PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
May 09, 2012

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 March 31, 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 May 2, 2012, there were 528,783,529 shares of the registrant s common stock ($5 par value) outstanding.

THE PNC FINANCIAL SERVICES GROUP, INC.

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FINANCIAL REVIEW

TABLE 1: CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data	Three months ended March 31	
Unaudited	**2012**	2011
Financial Results (a)		
Revenue		
Net interest income	**$ 2,291**	$ 2,176
Noninterest income	**1,441**	1,455
Total revenue	**3,732**	3,631
Noninterest expense (b)	**2,455**	2,070
Pretax, pre-provision earnings (c)	**1,277**	1,561
Provision for credit losses	**185**	421
Income before income taxes and noncontrolling interests (pretax earnings)	**$ 1,092**	$ 1,140
Net income	**$ 811**	$ 832
Less:		
Net income (loss) attributable to noncontrolling interests	**6**	(5)
Preferred stock dividends and discount accretion	**39**	4
Net income attributable to common shareholders	**$ 766**	$ 833
Diluted earnings per common share	**$ 1.44**	$ 1.57
Cash dividends declared per common share (d)	**$ .35**	$ .10
Integration costs:		
Pretax	**$ 145**	$ 1
After-tax	**$ 94**	
Impact on diluted earnings per share	**$ .18**	
Performance Ratios		
Net interest margin (e)	**3.90%**	3.94%
Noninterest income to total revenue	**39**	40
Efficiency	**66**	57
Return on:		
Average common shareholders equity	**9.41**	11.12
Average assets	**1.16**	1.29

See page 57 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) Includes expenses of $38 million and $5 million ($24 million and $4 million after taxes, respectively) for the three months ended March 31, 2012 and March 31, 2011 for residential mortgage foreclosure-related expenses. The impact on diluted earnings per share was $.05, and $.01 for the three months ended March 31, 2012 and March 31, 2011.

(c) We believe that pretax, pre-provision earnings, a non-GAAP measure, is useful as a tool to help evaluate our earnings created by operating leverage.

(d) In April 2012, the PNC Board of Directors declared a quarterly cash dividend on common stock of 40 cents per share, an increase of 5 cents per share, or 14%, from the prior quarterly dividend of 35 cents per share. The increased dividend was paid on the next business day after May 5, 2012 to shareholders of record at the close of business on April 17, 2012.

(e) 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 March 31, 2012 and March 31, 2011 were $31 million and $24 million, respectively.

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

Unaudited	**March 31 2012**	December 31 2011	March 31 2011
Balance Sheet Data (dollars in millions, except per share data)			
Assets	**$ 295,883**	$ 271,205	$ 259,378
Loans (b) (c)	**176,214**	159,014	149,387
Allowance for loan and lease losses (b)	**4,196**	4,347	4,759
Interest-earning deposits with banks (b)	**2,084**	1,169	1,359
Investment securities (b)	**64,554**	60,634	60,992
Loans held for sale (c)	**2,456**	2,936	2,980
Goodwill and other intangible assets	**11,188**	10,144	10,764
Equity investments (b) (d)	**10,352**	10,134	9,595
Noninterest-bearing deposits	**62,463**	59,048	48,707
Interest-bearing deposits	**143,664**	128,918	133,283
Total deposits	**206,127**	187,966	181,990
Transaction deposits	**164,575**	147,637	134,516
Borrowed funds (b)	**42,539**	36,704	34,996
Shareholders equity	**35,045**	34,053	31,132
Common shareholders equity	**33,408**	32,417	30,485
Accumulated other comprehensive income (loss)	**281**	(105)	(309)
Book value per common share	**63.26**	61.52	58.01
Common shares outstanding (millions)	**528**	527	526
Loans to deposits	**85%**	85%	82%
Client Assets (billions)			
Discretionary assets under management	**$ 112**	$ 107	$ 110
Nondiscretionary assets under administration	**107**	103	109
Total assets under administration	**219**	210	219
Brokerage account assets	**37**	34	35
Total client assets	**$ 256**	$ 244	$ 254
Capital Ratios			
Tier 1 common	**9.3%**	10.3%	10.3%
Tier 1 risk-based (e)	**11.4**	12.6	12.6
Total risk-based (e)	**14.4**	15.8	16.2
Leverage (e)	**10.5**	11.1	10.6
Common shareholders equity to assets	**11.3**	12.0	11.8
Asset Quality			
Nonperforming loans to total loans	**2.03%**	2.24%	2.88%
Nonperforming assets to total loans, OREO and foreclosed assets	**2.46**	2.60	3.29
Nonperforming assets to total assets	**1.47**	1.53	1.90
Net charge-offs to average loans (for the three months ended) (annualized)	**.81**	.83	1.44
Allowance for loan and lease losses to total loans	**2.38**	2.73	3.19
Allowance for loan and lease losses to nonperforming loans (f)	**117**	122	110
Accruing loans past due 90 days or more (g)	**$ 2,609**	$ 2,973	$ 2,645

(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.

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: 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 and Critical Accounting Estimates And Judgments sections in this Financial Review 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 18 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 diverse business mix that exceeds growth in expenses controlled through disciplined cost management.

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

share of wallet. We may also grow revenue through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

We have made substantial progress in transitioning our balance sheet and managing our risks over the past several years. Our actions have resulted in a strong capital position, created a well-positioned balance sheet, reduced credit risk, and helped us to maintain strong liquidity and investment flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions. We remain committed to our moderate risk philosophy. We believe, however, that characterizing our view of our overall risk profile at a given time in a single word (as opposed to describing our efforts to seek to manage risk in keeping with our moderate risk philosophy) is not meaningful to investors and, as a result, we will no longer make such characterizations in our public disclosures. PNC faces a variety of risks that may impact different aspects of our risk profile from time to time, the extent of each varying 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, subject to certain post-closing adjustments that are considered normal course of business. 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.

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 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 2,900 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.

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 March 31, 2012. The transaction is expected to close in the fourth quarter of 2012 and is subject to certain closing conditions, including regulatory approval. Financial terms of the transaction have not been disclosed.

Flagstar Branch Acquisition

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

BankAtlantic Branch Acquisition

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

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

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. For the second quarter of 2012, the increased dividend was payable to shareholders of record at the close of business on April 17, 2012 and the payment date was May 5, 2012. 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 the remainder of 2012. We did not repurchase any shares under PNC s existing common stock repurchase program in the first quarter of 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 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 10, 2012, we announced that May 25, 2012 will be the redemption date of $500 million of trust preferred securities issued by National City Capital Trust III with a current distribution rate of 6.625% and an original scheduled maturity date of May 25, 2047 and submitted a redemption notice to the trustee. The redemption price will be $25 per trust preferred security plus any accrued and unpaid distributions to the redemption date of May 25, 2012. In addition, on April 25, 2012 we redeemed $300 million of trust preferred securities issued by PNC Capital Trust D with a distribution rate of 6.125% and $6 million of trust preferred securities issued by Yardville Capital Trust III with a distribution rate of 10.18%. These redemptions together will result in a noncash charge for the unamortized discounts of approximately $130 million in the second quarter of 2012. We have an additional $1 billion of securities that are redeemable at par beginning in the latter half of 2012, and if we call those securities, we expect that the related noncash charges will be approximately $150 million.

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 granted the underwriters an option to purchase up to an additional 3 million depositary shares within 30 days after April 19, 2012 at the public offering price, less underwriting discounts and commissions, to cover overallotments, if any. 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.

Recent Market and Industry Developments

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

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

certain desirable business opportunities, place constraints on business activities we currently conduct, or have other adverse impacts on our operations or revenue.

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

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

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

The Basel III initiatives also include new, quantitative short-term liquidity standards (the Liquidity Coverage Ratio) and long-term funding standards (the Net Stable Funding Ratio). The Liquidity Coverage Ratio, which is scheduled to take effect on January 1, 2015, requires a banking organization to maintain a sufficient level of unencumbered, high-quality liquid assets that could be converted to cash to meet projected cash outflows during a 30-day severe stress scenario. The Net Stable Funding Ratio, which is scheduled to take effect on January 1, 2018, is designed to promote a stable maturity structure of assets and liabilities of banking organizations over a one-year time horizon. Accordingly, it measures the amount of longer-term, stable sources of funding available to support the portion of a banking organization s assets (both on- and off-balance sheet) that could not be readily converted to cash over a stress period lasting one year. Like the Basel III capital standards, the Basel III liquidity standards require implementing regulations by the U.S. banking regulators.

A number of reform provisions are likely to significantly impact the ways in which banks and bank holding companies, including PNC, do business. We provide additional information on a number of these provisions (including new regulatory agencies (such as the Consumer Financial Protection Bureau (CFPB)), consumer protection regulation, enhanced capital requirements, limitations on investment in and sponsorship of funds, risk retention by securitization participants, new regulation of derivatives, potential applicability of state consumer protection laws, and limitations on interchange fees) and some of their potential impacts on PNC in Item 1 Business Supervision and Regulation and Item 1A Risk Factors included in our 2011 Form 10-K.

RESIDENTIAL MORTGAGE MATTERS

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

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

For additional information, including with respect to some of these other ongoing governmental, legislative and regulatory inquiries, please see Item 1A Risk Factors and Note 22 Legal Proceedings in Item 8 in our 2011 Form 10-K.

PNC S PARTICIPATION IN SELECT GOVERNMENT PROGRAMS

FDIC Temporary Liquidity Guarantee Program (TLGP) Transaction Account Guarantee Program

Part of the FDIC s Temporary Liquidity Guarantee Program involves providing full deposit insurance coverage for non-interest bearing transaction accounts in FDIC-insured institutions, regardless of the dollar amount (TLGP-Transaction Account Guarantee Program).

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

FDIC insurance has been an attraction for customers seeking to maintain liquidity during this prolonged period of low interest rates.

Home Affordable Modification Program (HAMP)

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

Home Affordable Refinance Program (HARP)

Another part of its efforts to stabilize the US housing market is the Obama Administration s Home Affordable Refinance Program (HARP), which provided a means for certain borrowers to refinance their mortgage loans. PNC began participating in HARP in May 2009. On October 24, 2011 the Obama Administration announced revisions to the program (HARP 2), increasing borrower eligibility and extending the program for another twelve months with a new termination date of December 31, 2013. During the fourth quarter of 2011, both FNMA and FHLMC announced their respective HARP 2 provisions and in December 2011 PNC began participating in HARP 2 with both entities. Under HARP 2 there is no limit on the borrower s loan-to-value (LTV) for fixed rate mortgages, which was a key change from the original program s 125% LTV limit. This change significantly increased the number of borrowers eligible for a refinance under the program. During the first quarter of 2012, nearly 30% of PNC s mortgage loan originations were original HARP or HARP 2 refinancing transactions.

KEY FACTORS AFFECTING FINANCIAL PERFORMANCE

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

- General economic conditions, including the continuity, speed and stamina of the moderate economic recovery in general and on our customers in particular,
- The level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve,
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets,
- Loan demand, utilization of credit commitments and standby letters of credit, and asset quality,
- Customer demand for non-loan products and services,

- Changes in the competitive and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment,
- The impact of the extensive reforms enacted in the Dodd-Frank legislation and other legislative, regulatory and administrative initiatives, including those outlined elsewhere in this Report, and
- The impact of market credit spreads on asset valuations.

In addition, our success will depend 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 operate in accordance with our moderate risk philosophy, and to meet evolving regulatory capital standards,
- Actions we take within the capital and other financial markets, and
- The impact of legal and regulatory-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 first quarter of 2012 of $811 million was down 3% compared to first quarter of 2011. Net income for the first quarter of 2012 included integration costs of $145 million, additions to legal reserves of $72 million, operating expenses of $40 million for the RBC Bank (USA) acquisition, and $38 million of residential mortgage foreclosure-related expenses. The impacts of these items were not significant to net income for the first quarter of 2011.
- Net interest income of $2.3 billion for the first quarter of 2012 increased 5 percent compared with the first quarter of 2011 driven by loans added through the RBC Bank (USA) acquisition, organic loan growth and lower funding costs. Net interest margin declined to 3.90% for the first quarter of 2012 compared to 3.94% for the first quarter of 2011, primarily as loan growth and lower funding costs were offset by lower yields on loans and securities.
- Noninterest income of $1.4 billion for the first quarter 2012 declined $14 million compared to first quarter 2011. Increases were reflected in higher residential mortgage revenue, higher asset management fees, and an increase in corporate service fees. These increases were offset by various declines in other income and by lower consumer service fees primarily reflecting the regulatory impact of lower interchange fees on debit card transactions.
- The provision for credit losses declined to $185 million for the first quarter of 2012 compared to $421 million for the first quarter of 2011 as overall credit quality improved.
- Noninterest expense of $2.5 billion for the first quarter of 2012 increased $385 million compared with the first quarter of 2011 primarily due to higher integration costs, additions to legal reserves, operating expense for the RBC Bank (USA) acquisition, and an increase in expense for residential mortgage foreclosure-related matters.

CREDIT QUALITY HIGHLIGHTS

- Overall credit quality remained stable during the first quarter of 2012 compared with year end.
  - Nonperforming assets increased $205 million, or 5 percent, to $4.4 billion at March 31, 2012 compared with December 31, 2011. The increase was primarily attributable to other real estate owned 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. These increases were partially offset by a decline in nonperforming commercial real estate and commercial loans. Nonperforming assets to total assets were 1.47 percent at March 31, 2012 compared with 1.53 percent at December 31, 2011.
  - Accruing loans past due decreased by $275 million, or 6%, to $4.3 billion at March 31, 2012 from $4.5 billion at December 31, 2011. Accruing loans past due 90 days or more declined $364 million due to the change in policy for home equity loans and improvements in commercial loans and government insured

delinquent residential real estate loans. Accruing loans past due 30 to 59 days increased $119 million in the linked quarter comparison due to an increase in commercial, residential real estate and commercial real estate loans primarily related to the RBC Bank (USA) acquisition.

Net charge-offs declined to $333 million in the first quarter of 2012 compared with $533 million in the first quarter of 2011. Net charge-offs declined in the comparison with first quarter 2011 primarily due to lower commercial real estate, commercial and residential real estate loan net charge-offs. Net charge-offs for the first quarter of 2012 were .81 percent of average loans on an annualized basis compared with 1.44 percent for the first quarter of 2011.

Provision for credit losses declined to $185 million in the first quarter of 2012 compared with $421 million in the first quarter of 2011 driven by overall credit quality improvement and continued actions to reduce exposure levels.

The allowance for loan and lease losses (ALLL) was 2.38% of total loans and 117% of nonperforming loans as of March 31, 2012 compared with 2.73% and 122% as of December 31, 2011.

Balance Sheet Highlights

- PNC continued to expand customer relationships and focus on quality growth.
  - Retail banking checking relationships increased 517,000 in the first quarter of 2012, including 460,000 from the RBC Bank (USA) acquisition.
- Total loans increased by $17 billion to $176 billion at March 31, 2012 compared to December 31, 2011.
  - Loans of approximately $14.5 billion were added in the RBC Bank (USA) acquisition.
  - Commercial loans grew organically by approximately 5 percent, reflecting PNC s focus on long-term, broad-based client relationships. The growth was primarily in corporate banking, asset-based lending, and real estate finance.
- Total deposits were $206 billion at March 31, 2012 compared with $188 billion at December 31, 2011.
  - Deposits of approximately $18.1 billion were added in the RBC Bank (USA) acquisition.
  - Transaction deposits also grew organically during the first quarter of 2012 and increased to $165 billion, or 80 percent of deposits, at March 31, 2012.
  - Higher rate retail certificates of deposit continued to decline.
- PNC s balance sheet remained core funded with a loans to deposits ratio of 85 percent at March 31, 2012 and reflected a strong liquidity position.
- PNC maintained strong capital levels with a Tier 1 common capital ratio of 9.3 percent at March 31, 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.
- 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 the remainder of 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 three months of 2012 and 2011 and balances at March 31, 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 March 31, 2012 compared with December 31, 2011.

Total average assets were $281.5 billion for the first three months of 2012 compared with $262.6 billion for the first three months of 2011. Average interest-earning assets were $237.7 billion for the first three months of 2012, compared with $224.1 billion in the first three months of 2011. In both comparisons, the increases were primarily driven by a $14.4 billion increase in average total loans. The overall increase in average loans reflected the impact of approximately $5 billion of average loans from the March 2, 2012 acquisition of RBC Bank (USA) and organic growth.

Average total loans increased $14.4 billion, to $164.6 billion for the first three months of 2012 compared with the first three months of 2011. The increase in average total loans primarily reflected an increase in commercial loans of $13.0 billion and in consumer loans of $2.7 billion, partially offset by a $.7 billion decrease in commercial real estate loans.

Loans represented 69% of average interest-earning assets for the first three months of 2012 and 67% of average interest-earning assets for the first three months of 2011.

Average investment securities decreased $.6 billion, to $61.6 billion in the first three months of 2012 compared with the first three months of 2011.

Total investment securities comprised 26% of average interest-earning assets for the first three months of 2012 and 28% for the first three months of 2011.

Average noninterest-earning assets totaled $43.8 billion in the first three months of 2012 compared with $38.5 billion in the first three months of 2011. The increase over the comparable period was driven by several individually insignificant items.

Average total deposits were $192.1 billion for the first three months of 2012 compared with $180.8 billion for the first three months of 2011. The increase in average total deposits reflected the impact of approximately $4.6 billion of average deposits from the March 2, 2012 acquisition of RBC Bank (USA). The period end increase of $11.3 billion resulted from increases in average noninterest-bearing deposits of $10.1 billion, average interest-bearing demand deposits of $5.3 billion and average money market deposits of $2.6 billion, offset by a decrease in retail certificates of deposit of $7.5 billion. The growth also reflects customer preferences for liquidity in this prolonged period of low interest rates. Total deposits at March 31, 2012 were $206.1 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 three months of 2012 and 69% for the first three months of 2011.

Average transaction deposits were $150.7 billion for the first three months of 2012 compared with $132.6 billion for the first three months of 2011. The continued execution of the retail deposit strategy and 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 were $40.2 billion for the first three months of 2012 compared with $38.4 billion for the first three months of 2011. Net issuances of Federal Home Loan Bank (FHLB) borrowings during the first quarter of 2012 and an increase in commercial paper issued drove the increase compared with the first three months of 2011. Total borrowed funds at March 31, 2012 were $42.5 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 $770 million for the first three months of 2012 and $639 million for the first three

months of 2011. Highlights of results for the first quarters of 2012 and 2011 are included below. 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 three months of 2012 and 2011 including presentation differences from Note 18 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 18 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

Retail Banking

Retail Banking earned $50 million in the first three months of 2012 compared with a loss of $18 million for the same period a year ago. Earnings increased from the prior year as a result of a lower provision for credit losses and improved net interest income 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.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $470 million in the first three months of 2012 as compared with $432 million in the first three 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.

Asset Management Group

Asset Management Group earned $28 million in the first three months of 2012 compared with $43 million in the first three months of 2011. Assets under administration were $219 billion at both March 31, 2012 and March 31, 2011. Earnings for the first quarter 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 include: increasing channel penetration; investing in higher growth geographies; and investing in differentiated client-facing technology.

Residential Mortgage Banking

Residential Mortgage Banking earned $61 million in the first three months of 2012 compared with $71 million in the first three months of 2011. Earnings declined from the prior year period primarily as a result of higher noninterest expense, partially offset by higher noninterest income and lower provision for credit losses.

BlackRock

Our BlackRock business segment earned $90 million in the first three months of 2012 and $86 million in the first three months of 2011. The higher business segment earnings from BlackRock for the first quarter of 2012 compared to the first quarter of 2011 was primarily due to PNC s higher equity earnings from BlackRock.

Non-Strategic Assets Portfolio

This business segment consists primarily of acquired non-strategic assets that fall outside of our core business strategy. Non-Strategic Assets Portfolio had earnings of $71 million for the first three months of 2012 compared with $25 million in the first three months of 2011. The increase was driven primarily by a lower provision for credit losses partially offset by a decline in revenue.

Other

Other reported earnings of $41 million for the three months of 2012 compared with earnings of $193 million for the first three months of 2011. The decrease in earnings from the first three months of 2011 primarily reflected the impact of integration costs incurred in the 2012 period.

Consolidated Income Statement Review

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

Net income for the first three months of 2012 was $811 million, down 3% compared with $832 million for the first three months of 2011. Net income for the first quarter of 2012 included integration costs of $145 million, additions to legal reserves of $72 million, operating expenses of $40 million for the RBC Bank (USA) acquisition and $38 million of residential mortgage foreclosure-related expenses. The impacts of these items were not significant to net income for the first quarter of 2011.

Table 2: Net Interest Income and Net Interest Margin

Three months ended March 31		
Dollars in millions	**2012**	2011
Net interest income	**$ 2,291**	$ 2,176
Net interest margin	**3.90%**	3.94%

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.

Net interest income of $2.3 billion for the first quarter of 2012 increased 5 percent compared with the first quarter of 2011 driven by loans from the RBC Bank (USA) acquisition, organic loan growth and lower funding costs.

The net interest margin was 3.90% for the first three months of 2012 and 3.94% for the first three months of 2011. The following factors impacted the comparison:

- Average loans increased $14.4 billion, or 10 percent. Average commercial loans grew $13.0 billion, or 23 percent, and average consumer loans increased $2.7 billion, or 5 percent, partially offset by declines in average commercial real estate and residential real estate loans.
- A 26 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 31 basis points.
- These factors were partially offset by a weighted-average 25 basis point decline in the rate accrued on interest-bearing liabilities. The rate accrued on interest-bearing deposits, the largest component, decreased 24 basis points, and the rate on total borrowed funds decreased by 34 basis points.

We expect our net interest income for full year 2012 to increase in percentage terms by high single digits compared to full year 2011, assuming the economic outlook for the remainder of 2012 will be a continuation of the recent trends. Approximately $5 billion of higher-cost retail certificates of deposit are scheduled to mature during the second quarter of 2012 at a weighted-average rate of about 2.2%. We expect to retain about half of the maturing retail certificates of deposit, and we expect those to re-price on average to approximately 30 basis points. In addition,

we see future benefits to our funding costs relating to calling certain trust preferred securities. We redeemed $306 million of trust preferred securities with an average rate of 6.2% in April 2012, and in April 2012 we announced that we are calling another $500 million with a current distribution rate of 6.6%. We expect to replace these securities with lower cost funding. We have an additional $1 billion of trust preferred securities at an average rate of almost 10% with par call dates later this year that potentially could be called.

Noninterest Income

Noninterest income totaled $1.4 billion for the first three months of 2012 and $1.5 billion for the first three months of 2011. Increases were reflected in higher residential mortgage revenue from higher loan sales revenue, higher asset management fees from improved equity markets, and an increase in corporate service fees from higher merger and acquisition advisory fees and commercial mortgage banking revenue. These increases were offset by a decline in other income including a decrease in revenue from private and other equity investments and lower gains on loan sales, and by lower consumer service fees reflecting the regulatory impact of lower interchange fees on debit card transactions.

Asset management revenue, including BlackRock, increased $21 million to $284 million in the first three months of 2012 compared with the first three months of 2011. This increase was driven primarily by higher equity earnings from our BlackRock investment. Discretionary assets under management at March 31, 2012 totaled $112 billion compared with $110 billion at March 31, 2011.

For the first three months of 2012, consumer services fees totaled $264 million compared with $311 million in the first three months of 2011. Lower consumer services fees for the first quarter 2012 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 $70 million in the first quarter of 2012. Based on 2012 projected transaction volumes, an additional incremental reduction of approximately $230 million in 2012 revenue is expected.

Corporate services revenue totaled $232 million in the first three months of 2012 and $217 million in the first three months of 2011. Higher merger and acquisition advisory fees and commercial mortgage banking revenue led to the increase in corporate service fees in the first quarter of 2012.

Residential mortgage revenue totaled $230 million in the first three months of 2012 and $195 million in the first three months of 2011, driven by higher loans sales revenue, higher net hedging gains on mortgage servicing rights and higher servicing fees.

