PNC FINANCIAL SERVICES GROUP INC
Form 10-Q
November 09, 2010
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, 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 October 29, 2010, there were 525,796,405 shares of the registrant s common stock ($5 par value) outstanding.

Table of Contents

The PNC Financial Services Group, Inc.

Cross-Reference Index to Third Quarter 2010 Form 10-Q

	Pages
PART I FINANCIAL INFORMATION	
Item 1.Financial Statements (Unaudited).	
Consolidated Income Statement	59
Consolidated Balance Sheet	60
Consolidated Statement Of Cash Flows	61
Notes To Consolidated Financial Statements (Unaudited)	
Note 1 Accounting Policies	62
Note 2 Divestiture	64
Note 3 Loan Sale and Servicing Activities and Variable Interest Entities	64
Note 4 Loans and Commitments To Extend Credit	69
Note 5 Asset Quality	70
Note 6 Purchased Impaired Loans Related to National City	71
Note 7 Investment Securities	72
Note 8 Fair Value	77
Note 9 Goodwill and Other Intangible Assets	89
Note 10 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities	91
Note 11 Certain Employee Benefit And Stock-Based Compensation Plans	92
Note 12 Financial Derivatives	94
Note 13 Earnings Per Share	101
Note 14 Total Equity And Other Comprehensive Income	102
Note 15 Income Taxes	103
Note 16 Summarized Financial Information of BlackRock	104
Note 17 Legal Proceedings	104
Note 18 Commitments and Guarantees	106
Note 19 Segment Reporting	109
Statistical Information (Unaudited)	
Average Consolidated Balance Sheet And Net Interest Analysis	112-113
Item 2.Management s Discussion and Analysis of Financial Condition and Results of Operations.	1-58
Financial Review	
Consolidated Financial Highlights	1-2
Executive Summary	3
Consolidated Income Statement Review	9
Consolidated Balance Sheet Review	12
Off-Balance Sheet Arrangements And Variable Interest Entities	22
Fair Value Measurements	26
Business Segments Review	27
Critical Accounting Estimates And Judgments	38
Status Of Qualified Defined Benefit Pension Plan	40
Risk Management	41
Internal Controls And Disclosure Controls And Procedures	53
Glossary Of Terms	53
Cautionary Statement Regarding Forward-Looking Information	56
Item 3.Quantitative and Qualitative Disclosures About Market Risk.	41-52 and 94-100
Item 4.Controls and Procedures.	53

PART II OTHER INFORMATION

Item 1.Legal Proceedings.	114
Item 1A.Risk Factors.	114
Item 2.Unregistered Sales Of Equity Securities And Use Of Proceeds.	114
Item 6.Exhibits.	115
Exhibit Index.	115
Signature	115
Corporate Information	116

Table of Contents

FINANCIAL REVIEW

CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data	Three months ended September 30		Nine months ended September 30	
Unaudited	**2010**	2009	**2010**	2009
FINANCIAL RESULTS (a)				
Revenue				
Net interest income	**$ 2,215**	$ 2,224	**$ 7,029**	$ 6,737
Noninterest income	**1,383**	1,629	**4,244**	4,605
Total revenue	**3,598**	3,853	**11,273**	11,342
Noninterest expense	**2,158**	2,214	**6,273**	6,864
Pretax, pre-provision earnings (b)	**$ 1,440**	$ 1,639	**$ 5,000**	$ 4,478
Provision for credit losses	**$ 486**	$ 914	**$ 2,060**	$ 2,881
Income from continuing operations before noncontrolling interests	**$ 775**	$ 540	**$ 2,204**	$ 1,255
Income from discontinued operations, net of income taxes (c)	**$ 328**	$ 19	**$ 373**	$ 41
Net income	**$ 1,103**	$ 559	**$ 2,577**	$ 1,296
Net income attributable to common shareholders (d)	**$ 1,094**	$ 467	**$ 2,213**	$ 992
Diluted earnings per common share				
Continuing operations	**$ 1.45**	$ .96	**$ 3.52**	$ 2.08
Discontinued operations (c)	**.62**	.04	**.72**	.09
Net income	**$ 2.07**	$ 1.00	**$ 4.24**	$ 2.17
Cash dividends declared per common share	**$ .10**	$ .10	**$ .30**	$ .86
Total preferred dividends declared, including TARP	**$ 4**	$ 99	**$ 122**	$ 269
TARP Capital Purchase Program preferred dividends (d)		$ 95	**$ 89**	$ 237
Impact of TARP Capital Purchase Program preferred dividends per diluted common share		$ .21	**$ .17**	$ .52
Redemption of TARP preferred stock discount accretion (d)			**$ 250**	
PERFORMANCE RATIOS				
From continuing operations				
Noninterest income to total revenue	**38%**	42%	**38%**	41%
Efficiency	**60**	57	**56**	61
From net income				
Net interest margin (e)	**3.96%**	3.76%	**4.18%**	3.72%
Return on:				
Average common shareholders equity	**15.12**	8.70	**10.98**	6.77
Average assets	**1.65**	.81	**1.30**	.62

See page 53 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.

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

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

(c) Includes results of operations for PNC Global Investment Servicing Inc. (GIS) through June 30, 2010 and the related after-tax gain on sale. We sold GIS effective July 1, 2010, resulting in a gain of $639 million, or $328 million after taxes, recognized during the third quarter of 2010. See Sale of PNC Global Investment Servicing in the Executive Summary section of the Financial Review section of this Report and

Note 2 Divestiture in the Notes To Consolidated Financial Statements of this Report for additional information.

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

(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 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 GAAP in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended September 30, 2010 and September 30, 2009 were $22 million and $16 million, respectively. The taxable-equivalent adjustments to net interest income for the nine months ended September 30, 2010 and September 30, 2009 were $59 million and $47 million, respectively.

Table of Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS (CONTINUED) (a)

Unaudited	September 30 2010	December 31 2009	September 30 2009
BALANCE SHEET DATA (dollars in millions, except per share data)			
Assets	**$ 260,133**	$ 269,863	$ 271,407
Loans (b) (c)	**150,127**	157,543	160,608
Allowance for loan and lease losses (b)	**5,231**	5,072	4,810
Interest-earning deposits with banks (b)	**415**	4,488	1,129
Investment securities (b)	**63,461**	56,027	54,413
Loans held for sale (c)	**3,275**	2,539	3,509
Goodwill and other intangible assets	**10,518**	12,909	12,734
Equity investments (b)	**10,137**	10,254	8,684
Noninterest-bearing deposits	**46,065**	44,384	43,025
Interest-bearing deposits	**133,118**	142,538	140,784
Total deposits	**179,183**	186,922	183,809
Transaction deposits	**128,197**	126,244	121,631
Borrowed funds (b)	**39,763**	39,261	41,910
Shareholders equity	**30,042**	29,942	28,928
Common shareholders equity	**29,394**	22,011	20,997
Accumulated other comprehensive income (loss)	**146**	(1,962)	(1,947)
Book value per common share	**55.91**	47.68	45.52
Common shares outstanding (millions)	**526**	462	461
Loans to deposits	**84%**	84%	87%
ASSETS UNDER ADMINISTRATION (billions)			
Discretionary assets under management	**$ 105**	$ 103	$ 104
Nondiscretionary assets under administration	**101**	102	113
Total assets under administration	**206**	205	217
CAPITAL RATIOS			
Tier 1 risk-based (d)	**11.9%**	11.4%	10.9%
Tier 1 common	**9.6**	6.0	5.5
Total risk-based (d)	**15.6**	15.0	14.5
Leverage (d)	**9.9**	10.1	9.6
Common shareholders equity to assets	**11.3**	8.2	7.7
ASSET QUALITY RATIOS			
Nonperforming loans to total loans	**3.22%**	3.60%	3.19%
Nonperforming assets to total loans and foreclosed and other assets	**3.76**	3.99	3.50
Nonperforming assets to total assets	**2.18**	2.34	2.08
Net charge-offs to average loans (for the three months ended) (annualized)	**1.61**	2.09	1.59
Allowance for loan and lease losses to total loans	**3.48**	3.22	2.99
Allowance for loan and lease losses to nonperforming loans (e)	**108**	89	94

(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. Some September 30, 2010 amounts include consolidated variable interest entities that we consolidated effective January 1, 2010 based on guidance in ASC 810, Consolidation. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information.

(c) Amounts include items 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) The regulatory minimums are 4.0% for Tier 1 risk-based, 8.0% for Total risk-based, and 4.0% for Leverage capital ratios. The well-capitalized levels are 6.0% for Tier 1 risk-based, 10.0% for Total risk-based, and 5.0% for Leverage capital ratios.

(e)

The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. Nonperforming loans do not include purchased impaired loans or loans held for sale.

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 2009 Annual Report on Form 10-K (2009 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 and regulatory risks, see the Risk Management section in this Financial Review and Items 1A and 7 of our 2009 Form 10-K and Item 1A included in Part II of our second quarter 2010 report on Form 10-Q and in Part II of this 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 those anticipated in the forward-looking statements included in this Report. See Note 19 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income from continuing operations before noncontrolling interests as reported on a generally accepted accounting principles (GAAP) basis.

EXECUTIVE SUMMARY

THE PNC FINANCIAL SERVICES GROUP, INC.

PNC is one of the largest diversified financial services companies in the United States 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, Maryland, Illinois, Indiana, Kentucky, Florida, Virginia, Missouri, Delaware, Washington, D.C., and Wisconsin. PNC also provides certain products and services internationally.

KEY STRATEGIC GOALS

We manage our company for the long term and are focused on returning to a moderate risk profile while maintaining strong capital and liquidity positions, investing in our markets and products, and embracing our corporate responsibility to the communities where we do business.

Our strategy to enhance shareholder value centers on driving pre-tax, pre-provision earnings in excess of credit costs 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 growth 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 through a significantly enhanced branding initiative. We may also grow revenue through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

We are focused on our strategies for quality growth. We are committed to re-establishing a moderate risk profile characterized by disciplined credit management and limited exposure to earnings volatility resulting from interest rate

fluctuations and the shape of the interest rate yield curve. We made substantial progress in transitioning our balance sheet throughout 2009 and in the first nine months of 2010, working to return to our moderate risk philosophy throughout our expanded franchise. Our actions have created a well- positioned balance sheet, strong bank level liquidity and investment flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

We also continue to be focused on building capital in the current environment characterized by economic and regulatory uncertainty. See the Funding and Capital Sources section of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this

Financial Review.

Sale of PNC Global Investment Servicing

On July 1, 2010, we sold PNC Global Investment Servicing Inc. (GIS), a leading provider of processing, technology and business intelligence services to asset managers, broker-dealers and financial advisors worldwide, for $2.3 billion in cash pursuant to a definitive agreement entered into on February 2, 2010. The gain recorded in the third quarter of 2010 related to this sale was $639 million, or $328 million after taxes.

Results of operations of GIS through June 30, 2010 and the related after-tax gain on sale in the third quarter of 2010 are presented as income from discontinued operations, net of income taxes, on our Consolidated Income Statement for the periods presented in this Report. Once we entered into the sales agreement, GIS was no longer a reportable business segment. Further information regarding the GIS sale is included in Note 2 Divestiture in our Notes To Consolidated Financial Statements in this Report.

National City Integration Costs

A summary of pretax merger and integration costs in connection with our December 31, 2008 acquisition of National City Corporation (National City) follows.

Table of Contents

National City Integration Costs

In millions	Third Quarter	First Nine Months	Full Year
2010	**$ 96**	**$ 309**	**$ 370(a)**
2009	$ 89	$ 266	$ 421
2008			$ 575(b)

(a) Projected.

(b) Includes $504 million conforming provision for credit losses.

The National City transaction is expected to result in the reduction of more than $1.8 billion of combined company annualized noninterest expense by the end of 2010 through the elimination of operational and administrative redundancies. We have completed the customer and branch conversions to our technology platforms and have integrated the businesses and operations of National City with those of PNC.

Recent Market and Industry Developments

The economic turmoil that began in the middle of 2007 and continued through most of 2008 and 2009 has now settled into a slow economic recovery with, at this time, somewhat uncertain prospects. This has been accompanied by dramatic changes in the competitive landscape of the financial services industry and a wholesale reformation of the legislative and regulatory landscape with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which was signed into law by President Obama on July 21, 2010.

Dodd-Frank is extensive, complicated and comprehensive legislation that impacts practically all aspects of a banking organization. Dodd-Frank will negatively impact revenue and increase both the direct and indirect costs of doing business for PNC, as it includes provisions that could increase regulatory fees and deposit insurance assessments and impose heightened capital and prudential standards, while at the same time impacting the nature and costs of PNC s businesses, including consumer lending, private equity investment, derivatives transactions, interchange fees on debit card transactions, and asset securitizations.

Until such time as the regulatory agencies issue proposed and final regulations implementing the numerous provisions of Dodd-Frank, a process that will extend at least over the next year and might last several years, 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 many of our larger peers.

Items 1 and 7 of our 2009 Form 10-K include information regarding efforts beginning in late 2008 by the Federal government, including the US Congress, the US Department of the Treasury, the Federal Reserve, the FDIC, and the Securities and Exchange Commission, to stabilize and restore confidence in the financial services industry that have impacted and will likely continue to impact PNC and our

stakeholders. These efforts, which will continue to evolve, include the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, Dodd-Frank and other legislative, administrative and regulatory initiatives.

Included in these efforts 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 Basel II effort by international banking supervisors to update the original international bank capital accord (Basel I), which has been in effect since 1988. The recent Basel III capital initiative, which has the support of US banking regulators, includes heightened capital requirements for major banking institutions in terms of both higher quality capital and higher regulatory capital ratios. Basel III capital standards will require implementing regulations by the banking regulators and are expected to include a phase-in period beginning in 2013 and ending January 1, 2019.

Residential Mortgage Foreclosure Matters

Beginning in the third quarter of 2010, mortgage foreclosure documentation practices among US financial institutions have received heightened attention by regulators and the media. PNC s market share for residential servicing is less than 2%. 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). Regardless, we have been conducting an internal review of our foreclosure procedures. Based upon our review thus far, we believe that PNC has systems designed to ensure that no foreclosure proceeds unless the loan is genuinely in default. On average, our residential mortgage loans in foreclosure are more than one year delinquent.

Similar to other banks, we have identified issues regarding some of our documentation. Accordingly, we are delaying pursuing individual foreclosures when we commenced our review until we are confident that any pending documentation issues have been resolved. We are currently proceeding with new foreclosures under enhanced procedures designed as part of this review to minimize the risk of errors related to the processing of documentation in foreclosure cases.

For additional information, please see Note 17 Legal Proceedings and Note 18 Commitments and Guarantees in our Notes To Consolidated Financial Statements in Part I of this Report and Item 1A Risk Factors in Part II of this Report.

TARP Capital Purchase Program

We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding

Table of Contents

reduction in retained earnings of $250 million in the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share. See Repurchase of Outstanding TARP Preferred Stock and Sale by US Treasury of TARP Warrant in Note 14 Total Equity And Other Comprehensive Income in the Notes To Consolidated Financial Statements in this Report for additional information.

FDIC Temporary Liquidity Guarantee Program

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

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

PNC did not issue any securities under the TLGP-Debt Guarantee Program during the first nine months of 2010.

From October 14, 2008 through December 31, 2009, PNC Bank, National Association (PNC Bank, N.A.) participated in the TLGP-Transaction Account Guarantee Program. Beginning January 1, 2010, PNC Bank, N.A. is no longer participating in this program, but Dodd-Frank extends the program for all banks for two years, beginning December 31, 2010.

Public-Private Investment Fund Programs (PPIFs)

PNC did not participate in these programs during the first nine months of 2010.

Home Affordable Modification Program (HAMP)

PNC began participating in HAMP for GSE mortgages in May 2009 and for non-GSE mortgages in July 2009, and recently signed the agreements to begin participating in the Second Lien Program. HAMP is scheduled to terminate as of December 31, 2012.

Home Affordable Refinance Program (HARP)

PNC began participating in HARP in May 2009. The program terminated as of June 10, 2010.

As noted above, Dodd-Frank and its implementation, as well as other statutory and regulatory initiatives that will be ongoing, will introduce numerous regulatory changes over the next several years. While we believe that we are well

positioned to navigate through this process, we cannot predict the ultimate impact of these actions on PNC s business plans and strategies.

KEY FACTORS AFFECTING FINANCIAL PERFORMANCE

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

- General economic conditions, including the speed and stamina of the moderate economic recovery that began last year 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 other 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 above, and
- The impact of market credit spreads on asset valuations.

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

- Further success in the acquisition, growth and retention of customers,

Continued development of the geographic markets related to our recent acquisitions, including full deployment of our product offerings,
Revenue growth,
A sustained focus on expense management, and creating positive pre-tax, pre-provision earnings,
Managing the distressed assets portfolio and other impaired assets,
Improving our overall asset quality and continuing to meet evolving regulatory capital standards,
Continuing to maintain and grow our deposit base as a low-cost funding source,
Prudent risk and capital management related to our efforts to return to our desired moderate risk profile, and
Actions we take within the capital and other financial markets.

Table of Contents

SUMMARY FINANCIAL RESULTS

	Three months ended September 30		Nine months ended September 30	
	2010	2009	**2010**	2009
Net income (millions)	**$ 1,103**	$ 559	**$ 2,577**	$ 1,296
Diluted earnings per common share				
Continuing operations	**$ 1.45**	$ .96	**$ 3.52**	$ 2.08
Discontinued operations	**.62**	.04	**.72**	.09
Net income	**$ 2.07**	$ 1.00	**$ 4.24**	$ 2.17
Return from net income on:				
Average common shareholders equity	**15.12%**	8.70%	**10.98%**	6.77%
Average assets	**1.65%**	.81%	**1.30%**	.62%

Income Statement Highlights for the Third Quarter

Strong earnings for the third quarter of 2010 reflected an improvement in the provision for credit losses compared with the third quarter of 2009 as we continue to focus on returning to a moderate risk profile. Pretax pre-provision earnings of $1.4 billion significantly exceeded the provision for credit losses of $.5 billion.

Net interest income declined $220 million to $2.2 billion and the net interest margin fell 39 basis points to 3.96% compared with the second quarter of 2010 due to lower purchase accounting accretion, loan sales, continued soft loan demand and the low interest rate environment.

Noninterest income totaled $1.4 billion for the third quarter and was derived from diversified sources. The $246 million decline compared with the third quarter of 2009 was mainly due to a decrease in overdraft charges, the reduction in value of commercial mortgage servicing rights and the third quarter 2009 gain on sales of commercial loans.

The provision for credit losses declined to $486 million in the third quarter compared with $914 million in the third quarter of 2009 reflecting overall credit quality improvement driven by improving credit migration and actions taken to reduce exposure levels.

We continued our disciplined expense management while investing in our businesses. Noninterest expense of $2.2 billion declined $56 million, or 3%, compared with the third quarter of 2009 primarily due to higher acquisition-related cost savings.

We achieved acquisition cost savings of $1.7 billion on an annualized basis in the third quarter of 2010, well ahead of the original target amount and schedule, and are on track to meet our higher goal of $1.8 billion by the end of 2010.

The July 1, 2010 sale of GIS resulted in an after-tax gain of $328 million reported in discontinued operations. Goodwill and other intangible assets net of deferred income taxes removed from the Consolidated Balance Sheet as a result of the transaction were $1.1 billion.

Credit Quality Highlights

Overall credit quality showed continued signs of improvement during the third quarter of 2010. Net charge-offs to average loans improved to 1.61% in the third quarter from 2.18% in the second quarter of 2010. Nonperforming assets declined $235 million to $5.7 billion as of September 30, 2010. Delinquencies continued to improve during the quarter. The allowance for loan and lease losses was $5.2 billion, or 3.48% of total loans and 108% of nonperforming loans, as of September 30, 2010.

Balance Sheet Highlights

PNC remains committed to responsible lending to support economic growth. Loans and commitments originated and renewed totaled approximately $39 billion in the third quarter and $112 billion for the first nine months of 2010, including $2.6 billion of small business loans. Total loans were $150.1 billion at September 30, 2010 and decreased $4.2 billion compared with June 30, 2010 primarily due to loan repayments, dispositions and net charge-offs that exceeded customer loan demand.

Total deposits were $179.2 billion at September 30, 2010. Transaction deposits grew $2.5 billion, or 2%, while certificates of deposit declined by $2.0 billion, or 5%, compared with June 30, 2010 further reducing the average rate paid on deposits by 3 basis points to .68% in the third quarter.

PNC s well-positioned balance sheet reflected core funding with a loan to deposit ratio of 84% at September 30, 2010 and a strong bank liquidity position to support growth.

Investment securities of $63.5 billion at September 30, 2010 increased by 18% compared with June 30, 2010 as excess liquidity was invested in short duration, high quality securities.

The Tier 1 common capital ratio was 9.6% at September 30, 2010, up from 8.3% at June 30, 2010 and 6.0% at December 31, 2009. 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 third quarter and first nine months of 2010 and 2009.

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, divestitures and consolidations of variable interest entities.

The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at September 30, 2010 compared with December 31, 2009.

Total average assets were $265.4 billion for the first nine months of 2010 compared with $278.6 billion for the first nine months of 2009.

Average interest-earning assets were $225.1 billion for the first nine months of 2010, compared with $241.0 billion in the first nine months of 2009. Decreases of $13.1 billion in loans and $6.5 billion in other interest-earning assets, partially offset by a $5.3 billion increase in investment securities, drove the decrease in average interest-earning assets.

The decrease in average total loans reflected a decline in commercial loans of $8.6 billion, commercial real estate loans of $4.1 billion and residential mortgage loans of $3.3 billion, partially offset by an increase of $2.9 billion in consumer loans.

Loans represented 69% of average interest-earning assets for the first nine months of 2010 and 70% for the first nine months of 2009.

Average securities available for sale increased $2.0 billion, to $49.4 billion, in the first nine months of 2010 compared with the first nine months of 2009. Average US Treasury and government agencies securities increased $4.2 billion while average other debt securities increased $1.4 billion in the comparison. These increases were partially offset by a decline of $2.9 billion in average non-agency residential mortgage-backed securities and a decline of $.8 billion in commercial mortgage-backed securities.

Average securities held to maturity increased $3.3 billion, to $7.2 billion, in the first nine months of 2010 compared with the first nine months of 2009. The increase reflected purchases of asset-backed and non-agency commercial mortgage-backed securities, the transfer of securities from the available for sale portfolio, and the impact of the Market Street Funding LLC (Market Street) consolidation effective January 1, 2010.

Total investment securities comprised 25% of average interest-earning assets for the first nine months of 2010 and 21% for the first nine months of 2009.

Average noninterest-earning assets totaled $40.3 billion in the first nine months of 2010 compared with $37.6 billion in the prior year period.

Average total deposits were $182.0 billion for the first nine months of 2010 compared with $191.2 billion for the first nine months of 2009. Average deposits declined from the prior year period primarily as a result of decreases in retail certificates of deposit and other time deposits, which were partially offset by an increase in transaction deposits. Total deposits at September 30, 2010 were $179.2 billion compared with $186.9 billion at December 31, 2009 and are further discussed within the Consolidated Balance Sheet Review section of this Report.

Average total deposits represented 69% of average total assets for both the first nine months of 2010 and the first nine months of 2009.

Average transaction deposits were $127.2 billion for the first nine months of 2010 compared with $118.7 billion for the first nine months of 2009.

Average borrowed funds were $40.8 billion for the first nine months of 2010 compared with $45.7 billion for the first nine months of 2009. A $6.7 billion decline in Federal Home Loan Bank borrowings drove the decline in the comparison, partially offset by higher average commercial paper borrowings that reflected the consolidation of Market Street. Total borrowed funds at September 30, 2010 were $39.8 billion compared with $39.3 billion at December 31, 2009 and are further discussed within the Consolidated Balance Sheet Review section of this Report. In addition, the Liquidity Risk Management portion of the Risk Management section of this Report includes additional information regarding our sources and uses of borrowed funds.

LINE OF BUSINESS HIGHLIGHTS

We have six reportable business segments:

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

Total business segment earnings were $2.0 billion for the first nine months of 2010 and $1.8 billion for the first nine months of 2009. Highlights of results for the first nine months and third quarter of 2010 and 2009 are included below. The Business Segments Review section of this Financial Review includes a Results of Business-Summary table and further analysis of our business segment results over the first nine months of 2010 and 2009 including presentation differences from Note 19 Segment Reporting.

We provide a reconciliation of total business segment earnings to PNC consolidated income from continuing operations before noncontrolling interests as reported on a GAAP basis in Note 19 Segment Reporting.

Retail Banking

Retail Banking earned $97 million for the first nine months of 2010 compared with earnings of $161 million for the same period a year ago. Earnings declined from the prior year due primarily due to lower revenues as a result of lower interest credits assigned to deposits and a decline in fees which were partially offset by well-managed expenses. Retail Banking continued to maintain its focus on growing customers and deposits, customer and employee satisfaction, investing in the business for future growth, as well as, disciplined expense management during this period of market and economic uncertainty.

Retail Banking had a loss of $7 million in the third quarter of 2010 compared with earnings of $50 million in the third quarter of 2009. Earnings decreased from the prior year quarter due to a decline in fees, a higher provision for credit losses and lower net interest income.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $1.2 billion in the first nine months of 2010 compared with $775 million in the first nine months of 2009. Significantly higher earnings for the first nine months of 2010 reflected a lower provision for credit losses and lower noninterest expense which more than offset declines in net interest income and noninterest income compared with the 2009 period.

Corporate & Institutional Banking earned $427 million in the third quarter of 2010 compared with $309 million in the third quarter of 2009. The increase in earnings compared with third quarter 2009 was primarily due to a lower provision for credit losses driven by reduced exposure levels along with positive credit migration.

Asset Management Group

Asset Management Group earned $112 million for the first nine months of 2010 compared with $82 million for the same period in 2009. Assets under administration were $206 billion at September 30, 2010 and $217 billion at September 30, 2009. The first nine months of 2010 reflected a lower provision for credit losses, lower expenses from disciplined expense management and higher noninterest income. These improvements were partially offset by a decrease in net interest income from lower yields on loans.

