PNC FINANCIAL SERVICES GROUP INC
Form 10-Q
November 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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 28, 2011, there were 526,112,070 shares of the registrant s common stock ($5 par value) outstanding.

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FINANCIAL REVIEW

CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended September 30 **2011**	2010	Nine months ended September 30 **2011**	2010
Financial Results (a)				
Revenue				
Net interest income	**$ 2,175**	$ 2,215	**$ 6,501**	$ 7,029
Noninterest income	**1,369**	1,383	**4,276**	4,244
Total revenue	**3,544**	3,598	**10,777**	11,273
Noninterest expense	**2,140**	2,158	**6,386**	6,273
Pretax, pre-provision earnings from continuing operations (b)	**1,404**	1,440	**4,391**	5,000
Provision for credit losses	**261**	486	**962**	2,060
Income from continuing operations before income taxes and noncontrolling interests (pretax earnings)	**$ 1,143**	$ 954	**$ 3,429**	$ 2,940
Income from continuing operations before noncontrolling interests	**$ 834**	$ 775	**$ 2,578**	$ 2,204
Income from discontinued operations, net of income taxes (c)		328		373
Net income	**$ 834**	$ 1,103	**$ 2,578**	$ 2,577
Less:				
Net income (loss) attributable to noncontrolling interests	**4**	2	**(2)**	(12)
Preferred stock dividends, including TARP (d)	**4**	4	**32**	122
Preferred stock discount accretion and redemptions, including redemption of TARP preferred stock discount accretion (d)		3	**1**	254
Net income attributable to common shareholders (d)	**$ 826**	$ 1,094	**$ 2,547**	$ 2,213
Diluted earnings per common share				
Continuing operations	**$ 1.55**	$ 1.45	**$ 4.79**	$ 3.52
Discontinued operations (c)		.62		.72
Net income	**$ 1.55**	$ 2.07	**$ 4.79**	$ 4.24
Cash dividends declared per common share	**$ .35**	$ .10	**$ .80**	$ .30
Performance Ratios				
Net interest margin (e)	**3.89%**	3.96%	**3.92%**	4.18%
Noninterest income to total revenue	**39**	38	**40**	38
Efficiency	**60**	60	**59**	56
Return on:				
Average common shareholders equity	**10.25**	15.12	**10.93**	10.98
Average assets	**1.24**	1.65	**1.31**	1.30

See page 60 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 from continuing operations, 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 Acquisition and Divestiture Activity 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 noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share. The impact on diluted earnings per share was $.48 for the nine months ended September 30, 2010. Total dividends declared during the first nine months of 2010 included $89 million on the Series N Preferred Stock.

(e) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended September 30, 2011 and September 30, 2010 were $27 million and $22 million, respectively. The taxable-equivalent adjustments to net interest income for the nine months ended September 30, 2011 and September 30, 2010 were $76 million and $59 million, respectively.

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Consolidated Financial Highlights (Continued) (a)

Unaudited	September 30 2011	December 31 2010	September 30 2010
Balance Sheet Data (dollars in millions, except per share data)			
Assets	**$ 269,470**	$ 264,284	$ 260,133
Loans (b) (c)	**154,543**	150,595	150,127
Allowance for loan and lease losses (b)	**4,507**	4,887	5,231
Interest-earning deposits with banks (b)	**2,773**	1,610	415
Investment securities (b)	**62,105**	64,262	63,461
Loans held for sale (c)	**2,491**	3,492	3,275
Goodwill and other intangible assets	**10,156**	10,753	10,518
Equity investments (b) (d)	**9,915**	9,220	10,137
Noninterest-bearing deposits	**55,180**	50,019	46,065
Interest-bearing deposits	**132,552**	133,371	133,118
Total deposits	**187,732**	183,390	179,183
Transaction deposits	**143,015**	134,654	128,197
Borrowed funds (b)	**35,102**	39,488	39,763
Shareholders equity	**34,219**	30,242	30,042
Common shareholders equity	**32,583**	29,596	29,394
Accumulated other comprehensive income (loss)	**397**	(431)	146
Book value per common share	**61.92**	56.29	55.91
Common shares outstanding (millions)	**526**	526	526
Loans to deposits	**82%**	82%	84%
Assets Under Administration (billions)			
Discretionary assets under management	**$ 103**	$ 108	$ 105
Nondiscretionary assets under administration	**99**	104	101
Total assets under administration	**202**	212	206
Brokerage account assets	**33**	34	33
Total client assets	**$ 235**	$ 246	$ 239
Capital Ratios			
Tier 1 common	**10.5%**	9.8%	9.6%
Tier 1 risk-based (e)	**13.1**	12.1	11.9
Total risk-based (e)	**16.5**	15.6	15.6
Leverage (e)	**11.4**	10.2	9.9
Common shareholders equity to assets	**12.1**	11.2	11.3
Asset Quality Ratios			
Nonperforming loans to total loans	**2.39%**	2.97%	3.22%
Nonperforming assets to total loans, OREO and foreclosed assets	**2.77**	3.39	3.65
Nonperforming assets to total assets	**1.59**	1.94	2.12
Net charge-offs to average loans (for the three months ended) (annualized)	**.95**	2.09	1.61
Allowance for loan and lease losses to total loans	**2.92**	3.25	3.48
Allowance for loan and lease losses to nonperforming loans (f)	**122**	109	108

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

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

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

(d) Amounts include our equity interest in BlackRock.

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

(f) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. Nonperforming loans do not include government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.

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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 2010 Annual Report on Form 10-K (2010 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following sections as they appear in this Report, in our 2010 Form 10-K and in our first and second quarter 2011 Form 10-Qs: the Risk Management section of the Financial Review portion of the respective report; Item 1A Risk Factors included in the respective report; and the Legal Proceedings and Commitments and Guarantees Notes of the Notes to Consolidated Financial Statements included in the respective report. Also, see the Cautionary Statement Regarding Forward-Looking Information and Critical Accounting Estimates And Judgments sections in this Financial Review for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 18 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income from continuing operations before noncontrolling interests as reported on a generally accepted accounting principles (GAAP) basis.

EXECUTIVE SUMMARY

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

PNC has businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking, providing many of its products and services nationally and others in PNC s primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, 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 focus on operating within a moderate risk profile while maintaining strong capital and liquidity positions, investing in our markets and products, and embracing our corporate responsibility to the communities where we do business. For several quarters, PNC has been focused on managing towards a moderate risk profile. At this point, we have improved PNC s risk profile to moderate which is primarily attributable to continued improvement in our credit profile as we have experienced overall positive trends in a number of key credit metrics such as the charge-off ratio, nonperforming assets and criticized exposures.

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

The primary drivers of revenue are the acquisition, expansion and retention of customer relationships. We strive to expand our customer base by offering convenient banking options and

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

We are focused on our strategies for quality growth. We remain committed to maintaining a moderate risk philosophy characterized by disciplined credit management and limited exposure to earnings volatility resulting from interest rate fluctuations and the shape of the interest rate yield curve. We have made substantial progress in transitioning our balance sheet over the past two years, working to return to our moderate risk profile throughout our expanded franchise. Our actions have resulted in strong capital measures, created a well-positioned balance sheet, and helped us to maintain strong bank level liquidity and investment flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

Pending Acquisition of RBC Bank (USA)

On June 19, 2011, PNC entered into a definitive agreement to acquire RBC Bank (USA), the US retail banking subsidiary of Royal Bank of Canada, with 424 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The transaction is expected to add approximately $19 billion of deposits and $16 billion of loans to PNC s Consolidated Balance Sheet and to close in March 2012, subject to customary closing conditions, including receipt of regulatory approvals. Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements of this Report and our Current Report on Form 8-K dated June 19, 2011 contain additional information regarding this pending acquisition.