Service charges on deposits totaled $127 million for the first three months of 2012 and $123 million for the first three months of 2011. The slight increase in service charges on deposits during the first quarter 2012 related to the impact of the RBC Bank (USA) acquisition during the quarter.

Net gains on sales of securities totaled $57 million for the first three months of 2012 and $37 million for the first three months of 2011. The net credit component of OTTI of securities recognized in earnings was a loss of $38 million in the first three months of 2012 compared with a loss of $34 million in the first three months of 2011.

Other noninterest income totaled $285 million for the first three months of 2012 compared with $343 million for the first three months of 2011, largely related to a decrease in revenue from private and other equity investments and lower gains on loan sales.

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.

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

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, capital markets-related products and services, and commercial mortgage banking activities for customers in all business segments. A portion of the revenue and expense related to these products is reflected in 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 $311 million for the first three months of 2012 and $301 million for the first three months of 2011. Higher deposit related balances along with strong commercial card growth led to favorable results.

Revenue from capital markets-related products and services totaled $156 million in the first three months of 2012 compared with $139 million in the first three months of 2011. The increase was primarily due to revenue from higher derivatives and foreign exchange sales and higher merger and acquisition advisory fees which more than offset a lower level of loan sale activity.

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), 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 $43 million in the first three months of 2012 compared with $41 million in the first three months of 2011. Higher revenue from commercial mortgage servicing was partially offset by lower revenue from loan originations.

Provision For Credit Losses

The provision for credit losses totaled $185 million for the first three months of 2012 compared with $421 million for the first three months of 2011. The decline in the comparison was driven by overall credit quality improvement and continuation of actions to reduce exposure levels.

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 2011 environment and excluding 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 $2.5 billion for the first three months of 2012 and $2.1 billion for the first three months of 2011. First quarter 2012 expense included integration costs of $145 million, additions to legal reserves of $72 million, operating expense for the RBC Bank (USA) acquisition of $40 million and $38 million of residential mortgage foreclosure-related expenses.

We expect that total noninterest expense for full year 2012 will increase in percentage terms by mid-to-high single-digits compared to full year 2011. This expectation is based primarily due to increases in mortgage expenses as a result of higher volumes in the low rate environment and mortgage foreclosure-related matters. This guidance excludes legal and regulatory-related contingencies, charges for trust preferred securities redemptions and integration expenses for both years.

Effective Income Tax Rate

The effective income tax rate was 25.7% in the first three months of 2012 compared with 27.0% in the first three months of 2011. The lower rate in the first quarter of 2012 was primarily attributable to the impact of higher tax-exempt income and tax credits partially offset by higher levels of pretax income.

Consolidated Balance Sheet Review

Table 3: Summarized Balance Sheet Data

In millions	**Mar. 31 2012**	Dec. 31 2011
Assets		
Loans	**$ 176,214**	$ 159,014
Investment securities	**64,554**	60,634
Cash and short-term investments	**10,256**	9,992
Loans held for sale	**2,456**	2,936
Goodwill and other intangible assets	**11,188**	10,144
Equity investments	**10,352**	10,134
Other, net	**20,863**	18,351
Total assets	**$ 295,883**	$ 271,205
Liabilities		
Deposits	**$ 206,127**	$ 187,966
Borrowed funds	**42,539**	36,704
Other	**8,981**	9,289
Total liabilities	**257,647**	233,959
Total shareholders equity	**35,045**	34,053
Noncontrolling interests	**3,191**	3,193
Total equity	**38,236**	37,246
Total liabilities and equity	**$ 295,883**	$ 271,205

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

The increase in total assets of $24.7 billion at March 31, 2012 compared with December 31, 2011 was primarily due to the addition of assets from the RBC Bank (USA) acquisition, loan growth and higher investment securities.

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 $176.2 billion at March 31, 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 $3.3 billion at March 31, 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 $17.2 billion as of March 31, 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 decline in consumer and residential real estate loans was due to loan demand being outpaced by paydowns, refinancing, and charge-offs.

Loans represented 60% of total assets at March 31, 2012 and 59% of total assets at December 31, 2011. Commercial lending represented 57% of the loan portfolio at March 31, 2012 and 56% at December 31, 2011. Consumer lending represented 43% at March 31, 2012 and 44% at December 31, 2011.

Commercial real estate loans represented 6% of total assets at both March 31, 2012 and December 31, 2011.

Table 4: Details Of Loans

In millions	**Mar. 31 2012**	Dec. 31 2011
Commercial Lending		
Commercial		
Retail/wholesale trade	**$ 12,983**	$ 11,539
Manufacturing	**12,684**	11,453
Service providers	**11,215**	9,717
Real estate related (a)	**10,091**	8,488
Financial services	**8,273**	6,646
Health care	**5,695**	5,068
Other industries	**14,574**	12,783
Total commercial	**75,515**	65,694
Commercial real estate		
Real estate projects	**12,589**	10,640
Commercial mortgage	**5,945**	5,564
Total commercial real estate	**18,534**	16,204
Equipment lease financing	**6,594**	6,416
TOTAL COMMERCIAL LENDING	**100,643**	88,314
Consumer Lending		
Home equity		
Lines of credit	**24,668**	22,491
Installment	**11,076**	10,598
Total home equity	**35,744**	33,089
Residential real estate		
Residential mortgage	**15,287**	13,885
Residential construction	**925**	584
Total residential real estate	**16,212**	14,469
Credit card	**4,089**	3,976
Other consumer		
Education	**9,246**	9,582
Automobile	**5,794**	5,181
Other	**4,486**	4,403
Total other consumer	**19,526**	19,166
TOTAL CONSUMER LENDING	**75,571**	70,700
Total loans (b)	**$ 176,214**	$ 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 $8.4 billion, or 5% of total loans, at March 31, 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 (USA) acquisition.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $35 billion for the first three months of 2012.

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

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

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

Higher Risk Loans

Our loan portfolio includes certain loans deemed to be higher risk and therefore more likely to result in credit losses. As of March 31, 2012, we established specific and pooled reserves on the total commercial lending category of $1.9 billion. This commercial lending reserve included what we believe to be appropriate loss coverage on the higher risk commercial loans in the total commercial portfolio. The commercial lending reserve represented 46% of the total ALLL of $4.2 billion at that date. The remaining 54% of ALLL pertained to the total consumer lending category, including loans with certain attributes that we would consider to be higher risk. We do not consider government insured or guaranteed loans to be higher risk as defaults are materially mitigated by payments of insurance or guarantee amounts for approved claims. Additional information regarding our higher risk loans is included in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in this Report.

Purchase Accounting, Accretion and Valuation for Purchased Impaired Loans

Table 5: RBC Acquired Loan Portfolio on March 2, 2012

	Purchased Impaired			Other Purchased Loans (a)		
		Outstanding			Outstanding	
In millions	Fair Value	Balance	Net Investment	Fair Value	Balance (b)	Net Investment
Commercial	$ 446	$ 746	60%	$ 6,002	$ 6,328	95%
Commercial Real Estate	481	836	58	2,067	2,310	89
Equipment Lease Financing				86	92	93
Consumer	151	215	70	3,203	3,731	86
Residential Real Estate	896	1,214	74	1,168	1,202	97
Total	$ 1,974	$ 3,011	66%	$ 12,526	$ 13,663	92%

(a) Other purchased loans includes revolving loans that are excluded from the purchased impaired loans.
(b) The difference between total outstanding balance and total fair value will be accreted into net interest income on a constant effective yield over the life of the loans unless future credit events cause the loans to be on nonaccrual.

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

Table 6: Accretion Purchased Impaired Loans

Three months ended March 31

In millions	**2012 (a)**	2011 (b)
Impaired loans		
Scheduled accretion	**$ 158**	$ 160
Reversal of contractual interest on impaired loans	**(97)**	(106)
Scheduled accretion net of contractual interest	**61**	54
Excess cash recoveries	**40**	81
Total impaired loans	**$ 101**	$ 135

(a) Represents National City and RBC acquisitions.

(b) Represents National City acquisition.

Table 7: Accretable Net Interest Purchased Impaired Loans

In billions	**2012**	2011
January 1	**$ 2.1**	$ 2.2
Addition due to RBC acquisition on March 2, 2012	**.6**	
Accretion	**(.2)**	(.2)
Excess cash recoveries		(.1)
Net reclassifications to accretable from non-accretable and other activity		.3
March 31 (a)	**$ 2.5**	$ 2.2

(a) As of March 31, 2012, we estimate that the reversal of contractual interest on purchased impaired loans will total approximately $1.5 billion in future periods, of which $250 million was associated with loans purchased in the RBC acquisition. This will offset the total net accretable interest in future interest income of $2.5 billion on purchased impaired loans.

Table 8: Valuation of Purchased Impaired Loans

	March 31, 2012 (a)		December 31, 2011 (b)	
Dollars in billions	Balance	Net Investment	Balance	Net Investment
Commercial and commercial real estate loans:				
Unpaid principal balance	**$ 2.4**		$ 1.0	
Purchased impaired mark	**(.7)**		(.1)	
Recorded investment	**1.7**		.9	
Allowance for loan losses	**(.2)**		(.2)	
Net investment	**1.5**	63%	.7	70%
Consumer and residential mortgage loans:				
Unpaid principal balance	**7.7**		6.5	
Purchased impaired mark	**(1.0)**		(.7)	
Recorded investment	**6.7**		5.8	
Allowance for loan losses	**(.8)**		(.8)	
Net investment	**5.9**	77%	5.0	77%
Total purchased impaired loans:				
Unpaid principal balance	**10.1**		7.5	
Purchased impaired mark	**(1.7)**		(.8)	
Recorded investment	**8.4**		6.7	
Allowance for loan losses	**(1.0)**		(1.0)	
Net investment	**$ 7.4**	**73%**	$ 5.7	76%

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

The unpaid principal balance of purchased impaired loans increased from $7.5 billion at December 31, 2011 to $10.1 billion at March 31, 2012 due to the acquisition of RBC Bank (USA) and related credit card portfolio, partially offset by payments, disposals, and charge-offs of amounts determined to be uncollectible. The remaining purchased impaired mark at March 31, 2012 was $1.7 billion, which was an increase from $0.8 billion at December 31, 2011. The associated allowance for loan losses remained flat at March 31, 2012. The net investment of $5.7 billion at December 31, 2011 also increased 30% to $7.4 billion at March 31, 2012. At March 31, 2012, our largest individual purchased impaired loan had a recorded investment of $21.8 million.

We currently expect to collect total cash flows of $9.9 billion on purchased impaired loans, representing the $7.4 billion net investment at March 31, 2012 and the accretable net interest of $2.5 billion shown in the Accretable Net Interest-Purchased Impaired Loans table. These represent the net future cash flows on purchased impaired loans, as contractual interest will be reversed.

Net Unfunded Credit Commitments

Net unfunded credit commitments are comprised of the following:

Table 9: Net Unfunded Credit Commitments

In millions	**March 31 2012**	December 31 2011
Commercial/commercial real estate (a)	**$ 69,941**	$ 64,955
Home equity lines of credit	**20,751**	18,317
Credit card	**17,610**	16,216
Other	**4,152**	3,783
Total	**$ 112,454**	$ 103,271

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

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments reported above exclude syndications, assignments and participations, primarily to financial institutions, totaling $20.9 billion at March 31, 2012 and $20.2 billion at December 31, 2011.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $903 million at March 31, 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 $10.9 billion at March 31, 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.

INVESTMENT SECURITIES

Table 10: Details of Investment Securities

In millions	Amortized Cost	Fair Value
March 31, 2012		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	**$ 2,567**	**$ 2,842**
Residential mortgage-backed		
Agency	**28,493**	**29,298**
Non-agency	**6,791**	**6,121**
Commercial mortgage-backed		
Agency	**865**	**899**
Non-agency	**2,805**	**2,943**
Asset-backed	**5,417**	**5,283**
State and municipal	**1,899**	**1,936**
Other debt	**3,647**	**3,738**
Corporate stocks and other	**298**	**298**
Total securities available for sale	**$ 52,782**	**$ 53,358**
SECURITIES HELD TO MATURITY		
Debt securities		
US Treasury and government agencies	**$ 224**	**$ 246**
Residential mortgage-backed (agency)	**4,450**	**4,590**
Commercial mortgage-backed		
Agency	**1,301**	**1,357**
Non-agency	**3,223**	**3,334**
Asset-backed	**967**	**977**
State and municipal	**671**	**704**
Other debt	**360**	**373**
Total securities held to maturity	**$ 11,196**	**$ 11,581**
December 31, 2011		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	$ 3,369	$ 3,717
Residential mortgage-backed		
Agency	26,081	26,792
Non-agency	6,673	5,557
Commercial mortgage-backed		
Agency	1,101	1,140
Non-agency	2,693	2,756
Asset-backed	3,854	3,669
State and municipal	1,779	1,807
Other debt	2,691	2,762
Corporate stocks and other	368	368
Total securities available for sale	$ 48,609	$ 48,568
SECURITIES HELD TO MATURITY		
Debt securities		
US Treasury and government agencies	$ 221	$ 261
Residential mortgage-backed (agency)	4,761	4,891
Commercial mortgage-backed		
Agency	1,332	1,382
Non-agency	3,467	3,573
Asset-backed	1,251	1,262
State and municipal	671	702
Other debt	363	379
Total securities held to maturity	$ 12,066	$ 12,450

The carrying amount of investment securities totaled $64.6 billion at March 31, 2012, an increase of $3.9 billion, or 6%, from $60.6 billion at December 31, 2011. The increase reflected higher agency residential mortgage-backed securities from net purchase activity and asset-backed and other debt securities added in the RBC Bank (USA) acquisition. Investment securities represented 22% of total assets at both March 31, 2012 and 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 March 31, 2012.

At March 31, 2012, the securities available for sale portfolio included a net unrealized gain of $576 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. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders equity as accumulated other comprehensive income or loss from continuing operations, net of tax.

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

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

We estimate that, at March 31, 2012, the effective duration of investment securities was 2.7 years for an immediate 50 basis points parallel increase in interest rates and 2.5 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.

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

	March 31, 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	**$ 29,298**	**$ 899**	**$ 6,121**	**$ 2,943**	**$ 5,283**
Fair Value Held to Maturity	**4,590**	**1,357**		**3,334**	**977**
Total Fair Value	**$ 33,888**	**$ 2,256**	**$ 6,121**	**$ 6,277**	**$ 6,260**
% of Fair Value:					
By Vintage					
2012	**7%**			**1%**	
2011	**31%**	**43%**		**5%**	
2010	**30%**	**19%**		**4%**	**4%**
2009	**11%**	**20%**		**3%**	**5%**
2008	**3%**	**2%**			**2%**
2007	**3%**	**1%**	**24%**	**9%**	**5%**
2006	**2%**	**4%**	**22%**	**24%**	**6%**
2005 and earlier	**8%**	**11%**	**53%**	**52%**	**7%**
Not Available	**5%**		**1%**	**2%**	**71%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By Credit Rating (at March 31, 2012)					
Agency	**100%**	**100%**			
AAA			**1%**	**77%**	**57%**
AA			**1%**	**6%**	**30%**
A			**3%**	**10%**	**1%**
BBB			**5%**	**4%**	
BB			**12%**	**1%**	
B			**6%**		**1%**
Lower than B			**71%**		**9%**
No rating			**1%**	**2%**	**2%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By FICO Score (at origination)					
>720			**56%**		**5%**
<720 and >660			**30%**		**6%**
<660					**4%**
No FICO score			**14%**		**85%**
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.

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 first three months of 2012 and 2011 as follows:

Table 12: Other-Than-Temporary Impairments

Three months ended March 31 In millions	**2012**	2011
Credit portion of OTTI losses (a)		
Non-agency residential mortgage-backed	**$ 32**	$ 28
Asset-backed	**5**	5
Other debt	**1**	1
Total credit portion of OTTI losses	**38**	34
Noncredit portion of OTTI (recoveries) (b)	**(22)**	(4)
Total OTTI losses	**$ 16**	$ 30

(a) Reduction of noninterest income in 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.

The following table summarizes net unrealized gains and losses recorded on non-agency residential and commercial mortgage-backed and other asset-backed securities, which represent our most significant categories of securities not backed by the US government or its agencies. A summary of all OTTI credit losses recognized for the first three months of 2012 by investment type is included in Note 7 Investment Securities in the Notes To Consolidated Financial Statements in this Report.

Table 13: Net Unrealized Gains and Losses on Non-Agency Securities

	March 31, 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	**$ 91**	**$ 1**	**$ 1,708**	**$ 69**	**$ 2,897**	**$ 11**
Other Investment Grade (AA, A, BBB)	**546**	**(9)**	**1,033**	**65**	**1,715**	**(14)**
Total Investment Grade	**637**	**(8)**	**2,741**	**134**	**4,612**	**(3)**
BB	**734**	**(81)**	**93**			
B	**384**	**(25)**			**61**	**(5)**
Lower than B	**4,333**	**(557)**			**585**	**(107)**
Total Sub-Investment Grade	**5,451**	**(663)**	**93**		**646**	**(112)**
Total No Rating	**33**	**1**	**109**	**4**	**22**	**(19)**
Total	**$ 6,121**	**$ (670)**	**$ 2,943**	**$ 138**	**$ 5,280**	**$ (134)**
OTTI Analysis						
Investment Grade:						
OTTI has been recognized						
No OTTI recognized to date	**$ 637**	**$ (8)**	**$ 2,741**	**$ 134**	**$ 4,612**	**$ (3)**
Total Investment Grade	**637**	**(8)**	**2,741**	**134**	**4,612**	**(3)**
Sub-Investment Grade:						
OTTI has been recognized	**3,565**	**(623)**			**565**	**(125)**
No OTTI recognized to date	**1,886**	**(40)**	**93**		**81**	**13**
Total Sub-Investment Grade	**5,451**	**(663)**	**93**		**646**	**(112)**
No Rating:						
OTTI has been recognized					**22**	**(19)**
No OTTI recognized to date	**33**	**1**	**109**	**4**		
Total No Rating	**33**	**1**	**109**	**4**	**22**	**(19)**

Total	$ 6,121	$	(670)	$	2,943	$	138	$ 5,280	$	(134)
Securities Held to Maturity (Non-Agency)										
Credit Rating Analysis										
AAA				$	3,122	$	101	$ 654	$	7
Other Investment Grade (AA, A, BBB)					212		10	212		(1)
Total Investment Grade					3,334		111	866		6
BB								4		
B								1		
Lower than B										
Total Sub-Investment Grade								5		
Total No Rating								100		4
Total				$	3,334	$	111	$ 971	$	10

(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 March 31, 2012, our residential mortgage-backed securities portfolio was comprised of $33.9 billion fair value of US government agency-backed securities and $6.1 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 three months of 2012, we recorded OTTI credit losses of $32 million on non-agency residential mortgage-backed securities. All of the losses were associated with securities rated below investment grade. As of March 31, 2012, the noncredit portion of OTTI losses recorded in accumulated other comprehensive income for non-agency residential mortgage-backed securities totaled $623 million and the related securities had a fair value of $3.6 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of March 31, 2012 totaled $1.9 billion, with unrealized net losses of $40 million. The results of our security-level assessments indicate that we will recover the entire cost basis of these securities. Note 7 Investment Securities in the Notes To Consolidated Financial Statements in this Report provides further detail regarding our process for assessing OTTI for these securities.

Commercial Mortgage-Backed Securities

The fair value of the non-agency commercial mortgage-backed securities portfolio was $6.3 billion at March 31, 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 $2.3 billion fair value at March 31, 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 three months of 2012.

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $6.3 billion at March 31, 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 $5 million on asset-backed securities during the first three months of 2012. All of the securities are collateralized by first and second lien residential mortgage loans and are rated below investment grade. As of March 31, 2012, the noncredit portion of OTTI losses recorded in accumulated other comprehensive income for asset-backed securities totaled $144 million and the related securities had a fair value of $587 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 March 31, 2012, the remaining fair value was $86 million, with unrealized net gains of $13 million. The results of our security-level assessments indicate that we will recover the cost basis of these securities. Note 7 Investment Securities in the Notes To Consolidated Financial Statements in 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 14: Loans Held For Sale

In millions	March 31 2012	December 31 2011
Commercial mortgages at fair value	**$ 840**	$ 843
Commercial mortgages at lower of cost or fair value	**174**	451
Total commercial mortgages	**1,014**	1,294
Residential mortgages	**1,387**	1,522
Other	**55**	120
Total	**$ 2,456**	$ 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 three months of 2012 and sold $16 million in the first three months of 2011.

We recognized total net losses of $3 million in the first three months of 2012 on the valuation and sale of commercial mortgage loans held for sale, net of hedges. Net gains of $13

million on the valuation and sale of commercial mortgage loans held for sale, net of hedges, were recognized in the first three months of 2011.

Residential mortgage loan origination volume was $3.4 billion in the first three months of 2012 compared to $3.2 billion for the first three months of 2011. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards.

We sold $3.5 billion of loans and recognized related gains of $109 million during the first three months of 2012. The comparable amounts for the first three months of 2011 were $3.4 billion and $84 million, respectively.

Interest income on loans held for sale was $50 million in the first three months of 2012, and $69 million in the first three months of 2011. These amounts are included in Other interest income on our Consolidated Income Statement.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $11.2 billion at March 31, 2012 and $10.1 billion at December 31, 2011. During the first three months of 2012, PNC recorded goodwill of $954 million and other intangible assets of $180 million associated with the RBC Bank (USA) acquisition. See Note 2 Acquisition and Divestiture Activity and Note 9 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in this Report.

Funding and Capital Sources

Table 15: Details Of Funding Sources

In millions	**March 31 2012**	December 31 2011
Deposits		
Money market	**$ 99,481**	$ 89,912
Demand	**65,086**	57,717
Retail certificates of deposit	**29,342**	29,518
Savings	**9,945**	8,705
Time deposits in foreign offices and other time	**2,273**	2,114
Total deposits	**206,127**	187,966
Borrowed funds		
Federal funds purchased and repurchase agreements	**4,832**	2,984
Federal Home Loan Bank borrowings	**8,957**	6,967
Bank notes and senior debt	**12,065**	11,793
Subordinated debt	**8,221**	8,321
Other	**8,464**	6,639
Total borrowed funds	**42,539**	36,704
Total	**$ 248,666**	$ 224,670

Total funding sources increased $24.0 billion at March 31, 2012 compared with December 31, 2011.

Total deposits increased $18.2 billion, or 10%, at March 31, 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 certificate of deposit, and $.4 billion of savings accounts. Excluding acquisition activity, money market, demand deposits and savings accounts increased for the three months ended March 31, 2012, partially offset by the redemption of retail certificates of deposit. Interest-bearing deposits represented 70% of total deposits at March 31, 2012 compared to 69% at December 31, 2011. Total borrowed funds increased $5.8 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 and commercial paper, partially offset by repayments and maturities.

Capital

See 2012 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our upcoming May 2012 redemption of trust preferred securities, our plans to purchase shares under PNC s existing common stock repurchase program (described below) during the remainder of 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 $1.0 billion, to $35.0 billion, at March 31, 2012 compared with December 31, 2011 as retained earnings increased $0.6 billion. Accumulated other comprehensive income increased $.4 billion, to $.3 billion, at March 31, 2012 compared with a loss of $.1 billion at December 31, 2011 due to net unrealized gains on securities and lower OTTI losses on debt securities. Common shares outstanding were 528 million at March 31, 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. We did not purchase any shares in the first three months of 2012 under this program.