Earnings for Asset Management Group totaled $44 million for the third quarter of 2010 compared with $35 million for the third quarter of 2009. The increase in earnings from the prior year quarter reflected a benefit from the provision for credit losses and lower expenses that more than offset a decline in revenue.

Residential Mortgage Banking

Residential Mortgage Banking earned $272 million for the first nine months of 2010 compared with $410 million in the first nine months of 2009. Earnings decreased from the first nine months of 2009 primarily due to reduced loan sales revenue and lower net hedging gains on mortgage servicing rights, partially offset by lower noninterest expense.

Residential Mortgage Banking earned $98 million in the third quarter of 2010 compared with $91 million for the third quarter of 2009. Higher net hedging gains on mortgage servicing rights and lower expenses in the 2010 quarter more than offset a decline in net interest income and a higher provision for credit losses.

BlackRock

Our BlackRock business segment earned $253 million in the first nine months of 2010 and $151 million in the first nine months of 2009. Third quarter 2010 business segment earnings from BlackRock were $99 million compared with $74 million in the third quarter of 2009. The benefits of BlackRock s December 2009 acquisition of Barclays Global Investors (BGI) and improved capital markets conditions contributed to higher earnings at BlackRock.

Distressed Assets Portfolio

The Distressed Assets Portfolio earned $8 million for the first nine months of 2010 compared with $172 million for the first nine months of 2009. A $288 million increase in the provision for credit losses was the primary factor driving the decrease in earnings in the comparison.

For the third quarter of 2010, Distressed Assets Portfolio had earnings of $17 million compared with $14 million for the third quarter of 2009. Higher net interest income and lower expenses more than offset the impact of lower noninterest income and a higher provision for credit losses.

Other

Other reported earnings of $232 million for the first nine months of 2010 compared with a net loss of $496 million for the first nine months of 2009. The net loss for the 2009 period included higher other-than-temporary impairment (OTTI) charges compared with the 2010 period, alternative investment writedowns, a $133 million special FDIC assessment, and equity management losses.

Other reported earnings of $97 million for the third quarter of 2010 compared with a net loss of $33 million for the third quarter of 2009.

Table of Contents

CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for the first nine months of 2010 was $2.6 billion compared with $1.3 billion for the first nine months of 2009. Net income for the third quarter of 2010 was $1.1 billion compared with $.6 billion for the third quarter of 2009. Total revenue for the first nine months of both 2010 and 2009 was $11.3 billion. Total revenue for the third quarter of 2010 decreased 7% to $3.6 billion from $3.9 billion for the third quarter of 2009.

NET INTEREST INCOME AND NET INTEREST MARGIN

	Three months ended September 30		Nine months ended September 30	
Dollars in millions	**2010**	2009	**2010**	2009
Net interest income	**$ 2,215**	$ 2,224	**$ 7,029**	$ 6,737
Net interest margin	**3.96%**	3.76%	**4.18%**	3.72%

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

The increase in net interest income for the first nine months of 2010 compared with the first nine months of 2009 resulted primarily from the impact of lower deposit and borrowing costs somewhat offset by lower loan volume and lower revenue from our investment securities portfolio. Our deposit strategy included the retention and repricing at lower rates of relationship-based certificates of deposit and the planned run off of maturing non-relationship certificates of deposit and brokered deposits.

The net interest margin was 4.18% for the first nine months of 2010 and 3.72% for the first nine months of 2009. The following factors impacted the comparison:

- A decrease in the rate accrued on interest-bearing liabilities of 57 basis points. The rate accrued on interest-bearing deposits, the largest component, decreased 52 basis points.
- A decrease in the yield on interest-earning assets of 3 basis points. The yield on loans, the largest portion of our interest-earning assets, increased 8 basis points but was more than offset by the 111 basis point decline in yield on investment securities.
- The benefit of noninterest-bearing sources of funding decreased 8 basis points primarily due to the decline in interest rates.

The net interest margin was 3.96% for the third quarter of 2010 and 3.76% for the third quarter of 2009. The following factors impacted the comparison:

- A decrease in the rate accrued on interest-bearing liabilities of 29 basis points. The rate accrued on interest-bearing deposits, the largest component, decreased 36 basis points.
- A 6 basis point decrease in the yield on interest-earning assets. This decrease was driven by a 105 basis point decline in the yield on investment securities, partially offset by higher yields on loans.
- In addition, the benefit of noninterest-bearing sources of funding decreased 3 basis points primarily due to the decline in interest rates.

We expect net interest income and margin to trend down in the fourth quarter of 2010 but at a slower pace than we experienced from the second quarter of 2010 to the third quarter of 2010. We believe that lower purchase accounting accretion, continued soft loan demand and the low interest rate environment will contribute to lower net interest income and margin in the fourth quarter of 2010 compared with the third quarter of 2010.

NONINTEREST INCOME

Summary

Noninterest income totaled $4.2 billion for the first nine months of 2010, a decline of $361 million or 8% compared with the first nine months of 2009. Decreases in residential mortgage loan sales revenue, the value of commercial mortgage servicing rights and net hedging gains on residential mortgage servicing rights, along with lower service charges on deposits, were the primary factors in the comparison. Partially offsetting these items were lower OTTI charges and higher asset management fees.

Noninterest income totaled $1.4 billion for the third quarter of 2010, a decline of $246 million or 15% compared with the third quarter of 2009. This decrease was mainly due to the decrease in overdraft charges, the reduction in value of commercial mortgage servicing rights and third quarter 2009 gains on sales of commercial loans.

Additional Analysis

Asset management revenue was $751 million in the first nine months of 2010 compared with $639 million in the first nine months of 2009. Asset management revenue was $249 million in the third quarter of 2010 compared with $242 million in the third quarter of 2009. These increases reflected higher equity earnings from our BlackRock investment, improved equity markets and client growth. Discretionary assets under management at September 30, 2010 totaled $105 billion compared with $104 billion at September 30, 2009.

For the first nine months of 2010, consumer services fees totaled $939 million compared with $975 million in the first nine months of 2009. Consumer services fees were $328

million for the third quarter of 2010 compared with $330 million for the third quarter of 2009. Lower consumer service fees for 2010 in both comparisons reflected lower brokerage fees and the impact of the consolidation of the securitized credit card portfolio, partially offset by higher volume-related transaction fees. As further discussed in the Retail Banking section of the Business Segments Review portion of this Financial Review, we expect that the Credit CARD Act of 2009 will negatively impact full year 2010 revenues by approximately $75 million, a portion of which will be in the fourth quarter of 2010.

Corporate services revenue totaled $712 million in the first nine months of 2010 and $761 million in the first nine months of 2009. Corporate services revenue declined in the third quarter of 2010 to $183 million, compared with $252 million for the third quarter of 2009. The declines in both comparisons were largely the result of a reduction in the value of commercial mortgage servicing rights largely driven by lower interest rates, partially offset by higher merger and acquisition advisory and ancillary commercial mortgage servicing fees. Corporate services fees include the noninterest component of treasury management fees, which continued to be a strong contributor to revenue.

Residential mortgage revenue totaled $542 million in the first nine months of 2010 compared with $883 million in the first nine months of 2009. Third quarter 2010 residential mortgage revenue totaled $216 million compared with $207 million in the third quarter of 2009. The nine-month decline reflected reduced loan sales revenue given the strong loan origination refinance volume in 2009 and lower net hedging gains on mortgage servicing rights. Higher net hedging gains on mortgage servicing rights drove the third quarter 2010 increase.

Service charges on deposits totaled $573 million for the first nine months of 2010 and $714 million for the first nine months of 2009. Service charges on deposits totaled $164 million for the third quarter of 2010 compared with $248 million for the third quarter of 2009. The decrease in both instances was due to lower overdraft charges and required branch divestitures in the third quarter of 2009. As further discussed in the Retail Banking section of the Business Segments Review portion of this Financial Review, we expect that the new Regulation E rules related to overdraft charges will negatively impact our fourth quarter 2010 revenue by an estimated $100 million, or approximately $55 million more than its impact on the third quarter of 2010.

Net gains on sales of securities totaled $358 million for the first nine months of 2010 and $406 million for the first nine months of 2009. Third quarter net gains on sales of securities were $121 million in 2010 and $168 million in 2009.

The net credit component of OTTI of securities recognized in earnings was a loss of $281 million in the first nine months of

2010, including $71 million in the third quarter, compared with losses of $433 million and $129 million, respectively, for the same periods in 2009.

Other noninterest income totaled $650 million for the first nine months of 2010 compared with $660 million for the first nine months of 2009. Other noninterest income for the third quarter of 2010 totaled $193 million compared with $311 million for the third quarter of 2009. The third quarter of 2009 included $88 million of gains on sales of loans.

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 equity and alternative 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.

We believe that as the economy recovers, there will be greater opportunities for growth in client-related fee-based revenue.

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, commercial real estate, and capital markets-related products and services that are marketed by several businesses primarily to commercial customers.

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, totaled $919 million for the first nine months of 2010, an increase of $78 million or 9% compared with the first nine months of 2009. For the third quarter of 2010, treasury management revenue was $319 million, an increase of $38 million or 14% compared with the third quarter of 2009. These increases were primarily related to deposit growth and continued growth in legacy offerings such as purchasing cards and lockbox as well as services provided to the Federal government and healthcare customers.

Revenue from capital markets-related products and services totaled $411 million in the first nine months of 2010 compared with $346 million in the first nine months of 2009, an increase of $65 million or 19%. Higher underwriting, mergers and acquisition advisory fees, and syndications fees contributed to the improved results. Third quarter 2010 revenue was $119 million compared with $155 million for the third quarter of 2009, a decline of $36 million or 23%. The decline was driven by lower loan sale gains partially offset by increased mergers and acquisition advisory fees and syndications fees.

Table of Contents

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income from loan servicing and ancillary services) 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 $146 million in the first nine months of 2010, a decrease of $206 million or 59% compared with the first nine months of 2009. For the third quarter of 2010, losses from commercial mortgage banking activities totaled $16 million compared with third quarter 2009 revenue of $119 million. These decreases were primarily due to valuations associated with commercial mortgage loans held for sale, net of hedges, higher impairment of mortgage servicing rights, and the sale during the second quarter 2010 of a duplicative agency servicing operation acquired as part of the National City transaction. These decreases were partially offset by higher ancillary commercial mortgage servicing fees.

Provision For Credit Losses

The provision for credit losses totaled $2.1 billion for the first nine months of 2010 compared with $2.9 billion for the first nine months of 2009. For the third quarter of 2010, the provision for credit losses totaled $486 million compared with $914 million for the third quarter of 2009. The lower provision in both comparisons reflected credit exposure reductions and overall improving credit migration during 2010.

We are optimistic about prospects for a stable-to-lower provision for credit losses in the fourth quarter of 2010 compared with the third quarter of 2010. Future provision levels will depend primarily on the level of nonperforming loans and the pace of economic recovery.

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 for the first nine months of 2010 was $6.3 billion compared with $6.9 billion for the first nine months of 2009, a decline of $591 million or 9%. The impact of higher cost savings related to the National City acquisition

and the reversal of certain accrued liabilities in the second quarter of 2010, including $73 million associated with a franchise tax settlement and $47 million associated with an indemnification for certain Visa litigation, were reflected in the lower nine-month expenses. Lower expenses in the first nine months of 2010 also reflected a special FDIC assessment, intended to build the FDIC s Deposit Insurance Fund, of $133 million in the second quarter of 2009.

Noninterest expense totaled $2.2 billion in the third quarter of 2010, a decline of 3% compared with the third quarter of 2009. Noninterest expense declined compared with the year ago quarter primarily due to higher acquisition-related cost savings.

We expect noninterest expense to be lower in the fourth quarter of 2010 relative to the third quarter of 2010 primarily due to lower integration costs and an expected fourth quarter reduction in our Visa indemnification liability.

See National City Integration Costs in the Executive Summary section of this Financial Review for details of integration costs incurred, including through the first nine months of 2010 and 2009.

We achieved National City acquisition cost savings of $1.7 billion on an annualized basis in the third quarter of 2010, higher and earlier than our original goal of $1.2 billion, and are on track to meet our new goal of $1.8 billion by the end of 2010.

Effective Tax Rate

The effective tax rate was 25.0% for the first nine months of 2010 compared with 21.4% for the first nine months of 2009. The tax rate was lower on a year-to-date basis in 2009 due to lower levels of pretax income in 2009 partially offset by the 2010 favorable IRS letter ruling noted below.

For the third quarter of 2010, our effective tax rate was 18.8% compared with 25.5% for the third quarter of 2009. The lower tax rate in the third quarter of 2010 was primarily the result of receiving a favorable IRS letter ruling in July 2010 that resolved a prior tax position and resulted in a

tax benefit of $89 million.

We anticipate that the full year 2010 effective tax rate will be approximately 26%.

CONSOLIDATED BALANCE SHEET REVIEW

SUMMARIZED BALANCE SHEET DATA

In millions	Sept. 30 2010	Dec. 31 2009
Assets		
Loans	**$ 150,127**	$ 157,543
Investment securities	**63,461**	56,027
Cash and short-term investments	**7,188**	13,290
Loans held for sale	**3,275**	2,539
Goodwill and other intangible assets	**10,518**	12,909
Equity investments	**10,137**	10,254
Other	**15,427**	17,301
Total assets	**$ 260,133**	$ 269,863
Liabilities		
Deposits	**$ 179,183**	$ 186,922
Borrowed funds	**39,763**	39,261
Other	**8,521**	11,113
Total liabilities	**227,467**	237,296
Total shareholders equity	**30,042**	29,942
Noncontrolling interests	**2,624**	2,625
Total equity	**32,666**	32,567
Total liabilities and equity	**$ 260,133**	$ 269,863

The summarized balance sheet data above is based upon our Consolidated Balance Sheet in Part I, Item 1 of this Report.

The decline in total assets at September 30, 2010 compared with December 31, 2009 was primarily due to decreases in loans and cash and short-term investments, partially offset by an increase in investment securities.

Total assets and liabilities at September 30, 2010 included $4.5 billion and $3.2 billion, respectively, related to Market Street and a credit card securitization trust as more fully described in the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review and Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements of this Report.

An analysis of changes in selected balance sheet categories follows.

LOANS

A summary of the major categories of loans outstanding follows. Outstanding loan balances reflect unearned income, unamortized discount and premium, and purchase discounts and premiums totaling $2.8 billion at September 30, 2010 and $3.2 billion at December 31, 2009. The balances do not include future accretable net interest on the purchased impaired loans.

Loans decreased $7.4 billion, or 5%, as of September 30, 2010 compared with December 31, 2009. An increase in loans of $3.5 billion from the initial consolidation of Market Street and

the securitized credit card portfolio was more than offset by the impact of soft customer loan demand combined with loan repayments and payoffs in the distressed assets portfolio.

Loans represented 58% of total assets at both September 30, 2010 and at December 31, 2009. Commercial lending represented 52% of the loan portfolio and consumer lending represented 48% at September 30, 2010.

Commercial real estate loans represented 7% of total assets at September 30, 2010 and 9% of total assets at December 31, 2009.

Details Of Loans

In millions	**Sept. 30 2010**	Dec. 31 2009
Commercial		
Retail/wholesale	**$ 9,752**	$ 9,515
Manufacturing	**9,519**	9,880
Service providers	**8,747**	8,256
Real estate related (a)	**7,398**	7,403
Financial services	**3,773**	3,874
Health care	**3,169**	2,970
Other	**10,830**	12,920
Total commercial	**53,188**	54,818
Commercial real estate		
Real estate projects	**13,021**	15,582
Commercial mortgage	**6,070**	7,549
Total commercial real estate	**19,091**	23,131
Equipment lease financing	**6,408**	6,202
TOTAL COMMERCIAL LENDING (b)	**78,687**	84,151
Consumer		
Home equity		
Lines of credit	**23,770**	24,236
Installment	**10,815**	11,711
Education	**8,819**	7,468
Automobile	**2,863**	2,013
Credit card and other unsecured lines of credit	**4,843**	3,536
Other	**3,846**	4,618
Total consumer	**54,956**	53,582
Residential real estate		
Residential mortgage	**15,708**	18,190
Residential construction	**776**	1,620
Total residential real estate	**16,484**	19,810
TOTAL CONSUMER LENDING	**71,440**	73,392
Total loans	**$ 150,127**	$ 157,543

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

(b) Construction loans with interest reserves, and A Note/B Note restructurings are not significant to PNC.

Total loans above include purchased impaired loans related to National City amounting to $8.1 billion, or 5% of total loans, at September 30, 2010, and $10.3 billion, or 7% of total loans, at December 31, 2009.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new

commitments and renewals totaled $112 billion for the first nine months of 2010, including $39 billion in the third quarter.

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

Commercial lending 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. This estimate also considers other relevant factors such as:

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

Higher Risk Loans

Our loan portfolio includes certain loans deemed to be higher risk and therefore more likely to result in credit losses. We established specific and pooled reserves on the total commercial lending category of $2.9 billion at September 30, 2010. This commercial lending reserve provided adequate and appropriate loss coverage on the higher risk commercial loans in the total commercial portfolio. The commercial lending reserve represented 56% of the total allowance for loan and lease losses of $5.2 billion at that date. The remaining 44% of the allowance for loan and lease losses pertained to the total consumer lending category. This category of loans is more homogenous in nature and has certain characteristics that can be assessed at a total portfolio level in terms of loans representing higher risk. We do not consider government insured/government guaranteed loans to be higher risk as we do not believe these loans will result in a significant loss because of their structure. Such loans are excluded from the following assessment of higher risk loans.

Our home equity lines of credit and installment loans outstanding totaled $34.6 billion at September 30, 2010. In this portfolio, we consider the higher risk loans to be those with a recent FICO credit score of less than or equal to 660 and an original loan-to-value ratio greater than 90%. Such loans totaled $1.2 billion or approximately 4% of the total home equity line of credit and installment loans at September 30, 2010. These higher risk loans were concentrated in our geographic footprint with 28% in

Pennsylvania, 13% in Ohio, 11% in New Jersey, 7% in Illinois, 6% in Michigan, and 5% in Kentucky, with the remaining loans dispersed across several other states. Option ARM loans and negative amortization loans in this portfolio were not significant. Within the higher risk home equity portfolio, approximately 12% are in some stage of delinquency and 6% are in late stage (90+ days) delinquency status.

In our $15.7 billion residential mortgage portfolio, loans with a recent FICO credit score of less than or equal to 660 and a recent loan-to-value ratio greater than 90% totaled $.7 billion and comprised approximately 4% of this portfolio at September 30, 2010. Twenty-three percent of the higher risk loans are located in California, 12% in Florida, 11% in Illinois, 8% in Maryland, 5% in Pennsylvania, and 5% in New Jersey, with the remaining loans dispersed across several other states. Option ARM loans and negative amortization loans in this portfolio were not significant. Within the higher risk residential mortgage portfolio of $.7 billion, approximately 47% are in some stage of delinquency and 36% are in 90+ days late stage delinquency status.

Within our broader home equity lines of credit, installment loans and residential mortgage portfolios, approximately 5% of the aggregate $50.3 billion loan outstandings have loan-to-value ratios in excess of 100%. The impact of housing price depreciation is reflected in the allowance for loans and lease losses as a result of the consumer reserve methodology process. The consumer reserve process is sensitive to collateral values which in turn affect loan loss severity. While our consumer reserve methodology strives to reflect all significant risk factors, there is an element of uncertainty associated with, but not limited to, potential imprecision in the estimation process due to the inherent time lag of obtaining information such as housing price depreciation. We provide additional reserves where appropriate to provide coverage for losses attributable to such risks.

We obtain updated property values annually for select residential mortgage loan portfolios. We are expanding this valuation process to update the property values on the majority of our real estate secured consumer loan portfolios.

Information related to purchased impaired loans, purchase accounting accretion and accretable net interest recognized during the first nine months of 2010 in connection with our acquisition of National City follows.

Valuation of Purchased Impaired Loans

Dollars in billions	December 31, 2008 Balance	December 31, 2008 Net Investment	December 31, 2009 Balance	December 31, 2009 Net Investment	**September 30, 2010 Balance**	**September 30, 2010 Net Investment**
Commercial and commercial real estate loans:						
Unpaid principal balance	$ 6.3		$ 3.5		**$ 2.2**	
Purchased impaired mark	(3.4)		(1.3)		**(.7)**	
Recorded investment	2.9		2.2		**1.5**	
Allowance for loan losses			(.2)		**(.3)**	
Net investment	2.9	46%	2.0	57%	**1.2**	**55%**
Consumer and residential mortgage loans:						
Unpaid principal balance	15.6		11.7		**8.4**	
Purchased impaired mark	(5.8)		(3.6)		**(1.8)**	
Recorded investment	9.8		8.1		**6.6**	
Allowance for loan losses			(.3)		**(.6)**	
Net investment	9.8	63%	7.8	67%	**6.0**	**71%**
Total purchased impaired loans:						
Unpaid principal balance	21.9		15.2		**10.6**	
Purchased impaired mark (a)	(9.2)		(4.9)		**(2.5)**	
Recorded investment	12.7		10.3		**8.1**	
Allowance for loan losses			(.5)		**(.9)(b)**	
Net investment	$ 12.7	58%	$ 9.8	64%	**$ 7.2**	**68%**

(a) Comprised of $5.5 billion of nonaccretable principal cash flows and $3.7 billion of accretable total cash flows at December 31, 2008, $1.4 billion of nonaccretable principal cash flows and $3.5 billion of accretable total cash flows at December 31, 2009, and $.2 billion of nonaccretable principal cash flows and $2.3 billion of accretable total cash flows at September 30, 2010.

(b) Impairment reserves of $.9 billion at September 30, 2010 reflect impaired loans with further credit quality deterioration since acquisition. This deterioration was more than offset by the cash received to date in excess of recorded investment of $.6 billion and the net reclassification to accretable, to be recognized over time, of $.9 billion.

The unpaid principal balance of purchased impaired loans declined from $21.9 billion at December 31, 2008 to $10.6 billion at September 30, 2010 due to amounts determined to be uncollectible, payoffs and disposals. The remaining purchased impaired mark at September 30, 2010 was $2.5 billion which was a decline from $9.2 billion at December 31, 2008. The net investment of $12.7 billion at December 31, 2008 declined 43% to $7.2 billion at September 30, 2010 primarily due to payoffs, disposals and further impairment partially offset by accretion during 2009 and the first nine months of 2010. At September 30, 2010, our largest individual purchased impaired loan had a recorded investment of $21 million.

We currently expect to collect total cash flows of $9.5 billion on purchased impaired loans, representing the $7.2 billion net investment at September 30, 2010 and the accretable net interest of $2.3 billion shown in the Accretable Net Interest table that follows.

Purchase Accounting Accretion

In millions	Three months ended Sept. 30 **2010**	Three months ended Sept. 30 2009	Nine months ended Sept. 30 **2010**	Nine months ended Sept. 30 2009
Non-impaired loans	**$ 70**	$ 172	**$ 293**	$ 662
Impaired loans	**187**	193	**710**	670
Reversal of contractual interest on impaired loans	**(138)**	(167)	**(408)**	(584)

Net impaired loans	**49**	26	**302**	86
Securities	**15**	25	**39**	97
Deposits	**122**	231	**433**	807
Borrowings	**(42)**	(58)	**(112)**	(195)
Total	**$ 214**	$ 396	**$ 955**	$ 1,457

Cash received in excess of recorded investment from sales or payoffs of impaired commercial loans (cash recoveries) totaled $350 million for the first nine months of 2010, including $111 million in the third quarter. We do not expect this level of cash recoveries to be sustainable on a quarterly basis.

Table of Contents

Remaining Purchase Accounting Accretion

In billions	Dec. 31 2008	Dec. 31 2009	**Sept. 30 2010**
Non-impaired loans	$ 2.4	$ 1.6	**$ 1.3**
Impaired loans (a)	3.7	3.5	**2.3**
Total loans (gross)	6.1	5.1	**3.6**
Securities	.2	.1	**.1**
Deposits	2.1	1.0	**.6**
Borrowings	(1.5)	(1.2)	**(1.1)**
Total	$ 6.9	$ 5.0	**$ 3.2**

(a) Adjustments include purchase accounting accretion, reclassifications from non-accretable to accretable net interest as a result of increases in estimated cash flows, and reductions in the accretable amount as a result of the identification of additional purchased impaired loans as of the National City acquisition close date of December 31, 2008.

Accretable Net Interest Purchased Impaired Loans

In billions	
January 1, 2010	$ 3.5
Accretion (including cash recoveries)	(1.1)
Net reclassifications to accretable from non-accretable	.1
Disposals	(.2)
September 30, 2010	$ 2.3

In billions	
January 1, 2009	$ 3.7
Accretion (including cash recoveries)	(2.2)
Adjustments resulting from changes in purchase price allocation	.3
Net reclassifications to accretable from non-accretable	.9
Disposals	(.4)
September 30, 2010	$ 2.3

Net unfunded credit commitments are comprised of the following:

Net Unfunded Credit Commitments

In millions	**Sept. 30 2010**	Dec. 31 2009
Commercial / commercial real estate (a)	**$ 59,834**	$ 60,143
Home equity lines of credit	**19,500**	20,367
Consumer credit card and other unsecured lines	**16,478**	18,800
Other	**1,335**	1,485
Total	**$ 97,147**	$ 100,795

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

Unfunded commitments are concentrated in our primary geographic markets. Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments are reported net of participations, assignments and syndications, primarily to financial institutions, totaling $15.3 billion at September 30, 2010 and $13.2 billion at December 31, 2009.

Unfunded credit commitments related to the consolidation of Market Street totaled $3.4 billion at September 30, 2010 and are now a component of PNC s total unfunded credit commitments. These amounts are included in the preceding table within the Commercial / commercial real estate category.