PENDING ACQUISITION OF FLAGSTAR BRANCHES

On July 26, 2011, PNC signed a definitive agreement to acquire 27 branches in metropolitan Atlanta, Georgia from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc., and assume approximately $240 million of deposits associated with those branches based on balances as of June 30, 2011. Under the agreement, PNC will purchase 21 branches and lease six branches located in a seven-county area primarily north of Atlanta. Acquired real estate and fixed assets associated with the branches will be purchased for net book value, of approximately $42 million. No deposit premium will be paid and no loans will be acquired in the transaction, which is expected to close in December 2011 subject to customary closing conditions. PNC and Flagstar have both received regulatory approval in relation to the respective applications filed with the regulators.

BANKATLANTIC BRANCH ACQUISITION

Effective June 6, 2011, we acquired 19 branches from BankAtlantic in the Tampa, Florida area adding approximately $325 million of assets to our Consolidated Balance sheet, including $257 million in cash and $41 million of goodwill. In addition, we added $324 million of deposits in connection with this acquisition. Our Consolidated Income Statement includes the impact of the branch activity subsequent to our June 6, 2011 acquisition.

2011 CAPITAL AND LIQUIDITY ACTIONS

Our ability to take certain capital actions has been subject to the results of the supervisory assessment of capital adequacy undertaken by the Board of Governors of the Federal Reserve System (Federal Reserve) and our primary bank regulators as part of the capital adequacy assessment of the 19 bank holding companies that participate in the Supervisory Capital Assessment Program. As we announced on March 18, 2011, the Federal Reserve accepted the capital plan that we submitted for their review and did not object to our capital actions proposed as part of that plan.

On April 7, 2011, consistent with our capital plan submitted to the Federal Reserve earlier in 2011, our Board of Directors approved an increase to PNC s quarterly common stock dividend from $.10 per common share to $.35 per common share, which was paid on May 5, 2011. Additionally, also consistent with that capital plan, our Board of Directors confirmed that PNC may begin to purchase common stock under its existing 25 million share repurchase program in open market or privately negotiated transactions. We have submitted an updated capital plan reflecting the proposed acquisition of RBC Bank (USA) to the Federal Reserve for review and approval. We have placed on hold our plans to repurchase up to $500 million of common stock during the remainder of 2011 until we obtain regulatory approval for the RBC Bank (USA) acquisition, and will reevaluate share repurchase plans at that time. The discussion of capital within the Consolidated Balance Sheet Review section of this Financial Review includes additional information regarding our common stock repurchase program.

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

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

On October 14, 2011, we announced that November 15, 2011 will be the redemption date of $750 million of trust preferred securities issued by National City Capital Trust II with a current distribution rate of 6.625% and an original scheduled maturity date of November 15, 2036. The redemption price will be $25 per trust preferred security plus any accrued and unpaid distributions to the redemption date of November 15, 2011. The redemption will result in a noncash charge for the unamortized discount of $198 million in the fourth quarter of 2011.

RECENT MARKET AND INDUSTRY DEVELOPMENTS

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

The United States and other governments have undertaken major reform of the regulation of the financial services industry, including engaging in new efforts to impose requirements designed to strengthen the stability of the financial system and protect consumers and investors from financial abuse. We expect to face further increased regulation of our industry as a result of current and future initiatives intended to provide

economic stimulus, financial market stability and enhanced regulation of financial services companies and to enhance the liquidity and solvency of financial institutions and markets. We also expect in many cases more intense scrutiny from our bank supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state levels. Compliance with new regulations will increase our costs and reduce our revenue. Some new regulations may limit our ability to pursue certain desirable business opportunities.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) mandates the most wide-ranging overhaul of financial industry regulation in decades. Dodd-Frank was signed into law on July 21, 2010. Although Dodd-Frank and other reforms will affect a number of the areas in which we do business, it is not clear at this time the full extent

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of the adjustments that will be required and the extent to which we will be able to adjust our businesses in response to the requirements. Many parts of the law are now in effect and others are now in the implementation stage, which is likely to continue for several years. The law requires that regulators, some of which are new regulatory bodies created by Dodd-Frank, draft, review and approve more than 300 implementing regulations and conduct numerous studies that are likely to lead to more regulations, a process that, while well underway, is proceeding somewhat slower than originally anticipated, thus extending the uncertainty surrounding the ultimate impact of Dodd-Frank on us.

A number of reform provisions are likely to significantly impact the ways in which banks and bank holding companies, including PNC, do business. We provide additional information on a number of these provisions (including new

consumer protection regulation, enhanced capital requirements, limitations on investment in and sponsorship of funds, risk retention by securitization participants, new regulation of derivatives, potential applicability of state consumer protection laws, and limitations on interchange fees) and some of their potential impacts on PNC in Item 1A Risk Factors included in Part II of our second quarter 2011 Form 10-Q.

Residential Mortgage Foreclosure Matters

Beginning in the third quarter of 2010, mortgage foreclosure documentation practices among US financial institutions received heightened attention by regulators and the media. PNC s US market share for residential servicing based on retail origination volume is approximately 1.6%. 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). Following the initial reports regarding

these practices, we conducted an internal review of our foreclosure procedures. Based upon our review, we believe that PNC has systems designed to ensure that no foreclosure proceeds unless the loan is genuinely in default.

Similar to other banks, however, we identified issues regarding some of our foreclosure practices. Accordingly, after implementing a delay in pursuing individual foreclosures, we have been moving forward in most jurisdictions on such matters under procedures designed to address as appropriate any documentation issues. We are also proceeding with new foreclosures under enhanced procedures designed as part of this review to minimize the risk of errors related to the processing of documentation in foreclosure cases.

The Federal Reserve and the Office of the Comptroller of the Currency (OCC), together with the FDIC and others, conducted a publicly-disclosed interagency horizontal review of residential mortgage servicing operations at PNC and thirteen other federally regulated mortgage servicers. As a result of that review, in April 2011 PNC entered into a consent order with the Federal Reserve and PNC Bank, National

Association (PNC Bank) entered into a consent order with the OCC. Collectively, these consent orders describe certain foreclosure-related practices and controls that the regulators found to be deficient and require PNC and PNC Bank to, among other things, develop and implement plans and programs to enhance PNC s residential mortgage servicing and foreclosure processes, retain an independent consultant to review certain residential mortgage foreclosure actions, take certain remedial actions, and oversee compliance with the orders and the new plans and programs. The independent consultant s review is underway, and PNC is committed to meeting all applicable legal or regulatory requirements. The two orders do not preclude the potential for civil money penalties from either of these regulators.

Other governmental, legislative and regulatory inquiries on this topic are ongoing, and may result in significant additional actions, penalties or other remedies.

For additional information, including with respect to some of these other ongoing governmental, legislative and regulatory inquiries, please see Note 16 Legal Proceedings and Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements in this Report and in our second quarter 2011 Form 10-Q and see our Current Report on Form 8-K dated April 14, 2011, and Item 1A Risk Factors in our 2010 Form 10-K.

Key Factors Affecting Financial Performance

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

- General economic conditions, including the continuity, speed and stamina of the moderate economic recovery in general and on our customers in particular,
- The level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve,
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets,

Loan demand, utilization of credit commitments and standby letters of credit, and asset quality,
Customer demand for non-loan products and services,
Changes in the competitive and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment,
The impact of the extensive reforms enacted in the Dodd-Frank legislation and other legislative, regulatory and administrative initiatives, including those outlined elsewhere in this Report, and
The impact of market credit spreads on asset valuations.

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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,
- Progress towards closing the pending RBC Bank (USA) and Flagstar branches acquisitions,
- Revenue growth and our ability to provide innovative and valued products to our customers,
- Our ability to utilize technology to develop and deliver products and services to our customers,
- Our ability to manage and implement strategic business objectives within the changing regulatory environment,
- A sustained focus on expense management,
- Managing the 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 maintain our desired moderate risk profile,
- Actions we take within the capital and other financial markets, and
- The impact of legal and regulatory contingencies.