Table 16: Risk-Based Capital

Dollars in millions	**March 31 2012**	December 31 2011
Capital components		
Shareholders equity		
Common	**$ 33,409**	$ 32,417
Preferred	**1,636**	1,636
Trust preferred capital securities	**2,302**	2,354
Noncontrolling interests	**1,356**	1,351
Goodwill and other intangible assets	**(10,036)**	(9,027)
Eligible deferred income taxes on goodwill and other intangible assets	**378**	431
Pension, other postretirement benefit plan adjustments	**724**	755
Net unrealized securities (gains) losses, after-tax	**(365)**	41
Net unrealized gains on cash flow hedge derivatives, after-tax	**(660)**	(717)
Other	**(157)**	(168)
Tier 1 risk-based capital	**28,587**	29,073
Subordinated debt	**4,327**	4,571
Eligible allowance for credit losses	**3,152**	2,904
Total risk-based capital	**$ 36,066**	$ 36,548
Tier 1 common capital		
Tier 1 risk-based capital	**$ 28,587**	$ 29,073
Preferred equity	**(1,636)**	(1,636)
Trust preferred capital securities	**(2,302)**	(2,354)
Noncontrolling interests	**(1,356)**	(1,351)
Tier 1 common capital	**$ 23,293**	$ 23,732
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$ 250,873**	$ 230,705
Adjusted average total assets	**271,382**	261,958
Capital ratios		
Tier 1 common	**9.3%**	10.3%
Tier 1 risk-based	**11.4**	12.6
Total risk-based	**14.4**	15.8
Leverage	**10.5**	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 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 March 31, 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 will evaluate its alternatives, including the potential for redemption on the first call date of some or all of its trust preferred securities, based on such considerations it may consider relevant, including dividend rates, the specifics of the future capital requirements, capital market conditions 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 upcoming May 2012 redemptions of trust preferred securities. PNC is also subject to replacement capital covenants with respect to certain of its 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 10 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 March 31, 2012, compared with 10.3% at December 31, 2011. Our Tier 1 risk-based capital ratio decreased 120 basis points to 11.4% at March 31, 2012 from 12.6% at December 31, 2011. Our total risk-based capital ratio declined 140 basis points to 14.4% at March 31, 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.

At March 31, 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 10 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements, and
- Note 17 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 March 31, 2012 and December 31, 2011 is included in Note 3 of this Report.

Trust Preferred Securities

In connection with the $950 million in principal amount of junior subordinated debentures associated with the trust preferred securities issued by PNC Capital Trusts C, D and E, as well as in connection with the obligations that remain outstanding assumed by PNC with respect to $1.7 billion in principal amount of junior subordinated debentures issued by acquired entities in association with trust preferred securities issued by various subsidiary statutory trusts, we are subject to certain restrictions, including restrictions on dividend payments. Generally, if there is (i) an event of default under the debentures, (ii) PNC elects to defer interest on the debentures, (iii) PNC exercises its right to defer payments on the related trust preferred securities issued by the statutory trusts, or (iv) there is a default under PNC s guarantee of such payment obligations, as specified in the applicable governing documents, then PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in 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 upcoming May 2012 redemptions of trust preferred securities.

Also, in connection with the Trust E Securities sale, we are subject to a replacement capital covenant, which is described in Note 13 in our 2011 Form 10-K. Effective April 25, 2012, PNC s 6 7/8% Subordinated Notes due May 15, 2019 became the covered debt with respect to and in accordance with the terms of this replacement capital covenant because the 6.125% Junior Subordinated Deferrable Interest Debentures issued by PNC to PNC Capital Trust D, which had been the covered debt under this replacement capital covenant, were redeemed in connection with the redemption of the trust preferred securities issued by PNC Capital Trust D.

FAIR VALUE MEASUREMENTS

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

Assets recorded at fair value represented 24% of total assets at March 31, 2012 and 25% at December 31, 2011. Liabilities recorded at fair value represented 3% of total liabilities at March 31, 2012 and 4% at December 31, 2011.

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

Table 17: Fair Value Measurements Summary

In millions	**March 31, 2012** Total Fair Value	Level 3	December 31, 2011 Total Fair Value	Level 3
Assets				
Securities available for sale	**$ 53,358**	**$ 7,264**	$ 48,568	$ 6,729
Financial derivatives	**8,703**	**84**	9,463	67
Residential mortgage loans held for sale	**1,387**		1,522	
Trading securities	**2,639**	**39**	2,513	39
Residential mortgage servicing rights	**724**	**724**	647	647
Commercial mortgage loans held for sale	**840**	**840**	843	843
Equity investments	**1,522**	**1,522**	1,504	1,504
Customer resale agreements	**688**		732	
Loans	**273**	**6**	227	5
Other assets	**683**	**248**	639	217
Total assets	**$ 70,817**	**$ 10,727**	$ 66,658	$ 10,051
Level 3 assets as a percentage of total assets at fair value		**15%**		15%
Level 3 assets as a percentage of consolidated assets		**4%**		4%
Liabilities				
Financial derivatives	**$ 6,961**	**$ 334**	$ 7,606	$ 308
Trading securities sold short	**540**		1,016	
Other liabilities			3	
Total liabilities	**$ 7,501**	**$ 334**	$ 8,625	$ 308
Level 3 liabilities as a percentage of total liabilities at fair value		**4%**		4%
Level 3 liabilities as a percentage of consolidated liabilities		**<1%**		<1%

The majority of Level 3 assets represent non-agency residential mortgage-backed and asset-backed securities in the available for sale securities portfolio for which there was 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 three 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 three months of 2012 and 2011 there were no other material transfers of assets or liabilities between the hierarchy levels.

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 18 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 18 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 management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our individual businesses are not necessarily comparable with similar information for any other company. We refine our methodologies from time to time as our management accounting practices are enhanced and our businesses and management structure change. Certain prior period amounts have been reclassified to reflect current methodologies and our current business and management structure. Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis. 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.

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 including long-term incentive plan (LTIP) share distributions and obligations, 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 18: Results Of Businesses Summary

(Unaudited)

	Income	Revenue	Average Assets (a)

Three months ended March 31 in millions	**2012**	2011	**2012**	2011	**2012**	2011
Retail Banking	**$ 50**	$ (18)	**$ 1,285**	$ 1,247	**$ 69,709**	$ 66,670
Corporate & Institutional Banking	**470**	432	**1,226**	1,098	**92,896**	76,980
Asset Management Group	**28**	43	**231**	222	**6,566**	6,917
Residential Mortgage Banking	**61**	71	**292**	258	**11,989**	11,619
BlackRock	**90**	86	**116**	108	**5,565**	5,530
Non-Strategic Assets Portfolio	**71**	25	**198**	245	**12,124**	14,121
Total business segments	**770**	639	**3,348**	3,178	**198,849**	181,837
Other (b) (c)	**41**	193	**384**	453	**82,693**	80,717
Net income	**$ 811**	$ 832	**$ 3,732**	$ 3,631	**$ 281,542**	$ 262,554

(a) Period-end balances for BlackRock.

(b) For our segment reporting presentation in this Financial Review, Other for the first three months of 2012 included $145 million of pretax integration costs related to acquisitions.

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

RETAIL BANKING

(Unaudited)

Table 19: Retail Banking Table

Three months ended March 31 Dollars in millions, except as noted	2012	2011
INCOME STATEMENT		
Net interest income	**$ 895**	$ 818
Noninterest income		
Service charges on deposits	**121**	117
Brokerage	**45**	53
Consumer services	**191**	228
Other	**33**	31
Total noninterest income	**390**	429
Total revenue	**1,285**	1,247
Provision for credit losses	**135**	276
Noninterest expense	**1,070**	1,001
Pretax earnings (loss)	**80**	(30)
Income taxes (benefit)	**30**	(12)
Earnings (loss)	**$ 50**	$ (18)
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	**$ 26,591**	$ 26,064
Indirect auto	**4,433**	2,400
Indirect other	**1,282**	1,612
Education	**9,440**	9,101
Credit cards	**3,928**	3,731
Other	**2,072**	1,823
Total consumer	**47,746**	44,731
Commercial and commercial real estate	**10,682**	10,786
Floor plan	**1,663**	1,572
Residential mortgage	**1,031**	1,287
Total loans	**61,122**	58,376
Goodwill and other intangible assets	**5,888**	5,769
Other assets	**2,699**	2,525
Total assets	**$ 69,709**	$ 66,670
Deposits		
Noninterest-bearing demand	**$ 18,764**	$ 18,103
Interest-bearing demand	**25,707**	20,921
Money market	**43,601**	40,387
Total transaction deposits	**88,072**	79,411
Savings	**9,077**	7,573
Certificates of deposit	**28,150**	35,365
Total deposits	**125,299**	122,349
Other liabilities	**629**	1,147
Capital	**8,328**	8,048
Total liabilities and equity	**$ 134,256**	$ 131,544
PERFORMANCE RATIOS		
Return on average capital	**2%**	(1)%
Return on average assets	**.29**	(.11)
Noninterest income to total revenue	**30**	34
Efficiency	**83**	80
OTHER INFORMATION (a)		

Credit-related statistics:		
Commercial nonperforming assets	**$ 315**	$ 301
Consumer nonperforming assets	**650**	409
Total nonperforming assets (b)	**$ 965**	$ 710
Purchased impaired loans (c)	**$ 903**	$ 869

At March 31 Dollars in millions, except as noted	**2012**	2011
Other Information (Continued) (a)		
Commercial lending net charge-offs	**$ 28**	$ 67
Credit card lending net charge-offs	**50**	68
Consumer lending (excluding credit card) net charge-offs	**113**	122
Total net charge-offs	**$ 191**	$ 257
Commercial lending annualized net charge-off ratio	**.91%**	2.20%
Credit card lending annualized net charge-off ratio	**5.12%**	7.39%
Consumer lending (excluding credit card) annualized net charge-off ratio	**1.01%**	1.17%
Total annualized net charge-off ratio	**1.26%**	1.79%
Home equity portfolio credit statistics: (d)		
% of first lien positions at origination (e)	**37%**	36%
Weighted-average loan-to-value ratios (LTVs) (e)	**81%**	73%
Weighted-average updated FICO scores (f)	**739**	731
Annualized net charge-off ratio	**1.11%**	1.31%
Loans 30 59 days past due	**.56%**	.47%
Loans 60 89 days past due	**.35%**	.31%
Loans 90 days past due (g)	**1.24%**	.99%
Other statistics:		
ATMs	7,220	6,660
Branches (h)	**2,900**	2,446
Customer-related statistics: (in thousands)		
Retail Banking checking relationships	**6,278**	5,521
Retail online banking active customers	**3,823**	3,226
Retail online bill payment active customers	**1,161**	1,029
Brokerage statistics:		
Financial consultants (i)	**693**	700
Full service brokerage offices	**38**	34
Brokerage account assets (billions)	**$ 37**	$ 35

(a) Presented as of March 31, except for net charge-offs and annualized net charge-off ratios, which are for the three months ended.
(b) Includes nonperforming loans of $923 million at March 31, 2012 and $688 million at March 31, 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 March 31, 2012. For previous quarters, lien positions and LTV are based upon data from loan origination. Original LTV excludes certain acquired portfolio loans where this data is not available.
(f) Represents FICO scores that are updated monthly for home equity lines and quarterly for the home equity installment loans.
(g) 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 $50 million for the quarter compared with a loss of $18 million for a year ago quarter. Earnings increased from the prior year quarter as improving credit quality, a more favorable interest rate environment, higher loan and transaction deposit balances, and higher volumes of customer-initiated transactions were partially offset by the regulatory impact of lower interchange fees on debit card transactions and increased noninterest expense as a result of

additions to legal reserves and the operating expenses associated with RBC Bank (USA). The first quarter of 2012 results include the impact of the retail business associated with the March 2012 acquisition of RBC Bank (USA) and the credit card portfolio purchase from RBC Bank (Georgia), National Association. 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 core strategy is to grow consumer and small business checking households, and to provide 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 517,000 in the first quarter, 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 grew by 19% and 13%, respectively, from the prior year first quarter. Retail Banking s footprint extends across 17 states and Washington, D.C. covering nearly half the US population and serving 5,546,000 consumers and 732,000 small businesses with 2,900 branches and 7,220 ATM s.

Total revenue for the first quarter of 2012 was $1.3 billion compared with $1.2 billion for the same period of 2011. Net interest income of $895 million increased $77 million compared with the first quarter of 2011. The increase resulted from higher loan and transaction deposit balances and lower rates paid on deposits.

Noninterest income declined $39 million compared to the first quarter 2011. The decline was driven by lower interchange rates on debit card transactions due to Dodd-Frank and lower brokerage fees, partially offset by higher volumes of customer-initiated transactions including debit and credit cards and higher service charges on deposits. The Dodd-Frank limits related to interchange rates on debit card transactions were effective October 1, 2011. In the first quarter of 2012, the negative impact on Retail Banking revenue from these limits was approximately $70 million. Based on 2012 projected transaction volumes, we expect an additional incremental reduction in 2012 revenue of approximately $230 million.

The provision for credit losses was $135 million in the first quarter of 2012 compared with $276 million in prior year first quarter. Net charge-offs were $191 million for the first quarter 2012 compared with $257 million in the prior year first

quarter. Improvements in credit quality over the prior year were evident in the small business, home equity and credit card portfolios. The level of provisioning will be dependent on general economic conditions, loan growth, utilization of credit commitments and asset quality.

Noninterest expense increased $69 million in the first quarter of 2012 from same period of 2011. The increase was primarily attributable to additions to legal reserves and the operating expenses associated with RBC Bank (USA).

Growing core checking deposits is key to Retail Banking s growth. 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 quarter of 2012, average total deposits of $125.3 billion increased $3.0 billion, or 2%, compared with the same period in 2011.

- The RBC Bank (USA) acquisition, customer preference for liquidity in the low rate environment, and customer growth resulted in period over period growth in average transaction deposits of $8.7 billion, or 11% and growth in average savings deposit balances of $1.5 billion or 20%. In the first quarter of 2012, compared with the year-ago quarter, average demand deposits increased $5.5 billion, or 14% to $44.5 billion; average money market deposits increased $3.2 billion, or 8% to $43.6 billion.
- Average consumer certificates of deposit decreased $7.2 billion or 20% from the same period in 2011 and was partially offset by the impact of the RBC Bank (USA) acquisition. The decline in high-rate certificates of deposit is expected to continue through the second quarter of 2012.

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 quarter of 2012, average total loans were $61.1 billion, an increase of $2.7 billion, or 5%, over the same quarter in 2011, of which $1.5 billion was attributable to the RBC Bank (USA) acquisition, primarily in the home equity portfolio.

- Average indirect auto loans increased $2.0 billion, or 85%, over the same quarter in 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 $527 million, or 2%, compared with the same period in 2011. The increase was primarily 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. A change in policy implemented in the first quarter of 2012 on home equity loans places them on nonaccrual status when past due 90 days or more compared with 180 days under the prior policy.

Average education loans grew $339 million, or 4%, 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 $91 million, or 6%, compared with the same quarter in 2011, primarily resulting from additional dealer relationships.

Average credit card balances increased $197 million, or 5%, over the same quarter in 2011. An increase in active accounts and the portfolio purchase from RBC Bank (Georgia) National Association combined to increase credit card balances.

Average commercial and commercial real estate loans declined $104 million, or 1%, compared with the same period in 2011. The decrease was primarily due to refinancings, paydowns, and charge-offs, partially offset by the acquisition of RBC Bank (USA).

Average indirect other and residential mortgages are primarily run-off portfolios and declined $330 million and $256 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 20: Corporate & Institutional Banking Table

Three months ended March 31 Dollars in millions, except as noted	2012	2011
INCOME STATEMENT		
Net interest income	**$ 896**	$ 799
Noninterest income		
Corporate service fees	**202**	187
Other	**128**	112
Noninterest income	**330**	299
Total revenue	**1,226**	1,098
Provision for credit losses (benefit)	**19**	(30)
Noninterest expense	**463**	445
Pretax earnings	**744**	683
Income taxes	**274**	251
Earnings	**$ 470**	$ 432
AVERAGE BALANCE SHEET		
Loans		
Commercial	**$ 42,919**	$ 33,194
Commercial real estate	**14,388**	14,347
Commercial real estate related	**4,971**	3,463
Asset-based lending	**9,266**	7,370
Equipment lease financing	**5,706**	5,540
Total loans	**77,250**	63,914
Goodwill and other intangible assets	**3,442**	3,484
Loans held for sale	**1,244**	1,341
Other assets	**10,960**	8,241
Total assets	**$ 92,896**	$ 76,980
Deposits		
Noninterest-bearing demand	**$ 37,225**	$ 27,843
Money market	**13,872**	12,131
Other	**5,372**	6,057
Total deposits	**56,469**	46,031
Other liabilities	**15,987**	12,205
Capital	**8,537**	7,858
Total liabilities and equity	**$ 80,993**	$ 66,094

Three months ended March 31 Dollars in millions, except as noted	2012	2011
PERFORMANCE RATIOS		
Return on average capital	**22%**	22%
Return on average assets	**2.03**	2.28
Noninterest income to total revenue	**27**	27
Efficiency	**38**	41
COMMERCIAL MORTGAGE SERVICING PORTFOLIO (in billions)		
Beginning of period	**$ 267**	$ 266
Acquisitions/additions	**10**	10
Repayments/transfers	**(9)**	(10)
End of period	**$ 268**	$ 266
OTHER INFORMATION		
Consolidated revenue from: (a)		
Treasury Management	**$ 311**	$ 301

Capital Markets	**$ 156**	$ 139
Commercial mortgage loans held for sale (b)	**$ 13**	$ 29
Commercial mortgage loan servicing income, net of amortization (c)	**49**	47
Commercial mortgage servicing rights impairment	**(19)**	(35)
Total commercial mortgage banking activities	**$ 43**	$ 41
Total loans (d)	**$ 84,329**	$ 64,368
Credit-related statistics:		
Nonperforming assets (d) (e)	**$ 1,776**	$ 2,574
Purchased impaired loans (d) (f)	**$ 1,177**	$ 659
Net charge-offs	**$ 43**	$ 153
Net carrying amount of commercial mortgage servicing rights (d)	**$ 428**	$ 645

(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 is shown separately.
(d) As of March 31.
(e) Includes nonperforming loans of $1.6 billion at March 31, 2012 and $2.4 billion at March 31, 2011.
(f) Recorded investment of purchased impaired loans related to acquisitions.

Corporate & Institutional Banking earned $470 million in the first quarter of 2012 and $432 million in the first quarter of 2011. The increase in earnings was primarily due to higher net interest and noninterest income which more than offset an increase in the provision for credit losses. We continued to focus on adding new clients, increasing cross sales, and remaining committed to strong expense discipline.

The first quarter of 2012 included the impact of the RBC Bank (USA) acquisition which added approximately $7.5 billion of loans and $4.8 billion of deposits.

Highlights of Corporate & Institutional Banking s performance during first quarter 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 243 in the first quarter of 2012, consistent with growth in 2011.
- Loan commitments increased 23% to $163 billion at March 31, 2012 compared to March 31, 2011, primarily due to the RBC Bank (USA) acquisition and growth in our Corporate Finance, Public Finance, Healthcare, Real Estate and Business Credit businesses.
- Loan balances have increased for five consecutive quarters, including an increase in average loans for the first quarter of 2012 of $13.3 billion or 21%, compared to the first quarter of 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 products to customers in PNC s markets continued to be successful and were ahead of both target and 2011.
- Midland Loan Services, one of the leading third-party providers of servicing for the commercial real estate industry, received the highest U.S. servicer and special servicer ratings from Fitch Ratings and Standard & Poor s for the 11th consecutive year.
- Midland Loan Services was the number one servicer of FNMA and FHLMC multifamily and healthcare loans and was the second leading servicer of commercial and multifamily loans by volume as of March 31, 2012 according to Mortgage Bankers Association.

Net interest income in the first quarter of 2012 was $896 million, a 12% increase from the first quarter of 2011,

reflecting higher average loans and deposits including the impact of the RBC Bank (USA) acquisition.

Corporate service fees were $202 million in the first quarter of 2012, a increase of $15 million from the first quarter of 2011, primarily due to higher commercial mortgage banking revenue

and merger and acquisition advisory fees. The increases more than offset a decrease in treasury management fees due to the impact of the prolonged low interest rate environment which has resulted in customers leaving compensating balances in lieu of paying fees. The major components of corporate service fees are treasury management, corporate finance fees and commercial mortgage servicing revenue.

Other noninterest income was $128 million in the first three months of 2012 compared with $112 million in the first three months of 2011. The increase of $16 million was primarily due to customer driven capital markets activity.

The provision for credit losses was $19 million in the first quarter of 2012 compared with a benefit of $30 million in the first quarter of 2011. The increase reflected the impact of higher loan and commitment levels. There were net charge-offs of $43 million in the first quarter of 2012, which decreased $110 million, or 72%, compared with the first quarter of 2011. The decline was attributable primarily to the commercial real estate and aviation portfolios. Nonperforming assets declined for the eighth consecutive quarter, and at $1.8 billion represented a 31% decrease from March 31, 2011.

Noninterest expense was $463 million in the first quarter of 2012, an increase of $18 million from the first quarter of 2011. Higher compensation-related costs were driven by higher staffing including the impact of the RBC Bank (USA) acquisition.

Average loans were $77.3 billion in the first quarter of 2012 compared with $63.9 billion in the first quarter of 2011, an increase of 21%.

- 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 $7.9 billion or 25% in the first quarter of 2012 compared with the first quarter of 2011. Loan commitments have increased since the second quarter of 2011 due to new customers and increased demand from existing customers.
- PNC Real Estate provides commercial real estate and real-estate related lending and is one of the industry s top providers of both conventional and affordable multifamily financing. Average loans for this business increased $1.6 billion or 10% in the first quarter of 2012 compared to the first quarter of 2011 due to improved originations.
- PNC Business Credit is one of the top middle market asset-based lenders in the country. The loan portfolio is relatively high yielding, with moderate risk, as the loans are mainly secured by short-term assets. Average loans increased $1.9 billion or 26% in the first quarter of 2012 compared with the first quarter of 2011 due to customers seeking stable lending

sources, loan usage rates, and market expansion.

PNC Equipment Finance is the 4th largest bank-affiliated leasing company with over $9 billion in equipment finance assets.

Average deposits were $56.5 billion in the first quarter of 2012, an increase of $10.4 billion, or 23%, compared with the first quarter of 2011.

Deposit growth has been very strong, and is an industry-wide trend as clients are holding record levels of cash and liquidity.

Deposit inflows into noninterest-bearing demand deposits continued as FDIC insurance has been an attraction for customers maintaining liquidity during this prolonged period of low interest rates.

The repeal of Regulation Q limitations on interest-bearing commercial demand deposit accounts became effective in the third quarter of 2011. As expected, interest in this product has been muted due to the current rate environment and the limited amount of FDIC insurance coverage.

The commercial mortgage servicing portfolio was $268 billion at March 31, 2012 compared with $266 billion March 31, 2011. Servicing additions were mostly offset by portfolio run-off.

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

Asset Management Group

(Unaudited)

Table 21: Asset Management Group Table

Three months ended March 31

Dollars in millions, except as noted	**2012**	2011
Income Statement		
Net interest income	**$ 63**	$ 60
Noninterest income	**168**	162
Total revenue	**231**	222
Provision for credit losses (benefit)	**10**	(6)
Noninterest expense	**176**	160
Pretax earnings	**45**	68
Income taxes	**17**	25
Earnings	**$ 28**	$ 43
Average Balance Sheet		
Loans		
Consumer	**$ 4,183**	$ 4,054
Commercial and commercial real estate	**1,126**	1,503
Residential mortgage	**692**	715
Total loans	**6,001**	6,272
Goodwill and other intangible assets	**345**	374
Other assets	**220**	271
Total assets	**$ 6,566**	$ 6,917
Deposits		
Noninterest-bearing demand	**$ 1,575**	$ 1,161
Interest-bearing demand	**2,637**	2,291
Money market	**3,651**	3,591
Total transaction deposits	**7,863**	7,043
CDs/IRAs/savings deposits	**549**	676
Total deposits	**8,412**	7,719
Other liabilities	**71**	69
Capital	**347**	344
Total liabilities and equity	**$ 8,830**	$ 8,132
Performance Ratios		
Return on average capital	**32%**	51%
Return on average assets	**1.72**	2.52

Noninterest income to total revenue	**73**	73
Efficiency	**76**	72
Other Information		
Total nonperforming assets (a) (b)	**$ 73**	$ 74
Purchased impaired loans (a) (c)	**$ 126**	$ 143
Total net charge-offs (recoveries)	**$ 2**	$ (11)

Three months ended March 31

Dollars in millions, except as noted	**2012**	2011
Assets Under Administration (in billions) (a) (d)		
Personal	**$ 104**	$ 102
Institutional	**115**	117
Total	**$ 219**	$ 219
Asset Type		
Equity	**$ 119**	$ 120
Fixed Income	**66**	64
Liquidity/Other	**34**	35
Total	**$ 219**	$ 219
Discretionary assets under management		
Personal	**$ 73**	$ 71
Institutional	**39**	39
Total	**$ 112**	$ 110
Asset Type		
Equity	**$ 58**	$ 57
Fixed Income	**38**	36
Liquidity/Other	**16**	17
Total	**$ 112**	$ 110
Nondiscretionary assets under administration		
Personal	**$ 31**	$ 31
Institutional	**76**	78
Total	**$ 107**	$ 109
Asset Type		
Equity	**$ 61**	$ 63
Fixed Income	**28**	28
Liquidity/Other	**18**	18
Total	**$ 107**	$ 109

(a) As of March 31.
(b) Includes nonperforming loans of $69 million at March 31, 2012 and March 31, 2011.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account assets.