In addition to credit commitments, our net outstanding standby letters of credit totaled $9.9 billion at September 30, 2010 and $10.0 billion at December 31, 2009. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $509 million at September 30, 2010 and $6.2 billion at December 31, 2009 and are included in the preceding table primarily within the Commercial / commercial real estate category. Due to the consolidation of Market Street, $5.5 billion of unfunded liquidity facility commitments were no longer included in the amounts in the preceding table as of September 30, 2010.

Table of Contents

INVESTMENT SECURITIES

Details of Investment Securities

In millions	Amortized Cost	Fair Value
September 30, 2010		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	**$ 7,546**	**$ 7,883**
Residential mortgage-backed		
Agency	**28,470**	**29,093**
Non-agency	**8,663**	**7,581**
Commercial mortgage-backed		
Agency	**1,560**	**1,641**
Non-agency	**1,795**	**1,853**
Asset-backed	**2,897**	**2,702**
State and municipal	**1,578**	**1,601**
Other debt	**3,157**	**3,297**
Corporate stocks and other	**399**	**399**
Total securities available for sale	**$ 56,065**	**$ 56,050**
SECURITIES HELD TO MATURITY		
Debt securities		
Commercial mortgage-backed (non-agency)	**$ 4,378**	**$ 4,618**
Asset-backed	**3,024**	**3,104**
Other debt	**9**	**11**
Total securities held to maturity	**$ 7,411**	**$ 7,733**
December 31, 2009		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	$ 7,548	$ 7,520
Residential mortgage-backed		
Agency	24,076	24,438
Non-agency	10,419	8,302
Commercial mortgage-backed		
Agency	1,299	1,297
Non-agency	4,028	3,848
Asset-backed	2,019	1,668
State and municipal	1,346	1,350
Other debt	1,984	2,015
Corporate stocks and other	360	360
Total securities available for sale	$ 53,079	$ 50,798
SECURITIES HELD TO MATURITY		
Debt securities		
Commercial mortgage-backed (non-agency)	$ 2,030	$ 2,225
Asset-backed	3,040	3,136
Other debt	159	160
Total securities held to maturity	$ 5,229	$ 5,521

The carrying amount of investment securities totaled $63.5 billion at September 30, 2010 and $56.0 billion at December 31, 2009. The increase in investment securities reflected a $5.3 billion increase in securities available for sale and a $2.2 billion increase in securities held to maturity as excess liquidity was invested in short duration, high quality securities. Investment securities represented 24% of total assets at September 30, 2010 and 21% at December 31, 2009.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where

appropriate, take steps intended to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. US Treasury and government agencies, agency residential mortgage-backed securities and agency commercial mortgage-backed securities collectively represented 61% of the investment securities portfolio at September 30, 2010.

In March 2010, we transferred $2.2 billion of available for sale commercial mortgage-backed non-agency securities to the held to maturity portfolio. The transfer involved high-quality securities where management s intent to hold changed. In reassessing the classification of these securities, management considered the potential for the fair value of the securities to be adversely impacted, even where there is no indication of credit impairment.

At September 30, 2010, the securities available for sale portfolio included a net unrealized loss of $15 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2009 was a net unrealized loss of $2.3 billion. 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 significant decline in the net unrealized loss from December 31, 2009 was primarily the result of lower market interest rates and improving liquidity and credit spreads on non-agency residential mortgage-backed and non-agency commercial 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 would have an impact on 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 4.0 years at September 30, 2010 and 4.1 years at December 31, 2009.

We estimate that, at September 30, 2010, the effective duration of investment securities was 2.4 years for an immediate 50 basis points parallel increase in interest rates and 2.4 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2009 were 2.9 years and 2.5 years, respectively.

Table of Contents

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

	September 30, 2010				
	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	**$ 29,093**	**$ 1,641**	**$ 7,581**	**$ 1,853**	**$ 2,702**
Fair Value Held to Maturity				**4,618**	**3,104**
Total Fair Value	**$ 29,093**	**$ 1,641**	**$ 7,581**	**$ 6,471**	**$ 5,806**
% of Fair Value:					
By Vintage					
2010	**23%**	**29%**			**6%**
2009	**22%**	**39%**		**3%**	**15%**
2008	**9%**	**6%**			**17%**
2007	**14%**	**3%**	**17%**	**10%**	**12%**
2006	**7%**	**6%**	**23%**	**30%**	**13%**
2005 and earlier	**25%**	**17%**	**60%**	**57%**	**15%**
Not Available					**22%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By Credit Rating					
Agency	**100%**	**100%**			
AAA			**8%**	**87%**	**72%**
AA			**4%**	**5%**	**6%**
A			**5%**	**4%**	**4%**
BBB			**4%**	**3%**	
BB			**11%**	**1%**	**1%**
B			**19%**		**4%**
Lower than B			**49%**		**11%**
No rating					**2%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By FICO Score					
>720			**60%**		**4%**
<720 and >660			**31%**		**8%**
<660					**3%**
No FICO score	**N/A**	**N/A**	**9%**	**N/A**	**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 Balance Sheet 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 there is no intent to sell and it is not more likely than not that we would be required to sell the security prior to expected recovery. The remaining portion of OTTI charges is included in accumulated other comprehensive loss.

Table of Contents

We recognized OTTI for the first nine months and third quarter of 2010 and 2009 as follows:

Other-Than-Temporary Impairments

In millions	Three months ended September 30 **2010**	2009	Nine months ended September 30 **2010**	2009
Credit portion of OTTI losses (a)	**$ (71)**	$ (129)	**$ (281)**	$ (433)
Noncredit portion of OTTI losses (b)	**(46)**	(272)	**(194)**	(1,107)
Total OTTI losses	**$ (117)**	$ (401)	**$ (475)**	$ (1,540)

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

Included below is detail on the net unrealized losses and OTTI credit 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 third quarter and first nine months of 2010 by investment type is included in Note 7 Investment Securities in the Notes To Consolidated Financial Statements of this Report.

	September 30, 2010					
In millions	Residential Mortgage-Backed Securities		Commercial Mortgage-Backed Securities		Asset-Backed Securities (a)	
AVAILABLE FOR SALE SECURITIES (NON-AGENCY)						
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
Credit Rating Analysis						
AAA	**$ 580**	**$ (24)**	**$ 1,131**	**$ 50**	**$ 1,527**	**$ 4**
Other Investment Grade (AA, A, BBB)	**1,027**	**(49)**	**667**	**13**	**277**	**(6)**
Total Investment Grade	**1,607**	**(73)**	**1,798**	**63**	**1,804**	**(2)**
BB	**798**	**(121)**	**49**	**(7)**	**2**	
B	**1,436**	**(221)**	**6**	**2**	**222**	**(39)**
Lower than B	**3,740**	**(667)**			**641**	**(129)**
No Rating					**29**	**(25)**
Total Sub-Investment Grade	**5,974**	**(1,009)**	**55**	**(5)**	**894**	**(193)**
Total	**$ 7,581**	**$ (1,082)**	**$ 1,853**	**$ 58**	**$ 2,698**	**$ (195)**
OTTI Analysis						
Investment Grade:						
OTTI has been recognized	**$ 62**	**$ (12)**				
No OTTI recognized to date	**1,545**	**(61)**	**$ 1,798**	**$ 63**	**$ 1,804**	**$ (2)**
Total Investment Grade	**1,607**	**(73)**	**1,798**	**63**	**1,804**	**(2)**
Sub-Investment Grade:						
OTTI has been recognized	**3,610**	**(838)**	**18**	**(1)**	**639**	**(160)**
No OTTI recognized to date	**2,364**	**(171)**	**37**	**(4)**	**255**	**(33)**
Total Sub-Investment Grade	**5,974**	**(1,009)**	**55**	**(5)**	**894**	**(193)**
Total	**$ 7,581**	**$ (1,082)**	**$ 1,853**	**$ 58**	**$ 2,698**	**$ (195)**
SECURITIES HELD TO MATURITY (NON-AGENCY)						

Credit Rating Analysis				
AAA	**$ 4,510**	**$ 239**	**$ 2,676**	**$ 67**
Other Investment Grade (AA, A, BBB)	**108**	**1**	**290**	**7**
Total Investment Grade	**4,618**	**240**	**2,966**	**74**
BB			**16**	
B			**2**	
Lower than B			**10**	
No Rating			**98**	**6**
Total Sub-Investment Grade			**126**	**6**
Total	**$ 4,618**	**$ 240**	**$ 3,092**	**$ 80**

(a) Table excludes $4 million and $12 million of available for sale and held to maturity agency asset-backed securities, respectively.

Residential Mortgage-Backed Securities

At September 30, 2010, our residential mortgage-backed securities portfolio was comprised of $29.1 billion fair value of US government agency-backed securities and $7.6 billion fair value of non-agency (private issuer) securities. The agency securities are generally collateralized by 1-4 family, conforming, fixed-rate residential mortgages**.** The non-agency securities are also generally collateralized by 1-4 family residential mortgages. The mortgage loans underlying the non-agency securities are generally non-conforming (i.e., original balances in excess of the amount qualifying for agency securities) and predominately have interest rates that are fixed for a period of time, after which the rate adjusts to a floating rate based upon a contractual spread that is indexed to a market rate (i.e., a hybrid ARM), or interest rates that are fixed for the term of the loan.

Substantially all of the 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.

During the first nine months of 2010, we recorded OTTI credit losses of $211 million on non-agency residential mortgage-backed securities, including $57 million in the third quarter. As of September 30, 2010, $207 million of the year-to-date credit losses related to securities rated below investment grade. As of September 30, 2010, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for non-agency residential mortgage-backed securities totaled $850 million and the related securities had a fair value of $3.7 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of September 30, 2010 totaled $2.4 billion, with unrealized net losses of $171 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 of this Report provides further detail regarding our process for assessing OTTI for these securities.

Commercial Mortgage-Backed Securities

The fair value of the non-agency commercial mortgage-backed securities portfolio was $6.5 billion at September 30, 2010 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 $1.6 billion fair value at September 30, 2010 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

OTTI credit losses on commercial mortgage-backed securities for the first nine months of 2010 were not significant. In addition, the noncredit portion of OTTI losses recorded in

accumulated other comprehensive loss for commercial mortgage-backed securities and the fair value of the related securities at September 30, 2010 were not significant. The remaining fair value for which OTTI was previously recorded approximates zero.

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $5.8 billion at September 30, 2010 and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including residential mortgage loans, credit cards, and automobile 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.

During the first nine months of 2010, we recorded OTTI credit losses of $67 million on asset-backed securities, including $14 million in the third quarter. All of the securities were collateralized by first and second lien residential mortgage loans and were rated below investment grade. As of September 30, 2010, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for asset-backed securities totaled $160 million and the related securities had a fair value of $639 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 September 30, 2010, the remaining fair value was $381 million, with unrealized net losses of $27 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 of this Report provides further detail regarding our process for assessing OTTI for these securities.

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

LOANS HELD FOR SALE

In millions	**Sept. 30 2010**	Dec. 31 2009
Commercial mortgages at fair value	**$ 1,028**	$ 1,050
Commercial mortgages at lower of cost or market	**353**	251
Total commercial mortgages	**1,381**	1,301
Residential mortgages at fair value	**1,777**	1,012
Residential mortgages at lower of cost or market	**9**	
Total residential mortgages	**1,786**	1,012
Other	**108**	226
Total	**$ 3,275**	$ 2,539

Table of Contents

We stopped originating certain commercial mortgage loans designated as held for sale during the first quarter of 2008 and continue pursuing opportunities to reduce these positions at appropriate prices. We sold $82 million of commercial mortgage loans held for sale carried at fair value in the first nine months of 2010 and sold $234 million in the first nine months of 2009.

We recognized net losses of $6 million in the first nine months of 2010 on the valuation and sale of commercial mortgage loans held for sale, net of hedges, including net gains of $7 million in the third quarter. Net gains of $62 million on the valuation and sale of commercial mortgages loans held for sale, net of hedges, were recognized in the first nine months of 2009, including $28 million in the third quarter.

Residential mortgage loan origination volume was $7.0 billion in the first nine months of 2010. Substantially all such loans were originated to agency or FHA standards. We sold $6.6 billion of loans and recognized related gains of $165 million during the first nine months of 2010, of which $77 million occurred in the third quarter. The comparable amounts for the first nine months of 2009 were $17.0 billion and $409 million, respectively, including $83 million in the third quarter.

Interest income on loans held for sale was $208 million for the first nine months of 2010, including $55 million in the third quarter. Comparable amounts in 2009 were $195 million and $68 million, respectively.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $10.5 billion at September 30, 2010 compared with $12.9 billion at December, 31, 2009. Goodwill declined $1.3 billion, to $8.2 billion, at September 30, 2010 compared with the year-end balance primarily due to the sale of GIS which reduced goodwill by $1.2 billion. The $1.1 billion decline in other intangible assets from December 31, 2009 included a $.5 billion decline in residential mortgage servicing rights and a $.3 billion decline in commercial mortgage servicing rights. Note 9 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements of this Report provides further information on these items.

Funding and Capital Sources

Details Of Funding Sources

In millions	**Sept. 30 2010**	Dec. 31 2009
Deposits		
Money market	**$ 82,386**	$ 85,838
Demand	**45,811**	40,406
Retail certificates of deposit	**40,716**	48,622
Savings	**7,099**	6,401
Other time	**686**	1,088
Time deposits in foreign offices	**2,485**	4,567
Total deposits	**179,183**	186,922
Borrowed funds		
Federal funds purchased and repurchase agreements	**4,661**	3,998
Federal Home Loan Bank borrowings	**7,106**	10,761
Bank notes and senior debt	**13,508**	12,362
Subordinated debt	**10,023**	9,907
Other	**4,465**	2,233
Total borrowed funds	**39,763**	39,261
Total	**$ 218,946**	$ 226,183

Total funding sources decreased $7.2 billion, or 3%, at September 30, 2010 compared with December 31, 2009.

Total deposits decreased $7.7 billion at September 30, 2010 compared with December 31, 2009. Deposits decreased in the comparison primarily due to declines in retail certificates of deposit and money market deposits partially offset by an increase in demand deposits.

Interest-bearing deposits represented 74% of total deposits at September 30, 2010 compared with 76% at December 31, 2009.

Total borrowed funds increased $.5 billion since December 31, 2009. Other borrowed funds increased $2.2 billion in the comparison primarily due to an increase in commercial paper borrowings of $2.3 billion with the consolidation of Market Street. Bank notes and senior debt increased $1.1 billion since year-end. These increases were partially offset by a decline of $3.7 billion in Federal Home Loan Bank borrowings since December 31, 2009.

Capital

PNC increased common equity during the first nine months of 2010 as outlined below. 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.

Table of Contents

Total shareholders equity increased $.1 billion, to $30.0 billion, at September 30, 2010 compared with December 31, 2009 and included the impact of the following:

- The first quarter 2010 issuance of 63.9 million shares of common stock in an underwritten offering at $54 per share resulted in a $3.4 billion increase in total shareholders equity,
- An increase of $2.0 billion to retained earnings, and
- A positive swing of $2.1 billion in accumulated other comprehensive income (loss) largely due to decreases in net unrealized securities losses as more fully described in the Investment Securities portion of this Consolidated Balance Sheet Review.

The factors above were mostly offset by a decline of $7.3 billion in capital surplus preferred stock in connection with our February 2010 redemption of the Series N (TARP) Preferred Stock as explained further in Note 14 Total Equity And Other Comprehensive Income in the Notes To Consolidated Financial Statements in this Report.

Common shares outstanding were 526 million at September 30, 2010 and 462 million at December 31, 2009. Our first quarter 2010 common stock offering referred to above drove this increase.

Since our acquisition of National City on December 31, 2008, we have increased total common shareholders equity by $11.9 billion, or 68%. We expect to continue to increase our common equity as a proportion of total capital through growth in retained earnings and will consider other capital opportunities as appropriate.

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 during the first nine months of 2010 under this program and, as described in our 2009 Form 10-K, were restricted from doing so under the TARP Capital Purchase Program prior to our February 2010 redemption of the Series N Preferred Stock.

Risk-Based Capital

Dollars in millions	**Sept. 30 2010**	Dec. 31 2009
Capital components		
Shareholders equity		
Common	**$ 29,394**	$ 21,967
Preferred	**648**	7,975
Trust preferred capital securities	**2,941**	2,996
Noncontrolling interests	**1,350**	1,611
Goodwill and other intangible assets	**(9,111)**	(10,652)
Eligible deferred income taxes on goodwill and other intangible assets	**528**	738
Pension, other postretirement benefit plan adjustments	**402**	542
Net unrealized securities losses, after-tax	**86**	1,575
Net unrealized losses (gains) on cash flow hedge derivatives, after-tax	**(655)**	(166)
Other	**(207)**	(63)
Tier 1 risk-based capital	**25,376**	26,523
Subordinated debt	**5,143**	5,356
Eligible allowance for credit losses	**2,704**	2,934
Total risk-based capital	**$ 33,223**	$ 34,813
Tier 1 common capital		
Tier 1 risk-based capital	**$ 25,376**	$ 26,523
Preferred equity	**(648)**	(7,975)
Trust preferred capital securities	**(2,941)**	(2,996)
Noncontrolling interests	**(1,350)**	(1,611)

Tier 1 common capital	**$ 20,437**	$ 13,941
Assets		
Risk-weighted assets, including off- balance sheet instruments and market risk equivalent assets	**$ 213,655**	$ 232,257
Adjusted average total assets	**255,800**	263,103
Capital ratios		
Tier 1 risk-based	**11.9%**	11.4%
Tier 1 common	**9.6**	6.0
Total risk-based	**15.6**	15.0
Leverage	**9.9**	10.1

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 the economic downturn. 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 this metric is not provided for in the regulations. We seek to manage our capital consistent with these regulatory principles, and believe that our September 30, 2010 capital levels were aligned with them.

Table of Contents

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 early redemption 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.

Our Tier 1 risk-based capital ratio increased 50 basis points to 11.9% at September 30, 2010 from 11.4% at December 31, 2009. Our Tier 1 common capital ratio was 9.6% at September 30, 2010, an increase of 360 basis points compared with 6.0% at December 31, 2009. Increases in both ratios were attributable to retention of earnings in 2010, the first quarter 2010 equity offering, the third quarter 2010 sale of GIS, and lower risk-weighted assets. The increases in the Tier 1 risk-based capital ratio noted above were offset by the impact of the $7.6 billion first quarter 2010 redemption of the Series N (TARP) Preferred Stock. See Note 14 Total Equity And Other Comprehensive Income in the Notes To Consolidated Financial Statements in this Report for additional information regarding the Series N Preferred Stock redemption.

At September 30, 2010, PNC Bank, N.A., our domestic bank subsidiary, was considered well capitalized based on US regulatory capital ratio requirements, which are indicated on page 2 of this Report. We believe PNC Bank, N.A. will continue to meet these requirements during the remainder of 2010.

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.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

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

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Financial Review,
- Note 3 Loan Sale and Servicing Activities and Variable Interest Entities,
- Note 18 Commitments and Guarantees and
- Both Note 3 and Note 18 are in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

On January 1, 2010, we adopted ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This guidance removes the scope exception for qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity (VIE) and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. VIEs are assessed for consolidation under Topic 810 when we hold variable interests in these entities. PNC consolidates 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. Effective January 1, 2010, we consolidated Market Street, a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments. We recorded consolidated assets of $4.2 billion, consolidated liabilities of $4.2 billion, and an after-tax cumulative effect adjustment to retained earnings of $92 million upon adoption.

Table of Contents

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 September 30, 2010 and December 31, 2009, respectively.

Consolidated VIEs Carrying Value (a)

September 30, 2010 In millions	Market Street	Credit Card Securitization Trust	Tax Credit Investments (b)	Credit Risk Transfer Transaction	Total
Assets					
Cash and due from banks			**$ 2**		**$ 2**
Interest-earning deposits with banks			**5**		**5**
Investment securities	**$ 202**				**202**
Loans	**2,094**	**$ 2,103**		**$ 447**	**4,644**
Allowance for loan and lease losses		**(213)**		**(6)**	**(219)**
Equity investments			**1,177**		**1,177**
Other assets	**339**	**3**	**435**	**10**	**787**
Total assets	**$ 2,635**	**$ 1,893**	**$ 1,619**	**$ 451**	**$ 6,598**
Liabilities					
Other borrowed funds	**$ 2,298**	**$ 523**	**$ 116**		**$ 2,937**
Accrued expenses			**79**		**79**
Other liabilities	**336**		**187**		**523**
Total liabilities	**$ 2,634**	**$ 523**	**$ 382**		**$ 3,539**

(a) Amounts represent carrying value on PNC s Consolidated Balance Sheet.
(b) Amounts reported primarily represent LIHTC investments.

Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities
September 30, 2010		
Market Street	**$ 3,220**	**$ 3,226**
Credit Card Securitization Trust	**2,231**	**995**
Tax Credit Investments (a)	**1,631**	**417**
Credit Risk Transfer Transaction	**766**	**766**
December 31, 2009		
Tax Credit Investments (a)	$ 1,933	$ 808
Credit Risk Transfer Transaction	860	860

(a) Amounts reported primarily represent LIHTC investments.

Aggregate assets and aggregate liabilities differ from the consolidated carrying value of assets and liabilities due to elimination of intercompany assets and liabilities held by the consolidated VIE.

Non-Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk	Carrying	Carrying

			of Loss	Value of Assets	Value of Liabilities
September 30, 2010					
Tax Credit Investments (a)	**$ 3,818**	**$ 2,028**	**$ 850**	**$ 850(c)**	**$ 347(d)**
Commercial Mortgage-Backed Securitizations (b)	**73,206**	**73,206**	**1,727**	**1,727(e)**	
Residential Mortgage-Backed Securitizations (b)	**47,585**	**47,585**	**1,936**	**1,930(e)**	**6(d)**
Collateralized Debt Obligations	**18**		**2**	**2(c)**	
Total	**$ 124,627**	**$ 122,819**	**$ 4,515**	**$ 4,509**	**$ 353**

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
December 31, 2009			
Market Street	$ 3,698	$ 3,718	$ 6,155(f)
Tax Credit Investments (a)	1,786	1,156	743
Collateralized Debt Obligations	23		2
Total	$ 5,507	$ 4,874	$ 6,900

(a) Amounts reported primarily represent LIHTC investments. Aggregate assets and aggregate liabilities represent estimated balances due to limited availability of financial information associated with certain acquired partnerships.

Table of Contents

(b) Amounts reported reflect involvement with securitization SPEs where PNC transferred to and/or services loans for a SPE and we hold securities issued by that SPE. 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.
(f) PNC s risk of loss consisted of off-balance sheet liquidity commitments to Market Street of $5.6 billion and other credit enhancements of $.6 billion at December 31, 2009.

Market Street

Market Street is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street s activities primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets or loans by issuing commercial paper and is supported by pool-specific credit enhancements, liquidity facilities and 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 2009 and the first nine months of 2010, Market Street met all of its funding needs through the issuance of commercial paper.

Market Street commercial paper outstanding was $2.3 billion at September 30, 2010 and $3.1 billion at December 31, 2009. The weighted average maturity of the commercial paper was 39 days at September 30, 2010 and 36 days at December 31, 2009.

During 2009, PNC Capital Markets, acting as a placement agent for Market Street, held a maximum daily position in Market Street commercial paper of $135 million with an average balance of $19 million. This compares with a maximum daily position and an average balance of zero for the first nine months of 2010. PNC Capital Markets owned no Market Street commercial paper at September 30, 2010 and December 31, 2009. PNC Bank, N.A. made no purchases of Market Street commercial paper during the first nine months of 2010.

Assets of Market Street (a)

In millions	Outstanding	Commitments	Weighted Average Remaining Maturity In Years
December 31, 2009			
Trade receivables	$ 1,551	$ 4,105	2.01
Automobile financing	480	480	4.20
Auto fleet leasing	412	543	.85
Collateralized loan obligations	126	150	.36
Residential mortgage	13	13	26.01
Other	534	567	1.65
Cash and miscellaneous receivables	582		
Total	$ 3,698	$ 5,858	2.06

(a) Market Street did not recognize an asset impairment charge or experience any material rating downgrades during 2009.

Market Street Commitments by Credit Rating (a)

	September 30, 2010	December 31, 2009
AAA/Aaa	**26%**	14%

AA/Aa	**61**	50
A/A	**12**	34
BBB/Baa	1	2
Total	**100%**	100%

(a) The majority of our facilities are not explicitly rated by the rating agencies. All facilities are structured to meet rating agency standards for applicable rating levels.

Perpetual Trust Securities

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

In February 2008, PNC Preferred Funding LLC (the LLC), one of our indirect subsidiaries, sold $375 million of 8.700% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities of PNC Preferred Funding Trust III (Trust III) to third parties in a private placement. In connection with the private placement, Trust III acquired $375 million of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Securities of the LLC (the LLC Preferred Securities). The sale was similar to the March 2007 private placement by the LLC of $500 million of 6.113% Fixed-to-Floating Rate Non-Cumulative Exchangeable Trust Securities (the Trust II Securities) of PNC Preferred Funding Trust II (Trust II) in which Trust II acquired $500 million of LLC Preferred Securities and to the December 2006 private placement by PNC REIT Corp. of $500 million of 6.517% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities (the Trust I Securities) of PNC Preferred Funding Trust I (Trust I) in which Trust I acquired $500 million of LLC Preferred Securities.

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

Our 2009 Form 10-K includes additional information regarding the Trust I and Trust II Securities, including descriptions of replacement capital covenants.

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

PNC Bank, N.A. has contractually committed to Trust I that if full dividends are not paid in a dividend period on the Trust I Securities, LLC Preferred Securities or any other parity equity securities issued by the LLC, neither PNC Bank, N.A. nor its subsidiaries will declare or pay dividends or other distributions with respect to, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its equity capital securities during the next succeeding period (other than to holders of the LLC Preferred Securities and any parity equity securities issued by the LLC) except: (i) in the case of dividends payable to subsidiaries of PNC Bank, N.A., to PNC Bank, N.A. or another wholly-owned subsidiary of PNC Bank, N.A. or (ii) in the case of dividends payable to persons that are not subsidiaries of PNC Bank, N.A., to such persons only if, (A) in the case of a cash dividend, PNC has first irrevocably committed to contribute amounts at least equal to such cash dividend or (B) in the case of in-kind dividends payable by PNC REIT Corp., PNC has committed to purchase such in-kind dividend from the applicable PNC REIT Corp. holders in exchange for a cash payment representing the market value of such in-kind dividend, and PNC has committed to contribute such in-kind dividend to PNC Bank, N.A.