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

Income Statement Highlights

- Strong third quarter 2011 results reflected growth in clients, loans and deposits with improving credit quality and disciplined expense management.
- Net interest income of $2.2 billion for the third quarter 2011 decreased $40 million compared with third quarter 2010 primarily due to the impact of lower purchase accounting accretion.
- Noninterest income of $1.4 billion for third quarter 2011 declined $14 million compared to third quarter 2010.
- The provision for credit losses of $261 million for the third quarter declined from $486 million in the third quarter of 2010 as overall credit quality continued to improve.
- Noninterest expense of $2.1 billion declined $18 million compared with the third quarter of 2010 reflecting the impact of integration costs during the third quarter of 2010 partially offset by various nominal increases in expenses incurred in the third quarter of 2011.

Credit Quality Highlights

- Overall credit quality continued to improve in the third quarter of 2011.
  - Nonperforming assets declined $825 million, or 16 percent, to $4.3 billion at September 30, 2011 compared with December 31, 2010.
  - Accruing loans past due decreased 5% to $4.3 billion at September 30, 2011 from $4.5 billion at December 31, 2010. Balances generally declined with the exception of government insured loans, primarily other consumer education, and home equity, which increased.
  - Net charge-offs declined to $365 million in the third quarter compared with $614 million in the third quarter of 2010.
  - The allowance for loan and lease losses was 2.92% of total loans and 122% of nonperforming loans as of September 30, 2011 compared with 3.25% and 109% as of December 31, 2010.

Balance Sheet Highlights

- PNC grew clients throughout its businesses during the third quarter of 2011.
  - Retail banking net checking relationships grew by 95,000 during the third quarter of 2011 and 49,000 in the third quarter of 2010. Net new checking relationships grew by 225,000 in the first nine months of 2011, excluding the impact of the second quarter 2011 acquisition of branches from BankAtlantic.
  - New client acquisitions in Corporate Banking are on pace to exceed the 1,000 new primary client goal for 2011 and increased 10 percent over the third quarter of 2010.

Asset Management Group delivered its highest levels of the year in new sales, new primary clients and referrals from PNC s retail, corporate and commercial bankers during the third quarter of 2011.

Total loans of $155 billion at September 30, 2011 grew $3.9 billion compared with December 31, 2010.

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- Commercial lending grew $5.3 billion, which was partially offset by a $1.4 billion decline in consumer lending.
- Loans and commitments originated and renewed totaled approximately $39 billion in the third quarter of 2011, including $1 billion of small business loans.

Total deposits were $188 billion at September 30, 2011, up $4.3 billion from December 31, 2010.

- Transaction deposits increased $8.4 billion to $143 billion compared with December 31, 2010.
- Higher cost retail certificates of deposit continued to decline with a net reduction of $2.0 billion, or 6 percent, in the third quarter.

PNC s high quality balance sheet reflected a moderate risk profile, remained core funded with a loans to deposits ratio of 82 percent at September 30, 2011, and had strong capital and liquidity positions to support growth.

Our Consolidated Income Statement and Consolidated Balance Sheet Review sections of this Financial Review describe in greater detail the various items that impacted our results for the first nine months and third quarters of 2011 and 2010 and balances at September 30, 2011 and December 31, 2010, respectively.

AVERAGE CONSOLIDATED BALANCE SHEET HIGHLIGHTS

Various seasonal and other factors impact our period-end balances whereas average balances are generally more indicative of underlying business trends apart from the impact of acquisitions and divestitures. The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at September 30, 2011 compared with December 31, 2010.

Total average assets were $263.5 billion for the first nine months of 2011 compared with $265.4 billion for the first nine months of 2010. Average interest-earning assets were $223.0 billion for the first nine months of 2011, compared with $225.1 billion in the first nine months of 2010. In both comparisons, the declines were primarily driven by a $4.5 billion decrease in average total loans partially offset by a $2.9 billion increase in average total investment securities. The overall decline in average loans reflected lower loan demand, loan repayments, dispositions and net charge-offs. The increase in total investment securities reflected net investments of excess liquidity primarily in agency residential mortgage-backed securities.

Average total loans decreased $4.5 billion, to $150.6 billion for the first nine months of 2011 compared with the first nine months of 2010. The decrease in average total loans primarily reflected declines in commercial real estate of $4.2 billion and residential real estate of $3.2 billion, partially offset by a $3.6 billion increase in commercial loans. Commercial real estate

loans declined due to loan sales, paydowns, and charge-offs. The decrease in residential real estate was impacted by portfolio management activities, paydowns and net charge-offs. Commercial loans increased due to a combination of new client acquisition and improved utilization. Loans represented 68% of average interest-earning assets for the first nine months of 2011 and 69% of average interest-earning assets for the first nine months of 2010.

Average securities available for sale increased $1.5 billion, to $50.9 billion, in the first nine months of 2011 compared with the first nine months of 2010. Average agency residential mortgage-backed securities increased $4.2 billion, asset-backed securities increased $1.2 billion and other debt securities increased $1.1 billion in the comparison while US Treasury and government agency securities decreased $3.4 billion and non-agency residential mortgage-backed securities declined $1.9 billion. The impact of purchases of agency residential mortgage-backed securities and other debt was partially offset by paydowns, sales and transfers of other security types.

Average securities held to maturity increased $1.4 billion, to $8.5 billion, in the first nine months of 2011 compared with the first nine months of 2010. The increase primarily reflected the transfer during the second quarter of 2011 of securities with a fair value of $3.4 billion from available for sale to held to maturity, including $2.8 billion of agency residential mortgage-backed securities, $285 million of agency commercial mortgage-backed securities and $365 million of agency guaranteed other debt securities, and the transfer during the third quarter of 2011 of securities with a fair value of $2.9 billion from available for sale to held to maturity, including $1.9 billion of agency residential mortgage-backed securities and $323 million of agency commercial mortgage-backed securities. These transfers were the primary cause for the increases of $.8 billion in average commercial mortgage-backed securities and $1.7 billion in average residential mortgage-backed securities in the first nine months of 2011 compared with the first nine months of 2010. These increases more than offset a $1.4 billion decrease in average asset-backed securities in the comparison.

Total investment securities comprised 27% of average interest-earning assets for the first nine months of 2011 and 25% for the first nine months of 2010.

Average noninterest-earning assets totaled $40.5 billion in the first nine months of 2011 compared with $40.3 billion in the first nine months of 2010.

Average total deposits were $181.9 billion for the first nine months of 2011 compared with $182.0 billion for the first nine months of 2010. Average deposits remained flat from the prior year period primarily as a result of decreases of $9.1 billion in average retail certificates of deposit and $.5 billion in average other time deposits, which were offset by increases of $6.2

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billion in average noninterest-bearing deposits, $2.1 billion in average demand deposits and $1.1 billion in average savings deposits. Total deposits at September 30, 2011 were $187.7 billion compared with $183.4 billion at December 31, 2010 and are further discussed within the Consolidated Balance Sheet Review section of this Report.

Average total deposits represented 69% of average total assets for the first nine months of both 2011 and 2010.

Average transaction deposits were $136.0 billion for the first nine months of 2011 compared with $127.2 billion for the first nine months of 2010. The continued execution of the retail deposit strategy and customer preference for liquidity contributed to the year-over-year increase in average balances. In addition, commercial and corporate deposit growth has been very strong, particularly in the third quarter 2011. The prolonged period of low interest rates has led to a preference for liquidity by commercial and corporate customers as well; this, combined with the attraction of FDIC insurance, has resulted in an industry-wide trend of commercial customers maintaining higher levels of noninterest-bearing demand deposits.

Average borrowed funds were $35.7 billion for the first nine months of 2011 compared with $40.8 billion for the first nine months of 2010. Maturities of Federal Home Loan Bank (FHLB) borrowings drove the decline compared with the first nine months of 2010. Total borrowed funds at September 30, 2011 were $35.1 billion compared with $39.5 billion at December 31, 2010 and are further discussed within the Consolidated Balance Sheet Review section of this Financial Review. The Liquidity Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding our sources and uses of borrowed funds.