Asset Management Group earned $28 million in the first quarter of 2012 compared with $43 million in the first quarter of 2011. Assets under administration were $219 billion as of March 31, 2012 and March 31, 2011. The decline in earnings compared to the first quarter of 2011 resulted from higher noninterest expense from strategic business investments and higher provision for credit losses. First quarter 2012 net charge-offs were $2 million compared with net recoveries of $11 million in the first quarter of 2011. Revenue increased $9 million or 4% in the year-over-year comparison as growth in discretionary assets under management drove higher noninterest income and higher average deposit balances increased net interest income.

The core growth strategies for the business include: increasing channel penetration; investing in higher growth geographies; and investing in differentiated client-facing technology. During the first 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 three months of 2012 include the following:

- Positive net flows of approximately $0.2 billion in discretionary assets under management after adjustments to total net flows for cyclical client activities;
- Strong sales production, up nearly 35% over the prior year first quarter;
- Significant referrals from other PNC lines of business, an increase of nearly 40% over first quarter 2011; and
- Continuing levels of new business investment and focused hiring to drive growth with nearly 65 external new hires.

Assets under administration were $219 billion at March 31, 2012, comparable to the same amount at March 31, 2011. Discretionary assets under management were $112 billion at March 31, 2012 compared with $110 billion at March 31, 2011. The increase in the year-over-year comparison was driven by higher equity markets, strong sales performance and successful client retention.

Total revenue for the first quarter was $231 million compared with $222 million for the same period in 2011. Net interest income was $63 million for the first quarter of 2012 compared with $60 million in the first quarter 2011. The increase was attributable to higher deposit balances. Noninterest income was $168 million for the first three months of 2012, up $6 million from the prior year due to stronger average equity markets and strong sales.

Provision for credit losses was $10 million for the first quarter of 2012 compared to a benefit of $6 million in the first quarter of 2011.

Noninterest expense was $176 million in the first quarter of 2012, an increase of $16 million or 10% 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 116 positions or 4%. Asset Management Group remains focused on disciplined expense management as it invests in these strategic growth opportunities.

Average deposits for the quarter increased $693 million, or 9%, over the prior year. Average transaction deposits grew 12% compared with 2011 and were partially offset by the strategic run-off of higher rate certificates of deposit in the comparison. Average loan balances of $6.0 billion decreased $271 million, or 4%, from the prior year as portfolio repositioning and loan pay downs exceeded new loan production.

RESIDENTIAL MORTGAGE BANKING

(Unaudited)

Table 22: Residential Mortgage Banking Table

Three months ended March 31 Dollars in millions, except as noted	**2012**	2011
INCOME STATEMENT		
Net interest income	**$ 51**	$ 56
Noninterest income		
Loan servicing revenue		
Servicing fees	**56**	50
Net MSR hedging gains	**71**	64
Loan sales revenue	**109**	84
Other	**5**	4
Total noninterest income	**241**	202
Total revenue	**292**	258
Provision for credit losses (benefit)	**(7)**	8
Noninterest expense	**203**	137
Pretax earnings	**96**	113
Income taxes	**35**	42
Earnings	**$ 61**	$ 71
AVERAGE BALANCE SHEET		
Portfolio loans	**$ 2,922**	$ 2,734
Loans held for sale	**1,675**	1,802
Mortgage servicing rights (MSR)	**645**	1,048
Other assets	**6,747**	6,035
Total assets	**$ 11,989**	$ 11,619
Deposits	**$ 1,662**	$ 1,587
Borrowings and other liabilities	**4,353**	4,144
Capital	**832**	729
Total liabilities and equity	**$ 6,847**	$ 6,460
PERFORMANCE RATIOS		
Return on average capital	**29%**	39%
Return on average assets	**2.05**	2.48
Noninterest income to total revenue	**83**	78
Efficiency	**70**	53
RESIDENTIAL MORTGAGE SERVICING PORTFOLIO THIRD-PARTY (in billions)		
Beginning of period	**$ 118**	$ 125
Acquisitions	**7**	5
Additions	**4**	3
Repayments/transfers	**(8)**	(6)
End of period	**$ 121**	$ 127
Servicing portfolio third-party statistics: (a)		
Fixed rate	**91%**	90%
Adjustable rate/balloon	**9%**	10%
Weighted-average interest rate	**5.26%**	5.53%
MSR capitalized value (in billions)	**$ .7**	$ 1.1
MSR capitalization value (in basis points)	**60**	88
Weighted-average servicing fee (in basis points)	**29**	30
OTHER INFORMATION		
Loan origination volume (in billions)	**$ 3.4**	$ 3.2
Percentage of originations represented by:		
Agency and government programs	**100%**	100%
Refinance volume	**82%**	85%

Total nonperforming assets (a) (b)	**$ 80**	$ 78
Purchased impaired loans (a) (c)	**$ 100**	$ 158

(a) As of March 31.
(b) Includes nonperforming loans of $39 million at March 31, 2012 and $101 million at March 31, 2011.
(c) Recorded investment of purchased impaired loans related to acquisitions.

Residential Mortgage Banking earned $61 million in the first quarter of 2012 compared with $71 million in the first quarter of 2011. Earnings declined from the prior year first quarter primarily as a result of higher noninterest expense, partially offset by increased loans sales revenue, lower provision for credit losses and higher net hedging gains on mortgage servicing rights and servicing fees.

Residential Mortgage Banking overview:

Total loan originations were $3.4 billion for 2012 compared with $3.2 billion in 2011. Loans continue to be originated primarily through direct channels under FNMA, FHLMC and FHA/VA agency guidelines.

Investors having purchased mortgage loans may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. At March 31, 2012, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $101 million compared with $83 million at December 31, 2011 and $124 million at March 31, 2011. See the Recourse And Repurchase Obligations section of this Financial Review and Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.

Residential mortgage loans serviced for others totaled $121 billion at March 31, 2012 compared with $127 billion at March 31, 2011 as payoffs continued to outpace new direct loan origination volume.

Noninterest income was $241 million in the first quarter of 2012 compared with $202 million in the first quarter of 2011. The increase resulted from higher loan sales revenue driven by higher loan origination volume, higher net hedging gains on mortgage servicing rights and higher servicing fees.

Net interest income was $51 million in the first quarter of 2012 compared with $56 million in the first quarter of 2011. The decrease in the comparisons was primarily due to lower interest yields on loans held for sale.

Noninterest expense was $203 million in the first quarter of 2012 compared with $137 million in the first quarter of 2011. The increase from the prior year first quarter was primarily driven by higher residential mortgage foreclosure-related expenses and additions to legal reserves.

The fair value of mortgage servicing rights was $0.7 billion at March 31, 2012 compared with $1.1 billion at March 31, 2011. The decline was due to lower mortgage rates at March 31, 2012 and a smaller mortgage servicing portfolio.

BlackRock

(Unaudited)

Table 23: BlackRock Table

Information related to our equity investment in BlackRock follows:

Three months ended March 31 Dollars in millions	**2012**	2011
Business segment earnings (a)	**$ 90**	$ 86
PNC s economic interest in BlackRock (b)	**21%**	20%

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

In billions	**Mar. 31 2012**	Dec. 31 2011
Carrying value of PNC s investment in BlackRock (c)	**$ 5.3**	$ 5.3
Market value of PNC s investment in BlackRock (d)	**7.4**	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 March 31, 2012 and $1.7 billion at December 31, 2011.
(d) Does not include liquidity discount.

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

At March 31, 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 (approximately 24% at March 31, 2012) is higher than our overall share of BlackRock s equity and earnings.

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 24: Non-Strategic Assets Portfolio Table

Three months ended March 31 Dollars in millions	**2012**	2011
Income Statement		
Net interest income	**$ 217**	$ 236
Noninterest income	**(19)**	9

Total revenue	**198**	245
Provision for credit losses	**18**	152
Noninterest expense	**68**	53
Pretax earnings	**112**	40
Income taxes	**41**	15
Earnings	**$ 71**	$ 25
Average Balance Sheet		
Commercial Lending:		
Commercial/Commercial real estate	**$ 1,004**	$ 1,582
Lease financing	**670**	757
Total commercial lending	**1,674**	2,339
Consumer Lending:		
Consumer	**4,849**	5,559
Residential real estate	**6,046**	6,332
Total consumer lending	**10,895**	11,891
Total portfolio loans	**12,569**	14,230
Other assets (a)	**(445)**	(109)
Total assets	**$ 12,124**	$ 14,121
Deposits and other liabilities	**$ 177**	159
Capital	**1,176**	1,371
Total liabilities and equity	**$ 1,353**	$ 1,530
Performance Ratios		
Return on average capital	**24%**	7%
Return on average assets	**2.36**	.72
Other Information		
Nonperforming assets (b) (c)	**$ 1,192**	$ 1,208
Purchased impaired loans (b) (d)	**$ 6,097**	$ 5,685
Net charge-offs (e)	**$ 91**	$ 123
Annualized net charge-off ratio (e)	**2.91%**	3.51%
Loans (b)		
Commercial Lending		
Commercial/Commercial real estate	**$ 1,104**	$ 1,474
Lease financing	**671**	695
Total commercial lending	**1,775**	2,169
Consumer Lending		
Consumer	**4,751**	5,381
Residential real estate	**6,693**	6,325
Total consumer lending	**11,444**	11,706
Total loans	**$ 13,219**	$ 13,875

(a) Other assets includes deferred taxes, ALLL and OREO. Other assets were negative in both periods due to the ALLL.
(b) As of March 31.
(c) Includes nonperforming loans of $.7 billion at March 31, 2012 and $.9 billion at March 31, 2011.
(d) Recorded investment of purchased impaired loans related to acquisitions. At March 31, 2012, this segment contained 72% of PNC s purchased impaired loans.
(e) For the three months ended March 31.

This business segment consists primarily of acquired non-strategic assets that fall outside of our core business strategy. Non-Strategic Assets Portfolio had earnings of $71 million in the first quarter of 2012 compared with $25 million

in the first quarter of 2011. The increase was primarily attributable to a lower provision for credit losses partially offset by a decline in revenue.

Non-Strategic Assets Portfolio overview:

- Average loans declined to $12.6 billion in the first quarter of 2012 compared with $14.2 billion in the first quarter 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.
- The first quarter 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.
- Net interest income was $217 million in the first three months of 2012 compared with $236 million in the first three months of 2011. The decrease reflected lower loan balances and related purchase accounting accretion.
- Noninterest income was a loss of $19 million in the first quarter of 2012 compared with earnings of $9 million in the first quarter of 2011. The decline was driven mainly by additions to the liability for estimated losses on repurchase and indemnification claims.
- The provision for credit losses was $18 million in the first three months of 2012 compared with $152 million in the first three months of 2011. The decline was primarily due to overall improvement in credit quality across the portfolios.
- Noninterest expense in the first quarter of 2012 was $68 million compared with $53 million in the first quarter of 2011. The increase was due to higher other real estate owned costs.
- Nonperforming loans decreased to $.7 billion at March 31, 2012 compared with $.9 billion at March 31, 2011. The consumer lending portfolio comprised 68% of the nonperforming loans at March 31, 2012. Nonperforming consumer loans increased $19 million.
- Net charge-offs were $91 million in the first quarter of 2012 and $123 million in the first quarter 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 and fall outside of our core business strategy. Consequently, the business activity of this segment is to manage the wind-down of the portfolio assigned to it while maximizing the value and mitigating risk. The fair value marks taken upon acquisition of the assets, the team we have in place, and targeted asset resolution strategies help us to

manage these assets. Additionally, our capital and liquidity positions provide us flexibility in a challenging environment to optimize returns on this portfolio for our shareholders.

- The $13.2 billion of loans held in this portfolio at March 31, 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 79% of customer outstandings.
- The Commercial Lending portfolio within this segment is comprised of $1.1 billion in residential development loans (i.e. condominiums, townhomes, developed and undeveloped land) and $.7 billion of performing cross-border leases. This portfolio has been reduced by 18% since March 31, 2011 driven by the decline in residential development loans. The cross-border lease portfolio has been relatively stable. These assets are long-term and are of high credit quality.
- The performance of the Consumer Lending portfolio within this segment is dependent upon economic growth, unemployment rates, the housing market recovery and the interest rate environment. The portfolio s credit quality performance has stabilized through actions taken by management over the last three years. Approximately 75% of customers have been current with principal and interest payments for the past 12 months. Consumer Lending consists of consumer loans, which are mainly brokered home equity loans and lines of credit, and residential real estate mortgages. The residential real estate mortgage portfolio is composed of jumbo and ALT-A first lien mortgages, non-prime first and second lien mortgages and, to a lesser extent, residential construction loans. Management has implemented various refinance programs, line management programs, and loss mitigation programs to mitigate risks within these portfolios while assisting borrowers to maintain homeownership when possible.
- When loans are sold, we may assume certain loan repurchase obligations associated with those loans primarily relating to situations where investors may request PNC to indemnify them against losses or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. From 2005 to 2007, home equity loans were sold with such contractual provisions. At March 31, 2012, the liability for estimated losses on repurchase and indemnification claims for the Non-Strategic Assets Portfolio business segment was $51 million compared to $128 million at March 31, 2011. See the Recourse And Repurchase Obligations section of this Financial Review and Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements included 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.

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, including in the case of Residential and Commercial Mortgage Servicing Rights in Notes 8 and 9.

Recent Accounting Pronouncements

See Note 1 Accounting Policies in the Notes to the Consolidated Financial Statements of this Report 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. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. Consistent with our investment strategy, plan assets are primarily invested in equity investments and fixed income instruments. Plan fiduciaries determine and review the plan s investment policy, which is described more fully in Note 14 Employee Benefit Plans in our 2011 Form 10-K.

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. The primary assumptions used to measure pension obligations and costs are the discount rate, compensation increase and expected long-term return on assets. Among these, the compensation increase assumption does not significantly affect pension expense.

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

The expected long-term return on assets assumption also has a significant effect on pension expense. The expected return on plan assets is a long-term assumption established by considering historical and anticipated returns of the asset classes invested in by the pension plan and the asset allocation policy currently in place. For purposes of setting and reviewing this assumption, long term refers to the period over which the plan s projected benefit obligations will be disbursed. We review this assumption at each measurement date and adjust it if warranted. Our

selection process references certain historical data and the current environment, but primarily utilizes qualitative judgment regarding future return expectations. Accordingly, we generally do not change the assumption unless we modify our investment strategy or identify events that would alter our expectations of future returns.

To evaluate the continued reasonableness of our assumption, we examine a variety of viewpoints and data. Various studies have shown that portfolios comprised primarily of US equity securities have historically returned approximately 10%

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

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

As more fully described in our 2011 Form 10-K, the expected long-term return on plan assets for determining net periodic pension cost for 2011 was 7.75%. We are maintaining our expected long-term return on plan assets at 7.75% for determining pension cost for 2012.

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

We currently estimate a pretax pension expense of $92 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 after 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 25: 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.

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

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

Recourse And Repurchase Obligations

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

Commercial Mortgage Loan Recourse Obligations

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

Under these programs, we generally assume up to a one-third pari passu risk of loss on unpaid principal balances through a loss share arrangement. At March 31, 2012 and December 31, 2011, the unpaid principal balance outstanding of loans sold as a participant in these programs was $13.2 billion and $13.0 billion, respectively. The potential maximum exposure under the loss share arrangements was $4.0 billion at both March 31, 2012 and December 31, 2011. We maintain a reserve for estimated losses based on our exposure. The reserve for losses under these programs totaled $50 million and $47 million as of March 31, 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 loan and home equity repurchase obligations

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to situations where PNC is alleged to have breached certain origination covenants and representations and warranties made to purchasers of the loans in the respective purchase and sale agreements. Residential mortgage loans covered by these loan repurchase obligations include first and second-lien mortgage loans we have sold through Agency securitizations, Non-Agency securitizations, and whole-loan sale transactions. As discussed in Note 3 in our 2011 Form 10-K, Agency securitizations consist of mortgage loans sale transactions with FNMA, FHLMC, and the Government National Mortgage Association (GNMA) program, while Non-Agency securitizations and whole-loan sale transactions consist of mortgage loans sale transactions with private investors. Our historical exposure and activity associated with Agency securitization repurchase obligations has primarily been related to transactions with FNMA and FHLMC, as indemnification and repurchase losses associated with Federal Housing Agency (FHA) and Department of Veterans Affairs (VA)-insured and uninsured loans pooled in GNMA securitizations historically have been minimal. Repurchase obligation activity associated with residential mortgages is reported in the Residential Mortgage Banking segment.

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

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

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

Investor indemnification or repurchase claims are typically settled on an individual loan basis through make-whole payments or loan repurchases; however, on occasion we may negotiate pooled settlements with investors. In connection with pooled settlements, we typically do not repurchase loans and the consummation of such transactions generally results in us no longer having indemnification and repurchase exposure with the investor in the transaction.

The following table details the unpaid principal balance of our unresolved indemnification and repurchase claims at March 31, 2012 and December 31, 2011.

Table 26: Analysis of Unresolved Asserted Indemnification and Repurchase Claims

In millions	**Mar. 31 2012**	Dec. 31 2011
Residential mortgages:		
Agency securitizations	**$ 337**	$ 302
Private investors (a)	**69**	73
Home equity loans/lines:		

Private investors (b)	**73**	110
Total unresolved claims	**$ 479**	$ 485

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

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

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

Table 27: Analysis of Indemnification and Repurchase Claim Settlement Activity

	2012			2011		
Three months ended March 31 - In millions	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
Agency securitizations	**$ 50**	**$ 29**	**$ 13**	$ 59	$ 29	$ 24
Private investors (e)	**21**	**11**	**3**	21	5	6
Home equity loans/lines:						
Private investors - Repurchases (f)	**10**	**8**	**2**	22	22	
Total indemnification and repurchase settlements	**$ 81**	**$ 48**	**$ 18**	$ 102	$ 56	$ 30

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

During 2011 and the first three 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. During 2011, the volume of residential mortgage indemnification and repurchase claims increased reflecting the prolonged weak residential housing sector and the continuing industry trend of Agency investors pursuing strategies to aggressively reduce their exposure to losses on purchased loans. This increase, along with an increase in the average time to resolve investor claims, has contributed to the higher balances of unresolved claims for residential mortgages in agency securitizations at March 31, 2012. The extended period of time to resolve these investor claims coupled with higher claim rescission rates drove the decline in residential mortgage indemnification and repurchase settlement activity in 2011 and the first three months of 2012. As the level of residential mortgage claims increased over the past couple of years, management focused its efforts on improving its process to review and respond to these claims. The lower balance of unresolved indemnification and repurchase claims for home equity loans/lines at March 31, 2012 was primarily attributed to pooled settlement activity in the second quarter of 2011 and higher claim rescission rates. Management also implemented enhancements to its process of reviewing and responding to investor claims for this sold portfolio. The lower first quarter 2012 indemnification and repurchase settlement activity was also impacted by higher claim rescission rates coupled with management s prior year strategy to settle investor repurchase claims.

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

Origination and sale of residential mortgages is an ongoing business activity and, accordingly, management continually assesses the need to recognize indemnification and repurchase liabilities pursuant to the associated investor sale agreements. We establish indemnification and

repurchase liabilities for estimated losses on sold first and second-lien mortgages and home equity loans/lines for which indemnification is expected to be provided or for loans that are expected to be

repurchased. For the first and second-lien mortgage sold portfolio, we have established an indemnification and repurchase liability pursuant to investor sale agreements based on claims made and our estimate of future claims on a loan by loan basis. These relate primarily to loans originated during 2006-2008. For the home equity loans/lines sold portfolio, we have established indemnification and repurchase liabilities based upon this same methodology for loans sold during 2005-2007.

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

Management s subsequent evaluation of these indemnification and repurchase liabilities is based upon trends in indemnification and repurchase requests, actual loss experience, risks in the underlying serviced loan portfolios, and current economic conditions. As part of its evaluation, management considers estimated loss projections over the life of the subject loan portfolio. We believe our indemnification and repurchase liabilities appropriately reflect the estimated probable losses on investor indemnification and repurchase claims at March 31, 2012 and December 31, 2011.

At March 31, 2012 and December 31, 2011, the liability for estimated losses on indemnification and repurchase claims for residential mortgages totaled $101 million and $83 million, respectively. The first quarter 2012 increase resulted from the RBC Bank (USA) acquisition which added $26 million to this liability and related to repurchase obligations on RBC Bank (USA) sold loans. Excluding this impact, the liability decreased from December 31, 2011, reflecting the continuing seasoning of the sold portfolio and higher claim rescission rates as described above. This decrease was related solely to the period ended March 31, 2012 and resulted despite higher levels of investor indemnification and repurchase claim activity. The indemnification and repurchase liability for home equity loans/lines was $51 million and $47 million at March 31, 2012 and December 31, 2011, respectively. The increase in this liability was primarily driven by management s projection that home equity repurchases will be higher in 2012.

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.

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 quarter of 2012 were stable from December 31, 2011 and improved over March 31, 2011 and included the following:

- Overall loan delinquencies have decreased $275 million, or 6%, from year-end 2011 levels.
- Nonperforming loans increased $21 million, less than 1%, to $3.6 billion as of March 31, 2012 compared with December 31, 2011 mainly attributable to a change in policy for home equity loans past due 90 days being placed on nonaccrual status, compared to the prior policy of past due 180 days. The increase was partially offset by a decline in total nonperforming commercial lending.

Nonperforming assets increased $205 million, or 5%, to $4.4 billion as of March 31, 2012, compared with December 31, 2011 primarily driven by OREO assets due to the acquisition of RBC Bank (USA).

First quarter 2012 net charge-offs were $333 million, down 38% from first quarter 2011 net charge-offs of $533 million.

Reflecting improvements in overall asset quality from March 31, 2011 and continued actions to reduce exposure levels, the provision for credit losses declined to $185 million for the first three months of 2012 compared with $421 million for the first three months of 2011.

The level of ALLL has decreased to $4.2 billion at March 31, 2012 from $4.8 billion at March 31, 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. A summary of nonperforming assets is presented in the table below.

Nonperforming assets increased $205 million from December 31, 2011, to $4.4 billion at March 31, 2012. The increase in nonperforming assets at March 31, 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 and commercial real estate loans. Nonperforming loans increased $21 million to $3.6 billion while OREO and foreclosed assets increased $184 million to $780 million. The ratio of nonperforming assets to total loans, OREO and foreclosed assets decreased to 2.46% at March 31, 2012 from 2.60% at December 31, 2011 primarily as the increase in nonperforming loans was more than offset by the increase in loans due to the RBC Bank (USA) acquisition. The ratio of nonperforming loans to total loans declined to 2.03% at March 31, 2012, compared to 2.24% at December 31, 2011. Total nonperforming assets have declined $2.0 billion, or 31%, 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 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 where the first-lien loan is 90 days or more past due. Such change in classification should not have a material impact on our allowance for loan and lease losses or provision in future periods as the credit loss for these loans is considered in our reserving process.