PNC Capital Trust E Trust Preferred Securities

In February 2008, PNC Capital Trust E issued $450 million of 7.75% Trust Preferred Securities due March 15, 2068 (the Trust E Securities). PNC Capital Trust E s only assets are $450 million of 7.75% Junior Subordinated Notes due

March 15, 2068 and issued by PNC (the JSNs). The Trust E Securities are fully and unconditionally guaranteed by PNC. We may, at our option, redeem the JSNs at 100% of their principal amount on or after March 15, 2013.

In connection with the closing of the Trust E Securities sale, we agreed that, if we have given notice of our election to defer interest payments on the JSNs or a related deferral period is continuing, then PNC would be subject during such period to restrictions on dividends and other provisions protecting the status of the JSN debenture holder similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described above. PNC Capital Trusts C and D have similar protective provisions with respect to $500 million in principal amount of junior subordinated debentures. Also, in connection with the closing of the Trust E Securities sale, we entered into a replacement capital covenant as described more fully in our 2009 Form 10-K.

Acquired Entity Trust Preferred Securities

As a result of the National City acquisition, we assumed obligations with respect to $2.4 billion in principal amount of junior subordinated debentures issued by the acquired entity. As a result of the Mercantile, Yardville and Sterling acquisitions, we assumed obligations with respect to $158 million in principal amount of junior subordinated debentures issued by the acquired entities. As described in Note 10 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in our Notes To Consolidated Financial Statements in this Report, in September 2010 we redeemed $71 million in principal amounts related to the junior subordinated debentures issued by the acquired entities. Under the terms of the outstanding debentures, if there is an event of default under the debentures or PNC exercises its right to defer payments on the related trust preferred securities issued by the statutory trusts or there is a default under PNC s guarantee of such payment obligations, PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described above.

As more fully described in our 2009 Form 10-K, we are subject to replacement capital covenants with respect to four tranches of junior subordinated debentures inherited from National City as well as a replacement capital covenant with respect to our Series L Preferred Stock. As a result of a successful consent solicitation of the holders of our 6.875% Subordinated Notes due May 15, 2019, we terminated the replacement

capital covenants with respect to these four tranches of junior subordinated debentures and our Series L Preferred Stock on November 5, 2010.

Table of Contents

Fair Value Measurements

In addition to the following, see Note 8 Fair Value in the Notes To Consolidated Financial Statements under Part 1, Item 1 of this Report for further information regarding fair value.

Assets recorded at fair value represented 28% and 23% of total assets at September 30, 2010 and December 31, 2009, respectively. The increase in the percentage of total assets recorded at fair value at September 30, 2010 compared with the prior year end was primarily due to increases in securities available for sale and financial derivatives. Liabilities recorded at fair value represented 3% and 2% of total liabilities at September 30, 2010 and December 31, 2009, respectively.

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

	Sept. 30, 2010		Dec. 31, 2009	
In millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Assets				
Securities available for sale	**$ 56,050**	**$ 9,024**	$ 50,798	$ 9,933
Financial derivatives	**7,856**	**120**	3,916	50
Residential mortgage loans held for sale	**1,777**		1,012	
Trading securities	**955**	**71**	2,124	89
Residential mortgage servicing rights	**788**	**788**	1,332	1,332
Commercial mortgage loans held for sale	**1,028**	**1,028**	1,050	1,050
Equity investments	**1,375**	**1,375**	1,188	1,188
Customer resale agreements	**921**		990	
Loans	**90**		107	
Other assets	**780**	**361**	716	509
Total assets	**$ 71,620**	**$ 12,767**	$ 63,233	$ 14,151
Level 3 assets as a percentage of total assets at fair value		**18%**		22%
Level 3 assets as a percentage of consolidated assets		**5%**		5%
Liabilities				
Financial derivatives	**$ 6,233**	**$ 403**	$ 3,839	$ 506
Trading securities sold short	**872**		1,344	
Other liabilities	**8**		6	
Total liabilities	**$ 7,113**	**$ 403**	$ 5,189	$ 506
Level 3 liabilities as a percentage of total liabilities at fair value		**6%**		10%
Level 3 liabilities as a percentage of consolidated liabilities		**<1%**		<1%

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

During the first nine months of 2010, no material transfers of assets or liabilities between the hierarchy levels occurred.

Table of Contents

BUSINESS SEGMENTS REVIEW

We have six reportable business segments:

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

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

Results of individual businesses are presented based on our 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. As a result of its sale, GIS is no longer a reportable business segment. 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. Capital is intended to cover unexpected losses and is assigned to the banking and servicing businesses using our risk-based economic capital model. We have assigned capital equal to 6% of funds to Retail Banking to reflect the capital required for well-capitalized domestic banks and to approximate market comparables for this business.

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

Total business segment financial results differ from total consolidated results from continuing operations before noncontrolling interests, which itself excludes the earnings and revenue attributable to GIS, including the related after-tax third quarter 2010 sale of GIS that are reflected in discontinued operations. The impact of these differences is reflected in the Other category. Other for purposes of this Business Segments Review and the Business Segment Highlights in the Executive Summary includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions including LTIP share distributions and obligations, integration costs, asset and liability management activities including net securities gains or losses and certain trading activities, exited businesses, equity management activities, alternative investments, intercompany eliminations, most corporate overhead, and differences between business segment performance reporting and financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests.

Period-end Employees

	Sept. 30 2010	Dec. 31 2009	Sept. 30 2009
Full-time employees			
Retail Banking	**21,203**	21,416	21,644
Corporate & Institutional Banking	**3,660**	3,746	3,861
Asset Management Group	**2,971**	2,969	3,076
Residential Mortgage Banking	**3,339**	3,267	3,606

Distressed Assets Portfolio	**170**	175	157
Other			
Operations & Technology	**8,689**	9,249	9,373
Staff Services and other (a)	**4,588**	8,939	8,812
Total Other	**13,277**	18,188	18,185
Total full-time employees	**44,620**	49,761	50,529
Retail Banking part-time employees	**4,799**	4,737	4,859
Other part-time employees	**974**	1,322	1,520
Total part-time employees	**5,773**	6,059	6,379
Total	**50,393**	55,820	56,908

(a) Includes employees of GIS 4,450 at December 31, 2009 and 4,561 at September 30, 2009. We sold GIS effective July 1, 2010.

Employee data as reported by each business segment in the table above reflects staff directly employed by the respective businesses and excludes operations, technology and staff services employees reported in the Other segment. Total employees have decreased since September 30, 2009 primarily as a result of the sale of GIS and integration and conversion activities related to our National City acquisition.

Table of Contents

Results Of Businesses Summary

(Unaudited)

Nine months ended September 30 in millions	Income (Loss) 2010	Income (Loss) 2009	Revenue 2010	Revenue 2009	Average Assets (a) 2010	Average Assets (a) 2009
Retail Banking (b)	**$ 97**	$ 161	**$ 4,101**	$ 4,342	**$ 67,380**	$ 65,281
Corporate & Institutional Banking	**1,230**	775	**3,537**	3,889	**77,764**	86,391
Asset Management Group	**112**	82	**665**	701	**7,043**	7,367
Residential Mortgage Banking	**272**	410	**774**	1,152	**8,903**	8,289
BlackRock	**253**	151	**326**	191	**6,275**	4,599
Distressed Assets Portfolio	**8**	172	**927**	932	**18,246**	23,627
Total business segments	**1,972**	1,751	**10,330**	11,207	**185,611**	195,554
Other (b) (c) (d)	**232**	(496)	**943**	135	**79,744**	83,006
Income from continuing operations before noncontrolling interests (e)	**$ 2,204**	$ 1,255	**$ 11,273**	$ 11,342	**$ 265,355**	$ 278,560

(a) Period-end balances for BlackRock.

(b) Amounts for 2009 include the results of the 61 branches divested by early September 2009.

(c) For our segment reporting presentation in this Financial Review, Other for the first nine months of 2010 and 2009 included $309 million and $266 million, respectively, of pretax integration costs related to National City.

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

(e) Amounts are presented on a continuing operations basis and therefore exclude the earnings, revenue, and assets of GIS, including the third quarter 2010 gain on sale of GIS.

Table of Contents

RETAIL BANKING

(Unaudited)

Nine months ended September 30

Dollars in millions	**2010 (a)**	2009 (b)
INCOME STATEMENT		
Net interest income	**$ 2,608**	$ 2,689
Noninterest income		
Service charges on deposits	**556**	701
Brokerage	**161**	186
Consumer services	**673**	662
Other	**103**	104
Total noninterest income	**1,493**	1,653
Total revenue	**4,101**	4,342
Provision for credit losses	**946**	921
Noninterest expense	**3,007**	3,158
Pretax earnings	**148**	263
Income taxes	**51**	102
Earnings	**$ 97**	$ 161
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	**$ 26,538**	$ 27,502
Indirect	**3,960**	4,049
Education	**8,409**	5,278
Credit cards	**3,975**	2,150
Other consumer	**1,792**	1,791
Total consumer	**44,674**	40,770
Commercial and commercial real estate	**11,302**	12,488
Floor plan	**1,287**	1,307
Residential mortgage	**1,669**	2,120
Total loans	**58,932**	56,685
Goodwill and other intangible assets	**5,881**	5,828
Other assets	**2,567**	2,768
Total assets	**$ 67,380**	$ 65,281
Deposits		
Noninterest-bearing demand	**$ 17,054**	$ 16,238
Interest-bearing demand	**19,654**	18,327
Money market	**40,045**	39,401
Total transaction deposits	**76,753**	73,966
Savings	**6,865**	6,621
Certificates of deposit	**42,749**	54,765
Total deposits	**126,367**	135,352
Other liabilities	**1,602**	58
Capital	**8,187**	8,564
Total liabilities and equity	**$ 136,156**	$ 143,974
PERFORMANCE RATIOS		
Return on average capital	**2%**	3%
Return on average assets	**.19**	.33
Noninterest income to total revenue	**36**	38
Efficiency	**73**	73
OTHER INFORMATION (c)		
Credit-related statistics:		
Commercial nonperforming assets	**$ 262**	$ 311
Consumer nonperforming assets	**400**	191
Total nonperforming assets (d)	**$ 662**	$ 502

Impaired loans (e)	**$ 939**	$ 1,161
Commercial lending net charge-offs	**$ 281**	$ 242
Credit card lending net charge-offs (on balance sheet)	**248**	152
Consumer lending (excluding credit card) net charge-offs	**316**	293
Total net charge-offs	**$ 845**	$ 687
Commercial lending annualized net charge-off ratio	**2.98%**	2.35%
Credit card annualized net charge-off ratio (on balance sheet)	**8.34%**	9.45%
Consumer lending (excluding credit card) annualized net charge-off ratio	**1.00%**	.96%
Total annualized net charge-off ratio	**1.92%**	1.62%
Other statistics:		
ATMs	**6,626**	6,463
Branches (f)	**2,461**	2,554

At September 30 Dollars in millions, except as noted	2010 (a)	2009 (b)
OTHER INFORMATION (CONTINUED) (C)		
Home equity portfolio credit statistics:		
% of first lien positions (g)	**35%**	35%
Weighted average loan-to-value ratios (g)	**73%**	74%
Weighted average FICO scores (h)	**725**	727
Annualized net charge-off ratio	**.87%**	.70%
Loans 30 89 days past due	**.79%**	.75%
Loans 90 days past due	**.94%**	.73%
Customer-related statistics:		
Retail Banking checking relationships (i)	**5,461,000**	5,392,000
Retail online banking active customers	**2,968,000**	2,682,000
Retail online bill payment active customers	**942,000**	753,000
Brokerage statistics:		
Financial consultants (j)	**713**	655
Full service brokerage offices	**40**	42
Brokerage account assets (billions)	**$ 31**	$ 30

(a) Information for 2010 reflects the impact of the consolidation in our financial statements for the securitized credit card portfolio of approximately $1.6 billion of credit card loans as of January 1, 2010.
(b) PNC completed the required divestiture of 61 branches in early September 2009. Amounts for periods prior to the divestiture included the impact of those branches.
(c) Presented as of September 30 except for net charge-offs and annualized net charge-off ratios, which are for the nine months ended.
(d) Includes nonperforming loans of $638 million at September 30, 2010 and $490 million at September 30, 2009.
(e) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.
(f) Excludes certain satellite branches that provide limited products and/or services.
(g) Includes loans from acquired portfolios for which lien position and loan-to-value information is not available.
(h) Represents the most recent FICO scores we have on file.
(i) Retail checking relationships for the prior period presented have been refined subsequent to completion of application system conversion activities related to the National City acquisition.
(j) Financial consultants provide services in full service brokerage offices and PNC traditional branches.

Retail Banking earned $97 million for the first nine months of 2010 compared with earnings of $161 million for the same period a year ago. Earnings declined from the prior year primarily due to lower revenues as a result of lower interest credits assigned to deposits and a decline in fees which were partially offset by well-managed expenses. Retail Banking continued to maintain its focus on growing customers and deposits, customer and employee satisfaction, investing in the business for future growth, as well as disciplined expense management during this period of market and economic uncertainty.

Information for the first nine months of 2010 reflects the impact of the consolidation in our financial statements of the securitized credit card portfolio of approximately $1.6 billion of credit card loans as of January 1, 2010. This consolidation impacted primarily the loan and borrowings categories on the balance sheet and nearly all major categories of our income statement.

Highlights of Retail Banking s performance for the first nine months of 2010 include the following:

- PNC successfully completed the conversion of customers at over 1,300 branches across nine states from National City Bank to PNC, providing further growth opportunities throughout our expanded footprint.

- Success in implementing Retail Banking s deposit strategy resulted in growth in average demand deposits of $2.1 billion, or 6%, over the prior year. Excluding approximately $0.9 billion of average demand deposits from year-to-date 2009 balances related to the 61 required branch divestitures completed in early September 2009, average demand deposits increased $3.0 billion, or 9%, over the prior year.
- Growth in demand deposits reflected the continued focus of Retail Banking on expanding and deepening customer relationships. Checking relationships grew by 67,000 from the beginning of 2010, better than expected in consideration of the impact of branch conversion activities in many markets. Markets not impacted by conversion activities had strong checking relationship results, and we have seen improved sales momentum in the acquired markets post-conversion, as a result of implementing our business model.
- Our investment in online banking capabilities continues to pay off. Active online bill payment and active online banking customers grew by 21% and 8%, respectively, during the first nine months of 2010. In a year-over-year comparison, active online bill pay and active online banking customers have increased 25% and 11%, respectively.
- For the second consecutive year, the Retail Bank was named a Gallup Great WorkPlace Award Winner, reflecting our brand attributes of ease, confidence and achievement. This recognition reflects our commitment to having an engaged workforce.
- PNC s expansive branch footprint covers nearly one-third of the U.S. population with a network of 2,461 branches and 6,626 ATM machines at September 30, 2010. We continue to invest in the branch network. In the first nine months of 2010, we opened 17 traditional and 18 in-store branches, and consolidated 87 branches. The decrease in branches was primarily driven by acquisition-related branch consolidations.

Total revenue for the first nine months of 2010 was $4.1 billion compared with $4.3 billion for the same period in 2009. Net interest income of $2.6 billion declined $81 million compared with the first nine months of 2009. Net interest income was negatively impacted by lower interest credits assigned to deposits, reflective of the rate environment, and benefited from the consolidation of the securitized credit card portfolio, higher demand deposits, and increased education loans.

Noninterest income declined $160 million over the first nine months of 2009. The decrease was due to a decrease in service charges on deposits related to lower overdraft charges, the negative impact of the consolidation of the securitized credit card portfolio, lower brokerage fees, and the impact of the

required branch divestitures partially offset by, higher transaction volume-related fees within consumer services.

In 2010, Retail Banking revenues are negatively impacted by the implementation of new federal regulations. These regulations include: 1) the new rules set forth in Regulation E related to overdraft charges, 2) the Credit CARD Act of 2009, and 3) the education lending portions of the Health Care and Education Reconciliation Act of 2010 (HCERA).

The negative impact of Regulation E on revenue for the fourth quarter of 2010 is expected to be approximately $100 million, or approximately $55 million more than its impact on the third quarter of 2010. Additionally, the full year 2010 negative impact of the Credit CARD Act on revenues will be approximately $75 million. A portion of this impact will be in the fourth quarter of 2010. These estimates do not include additional impacts to revenue for other changes that may be made in 2010 responding to market conditions, or other/additional regulatory requirements, or any offsetting impact of changes to products and/or pricing.

The education lending business will be adversely impacted by provisions of HCERA that went into effect on July 1, 2010. The law essentially eliminates the Federal Family Education Loan Program (FFELP), the federally guaranteed portion of this business available to private lenders. For 2009, we originated $2.6 billion of federally guaranteed loans under FFELP. We plan to continue to provide private education loans as another source of funding for students and families.

See additional information regarding Dodd-Frank in the Executive Summary section of this Financial Review. Over at least the next year, as regulatory agencies issue proposed and final regulations and as the new Consumer Financial Protection Bureau is organized, we will continue to evaluate the impact of Dodd-Frank.

The provision for credit losses was $946 million through September 30, 2010 compared with $921 million over the same period in 2009. Net charge-offs were $845 million for the first nine months of 2010 compared with $687 million in the same period last year. The year-over-year increase in provision and net charge-offs is due to the deteriorating economy that occurred throughout 2009, as well as an increase of $1.8 billion in average credit card loans primarily due to the consolidation of the $1.6 billion of credit card loans as of January 1, 2010, as previously mentioned. Credit quality has shown signs of stabilization during the first nine months of 2010 with a declining net charge-off trend in each of the first three quarters.

Noninterest expense for the first nine months of the year declined $151 million from the same period last year. Expenses were well-managed as continued investments in distribution channels were more than offset by acquisition cost savings and the required branch divestitures.

Table of Contents

Growing core checking deposits as a lower-cost funding source and as the cornerstone product to build customer relationships is the primary objective of our deposit strategy. Furthermore, core checking accounts are critical to our strategy of expanding our payments business. The deposit 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 nine months of 2010, average total deposits decreased $9.0 billion, or 7%, compared with 2009.

- Average demand deposits increased $2.1 billion, or 6%, over the first nine months of 2009. The increase was primarily driven by customer growth and customer preferences for liquidity.
- Average money market deposits increased $644 million, or 2%, from the first nine months of 2009. The increase was primarily due to core money market growth as customers generally prefer more liquid deposits in a low rate environment.
- In the first nine months of 2010, average certificates of deposit decreased $12.0 billion from the same period last year. A continued decline in certificates of deposit is expected in the fourth quarter of 2010 due to the planned run off of higher rate certificates of deposit that were primarily obtained through the National City acquisition.

Currently, we plan to maintain our focus on a relationship-based lending strategy that targets specific customer sectors (mass consumers, homeowners, students, small businesses and auto dealerships) and our moderate risk lending approach. In the first nine months of 2010, average total loans were $58.9 billion, an increase of $2.2 billion, or 4%, over the same period last year.

- Average education loans grew $3.1 billion compared with the first nine months of 2009 primarily due to increases in federal loan volumes as a result of non-bank competitors exiting from the business, portfolio purchases, and the impact of our current strategy of holding education loans on the balance sheet. As previously noted, the federally guaranteed portion of this business was essentially eliminated going forward beginning July 1, 2010 due to HCERA.
- Average credit card balances increased $1.8 billion over the first nine months of 2009. The increase was primarily the result of the consolidation of the securitized credit card portfolio effective January 1, 2010.
- Average home equity loans declined $964 million over the same period of 2009. Consumer loan demand has slowed as a result of the current economic environment. The decline is driven by loan demand being outpaced by paydowns, refinancings, and charge-offs. Retail Banking s home equity loan portfolio is relationship based, with 96% of the portfolio attributable to borrowers in our primary geographic footprint. The nonperforming assets and charge-offs that we have experienced are within our expectations given current market conditions.
- Average commercial and commercial real estate loans declined $1.2 billion compared with the first nine months of 2009. The decline was primarily due to loan demand being outpaced by refinancings, paydowns, charge-offs and the required branch divestitures (approximately $0.3 billion of the decline on average).

Table of Contents

Corporate & Institutional Banking

(Unaudited)

Nine months ended September 30 Dollars in millions except as noted	**2010 (a)**	2009
Income Statement		
Net interest income	**$ 2,633**	$ 2,824
Noninterest income		
Corporate service fees	**627**	680
Other	**277**	385
Noninterest income	**904**	1,065
Total revenue	**3,537**	3,889
Provision for credit losses	**285**	1,320
Noninterest expense	**1,312**	1,356
Pretax earnings	**1,940**	1,213
Income taxes	**710**	438
Earnings	**$ 1,230**	$ 775
Average Balance Sheet		
Loans		
Commercial	**$ 33,019**	$ 38,755
Commercial real estate	**16,948**	19,346
Commercial real estate related	**3,016**	3,922
Asset-based lending	**6,124**	6,443
Equipment lease financing	**5,444**	5,397
Total loans	**64,551**	73,863
Goodwill and other intangible assets	**3,669**	3,532
Loans held for sale	**1,415**	1,728
Other assets	**8,129**	7,268
Total assets	**$ 77,764**	$ 86,391
Deposits		
Noninterest-bearing demand	**$ 23,759**	$ 18,756
Money market	**12,246**	9,402
Other	**7,097**	7,636
Total deposits	**43,102**	35,794
Other liabilities	**11,542**	9,357
Capital	**7,593**	7,810
Total liabilities and equity	**$ 62,237**	$ 52,961

Nine months ended September 30 Dollars in millions except as noted	**2010 (a)**	2009
Performance Ratios		
Return on average capital	**22%**	13%
Return on average assets	**2.11**	1.20
Noninterest income to total revenue	**26**	27
Efficiency	**37**	35
Commercial Mortgage Servicing Portfolio (in billions)		
Beginning of period	**$ 287**	$ 270
Acquisitions/additions	**23**	31
Repayments/transfers	**(47)**	(26)
End of period	**$ 263**	$ 275

OTHER INFORMATION		
Consolidated revenue from: (b)		
Treasury Management	**$ 919**	$ 841
Capital Markets	**$ 411**	$ 346
Commercial mortgage loans held for sale (c)	**$ 49**	$ 138
Commercial mortgage loan servicing (d)	**97**	214
Total commercial mortgage banking activities	**$ 146**	$ 352
Total loans (e)	**$ 62,388**	$ 68,352
Credit-related statistics:		
Nonperforming assets (e) (f)	**$ 3,064**	$ 2,992
Impaired loans (e) (g)	**$ 890**	$ 1,482
Net charge-offs	**$ 725**	$ 711
Net carrying amount of commercial mortgage servicing rights (e)	**$ 616**	$ 897

(a) Information as of nine months ended September 30, 2010 reflects the impact of the consolidation in our financial statements of Market Street effective January 1, 2010. Includes $1.5 billion of loans, net of eliminations, and $2.6 billion of commercial paper borrowings included in Other liabilities.
(b) Represents consolidated PNC amounts.
(c) 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.
(d) Includes net interest income and noninterest income from loan servicing and ancillary services and commercial mortgage servicing rights valuations.
(e) As of period end.
(f) Includes nonperforming loans of $2.9 billion at both September 30, 2010 and September 30, 2009.
(g) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.

Corporate & Institutional Banking earned $1.2 billion in the first nine months of 2010 compared with $775 million in the first nine months of 2009. Significantly higher earnings for the first nine months of 2010 reflected a lower provision for credit losses and lower noninterest expense which more than offset declines in net interest income and noninterest income compared with the 2009 period.

Highlights of Corporate & Institutional Banking performance over the first nine months of 2010 include:

- Net interest income for the first nine months of 2010 was $2.6 billion, a decrease of $191 million from 2009, impacted by a decrease in average loans and lower interest credits assigned to deposits.
- Corporate service fees were $627 million for the first nine months of 2010, a decrease of $53 million over the same period a year ago primarily due to a

reduction in the value of commercial mortgage servicing rights largely driven by lower interest rates somewhat offset by higher merger and acquisition advisory and ancillary commercial mortgage servicing fees. The major components of corporate service fees are treasury management, corporate finance fees and commercial mortgage servicing revenue.

Our Treasury Management business, which is ranked in the top ten nationally, continues to invest in the healthcare initiative which is designed to help provide our customers opportunities to reduce operating costs. Healthcare-related revenues in the first nine months of 2010 increased over 20% from the same period of last year.

Harris Williams is one of the nation s largest and most successful mergers and acquisitions advisory teams focused exclusively on the middle markets. Revenues increased over $40 million in the first nine months of 2010 compared with the same period in 2009 on higher deal activity driven by the improved financing environment. Harris Williams recently established its first overseas operation in London.

Midland Loan Services is one of the leading third-party providers of loan servicing, asset management and technology solutions for the commercial real estate finance industry. Midland is the only company in the industry with the highest U.S. servicer and special servicer ratings from Fitch Ratings and Standard & Poor s and has achieved these highest ratings for 11 consecutive years.

The commercial mortgage servicing portfolio was $263 billion at September 30, 2010 compared with $275 billion at September 30, 2009. The decrease was driven by the sale of a duplicative agency servicing operation acquired with National City during the second quarter of 2010 partially offset by the continued growth in the agency and conventional servicing portfolios.

Other noninterest income was $277 million for 2010, a decrease of $108 million from the same period in 2009 primarily due to lower gains on loan sales from portfolio management activities, the sale of the duplicative agency servicing operation in the second quarter of 2010, and a decline in the value of commercial mortgage loans held for sale, net of hedges.