Business Segment Highlights

Total business segment earnings were $2.1 billion for the first nine months of 2011 and $2.0 billion for the first nine months of 2010. Highlights of results for the third quarters of 2011 and 2010 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 2011 and 2010 including presentation differences from Note 18 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

We provide a reconciliation of total business segment earnings to PNC consolidated income from continuing operations before noncontrolling interests as reported on a GAAP basis in Note 18 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

Retail Banking

Retail Banking earned $59 million in the first nine months of 2011 compared with earnings of $100 million for the same period a year ago. Earnings declined from the prior year as lower revenues from the impact of Regulation E rules related to overdraft fees and a low interest rate environment were partially offset by a lower provision for credit losses. Retail Banking continued to maintain its focus on growing customers and deposits, improving customer and employee satisfaction, investing in the business for future growth, and disciplined expense management during this period of market and economic uncertainty.

Retail Banking earned $33 million for the third quarter of 2011 compared with a loss of $4 million for third quarter 2010. The increase over third quarter 2010 resulted from a lower provision for credit losses somewhat offset by a decline in revenue from the impact of Regulation E rules related to overdraft fees and lower net interest income.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $1.3 billion in the first nine months of 2011 and 2010. The comparison was impacted by a lower provision for credit losses in 2011, offset by a decline in net interest income and lower commercial mortgage loan servicing income combined with higher commercial mortgage servicing rights impairment. We continued to focus on adding new clients and increased our cross selling to serve our clients   needs, particularly in the western markets, and remained committed to strong expense discipline.

Corporate & Institutional Banking earned $419 million in the third quarter of 2011 compared with $435 million in the third quarter of 2010. The decline from 2010 was impacted by a higher provision for credit losses that more than offset an increase in revenue.

Asset Management Group

Asset Management Group earned $124 million in the first nine months of 2011 compared with $109 million in the first nine months of 2010. Assets under administration were $202 billion at September 30, 2011. Earnings for the first nine months of 2011 reflected a benefit from the

provision for credit losses and growth in noninterest income. Noninterest expense increased due to continued investments in the business including additional headcount and the roll-out of our new reporting technology, PNC Wealth Insight[SM]. The core growth strategies for the business include: increasing channel penetration; investing in higher growth geographies; and investing in differentiated client-facing technology such as PNC Wealth Insight[SM]. During the first nine months of 2011, the business delivered strong sales production, grew high value clients and benefitted from significant referrals from other PNC lines of business. Over time, the successful execution of these strategies and the accumulation of our

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strong sales performance are expected to create meaningful growth in assets under management and noninterest income.

Asset Management Group earned $33 million in the third quarter of 2011 compared with $43 million in the third quarter of 2010. The earnings decline in the comparison with third quarter 2010 was primarily attributable to higher noninterest expense from strategic business investments. During the third quarter of 2011, the business delivered its highest levels of the year in new sales, referrals and new primary client acquisition. In addition, PNC Wealth Insight[SM] has now reached 12,000 clients and new clients continue to be enrolled.

Residential Mortgage Banking

Residential Mortgage Banking earned $148 million in the first nine months of 2011 compared with $266 million in the first nine months of 2010. Earnings declined from the prior year period primarily as a result of higher noninterest expense, lower net interest income and a higher provision for credit losses.

Residential Mortgage Banking earned $22 million in the third quarter of 2011 compared with $97 million in the third quarter of 2010. The decline in earnings from the prior year third quarter primarily resulted from higher noninterest expense and lower net hedging gains on mortgage servicing rights.

BlackRock

Our BlackRock business segment earned $271 million in the first nine months of 2011 and $253 million in the first nine months of 2010. Third quarter 2011 business segment earnings from BlackRock were $92 million compared with $99 million in the third quarter of 2010. The lower business

segment earnings from BlackRock for the third quarter of 2011 compared to the third quarter of 2010 was primarily due to a decrease in PNC s share of BlackRock earnings.

Distressed Assets Portfolio

This business segment consists primarily of acquired non-strategic assets. The business activities of the segment are focused on maximizing value when exiting the under-performing portion of the portfolio. Distressed Assets Portfolio had earnings of $202 million for the first nine months of 2011 compared with $14 million in the first nine months of 2010. The increase was driven primarily by a lower provision for credit losses partially offset by a decline in net interest income.

Distressed Assets Portfolio segment had earnings of $93 million for the third quarter of 2011 compared with $20 million for the third quarter of 2010. The increase from the third quarter 2010 resulted from a lower provision for credit losses.

Other

Other reported earnings of $475 million for the nine months of 2011 compared with earnings of $211 million for the first nine months of 2010. The increase in earnings over the first nine months of 2010 primarily reflected the impact of integration costs incurred in the 2010 period.

Other reported earnings of $142 million in the third quarter of 2011 and $85 million in the third quarter of 2010. The increase in earnings over the third quarter of 2010 primarily reflected the impact of integration costs incurred in the 2010 period.

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CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for both the first nine months of 2011 and 2010 was $2.6 billion. Net income for the third quarter of 2011 was $.8 billion compared with $1.1 billion for the third quarter of 2010. Net income for third quarter 2010 included the $328 million after-tax gain on our sale of GIS. Strong earnings for the first nine months and third quarter of 2011 reflected growth in customers, loans and deposits with improving overall credit quality and disciplined expense management.

Total revenue for the first nine months of 2011 was $10.8 billion compared with $11.3 billion for the first nine months of 2010. Total revenue for the third quarter of 2011 was $3.5 billion compared with $3.6 billion for the third quarter of 2010. The decline in both comparisons reflected lower net interest income in the 2011 periods attributable to lower purchase accounting accretion.

NET INTEREST INCOME AND NET INTEREST MARGIN

	Three months ended September 30		Nine months ended September 30	
Dollars in millions	**2011**	2010	**2011**	2010
Net interest income	**$ 2,175**	$ 2,215	**$ 6,501**	$ 7,029
Net interest margin	**3.89%**	3.96%	**3.92%**	4.18%

Changes in net interest income and margin result from the interaction of the volume and composition of interest-earning assets and related yields, interest-bearing liabilities and related rates paid, and noninterest-bearing sources of funding. See the Statistical Information (Unaudited) Average Consolidated Balance Sheet And Net Interest Analysis section of this Report for additional information.

The decreases in net interest income and net interest margin compared with both the third quarter of 2010 and the first nine months of 2010 were primarily attributable to lower purchase accounting accretion. A decline in average loan balances and the low interest rate environment, partially offset by lower funding costs, also contributed to the decrease in the nine month periods.

The net interest margin was 3.92% for the first nine months of 2011 and 4.18% for the first nine months of 2010. The following factors impacted the comparison:

- A 43 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 38 basis points.
- These factors were partially offset by a weighted-average 16 basis point decline in the rate accrued on interest-bearing liabilities. The rate accrued on interest-bearing deposits, the largest component,
- decreased 19 basis points, the impact of which was partially offset by a 9 basis point increase in the rate accrued on total borrowed funds.

The net interest margin was 3.89% for the third quarter of 2011 and 3.96% for the third quarter of 2010. The following factors impacted the comparison:

- A 30 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 24 basis points.
- These factors were partially offset by a weighted-average 24 basis point decline in the rate accrued on interest-bearing liabilities.

We expect our fourth quarter 2011 net interest income to remain stable compared to third quarter 2011 as core net interest income should continue to grow offset by the expected decline in purchase accounting accretion. Approximately $6 billion of higher cost retail consumer CDs are scheduled to mature in the fourth quarter of 2011 at a weighted-average rate of about 2%. We expect that these will be redeemed or re-priced on average at a significantly lower rate, which will benefit our funding costs.

NONINTEREST INCOME

Noninterest income totaled $4.3 billion for the first nine months of 2011 and $4.2 billion for the first nine months of 2010. Noninterest income was $1.4 billion for the third quarter of both 2011 and 2010. Noninterest income for the third quarter of 2011 reflected higher asset management fees that were offset by lower service charges on deposits from the impact of Regulation E rules pertaining to overdraft fees and lower

residential mortgage banking revenue.