At March 31, 2012, TDRs included in nonperforming loans was $1.1 billion or 31% 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 44% of total residential real estate nonperforming loans at March 31, 2012, down from 51% at December 31, 2011. Similarly, home equity TDRs

comprise 55% of home equity nonperforming loans at March 31, 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 March 31, 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 12% and 6% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of March 31, 2012.

Table 28: Nonperforming Assets By Type

In millions	**Mar. 31 2012**	Dec. 31 2011
Nonperforming loans		
Commercial lending		
Commercial		
Retail/wholesale trade	**$ 108**	$ 109
Manufacturing	**107**	117
Service providers	**149**	147
Real estate related (a)	**232**	252
Financial services	**20**	36
Health care	**23**	29
Other industries	**200**	209
Total commercial	**839**	899
Commercial real estate		
Real estate projects	**977**	1,051

Commercial mortgage	**274**	294
Total commercial real estate	**1,251**	1,345
Equipment lease financing	**21**	22
Total commercial lending	**2,111**	2,266
Consumer lending (b)		
Home equity (c)	**685**	529
Residential real estate		
Residential mortgage (d)	**684**	685
Residential construction	**44**	41
Credit card (e)	**12**	8
Other consumer	**45**	31
Total consumer lending	**1,470**	1,294
Total nonperforming loans (f)	**3,581**	3,560
OREO and foreclosed assets		
Other real estate owned (OREO) (g)	**749**	561
Foreclosed and other assets	**31**	35
Total OREO and foreclosed assets	**780**	596
Total nonperforming assets	**$ 4,361**	$ 4,156
Amount of commercial lending nonperforming loans contractually current as to remaining principal and interest	**$ 667**	$ 632
Percentage of total commercial nonperforming loans	**32%**	28%
Amount of TDRs included in nonperforming loans	**$ 1,095**	$ 1,141
Percentage of total nonperforming loans	**30%**	32%
Nonperforming loans to total loans	**2.03%**	2.24%
Nonperforming assets to total loans, OREO and foreclosed assets	**2.46**	2.60
Nonperforming assets to total assets	**1.47**	1.53
Allowance for loan and lease losses to total nonperforming loans (f) (h)	**117**	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 March 31, 2012 and December 31, 2011, respectively.
(e) Effective in the second quarter 2011, the commercial nonaccrual policy was applied to certain small business credit card balances. This change resulted in loans being placed on nonaccrual status when they become 90 days or more past due. We continue to charge off these loans at 180 days past due.
(f) 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) Other real estate owned excludes $252 million and $280 million at March 31, 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).
(h) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in this Report for additional information.

Table 29: OREO and Foreclosed Assets

In millions	**Mar. 31 2012**	Dec. 31 2011
Other real estate owned (OREO):		
Residential properties	**$ 215**	$ 191
Residential development properties	**226**	183
Commercial properties	**308**	187
Total OREO	**749**	561
Foreclosed and other assets	**31**	35
Total OREO and foreclosed assets	**$ 780**	$ 596

Total OREO and foreclosed assets increased $184 million during the first three months of 2012 from $596 million at December 31, 2011, to $780 million at March 31, 2012, which represents 18% of total nonperforming assets. As of March 31, 2012 and December 31, 2011, 28% 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 lower additions and higher sales related to commercial OREO. Excluded from OREO at March 31, 2012 and December 31, 2011, respectively, was $252 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 30: Change in Nonperforming Assets

In millions	**2012**	2011
January 1	**$ 4,156**	$ 5,123
New nonperforming assets	**1,186**	1,003
Charge-offs and valuation adjustments	**(236)**	(390)
Principal activity, including paydowns and payoffs	**(414)**	(380)
Asset sales and transfers to loans held for sale	**(146)**	(178)
Returned to performing status	**(185)**	(238)
March 31	**$ 4,361**	$ 4,940

The table above presents nonperforming asset activity for the three months ended March 31, 2012 and 2011. For the three months ended March 31, 2012, nonperforming assets increased $205 million from $4.2 billion at December 31, 2011, to $4.4 billion at March 31, 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 32% of commercial lending nonperforming loans are contractually current as to principal and interest. As of March 31, 2012, commercial nonperforming loans are carried at approximately 60% 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) increased by $89 million from December 31, 2011, to $1.7 billion at March 31, 2012. Commercial lending early stage delinquencies increased by $136 million from December 31, 2011, while consumer lending delinquencies decreased by $47 million. Deterioration in early stage delinquency levels was primarily due to increases in commercial, commercial real estate and non government insured residential real estate loan classes related to the RBC Bank (USA) acquisition.

Accruing loans past due 90 days or more are referred to as late stage delinquencies. These loans are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines. These loans decreased $364 million, or 12%, from $3.0 billion at December 31, 2011, to $2.6 billion at March 31, 2012, mainly due to the change in policy for home equity loans and improvements in commercial loans and government insured delinquent residential real estate loans. The following tables display the delinquency status of our loans at March 31, 2012 and December 31, 2011. Additional information regarding accruing loans past due is included in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in this Report.

Table 31: Accruing Loans Past Due 30 To 59 Days

	Amount		Percent of Total Outstandings	
Dollars in millions	**Mar. 31 2012**	Dec. 31 2011	**Mar. 31 2012**	Dec. 31 2011
Commercial	**$ 195**	$ 122	**.26%**	.19%
Commercial real estate	**144**	96	**.78**	.59
Equipment lease financing	**25**	22	**.38**	.34
Home equity	**174**	173	**.49**	.52
Residential real estate				
Non government insured	**222**	180	**1.37**	1.24
Government insured	**122**	122	**.75**	.84
Credit card	**34**	38	**.83**	.96
Other consumer				
Non government insured	**50**	58	**.26**	.30
Government insured	**171**	207	**.88**	1.08
Total	**$ 1,137**	$ 1,018	**.65**	.64

Table 32: Accruing Loans Past Due 60 To 89 Days

	Amount		Percent of Total Outstandings	
Dollars in millions	**Mar. 31 2012**	Dec. 31 2011	**Mar. 31 2012**	Dec. 31 2011
Commercial	**$ 53**	$ 47	**.07%**	.07%
Commercial real estate	**44**	35	**.24**	.22
Equipment lease financing	**2**	5	**.03**	.08
Home equity	**103**	114	**.29**	.34
Residential real estate				
Non government insured	**73**	72	**.45**	.50

Government insured	**100**	104	**.62**	.72
Credit card	**24**	25	**.59**	.63
Other consumer				
Non government insured	**20**	21	**.10**	.11
Government insured	**98**	124	**.50**	.65
Total	**$ 517**	$ 547	**.29**	.34

Table 33: Accruing Loans Past Due 90 Days Or More

	Amount		Percent of Total Outstandings	
Dollars in millions	**Mar. 31 2012**	Dec. 31 2011	**Mar. 31 2012**	Dec. 31 2011
Commercial	**$ 28**	$ 49	**.04%**	.07%
Commercial real estate	**5**	6	**.03**	.04
Equipment lease financing	**5**		**.08**	
Home equity (a)		221		.67
Residential real estate				
Non government insured	**140**	152	**.86**	1.05
Government insured	**2,012**	2,129	**12.41**	14.71
Credit card	**47**	48	**1.15**	1.21
Other consumer				
Non government insured	**21**	23	**.11**	.12
Government insured	**351**	345	**1.80**	1.80
Total	**$ 2,609**	$ 2,973	**1.48**	1.87

(a) 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 $334 million at March 31, 2012 and $438 million at December 31, 2011.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $35.7 billion as of March 31, 2012, or 20% of the total loan portfolio. Of that total, $24.6 billion, or 69%, was outstanding under primarily variable-rate home equity lines of credit and $11.1 billion, or 31%, consisted of closed-end home equity installment loans. Approximately 2% of the home equity portfolio was on nonperforming status as of March 31, 2012.

As of March 31, 2012, we are in an originated first lien position for approximately 31% 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 67% of the portfolio was secured by second liens where we do not hold the first lien position. For the majority of the home equity portfolio where we are in, hold or service the first lien position, the credit performance of this portion of the portfolio is superior to the portion of the portfolio where we hold the second lien position but do not hold the first lien.

Subsequent to origination, PNC is not typically notified when a senior lien position that is not held by PNC is satisfied. Therefore, information about the current lien status of the loans is limited, for loans that were originated in subordinated

lien positions where PNC does not also hold the senior lien, to what can be obtained from external sources.

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

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

In establishing our ALLL, we utilize a delinquency roll-rate methodology for pools of loans. In accordance with accounting principles, under this methodology, we establish our allowance based upon incurred losses and not lifetime expected losses. The roll-rate methodology estimates transition/roll of loan balances from one delinquency state (e.g., 30-59 days past due) to another delinquency state (e.g., 60-89 days past due) and ultimately charge-off. The roll through to charge-off is based on PNC s actual loss experience for each type of pool. Since a pool may consist of first and second liens, the charge-off amounts for

the pool are proportionate to the composition of first and second liens in the pool. Our experience has been that the ratio of first to second lien loans has been consistent over time and is appropriately represented in our pools used for roll-rate calculations.

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 March 31, 2012, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

Table 34: Home Equity Lines of Credit Draw Period End Dates

In millions	Interest Only Product	Principal and Interest Product
Remainder of 2012	**$ 895**	**$ 175**
2013	**1,323**	**295**
2014	**2,112**	**593**
2015	**2,152**	**747**
2016	**1,671**	**594**
2017 and thereafter	**6,166**	**7,246**
Total (a)	**$ 14,319**	**$ 9,650**

(a) Includes approximately $197 million, $97 million, $162 million, $176 million, $16 million and $293 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 March 31, 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 6.69% were 30-89 days past due and approximately 6.06% were greater than or equal to 90 days past due. Generally, when a borrower becomes 60 days past due, we terminate borrowing privileges, and those privileges are not subsequently reinstated. At that point, we continue our collection/recovery processes, which may include a loss mitigation loan modification resulting in a loan that is classified as a TDR.

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

LOAN MODIFICATIONS AND TROUBLED DEBT RESTRUCTURINGS

Consumer Loan Modifications

We modify loans under government and PNC-developed programs based upon our commitment to help eligible

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

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

For consumer loan programs, such as residential mortgages and home equity loans and lines, we will enter into a temporary modification when the borrower has indicated a temporary hardship and a willingness to bring current the delinquent loan balance. Examples of this situation often

include delinquency due to illness or death in the family, or a loss of employment. Permanent modifications are entered into when it is confirmed that the borrower does not possess the income necessary to continue making loan payments at the current amount, but our expectation is that payments at lower amounts can be made. Residential mortgage and home equity loans and lines have been modified with changes in terms for up to 60 months, although the majority involve periods of three to 24 months.

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

Table 35: Bank-Owned Consumer Real Estate Related Loan Modifications

	March 31, 2012		December 31, 2011	
Dollars in millions	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Home equity				
Temporary Modifications	**12,345**	**$ 1,111**	13,352	$ 1,215
Permanent Modifications	**3,062**	**200**	1,533	92
Total home equity	**15,407**	**1,311**	14,885	1,307
Residential Mortgages				
Permanent Modifications	**8,364**	**1,453**	7,473	1,342
Non-Prime Mortgages				
Permanent Modifications	**4,417**	**620**	4,355	610
Residential Construction				
Permanent Modifications	**1,371**	**590**	1,282	578
Total Bank-Owned Consumer Real Estate Related Loan Modifications	**29,559**	**$ 3,974**	27,995	$ 3,837

Table 36: Bank-Owned Consumer Real Estate Related Loan Modifications Re-Default by Vintage (a) (b)

March 31, 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									
Third Quarter 2011	**24**	**4.2%**							**$ 1.8**
Second Quarter 2011	**20**	**5.3**	**29**	**7.7%**					**2.1**
First Quarter 2011	**9**	**9.3**	**9**	**9.3**	**12**	**12.4%**			**1.4**
Fourth Quarter 2010 (d)	**6**	**17.1**	**9**	**25.7**	**8**	**22.9**	**9**	**25.7%**	
Third Quarter 2010 (d)	**1**	**5.6**	**2**	**11.1**	**1**	**5.6**	**3**	**16.7**	
Residential Mortgages									
Third Quarter 2011	**282**	**22.9**							**47.8**
Second Quarter 2011	**387**	**27.8**	**481**	**34.6**					**81.5**
First Quarter 2011	**349**	**21.4**	**497**	**30.4**	**562**	**34.4**			**91.2**
Fourth Quarter 2010	**323**	**17.9**	**504**	**27.9**	**655**	**36.2**	**683**	**37.8**	**112.3**
Third Quarter 2010	**460**	**24.1**	**549**	**28.8**	**647**	**33.9**	**737**	**38.6**	**117.7**
Non-Prime Mortgages									
Third Quarter 2011	**86**	**23.1**							**12.0**
Second Quarter 2011	**119**	**19.6**	**159**	**26.2**					**28.1**
First Quarter 2011	**77**	**18.2**	**103**	**24.4**	**118**	**28.0**			**14.9**
Fourth Quarter 2010	**13**	**13.7**	**23**	**24.2**	**27**	**28.4**	**29**	**30.5**	**5.0**
Third Quarter 2010	**90**	**18.0**	**105**	**21.0**	**130**	**26.0**	**142**	**28.4**	**18.1**
Residential Construction									
Third Quarter 2011 (d)	**2**	**1.8**							
Second Quarter 2011 (d)	**4**	**3.9**	**4**	**3.9**					
First Quarter 2011	**7**	**4.2**	**10**	**6.0**	**17**	**10.2**			**7.9**
Fourth Quarter 2010	**11**	**4.7**	**17**	**7.3**	**24**	**10.3**	**26**	**11.1**	**6.6**
Third Quarter 2010	**23**	**8.1**	**25**	**8.8**	**27**	**9.5**	**31**	**11.0**	**5.3**
Temporary Modifications									
Home Equity									
Third Quarter 2011	**45**	**10.0%**							**$ 6.2**
Second Quarter 2011	**67**	**10.4**	**99**	**15.4%**					**9.7**
First Quarter 2011	**91**	**6.5**	**160**	**11.4**	**204**	**14.5%**			**18.4**
Fourth Quarter 2010	**128**	**6.5**	**260**	**13.1**	**337**	**17.0**	**397**	**20.0%**	**36.3**
Third Quarter 2010	**141**	**7.1**	**245**	**12.3**	**366**	**18.3**	**469**	**23.5**	**40.6**

(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 September 30, 2010 through September 30, 2011 and represents a vintage look at all quarterly accounts and the number of those modified accounts (for each quarterly vintage) 60 days or more delinquent at six, nine, 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 March 31, 2012 unpaid principal balances of the re-defaulted accounts for the Third Quarter 2011 Vintage at Six Months, for the Second Quarter 2011 Vintage at Nine Months, for First Quarter 2011 at Twelve Months, and for the Fourth Quarter 2010 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 making payments that differ from the contractual payment amount for a short period of time, generally three months, during which time a borrower is brought current. Our motivation is to allow for repayment of an outstanding past due amount through payment of additional amounts over the short period of time. Due to the short term nature of the payment plan there is a minimal impact to the ALLL.

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

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under PNC-developed programs, which in some cases may operate similarly to HAMP. These programs first require a reduction of the interest rate followed by an extension of term and, if appropriate, deferral of principal payments. As of March 31, 2012 and December 31, 2011, 2,996 accounts with a balance of $510 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.

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 March 31, 2012 and December 31, 2011, $82 million and $81 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $28 million and $24 million have been determined to be TDRs as of March 31, 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 three months ended March 31, 2012, $740 million 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 three months ended March 31, 2011 was $515 million.

Table 37: Summary of Troubled Debt Restructurings

In millions	**Mar. 31 2012**	Dec. 31 2011
Consumer lending:		
Real estate-related	**$ 1,521**	$ 1,492
Credit card (a)	**273**	291
Other consumer	**27**	15
Total consumer lending	**1,821**	1,798
Total commercial lending	**412**	405
Total TDRs	**$ 2,233**	$ 2,203
Nonperforming	**$ 1,095**	$ 1,141
Accruing (b)	**865**	771
Credit card (a)	**273**	291
Total TDRs	**$ 2,233**	$ 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 $30 million or 1% during the first three months of 2012 to $2.2 billion as of March 31, 2012. Of this total, nonperforming TDRs totaled $1.1 billion, which represents approximately 31% 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 $94 million or 12% during the first three months of 2012 to $865 million as of March 31, 2012. This increase reflects the further seasoning and performance of the TDRs. See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes to Consolidated Financial Statements in this Report for additional information.

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

We recorded $333 million in net charge-offs for the first three months of 2012, compared to $533 million in the first three months of 2011. Commercial lending net charge-offs fell from $248 million in the first three months of 2011 to $96 million in the first three months of 2012. Consumer lending net charge-offs declined from $285 million in the first three months of 2011 to $237 million in the first three months of 2012.

Table 38: Loan Charge-Offs And Recoveries

Three months ended March 31 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2012				
Commercial	**$ 111**	**$ 72**	**$ 39**	**.23%**
Commercial real estate	**84**	**23**	**61**	**1.46**
Equipment lease financing	**5**	**9**	**(4)**	**(.25)**
Home equity	**131**	**13**	**118**	**1.40**
Residential real estate	**30**	**(1)**	**31**	**.84**
Credit card	**55**	**5**	**50**	**5.10**
Other consumer	**51**	**13**	**38**	**.79**
Total	**$ 467**	**$ 134**	**$ 333**	**.81**
2011				
Commercial	$ 179	$ 80	$ 99	.71%
Commercial real estate	158	14	144	3.33
Equipment lease financing	14	9	5	.32
Home equity	140	10	130	1.57
Residential real estate	58	1	57	1.49
Credit card	74	6	68	7.21
Other consumer	51	21	30	.73
Total	$ 674	$ 141	$ 533	1.44

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 three 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.

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

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

Table 39: Allowance for Loan and Lease Losses

Dollars in millions	**2012**	2011
January 1	**$ 4,347**	$ 4,887
Total net charge-offs	**(333)**	(533)
Provision for credit losses	**185**	421
Net change in allowance for unfunded loan commitments and letters of credit	**(3)**	(16)
March 31	**$ 4,196**	$ 4,759
Net charge-offs to average loans (for the three months ended) (annualized)	**.81%**	1.44%
Allowance for loan and lease losses to total loans	**2.38**	3.19
Commercial lending net charge-offs	**$ (96)**	$ (248)
Consumer lending net charge-offs	**(237)**	(285)
Total net charge-offs	**$ (333)**	$ (533)
Net charge-offs to average loans (for the three months ended) (annualized)		
Commercial lending	**.42%**	1.25%
Consumer lending	**1.32**	1.65

As further described in the Consolidated Income Statement Review section of this Report, the provision for credit losses totaled $185 million for the first three months of 2012 compared to $421 million for the first three months of 2011. For the first three months of 2012, the provision for commercial lending credit losses declined by $83 million or 65% from the first three months of 2011. Similarly, the provision for consumer lending credit losses decreased $153 million or 52% from the first three 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 March 31, 2012, we had established reserves of $991 million 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 March 31, 2012, total ALLL to total nonperforming loans was 117%. The comparable amount for December 31, 2011 was 122%. The allowance allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans, which are both excluded from nonperforming loans, totaled $1.4 billion at both March 31, 2012 and December 31, 2011. See the Nonperforming Assets By Type table within this Credit Risk Management section for additional information. Excluding these balances, the allowance as a percent of nonperforming loans was 79% and 84% as of March 31, 2012 and December 31, 2011, respectively.

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 6 Purchased 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 March 31, 2012, there were approximately $14.8 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 $206.1 billion at March 31, 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 March 31, 2012, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning deposits with banks) totaling $6.1 billion and securities available for sale totaling $53.4 billion. Of our total liquid assets of $59.5 billion, we had $23.9 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 March 31, 2012, PNC Bank, N.A. had issued $7.0 billion of debt under this program of which $100 million of senior bank notes were issued March 5, 2012 and due April 8, 2015 with interest paid semi-annually at a fixed rate of 1.07%. Total senior and subordinated debt increased to $4.2 billion at March 31, 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 March 31, 2012, our unused secured borrowing capacity was $8.1 billion with FHLB-Pittsburgh. Total FHLB borrowings increased to $ 9.0 billion at March 31, 2012 from $ 7.0 billion at December 31, 2011 due to $3.5 billion in new borrowings partially offset by maturities.

PNC Bank, N.A. has the ability to offer up to $3.0 billion of its commercial paper to provide additional liquidity. As of March 31, 2012, there was $1.5 billion outstanding under this program. Other borrowed funds on our Consolidated Balance Sheet also includes $5.3 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 March 31, 2012, our unused secured borrowing capacity was $29.3 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 March 31, 2012, there were approximately $3.3 billion 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.

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 senior notes, our upcoming May 2012 redemption of $500 million of trust preferred securities, our April 2012 redemption of $306

million of trust preferred securities, and our April 2012 issuance of $1.5 billion of preferred stock. We did not repurchase any shares under PNC s existing common stock repurchase program in the first 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 March 31, 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 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 short-term investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of March 31, 2012, the parent company had approximately $4.8 billion in funds available from its cash and short-term investments.

We can also generate liquidity for the parent company and PNC s non-bank subsidiaries through the issuance of debt securities and equity securities, including certain capital securities, in public or private markets and commercial paper. We have effective shelf registration statements

pursuant to which we can issue additional debt and equity securities, including certain hybrid capital instruments. Total senior and subordinated debt and hybrid capital instruments increased to $16.1 billion at March 31, 2012 from $16.0 billion at December 31, 2011 due to $1.0 billion in new borrowings partially offset by maturities.

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 March 31, 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 40: Credit ratings as of March 31, 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+

Commitments

The following tables set forth contractual obligations and various other commitments as of March 31, 2012 representing required and potential cash outflows.

Table 41: Contractual Obligations

		Payment Due By Period
March 31, 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)	**$ 31,615**	**$ 22,158**	**$ 5,589**	**$ 2,311**	**$ 1,557**
Borrowed funds (a) (b)	**42,539**	**23,556**	**4,688**	**4,603**	**9,692**
Minimum annual rentals on noncancellable leases	**2,794**	**379**	**655**	**474**	**1,286**
Nonqualified pension and postretirement benefits	**558**	**64**	**122**	**116**	**256**
Purchase obligations (c)	**644**	**401**	**168**	**45**	**30**
Total contractual cash obligations	**$ 78,150**	**$ 46,558**	**$ 11,222**	**$ 7,549**	**$ 12,821**

(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 March 31, 2012, unrecognized tax benefits totaled $220 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 15 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 42: Other Commitments (a)

		Amount Of Commitment Expiration By Period			
March 31, 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	**$ 112,454**	**$ 50,432**	**$ 35,377**	**$ 26,040**	**$ 605**
Standby letters of credit (b)	**10,897**	**4,736**	**4,723**	**1,362**	**76**
Reinsurance agreements (c)	**6,177**	**2,822**	**95**	**46**	**3,214**
Other commitments (d)	**706**	**379**	**248**	**76**	**3**
Total commitments	**$ 130,234**	**$ 58,369**	**$ 40,443**	**$ 27,524**	**$ 3,898**

(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 $7.1 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 $234 million and other investments of $4 million that are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $437 million and other direct equity investments of $31 million that are included in Other liabilities on our Consolidated Balance Sheet.

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
- Trading in fixed income products, equities, derivatives, and foreign exchange, as a result of customer activities and underwriting.

We have established enterprise-wide policies and methodologies to identify, measure, monitor, and report market risk. Market Risk Management provides independent oversight by monitoring compliance with these limits and guidelines, and reporting significant risks in the business to the Risk Committee of the Board.