The provision for credit losses was $285 million in the first nine months of 2010 compared with $1.3 billion in the first nine months of 2009. The decline reflected improvements in portfolio credit quality along with lower loan and commitment levels. Net charge-offs for the first
nine months of 2010 were $725 million compared with $711 million for the first nine months of 2009. Net charge-offs continued to show signs of slowing in the middle market and asset-based lending portfolios.

Noninterest expense was $1.3 billion for 2010, a decrease of $44 million from the same period in 2009. The decline resulted in part from the second quarter 2010 sale of the duplicative agency servicing operation. In addition, the first nine months of 2009 included net losses on the disposition of repossessed assets and lease residual impairment charges.

Average loans were $65 billion for the first nine months of 2010 compared with $74 billion in the first nine months of 2009. Average loans for 2010 included the impact of the consolidation of Market Street. Excluding the impact of the Market Street consolidation, average loans decreased $11 billion or 15% compared with 2009. The decrease was due to exits of certain client relationships combined with continued soft utilization rates.

PNC Real Estate is one of the industry s top providers of both conventional and affordable multifamily financing. It specializes in providing access to federal agency loan programs and is a top Fannie Mae DUS, FHA/Ginnie Mae and Freddie MAC Program Plus lender. Commercial real estate loans declined due to reduced demand, paydowns and charge-offs.

PNC Business Credit is one of the top asset-based lenders in the country and plans to expand its operations with the pending acquisition of an asset-based lending group in the United Kingdom.

PNC Equipment Finance is the 6th largest bank-affiliated leasing company with over $9 billion in equipment finance assets. Average loans and leases declined approximately $.2 billion for the first nine months of 2010 compared with the first nine months of 2009 due to runoff and sales of non-strategic portfolios more than offsetting portfolio acquisitions and improved origination volumes within our middle market customer base.

Average deposits were $43 billion for the first nine months of 2010, an increase of $7.3 billion, or 20%, compared with the 2009 period. During 2010, customers continued to move balances from off-balance sheet sweep products to noninterest-bearing demand deposits and deposit inflows continued from National City customers who had previously moved funds to other institutions.

See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities on page 10.

ASSET MANAGEMENT GROUP

(Unaudited)

Nine months ended September 30

Dollars in millions except as noted	**2010**	2009
INCOME STATEMENT		
Net interest income	**$ 197**	$ 241
Noninterest income	**468**	460
Total revenue	**665**	701
Provision for credit losses	**11**	72
Noninterest expense	**477**	499
Pretax earnings	**177**	130
Income taxes	**65**	48
Earnings	**$ 112**	$ 82
AVERAGE BALANCE SHEET		
Loans		
Consumer	**$ 4,006**	$ 3,928
Commercial and commercial real estate	**1,503**	1,682
Residential mortgage	**893**	1,104
Total loans	**6,402**	6,714
Goodwill and other intangible assets	**404**	404
Other assets	**237**	249
Total assets	**$ 7,043**	$ 7,367
Deposits		
Noninterest-bearing demand	**$ 1,288**	$ 1,080
Interest-bearing demand	**1,768**	1,550
Money market	**3,245**	3,233
Total transaction deposits	**6,301**	5,863
Certificates of deposit and other	**766**	1,129
Total deposits	**7,067**	6,992
Other liabilities	**95**	101
Capital	**544**	582
Total liabilities and equity	**$ 7,706**	$ 7,675
PERFORMANCE RATIOS		
Return on average capital	**28%**	19%
Return on average assets	**2.13**	1.49
Noninterest income to total revenue	**70**	66
Efficiency	**72**	71
OTHER INFORMATION		
Total nonperforming assets (a) (b)	**$ 102**	$ 129
Impaired loans (a) (c)	**$ 155**	$ 206
Total net charge-offs	**$ 21**	$ 41
ASSETS UNDER ADMINISTRATION		
(in billions) (a) (d)		
Personal	**$ 95**	$ 93
Institutional	**111**	124
Total	**$ 206**	$ 217
Asset Type		
Equity	**$ 107**	$ 98

Fixed Income	**66**	56
Liquidity/Other	**33**	63
Total	**$ 206**	$ 217
Discretionary assets under management		
Personal	**$ 67**	$ 66
Institutional	**38**	38
Total	**$ 105**	$ 104
Asset Type		
Equity	**$ 51**	$ 47
Fixed Income	**38**	34
Liquidity/Other	**16**	23
Total	**$ 105**	$ 104
Nondiscretionary assets under administration		
Personal	**$ 28**	$ 27
Institutional	**73**	86
Total	**$ 101**	$ 113
Asset Type		
Equity	**$ 56**	$ 51
Fixed Income	**28**	22
Liquidity/Other	**17**	40
Total	**$ 101**	$ 113

(a) As of September 30.
(b) Includes nonperforming loans of $94 million at September 30, 2010 and $124 million at September 30, 2009.
(c) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.
(d) Excludes brokerage account assets.

Asset Management Group earned $112 million for the first nine months of 2010 compared with $82 million for the same period in 2009. Assets under administration were $206 billion at September 30, 2010 and $217 billion at September 30, 2009. The first nine months of 2010 reflected a lower provision for credit losses, lower expenses from disciplined expense management and higher noninterest income. These improvements were partially offset by a decrease in net interest income from lower yields on loans.

Highlights of Asset Management Group s performance during the first nine months of 2010 include the following:

- Successfully executed its National City trust system conversions,
- Outperformed its sales and client acquisition goals,
- Exceeded expense management targets, and
- Credit performance showed signs of stabilization.

Assets under administration of $206 billion at September 30, 2010 decreased $11 billion compared with the balance at September 30, 2009. Discretionary assets under management of $105 billion at September 30, 2010 increased $1 billion compared with the balance at September 30, 2009 as year-over-year improvement in the equity markets and strong sales results were mitigated by integration impacts. Nondiscretionary assets under administration of $101 billion declined $12 billion from 2009 due to the strategic exit of noncore businesses.

Total revenue for the first nine months of 2010 was $665 million compared with $701 million for the same period in 2009. Net interest income for the first nine months of 2010 decreased $44 million compared with the first nine months of 2009, primarily due to a reduction in higher yield loans. Noninterest income of $468 million for the first nine months of 2010 increased $8 million compared with the first nine months of 2009 as the impacts of strong sales results and the improved equity markets were partially offset by the strategic exit of noncore businesses.

The provision for credit losses was $11 million for the first nine months of 2010 compared with $72 million for the first nine months of 2009. Net charge-offs were $21 million for the first nine months of 2010 and $41 million for the first nine months of 2009. Credit quality has shown signs of stabilization in the first nine months of 2010.

Noninterest expense of $477 million in the first nine months of 2010 decreased $22 million or 4% from the same period in 2009. The decline is attributable to disciplined expense management including integration-related initiatives. The implementation of efficiency initiatives will continue through the remainder of 2010.

Table of Contents

Average deposits for the first nine months of 2010 increased $75 million from the comparable period last year as a 7% increase in transaction deposits more than offset the strategic exit of higher rate certificates of deposit. Average loan balances decreased $312 million, or 5%, from the first nine months of 2009 as commercial and residential mortgage declines more than offset growth in home equity loans.

Residential Mortgage Banking

(Unaudited)

Nine months ended September 30

Dollars in millions, except as noted	**2010**	2009
Income Statement		
Net interest income	**$ 206**	$ 261
Noninterest income		
Loan servicing revenue		
Servicing fees	**196**	171
Net MSR hedging gains	**198**	320
Loan sales revenue	**165**	409
Other	**9**	(9)
Total noninterest income	**568**	891
Total revenue	**774**	1,152
Provision for (recoveries of) credit losses	**(3)**	3
Noninterest expense	**349**	490
Pretax earnings	**428**	659
Income taxes	**156**	249
Earnings	**$ 272**	$ 410
Average Balance Sheet		
Portfolio loans	**$ 2,643**	$ 1,780
Loans held for sale	**1,184**	2,498
Mortgage servicing rights (MSR)	**1,069**	1,318
Other assets	**4,007**	2,693
Total assets	**$ 8,903**	$ 8,289
Deposits	**$ 2,927**	$ 4,306
Borrowings and other liabilities	**2,614**	2,861
Capital	**1,320**	1,322
Total liabilities and equity	**$ 6,861**	$ 8,489
Performance Ratios		
Return on average capital	**28%**	41%
Return on average assets	**4.08**	6.61
Noninterest income to total revenue	**73**	77
Efficiency	**45**	43
Other Information		
Servicing portfolio for others (in billions) (a)	**$ 131**	$ 158
Fixed rate	**89%**	88%
Adjustable rate/balloon	**11%**	12%
Weighted average interest rate	**5.69%**	5.89%
MSR capitalized value (in billions)	**$ 0.8**	$ 1.3
MSR capitalization value (in basis points)	**60**	81
Weighted average servicing fee (in basis points)	**30**	30
Loan origination volume (in billions)	**$ 7.0**	$ 16.9
Percentage of originations represented by:		
Agency and government programs	**99%**	97%

Refinance volume	**69%**	74%
Total nonperforming assets (a) (b)	**$ 327**	$ 343
Impaired loans (a) (c)	**$ 173**	$ 412

(a) As of September 30.

(b) Includes nonperforming loans of $104 million at September 30, 2010 and $180 million at September 30, 2009.

(c) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.

Residential Mortgage Banking earned $272 million for the first nine months of 2010 compared with $410 million in the first nine months of 2009. Earnings decreased from the first nine months of 2009 primarily due to reduced loan sales revenue and lower net hedging gains on mortgage servicing rights, partially offset by lower noninterest expense.

Residential Mortgage Banking overview:

Total loan originations were $7.0 billion for the first nine months of 2010 compared with $16.9 billion for the first nine months of 2009. Lower mortgage rates in the first nine months of 2009 resulted in high loan application and origination volumes. Even though mortgage interest rates fell considerably near the end of the second quarter of 2010, management does not expect to experience the same level of loan refinance origination volume as occurred in 2009. Loans continued to be primarily originated through direct channels under FNMA, FHLMC and FHA/VA agency guidelines.

Investors may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable representations. At September 30, 2010, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $155 million. We recognized $53 million of additional reserves in the third quarter of 2010.

Residential mortgage loans serviced for others totaled $131 billion at September 30, 2010 compared with $158 billion at September 30, 2009. Payoffs continued to outpace new direct loan origination volume during the first nine months of 2010. The decline from a year earlier also reflected the sale of a $7.9 billion servicing portfolio in the fourth quarter of 2009.

Noninterest income was $568 million in the first nine months of 2010 compared with $891 million in the first nine months of 2009. The decline was due to reduced loan sales revenue, net of additional repurchase reserves, reflective of strong loan origination refinance volume in the first nine months of 2009 and lower net hedging gains on mortgage servicing rights.

Net interest income was $206 million for the first nine months of 2010 compared with $261 million for the first nine months of 2009. The decrease resulted from lower escrow deposit balances and residential mortgage loans held for sale.

Noninterest expense declined to $349 million in the first nine months of 2010 compared with $490 million in the first nine months of 2009 as lower loan origination volume drove a reduction in expense.

The fair value of mortgage servicing rights was $.8 billion at September 30, 2010 compared with $1.3 billion at September 30, 2009. The decline in fair value resulted from lower mortgage rates at September 30, 2010 and a smaller servicing portfolio.

Table of Contents

BlackRock

Information related to our equity investment in BlackRock follows:

Nine months ended September 30 Dollars in millions	**2010**	2009
Business segment earnings (a)	**$ 253**	$ 151
PNC s share of BlackRock earnings (b)	**23%**	31%

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

In billions	**Sept. 30 2010**	Dec. 31 2009
Carrying value of PNC s investment in BlackRock (c)	**$ 6.0**	$ 5.8
Market value of PNC s investment in BlackRock (d)	**7.4**	10.1

(c) The September 30, 2010 amount is comprised of our equity investment of $5.9 billion and $.1 billion of goodwill and accumulated other comprehensive income related to our BlackRock investment. The comparable amounts at December 31, 2009 were $5.7 billion and $.1 billion. PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related $1.9 billion deferred tax liability as of September 30, 2010 and December 31, 2009.
(d) Does not include liquidity discount.

BlackRock Secondary Common Stock Offering

On November 3, 2010, BlackRock announced the commencement of a secondary offering of 42 million shares of its common stock.

Of the shares being offered, 34.5 million shares are being offered by another BlackRock shareholder and up to 7.5 million common shares are being offered by PNC. The proposed sale includes common shares issuable upon conversion of shares of BlackRock s Series B Preferred Stock. Although we have elected to adjust our stake in BlackRock, we continue to consider our investment in BlackRock a key component of our diversified revenue strategy.

BlackRock/Barclays Global Investors Transaction

As more fully described in Item 7 of our 2009 Form 10-K, on December 1, 2009, BlackRock acquired BGI from Barclays Bank PLC in exchange for approximately $6.65 billion in cash and 37,566,771 shares of BlackRock common and participating preferred stock. In connection with the BGI transaction, BlackRock entered into a stock purchase agreement with PNC in which we purchased 3,556,188 shares of BlackRock s Series D Preferred Stock at a price of $140.60 per share, or $500 million, to partially finance the transaction. On January 31, 2010, the Series D Preferred Stock was converted to Series B Preferred Stock.

BlackRock LTIP and Exchange Agreements

PNC s noninterest income for the first nine months of 2009 included a pretax gain of $98 million related to our BlackRock LTIP shares obligation. This gain represented the mark-to-market adjustment related to our remaining BlackRock LTIP common shares obligation and resulted from the decrease in the market value of BlackRock common shares in that period.

Item 7 of our 2009 Form 10-K describes the Exchange Agreement that PNC entered into with BlackRock on December 26, 2008 and the Exchange Agreement that BlackRock entered into with Merrill Lynch on that same date and the resulting impact on PNC s equity ownership

interest in BlackRock that was effective February 27, 2009. The PNC and Merrill Lynch Exchange Agreements restructured PNC s and Merrill Lynch s respective ownership of BlackRock common and preferred equity.

In connection with the PNC Exchange Agreement, PNC s obligation to deliver BlackRock common shares in connection with the BlackRock LTIP was replaced with an obligation to deliver shares of BlackRock s new Series C Preferred Stock. PNC acquired 2.9 million shares of Series C Preferred Stock from BlackRock in exchange for common shares on that same date. 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. 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.

PNC accounts for its remaining investment in BlackRock under the equity method of accounting. As a result of the Exchange Agreements, our percentage ownership of BlackRock common stock (approximately 35% at September 30, 2010) is higher than our overall share of BlackRock s equity and earnings. The transactions related to the Exchange Agreements do not affect our right to receive dividends declared by BlackRock.

DISTRESSED ASSETS PORTFOLIO

(Unaudited)

Nine months ended September 30

Dollars in millions, except as noted	**2010**	2009
INCOME STATEMENT		
Net interest income	**$ 964**	$ 861
Noninterest income (loss)	**(37)**	71
Total revenue	**927**	932
Provision for credit losses	**745**	457
Noninterest expense	**169**	197
Pretax earnings	**13**	278
Income taxes	**5**	106
Earnings	**$ 8**	$ 172
AVERAGE BALANCE SHEET		
COMMERCIAL LENDING:		
Commercial/Commercial real estate (a)	**$ 2,374**	$ 3,565
Lease financing	**788**	823
Total commercial lending	**3,162**	4,388
CONSUMER LENDING:		
Consumer (b)	**6,354**	7,236
Residential real estate	**7,835**	10,243
Total consumer lending	**14,189**	17,479
Total portfolio loans	**17,351**	21,867
Other assets	**895**	1,760
Total assets	**$ 18,246**	$ 23,627
Deposits	**$ 89**	$ 42
Other liabilities	**78**	100
Capital	**1,351**	1,576
Total liabilities and equity	**$ 1,518**	$ 1,718
PERFORMANCE RATIOS		
Return on average capital	**1%**	15%
Return on average assets	**.06**	.97
OTHER INFORMATION		
Nonperforming assets (c) (d)	**$ 1,218**	$ 1,473
Impaired loans (c) (e)	**$ 6,001**	$ 7,803
Net charge-offs (f)	**$ 494**	$ 423
Annualized net charge-off ratio (f)	**3.81%**	2.59%
LOANS (c)		
COMMERCIAL LENDING		
Commercial/Commercial real estate (a)	**$ 1,911**	$ 3,162
Lease financing	**757**	798
Total commercial lending	**2,668**	3,960
CONSUMER LENDING		
Consumer (b)	**6,011**	6,783
Residential real estate	**7,014**	8,939
Total consumer lending	**13,025**	15,722
Total loans	**$ 15,693**	$ 19,682

(a) Primarily residential real estate development loans.

(b) Primarily brokered home equity loans.

(c) As of period end.

(d) Includes nonperforming loans of $.9 billion at September 30, 2010 and $1.3 billion at September 30, 2009.
(e) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008. At September 30, 2010, this segment contained 74% of PNC s purchased impaired loans.
(f) For the nine months ended September 30.

This business segment consists primarily of assets acquired with National City and had earnings of $8 million for the first

nine months of 2010 compared with $172 million for the first nine months of 2009. A $288 million increase in the provision for credit losses was the primary factor driving the decrease in earnings in the comparison.

Distressed Assets Portfolio overview:

- Sales of residential mortgage loans and brokered home equity loans with unpaid principal balances of approximately $1.6 billion and carrying value of $0.6 billion closed during the third quarter of 2010. We do not have any continuing servicing involvement and very limited representations and warranties with the loans sold.
- Average loans declined to $17.4 billion in the first nine months of 2010 compared with $21.9 billion in the 2009 period. The decline was impacted by portfolio management activities including loan sales and efforts to encourage customers to refinance or pay off loan balances.
- Net interest income was $964 million in the first nine months of 2010 compared with $861 million for the 2009 period. The increase was driven by higher accretion on impaired loans due to improved cash collection results which more than offset the decline in average loans.
- Noninterest income was a loss of $37 million for first nine months of 2010 compared with revenue of $71 million for the first nine months of 2009 due to an increase in recourse reserves for potential repurchases of brokered home equity loans sold in 2007 and prior years. The 2009 period included asset disposition gains which were higher than those in 2010.
- The provision for credit losses was $745 million in the first nine months of 2010 compared with $457 million in the comparable 2009 period. The provision for 2010 included $109 million related to the third quarter sales of residential mortgage loans and brokered home equity loans, along with higher reserves for seriously delinquent impaired consumer loans.
- Noninterest expense for the first nine months of 2010 of $169 million declined $28 million compared with the 2009 period primarily due to lower other real estate owned related expenses and losses.
- Nonperforming loans decreased $.4 billion, to $.9 billion, at September 30, 2010 compared with September 30, 2009. The consumer lending portfolio comprised 45% of the nonperforming loans at September 30, 2010. An improvement was seen in both the consumer and commercial lending portfolios with a decline of $.2 billion in both portfolios.
- Net charge-offs were $494 million for the first nine months of 2010 and $423 million for the first nine months of 2009. Net charge-offs in 2010 included $75 million related to the residential mortgage loan sales in the third quarter. Net charge-offs for each portfolio increased in the comparison with the exception of non-prime mortgages and brokered home equity.

Table of Contents

Certain loans in this business segment may require special servicing given current loan performance and market conditions. Consequently, the business activities of this segment are focused on maximizing the value of the portfolio assigned to it while mitigating risk. Business intent drives the inclusion of assets in this business segment. Not all impaired loans are included in this business segment, nor are all of the loans included in this business segment considered impaired.

- The $15.7 billion of loans held in this portfolio at September 30, 2010 are stated inclusive of a fair value adjustment on purchased impaired loans at acquisition. Taking the adjustment and loan loss allowance into account, the net carrying basis of this loan portfolio is 79% of customer outstandings.
- Commercial Lending within the Distressed Assets Portfolio business segment is comprised of $1.9 billion in residential development assets (i.e. condominiums, townhomes, developed and undeveloped land) primarily acquired from National City. This commercial lending portfolio has declined 33% since September 30, 2009. A team of asset managers actively deploy workout strategies on this portfolio through reducing unfunded loan exposure, refinancing, customer payoffs, foreclosures and loan sales. The overall credit quality of this portfolio is considered to be moderately better at September 30, 2010 compared with the beginning of 2010 based upon continuing dispositions of credits, improved economic conditions and increased activity in several markets. The other primary component of Commercial Lending is $.8 billion of performing cross-border leases.

The fair value adjustments taken upon our acquisition of National City, along with the team assembled to provide specific focus on this business segment, put us in a good position to manage these assets. Additionally, our capital and liquidity position provide us flexibility to be prudent in terms of continuing to hold these assets or selling them to another investor to obtain the optimum return taking into account risk mitigation.

- Consumer Lending consists mainly of residential mortgages and home equity loans.
  - Residential mortgages are primarily jumbo and ALT-A first lien mortgages originated for sale in the second half of 2007 for which firm commitments to lend had been extended but there was no market to sell the production. Given the low level of mortgage rates relative to where these loans were originated, we have implemented several internal and external refinance programs to proactively work with the borrowers to explore refinance alternatives that would allow them to qualify for a conforming mortgage loan which would be originated and sold by the company or originated by a third party originator.
  - Residential construction loans remain available as a part of some construction phases of the real estate development and have not been fully funded. Properties are reviewed by a dedicated team to assess the appropriate strategy for optimizing the return on these assets while mitigating risk. To the extent we believe that completion of the construction on a particular project will maximize value, additional advances under the construction facility may be considered. The goal for these projects would be to move them toward completion. Otherwise, the property is to be managed on an as is basis or returned to raw land for sale.
  - Home equity loans include closed-end second liens and open-end home equity lines of credit. Our focus for managing these portfolios is to maximize the value of the portfolio. We have implemented several modification programs to assist the loss mitigation teams that manage this risk. Additionally, we have initiated several voluntary and involuntary programs to reduce and/or block line availability on home equity lines of credit.
  - When loans are sold, investors may request PNC to indemnify them against losses or to repurchase loans that they believe do not comply with applicable representations. From 2005 to 2007, we sold home equity loans with such representations. At September 30, 2010, the liability for estimated losses on repurchase and indemnification claims for the Distressed Assets Portfolio business segment was $103 million. We recognized $53 million of additional reserves in the third quarter of 2010.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Note 1 Accounting Policies in Part II, Item 8 of our 2009 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. This includes the initial measurement at fair value of the assets acquired and liabilities assumed in acquisitions qualifying as business combinations.

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,

Table of Contents

assumptions, or estimates in any of these areas could materially impact our future financial condition and results of operations.

We discuss the following critical accounting policies and judgments under this same heading in Item 7 of our 2009 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 Mortgage Servicing Rights
- Income Taxes

Residential Mortgage Servicing Rights In conjunction with the acquisition of National City, PNC acquired servicing rights for residential real estate loans. We have elected to measure these mortgage servicing rights (MSRs) at fair value. MSRs are established and valued using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and numerous other factors.

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

The fair value of residential MSRs and significant inputs to the valuation model as of September 30, 2010 are shown in the table below. The expected and actual rates of mortgage loan prepayments are significant factors driving the fair value. Management uses an internal proprietary model to estimate future loan prepayments. This model uses empirical data drawn from the historical performance of our managed portfolio, as adjusted for current market conditions. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied forward interest rates to estimate the future direction of mortgage and discount rates. The forward rates utilized are derived from the current

yield curve for U.S. dollar interest rate swaps and are consistent with pricing of capital markets instruments. Changes in the shape and slope of the forward curve in future periods may result in volatility in the fair value estimate.

Dollars in millions	**Sept. 30, 2010**	Dec. 31 2009
Fair value	**$ 788**	$ 1,332
Weighted-average life (in years)	**2.5**	4.5
Weighted-average constant prepayment rate	**21.47%**	19.92%
Spread over forward interest rate swap rates	**12.23%**	12.16%

A sensitivity analysis of the hypothetical effect on the fair value of MSRs to adverse changes in key assumptions is presented below. These sensitivities do not include the impact of the related hedging activities. Changes in fair value generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in mortgage interest rates, which drive changes in prepayment rate estimates, could result in changes in the interest rate spread), which could either magnify or counteract the sensitivities.

Dollars in millions	**Sept. 30, 2010**	Dec. 31, 2009

Prepayment rate:		
Decline in fair value from 10% adverse change	**$ 35**	$ 56
Decline in fair value from 20% adverse change	**$ 66**	$ 109
Spread over forward interest rate swap rates:		
Decline in fair value from 10% adverse change	**$ 30**	$ 55
Decline in fair value from 20% adverse change	**$ 58**	$ 106

Proposed Accounting Standards

The FASB issued several Exposure Drafts for comment during 2010, including, in May 2010, the Proposed Accounting Standards Update *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815).* Under the proposal, most financial instruments (including loans and securities) would be measured at fair value with changes in fair value recognized in either net income or other comprehensive income. Additional aspects of this proposal include modifications for recognizing credit impairments, changes to hedge accounting requirements, and disclosures of both fair value and amortized cost information on the face of the financial statements.

In July 2010, the FASB issued Proposed Accounting Standards Update *Contingencies (Topic 450) Disclosure of Certain Loss Contingencies.* Under the proposal, additional disclosures would be required, including for remote loss contingencies with a potentially severe impact and a tabular reconciliation of accrued loss contingencies.

In August 2010, the FASB issued Proposed Accounting Standards Update *Leases (Topic 840).* Under the proposal, lessees and lessors would apply a right-of-use model in accounting for most leases, including subleases. A lessee would recognize an asset representing its right to use the leased asset for the lease term and a liability to make lease payments and a lessor would recognize an asset representing its right to receive lease payments and recognize a lease liability while continuing to recognize the underlying asset or a residual asset representing its rights to the underlying asset at the end of the lease term. The exposure draft also proposes disclosures about the amounts recognized in the financial statements arising from leases and the amount, timing and uncertainty of cash flows arising from those contracts.