Asset management revenue, including BlackRock, increased $87 million to $838 million in the first nine months of 2011 compared with the first nine months of 2010. Asset management revenue was $287 million in the third quarter of 2011 compared with $249 million in the third quarter of 2010. These increases were driven by strong sales performance in both comparisons and by higher equity earnings from our BlackRock investment in the year-to-date comparison. Discretionary assets under management at September 30, 2011 totaled $103 billion compared with $105 billion at September 30, 2010.

For the first nine months of 2011, consumer services fees totaled $974 million compared with $939 million in the first nine months of 2010. Consumer services fees were $330 million in the third quarter of 2011 compared with $328 million in the third quarter of 2010. The increases reflected higher volume-related transaction fees, such as debit and credit cards and merchant services.

Corporate services revenue totaled $632 million in the first nine months of 2011 and $712 million in the first nine months of 2010. Corporate services revenue was $187 million in the third quarter of 2011 compared with $183 million in the third

quarter of 2010. Higher commercial mortgage servicing rights impairment charges drove the year-to-date decline, while the quarterly comparison was essentially flat. Corporate services fees include the noninterest component of treasury management fees, which continued to be a strong contributor to revenue.

Residential mortgage revenue totaled $556 million in the first nine months of 2011 and $542 million in the first nine months of 2010. Third quarter 2011 residential mortgage revenue totaled $198 million compared with $216 million in the third quarter of 2010. Higher loans sales revenue drove the year-to-date comparison, while lower servicing fees and lower net hedging gains on mortgage servicing rights were reflected in the quarterly decline.

Service charges on deposits totaled $394 million for the first nine months of 2011 and $573 million for the first nine months of 2010. Service charges on deposits totaled $140 million for the third quarter of 2011 and $164 million for third quarter of 2010. The decline in both comparisons resulted primarily from the impact of Regulation E rules pertaining to overdraft fees.

Net gains on sales of securities totaled $187 million for the first nine months of 2011 and $358 million for the first nine months of 2010. Net gains on sales of securities were $68 million for the third quarter of 2011 and $121 million for third quarter of 2010.

The net credit component of OTTI of securities recognized in earnings was a loss of $108 million in the nine months of 2011, including $35 million in the third quarter, compared with losses of $281 million and $71 million, respectively for the same periods in 2010.

Other noninterest income totaled $803 million for the first nine months of 2011 compared with $650 million for the first nine months of 2010. Other noninterest income totaled $194 million for third quarter of 2011 compared with $193 million for third quarter of 2010. Both increases over the comparable 2010 periods were driven by several individually insignificant items.

Other noninterest income typically fluctuates from period to period depending on the nature and magnitude of transactions completed. Further details regarding our trading activities are included in the Market Risk Management Trading Risk portion of the Risk Management section of this Financial Review, further details regarding 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.

Looking to fourth quarter 2011, we see opportunities for growth in our fee-based revenues as a result of our larger

franchise, our ability to cross-sell our products and services to existing clients and our progress in adding new clients. At the same time, we will see the continued impact of ongoing regulatory reforms. The Dodd-Frank limits related to interchange rates on debit card transactions were effective October 1, 2011 and are expected to have a negative impact on revenues of approximately $75 million in the fourth quarter of 2011 and an additional incremental reduction in future periods annual revenue of approximately $175 million, based on expected 2011 transaction volumes. In addition, in the fourth quarter of 2011 we do not expect impairments of a similar magnitude for commercial mortgage servicing rights as experienced in the third quarter of 2011. We believe noninterest income in the fourth quarter should be relatively flat compared to the current third quarter level. The diversity of our revenue streams should enable us to achieve a solid performance in an environment that will continue to be affected by regulatory reform headwinds and implementation challenges.

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, capital markets-related products and services, and commercial real estate loan servicing for customers in all business segments. A portion of the revenue and expense related to these products is reflected in Corporate & Institutional Banking and the remainder is reflected in the results of other businesses. The Other Information section in the Corporate & Institutional Banking table in the Business Segments Review section of this Financial Review includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue from these services follows.

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, totaled $891 million for the first nine months of 2011 and $915 million for the first nine months of 2010. For the third quarter of 2011, treasury management revenue was $298 million compared with $320 million for the third quarter of 2010. Declining deposit spreads more than offset increases in core processing products, such as lockbox and information reporting, and in growth products such as commercial card and healthcare related services.

Revenue from capital markets-related products and services totaled $462 million in the first nine months of 2011 compared with $401 million in the first nine months of 2010. Third quarter 2011 revenue was $158 million compared with $116 million for the third quarter of 2010. Both

comparisons were driven by higher valuations on derivatives executed for clients, higher sales volumes and an increase in merger and acquisition advisory fees.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income from loan servicing

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

Commercial mortgage banking activities resulted in revenue of $26 million in the first nine months of 2011 compared with $146 million in the first nine months of 2010. For the third quarter of 2011, losses from commercial mortgage banking activities totaled $27 million compared with losses of $16 million for the third quarter of 2010. The decline in the nine month comparison was primarily due to a reduction in the value of commercial mortgage servicing rights largely driven by lower interest rates and higher loan prepayment rates. The nine months of 2010 included a higher level of ancillary commercial mortgage servicing fees and revenue from a duplicative agency servicing operation that was sold last year which contributed to the year-over-year decrease. Income from commercial mortgage loans held for sale benefited the nine month comparison.

Provision For Credit Losses

The provision for credit losses totaled $1.0 billion for the first nine months of 2011 compared with $2.1 billion for the first nine months of 2010. The provision for credit losses totaled $261 million for the third quarter of 2011 compared with $486 million for the third quarter of 2010. The decline in both comparisons was driven by overall credit quality improvement and continuation of actions to reduce exposure levels.

We expect our provision for credit losses in the fourth quarter of 2011 to remain relatively consistent with the third quarter 2011 level.

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

Noninterest Expense

Noninterest expense was $6.4 billion for the first nine months of 2011 and $6.3 billion for the first nine months of 2010. Noninterest expense totaled $2.1 billion for the third quarter of 2011 and declined $18 million compared with noninterest expense for the third quarter of 2010. The decline reflects the impact of integration costs during the third quarter of 2010 partially offset by various nominal increases in expenses incurred in the third quarter of 2011. Integration costs included in noninterest expense totaled $309 million for the first nine months of 2010, including $96 million in the third quarter of that year. Noninterest expense for the first nine months of 2011 included higher foreclosure-related costs and, in the second quarter, the impact of approximately $40 million related to accruals for legal contingencies primarily associated with pending lawsuits net of anticipated insurance recoveries.

Apart from the possible impact of legal and regulatory contingencies and the impact of the $198 million non-cash charge for the unamortized discount related to redemption of $750 million of trust preferred securities during the fourth quarter of 2011, we expect that total noninterest expense for fourth quarter 2011 will be relatively consistent with third quarter 2011 expenses. This expectation reflects the shift in the deposit insurance base calculations from deposits to average assets less Tier 1 capital which was effective April 1, 2011 under Dodd Frank. The difference in premium is not material.

Effective Income Tax Rate

The effective income tax rate was 24.8% in the first nine months of 2011 compared with 25.0% in the first nine months of 2010. For the third quarter of 2011, our effective income tax rate was 27.0% compared with 18.8% for the third quarter of 2010. The lower rate in the third quarter of 2010 was primarily the result of a tax benefit of $89 million related to a favorable IRS ruling that resolved a prior tax position. We anticipate that the effective income tax rate will be approximately 27% for the fourth quarter of 2011.