MARKET RISK MANAGEMENT INTEREST RATE RISK

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

Asset and Liability Management centrally manages interest rate risk 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 first quarters of 2012 and 2011 follow:

Table 43: Interest Sensitivity Analysis

	First Quarter 2012	First 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	**2.4%**	1.1%
100 basis point decrease (a)	**(1.7)%**	(.9)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**7.1%**	3.4%
100 basis point decrease (a)	**(4.9)%**	(3.4)%
Duration of Equity Model (a)		
Base case duration of equity (in years):	**(6.0)**	
Key Period-End Interest Rates		
One-month LIBOR	**.24%**	.24%
Three-year swap	**.76%**	1.47%

(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 44: Net Interest Income Sensitivity to Alternative Rate Scenarios (First Quarter 2012)

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	**.1%**	**.6%**	**(.9)%**
Second year sensitivity	**1.7%**	**2.4%**	**(3.6)%**

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

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

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

The first 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. 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 three months of 2012, our 95% VaR ranged between $3.3 million and $4.6 million, averaging $4.0 million. During the first three months of 2011, our 95% VaR ranged between $3.5 million and $4.8 million, averaging $4.2 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. There was one such instance during the first three months of 2012 under our diversified VaR measure. In comparison, there were no such instances during the first three months of 2011. We use a 500 day look back period for backtesting and include customer related revenue. Including customer revenue helps to reduce trading losses and may reduce the number of instances of actual losses exceeding the prior day VaR measure.

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

Total trading revenue was as follows:

Table 47: Trading Revenue

Three months ended March 31

In millions	**2012**	2011
Net interest income	**$ 9**	$ 11
Noninterest income	**72**	50
Total trading revenue	**$ 81**	$ 61
Securities underwriting and trading (a)	**$ 25**	$ 16
Foreign exchange	**20**	17
Financial derivatives and other	**36**	28
Total trading revenue	**$ 81**	$ 61

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

The trading revenue disclosed above includes results from providing investing and risk management services to our customers as well as results from hedges of customer activity. Trading revenue excludes the impact of economic hedging activities which we transact to manage risk primarily related to residential mortgage servicing rights, residential and commercial mortgage loans held-for-sale, and certain residential mortgage-backed agency securities with embedded derivatives. Derivatives used for economic hedges are not designated as accounting hedges because the contracts they are hedging are typically also carried at fair value on the balance sheet, resulting in symmetrical accounting treatment for both the hedging instrument and the hedged item. Economic hedge results, along with the associated hedged items, are reported in the respective income statement line items, as appropriate.

Trading revenue for the first quarter of 2012 increased $20 million compared with the first quarter of 2011 primarily due to higher derivative and foreign exchange client sales revenues and, to a lesser extent, securities underwriting and improved customer-driven 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 8 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 48: Equity Investments Summary

In millions	**Mar. 31 2012**	Dec. 31 2011
BlackRock	**$ 5,324**	$ 5,291
Tax credit investments	**2,818**	2,646

Private equity	**1,510**	1,491
Visa	**459**	456
Other	**241**	250
Total	**$ 10,352**	$ 10,134

BlackRock

PNC owned approximately 36 million common stock equivalent shares of BlackRock equity at March 31, 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 $2.8 billion at March 31, 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 $1.5 billion at both March 31, 2012 and December 31, 2011. As of March 31, 2012, $865 million was invested directly in a variety of companies and $645 million was invested indirectly through various private equity funds. Included in direct investments are investment activities of two

private equity funds that are consolidated for financial reporting purposes. The noncontrolling interests of these funds totaled $241 million as of March 31, 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 $234 million at March 31, 2012 compared with $247 million at December 31, 2011.

Visa

At March 31, 2012, our investment in Visa Class B common shares totaled approximately 23 million shares. As of March 31, 2012, our recognized Visa indemnification liability was zero. As we continue to have an obligation to indemnify Visa for judgments and settlements for the remaining specified litigation, we may have additional exposure to the specified Visa litigation.

As of March 31, 2012, we had a recorded investment of $459 million in Visa. Based on the March 31, 2012 closing price of $118.00 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, the status of pending interchange litigation and other 2011 developments in this area. See also Note 17 Commitments and Guarantees in our Notes To Consolidated Financial Statements of this Report for information on our Visa indemnification obligation.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At March 31, 2012, other investments totaled $241 million compared with $250 million at December 31, 2011. We recognized net gains related to these investments of $15 million during both the first three months 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 $4 million at March 31, 2012 and $3 million at 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 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 12 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.

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

Table 49: Financial Derivatives

	March 31, 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	**$ 14,115**	**$ 497**	$ 13,902	$ 529
Pay fixed swaps (c)	**1,996**	**(86)**	1,797	(116)
Liability rate conversion				
Receive fixed swaps	**11,469**	**1,214**	10,476	1,316
Forward purchase commitments	**250**	**1**	2,733	43
Total interest rate risk management	**27,830**	**1,626**	28,908	1,772
Foreign exchange contracts				
FX forward (d)	**609**	**(12)**	326	
Total derivatives designated as hedging instruments (b)	**$ 28,439**	**$ 1,614**	$ 29,234	$ 1,772
Derivatives not designated as hedging instruments under GAAP				
Derivatives used for residential mortgage banking activities:				
Interest rate contracts				
Swaps	**$ 97,165**	**$ 464**	$ 98,406	$ 454
Futures	**61,575**		64,250	
Future options	**31,600**	**3**	8,000	
Bond options	**800**	**3**	1,250	3
Swaptions	**8,286**	**68**	10,312	49
Commitments related to residential mortgage assets	**17,770**	**43**	14,773	59
Total residential mortgage banking activities	**$ 217,196**	**$ 581**	$ 196,991	$ 565
Derivatives used for commercial mortgage banking activities:				
Interest rate contracts				
Swaps	**$ 1,385**	**$ (30)**	$ 1,180	$ (34)
Swaptions			450	3
Commitments related to commercial mortgage assets	**1,062**	**14**	995	5
Credit contracts				
Credit default swaps	**95**	**3**	95	5
Total commercial mortgage banking activities	**$ 2,542**	**$ (13)**	$ 2,720	$ (21)
Derivatives used for customer-related activities:				
Interest rate contracts				
Swaps	**$ 116,738**	**$ (175)**	$ 122,088	$ (214)
Caps/floors				
Sold	**4,715**	**(6)**	5,861	(6)
Purchased	**4,460**	**20**	5,601	19
Swaptions	**1,667**	**50**	1,713	63
Futures	**4,094**		6,982	
Commitments related to residential mortgage assets	**1,651**		487	(1)
Foreign exchange contracts	**13,373**	**6**	11,920	9
Equity contracts (d)	**180**	**(4)**	184	(3)
Credit contracts				
Risk participation agreements	**3,463**	**2**	3,259	1
Total customer-related	**$ 150,341**	**$ (107)**	$ 158,095	$ (132)
Derivatives used for other risk management activities:				
Interest rate contracts				
Swaps	**$ 1,527**	**$ (13)**	$ 1,704	$ (34)
Swaptions			225	1
Futures	**1,597**		1,740	
Future options	**600**	**1**		
Commitments related to residential mortgage assets	**1,000**			
Foreign exchange contracts	**23**	**(4)**	25	(4)
Equity contracts	**11**			
Credit contracts				
Credit default swaps	**114**	**1**	209	6

Other contracts (d) (e)	**363**	**(318)**	386	(296)
Total other risk management	**$ 5,235**	**$ (333)**	$ 4,289	$ (327)
Total derivatives not designated as hedging instruments	**$ 375,314**	**$ 128**	$ 362,095	$ 85
Total Gross Derivatives	**$ 403,753**	**$ 1,742**	$ 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 March 31, 2012 compared with 57% and 43%, respectively, at December 31, 2011.
(b) Fair value amount includes net accrued interest receivable of $130 million at March 31, 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 March 31, 2012 for foreign exchange, equity contracts and other 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 other contracts.

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of March 31, 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 March 31, 2012, and that there has been no change in PNC s internal control over financial reporting that occurred during the first 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.

<u>Core net interest income</u> Total net interest income less purchase accounting accretion.

<u>Credit derivatives</u> 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.

<u>Credit spread</u> 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.

<u>Derivatives</u> 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; 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 surrender 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.

Purchased impaired loans   Acquired loans determined to be credit impaired under FASB ASC 310-30 (AICPA SOP 03-3). Loans are determined to be impaired if there is evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected.

Recorded investment   The initial investment of a purchased impaired loan plus interest accretion and less any cash payments and writedowns to date. The recorded investment

excludes any valuation allowance which is included in our allowance for loan and lease losses.

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

Residential development loans Project-specific loans to commercial customers for the construction or development of residential real estate including land, single family homes, condominiums and other residential properties. This would exclude loans to commercial customers where proceeds are for general corporate purposes whether or not such facilities are secured.

Residential mortgage servicing rights hedge gains/(losses), net We have elected to measure acquired or originated residential mortgage servicing rights (MSRs) at fair value under GAAP. We employ a risk management strategy designed to protect the economic value of MSRs from changes in interest rates. This strategy utilizes securities and a portfolio of derivative instruments to hedge changes in the fair value of MSRs arising from changes in interest rates. These financial instruments are expected to have changes in fair value which are negatively correlated to the change in fair value of the MSR portfolio. Net MSR hedge gains/(losses) represent the change in the fair value of MSRs, exclusive of changes due to time decay and payoffs, combined with the change in the fair value of the associated securities and derivative instruments.

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

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

Return on average common shareholders equity Annualized net income less preferred stock dividends, including preferred stock discount accretion and redemptions, divided by average common shareholders equity.

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

Securitization The process of legally transforming financial assets into securities.

Servicing rights An intangible asset or liability created by an obligation to service assets for others. Typical servicing rights include the right to receive a fee for collecting and forwarding payments on loans and related taxes and insurance premiums held in escrow.

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

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

Tier 1 common capital Tier 1 risk-based capital, less preferred equity, less trust preferred capital securities, and less noncontrolling interests.

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

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

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

Total equity Total shareholders equity plus noncontrolling interests.

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

Total risk-based capital Tier 1 risk-based capital plus qualifying subordinated debt and trust preferred securities, other noncontrolling interest not qualified as Tier 1, eligible gains on available for sale equity securities and the allowance for loan and lease losses, subject to certain limitations.

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

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

Troubled debt restructuring (TDR) A loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

Value-at-risk (VaR) A statistically-based measure of risk that describes the amount of potential loss which may be incurred due to severe and adverse market movements. The measure is of the maximum loss which should not be exceeded on 95 out of 100 days for a 95% VaR.

Watchlist A list of criticized loans, credit exposure or other assets compiled for internal monitoring purposes. We define criticized exposure for this purpose as exposure with an internal risk rating of other assets especially mentioned, substandard, doubtful or loss.

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

Cautionary Statement Regarding Forward-Looking Information

We make statements in this Report, and we may from time to time make other statements, regarding our outlook for earnings, revenues, expenses, capital levels and ratios, liquidity levels, asset levels, asset quality, financial position and other matters regarding or affecting PNC and its future business and operations that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as believe, plan, expect, anticipate, see, look, intend, outlook, p forecast, estimate, goal, will, should and other similar words and expressions. Forward-looking statements are subject to numerous assumpti risks and uncertainties, which change over time.

Forward-looking statements speak only as of the date made. We do not assume any duty and do not undertake to update forward-looking statements. Actual results or future events could differ, possibly materially, from those anticipated in forward-looking statements, as well as from historical performance.

Our forward-looking statements are subject to the following principal risks and uncertainties.

- Our businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:
  - Changes in interest rates and valuations in debt, equity and other financial markets.
  - Disruptions in the liquidity and other functioning of U.S. and global financial markets.
  - The impact on financial markets and the economy of the downgrade by Standard & Poor s of U.S. Treasury obligations and other U.S. government-backed debt, as well as issues surrounding the level of U.S. and European government debt and concerns regarding the creditworthiness of certain sovereign governments, supranationals and financial institutions in Europe.
  - Actions by Federal Reserve, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.
  - Changes in customers , suppliers and other counterparties performance and creditworthiness.
  - Slowing or failure of the current moderate economic recovery.
  - Continued effects of aftermath of recessionary conditions and uneven spread of positive impacts of recovery on the economy and our counterparties, including adverse impacts on levels of unemployment, loan utilization rates, delinquencies, defaults and counterparty ability to meet credit and other obligations.
  - Changes in customer preferences and behavior, whether due to changing business and economic conditions, legislative and regulatory initiatives, or other factors.
- Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than we are currently expecting. These statements are based on our current view that the moderate economic expansion will persist in 2012 and interest rates will remain very low.
- Legal and regulatory developments could have an impact on our ability to operate our businesses, financial condition, results of operations, competitive position, reputation, or pursuit of attractive acquisition opportunities. Reputational impacts could affect matters such as business generation and retention, liquidity, funding, and ability to attract and retain management. These developments could include:
  - Changes resulting from legislative and regulatory reforms, including major reform of the regulatory oversight structure of the financial services industry and changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other industry aspects, and changes in accounting policies and principles. We will be impacted by extensive reforms provided for in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-

Frank Act) and otherwise growing out of the recent financial crisis, the precise nature, extent and timing of which, and their impact on us, remains uncertain.

Changes to regulations governing bank capital and liquidity standards, including due to the Dodd-Frank Act and to Basel III initiatives.

Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. In addition to matters relating to PNC s business and activities, such matters may include proceedings, claims, investigations, or inquiries relating to pre-acquisition business and activities of acquired companies, such as National City. These matters may result in monetary judgments or settlements or other remedies, including fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to PNC.

Results of the regulatory examination and supervision process, including our failure to satisfy requirements of agreements with governmental agencies.

Impact on business and operating results of any costs associated with obtaining rights in intellectual property claimed by others and of adequacy of our intellectual property protection in general.

Business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through effective use of third-party insurance, derivatives, and capital management techniques, and to meet evolving regulatory capital standards. In particular, our results currently depend on our ability to manage elevated levels of impaired assets.

Business and operating results also include impacts relating to our equity interest in BlackRock, Inc. and rely to a significant extent on information provided to us by BlackRock. Risks and uncertainties that could affect BlackRock are discussed in more detail by BlackRock in its SEC filings.

Our acquisition of RBC Bank (USA) presents us with risks and uncertainties related to the integration of the acquired businesses into PNC, including:

Anticipated benefits of the transaction, including cost savings and strategic gains, may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events.

Our ability to achieve anticipated results from this transaction is dependent also on the extent of credit losses in the acquired loan portfolios and the extent of deposit attrition, in part related to the state of
economic and financial markets. Also, litigation and regulatory and other governmental investigations that may be filed or commenced, relating to pre-acquisition business and activities of RBC Bank (USA), could impact the timing or realization of anticipated benefits to PNC.

Integration of RBC Bank (USA) s business and operations into PNC may take longer than anticipated or be substantially more costly than anticipated or have unanticipated adverse results relating to RBC Bank (USA) s or PNC s existing businesses. PNC s ability to integrate RBC Bank (USA) successfully may be adversely affected by the fact that this transaction results in PNC entering several geographic markets where PNC did not previously have any meaningful retail presence.

In addition to the RBC Bank (USA) transaction, we grow our business in part by acquiring from time to time other financial services companies, financial services assets and related deposits and other liabilities. These other acquisitions often present risks and uncertainties analogous to those presented by the RBC Bank (USA) transaction. Acquisition risks include those presented by the nature of the business acquired as well as risks and uncertainties related to the acquisition transactions themselves, regulatory issues, and the integration of the acquired businesses into PNC after closing.

Competition can have an impact on customer acquisition, growth and retention and on credit spreads and product pricing, which can affect market share, deposits and revenues. Industry restructuring in the current environment could also impact our business and financial performance through changes in counterparty creditworthiness and performance and in the competitive and regulatory landscape. Our ability to anticipate and respond to technological changes can also impact our ability to respond to customer needs and meet competitive demands.

Business and operating results can also be affected by widespread disasters, dislocations, terrorist activities or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically.

We provide greater detail regarding some of these factors in our 2011 Form 10-K and elsewhere in this Report, including in the Risk Factors and Risk Management sections and the Legal Proceedings and Commitments and Guarantees Notes of the Notes to Consolidated Financial Statements in those reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except per share data	**Three months ended March 31**	
Unaudited	**2012**	2011
Interest Income		
Loans	**$ 1,951**	$ 1,884
Investment securities	**526**	578
Other	**120**	121
Total interest income	**2,597**	2,583
Interest Expense		
Deposits	**103**	182
Borrowed funds	**203**	225
Total interest expense	**306**	407
Net interest income	**2,291**	2,176
Noninterest Income		
Asset management	**284**	263
Consumer services	**264**	311
Corporate services	**232**	217
Residential mortgage	**230**	195
Service charges on deposits	**127**	123
Net gains on sales of securities	**57**	37
Other-than-temporary impairments	**(16)**	(30)
Less: Noncredit portion of other-than-temporary impairments (a)	**22**	4
Net other-than-temporary impairments	**(38)**	(34)
Other	**285**	343
Total noninterest income	**1,441**	1,455
Total revenue	**3,732**	3,631
Provision For Credit Losses	**185**	421
Noninterest Expense		
Personnel	**1,111**	989
Occupancy	**190**	193
Equipment	**175**	167
Marketing	**68**	40
Other	**911**	681
Total noninterest expense	**2,455**	2,070
Income before income taxes and noncontrolling interests	**1,092**	1,140
Income taxes	**281**	308
Net income	**811**	832
Less: Net income (loss) attributable to noncontrolling interests	**6**	(5)
Preferred stock dividends and discount accretion	**39**	4
Net income attributable to common shareholders	**$ 766**	$ 833
Earnings Per Common Share		
Basic	**$ 1.45**	$ 1.59
Diluted	**1.44**	1.57
Average Common Shares Outstanding		
Basic	**526**	524
Diluted	**529**	526

(a) Included in accumulated other comprehensive income (loss).

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions	**Three months ended March 31**	
Unaudited	**2012**	2011
Net income	**$ 811**	$ 832
Other comprehensive income, before tax and net of reclassifications into Net income:		
Net unrealized gains on OTTI debt securities	**406**	231
Net unrealized gains on non-OTTI securities	**238**	28
Net unrealized losses on cash flow hedge derivatives	**(90)**	(108)
Pension, other postretirement and postemployment benefit plan adjustments	**48**	16
Other	**12**	33
Other comprehensive income, before tax and net of reclassifications into Net income	**614**	200
Income tax expense related to items of other comprehensive income	**(228)**	(78)
Other comprehensive income, after tax and net of reclassifications into Net income	**386**	122
Comprehensive income	**1,197**	954
Less: Comprehensive income (loss) attributable to noncontrolling interests	**6**	(5)
Comprehensive income attributable to PNC	**$ 1,191**	$ 959

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except par value

Unaudited	**March 31 2012**	December 31 2011
Assets		
Cash and due from banks (includes $7 and $7 for VIEs) (a)	**$ 4,162**	$ 4,105
Federal funds sold and resale agreements (includes $688 and $732 measured at fair value) (b)	**1,371**	2,205
Trading securities	**2,639**	2,513
Interest-earning deposits with banks (includes $8 and $325 for VIEs) (a)	**2,084**	1,169
Loans held for sale (includes $2,227 and $2,365 measured at fair value) (b)	**2,456**	2,936
Investment securities (includes $109 and $109 for VIEs) (a)	**64,554**	60,634
Loans (includes $7,032 and $6,096 for VIEs)		
(includes $273 and $227 measured at fair value) (a) (b)	**176,214**	159,014
Allowance for loan and lease losses (includes $(73) and $(91) for VIEs) (a)	**(4,196)**	(4,347)
Net loans	**172,018**	154,667
Goodwill	**9,169**	8,285
Other intangible assets	**2,019**	1,859
Equity investments (includes $1,741 and $1,643 for VIEs) (a)	**10,352**	10,134
Other (includes $1,231 and $1,205 for VIEs) (includes $241 and $210 measured at fair value) (a) (b)	**25,059**	22,698
Total assets	**$ 295,883**	$ 271,205
Liabilities		
Deposits		
Noninterest-bearing	**$ 62,463**	$ 59,048
Interest-bearing	**143,664**	128,918
Total deposits	**206,127**	187,966
Borrowed funds		
Federal funds purchased and repurchase agreements	**4,832**	2,984
Federal Home Loan Bank borrowings	**8,957**	6,967
Bank notes and senior debt	**12,065**	11,793
Subordinated debt	**8,221**	8,321
Other (includes $5,546 and $4,777 for VIEs) (a)	**8,464**	6,639
Total borrowed funds	**42,539**	36,704
Allowance for unfunded loan commitments and letters of credit	**243**	240
Accrued expenses (includes $173 and $155 for VIEs) (a)	**3,607**	4,175
Other (includes $807 and $734 for VIEs) (a)	**5,131**	4,874
Total liabilities	**257,647**	233,959
Equity		
Preferred stock (c)		
Common stock ($5 par value, authorized 800 shares, issued 537 shares)	**2,685**	2,683
Capital surplus preferred stock	**1,638**	1,637
Capital surplus common stock and other	**12,074**	12,072
Retained earnings	**18,834**	18,253
Accumulated other comprehensive income (loss)	**281**	(105)
Common stock held in treasury at cost: 9 and 10 shares	**(467)**	(487)
Total shareholders equity	**35,045**	34,053
Noncontrolling interests	**3,191**	3,193
Total equity	**38,236**	37,246
Total liabilities and equity	**$ 295,883**	$ 271,205

(a) Amounts represent the assets or liabilities of consolidated variable interest entities (VIEs).
(b) Amounts represent items for which the Corporation has elected the fair value option.
(c) Par value less than $.5 million at each date.
See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions	**Three months ended March 31**	
Unaudited	**2012**	2011
Operating Activities		
Net income	**$ 811**	$ 832
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for credit losses	**185**	421
Depreciation and amortization	**269**	279
Deferred income taxes	**181**	46
Net gains on sales of securities	**(57)**	(37)
Net other-than-temporary impairments	**38**	34
Mortgage servicing rights valuation adjustment	**35**	46
Undistributed earnings of BlackRock	**(68)**	(55)
Excess tax benefits from share-based payment arrangements	**(12)**	
Net change in		
Trading securities and other short-term investments	**1,131**	(294)
Loans held for sale	**493**	166
Other assets	**(97)**	(291)
Accrued expenses and other liabilities	**(55)**	(411)
Other	**(90)**	(9)
Net cash provided (used) by operating activities	**2,764**	727
Investing Activities		
Sales		
Securities available for sale	**3,492**	8,018
Loans	**389**	590
Repayments/maturities		
Securities available for sale	**1,994**	1,590
Securities held to maturity	**836**	506
Purchases		
Securities available for sale	**(6,948)**	(7,237)
Securities held to maturity		(22)
Loans	**(388)**	(417)
Net change in		
Federal funds sold and resale agreements	**830**	1,456
Interest-earning deposits with banks	**(626)**	251
Loans	**(3,346)**	458
Net cash paid for acquisition activity	**(3,329)**	
Other	**(12)**	(80)
Net cash provided (used) by investing activities	**(7,108)**	5,113

(continued on following page)

CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

(continued from previous page)

In millions	**Three months ended March 31**	
Unaudited	**2012**	2011
Financing Activities		
Net change in		
Noninterest-bearing deposits	**$ (757)**	$ (1,266)
Interest-bearing deposits	**867**	(88)
Federal funds purchased and repurchase agreements	**1,500**	(63)
Other borrowed funds	**1,095**	(1,361)
Sales/issuances		
Federal Home Loan Bank borrowings	**5,000**	
Bank notes and senior debt	**1,090**	
Other borrowed funds	**4,336**	2,201
Common and treasury stock	**70**	14
Repayments/maturities		
Federal Home Loan Bank borrowings	**(3,980)**	(1,023)
Bank notes and senior debt	**(770)**	(1,525)
Subordinated debt	**(22)**	(480)
Other borrowed funds	**(3,792)**	(2,068)
Excess tax benefits from share-based payment arrangements	**12**	
Acquisition of treasury stock	**(25)**	(33)
Preferred stock cash dividends paid	**(38)**	(4)
Common stock cash dividends paid	**(185)**	(52)
Net cash provided (used) by financing activities	**4,401**	(5,748)
Net Increase (Decrease) In Cash And Due From Banks	**57**	92
Cash and due from banks at beginning of period	**4,105**	3,297
Cash and due from banks at end of period	**$ 4,162**	$ 3,389
Supplemental Disclosures		
Interest paid	**$ 338**	$ 445
Income taxes paid	**7**	265
Income taxes refunded	**4**	26
Non-cash Investing and Financing Items		
Transfer from loans to loans held for sale, net	**199**	100
Transfer from loans to foreclosed assets	**236**	161

See accompanying Notes To Consolidated Financial Statements.