In October 2010, the FASB issued Proposed Accounting Standards Update *Receivables (Topic 310) Clarification to Accounting for Troubled Debt Restructurings by Creditors.* The proposed ASU would preclude a creditor from using an effective rate test in its evaluation of whether a restructuring constitutes a troubled debt restructuring. Furthermore, guidance would be clarified to indicate 1) If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at below a market rate and therefore should be considered a troubled debt restructuring, 2) A restructuring that results in a temporary or permanent increase in the contractual interest rate cannot be presumed to be at a rate that is at or above market, 3) A borrower that is not currently in default may still be considered to be experiencing financial difficulty when payment default is considered probable in the foreseeable future and 4) A restructuring that results in an insignificant delay in contractual cash flows may still be considered a troubled debt restructuring. Under the proposal, additional disclosures (including comparative information) would be required.

Also, see Note 1 Accounting Policies in the Notes To 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 derived from a cash balance formula based on compensation levels, age and length of service. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. 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 15 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of our 2009 Form 10-K.

We calculate the expense associated with the pension plan and the assumptions and methods that we use include a policy of reflecting trust assets at their fair market value. On an annual basis, we review the actuarial assumptions related to the pension plan, including the discount rate, the rate of compensation increase and the expected return on plan assets. The discount rate and compensation increase assumptions do not significantly affect pension expense.

However, the expected long-term return on assets assumption does significantly affect pension expense. Our expected long-term return on plan assets for determining net periodic pension expense was 8.25% for 2009, 2008 and 2007. 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 allocation strategy currently in place among those classes. While this analysis gives appropriate consideration to recent asset performance and historical returns, the assumption represents a long-term prospective return. We review this assumption at each measurement date and adjust it if warranted.

For purposes of setting and reviewing this assumption, long term refers to the period over which the plan s projected benefit obligation will be disbursed. While year-to-year annual returns can vary significantly (rates of return for the reporting years of 2009, 2008, and 2007 were +20.61%, -32.91%, and +7.57% respectively), the assumption represents our estimate of long-term average prospective returns. Our selection process references certain historical data and the current environment, but primarily utilizes qualitative judgment regarding future return expectations. Recent annual returns may differ but, recognizing the volatility and unpredictability of investment returns, 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

Table of Contents

securities have returned approximately 10% 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 of equities and bonds produces a result between 8% and 8.5% 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, and in many cases low returns in recent time periods are followed by higher returns in future periods (and vice versa).

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 other observers. 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.

The expected long-term return on plan assets for determining net periodic pension cost for 2010 is 8.00%, down from 8.25% for 2009. During 2010, we decreased the midpoint of the plan s target allocation range for equities by approximately five percentage points. As a result of this change and taking into account all other factors described above, we changed the expected long-term return on plan assets to 8.00% for determining net periodic pension cost for 2010. Under current accounting rules, the difference between expected long-term returns and actual returns is accumulated and amortized to pension expense over future periods. Each one percentage point difference in actual return compared with our expected return causes expense in subsequent years to change by up to $8 million as the impact is amortized into results of operations.

The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2010 estimated expense as a baseline.

Change in Assumption (a)	Estimated Increase to 2010 Pension Expense (In millions)
.5% decrease in discount rate	$ 10
.5% decrease in expected long-term return on assets	$ 18
.5% increase in compensation rate	$ 3

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

We currently estimate a pretax pension expense of $46 million in 2010 compared with pretax expense of $117 million in 2009. This year-over-year expected reduction is primarily due

to the amortization impact of the favorable 2009 investment returns as compared with the expected long-term return assumption.

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 for 2010.

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

RISK MANAGEMENT

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

The Risk Management section included in Item 7 of our 2009 Form 10-K includes a description of our risk management philosophy, principles, governance and various aspects of our corporate-level risk management program, and a 2009 overview of enterprise-wide risk. Additionally, our 2009 Form 10-K provides an analysis of the risk management processes for what we view as our primary areas of risk: credit, operational, 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 2009 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.

Nonperforming, Past Due And Potential Problem Assets

Credit quality showed further signs of stabilization during the third quarter of 2010 and delinquency measures improved compared with prior periods. During the third quarter, we continued to see an overall improvement in credit migration for performing loans and a reduction in overall credit exposure. Assuming at least modest US Gross Domestic

Product (GDP) growth, we believe our delinquencies and nonperforming metrics will continue to decline in the fourth quarter of 2010 compared with the third quarter of 2010.

Nonperforming assets were $5.7 billion at September 30, 2010, a decline of $647 million compared with $6.3 billion at December 31, 2009. Nonperforming loans decreased $835 million since December 31, 2009 while foreclosed and other assets increased $188 million.

Nonperforming assets at September 30, 2010 declined in the Corporate & Institutional Banking, Asset Management Group, Residential Mortgage Banking, and Distressed Assets Portfolio business segments compared with the balances at December 31, 2009 and increased 9% in the Retail Banking business segment.

Purchased impaired loans are excluded from nonperforming loans. Any decrease, other than for prepayments or interest rate decreases for variable rate notes, in the net present value of expected cash flows of individual commercial or pooled consumer purchased impaired loans would result in an impairment charge to the provision for loan losses in the period in which the change becomes probable. Any increase 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 interest income for the remaining life of the impaired loans. See Note 6 Purchased Impaired Loans Related to National City in the Notes To Consolidated Financial Statements in this Report for additional information.

Additionally, most consumer loans and lines of credit, not secured by residential real estate, are charged off after 120 to 180 days past due, are not placed on nonaccrual status, and are excluded from nonperforming loans. Nonperforming loans also do not include loans held for sale.

The portion of the allowance for loan and lease losses allocated to commercial lending nonperforming loans was 28% at September 30, 2010 and 29% at December 31, 2009. Approximately 76% of these nonperforming loans are secured by collateral that is expected to reduce credit losses and require less reserves in the event of default.

Nonperforming assets were 3.76% of total loans and foreclosed and other assets at September 30, 2010 compared with 3.99% at December 31, 2009.

Nonperforming Assets By Type

	Sept. 30	Dec. 31
In millions	**2010**	2009
Nonaccrual loans		
Commercial		
Retail/wholesale	**$ 219**	$ 231
Manufacturing	**266**	423
Real estate related (a)	**338**	419
Financial services	**36**	117
Health care	**59**	41
Other	**612**	575
Total commercial	**1,530**	1,806
Commercial real estate		
Real estate projects	**1,562**	1,754
Commercial mortgage	**427**	386
Total commercial real estate	**1,989**	2,140
Equipment lease financing	**104**	130
TOTAL COMMERCIAL LENDING	**3,623**	4,076
Consumer		
Home equity	**406**	356
Other	**38**	36
Total consumer	**444**	392
Residential real estate		
Residential mortgage	**727**	955
Residential construction	**42**	248

Total residential real estate	**769**	1,203
TOTAL CONSUMER LENDING	**1,213**	1,595
Total nonperforming loans	**4,836**	5,671
Foreclosed and other assets		
Commercial lending	**366**	266
Consumer lending	**467**	379
Total foreclosed and other assets	**833**	645
Total nonperforming assets	**$ 5,669**	$ 6,316

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

Change In Nonperforming Assets

In millions	**2010**	2009
January 1	**$ 6,316**	$ 2,181
Transferred from accrual	**4,154**	6,458
Charge-offs and valuation adjustments	**(1,604)**	(1,230)
Principal activity including payoffs	**(939)**	(828)
Asset sales and transfers to held for sale	**(1,036)**	(566)
Returned to performing-TDRs	**(425)**	
Returned to performing-Other	**(797)**	(371)
September 30	**$ 5,669**	$ 5,644

Total nonperforming loans and nonperforming assets in the tables above are significantly lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in lower ratio of nonperforming loans to total loans and allowance for loan and lease losses to nonperforming loans. We recorded purchased impaired loans at estimated fair value of $12.7 billion at December 31, 2008, including an adjustment mark for life of loan credit losses. These 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 interest/yield represents the excess of the net present value of expected cash flows on the loans at the measurement date over the recorded investment. See Note 6 Purchased Impaired Loans Related to National City in the Notes To Consolidated Financial Statements in this Report for additional information on those loans.

At September 30, 2010, our largest nonperforming asset was approximately $54 million and our average nonperforming loan associated with commercial lending was approximately $1 million.

The amount of nonperforming loans that was current as to remaining principal and interest was $1.3 billion at September 30, 2010 and $1.7 billion at December 31, 2009.

PNC modifies loans under government and PNC-developed modification programs based upon our commitment to help eligible homeowners 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, then the borrower is evaluated under a PNC program. As of September 30, 2010, approximately 1,000 or $228 million of owned residential real estate loans have been modified under the government HAMP program. Currently, only the HAMP program includes a trial payment period. Under HAMP, the trial payment period is three months, and upon successful completion, the loan is permanently modified. The impacts of these modifications are considered in our allowance for loan and lease losses. Loans permanently modified under this program are classified as troubled debt restructurings (TDRs), as further discussed below, and are placed on nonaccrual status.

PNC programs utilize both temporary and permanent modifications and typically reduce the interest rate, extend the term and/or forgive principal. Temporary modifications fall between 3 60 months in length, with the majority for a period of up to 24 months after which the interest rate reverts to that under the original loan. Regardless of the length of the modification, all modifications are evaluated to determine whether they are TDRs. The impacts of these modifications are considered in our allowance for loan and lease losses. Additionally, when modified, TDRs are placed on nonaccrual status, except as noted below.

Loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties are considered TDRs. TDRs typically result from our loss mitigation activities and could include rate reductions, term extensions and/or principal forgiveness intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. Total nonperforming

loans included TDRs of $595 million at September 30, 2010 and $440 million at December 31, 2009. Purchased impaired loans are excluded from TDRs.

TDRs returned to performing (accrual) status totaled $425 million at September 30, 2010 and are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of performance under the modified terms. Approximately $17 million of TDRs previously returned to performing status are now classified as nonperforming as they are no longer current under the modified terms.

In addition, credit cards and certain small business and consumer credit agreements whose terms have been modified primarily through interest rate reductions totaling $315 million at September 30, 2010 are TDRs. However, since our policy is to exempt these loans from being placed on nonaccrual status as permitted by regulatory guidance as these loans are directly charged off in the period that they become 180 days past due, these loans are excluded from nonperforming loans.

Accruing Loans Past Due 30 To 89 Days (a) (c)

	Amount		Percent of Outstandings	
Dollars in millions	**Sept. 30 2010**	Dec. 31 2009	**Sept. 30 2010**	Dec. 31 2009
Commercial	**$ 293**	$ 684	**.55%**	1.26%
Commercial real estate	**353**	666	**1.97**	3.10
Equipment lease financing	**10**	128	**.16**	2.06
Consumer	**430**	438	**.83**	.87

Residential real estate	**347**	472	**2.70**	3.12
Total	**$ 1,433**	$ 2,388	**1.01**	1.62

Accruing Loans Past Due 90 Days Or More (b) (d)

	Amount		Percent of Outstandings	
Dollars in millions	**Sept. 30 2010**	Dec. 31 2009	**Sept. 30 2010**	Dec. 31 2009
Commercial	**$ 90**	$ 188	**.17%**	.35%
Commercial real estate	**58**	150	**.32**	.70
Equipment lease financing	**4**	6	**.06**	.10
Consumer	**270**	226	**.52**	.45
Residential real estate	**179**	314	**1.60**	2.07
Total	**$ 601**	$ 884	**.43**	.60

(a) Excludes loans that are government insured/guaranteed, primarily residential mortgages, totaling $.4 billion at September 30, 2010 and $.2 billion at December 31, 2009.

(b) Excludes loans that are government insured/guaranteed, primarily residential mortgages, totaling $2.0 billion at September 30, 2010 and $1.8 billion at December 31, 2009.

(c) Excludes purchased impaired loans acquired from National City totaling $.4 billion at September 30, 2010 and $.8 billion at December 31, 2009. These loans are excluded as they are considered performing loans due to the accretion of interest income.

(d) Excludes purchased impaired loans acquired from National City totaling $1.8 billion at September 30, 2010 and $2.9 billion at December 31, 2009. These loans are excluded as they are considered performing loans due to the accretion of interest income.

Table of Contents

Loans that are not included in nonperforming or past due categories and which we are uncertain about the borrower s ability to comply with existing repayment terms over the next six months totaled $742 million at September 30, 2010 and $811 million at December 31, 2009.

Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit

We maintain an allowance for loan and lease losses to absorb losses from the loan portfolio. We determine the allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan portfolio. While we make allocations to specific loans and pools of loans, the total reserve is available for all loan and lease losses. There were no significant changes during the first nine months of 2010 to the process and procedures we follow to determine our allowance of loan and lease losses.

As noted above, we establish an allowance for specific loans. Generally, the allowance is determined based upon the fair value of the collateral underlying the specific loan. The fair value of the collateral is based upon an appraisal or, if a recent appraisal is not available, the net book value of the asset from its most recent financial statements adjusted for loss given default collateral recovery rates.

A portion of the allowance for loan and lease losses related to qualitative and measurement factors has been assigned to loan categories based on the relative specific and pool allocation amounts to provide coverage for probable losses not covered in specific and pool reserve methodologies. These factors include, but are not limited to, the following:

- industry concentrations and conditions,
- credit quality trends,
- recent loss experience in particular sectors of the portfolio,
- ability and depth of lending management,
- changes in risk selection and underwriting standards, and
- timing of available information.

At September 30, 2010, the portion of reserves for these factors was $261 million.

We increased the allowance for loan and lease losses to $5.2 billion at September 30, 2010 compared with $5.1 billion at December 31, 2009. The increase was primarily due to consolidation of the securitized credit card portfolio. The allowance as a percent of nonperforming loans was 108% and as a percent of total loans was 3.48% at September 30, 2010. The comparable percentages at December 31, 2009 were 89% and 3.22%, respectively. Excluding the allowance for purchased impaired loans and consumer loans and lines of credit, not secured by residential real estate, of $1.4 billion at September 30, 2010 and $1.0 billion at December 31, 2009, respectively, the allowance as a percent of nonperforming

loans was 78% at September 30, 2010 and 72% at December 31, 2009.

The majority of the commercial portfolio is secured by collateral, including loans to asset-based lending customers that continue to show demonstrably lower loss given default. Further, the large investment grade or equivalent portion of the loan portfolio has performed well and has not been subject to significant deterioration. The overall level of commercial allowance has decreased in the third quarter of 2010 based upon these factors, as well as lower outstanding balances. Additionally, guarantees on loans greater than $1 million and owner guarantees for small business loans do not significantly impact our allowance for loan and lease losses. We continue to experience some pressure in the residential real estate and commercial real estate lending sectors consistent with the current slow and somewhat uncertain economic recovery.

The allowance for loan and lease losses is significantly lower than it would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of allowance for loan and lease losses to total loans. Loan loss reserves on the purchased impaired loans were not carried over on the date of acquisition. In addition, these loans were recorded net of $9.2 billion of fair value adjustments as of December 31, 2008. As of September 30, 2010, we have reserves of $.9 billion for purchased impaired loans.

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

We refer you to Note 5 Asset Quality and Note 6 Purchased Impaired Loans Related to National City in the Notes To Consolidated Financial Statements in this Report regarding changes in the allowance for loan and lease losses and in the allowance for unfunded loan commitments and letters of credit.

We are optimistic about prospects for a stable-to-lower provision for credit losses in the fourth quarter of 2010 compared with the third quarter of 2010. Future provision levels will depend primarily on the level of nonperforming loans, our related coverage ratios, and the pace of economic recovery.

Table of Contents

Charge-Offs And Recoveries

Nine months ended September 30 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2010				
Commercial	**$ 896**	**$ 223**	**$ 673**	**1.65%**
Commercial real estate	**489**	**57**	**432**	**2.74**
Equipment lease financing	**91**	**38**	**53**	**1.14**
Consumer	**810**	**85**	**725**	**1.76**
Residential real estate	**282**	**20**	**262**	**1.92**
Total	**$ 2,568**	**$ 423**	**$ 2,145**	**1.85**
2009				
Commercial	$ 896	$ 94	$ 802	1.70%
Commercial real estate	250	23	227	1.21
Equipment lease financing	115	17	98	2.11
Consumer	694	78	616	1.58
Residential real estate	176	43	133	.83
Total	$ 2,131	$ 255	$ 1,876	1.49

Total net charge-offs are significantly lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. Customer balances related to these impaired loans were reduced by the fair value adjustments of $9.2 billion as of December 31, 2008. However, as a result of further credit deterioration on purchased impaired commercial loans, we recorded $158 million of net charge-offs during the first nine months of 2010. Net charge-offs were not recorded on purchased impaired consumer pools.

Credit Default Swaps

From a credit risk management perspective, we buy and sell credit loss protection via the use of credit derivatives. When we buy loss protection by purchasing a credit default swap (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. We purchase CDSs to mitigate the risk of economic loss on a portion of our loan exposures.

We also sell loss protection to mitigate the net premium cost and the impact of fair value accounting on the CDS in cases where we buy protection to hedge the loan portfolio. These activities represent additional risk positions rather than hedges of risk.

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

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

Operational Risk Management

The operational risk in connection with the National City integration has been effectively managed. Our integration objectives have been successfully met and integration-related risk issues have been proactively identified, assessed and mitigated. Post-integration, our operational risk management focus has shifted to continued stabilization, the increased complexities driven by our size and several external environmental factors impacting our business model. We will continue to execute our rigorous risk management processes and evaluate the effectiveness of key processes, technologies and controls to help ensure performance at expected levels.

Liquidity Risk Management

Liquidity risk has two fundamental components. The first is the potential loss if 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 bank and parent company 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 the primary metrics used to measure and monitor bank 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. 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 Management Policy. The Board of Directors Joint Risk Committee regularly reviews compliance with the established limits.

Bank Level Liquidity Uses

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. At the bank level, primary contractual obligations include funding loan commitments, satisfying deposit withdrawal requests and maturities and debt service related to bank borrowings. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary.

As of September 30, 2010, there were approximately $5.0 billion of bank borrowings with maturities of less than one year.

Table of Contents

Bank Level Liquidity Sources

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

At September 30, 2010, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning deposits with banks) totaling $3.5 billion and securities available for sale totaling $56.0 billion. Of our total liquid assets of $59.5 billion, we had $28.7 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 Federal Home Loan Bank (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 September 30, 2010, PNC Bank, N.A. had issued $6.9 billion of debt under this program. Total senior and subordinated debt declined to $5.6 billion at September 30, 2010 from $7.4 billion at December 31, 2009 due to maturities.

PNC Bank, N.A. is a member of the FHLB-Pittsburgh and as such has access to advances from FHLB-Pittsburgh secured generally by residential mortgage and other mortgage-related loans. At September 30, 2010, our unused secured borrowing capacity was $8.4 billion with FHLB-Pittsburgh. Total FHLB borrowings declined to $7.1 billion at September 30, 2010 from $10.8 billion at December 31, 2009 due to maturities.

PNC Bank, N.A. has the ability to offer up to $3.0 billion of its commercial paper. As of September 30, 2010, there were no issuances outstanding under this program. Commercial paper included in Other borrowed funds on our Consolidated Balance Sheet is issued by Market Street as described in Off-Balance Sheet Arrangements and Variable Interest Entities in this Financial Review.

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, 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 September 30, 2010, our unused secured borrowing capacity was $23.7 billion with the Federal Reserve Bank.

Parent Company Liquidity Uses

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. The parent company s contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. Additionally, the parent company maintains adequate liquidity to fund discretionary activities such as paying dividends to PNC shareholders, share repurchases, and acquisitions.

As of September 30, 2010, there were approximately $2.7 billion of parent company borrowings with maturities of less than one year.

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 to the parent company by PNC Bank, N.A. without prior regulatory approval was approximately $2.0 billion at September 30, 2010. 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 23 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of our 2009 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 Perpetual Trust Securities, PNC Capital Trust E Trust Preferred Securities, and Acquired Entity Trust Preferred Securities sections of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review.

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 September 30, 2010, the parent company had approximately $4.2 billion in funds available from its cash and short-term investments. This amount includes $1.8 billion of net after-tax cash proceeds from the sale of GIS.

Table of Contents

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 $18.0 billion at September 30, 2010 from $14.9 billion at December 31, 2009 due to net year-to-date issuances. On August 11, 2010, PNC Funding Corp issued $750 million of senior notes due August 2020. Interest will be paid semiannually at a fixed rate of 4.375%.

Note 19 Equity in our 2009 Form 10-K describes the December 31, 2008 issuance of 75,792 shares of our Fixed Rate Cumulative Perpetual Preferred Shares, Series N (Series N Preferred Stock), related issuance discount and the warrant to purchase common shares to the US Treasury under the TARP Capital Purchase Program.

As approved by the Federal Reserve Board, US Treasury and our other banking regulators, on February 10, 2010, we redeemed all 75,792 shares of our Series N Preferred Stock held by the US Treasury totaling $7.6 billion. We used the net proceeds from the first quarter 2010 common stock and senior notes offerings described in Note 28 Subsequent Events in our 2009 Form 10-K and other funds to redeem the Series N Preferred Stock.

In connection with the redemption of the Series N Preferred Stock, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of $250 million during the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share.

Dividends of $89 million were paid on February 10, 2010 when the Series N Preferred Stock was redeemed. PNC paid total dividends of $421 million to the US Treasury while the Series N preferred shares were outstanding.

After exchanging its TARP Warrant for 16,885,192 warrants, each to purchase one share of PNC common stock, the US Treasury sold the warrants in a secondary public offering. The sale closed on May 5, 2010.

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 September 30, 2010, there were no issuances outstanding under this program.

Status of Credit Ratings

The cost and availability of short- and long-term funding, as well as collateral requirements for certain derivative instruments, is influenced by debt ratings.

In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current legislative and regulatory environment, including implied government support. In addition, rating agencies themselves have been subject to scrutiny arising from the financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in Dodd-Frank. Potential changes in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above, could impact our liquidity and financial condition. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect liquidity and financial condition.

Credit ratings as of November 1, 2010 for PNC and PNC Bank, N.A. follow:

	Moody s	Standard & Poor s	Fitch
The PNC Financial Services Group, Inc.			
Senior debt	A3	A	A+
Subordinated debt	Baa1	A-	A
Preferred stock	Baa3	BBB	A

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

On November 1, 2010, Moody s announced that they had downgraded the ratings of 10 large US regional banks after reducing its government support assumptions for these entities. The ratings for these companies, which had been placed on review for possible downgrade on July 27, 2010, had benefitted from Moody s support assumptions since 2009. The reduction in the support assumption resulted in a one-notch downgrade of PNC s bank-level debt and long-term deposits ratings. The ratings of PNC s holding company were not on review and were affirmed. Moody s indicated that the firm continues to ascribe support in the case of PNC, but at a reduced level. The ongoing assumption of support for PNC is primarily due to our importance in the payment system and significant national deposit share. However, the assumed level of support does not provide any lift to the bank s current stand-alone ratings. At the same time, the ratings outlook on PNC was changed to positive from stable reflecting its improving credit metrics and strengthened capital profile. All of the other ratings in the table above were the same on both September 30, 2010 and November 1, 2010.

Table of Contents

Commitments

The following tables set forth contractual obligations and various other commitments as of September 30, 2010 representing required and potential cash outflows.

Contractual Obligations

September 30, 2010 in millions	Total
Remaining contractual maturities of time deposits	**$ 43,887**
Borrowed funds	**39,763**
Minimum annual rentals on noncancellable leases	**2,459**
Nonqualified pension and postretirement benefits	**539**
Purchase obligations (a)	**583**
Total contractual cash obligations	**$ 87,231**

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

At September 30, 2010, the liability for uncertain tax positions, excluding associated interest and penalties, was $246 million. This liability 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 $97.6 billion at December 31, 2009 as further detailed in Item 7 of our 2009 Form 10-K. The decline to $87.2 billion at September 30, 2010 as outlined in the table above was due primarily to a $10.4 billion decline in the remaining contractual maturities of time deposits.

Other Commitments (a)

September 30, 2010 in millions	Total Amounts Committed
Net unfunded credit commitments	**$ 97,147**
Standby letters of credit (b)	**9,937**
Reinsurance agreements (c)	**4,272**
Recourse agreements (d)	**4,029**
Other commitments (e)	**784**
Total commitments	**$ 116,169**

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of participations, assignments and syndications.
(b) Includes $6.3 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.
(c) Reinsurance agreements are with third-party insurers related to insurance sold to our customers.
(d) Recourse agreements are arrangements with FNMA s and FHLMC s DUS Programs.
(e) Includes unfunded commitments related to private equity investments of $370 million and other investments of $21 million which are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $377 million and other direct equity investments of $16 million which are included in Other liabilities on our Consolidated Balance Sheet.

MARKET RISK MANAGEMENT OVERVIEW

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

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 within limits and guidelines set forth in our risk management policies approved by management s Asset and Liability Committee and the Joint Risk Committee of the Board.

Sensitivity results and market interest rate benchmarks for the third quarters of 2010 and 2009 follow:

Interest Sensitivity Analysis

	Third Quarter 2010	Third Quarter 2009
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	**1.5%**	.9%
100 basis point decrease (a)	**(1.8)%**	(2.0)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**4.6%**	1.4%
100 basis point decrease (a)	**(5.9)%**	(5.5)%
Duration of Equity Model (a)		
Base case duration of equity (in years):	**(3.0)**	(2.2)
Key Period-End Interest Rates		
One-month LIBOR	**.26%**	.25%
Three-year swap	**.87%**	1.87%

(a) Given the inherent limitations in certain of these measurement tools and techniques, results become less meaningful as interest rates approach zero.

Table of Contents

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

Net Interest Income Sensitivity to Alternative Rate Scenarios (Third Quarter 2010)

	PNC Economist	Market Forward	Two-Ten Slope
First year sensitivity	**1.0%**	**(.3)%**	**(1.1)%**
Second year sensitivity	**3.9%**	**1.2%**	**(1.8)%**

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

The third quarter 2010 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates. 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, equities, derivatives, and foreign exchange contracts. They also include the underwriting of fixed income and equity securities. Proprietary trading positions were essentially eliminated by the end of the second quarter of 2010.