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Consolidated Balance Sheet Review

Summarized Balance Sheet Data

In millions	Sept. 30 2011	Dec. 31 2010
Assets		
Loans	**$ 154,543**	$ 150,595
Investment securities	**62,105**	64,262
Cash and short-term investments	**11,521**	10,437
Loans held for sale	**2,491**	3,492
Goodwill and other intangible assets	**10,156**	10,753
Equity investments	**9,915**	9,220
Other, net	**18,739**	15,525
Total assets	**$ 269,470**	$ 264,284
Liabilities		
Deposits	**$ 187,732**	$ 183,390
Borrowed funds	**35,102**	39,488
Other	**9,394**	8,568
Total liabilities	**232,228**	231,446
Total shareholders equity	**34,219**	30,242
Noncontrolling interests	**3,023**	2,596
Total equity	**37,242**	32,838
Total liabilities and equity	**$ 269,470**	$ 264,284

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

The increase in total assets at September 30, 2011 compared with December 31, 2010 was primarily due to an increase in loans and other assets, partially offset by a decrease in investment securities.

An analysis of changes in selected balance sheet categories follows.

Loans

A summary of the major categories of loans outstanding follows. Outstanding loan balances of $154.5 billion at September 30, 2011 and $150.6 billion at December 31, 2010 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums of $2.4 billion at September 30, 2011 and $2.7 billion at December 31, 2010, respectively. The balances do not include future accretable net interest (i.e., the difference between the undiscounted expected cash flows and the carrying value of the loan) on the purchased impaired loans.

Loans increased $3.9 billion as of September 30, 2011 compared with December 31, 2010. Growth in commercial loans of $7.1 billion and auto loans of $1.5 billion was partially offset by declines of $1.5 billion in commercial real estate loans, $1.3 billion of residential real estate loans and $1.1 billion of home equity loans compared with year end. Commercial loans increased due to a combination of new client acquisition and improved utilization. Auto loans

increased due to the expansion of sales force and product introduction to acquired markets, as well as overall increases in auto sales. Commercial and residential real estate loans declined due to loan sales, paydowns, and charge-offs. Home equity loans declined during the first nine months of 2011 as paydowns, charge-offs, and portfolio management activities exceeded new loan production and draws on existing lines.

Loans represented 57% of total assets at September 30, 2011 and December 31, 2010. Commercial lending represented 55% of the loan portfolio at September 30, 2011 and 53% at December 31, 2010. Consumer lending represented 45% at September 30, 2011 and 47% at December 31, 2010.

Commercial real estate loans represented 6% of total assets at September 30, 2011 and 7% of total assets at December 31, 2010.

Details Of Loans

In millions	**Sept. 30 2011**	Dec. 31 2010
Commercial		
Retail/wholesale trade	**$ 11,287**	$ 9,901
Manufacturing	**10,980**	9,334
Service providers	**9,326**	8,866
Real estate related (a)	**8,073**	7,500
Financial services	**5,676**	4,573
Health care	**4,668**	3,481
Other industries	**12,240**	11,522
Total commercial	**62,250**	55,177
Commercial real estate		
Real estate projects	**10,936**	12,211
Commercial mortgage	**5,477**	5,723
Total commercial real estate	**16,413**	17,934
Equipment lease financing	**6,186**	6,393
TOTAL COMMERCIAL LENDING (b)	**84,849**	79,504
Consumer		
Home equity		
Lines of credit	**22,677**	23,473
Installment	**10,486**	10,753
Residential real estate		
Residential mortgage	**14,022**	15,292
Residential construction	**633**	707
Credit card	**3,785**	3,920
Other consumer		
Education	**9,154**	9,196
Automobile	**4,447**	2,983
Other	**4,490**	4,767
TOTAL CONSUMER LENDING	**69,694**	71,091
Total loans	**$ 154,543**	$ 150,595

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

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

Total loans above include purchased impaired loans of $6.9 billion, or 4% of total loans, at September 30, 2011, and $7.8 billion, or 5% of total loans, at December 31, 2010.

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We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $104 billion for the first nine months of 2011.

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

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

- 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. As of September 30, 2011, we established specific and pooled reserves on the total commercial lending category of $2.2 billion. This commercial lending reserve included what we believe to be appropriate loss coverage on the higher risk commercial loans in the total commercial portfolio. The commercial lending reserve represented 49% of the total ALLL of $4.5 billion at that date. The remaining 51% of ALLL 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 or guaranteed loans to be higher risk as defaults are materially mitigated by payments of insurance or guarantee amounts for approved claims. Additional information regarding our higher risk loans is included in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and

Letters of Credit in our Notes To Consolidated Financial Statements included in this Report.

Information related to purchased impaired loans, purchase accounting accretion and accretable net interest recognized during the first nine months of 2011 and 2010 follows.

Total Purchase Accounting Accretion

In millions	Three months ended September 30 **2011**	Three months ended September 30 2010	Nine months ended September 30 **2011**	Nine months ended September 30 2010
Non-impaired loans	**$ 68**	$ 70	**$ 208**	$ 293
Impaired loans				
Scheduled accretion	**166**	187	**512**	710
Excess cash recoveries	**72**	111	**193**	350
Reversal of contractual interest on impaired loans	**(99)**	(138)	**(293)**	(408)
Total impaired loans	**139**	160	**412**	652
Securities	**15**	15	**38**	39
Deposits	**90**	122	**281**	433
Borrowings	**(20)**	(42)	**(76)**	(112)
Total	**$ 292**	$ 325	**$ 863**	$ 1,305

Total Remaining Purchase Accounting Accretion

In billions	**Sept. 30 2011**	Dec. 31 2010
Non-impaired loans	**$ 1.0**	$ 1.2
Impaired loans	**2.3**	2.2
Total loans (gross)	**3.3**	3.4

Securities	**.4**	.5
Deposits	**.2**	.5
Borrowings	**(1.0)**	(1.1)
Total	**$ 2.9**	$ 3.3

Accretable Net Interest Purchased Impaired Loans

In billions	**2011**	2010
January 1	**$ 2.2**	$ 3.5
Accretion	**(.5)**	(.7)
Excess cash recoveries	**(.2)**	(.4)
Net reclassifications to accretable from non-accretable	**.9**	.1
Disposals	**(.1)**	(.2)
September 30	**$ 2.3**	$ 2.3

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Valuation of Purchased Impaired Loans

Dollars in billions	September 30, 2011 Balance	September 30, 2011 Net Investment	December 31, 2010 Balance	December 31, 2010 Net Investment
Commercial and commercial real estate loans:				
Unpaid principal balance	**$ 1.1**		$ 1.8	
Purchased impaired mark	**(.2)**		(.4)	
Recorded investment	**.9**		1.4	
Allowance for loan losses	**(.2)**		(.3)	
Net investment	**.7**	**64%**	1.1	61%
Consumer and residential mortgage loans:				
Unpaid principal balance	**6.8**		7.9	
Purchased impaired mark	**(.8)**		(1.5)	
Recorded investment	**6.0**		6.4	
Allowance for loan losses	**(.8)**		(.6)	
Net investment	**5.2**	**76%**	5.8	73%
Total purchased impaired loans:				
Unpaid principal balance	**7.9**		9.7	
Purchased impaired mark	**(1.0)**		(1.9)	
Recorded investment	**6.9**		7.8	
Allowance for loan losses	**(1.0)**		(.9)	
Net investment	**$ 5.9**	**75%**	$ 6.9	71%

The unpaid principal balance of purchased impaired loans declined from $9.7 billion at December 31, 2010 to $7.9 billion at September 30, 2011 due to payments, disposals, and charge-offs of amounts determined to be uncollectible. The remaining purchased impaired mark at September 30, 2011 was $1.0 billion, which was a decline from $1.9 billion at December 31, 2010. The associated allowance for loan losses increased slightly by $.1 billion to $1.0 billion at September 30, 2011. The net investment of $6.9 billion at December 31, 2010 declined 14% to $5.9 billion at September 30, 2011. At September 30, 2011, our largest individual purchased impaired loan had a recorded investment of $25 million.

We currently expect to collect total cash flows of $8.2 billion on purchased impaired loans, representing the $5.9 billion net investment at September 30, 2011 and the accretable net interest of $2.3 billion shown in the Accretable Net Interest-Purchased Impaired Loans table. These represent the net future cash flows on purchased impaired loans, as contractual interest will be reversed.

