$ 1,842	$ 29,234	$ 1,772
Derivatives not designated as hedging instruments under GAAP				
Derivatives used for residential mortgage banking activities:				
Interest rate contracts				
Swaps	$ 82,612	$ 416	$ 98,406	$ 454
Futures	54,103		64,250	
Future options	46,000	12	8,000	
Bond options	950	1	1,250	3
Swaptions	8,286	61	10,312	49
Commitments related to residential mortgage assets	18,996	72	14,773	59
Total residential mortgage banking activities	$ 210,947	$ 562	$ 196,991	$ 565
Derivatives used for commercial mortgage banking activities:				
Interest rate contracts				
Swaps	$ 1,416	$ (29)	$ 1,180	$ (34)
Swaptions			450	3
Future options (d)	600	(1)		
Commitments related to commercial mortgage assets	980	13	995	5
Credit contracts				
Credit default swaps	95	4	95	5
Total commercial mortgage banking activities	$ 3,091	$ (13)	$ 2,720	$ (21)
Derivatives used for customer-related activities:				
Interest rate contracts				
Swaps	$ 121,424	$ (125)	$ 122,088	$ (214)
Caps/floors				
Sold	4,370	(4)	5,861	(6)
Purchased	4,929	20	5,601	19
Swaptions	2,386	77	1,713	63
Futures	8,163		6,982	
Commitments related to residential mortgage assets	1,729		487	(1)
Foreign exchange contracts	11,174	7	11,920	9
Equity contracts (d)	185	(4)	184	(3)
Credit contracts				
Risk participation agreements	3,305	1	3,259	1
Total customer-related	$ 157,665	$ (28)	$ 158,095	$ (132)
Derivatives used for other risk management activities:				
Interest rate contracts				
Swaps	$ 787	$ (3)	$ 1,704	$ (34)
Swaptions			225	1
Futures	632		1,740	

Foreign exchange contracts	28	(3)	25	(4)
Equity contracts	12			
Credit contracts				
Credit default swaps	15		209	6
Other contracts (e)	354	(275)	386	(296)
Total other risk management	$ 1,828	$ (281)	$ 4,289	$ (327)
Total derivatives not designated as hedging instruments	$ 373,531	$ 240	$ 362,095	$ 85
Total Gross Derivatives	$ 402,381	$ 2,082	$ 391,329	$ 1,857

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 54% were based on 1-month LIBOR and 46% on 3-month LIBOR at June 30, 2012 compared with 57% and 43%, respectively, at December 31, 2011.

(b) Fair value amount includes net accrued interest receivable of $139 million at June 30, 2012 and $140 million at December 31, 2011.

(c) Includes zero-coupon swaps.

(d) The increases in the negative fair values from December 31, 2011 to June 30, 2012 for pay-fixed swaps, future options and equity contracts were due to the changes in fair values of the existing contracts along with new contracts entered into during the 2012 period and contracts terminated during that period.

(e) Includes PNC s obligation to fund a portion of certain BlackRock LTIP programs and includes a forward purchase commitment for certain loans upon conversion from a variable rate to a fixed rate.

Table of Contents

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of June 30, 2012, we performed an evaluation under the supervision and with the participation of our management, including the Chairman and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended) were effective as of June 30, 2012, and that there has been no change in PNC s internal control over financial reporting that occurred during the second quarter of 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

GLOSSARY OF TERMS

Accretable net interest (Accretable yield) The excess of cash flows expected to be collected on a purchased impaired loan over the carrying value of the loan. The accretable net interest is recognized into interest income over the remaining life of the loan using the constant effective yield method.

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

Annualized Adjusted to reflect a full year of activity.

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

Basis point One hundredth of a percentage point.

Carrying value of purchased impaired loans The net value on the balance sheet which represents the recorded investment less any valuation allowance.

Cash recoveries Cash recoveries used in the context of purchased impaired loans represent cash payments from customers that exceeded the recorded investment of the designated impaired loan.

Charge-off Process of removing a loan or portion of a loan from our balance sheet because it is considered uncollectible. We also record a charge-off when a loan is transferred from portfolio holdings to held for sale by reducing the loan carrying amount to the fair value of the loan, if fair value is less than carrying amount.

Combined loan-to-value ratio (CLTV) This is the aggregate principal balance(s) of the mortgages on a property divided by its appraised value or purchase price.

Commercial mortgage banking activities Includes commercial mortgage servicing, originating commercial mortgages for sale and related hedging activities. Commercial mortgage banking activities revenue includes commercial mortgage servicing (including net interest income and noninterest income from loan servicing and ancillary services, net of commercial mortgage servicing rights amortization, and commercial mortgage servicing rights valuations), and revenue derived from commercial mortgage loans intended for sale and related hedges (including loan origination fees, net interest income, valuation adjustments and gains or losses on sales).

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

Core net interest income Total net interest income less purchase accounting accretion.