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

During the first nine months of 2010, our VaR ranged between $2.8 million and $8.8 million, averaging $5.8 million. During the first nine months of 2009, our VaR ranged between $5.8 million and $10.1 million, averaging $7.4 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. Over a typical business cycle, we would expect an average of two to three instances a year in which actual losses exceeded the prior day VaR measure at the enterprise-wide level. There were no such instances during the first nine months of either 2010 or 2009, as the trading markets have moved into a period of relatively low pricing volatility.

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

Table of Contents

Trading Revenue

Nine months ended September 30

In millions	**2010**	2009
Net interest income	**$ 43**	$ 46
Noninterest income	**99**	111
Total trading revenue	**$ 142**	$ 157
Securities underwriting and trading (a)	**$ 70**	$ 63
Foreign exchange	**59**	53
Financial derivatives	**13**	41
Total trading revenue (b)	**$ 142**	$ 157

Three months ended September 30

In millions	**2010**	2009
Net interest income	**$ 11**	$ 14
Noninterest income	**21**	31
Total trading revenue	**$ 32**	$ 45
Securities underwriting and trading (a)	**$ 17**	$ 24
Foreign exchange	**14**	12
Financial derivatives	**1**	9
Total trading revenue (b)	**$ 32**	$ 45

(a) Includes changes in fair value for certain loans accounted for at fair value.
(b) Product trading revenue includes related hedged activity.

Trading revenue excludes the impact of economic hedging activities, which relate primarily to residential mortgage servicing rights, and residential and held-for-sale commercial real estate loans.

Trading revenue decreased by $15 million compared with the first nine months of 2009 and $13 million compared with the third quarter of 2009 primarily due to lower proprietary trading results and the increased impact of counterparty credit risk on valuations of customer derivative positions. The decline in the nine month comparison was partially offset by improved underwriting results. The decline in the quarterly comparison was partially offset by improved customer-driven trading results. Proprietary trading positions were essentially eliminated in the second quarter of 2010.

MARKET RISK MANAGEMENT EQUITY AND OTHER

INVESTMENT RISK

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

A summary of our equity investments follows:

In millions	**Sept. 30 2010**	Dec. 31 2009
BlackRock	**$ 5,904**	$ 5,736
Tax credit investments	**2,102**	2,510
Private equity	**1,366**	1,184
Visa	**456**	456
Other	**309**	368
Total	**$ 10,137**	$ 10,254

BlackRock

PNC owned approximately 44 million common stock equivalent shares of BlackRock equity at September 30, 2010, accounted for under the equity method. The carrying value of our investment in BlackRock at September 30, 2010 was $6.0 billion, which includes our equity investment of $5.9 billion and $.1 billion of related goodwill and accumulated other comprehensive income related to our BlackRock investment. The market value of our investment in BlackRock was $7.4 billion at September 30, 2010 (not including liquidity discount). The primary risk measurement, similar to other equity investments, is economic capital. Further information about BlackRock is included in the Business Segments Review section of this Financial Review.

Tax Credit Investments

Included in our equity investments are tax credit investments which are mostly accounted for under the equity method.

These investments, as well as equity investments held by consolidated partnerships, totaled $2.1 billion at September 30, 2010 and $2.5 billion at December 31, 2009.

Private Equity

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

Private equity investments carried at estimated fair value totaled $1.4 billion at September 30, 2010 and $1.2 billion at December 31, 2009. As of September 30, 2010, $740 million was invested directly in a variety of companies and $626 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 $220 million as of September 30, 2010. The indirect private equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee.

Our unfunded commitments related to private equity totaled $370 million at September 30, 2010 compared with $453 million at December 31, 2009.

Visa

At September 30, 2010, our investment in Visa Class B common shares totaled approximately 23 million shares. In May 2010, Visa funded $500 million to their litigation escrow account and reduced the conversion ratio of Visa B to A shares. We consequently recognized our estimated $47 million share of the $500 million as a reduction of our indemnification liability and a reduction of noninterest expense. Considering the adjustment to the conversion ratio, the Class B shares would convert to approximately 12.9 million of publicly traded Visa Class A common shares. In September 2010, Visa announced their intention to fund their litigation escrow account by an additional $800 million. This funding occurred in October 2010. As a result, we expect to recognize an additional $76 million reduction of the indemnification liability in the fourth quarter of 2010.

As of September 30, 2010, we had recognized $456 million of our Visa ownership, which we acquired with National City, on our Consolidated Balance Sheet. Based on the September 30, 2010 closing price of $74.26 for the Visa Class A shares, the market value of our investment was $960 million. 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 later of three years after the IPO, March 25, 2011, or settlement of all of the specified litigation. It is expected that Visa will continue to adjust the conversion ratio of Visa Class B to Class A shares in connection with any settlements in excess of any amounts then in escrow for that purpose and will also reduce the conversion ratio to the extent that it adds any funds to the escrow in the future.

Note 18 Commitments and Guarantees in our Notes To Consolidated Financial Statements of this Report and Note 25 Commitments and Guarantees in our Notes To Consolidated Financial Statements under Item 8 of our 2009 Form 10-K have further information on our Visa indemnification obligation.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At September 30, 2010, other investments totaled $309 million compared with $368 million at December 31, 2009. We recognized net gains related to these investments of $33 million during the first nine months of 2010, including $7 million during the third quarter. We recognized net losses related to these investments of $62 million during the first nine months of 2009, including a gain of $17 million during the third quarter.

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 $21 million at September 30, 2010 and $66 million at December 31, 2009.

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.

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 2009 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.

51

Table of Contents

The following table provides the notional or contractual amounts and estimated net fair value of financial derivatives at September 30, 2010 and December 31, 2009.

Financial Derivatives

In millions	**September 30, 2010** Notional/ Contractual Amount	**September 30, 2010** Estimated Net Fair Value	December 31, 2009 Notional/ Contractual Amount	December 31, 2009 Estimated Net Fair Value
Derivatives designated as hedging instrument under GAAP				
Interest rate contracts (a)				
Asset rate conversion				
Receive fixed swaps	**$ 14,637**	**$ 525**	$ 13,055	$ (64)
Pay fixed swaps (c)	**1,815**	**(66)**		
Liability rate conversion				
Receive fixed swaps	**11,203**	**1,272**	13,048	707
Forward purchase commitments	**4,005**	**34**	350	1
Total interest rate risk management	**31,660**	**1,765**	26,453	644
Total derivatives designated as hedging instruments (b)	**$ 31,660**	**$ 1,765**	$ 26,453	$ 644
Derivatives not designated as hedging instruments under GAAP				
Derivatives used for residential mortgage banking activities:				
Interest rate contracts				
Swaps	**$ 69,752**	**$ 288**	$ 38,596	$ (152)
Caps/floors Purchased			5,200	50
Futures	**57,269**		41,609	
Future options	**83,800**	**20**	18,580	28
Swaptions	**13,155**	**(2)**	24,145	(22)
Commitments related to residential mortgage assets	**18,680**	**58**	9,565	6
Total residential mortgage banking activities	**$ 242,656**	**$ 364**	$ 137,695	$ (90)
Derivatives used for commercial mortgage banking activities:				
Interest rate contracts				
Swaps (c)	**$ 1,668**	**$ (66)**	$ 1,948	$ (15)
Commitments related to commercial mortgage assets	**3,027**	**3**	1,733	8
Credit contracts				
Credit default swaps	**185**	**11**	460	52
Total commercial mortgage banking activities	**$ 4,880**	**$ (52)**	$ 4,141	$ 45
Derivatives used for customer-related activities:				
Interest rate contracts				
Swaps (c)	**$ 88,592**	**$ (178)**	$ 91,090	$ (54)
Caps/floors				
Sold	**3,174**	**(10)**	3,457	(15)
Purchased	**2,442**	**9**	2,115	14
Swaptions	**2,367**	**60**	1,996	11
Futures	**2,122**		2,271	
Foreign exchange contracts	**8,618**	**10**	8,002	14
Equity contracts	**378**		351	
Credit contracts				
Risk participation agreements	**2,922**	**1**	2,819	1
Total customer-related	**$ 110,615**	**$ (108)**	$ 112,101	$ (29)
Derivatives used for other risk management activities:				
Interest rate contracts				
Swaps	**$ 865**		$ 4,667	$ 3
Caps/floors Purchased	**100**	**$ 1**		
Swaptions			720	(9)
Futures	**280**		145	
Future options				
Commitments related to residential mortgage assets			50	

Foreign exchange contracts (c)	**34**	**(2)**	41	1
Credit contracts				
Credit default swaps	**664**	**9**	1,128	(2)
Other contracts (d)	**209**	**(354)**	211	(486)
Total other risk management	**$ 2,152**	**$ (346)**	$ 6,962	$ (493)
Total derivatives not designated as hedging instruments	**$ 360,303**	**$ (142)**	$ 260,899	$ (567)
Total Gross Derivatives	**$ 391,963**	**$ 1,623**	$ 287,352	$ 77

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 58% were based on 1-month LIBOR and 42% on 3-month LIBOR at September 30, 2010 compared with 57% and 43%, respectively, at December 31, 2009.

(b) Fair value amount includes net accrued interest receivable of $151 million at September 30, 2010 and $162 million at December 31, 2009.

(c) The increases in the negative fair values from December 31, 2009 to September 30, 2010 for interest rate contracts, 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 2010 and contracts terminated.

(d) Includes PNC s obligation to fund a portion of certain BlackRock LTIP programs.

Table of Contents

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of September 30, 2010, 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 September 30, 2010, and that there has been no change in PNC s internal control over financial reporting that occurred during the third quarter of 2010 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.

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 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.

Client-related noninterest income Total noninterest income included on our Consolidated Income Statement less amounts for net gains (losses) on sales of securities, net other-than-temporary impairments, and other noninterest income.

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

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

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

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

Effective duration A measurement, expressed in years, that, when multiplied by a change in interest rates, would

approximate the percentage change in value of on- and off- balance sheet positions.

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

Fair value   The price that would be received to sell an asset or the price that would be paid to transfer a liability on the measurement date using the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants.

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

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

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

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

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

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

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

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.

Net interest income from loans and deposits   A management accounting assessment, using funds transfer pricing methodology, of the net interest contribution from loans and deposits.

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.

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

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

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

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

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.

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 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   A restructuring of a loan whereby the lender for economic or legal reasons related to the borrower s financial difficulties grants a concession to the borrower that the lender would not otherwise consider or for which the lender would not be adequately compensated.

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

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 or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality and/or other matters regarding or affecting PNC that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as believe, plan, expect, anticipate, intend, outlook, estimate, forecast, will, should, project, goal and other similar

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made. We do not assume any duty and do not undertake to update our forward-looking statements. Actual

results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements, and future results could differ materially from our historical performance.

Our forward-looking statements are subject to the following principal risks and uncertainties. We provide greater detail regarding some of these factors in our 2009 Form 10-K, other 2010 Form 10-Qs and elsewhere in this Report, including in the Risk Factors and Risk Management sections of those reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

Our businesses and financial results are affected by business and economic conditions, both generally and specifically in the principal markets in which we operate. In particular, our businesses and financial results may be impacted by:

Changes in interest rates and valuations in the debt, equity and other financial markets.

Disruptions in the liquidity and other functioning of financial markets, including such disruptions in the markets for real estate and other assets commonly securing financial products.
Actions by the Federal Reserve and other government agencies, including those that impact money supply and market interest rates.
Changes in our customers , suppliers and other counterparties performance in general and their creditworthiness in particular.
A slowing or failure of the moderate economic recovery that began last year.
Continued effects of the aftermath of recessionary conditions and the uneven spread of the positive impacts of the recovery on the economy in general and our customers in particular, including adverse impact on loan utilization rates as well as delinquencies, defaults and customer ability to meet credit obligations.
Changes in levels of unemployment.
Changes in customer preferences and behavior, whether as a result of changing business and economic conditions, climate-related physical changes or legislative and regulatory initiatives, or other factors.

A continuation of turbulence in significant portions of the US and global financial markets, particularly if it worsens, could impact our performance, both directly by affecting our revenues and the value of our assets and liabilities and indirectly by affecting our counterparties and the economy generally.

We will be impacted by the extensive reforms enacted in the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further, as much of that Act will require the adoption of implementing regulations by a number of different regulatory bodies, the precise nature, extent and timing of many of these reforms and the impact on us is still uncertain.

Financial industry restructuring in the current environment could also impact our business and financial performance as a result of changes in the creditworthiness and performance of our counterparties and by changes in the competitive and regulatory landscape.

Our results depend on our ability to manage current elevated levels of impaired assets.

Given current economic and financial market conditions, our forward-looking financial statements are subject to the risk that these conditions will be substantially different than we are currently expecting. These statements are based on our current view that the moderate economic recovery that began last year will continue throughout the rest of 2010 and slowly gather momentum in 2011 amidst continued low interest rates.

Legal and regulatory developments could have an impact on our ability to operate our businesses or our financial condition or results of operations or our competitive
position or reputation. Reputational impacts, in turn, could affect matters such as business generation and retention, our ability to attract and retain management, liquidity, and funding. These legal and regulatory developments could include:

Changes resulting from legislative and regulatory responses to the current economic and financial industry environment.
Other legislative and regulatory reforms, including broad-based restructuring of financial industry regulation as well as changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other aspects of the financial institution industry.
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 also include proceedings, claims, investigations, or inquiries relating to pre-acquisition business and activities of acquired companies such as National City.
The results of the regulatory examination and supervision process, including our failure to satisfy the requirements of agreements with governmental agencies.
Changes in accounting policies and principles.
Changes resulting from legislative and regulatory initiatives relating to climate change that have or may have a negative impact on our customers demand for or use of our products and services in general and their creditworthiness in particular.
Changes to regulations governing bank capital, including as a result of the so-called Basel III initiatives.

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

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

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

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

Our expansion with our National City acquisition in geographic markets and into business operations in areas in which we did not have significant experience or presence prior to 2009 presents greater risks and uncertainties than were present for us in other recent acquisitions.

- Competition can have an impact on customer acquisition, growth and retention, as well as on our credit spreads and product pricing, which can affect market share, deposits and revenues.
- Our business and operating results can also be affected by widespread disasters, terrorist activities or international hostilities, either as a result of the impact on the economy and capital and other financial markets generally or on us or on our customers, suppliers or other counterparties specifically.
- Also, risks and uncertainties that could affect the results anticipated in forward-looking statements or from historical performance relating to our equity interest in BlackRock, Inc. are discussed in more detail in BlackRock s filings with the SEC, including in the Risk Factors sections of BlackRock s reports. BlackRock s SEC filings are accessible on the SEC s website and on or through BlackRock s website at www.blackrock.com. This material is referenced for informational purposes only and should not be deemed to constitute a part of this Report.

We grow our business in part by acquiring from time to time other financial services companies. Acquisitions present us

with risks in addition to those presented by the nature of the business acquired. These include risks and uncertainties related both to the acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing.

Acquisitions may be substantially more expensive to complete (including unanticipated costs incurred in connection with the integration of the acquired company) and the anticipated benefits (including anticipated cost savings and strategic gains) may be significantly harder or take longer to achieve than expected. Acquisitions may involve our entry into new businesses or new geographic or other markets, and these situations also present risks resulting from our inexperience in those new areas.

As a regulated financial institution, our pursuit of attractive acquisition opportunities could be negatively impacted due to regulatory delays or other regulatory issues. Regulatory and/or legal issues relating to the pre-acquisition operations of an acquired business may cause reputational harm to PNC following the acquisition and integration of the acquired business into ours and may result in additional future costs or regulatory limitations arising as a result of those issues.

Table of Contents

CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except per share data *Unaudited*	Three months ended September 30 **2010**	2009	Nine months ended September 30 **2010**	2009
Interest Income				
Loans	**$ 1,996**	$ 2,091	**$ 6,314**	$ 6,759
Investment securities	**592**	684	**1,787**	2,045
Other	**113**	113	**378**	343
Total interest income	**2,701**	2,888	**8,479**	9,147
Interest Expense				
Deposits	**233**	387	**758**	1,407
Borrowed funds	**253**	277	**692**	1,003
Total interest expense	**486**	664	**1,450**	2,410
Net interest income	**2,215**	2,224	**7,029**	6,737
Noninterest Income				
Asset management	**249**	242	**751**	639
Consumer services	**328**	330	**939**	975
Corporate services	**183**	252	**712**	761
Residential mortgage	**216**	207	**542**	883
Service charges on deposits	**164**	248	**573**	714
Net gains on sales of securities	**121**	168	**358**	406
Other-than-temporary impairments	**(117)**	(401)	**(475)**	(1,540)
Less: Noncredit portion of other-than-temporary impairments (a)	**(46)**	(272)	**(194)**	(1,107)
Net other-than-temporary impairments	**(71)**	(129)	**(281)**	(433)
Other	**193**	311	**650**	660
Total noninterest income	**1,383**	1,629	**4,244**	4,605
Total revenue	**3,598**	3,853	**11,273**	11,342
Provision For Credit Losses	**486**	914	**2,060**	2,881
Noninterest Expense				
Personnel	**959**	1,068	**2,874**	3,150
Occupancy	**177**	172	**536**	533
Equipment	**152**	170	**492**	522
Marketing	**81**	58	**196**	174
Other	**789**	746	**2,175**	2,485
Total noninterest expense	**2,158**	2,214	**6,273**	6,864
Income from continuing operations before income taxes and noncontrolling interests	**954**	725	**2,940**	1,597
Income taxes	**179**	185	**736**	342
Income from continuing operations before noncontrolling interests	**775**	540	**2,204**	1,255
Income from discontinued operations (net of income taxes of $311, $11, $338, and $22)	**328**	19	**373**	41
Net income	**1,103**	559	**2,577**	1,296
Less: Net income (loss) attributable to noncontrolling interests	**2**	(20)	**(12)**	(7)
Preferred stock dividends	**4**	99	**122**	269
Preferred stock discount accretion and redemptions	**3**	13	**254**	42
Net income attributable to common shareholders	**$ 1,094**	$ 467	**$ 2,213**	$ 992
Basic Earnings Per Common Share				
Continuing operations	**$ 1.45**	$ .97	**$ 3.56**	$ 2.10
Discontinued operations	**.63**	.04	**.72**	.09
Net income	**$ 2.08**	$ 1.01	**$ 4.28**	$ 2.19
Diluted Earnings Per Common Share				
Continuing operations	**$ 1.45**	$ .96	**$ 3.52**	$ 2.08

Discontinued operations	**.62**	.04	**.72**	.09
Net income	**$ 2.07**	$ 1.00	**$ 4.24**	$ 2.17
Average Common Shares Outstanding				
Basic	**523**	460	**515**	451
Diluted	**526**	461	**518**	452

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

See accompanying Notes To Consolidated Financial Statements.

Table of Contents

CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except par value

Unaudited	**September 30 2010**	December 31 2009
Assets		
Cash and due from banks (September 30, 2010 includes $2 for VIEs) (a)	**$ 3,724**	$ 4,288
Federal funds sold and resale agreements (includes $921 and $990 measured at fair value) (b)	**2,094**	2,390
Trading securities	**955**	2,124
Interest-earning deposits with banks (September 30, 2010 includes $5 for VIEs) (a)	**415**	4,488
Loans held for sale (includes $2,805 and $2,062 measured at fair value) (b)	**3,275**	2,539
Investment securities (September 30, 2010 includes $202 for VIEs) (a)	**63,461**	56,027
Loans (September 30, 2010 includes $4,644 for VIEs) (includes $90 and $88 measured at fair value) (a) (b)	**150,127**	157,543
Allowance for loan and lease losses (September 30, 2010 includes $(219) for VIEs) (a)	**(5,231)**	(5,072)
Net loans	**144,896**	152,471
Goodwill	**8,166**	9,505
Other intangible assets	**2,352**	3,404
Equity investments (September 30, 2010 includes $1,177 for VIEs) (a)	**10,137**	10,254
Other (September 30, 2010 includes $787 for VIEs) (includes $354 and $486 measured at fair value) (a) (b)	**20,658**	22,373
Total assets	**$ 260,133**	$ 269,863
Liabilities		
Deposits		
Noninterest-bearing	**$ 46,065**	$ 44,384
Interest-bearing	**133,118**	142,538
Total deposits	**179,183**	186,922
Borrowed funds		
Federal funds purchased and repurchase agreements	**4,661**	3,998
Federal Home Loan Bank borrowings	**7,106**	10,761
Bank notes and senior debt	**13,508**	12,362
Subordinated debt	**10,023**	9,907
Other (September 30, 2010 includes $2,937 for VIEs) (a)	**4,465**	2,233
Total borrowed funds	**39,763**	39,261
Allowance for unfunded loan commitments and letters of credit	**193**	296
Accrued expenses (September 30, 2010 includes $79 for VIEs) (a)	**3,134**	3,590
Other (September 30, 2010 includes $523 for VIEs) (a)	**5,194**	7,227
Total liabilities	**227,467**	237,296
Equity		
Preferred stock (c)		
Common stock $5 par value		
Authorized 800 shares, issued 536 and 471 shares	**2,680**	2,354
Capital surplus preferred stock	**646**	7,974
Capital surplus common stock and other	**12,008**	8,945
Retained earnings	**15,114**	13,144
Accumulated other comprehensive income (loss)	**146**	(1,962)
Common stock held in treasury at cost: 10 and 9 shares	**(552)**	(513)
Total shareholders equity	**30,042**	29,942
Noncontrolling interests	**2,624**	2,625
Total equity	**32,666**	32,567
Total liabilities and equity	**$ 260,133**	$ 269,863

(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.

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions	Nine months ended September 30	
Unaudited	**2010**	2009
Operating Activities		
Net income	**$ 2,577**	$ 1,296
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	**2,060**	2,881
Depreciation and amortization	**753**	747
Deferred income taxes	**691**	143
Net gains on sales of securities	**(358)**	(406)
Net other-than-temporary impairments	**281**	433
Gain on sale of PNC Global Investment Servicing	**(639)**	
Net gains related to BlackRock LTIP shares adjustment		(103)
Undistributed earnings of BlackRock	**(176)**	(107)
Excess tax benefits from share-based payment arrangements	**(1)**	(1)
Net change in		
Trading securities and other short-term investments	**1,092**	(35)
Loans held for sale	**(1,056)**	267
Other assets	**(1,411)**	3,094
Accrued expenses and other liabilities	**566**	(5,978)
Other	**58**	298
Net cash provided by operating activities	**4,437**	2,529
Investing Activities		
Sales		
Securities available for sale	**17,994**	12,611
Loans	**2,326**	408
Repayments/maturities		
Securities available for sale	**5,869**	5,552
Securities held to maturity	**1,857**	251
Purchases		
Securities available for sale	**(28,344)**	(25,364)
Securities held to maturity	**(1,180)**	(1,514)
Loans	**(3,680)**	(212)
Net change in		
Federal funds sold and resale agreements	**310**	(589)
Interest-earning deposits with banks	**3,880**	13,623
Loans	**8,247**	10,977
Net cash received from (paid for) acquisition and divestiture activity	**2,479**	(3,396)
Other (a)	**686**	(9)
Net cash provided by investing activities	**10,444**	12,338
Financing Activities		
Net change in		
Noninterest-bearing deposits	**1,912**	6,650
Interest-bearing deposits	**(9,097)**	(11,603)
Federal funds purchased and repurchase agreements	**667**	(1,177)
Federal Home Loan Bank short-term borrowings	**(280)**	
Other short-term borrowed funds	**(461)**	(1,755)
Sales/issuances		
Federal Home Loan Bank long-term borrowings		1,500
Bank notes and senior debt	**3,270**	2,459
Other long-term borrowed funds	**3,090**	147
Supervisory Capital Assessment Program common stock		624
Common and treasury stock	**3,466**	174
Repayments/maturities		
Federal Home Loan Bank long-term borrowings	**(3,310)**	(7,633)
Bank notes and senior debt	**(2,455)**	(3,868)

Subordinated debt	**(269)**	(529)
Other long-term borrowed funds	**(3,856)**	(125)
Preferred stock TARP	**(7,579)**	
Redemption of noncontrolling interest	**(99)**	
Excess tax benefits from share-based payment arrangements	**1**	1
Acquisition of treasury stock	**(172)**	(124)
Preferred stock cash dividends paid	**(122)**	(269)
Common stock cash dividends paid	**(151)**	(384)
Net cash used by financing activities	**(15,445)**	(15,912)
Net Decrease In Cash And Due From Banks	**(564)**	(1,045)
Cash and due from banks at beginning of period	**4,288**	4,471
Cash and due from banks at end of period	**$ 3,724**	$ 3,426
Supplemental Disclosures		
Interest paid	**$ 1,419**	$ 2,526
Income taxes paid	**571**	53
Income taxes refunded	**8**	611
Non-cash Investing and Financing Items		
Transfer from (to) loans to (from) loans held for sale, net	**632**	(190)
Transfer from loans to foreclosed assets	**1,064**	698

(a) Includes the impact of the consolidation of variable interest entities as of January 1, 2010.

See accompanying Notes To Consolidated Financial Statements.

61

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, Maryland, Illinois, Indiana, Kentucky, Florida, Virginia, Missouri, Delaware, Washington, D.C., and Wisconsin. 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. We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform with the 2010 presentation. These reclassifications did not have a material impact on our consolidated financial condition or results of operations.

The second quarter of 2010 included a $105 million pretax adjustment primarily related to the recognition of $64 million of additional interest income on purchased impaired loans, a $29 million reduction of interest expense related to the accretion of the purchase accounting adjustment for borrowings assumed in the National City acquisition, and another miscellaneous item. This correction should have been recorded in 2009. Management believes that the impact of this correction is not material to any prior period, the current period, or the estimated 2010 full year consolidated financial statements.

See Note 2 Divestiture regarding our July 1, 2010 sale of PNC Global Investment Servicing Inc. The Consolidated Income Statement for all periods presented and related Notes To Consolidated Financial Statements reflect the global investment servicing business as discontinued operations.

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 2009 Annual Report on Form 10-K (2009 Form 10-K). Reference is made to Note 1 Accounting Policies in the 2009 Form 10-K for a detailed description of significant accounting policies. There have been no significant changes to these policies in the first nine months of 2010 other than as disclosed herein. These interim consolidated financial statements serve to update the 2009 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 events occurring subsequent to September 30, 2010.