Net unfunded credit commitments are comprised of the following:

Net Unfunded Credit Commitments

	September 30, 2011	December 31, 2010
Commercial / commercial real estate (a)	**$ 65,497**	$ 59,256
Home equity lines of credit	**18,613**	19,172
Credit card	**15,699**	14,725
Other	**3,427**	2,652
Total	**$ 103,236**	$ 95,805

(a) Less than 3% of these amounts at each date relate to commercial real estate.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments reported above exclude syndications, assignments and participations, primarily to financial institutions, totaling $19.7 billion at September 30, 2011 and $16.7 billion at December 31, 2010.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $701 million at September 30, 2011 and $458 million at December 31, 2010 and are included in the preceding table primarily within the Commercial / commercial real estate category.

In addition to the credit commitments set forth in the table above, our net outstanding standby letters of credit totaled $10.9 billion at September 30, 2011 and $10.1 billion at December 31, 2010. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

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INVESTMENT SECURITIES

Details of Investment Securities

In millions	Amortized Cost	Fair Value
September 30, 2011		
Securities Available for Sale		
Debt securities		
US Treasury and government agencies	**$ 3,397**	**$ 3,751**
Residential mortgage-backed		
Agency	**26,963**	**27,683**
Non-agency	**6,949**	**5,988**
Commercial mortgage-backed		
Agency	**956**	**991**
Non-agency	**2,646**	**2,646**
Asset-backed	**3,914**	**3,751**
State and municipal	**1,714**	**1,728**
Other debt	**2,741**	**2,825**
Corporate stocks and other	**352**	**352**
Total securities available for sale	**$ 49,632**	**$ 49,715**
Securities Held to Maturity		
Debt securities		
US Treasury and government agencies	**$ 219**	**$ 256**
Residential mortgage-backed (agency)	**4,588**	**4,692**
Commercial mortgage-backed		
Agency	**1,290**	**1,331**
Non-agency	**3,770**	**3,871**
Asset-backed	**1,489**	**1,508**
State and municipal	**670**	**689**
Other debt	**364**	**377**
Total securities held to maturity	**$ 12,390**	**$ 12,724**
December 31, 2010		
Securities Available for Sale		
Debt securities		
US Treasury and government agencies	$ 5,575	$ 5,710
Residential mortgage-backed		
Agency	31,697	31,720
Non-agency	8,193	7,233
Commercial mortgage-backed		
Agency	1,763	1,797
Non-agency	1,794	1,856
Asset-backed	2,780	2,582
State and municipal	1,999	1,957
Other debt	3,992	4,077
Corporate stocks and other	378	378
Total securities available for sale	$ 58,171	$ 57,310
Securities Held to Maturity		
Debt securities		
Commercial mortgage-backed (non-agency)	$ 4,316	$ 4,490
Asset-backed	2,626	2,676
Other debt	10	11
Total securities held to maturity	$ 6,952	$ 7,177

The carrying amount of investment securities totaled $62.1 billion at September 30, 2011, a decrease of $2.2 billion, or 3%, from $64.3 billion at December 31, 2010. The decline resulted from principal payments and net sales activity related

to US Treasury and government agency and non-agency residential mortgage-backed securities. Investment securities represented 23% of total assets at September 30, 2011 and 24% of total assets at December 31, 2010.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. US Treasury and government agencies, agency residential mortgage-backed securities and agency commercial mortgage-backed securities collectively represented 62% of the investment securities portfolio at September 30, 2011.

During the third quarter of 2011, we transferred securities with a fair value of $2.9 billion from available for sale to held to maturity. The securities transferred included $1.9 billion of agency residential mortgage-backed securities, $323 million of agency commercial mortgage-backed securities, and $662 million of state and municipal debt securities. We changed our intent and committed to hold these high-quality securities to maturity. The reclassification was made at fair value at the date of transfer, resulting in no impact on net income. Net pretax unrealized gains in accumulated other comprehensive income totaled $143 million at the transfer date and will be accreted over the remaining life of the related securities as an adjustment of yield in a manner consistent with the amortization of a premium.

In the second quarter of 2011, we transferred available for sale securities with a fair value of $3.4 billion to the held to maturity portfolio. The reclassification was made at fair value at the date of transfer. Net pretax unrealized gains in accumulated other comprehensive income totaled $40 million at the transfer date and will be accreted over the remaining life of the related securities as an adjustment of yield in a manner consistent with the amortization of a premium.

At September 30, 2011, the securities available for sale portfolio included a net unrealized gain of $83 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2010 was a net unrealized loss of $861 million. The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa.

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

Unrealized gains and losses on available for sale securities do not impact liquidity or risk-based capital. However, reductions

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in the credit ratings of these securities could 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 3.9 years at September 30, 2011 and 4.7 years at December 31, 2010.

We estimate that, at September 30, 2011, the effective duration of investment securities was 2.7 years for an immediate 50 basis points parallel increase in interest rates and 2.5 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2010 were 3.1 years and 2.9 years, respectively.

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

	September 30, 2011				
	Agency		Non-agency		
Dollars in millions	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Asset-Backed Securities
Fair Value Available for Sale	**$ 27,683**	**$ 991**	**$ 5,988**	**$ 2,646**	**$ 3,751**
Fair Value Held to Maturity	**4,692**	**1,331**		**3,871**	**1,508**
Total Fair Value	**$ 32,375**	**$ 2,322**	**$ 5,988**	**$ 6,517**	**$ 5,259**
% of Fair Value:					
By Vintage					
2011	**27%**	**35%**		**4%**	
2010	**31%**	**21%**		**4%**	**5%**
2009	**14%**	**20%**		**2%**	**12%**
2008	**4%**	**2%**			**7%**
2007	**6%**	**2%**	**18%**	**9%**	**7%**
2006	**3%**	**4%**	**24%**	**27%**	**9%**
2005 and earlier	**10%**	**11%**	**58%**	**53%**	**11%**
Not Available	**5%**	**5%**		**1%**	**49%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By Credit Rating					
Agency	**100%**	**100%**			
AAA			**3%**	**80%**	**81%**
AA			**1%**	**6%**	**1%**
A			**2%**	**9%**	**1%**
BBB			**7%**	**3%**	
BB			**8%**	**1%**	
B			**7%**		**4%**
Lower than B			**71%**		**10%**
No rating			**1%**	**1%**	**3%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By FICO Score					
>720			**56%**		**3%**
<720 and >660			**34%**		**8%**
<660			**1%**		**2%**
No FICO score			**9%**		**87%**
Total			**100%**		**100%**

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

We also consider the severity of the impairment and the length of time that the security has been impaired in our assessment. Results of the periodic assessment are reviewed by a cross-

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

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

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We recognized OTTI for the third quarter and first nine months of 2011 and 2010 as follows:

Other-Than-Temporary Impairments

In millions	Three months ended September 30 **2011**	Three months ended September 30 2010	Nine months ended September 30 **2011**	Nine months ended September 30 2010
Credit portion of OTTI losses (a)				
Non-agency residential mortgage-backed	**$ (30)**	$ (57)	**$ (93)**	$ (211)
Non-agency commercial mortgage-backed				(3)
Asset-backed	**(5)**	(14)	**(14)**	(67)
Other debt			(1)	
Total credit portion of OTTI losses	**(35)**	(71)	**(108)**	(281)
Noncredit portion of OTTI losses (b)	**(87)**	(46)	**(117)**	(194)
Total OTTI losses	**$ (122)**	$ (117)	**$ (225)**	$ (475)

(a) Reduction of noninterest income in our Consolidated Income Statement.

(b) Included in Accumulated other comprehensive loss, net of tax, on our Consolidated Balance Sheet.