Notes To Consolidated Financial Statements (Unaudited)

The PNC Financial Services Group, Inc.

Business

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.

Note 1 Accounting Policies

Basis Of Financial Statement Presentation

Our consolidated financial statements include the accounts of the parent company and its subsidiaries, most of which are wholly owned, and certain partnership interests and variable interest entities.

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform to the 2012 presentation. These reclassifications did not have a material impact on our consolidated financial condition or results of operations.

As described in Note 2 Acquisition and Divestiture Activity, on March 2, 2012, PNC 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. The transaction added approximately $18.1 billion of deposits and $14.5 billion of loans to PNC s Consolidated Balance Sheet.

In our opinion, the unaudited interim consolidated financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2011 Annual Report on Form 10-K as amended by Amendment

No. 1 on Form 10-K/A (2011 Form 10-K). Reference is made to Note 1 Accounting Policies in the 2011 Form 10-K for a detailed description of significant accounting policies. There have been no significant changes to these policies in the first three months of 2012 other than as disclosed herein. These interim consolidated financial statements serve to update the 2011 Form 10-K and may not include all information and notes necessary to constitute a complete set of financial statements.

We have considered the impact on these consolidated financial statements of subsequent events.

Use Of Estimates

We prepared these consolidated financial statements using financial information available at the time, which requires us to make estimates and assumptions that affect the amounts reported. Our most significant estimates pertain to our fair value measurements, allowances for loan and lease losses and unfunded loan commitments and letters of credit, and accretion on purchased impaired loans. Actual results may differ from the estimates and the differences may be material to the consolidated financial statements.

Investment In BlackRock, Inc.

We account for our investment in the common stock and Series B Preferred Stock of BlackRock (deemed to be in-substance common stock) under the equity method of accounting. The investment in BlackRock is reflected on our Consolidated Balance Sheet in Equity investments, while our equity in earnings of BlackRock is reported on our Consolidated Income Statement in Asset management revenue.

We also own approximately 1.5 million shares of Series C Preferred Stock of BlackRock after delivery of approximately 1.3 million shares in September 2011 pursuant to our obligation to partially fund a portion of certain BlackRock LTIP programs. Since these preferred shares are not deemed to be in-substance common stock, we have elected to account for these preferred shares at fair value and the changes in fair value will offset the impact of marking-to-market the obligation to deliver these shares to BlackRock. Our investment in the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in Other assets.

As noted above, we mark-to-market our obligation to transfer BlackRock shares related to certain BlackRock long-term incentive plan (LTIP) programs. This obligation is classified as a derivative not designated as a hedging instrument under GAAP as disclosed in Note 12 Financial Derivatives.

NONPERFORMING ASSETS

Nonperforming assets include:

- Nonaccrual loans and leases,
- Troubled debt restructurings, and
- Other real estate owned and foreclosed assets.

Nonperforming loans are those loans that have deteriorated in credit quality to the extent that full collection of contractual principal and interest is not probable. When a loan is determined to be nonperforming (and as a result is impaired), the accrual of interest is ceased and the loan is classified as nonaccrual. The current year accrued and uncollected interest is reversed out of net interest income.

A loan acquired and accounted for under ASC 310-30   Loans and Debt Securities Acquired with Deteriorated Credit Quality is reported as an accruing loan and a performing asset due to the accretion of interest income.

We generally classify Commercial Lending (Commercial, Commercial Real Estate, and Equipment Lease Financing) loans as nonaccrual (and therefore nonperforming) when we determine that the collection of interest or principal is not probable or when delinquency of interest or principal payments has existed for 90 days or more and the loans are not well-secured and in the process of collection. A loan is considered well-secured when the collateral in the form of liens on (or pledges of) real or personal property, including marketable securities, has a realizable value sufficient to discharge the debt in full, including accrued interest. Such factors that would lead to nonperforming status and subject the loan to an impairment test would include, but are not limited to, the following:

- Deterioration in the financial position of the borrower resulting in the loan moving from accrual to cash basis,
- The collection of principal or interest is 90 days or more past due unless the asset is both well-secured and in the process of collection,
- Reasonable doubt exists as to the certainty of the borrower s future debt service ability, whether 90 days have passed or not,
- Borrower has filed or will likely file for bankruptcy,
- The bank advances additional funds to cover principal or interest,
- We are in the process of liquidation of a commercial borrower, or
- We are pursuing remedies under a guaranty.

We charge off commercial nonaccrual loans when we determine that a specific loan, or portion thereof, is uncollectible. This determination is based on the specific facts and circumstances of the individual loans. In making this determination, we consider the viability of the business or project as a going concern, the past due status when the asset is not well-secured, the expected cash flows to repay the loan, the value of the collateral, and the ability and willingness of any guarantors to perform.

Additionally, in general, for smaller dollar commercial loans of $1 million or less, a partial or full charge-off will occur at 120 days past due for term loans and 180 days past due for revolvers.

A consumer loan is considered well-secured when the collateral in the form of liens on (or pledges of) real or personal property, including marketable securities, has a realizable value sufficient to discharge the debt in full, including accrued interest. Starting in the first quarter of 2012, home equity installment loans and lines of credit, whether well-secured or not, are classified as nonaccrual at 90 days past due instead of the prior policy of nonaccrual classification at 180 days past due. Well-secured residential real estate loans are classified as nonaccrual at 180 days past due.

Home equity installment loans, lines of credit, and residential real estate loans that are not well-secured and/or are not in the process of collection are charged-off at 180 days past due to the estimated fair value of the collateral less costs to sell.

Most consumer loans and lines of credit, not secured by residential real estate, are charged off after 120 to 180 days past due. Generally, they are not placed on nonaccrual status as permitted by regulatory guidance.

If payment is received on a nonperforming loan, the payment is first applied to the past due principal; once this principal obligation has been fulfilled, payments are applied to recover any partial charge-off related to the impaired loan that might exist. Finally, if both past due principal and any partial charge-off have been recovered, then the payment will be recorded as interest income. For TDRs, payments are applied based upon their contractual terms.

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs may include restructuring certain terms of loans, receipts of assets from debtors in partial satisfaction of loans, or a combination thereof. TDRs are included in nonperforming loans until returned to performing status through the fulfilling of restructured terms for a reasonable period of time (generally 6 months).

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional TDR information.

Nonperforming loans are generally not returned to performing status until the obligation is brought current and the borrower has performed in accordance with the contractual terms for a reasonable period of time and collection of the contractual principal and interest is no longer in doubt.

Foreclosed assets are comprised of any asset seized or property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Other real estate owned is comprised principally of commercial real estate and

residential real estate properties obtained in partial or total satisfaction of loan obligations. Following the obtaining of a foreclosure judgment, or in some jurisdictions the initiation of proceedings under a power of sale in the loan instruments, the property will be sold. When we acquire the deed, we transfer the loan to other real estate owned included in Other assets on our Consolidated Balance Sheet. Property obtained in satisfaction of a loan is recorded at estimated fair value less cost to sell. Based upon the estimated fair value less cost to sell, the recorded investment of the loan is adjusted and, typically, a charge-off/recovery is recognized to the Allowance for Loan and Lease Losses (ALLL). We estimate fair values primarily based on appraisals, or sales agreements with third parties. Anticipated recoveries and government guarantees are also considered in evaluating the potential impairment of loans at the date of transfer.

Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or estimated fair value less cost to sell. Valuation adjustments on these assets and gains or losses realized from disposition of such property are reflected in Other noninterest expense.

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

Allowance For Loan And Lease Losses

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. Our determination of the allowance is based on periodic evaluations of the loan and lease portfolios and other relevant factors. This evaluation is inherently subjective as it requires material estimates, all of which may be susceptible to significant change, including, among others:

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

While our reserve methodologies strive to reflect all relevant risk factors, there continues to be uncertainty associated with, but not limited to, potential imprecision in the estimation process due to the inherent time lag of obtaining information and normal variations between estimates and actual outcomes. We provide additional reserves that are designed to provide coverage for losses attributable to such risks. The ALLL also includes factors which may not be directly measured in the determination of specific or pooled reserves. Such qualitative factors may include:

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

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans. While allocations are made to specific loans and pools of loans, the total reserve is available for all credit losses.

Nonperforming loans are considered impaired under ASC 310-Receivables and are allocated a specific reserve. Specific reserve allocations are determined as follows:

- For commercial nonperforming loans and TDRs greater than or equal to a defined dollar threshold, specific reserves are based on an analysis of the present value of the loan s expected future cash flows, the loan s observable market price or the fair value of the collateral.
- For commercial nonperforming loans and TDRs below the defined dollar threshold, the loans are aggregated for purposes of measuring specific reserve impairment using the applicable loan s LGD percentage multiplied by the balance of the loan.
- Consumer nonperforming loans are collectively reserved for unless classified as TDRs, for which specific reserves are based on an analysis of the present value of the loan s expected future cash flows.
- For purchased impaired loans, subsequent decreases to the net present value of expected cash flows will generally result in an impairment charge to the provision for credit losses, resulting in an increase to the ALLL.

When applicable, this process is applied across all the loan classes in a similar manner. However, as previously discussed, certain consumer loans and lines of credit, not secured by residential real estate, are charged off instead of being classified as nonperforming.

Our credit risk management policies, procedures and practices are designed to promote sound lending standards and prudent credit risk management. We have policies, procedures and practices that address financial statement requirements, collateral review and appraisal

requirements, advance rates based upon collateral types, appropriate levels of exposure, cross-border risk, lending to specialized industries or borrower type, guarantor requirements, and regulatory compliance.

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

Allowance For Unfunded Loan Commitments And Letters Of Credit

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is appropriate to absorb estimated probable credit losses on these unfunded credit facilities as of the balance sheet date. We determine the allowance based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors, and, solely for commercial lending, the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded loan commitments and letters of credit is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the allowance for unfunded loan commitments and letters of credit are included in the provision for credit losses.

The reserve for unfunded loan commitments is estimated in a manner similar to the methodology used for determining reserves for similar funded exposures. However, there is one important distinction. This distinction lies in the estimation of the amount of these unfunded commitments that will become funded. This is determined using a loan equivalency factor, which is a statistical estimate of the amount of an unfunded commitment that will fund over a given period of time. Once the future funded amount is estimated, the calculation of the allowance follows similar methodologies to those employed for balance sheet exposure.

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

Earnings Per Common Share

Basic earnings per common share is calculated using the two-class method to determine income attributable to common shareholders. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities under the two-class method. Income attributable to common shareholders is then divided by the weighted-average common shares outstanding for the period.

Diluted earnings per common share is calculated under the more dilutive of either the treasury method or the two-class method. For the diluted calculation, we increase the weighted-average number of shares of common stock outstanding by the assumed conversion of outstanding convertible preferred stock and debentures from the beginning of the year or date of issuance, if later, and the number of shares of common stock that would be issued assuming the exercise of stock options and warrants and the issuance of incentive shares using the treasury stock method. These adjustments to the weighted-average number of shares of common stock outstanding are made only when such adjustments will dilute earnings per common share. See Note 13 Earnings Per Share for additional information.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-11 Balance Sheet (Topic 210) Disclosures about Offsetting Assets and Liabilities. This ASU applies to all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either ASC 210-20-45 or ASC 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. Under this ASU, an entity is required to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This ASU is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The disclosures required by the ASU are to be applied retrospectively for all comparative periods presented. We will adopt the new disclosure requirements on January 1, 2013. These disclosures should not affect our results of operations or financial position.

In December 2011, the FASB also finalized ASU 2011-10 Property, Plant, and Equipment (Topic 360) Derecognition of in Substance Real Estate a Scope Clarification (a consensus of the FASB Emerging Issues Task Force). This ASU clarified that the guidance in ASC 360-20 applies to a parent that ceases to have a controlling financial interest (as described in ASC 810-10) in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt. The amendments within this update should be applied on a prospective basis and are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. The adoption of this new guidance is not expected to have a material effect on our results of operations or financial position.

In September 2011, the FASB issued ASU 2011-08 Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment. The ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity qualitatively determines the fair value of a reporting unit is greater than its carrying amount, it is not required to perform the step 1 quantitative goodwill impairment test for the reporting unit. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this new guidance is not expected to have a material effect on our results of operations or financial position.

In June 2011, the FASB issued ASU 2011-05 Comprehensive Income (Topic 220), Presentation of Comprehensive Income. This ASU will require an entity to present each component of net income along with total net income, each component of other comprehensive income along with total other comprehensive income, and a total amount for comprehensive income either in a single

continuous statement of comprehensive income or in two separate but consecutive statements. In both presentation options, the tax effect for each component must be presented in the statement in which other comprehensive income is presented or disclosed in the notes to the financial statements. This ASU does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued ASU 2011-12 Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05. This ASU defers those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments as the Board redeliberates this item. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. We adopted ASU 2011-05 and ASU 2011-12 on January 1, 2012. See the Consolidated Statement of Comprehensive Income and Note 14, Total Equity and Other Comprehensive Income for additional information.

In May 2011, the FASB issued ASU 2011-04 Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU provides guidance to clarify the concept of highest and best use valuation premise, how a principal market is determined, and the application of the fair value measurement for instruments with offsetting market or counterparty credit risks. It also extends the prohibition on blockage factors to all fair value hierarchy levels. This ASU will require additional disclosures for the following: (1) quantitative information about the significant unobservable inputs used in all Level 3 financial instruments, (2) the valuation processes used by the reporting entity as well as a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs, (3) a reporting entity s use of a nonfinancial asset in a way that differs from the asset s highest and best use if the fair value of the asset is reported, (4) the categorization by level of the fair value hierarchy for items that are not measured at fair value in financial statements and (5) any transfers between Level 1 and 2 and the reason for those transfers. ASU 2011-04 is effective for the first interim or annual period beginning after December 15, 2011, and should be applied prospectively. The adoption of this new guidance is not expected to have a

material effect on our results of operations or financial position. We adopted ASU 2011-04 on January 1, 2012. See Note 8 Fair Value for additional information.

In April 2011, the FASB issued ASU 2011-03 Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements. This ASU removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control have not been changed by this ASU. The adoption of ASU 2011-03 on January 1, 2012 did not have a material effect on our results of operations or financial position.

NOTE 2 ACQUISITION AND DIVESTITURE ACTIVITY

RBC BANK (USA) ACQUISITION

On March 2, 2012, PNC 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 consideration for the acquisition of both RBC Bank (USA) and the credit card portfolio, subject to certain post-closing adjustments that are considered normal course of business. The transactions added approximately $18.1 billion of deposits and $14.5 billion of loans to PNC s Consolidated Balance Sheet.

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 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.

The RBC transactions noted above were accounted for using the acquisition method of accounting and, as such, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair value on the acquisition date. All acquired loans were also recorded at fair value. No allowance for loan losses was carried over and no allowance was created at acquisition. In connection with the acquisition,

the assets acquired and the liabilities assumed were recorded at fair value on the date of acquisition, as summarized in the following table:

RBC PURCHASE ACCOUNTING

In millions	
Purchase price as of March 2, 2012, subject to certain post-closing adjustments	$ 3,602
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value (a)	
Cash due from banks	305
Trading assets, interest-earning deposits with banks, and other short-term investments	1,493
Loans held for sale	97
Investment securities	2,349
Net loans	14,504
Other intangible assets	180
Equity investments	33
Other assets	3,392
Deposits	(18,094)
Other borrowed funds	(1,321)
Other liabilities	(290)
Total fair value of identifiable net assets	2,648
Goodwill	**$ 954**

(a) These items are considered as non-cash activity for the Consolidated Statement of Cash Flows.

In many cases the determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature. The most significant of these determinations related to the fair valuation of acquired loans. See Note 6, Purchased Loans, for further discussion of the accounting for purchased impaired and purchased non-impaired loans, including the determination of fair value for acquired loans.

The amount of goodwill recorded reflects the increased market share and related synergies that are expected to result from the acquisition, and represents the excess purchase price over the estimated fair value of the net assets acquired by PNC. The goodwill was assigned primarily to PNC s Retail Banking and Corporate & Institutional Banking segments, and is not deductible for income tax purposes. Other intangible assets acquired, as of March 2, 2012 consisted of the following:

Intangible Assets (in millions)	Fair Value	Weighted Life	Amortization Method
Residential mortgage servicing rights	$ 16	68 months	(a)
Core deposits	164	144 months	Accelerated
Total	$ 180		

(a) Intangible asset accounted for at fair value

See Note 9, Goodwill and Other Intangible Assets, for further discussion of the accounting for goodwill and other intangible assets.

The amount of RBC s revenue and net income (excluding integration costs) included in PNC s consolidated income statement for the three-months ended March 31, 2012 was $98 million and $43 million, respectively.

The following table presents certain unaudited pro forma information for illustrative purposes only, for the three months ended March 31, 2012 and 2011 as if RBC had been acquired on January 1, 2011. The unaudited estimated pro forma information combines the historical results of RBC with the Company s consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition taken place on January 1, 2011. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investment securities been recorded at fair value as of January 1, 2011. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, the pro forma financial information does not include the impact of possible business model changes and does not reflect pro forma adjustments to conform accounting policies between RBC Bank (USA) and PNC. Additionally, PNC expects to achieve further

operating cost savings and other business synergies, including revenue growth, as a result of the acquisition which are not reflected in the pro forma amounts that follow. As a result, actual results will differ from the unaudited pro forma information presented.

	Unaudited Pro Forma (RBC & PNC) For the Three Months Ended March 31	
In millions	2012	2011
Total revenues	$ 3,941	$ 4,006
Net income	798	862

In connection with the RBC acquisition and other prior acquisitions, PNC recognized $145 million of integration charges. The integration charges are included in the table above.

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 March 31, 2012. The transaction is expected to close in the fourth quarter of 2012 and is subject to certain closing conditions, including regulatory approval. Financial terms of the transaction have not been disclosed.

Flagstar Branch Acquisition

Effective December 9, 2011, PNC acquired 27 branches in the northern metropolitan Atlanta, Georgia area from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc. The fair value of the assets acquired totaled approximately $211.8 million, including $169.3 million in cash, $24.3 million in fixed assets and $18.2 million of goodwill and intangible assets. We also assumed approximately $210.5 million of deposits associated with these branches. No deposit premium was paid and no loans were acquired in the transaction. Our Consolidated Income Statement includes the impact of the branch activity subsequent to our December 9, 2011 acquisition.

BankAtlantic Branch Acquisition

Effective June 6, 2011, we acquired 19 branches from BankAtlantic in the greater Tampa, Florida area from BankAtlantic, a subsidiary of BankAtlantic Bancorp, Inc. The fair value of the assets acquired totaled $324.9 million, including $256.9 million in cash, $26.0 million in fixed assets and $42.0 million of goodwill and intangible assets. We also assumed approximately $324.5 million of deposits associated with these branches. A $39.0 million deposit premium was paid and no loans were acquired in the transaction. Our Consolidated Income Statement includes the impact of the branch activity subsequent to our June 6, 2011 acquisition.

Note 3 Loan Sale and Servicing Activities and Variable Interest Entities

Loan Sale and Servicing Activities

We have transferred residential and commercial mortgage loans in securitization or sales transactions in which we have continuing involvement. These transfers have occurred through Agency securitization, Non-Agency securitization, and whole-loan sale transactions. Agency securitizations consist of securitization transactions with Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Government National Mortgage Association (GNMA) (collectively the Agencies). FNMA and FHLMC generally securitize our transferred loans into mortgage-backed securities for sale into the secondary market through special purpose entities (SPEs) that they sponsor. We, as an authorized GNMA issuer/servicer, pool Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) insured loans into mortgage-backed securities for sale into the secondary market. In Non-Agency securitizations, we have transferred loans into securitization SPEs. Third-party investors have also purchased our loans in whole-loan sale transactions and in certain instances have

subsequently sold these loans into securitization SPEs. Securitization SPEs utilized in the Agency and Non-Agency securitization transactions are VIEs.

Our continuing involvement in the Agency securitizations, Non-Agency securitizations, and whole-loan sale transactions generally consists of servicing, repurchases of previously transferred loans under certain conditions and loss share arrangements, and, in limited circumstances, holding of mortgage-backed securities issued by the securitization SPEs.

Depending on the transaction, we may act as the master, primary, and/or special servicer to the securitization SPEs or third-party investors. Servicing responsibilities typically consist of collecting and remitting monthly borrower principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and, in certain instances, funding of servicing advances. Servicing advances, which are reimbursable, are recognized in Other assets at cost and are made for principal and interest and collateral protection.

We earn servicing and other ancillary fees for our role as servicer and, depending on the contractual terms of the servicing arrangement, we can be terminated as servicer with or without cause. At the consummation date of each type of loan transfer, we recognize a servicing asset at fair value. Servicing assets are recognized in Other intangible assets on our Consolidated Balance Sheet and almost all when subsequently accounted for at fair value are classified within Level 3 of the fair value hierarchy. See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further discussion of our residential and commercial servicing assets.

Certain loans transferred to the Agencies contain removal of account provisions (ROAPs). Under these ROAPs, we hold an option to repurchase at par individual delinquent loans that meet certain criteria. When we have the unilateral ability to repurchase a delinquent loan, effective control over the loan has been regained and we recognize an asset (in either Loans or Loans held for sale) and a corresponding liability (in Other borrowed funds) on the balance sheet regardless of our intent to repurchase the loan. At March 31, 2012 and December 31, 2011, the balance of our ROAP asset and liability totaled $202 million and $265 million, respectively.

The Agency and Non-Agency mortgage-backed securities issued by the securitization SPEs that are purchased and held on our balance sheet are typically purchased in the secondary market. PNC does not retain any credit risk on its Agency mortgage-backed security positions as FNMA, FHLMC, and the US Government (for GNMA) guarantee losses of principal and interest. Substantially all of the non-agency mortgage-backed securities acquired and held on our balance sheet are senior tranches in the securitization structure.

We also have involvement with certain Agency and Non-Agency commercial securitization SPEs where we have

not transferred commercial mortgage loans. These SPEs were sponsored by independent third-parties and the loans held by these entities were purchased exclusively from other third-parties. Generally, our involvement with these SPEs is as servicer with servicing activities consistent with those described above. In certain instances, we can be terminated as servicer in these commercial securitization structures without cause by the controlling class of mortgage-backed security holders of the SPE.

We recognize a liability for our loss exposure associated with contractual obligations to repurchase previously transferred

loans due to breaches of representations and warranties and also for loss sharing arrangements (recourse obligations) with the Agencies. Other than providing temporary liquidity under servicing advances and our loss exposure associated with our repurchase and recourse obligations, we have not provided nor are we required to provide any type of credit support, guarantees, or commitments to the securitization SPEs or third-party investors in these transactions. See Note 17 Commitments and Guarantees for further discussion of our repurchase and recourse obligations.

The following table provides information related to certain financial information associated with PNC s loan sale and servicing activities:

Certain Financial Information and Cash Flows Associated with Loan Sale and Servicing Activities

In millions	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/ Lines (b)
FINANCIAL INFORMATION March 31, 2012			
Servicing portfolio (c)	**$ 121,129**	**$ 152,320**	**$ 5,584**
Carrying value of servicing assets (d)	**724**	**428**	**1**
Servicing advances (e)	**585**	**503**	**9**
Servicing deposits (f)	**2,466**	**3,522**	**40**
Repurchase and recourse obligations (g)	**101**	**50**	**51**
Carrying value of mortgage-backed securities held (h)	**5,124**	**1,687**	
FINANCIAL INFORMATION December 31, 2011			
Servicing portfolio (c)	$ 118,058	$ 155,813	$ 5,661
Carrying value of servicing assets (d)	647	468	1
Servicing advances (e)	563	510	8
Servicing deposits (f)	2,264	3,861	38
Repurchase and recourse obligations (g)	83	47	47
Carrying value of mortgage-backed securities held (h)	4,654	1,839	

In millions	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/ Lines (b)
CASH FLOWS Three months ended March 31, 2012			
Sales of loans (i)	**$ 3,509**	**$ 481**	
Repurchases of previously transferred loans (j)	**411**		**$ 10**
Contractual servicing fees received	**84**	**45**	**5**
Servicing advances recovered/(funded), net	**(21)**	**8**	
Cash flows on mortgage-backed securities held (h)	**256**	**129**	
CASH FLOWS Three months ended March 31, 2011			
Sales of loans (i)	$ 3,385	$ 483	
Repurchases of previously transferred loans (j)	444		$ 22
Contractual servicing fees received	90	43	6
Servicing advances recovered/(funded), net	30	(35)	15
Cash flows on mortgage-backed securities held (h)	151	97	

(a) Represents financial and cash flow information associated with both commercial mortgage loan transfer and servicing activities.