Credit derivatives Contractual agreements, primarily credit default swaps, that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic

fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

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

Derivatives Financial contracts whose value is derived from changes in publicly traded securities, interest rates, currency exchange rates or market indices. Derivatives cover a wide assortment of financial contracts, including but not limited to forward contracts, futures, options and swaps.

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

Earning assets Assets that generate income, which include: Federal funds sold; resale agreements; trading securities;

Table of Contents

interest-earning deposits with banks; loans held for sale; loans; investment securities; and certain other assets.

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

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

Efficiency   Noninterest expense divided by total revenue.

Fair value   The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FICO score   A credit bureau-based industry standard score created by Fair Isaac Co. which predicts the likelihood of borrower default. We use FICO scores both in underwriting and assessing credit risk in our consumer lending portfolio. Lower FICO scores indicate likely higher risk of default, while higher FICO scores indicate likely lower risk of default. FICO scores are updated on a periodic basis.

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

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

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

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

Home price index (HPI)   A broad measure of the movement of single-family house prices in the U.S.

Interest rate floors and caps   Interest rate protection instruments that involve payment from the protection seller to the protection buyer of an interest differential, which

represents the difference between a short-term rate (e.g., three-month LIBOR) and an agreed-upon rate (the strike rate) applied to a notional principal amount.

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

Intrinsic value   The difference between the price, if any, required to be paid for stock issued pursuant to an equity compensation arrangement and the fair market value of the underlying stock.

Investment securities   Collectively, securities available for sale and securities held to maturity.

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

LIBOR   Acronym for London InterBank Offered Rate. LIBOR is the average interest rate charged when banks in the London wholesale money market (or interbank market) borrow unsecured funds from each other. LIBOR rates are used as a benchmark for interest rates on a global basis. PNC s product set includes loans priced using LIBOR as a benchmark.

Loan-to-value ratio (LTV)   A calculation of a loan s collateral coverage that is used both in underwriting and assessing credit risk in our lending portfolio. LTV is the sum total of loan obligations secured by collateral divided by the market value of that same collateral. Market values of the collateral are based on an independent valuation of the collateral. For example, an LTV of less than 90% is better secured and has less credit risk than an LTV of greater than or equal to 90%.

Loss given default (LGD)   An estimate of recovery based on collateral type, collateral value, loan exposure, or the guarantor(s) quality and guaranty type (full or partial). Each loan has its own LGD. The LGD risk rating measures the percentage of exposure of a specific credit obligation that we expect to lose if default occurs. LGD is net of recovery, through either liquidation of collateral or deficiency judgments rendered from foreclosure or bankruptcy proceedings.

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

Nonaccretable difference   Contractually required payments receivable on a purchased impaired loan in excess of the cash flows expected to be collected.

Nondiscretionary assets under administration   Assets we hold for our customers/clients in a non-discretionary, custodial

capacity. We do not include these assets on our Consolidated Balance Sheet.

Nonperforming assets   Nonperforming assets include nonperforming loans, TDRs, and OREO and foreclosed assets, but exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under fair value option and purchased impaired loans. We do not accrue interest income on assets classified as nonperforming.

Nonperforming loans   Loans for which we do not accrue interest income. Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, home equity, residential real estate, credit card and other consumer customers as well as TDRs which have not returned to performing status. Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans. Nonperforming loans exclude purchased impaired loans as we are currently accreting interest income over the expected life of the loans.

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

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

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

Other real estate owned (OREO) and foreclosed assets   Assets taken in settlement of troubled loans primarily through deed-in-lieu of foreclosure or foreclosure. Foreclosed assets include real and personal property, equity interests in corporations, partnerships, and limited liability companies.

Other-than-temporary impairment (OTTI)   When the fair value of a security is less than its amortized cost basis, an assessment is performed to determine whether the impairment is other-than-temporary. If we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment is considered to have occurred. In such cases, an other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment s amortized cost basis and its fair value at the balance sheet date. Further, if we do not expect to recover the entire amortized cost of the security, an other-than-temporary impairment is considered to have

occurred. However for debt securities, if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before its recovery, the other-than-temporary loss is separated into (a) the amount representing the credit loss, and (b) the amount related to all other factors. The other-than-temporary impairment related to credit losses is recognized in earnings while the amount related to all other factors is recognized in other comprehensive income, net of tax.

Parent company liquidity coverage   Liquid assets divided by funding obligations within a two year period.

Pretax earnings   Income from continuing operations before income taxes and noncontrolling interests.

Pretax, pre-provision earnings   Total revenue less noninterest expense.

Primary client relationship   A corporate banking client relationship with annual revenue generation of $10,000 to $50,000 or more, and for Asset Management Group, a client relationship with annual revenue generation of $10,000 or more.

Probability of default (PD)   An internal risk rating that indicates the likelihood that a credit obligor will enter into default status.

Purchase accounting accretion   Accretion of the discounts and premiums on acquired assets and liabilities. The purchase accounting accretion is recognized in net interest income over the weighted-average life of the financial instruments using the constant effective yield method. Accretion for purchased impaired loans includes any cash recoveries received in excess of the recorded investment.