Use Of Estimates

We prepare the 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 allowance for loan and lease losses, impaired loans, fair value measurements, including security valuations and residential mortgage servicing rights, and revenue recognition. 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, Series B and Series D Preferred Stocks of BlackRock (both deemed to be in substance common stock) under the equity method of accounting. On January 31, 2010, the Series D Preferred Stock was converted to Series B Preferred Stock. The investment in BlackRock is reflected on our Consolidated Balance Sheet in the caption Equity investments, while our equity in earnings of BlackRock is reported on our Consolidated Income Statement in the caption Asset management.

On February 27, 2009, PNC s obligation to deliver BlackRock common shares in connection with BlackRock s long-term incentive plan programs was replaced with an obligation to deliver shares of BlackRock s new Series C Preferred Stock. The 2.9 million shares of Series C Preferred Stock were acquired from BlackRock in exchange for common shares on that same date. Since these preferred shares were not deemed to be in substance common stock, we 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 the caption 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.

Earnings Per Common Share

Basic earnings per common share is calculated using the two-class method to determine income attributable to common stockholders. 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 stockholders 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

On January 1, 2010, we adopted ASU 2009-16 Transfers and Servicing (Topic 860) Accounting For Transfers of Financial Assets which is a codification of guidance issued in June 2009. This guidance removes the concept of a qualifying special-purpose entity. The guidance also establishes conditions for accounting and reporting of a transfer of a portion of a financial asset, modifies the asset sale/derecognition criteria, and changes how retained interests are initially measured.

On January 1, 2010, we adopted ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities which is a codification of guidance issued in June 2009. This guidance removes the scope exception for qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity (VIE) and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. VIEs are assessed for consolidation

under Topic 810 when we hold variable interests in these entities. PNC consolidates 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. Effective January 1, 2010, we consolidated Market Street Funding LLC (Market Street), a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments. We recorded consolidated assets of $4.2 billion, consolidated liabilities of $4.2 billion, and an after-tax cumulative effect adjustment to retained earnings of $92 million upon adoption (see Note 3 Loan Sale and Servicing Activities and Variable Interest Entities).

In January 2010, the FASB issued ASU 2010-6, Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures About Fair Value Measurements. This guidance requires new disclosures as follows: 1) transfers in and out of Levels 1 and 2 and the reasons for the transfers, 2) additional breakout of asset and liability categories and 3) purchases, sales, issuances and settlements to be reported separately in the Level 3 rollforward. This guidance was effective for PNC for first quarter 2010 reporting with the exception of item 3 which is effective beginning with first quarter 2011 reporting.

In April 2010, the FASB issued ASU 2010-18, Receivables (Topic 310), Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset. This ASU amends the accounting guidance related to loans that are accounted for within a pool under ASC 310-30. The new guidance clarifies that modifications of such loans do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. The amended guidance continues to require that an entity consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. No additional disclosures are required as a result of this ASU. ASU 2010-18 is effective for modifications of loans accounted for within pools under ASC 310-30 occurring in the first interim or annual period ending on or after July 15, 2010 with early adoption permitted. PNC accounts for loans within pools consistent with the guidance in this ASU.

In July 2010, the FASB issued ASU 2010-20 Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This ASU requires additional disclosures related to an entity s allowance for credit losses and the credit quality of its financing receivables (e.g., loans). Certain disclosures will be effective December 31, 2010 and others beginning in the first quarter of 2011.

Table of Contents

NOTE 2 DIVESTITURE

SALE OF PNC GLOBAL INVESTMENT SERVICING

On July 1, 2010, we sold PNC Global Investment Servicing Inc. (GIS), a leading provider of processing, technology and business intelligence services to asset managers, broker-dealers and financial advisors worldwide, for $2.3 billion in cash pursuant to a definitive agreement entered into on February 2, 2010. This transaction resulted in a pretax gain of $639 million, net of transaction costs. The after-tax amount of the gain of $328 million is included within Income from discontinued operations, on our Consolidated Income Statement.

Results of operations of GIS through June 30, 2010 are presented as Income from discontinued operations, net of income taxes, on our Consolidated Income Statement for all periods presented.

As part of the sale agreement, PNC has agreed to provide certain transitional services on behalf of GIS until completion of related systems conversion activities.

Asset and liabilities of GIS at December 31, 2009 follow.

Investment in Discontinued Operations

	December 31,
In millions	2009
Interest-earning deposits with banks	$ 255
Goodwill	1,243
Other intangible assets	51
Other	359
Total assets	$ 1,908
Interest-bearing deposits	$ 93
Accrued expenses	266
Other	1,009
Total liabilities	$ 1,368
Net assets	$ 540

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. In Agency securitizations, Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC) (collectively the Agencies) securitize our transferred loans into mortgage-backed securities for sale into the secondary market through Special Purpose Entities (SPEs) they sponsor. In Non-Agency securitizations, we have

transferred loans into securitization SPEs. In other instances third-party investors have purchased (in whole-loan sale transactions) and subsequently sold our loans into securitization SPEs. Third-party investors have also purchased our loans in whole-loan sale transactions. Securitization SPEs, which are legal entities that are 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, limited repurchases of previously transferred loans 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. With respect to Agency securitizations, the Agencies are responsible for working out defaulted loans.

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 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 the loan and a corresponding liability on the balance sheet regardless of our intent to repurchase the loan. At September 30, 2010 and December 31, 2009, the balance of our ROAP asset and liability totaled $367 million and $577 million, respectively.

We generally do not retain mortgage-backed securities issued by the Agency and Non-Agency securitization SPEs at the inception of the securitization transactions. Rather, our limited holdings of these securities occur through subsequent purchases in the secondary market. PNC does not retain any credit risk on its Agency mortgage-backed security positions as FNMA, FHLMC, and the U.S. Government (for GNMA)

Table of Contents

guarantee losses of principal and interest on the underlying mortgage loans. We generally hold a senior class of Non-Agency mortgage-backed securities.

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 to 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 with the Agencies (collectively recourse obligations). Other than providing temporary liquidity under servicing advances and our loss exposure associated with our 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 18 Commitments and Guarantees for further discussion of our recourse obligations.

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

In millions	**September 30, 2010** Residential Mortgages	Commercial Mortgages (a)	December 31, 2009 Residential Mortgages	Commercial Mortgages (a)
FINANCIAL INFORMATION				
Servicing portfolio (b)	**$ 131,594**	**$ 164,191**	$ 146,050	$ 185,167
Carrying value of servicing assets (c)	**788**	**616**	1,332	921
Servicing advances	**569**	**380**	599	383
Servicing deposits	**2,855**	**3,400**	3,118	3,774
Recourse obligations (d)	**155**	**30**	229	71
Carrying value of mortgage-backed securities held (e)	**1,907**	**1,578**	2,011	1,905

In millions	**Three Months Ended September 30, 2010** Residential Mortgages	Commercial Mortgages (a)	**Nine Months Ended September 30, 2010** Residential Mortgages	Commercial Mortgages (a)
CASH FLOWS				
Sales of loans (f)	**$ 2,381**	**$ 475**	**$ 6,607**	**$ 1,453**
Repurchases of previously transferred loans	**550**		**1,756**	
Contractual servicing fees received	**100**	**48**	**316**	**174**
Servicing advances recovered/(funded), net	**(30)**	**1**	**30**	**3**
Cash flows on mortgage-backed securities held (e)	**143**	**237**	**433**	**441**

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

(b) For our continuing involvement with residential mortgage loan 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. It does not include loans serviced by us that were originated by third parties and have not been transferred to a VIE.

(c) See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further information.

(d) Represents liability for our loss exposure associated with loan repurchases for breaches of representations and warranties and our commercial mortgage loss share arrangements for our Residential Mortgage Banking and Corporate & Institutional Banking business segments, respectively. See Note 18 Commitments and Guarantees for further information.

(e) Represents securities held where PNC transferred and/or serviced loans to a securitization SPE and we hold securities issued by that SPE.

(f) 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 loans not recognized on the balance sheet at fair value, gains/losses recognized on sales of these loans were insignificant for the three months and nine months ended September 30, 2010.

Variable Interest Entities (VIEs)

We are involved with various entities in the normal course of business that are deemed to be VIEs. We assess VIEs for consolidation based upon the accounting policies described in Note 1 and effective January 1, 2010, we consolidated Market Street, a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments as a result of adopting ASU 2009-17 Consolidations (Topic 810).

65

Table of Contents

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 September 30, 2010 and December 31, 2009, respectively.

Consolidated VIEs Carrying Value (a)

September 30, 2010 In millions	Market Street	Credit Card Securitization Trust	Tax Credit Investments (b)	Credit Risk Transfer Transaction	Total
Assets					
Cash and due from banks			$ 2		$ 2
Interest-earning deposits with banks			5		5
Investment securities	$ 202				202
Loans	2,094	$ 2,103		$ 447	4,644
Allowance for loan and lease losses		(213)		(6)	(219)
Equity investments			1,177		1,177
Other assets	339	3	435	10	787
Total assets	$ 2,635	$ 1,893	$ 1,619	$ 451	$ 6,598
Liabilities					
Other borrowed funds	$ 2,298	$ 523	$ 116		$ 2,937
Accrued expenses			79		79
Other liabilities	336		187		523
Total liabilities	$ 2,634	$ 523	$ 382		$ 3,539

(a) Amounts represent carrying value on PNC s Consolidated Balance Sheet.
(b) Amounts reported primarily represent LIHTC investments.

Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities
September 30, 2010		
Market Street	$ 3,220	$ 3,226
Credit Card Securitization Trust	2,231	995
Tax Credit Investments (a)	1,631	417
Credit Risk Transfer Transaction	766	766
December 31, 2009		
Tax Credit Investments (a)	$ 1,933	$ 808
Credit Risk Transfer Transaction	860	860

(a) Amounts reported primarily represent LIHTC investments.

Aggregate assets and aggregate liabilities differ from the consolidated carrying value of assets and liabilities due to elimination of intercompany assets and liabilities held by the consolidated VIE.

Non-Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss	Carrying Value of	Carrying Value of

				Assets	Liabilities
September 30, 2010					
Tax Credit Investments (a)	**$ 3,818**	**$ 2,028**	**$ 850**	**$ 850(c)**	**$ 347(d)**
Commercial Mortgage-Backed Securitizations (b)	**73,206**	**73,206**	**1,727**	**1,727(e)**	
Residential Mortgage-Backed Securitizations (b)	**47,585**	**47,585**	**1,936**	**1,930(e)**	**6(d)**
Collateralized Debt Obligations	**18**		**2**	**2(c)**	
Total	**$ 124,627**	**$ 122,819**	**$ 4,515**	**$ 4,509**	**$ 353**

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
December 31, 2009			
Market Street	$ 3,698	$ 3,718	$ 6,155(f)
Tax Credit Investments (a)	1,786	1,156	743
Collateralized Debt Obligations	23		2
Total	$ 5,507	$ 4,874	$ 6,900

(a) Amounts reported primarily represent LIHTC investments. Aggregate assets and aggregate liabilities represent estimated balances due to limited availability of financial information associated with certain acquired partnerships.

(b) Amounts reported reflect involvement with securitization SPEs where PNC transferred to and/or services loans for a SPE and we hold securities issued by that SPE. 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.
(f) PNC s risk of loss consisted of off-balance sheet liquidity commitments to Market Street of $5.6 billion and other credit enhancements of $.6 billion at December 31, 2009.

Market Street

Market Street is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street s activities primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets or loans by issuing commercial paper and is supported by pool-specific credit enhancements, liquidity facilities and 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 2009 and the first nine months of 2010, 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 all of the liquidity facilities to Market Street in exchange for fees negotiated based on market rates. Through these arrangements, PNC has the power to direct the activities of the special purpose entity (SPE) that most significantly affect its economic performance and these arrangements expose PNC to expected losses or residual returns that are significant to Market Street.

The commercial paper obligations at September 30, 2010 and December 31, 2009 were supported by Market Street s assets. While PNC may be obligated to fund under the $5.5 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 facilities is secondary to the risk of first loss provided by the borrower such as by the over-collateralization of the assets or by another third party in the form of deal-specific credit enhancement. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of expected losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. In addition, PNC would be required to fund $652 million of the liquidity facilities if the underlying assets are in default. Market Street creditors have no direct recourse to PNC.

PNC provides program-level credit enhancement to cover net losses in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities. PNC provides 100% of

the enhancement in the form of a cash collateral account funded by a loan facility. This facility expires in June 2015. At September 30, 2010, $584 million was outstanding on this facility. This amount was eliminated in PNC s Consolidated Balance Sheet as of September 30, 2010 due to the consolidation of Market Street. We are not required to nor have we provided additional financial support to the SPE.

Credit Card Securitization Trust

We are the sponsor of several credit card securitizations facilitated through an SPE 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. At September 30, 2010, Series 2006-1, 2007-1, and 2008-3 issued by the SPE were outstanding. Series 2005-1 was paid off during the third quarter of 2010.

Our continuing involvement in these securitization transactions consists primarily of holding certain retained interests and acting as the primary servicer. For each securitization series, our retained interests held are 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 of January 1, 2010 as we are deemed the primary beneficiary of the entity based upon our level of continuing involvement. Our role as primary servicer gives us the power to direct the activities of the SPE that most significantly affect its economic performance and our holding of retained interests gives us the obligation to absorb or receive expected losses or residual returns that are significant to the SPE. Accordingly, all retained interests held in the credit card SPE are eliminated in consolidation. The underlying assets of the consolidated SPE are restricted only for payment of the beneficial interest issued by the SPE. We are not required to nor have we provided additional financial support to the SPE. Additionally, creditors of the SPE have no direct recourse to PNC.

Tax Credit Investments

We make certain equity investments in various limited partnerships or limited liability companies (LLCs) that sponsor affordable housing projects utilizing the LIHTC pursuant to Sections 42 and 47 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing product offerings and to assist us in achieving goals associated with the Community Reinvestment Act. The primary activities of the investments include the identification, development and operation of multi-family housing that is leased to qualifying residential tenants. Generally, these types

of investments are funded through a combination of debt and equity. We typically invest in these partnerships as a limited partner or non-managing member.

Also, we are a national syndicator of affordable housing equity (together with the investments described above, the LIHTC investments). 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, and in some cases 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, 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. The primary sources of losses and benefits in LIHTC investments are the tax credits, tax benefits due to passive losses on the investments, and development and operating cash flows. We have consolidated LIHTC 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 liabilities and third party investors interests included in the Equity section as Noncontrolling interests. Neither creditors nor equity investors in the LIHTC investments have any recourse to our general credit. There are no terms or conditions that have required or could require us, as the primary beneficiary, to provide financial support. Also, we have not provided nor do we intend to provide 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 LIHTC investments are provided in the Consolidated VIEs table and reflected in the Other business segment.

We also have LIHTC investments in which we are not the general partner and do not have the right to make decisions that will most significantly impact the economic performance of the entity. Accordingly, we are not the primary beneficiary of these investments 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.

Credit Risk Transfer Transaction

National City Bank (which merged into PNC Bank, N.A. in November 2009) sponsored an SPE and concurrently entered into a credit risk transfer agreement with an independent third party to mitigate credit losses on a pool of nonconforming residential mortgage loans originated by its former First Franklin business unit. The SPE or VIE was formed with a small equity contribution and was structured as a bankruptcy-remote entity so that its creditors have no recourse to the sponsor. In exchange for a perfected security interest in the cash flows of the nonconforming mortgage loans, the SPE issued asset-backed securities to the sponsor in the form of senior, mezzanine, and subordinated equity notes.

The credit risk transfer agreement associated with this transaction is no longer outstanding as a result of certain actions taken by us and the independent third-party in 2009. Refer to our 2009 Form 10-K for further details of these actions. We continue to hold all asset-backed securities issued by the SPE and are also the depositor in this transaction. As a result, we are deemed the primary beneficiary of the SPE. Our rights as depositor give us the power to direct the activities of the SPE that most significantly affect its economic performance and our holding of all asset-backed securities gives us the obligation to absorb or receive expected losses or residual returns that are significant to the SPE. Accordingly, this SPE is consolidated and all of the entity s assets, liabilities, and equity associated with the securities held by us are intercompany balances and are eliminated in consolidation. The underlying assets of the consolidated SPE are restricted only for payment of the asset-backed securities issued by the SPE. We are not required to nor have we provided additional financial support to the SPE.

In October 2010, the governing documents were amended to give PNC the option to unilaterally terminate the securitization structure. On October 28, 2010, PNC exercised its option to terminate the securitization structure. The dissolution of the structure did not have any impact on the statement of financial condition, liquidity, or cash flows of PNC.

Table of Contents

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 magnitude 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 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 September 30, 2010, 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 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:

In millions	**September 30 2010**	December 31 2009
Commercial	**$ 53,188**	$ 54,818
Commercial real estate	**19,091**	23,131
Consumer	**54,956**	53,582
Residential real estate	**16,484**	19,810
Equipment lease financing	**6,408**	6,202
Total loans (a)	**$ 150,127**	$ 157,543

(a) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $2.8 billion and $3.2 billion at September 30, 2010 and December 31, 2009, respectively.

Future accretable discounts related to purchased impaired loans are not included in loans outstanding.

At September 30, 2010, we pledged $11.9 billion of loans to the Federal Reserve Bank and $26.6 billion of loans to the Federal Home Loan Bank as collateral for the contingent ability to borrow, if necessary. The comparable amounts at December 31, 2009 were $18.8 billion and $32.6 billion, respectively.

Certain loans are accounted for at fair value with changes in the fair value reported in current period earnings. The fair value of these loans was $90 million, or less than 1% of the total loan portfolio, at September 30, 2010.

Net Unfunded Credit Commitments

In millions	**September 30 2010**	December 31 2009

Commercial and commercial real estate (a) (b)	**$ 59,834**	$ 60,143
Home equity lines of credit	**19,500**	20,367
Consumer credit card line and other unsecured lines	**16,478**	18,800
Other	**1,335**	1,485
Total	**$ 97,147**	$ 100,795

(a) Amount related to purchased customer receivables totaled $3.4 billion at September 30, 2010 due to the January 1, 2010 consolidation of Market Street.

(b) Amount related to Market Street totaled $5.6 billion at December 31, 2009. This amount was eliminated as of September 30, 2010 due to the consolidation of Market Street.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. At September 30, 2010 commercial commitments are reported net of $15.3 billion of participations, assignments and syndications, primarily to financial institutions. The comparable amount at December 31, 2009 was $13.2 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.

Table of Contents

NOTE 5 ASSET QUALITY

The following amounts exclude purchased impaired loans acquired in connection with the December 31, 2008 National City acquisition. See Note 6 Purchased Impaired Loans Related to National City for further information.

Nonperforming Assets

Dollars in millions	**September 30, 2010**	December 31, 2009
Nonaccrual loans		
Commercial	**$ 1,530**	$ 1,806
Commercial real estate	**1,989**	2,140
Equipment lease financing	**104**	130
TOTAL COMMERCIAL LENDING	**3,623**	4,076
Consumer		
Home equity	**406**	356
Other	**38**	36
Total consumer	**444**	392
Residential real estate		
Residential mortgage	**727**	955
Residential construction	**42**	248
Total residential real estate	**769**	1,203
TOTAL CONSUMER LENDING	**1,213**	1,595
Total nonaccrual/nonperforming loans	**4,836**	5,671
Foreclosed and other assets		
Commercial lending	**366**	266
Consumer lending	**467**	379
Total foreclosed and other assets	**833**	645
Total nonperforming assets	**$ 5,669**	$ 6,316
Nonperforming loans to total loans	**3.22%**	3.60%
Nonperforming assets to total loans and foreclosed and other assets	**3.76**	3.99
Nonperforming assets to total assets	**2.18**	2.34

Loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties are considered troubled debt restructurings (TDRs). TDRs typically result from our loss mitigation activities and could include rate reductions, principal forgiveness, forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. Total nonperforming loans in the table above include TDRs of $595 million at September 30, 2010 and $440 million at December 31, 2009.

TDRs returned to performing (accrual) status totaled $425 million at September 30, 2010 and are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of performance under the modified terms.

In addition, credit cards and certain small business and consumer credit agreements whose terms have been modified totaled $315 million at September 30, 2010 and are TDRs. However, since our policy is to exempt these loans from being

placed on nonaccrual status as permitted by regulatory guidance as these loans are directly charged off in the period that they become 180 days past due, these loans are excluded from nonperforming loans.

Net interest income less the provision for credit losses was $5.0 billion for the first nine months of 2010 compared with $3.9 billion for the first nine months of 2009. Comparable amounts for the third quarter of 2010 and the third quarter of 2009 were $1.7 billion and $1.3 billion, respectively.

Rollforward of Allowance for Loan and

Lease Losses

In millions	2010	2009
January 1	**$ 5,072**	$ 3,917
Charge-offs	**(2,568)**	(2,131)
Recoveries	**423**	255
Net charge-offs	**(2,145)**	(1,876)
Provision for credit losses	**2,060**	2,881
Acquired allowance (a)		(114)
Adoption of ASU 2009-17, *Consolidations*	**141**	
Divestiture		(18)
Net change in allowance for unfunded loan commitments and letters of credit	**103**	20
September 30	**$ 5,231**	$ 4,810

(a) Reflects adjustments to the National City allowance acquired December 31, 2008 due to additional impairment of loans effective at that date.

Rollforward of Allowance for Unfunded Loan

Commitments and Letters of Credit

In millions	2010	2009
January 1	**$ 296**	$ 344
Net change in allowance for unfunded loan commitments and letters of credit	**(103)**	(20)
September 30	**$ 193**	$ 324

Originated Impaired Loans exclude leases and smaller homogeneous type loans as well as purchased impaired loans related to our acquisition of National City, but include acquired loans that are impaired subsequent to acquisition. We did not recognize any interest income on Originated Impaired Loans, including TDRs that have not returned to performing status, while they were impaired in the first nine months of 2010 or 2009. The following table provides further detail on Originated Impaired Loans individually evaluated for reserves and the associated allowance for loan losses:

Originated Impaired Loans (a)

In millions	Sept. 30 2010	Dec. 31 2009
Impaired loans with an associated reserve	**$ 3,752**	$ 3,475
Impaired loans without an associated reserve	**289**	471
Total impaired loans	**$ 4,041**	$ 3,946
Specific allowance for credit losses (b)	**$ 1,400**	$ 1,148
Average impaired loan balance (c)	**$ 4,241**	$ 2,664

(a) Purchased impaired loans related to our acquisition of National City are excluded from this table and are disclosed in Note 6 Purchased Impaired Loans Related to National City.

(b) Amounts include $516 million at September 30, 2010 for TDRs.

(c) Nine-month average for each year.

Table of Contents

NOTE 6 PURCHASED IMPAIRED LOANS

RELATED TO NATIONAL CITY

As further described in Note 6 of the 2009 Form 10-K, at December 31, 2008, we identified certain loans related to the National City acquisition, for which there was evidence of credit quality deterioration since origination and it was probable that we would be unable to collect all contractually required principal and interest payments. GAAP requires these loans to be recorded at fair value at acquisition date and prohibits the carrying over or the creation of valuation allowances in the initial accounting for such loans acquired in a transfer.

Purchased Impaired Loans

	September 30, 2010		December 31, 2009	
In millions	Recorded Investment	Outstanding Balance	Recorded Investment	Outstanding Balance
Commercial	**$ 353**	**$ 526**	$ 531	$ 921
Commercial real estate	**1,206**	**1,679**	1,636	2,600
Consumer	**3,112**	**4,343**	3,457	5,097
Residential real estate	**3,459**	**4,072**	4,663	6,620
Total	**$ 8,130**	**$ 10,620**	$ 10,287	$ 15,238

During the first nine months of 2010, the recorded investment of purchased impaired loans decreased by a net $2.2 billion as a result of payments and other exit activities partially offset by accretion of purchase accounting discount.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan using the constant effective yield method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Changes in the expected cash flows of individual commercial or pooled consumer purchased impaired loans from the date of acquisition will either impact the accretable yield or result in an impairment charge to the provision for credit losses in the

period in which the changes become probable. 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 allowance for loan and lease losses, and a reclassification from accretable yield to nonaccretable difference. Prepayments and interest rate decreases for variable rate notes are treated as a reduction of cash flows expected to be collected and a reduction of projections of contractual cash flows such that the nonaccretable difference is not affected. Thus, for decreases in cash flows expected to be collected resulting from prepayments and interest rate decreases for variable rate notes, the effect will be to reduce the yield prospectively. During the first nine months of 2010, $508 million of provision and $158 million of charge-offs were recorded on impaired loans. As of September 30, 2010, decreases in the net present value of expected cash flows of purchased impaired loans resulted in an allowance for loan and lease losses of $906 million on $7.1 billion of the impaired loans while the remaining $1.0 billion of impaired loans required no allowance as net present value of expected cash flows improved or remained the same. Subsequent increases in the net present value of cash flows will result in a recovery of any previously recorded allowance for loan and lease losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield, which is recognized prospectively. Disposals of loans, which may include sales of loans or foreclosures, result in removal of the loan from the purchased impaired loan portfolio at its carrying amount.

Activity for the accretable yield for the first nine months of 2010 follows.

Accretable Yield

In millions	**2010**
January 1	**$ 3,502**
Accretion (including cash recoveries)	**(1,060)**
Net reclassifications to accretable from non-accretable	**73**
Disposals	**(187)**
September 30	**$ 2,328**

Table of Contents

NOTE 7 INVESTMENT SECURITIES

Investment Securities Summary

In millions	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2010				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
US Treasury and government agencies	**$ 7,546**	**$ 337**		**$ 7,883**
Residential mortgage-backed				
Agency	**28,470**	**716**	**$ (93)**	**29,093**
Non-agency	**8,663**	**241**	**(1,323)**	**7,581**
Commercial mortgage-backed				
Agency	**1,560**	**81**		**1,641**