(b) These activities were part of an acquired brokered home equity business in which PNC is no longer engaged. See Note 17 Commitments and Guarantees for further information.
(c) For our continuing involvement with residential mortgages and home equity loan/line transfers, amount represents outstanding balance of loans transferred and serviced. For commercial mortgages, amount represents the portion of the overall servicing portfolio in which loans have been transferred by us or third parties to VIEs.
(d) See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further information.
(e) Pursuant to certain contractual servicing agreements, represents outstanding balance of funds advanced (i) to investors for monthly collections of borrower principal and interest, (ii) for borrower draws on unused home equity lines of credit, and (iii) for collateral protection associated with the underlying mortgage collateral.

(f) Represents balances in custodial and escrow demand deposit accounts held at PNC on behalf of investors. Borrower s loan payments including escrows are deposited in these accounts prior to their distribution.
(g) Represents liability for our loss exposure associated with loan repurchases for breaches of representations and warranties for our Residential Mortgage Banking and Non-Strategic Assets Portfolio segments, and our commercial mortgage loss share arrangements for our Corporate & Institutional Banking segment. See Note 17 Commitments and Guarantees for further information.
(h) Represents securities held where PNC transferred to and/or services loans for a securitization SPE and we hold securities issued by that SPE.
(i) There were no gains or losses recognized on the transaction date for sales of residential mortgage and certain commercial mortgage loans as these loans are recognized on the balance sheet at fair value. For transfers of commercial mortgage loans not recognized on the balance sheet at fair value, gains/losses recognized on sales of these loans were insignificant for the periods presented.
(j) Includes repurchases of government insured, and government guaranteed loans, repurchased through the exercise of our ROAP option.

Variable Interest Entities (VIEs)

As discussed in our 2011 Form 10-K, we are involved with various entities in the normal course of business that are deemed to be VIEs. The following provides 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 March 31, 2012 and December 31, 2011.

Consolidated VIEs Carrying Value (a)

March 31, 2012

In millions	Market Street	Credit Card Securitization Trust	Tax Credit Investments	Total
Assets				
Cash and due from banks			**$ 7**	**$ 7**
Interest-earning deposits with banks			**8**	**8**
Investment securities	**$ 109**			**109**
Loans	**5,220**	**$ 1,812**		**7,032**
Allowance for loan and lease losses		**(73)**		**(73)**
Equity investments			**1,741**	**1,741**
Other assets	**424**		**807**	**1,231**
Total assets	**$ 5,753**	**$ 1,739**	**$ 2,563**	**$ 10,055**
Liabilities				
Other borrowed funds	**$ 5,329**		**$ 217**	**$ 5,546**
Accrued expenses		**$ 68**	**105**	**173**
Other liabilities	**420**		**387**	**807**
Total liabilities	**$ 5,749**	**$ 68**	**$ 709**	**$ 6,526**

December 31, 2011

In millions	Market Street	Credit Card Securitization Trust	Tax Credit Investments	Total
Assets				
Cash and due from banks			$ 7	$ 7
Interest-earning deposits with banks		$ 317	8	325
Investment securities	$ 109			109
Loans	4,163	1,933		6,096
Allowance for loan and lease losses		(91)		(91)
Equity investments			1,643	1,643
Other assets	360	7	838	1,205
Total assets	$ 4,632	$ 2,166	$ 2,496	$ 9,294
Liabilities				
Other borrowed funds	$ 4,272	$ 287	$ 218	$ 4,777
Accrued expenses		50	105	155
Other liabilities	355		379	734
Total liabilities	$ 4,627	$ 337	$ 702	$ 5,666

(a) Amounts represent carrying value on PNC s Consolidated Balance Sheet.

Assets and Liabilities of Consolidated VIEs (a)

In millions	Aggregate Assets	Aggregate Liabilities
March 31, 2012		
Market Street	**$ 6,728**	**$ 6,730**
Credit Card Securitization Trust	**1,817**	**68**
Tax Credit Investments	**2,572**	**730**
December 31, 2011		
Market Street	$ 5,490	$ 5,491
Credit Card Securitization Trust	2,175	494
Tax Credit Investments	2,503	723

(a) Amounts in this table differ from total assets and liabilities in the preceding Consolidated VIEs Carrying Value table due to the elimination of intercompany assets and liabilities in the preceding table.

Non-Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss	Carrying Value of Assets	Carrying Value of Liabilities
March 31, 2012					
Tax Credit Investments (a)	**$ 5,965**	**$ 2,225**	**$ 909**	**$ 909 (c)**	**$ 370 (d)**
Commercial Mortgage-Backed Securitizations (b)	**74,280**	**74,280**	**1,927**	**1,927 (e)**	
Residential Mortgage-Backed Securitizations (b)	**46,904**	**46,904**	**5,140**	**5,140 (e)**	**90 (d)**
Collateralized Debt Obligations	**15**		**1**	**1(c)**	
Total	**$ 127,164**	**$ 123,409**	**$ 7,977**	**$ 7,977**	**$ 460**

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss	Carrying Value of Assets	Carrying Value of Liabilities
December 31, 2011					
Tax Credit Investments (a)	$ 5,382	$ 2,384	$ 836	$ 836 (c)	$ 352 (d)
Commercial Mortgage-Backed Securitizations (b)	75,961	75,961	2,079	2,079 (e)	
Residential Mortgage-Backed Securitizations (b)	44,315	44,315	4,667	4,667 (e)	99 (d)
Collateralized Debt Obligations	13		1	1 (c)	
Total	$ 125,671	$ 122,660	$ 7,583	$ 7,583	$ 451

(a) Aggregate assets and aggregate liabilities are based on limited availability of financial information associated with certain acquired partnerships.

(b) Amounts reflect involvement with securitization SPEs where PNC transferred to and/or services loans for a SPE and we hold securities issued by that SPE. Asset amounts equal outstanding liability amounts of the SPEs due to limited availability of SPE financial information. We also invest in other mortgage and asset-backed securities issued by third-party VIEs with which we have no continuing involvement. Further information on these securities is included in Note 7 Investment Securities and values disclosed represent our maximum exposure to loss for those securities holdings.

(c) Included in Equity investments on our Consolidated Balance Sheet.

(d) Included in Other liabilities on our Consolidated Balance Sheet.

(e) Included in Trading securities, Investment securities, Other intangible assets, and Other assets on our Consolidated Balance Sheet.

Market Street

Market Street Funding LLC (Market Street), owned by an independent third-party, is a multi-seller asset-backed commercial paper conduit that primarily purchases assets or makes loans secured by interests in pools of receivables from US corporations. Market Street funds the purchases of assets or loans by issuing commercial paper. Market Street is supported by pool-specific credit enhancements, liquidity facilities, and a program-level credit enhancement. Generally, Market Street mitigates its potential interest rate risk by entering into agreements with its borrowers that reflect interest rates based upon its weighted-average commercial paper cost of funds. During 2011 and the first three months of 2012, Market Street met all of its funding needs through the issuance of commercial paper.

PNC Bank, N.A. provides certain administrative services, the program-level credit enhancement and a liquidity facility to Market Street in exchange for fees negotiated based on market rates. The program-level credit enhancement covers net losses in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities. Coverage is the form of a cash collateral account funded by a loan facility. This facility expires in June 2016. At March 31, 2012, $974 million was outstanding on this facility.

Although the commercial paper obligations at March 31, 2012 and December 31, 2011 were supported by Market Street s assets, PNC Bank, N.A. may be obligated to fund Market Street under the $9.5 billion of liquidity facilities for events such as commercial paper market disruptions, borrower

bankruptcies, collateral deficiencies or covenant violations. Our credit risk under the liquidity facility is secondary to the risk of first loss absorbed by Market Street borrowers through over-collateralization of assets and losses absorbed by deal-specific credit enhancement provided by a third party. The deal-specific credit enhancement is generally structured to cover a multiple of expected losses for the pool of assets and is sized to meet rating agency standards for comparably structured transactions.

Through the credit enhancement and liquid facility arrangements, PNC Bank, N.A. has the power to direct the activities of Market Street that most significantly affect its economic performance and these arrangements expose PNC Bank, N.A. to expected losses or residual returns that are potentially significant to Market Street. Therefore, PNC Bank, N.A. consolidates Market Street. PNC Bank, N.A. is not required to nor have we provided additional financial support to Market Street and Market Street creditors have no direct recourse to PNC Bank, N.A.

Credit Card Securitization Trust

We were the sponsor of several credit card securitizations facilitated through a trust. This bankruptcy-remote SPE or VIE was established to purchase credit card receivables from the sponsor and to issue and sell asset-backed securities created by it to independent third-parties. The SPE was financed primarily through the sale of these asset-backed securities. These transactions were originally structured as a form of liquidity and to afford favorable capital treatment.

Our continuing involvement in these securitization transactions consisted primarily of holding certain retained interests and acting as the primary servicer. For each securitization series that was outstanding, our retained interests held were in the form of a pro-rata undivided interest, or sellers interest, in the transferred receivables, subordinated tranches of asset-backed securities, interest-only strips, discount receivables, and subordinated interests in accrued interest and fees in securitized receivables. We consolidated the SPE as we were deemed the primary beneficiary of the entity based upon our level of continuing involvement. Our role as primary servicer gave us the power to direct the activities of the SPE that most significantly affect its economic performance and our holding of retained interests gave us the obligation to absorb or receive expected losses or residual returns that are significant to the SPE. The underlying assets of the consolidated SPE were restricted only for payment of the beneficial interest issued by the SPE. We were not required to nor did we provide additional financial support to the SPE. Additionally, creditors of the SPE have no direct recourse to PNC.

During the first quarter of 2012, the last series issued by the SPE, Series 2007-1, matured. At March 31, 2012, the SPE remained outstanding and we consolidated the entity as we continued to be the primary beneficiary of the SPE through

our holding of seller s interest and our role as the primary servicer.

Tax Credit Investments

We make certain equity investments in various limited partnerships or limited liability companies (LLCs). The purpose of these investments is to achieve a satisfactory return on capital, and to assist us in achieving goals associated with the Community Reinvestment Act.

Also, we are a national syndicator of affordable housing equity. In these syndication transactions, we create funds in which our subsidiaries are the general partner or managing member and sell limited partnership or non-managing member interests to third parties. In some cases PNC may also purchase a limited partnership or non-managing member interest in the fund and/or provide mezzanine financing to the fund. The purpose of this business is to generate income from the syndication of these funds, generate servicing fees by managing the funds, and earn tax credits to reduce our tax liability. General partner or managing member activities include selecting, evaluating, structuring, negotiating, and closing the fund investments in operating limited partnerships or LLCs, as well as oversight of the ongoing operations of the fund portfolio.

Typically, the general partner or managing member will be the party that has the right to make decisions that will most significantly impact the economic performance of the entity. However, certain partnership or LLC agreements provide the limited partner or non-managing member the ability to remove the general partner or managing member without cause. This results in the limited partner or non-managing member being the party that has the right to make decisions that will most significantly impact the economic performance of the entity. The primary sources of losses and benefits for these investments are the tax credits, tax benefits due to passive losses on the investments, and development and operating cash flows. We have consolidated investments in which we are the general partner or managing member and have a limited partnership interest or non-managing member interest that could potentially absorb losses or receive benefits that are significant. The assets are primarily included in Equity investments and Other assets on our Consolidated Balance Sheet with the liabilities classified in Other borrowed funds, Accrued expenses, and Other liabilities and third party investors interests included in the Equity section as Noncontrolling interests. Neither creditors nor equity investors in these investments have any recourse to our general credit. We have not provided financial or other support to the limited partnership or LLC that we are not contractually obligated to provide. The consolidated aggregate assets and liabilities of these investments are provided in the Consolidated VIEs table and reflected in the Other business segment.

For tax credit investments in which we do not have the right to make decisions that will most significantly impact the

economic performance of the entity, we are not the primary beneficiary and thus they are not consolidated. These investments are disclosed in the Non-Consolidated VIEs table. The table also reflects our maximum exposure to loss. Our maximum exposure to loss is equal to our legally binding equity commitments adjusted for recorded impairment and partnership results. We use the equity method to account for our investment in these entities with the investments reflected in Equity investments on our Consolidated Balance Sheet. In addition, we increase our recognized investments and recognize a liability for all legally binding unfunded equity commitments. These liabilities are reflected in Other liabilities on our Consolidated Balance Sheet.

RESIDENTIAL AND COMMERCIAL MORTGAGE-BACKED SECURITIZATIONS

In connection with each Agency and Non-Agency securitization discussed above, we evaluate each SPE utilized in these transactions for consolidation. In performing these assessments, we evaluate our level of continuing involvement in these transactions as the nature of our involvement ultimately determines whether or not we hold a variable interest and/or are the primary beneficiary of the SPE. Factors we consider in our consolidation assessment include the significance of (1) our role as servicer, (2) our holdings of mortgage-backed securities issued by the securitization SPE, and (3) the rights of third-party variable interest holders.

Our first step in our assessment is to determine whether we hold a variable interest in the securitization SPE. We hold a variable interest in an Agency and Non-Agency securitization SPE through our holding of mortgage-backed securities issued by the SPE and/or our repurchase and recourse obligations. Each SPE in which we hold a variable interest is evaluated to determine whether we are the primary beneficiary of the entity. For Agency securitization transactions, our contractual role as servicer does not give us the power to direct the activities that most significantly affect the economic performance of the SPEs. Thus, we are not the primary beneficiary of these entities. For Non-Agency securitization transactions, we would be the primary beneficiary to the extent our servicing activities give us the power to direct the activities that most significantly affect the economic performance of the SPE and we hold a more than insignificant variable interest in the entity. At March 31, 2012, our level of continuing involvement in Non-Agency securitization SPEs did not result in PNC being deemed the primary beneficiary of any of these entities. Details about the Agency and Non-Agency securitization SPEs where we hold a variable interest and are not the primary beneficiary are included in the table above. Our maximum exposure to loss as a result of our involvement with these SPEs is the carrying value of the mortgage-backed securities, servicing assets, servicing advances, and our liabilities associated with our repurchase and recourse obligations. Creditors of the securitization SPEs have no recourse to PNC s assets or general credit.

NOTE 4 LOANS AND COMMITMENTS TO EXTEND CREDIT

Loans outstanding were as follows:

LOANS OUTSTANDING

In millions	**March 31 2012**	December 31 2011
Commercial lending		
Commercial	**$ 75,515**	$ 65,694
Commercial real estate	**18,534**	16,204
Equipment lease financing	**6,594**	6,416
TOTAL COMMERCIAL LENDING	**100,643**	88,314
Consumer lending		
Home equity	**35,744**	33,089
Residential real estate	**16,212**	14,469
Credit card	**4,089**	3,976
Other consumer	**19,526**	19,166
TOTAL CONSUMER LENDING	**75,571**	70,700
Total loans (a) (b)	**$ 176,214**	$ 159,014

(a) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $3.3 billion and $2.3 billion at March 31, 2012 and December 31, 2011, respectively.

(b) Future accretable yield related to purchased impaired loans is not included in loans outstanding.

At March 31, 2012, we pledged $22.9 billion of commercial loans to the Federal Reserve Bank and $31.4 billion of residential real estate and other loans to the Federal Home Loan Bank as collateral for the contingent ability to borrow, if necessary. The comparable amounts at December 31, 2011 were $21.8 billion and $27.7 billion, respectively.

Net Unfunded Credit Commitments

In millions	**March 31 2012**	December 31 2011
Commercial and commercial real estate	**$ 69,941**	$ 64,955
Home equity lines of credit	**20,751**	18,317
Credit card	**17,610**	16,216
Other	**4,152**	3,783
Total (a)	**$ 112,454**	$ 103,271

(a) Excludes standby letters of credit. See Note 17 Commitments and Guarantees for additional information on standby letters of credit.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. At March 31, 2012, commercial commitments reported above exclude $20.9 billion of syndications, assignments and participations, primarily to financial institutions. The comparable amount at December 31, 2011 was $20.2 billion.

Commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer s credit quality deteriorates. Based on our historical experience, most commitments expire unfunded, and therefore cash requirements are substantially less than the total commitment.

NOTE 5 ASSET QUALITY AND ALLOWANCES FOR LOAN AND LEASE LOSSES AND UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

ASSET QUALITY

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency rates are a key indicator, among other considerations, of credit risk within the loan portfolios. The 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.

The trends in nonperforming assets represent another key indicator of the potential for future credit losses. Nonperforming assets include nonperforming loans, TDRs, and other real estate owned (OREO) and foreclosed assets, but exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans. See Note 6 Purchased Loans for further information.

See Note 1 Accounting Policies for additional delinquency, nonperforming, and charge-off information.

The following tables display the delinquency status of our loans and our nonperforming assets at March 31, 2012 and December 31, 2011.

Age Analysis of Past Due Accruing Loans

		Accruing						
In millions	Current or Less Than 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due (a)	Nonperforming Loans	Purchased Impaired	Total Loans
March 31, 2012								
Commercial	**$ 73,832**	**$ 195**	**$ 53**	**$ 28**	**$ 276**	**$ 839**	**$ 568**	**$ 75,515**
Commercial real estate	**15,962**	**144**	**44**	**5**	**193**	**1,251**	**1,128**	**18,534**
Equipment lease financing	**6,541**	**25**	**2**	**5**	**32**	**21**		**6,594**
Home equity (b)	**31,946**	**174**	**103**		**277**	**685**	**2,836**	**35,744**
Residential real estate (c)	**8,929**	**344**	**173**	**2,152**	**2,669**	**728**	**3,886**	**16,212**
Credit card	**3,972**	**34**	**24**	**47**	**105**	**12**		**4,089**
Other consumer (d)	**18,767**	**221**	**118**	**372**	**711**	**45**	**3**	**19,526**
Total	**$ 159,949**	**$ 1,137**	**$ 517**	**$ 2,609**	**$ 4,263**	**$ 3,581**	**$ 8,421**	**$ 176,214**
Percentage of total loans	**90.77%**	**.65%**	**.29%**	**1.48%**	**2.42%**	**2.03%**	**4.78%**	**100.00%**
December 31, 2011								
Commercial	$ 64,437	$ 122	$ 47	$ 49	$ 218	$ 899	$ 140	$ 65,694
Commercial real estate	14,010	96	35	6	137	1,345	712	16,204
Equipment lease financing	6,367	22	5		27	22		6,416
Home equity	29,288	173	114	221	508	529	2,764	33,089
Residential real estate (c)	7,935	302	176	2,281	2,759	726	3,049	14,469
Credit card	3,857	38	25	48	111	8		3,976

Other consumer (d)	18,355	265	145	368	778	31	2	19,166
Total	$ 144,249	$ 1,018	$ 547	$ 2,973	$ 4,538	$ 3,560	$ 6,667	$ 159,014
Percentage of total loans	90.72%	.64%	.34%	1.87%	2.85%	2.24%	4.19%	100.00%

(a) Past due loan amounts exclude purchased impaired loans as they 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.

(b) In the first quarter 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.

(c) Past due loan amounts at March 31, 2012, include government insured or guaranteed residential real estate mortgages, totaling $.1 billion for 30 to 59 days past due, $.1 billion for 60 to 89 days past due and $2.0 billion for 90 days or more past due. Past due loan amounts at December 31, 2011, include government insured or guaranteed residential real estate mortgages, totaling $.1 billion for 30 to 59 days past due, $.1 billion for 60 to 89 days past due and $2.1 billion for 90 days or more past due.

(d) Past due loan amounts at March 31, 2012, include government insured or guaranteed other consumer loans, totaling $.2 billion for 30 to 59 days past due, $.1 billion for 60 to 89 days past due and $.4 billion for 90 days or more past due. Past due loan amounts at December 31, 2011, include government insured or guaranteed other consumer loans, totaling $.2 billion for 30 to 59 days past due, $.1 billion for 60 to 89 days past due and $.3 billion for 90 days or more past due.

Nonperforming Assets

Dollars in millions	March 31, 2012	December 31, 2011
Nonperforming loans		
Commercial lending		
Commercial	$ 839	$ 899
Commercial real estate	1,251	1,345
Equipment lease financing	21	22
TOTAL COMMERCIAL LENDING	2,111	2,266
Consumer lending (a)		
Home equity (b)	685	529
Residential real estate (c)	728	726
Credit card (d)	12	8
Other consumer	45	31
TOTAL CONSUMER LENDING	1,470	1,294
Total nonperforming loans (e)	3,581	3,560
OREO and foreclosed assets		
Other real estate owned (OREO) (f)	749	561
Foreclosed and other assets	31	35
TOTAL OREO AND FORECLOSED ASSETS	780	596
Total nonperforming assets	$ 4,361	$ 4,156
Nonperforming loans to total loans	2.03%	2.24%
Nonperforming assets to total loans, OREO and foreclosed assets	2.46	2.60
Nonperforming assets to total assets	1.47	1.53

(a) 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.
(b) In the first quarter 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.
(c) Nonperforming residential real estate excludes loans of $55 million and $61 million accounted for under the fair value option as of March 31, 2012 and December 31, 2011, respectively.
(d) Effective in the second quarter 2011, the commercial nonaccrual policy was applied to certain small business credit card balances. This change resulted in loans being placed on nonaccrual status when they become 90 days or more past due. We continue to charge off these loans at 180 days past due.
(e) Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.
(f) Other real estate owned excludes $252 million and $280 million at March 31, 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).

Nonperforming loans also include loans whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. In accordance with applicable accounting guidance, these loans are considered TDRs. See Note 1 Accounting Policies and the TDR section of this Note 5 for additional information. For the three months ended March 31, 2012, $740 million 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 three months ended March 31, 2011 was $515 million.

Total nonperforming loans in the nonperforming assets table above include TDRs of $1.1 billion at both March 31, 2012 and December 31, 2011. TDRs returned to performing (accruing) status totaled $865 million and $771 million at March 31, 2012 and December 31, 2011, respectively, and are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of consecutive performance under the restructured terms. At March 31, 2012 and December 31, 2011, remaining commitments to lend additional funds to debtors in a commercial or consumer TDR were immaterial.

Additional Asset Quality Indicators

We have two overall portfolio segments Commercial Lending and Consumer Lending. Each of these two segments is comprised of one or more loan classes. Classes are characterized by similarities in initial measurement, risk attributes and the manner in which we monitor and assess

credit risk. The commercial segment is comprised of the commercial, commercial real estate, equipment lease financing, and commercial purchased impaired loan classes. The consumer segment is comprised of the home equity, residential real estate, credit card, other consumer, and consumer purchased impaired loan classes. Asset quality indicators for each of these loan classes are discussed in more detail below.

Commercial Loan Class

For commercial loans, we monitor the performance of the borrower in a disciplined and regular manner based upon the level of credit risk inherent in the loan. To evaluate the level of credit risk, we assign an internal risk rating reflecting the borrower s PD and LGD. This two-dimensional credit risk rating methodology provides risk granularity in the monitoring process on an ongoing basis. At least annually, we update PDs based upon market data. Additionally, when statistically significant historical data exists, we update our LGDs. The

combination of the PD and LGD ratings assigned to a commercial loan, capturing both the combination of expectations of default and loss severity in event of default, reflects the relative estimated likelihood of loss for that loan at the reporting date. Loa