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

In millions	September 30, 2011 Residential Mortgage-Backed Securities		Commercial Mortgage-Backed Securities		Asset-Backed Securities	
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	**$ 169**	**$ (22)**	**$ 1,554**	**$ 34**	**$ 2,870**	**$ 3**
Other Investment Grade (AA, A, BBB)	**616**	**(24)**	**979**	**(30)**	**120**	**(5)**
Total Investment Grade	**785**	**(46)**	**2,533**	**4**	**2,990**	**(2)**
BB	**465**	**(58)**	**38**	**(4)**		
B	**444**	**(62)**			**182**	**(28)**
Lower than B	**4,256**	**(796)**			**550**	**(114)**
Total Sub-Investment Grade	**5,165**	**(916)**	**38**	**(4)**	**732**	**(142)**
Total No Rating	**38**	**1**	**75**		**25**	**(19)**
Total	**$ 5,988**	**$ (961)**	**$ 2,646**		**$ 3,747**	**$ (163)**
OTTI Analysis						
Investment Grade:						
OTTI has been recognized						
No OTTI recognized to date	**$ 785**	**$ (46)**	**$ 2,533**	**$ 4**	**$ 2,990**	**$ (2)**
Total Investment Grade	**785**	**(46)**	**2,533**	**4**	**2,990**	**(2)**
Sub-Investment Grade:						
OTTI has been recognized	**3,416**	**(790)**	**1**		**588**	**(154)**
No OTTI recognized to date	**1,749**	**(126)**	**37**	**(4)**	**144**	**12**
Total Sub-Investment Grade	**5,165**	**(916)**	**38**	**(4)**	**732**	**(142)**
No Rating:						
OTTI has been recognized					**25**	**(19)**
No OTTI recognized to date	**38**	**1**	**75**			
Total No Rating	**38**	**1**	**75**		**25**	**(19)**
Total	**$ 5,988**	**$ (961)**	**$ 2,646**		**$ 3,747**	**$ (163)**

Securities Held to Maturity (Non-Agency)				
Credit Rating Analysis				
AAA	**$ 3,668**	**$ 100**	**$ 1,371**	**$ 14**
Other Investment Grade (AA, A, BBB)	**203**	**1**	**23**	**(1)**
Total Investment Grade	**3,871**	**101**	**1,394**	**13**
BB			**5**	
B			**1**	
Lower than B				
Total Sub-Investment Grade			**6**	
Total No Rating			**100**	**6**
Total	**$ 3,871**	**$ 101**	**$ 1,500**	**$ 19**

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Residential Mortgage-Backed Securities

At September 30, 2011, our residential mortgage-backed securities portfolio was comprised of $32.4 billion fair value of US government agency-backed securities and $6.0 billion fair value of non-agency (private issuer) securities. The agency securities are generally collateralized by 1-4 family, conforming, fixed-rate residential mortgages**.** The non-agency securities are also generally collateralized by 1-4 family residential mortgages. The mortgage loans underlying the non-agency securities are generally non-conforming (i.e., original balances in excess of the amount qualifying for agency securities) and predominately have interest rates that are fixed for a period of time, after which the rate adjusts to a floating rate based upon a contractual spread that is indexed to a market rate (i.e., a hybrid ARM), or interest rates that are fixed for the term of the loan.

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

During the first nine months of 2011, we recorded OTTI credit losses of $93 million on non-agency residential mortgage-backed securities, including $30 million in the third quarter. Almost all of the losses were associated with securities rated below investment grade. As of September 30, 2011, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for non-agency residential mortgage-backed securities totaled $790 million and the related securities had a fair value of $3.4 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of September 30, 2011 totaled $1.7 billion, with unrealized net losses of $126 million. The results of our security-level assessments indicate that we will recover the entire cost basis of these securities. Note 7 Investment Securities in the Notes To Consolidated Financial Statements in this Report provides further detail regarding our process for assessing OTTI for these securities.

Commercial Mortgage-Backed Securities

The fair value of the non-agency commercial mortgage-backed securities portfolio was $6.5 billion at September 30, 2011 and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. The agency commercial mortgage-backed securities portfolio was $2.3 billion fair value at September 30, 2011 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

There were no OTTI credit losses on commercial mortgage- backed securities during the first nine months of 2011.

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $5.3 billion at September 30, 2011 and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including residential mortgage loans, credit cards, automobile loans, and student loans. Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

We recorded OTTI credit losses of $14 million on asset-backed securities during the first nine months of 2011, including $5 million during the third quarter. All of the securities are collateralized by first and second lien residential mortgage loans and are rated below investment grade. As of September 30, 2011, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for asset-backed securities totaled $173 million and the related securities had a fair value of $613 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, 2011, the remaining fair value was $150 million, with unrealized net gains of $12 million. The results of our security-level assessments indicate that we will recover the cost basis of these securities. Note 7 Investment Securities in the Notes To Consolidated Financial Statements in this Report provides further detail regarding our process for assessing OTTI for these securities.

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

LOANS HELD FOR SALE

In millions	**September 30 2011**	December 31 2010
Commercial mortgages at fair value	**$ 831**	$ 877
Commercial mortgages at lower of cost or market	**250**	330
Total commercial mortgages	**1,081**	1,207
Residential mortgages at fair value	**1,353**	1,878
Residential mortgages at lower of cost or market		12
Total residential mortgages	**1,353**	1,890
Other	**57**	395
Total	**$ 2,491**	$ 3,492

We stopped originating certain commercial mortgage loans designated as held for sale in 2008 and continue pursuing opportunities to reduce these positions at appropriate prices. We sold $25 million of commercial mortgage loans held for sale carried at fair value in the first nine months of 2011 and sold $82 million in the first nine months of 2010.

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We recognized net gains of $26 million in the first nine months of 2011, including $6 million in the third quarter, on the valuation and sale of commercial mortgage loans held for sale, net of hedges. Net losses of $6 million on the valuation and sale of commercial mortgage loans held for sale, net of hedges, were recognized in the first nine months of 2010, including net gains of $7 million in the third quarter.

Residential mortgage loan origination volume was $8.4 billion in the first nine months of 2011. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $9.2 billion of loans and recognized related gains of $208 million during the first nine months of 2011, of which $72 million occurred in the third quarter. The comparable amounts for the first nine months of 2010 were $6.6 billion and $165 million, respectively, including $77 million in the third quarter.

Interest income on loans held for sale was $153 million in the first nine months of 2011, including $46 million in the third quarter. Comparable amounts for 2010 were $208 million and $55 million, respectively. These amounts are included in Other interest income on our Consolidated Income Statement.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets totaled $10.2 billion at September 30, 2011 and $10.8 billion at December 31, 2010. See Note 9 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in this Report.

FUNDING AND CAPITAL SOURCES

Details Of Funding Sources

In millions	September 30 2011	December 31 2010
Deposits		
Money market	**$ 87,458**	$ 84,581
Demand	**55,549**	50,069
Retail certificates of deposit	**32,380**	37,337
Savings	**8,396**	7,340
Other time	**338**	549
Time deposits in foreign offices	**3,611**	3,514
Total deposits	**187,732**	183,390
Borrowed funds		
Federal funds purchased and repurchase agreements	**3,105**	4,144
Federal Home Loan Bank borrowings	**5,015**	6,043
Bank notes and senior debt	**11,990**	12,904
Subordinated debt	**9,564**	9,842
Other	**5,428**	6,555
Total borrowed funds	**35,102**	39,488
Total	**$ 222,834**	$ 222,878

Total funding sources remained relatively flat at September 30, 2011 compared with December 31, 2010.

Total deposits increased $4.3 billion, or 2%, at September 30, 2011 compared with December 31, 2010 due to an increase in money market and demand deposits, partially offset by the redemption of retail certificates of deposit. Interest-bearing deposits represented 71% of total deposits at September 30, 2011 compared to 73% at December 31, 2010. Total borrowed funds decreased $4.4 billion since December 31, 2010. The decline from December 31, 2010 was primarily due to net maturities.

Capital

See 2011 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our July 2011 issuance of depository shares representing preferred stock, our April 2011 increase to PNC s quarterly common stock dividend, and our plans regarding purchase of shares under PNC s existing common stock repurchase program.

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

Total shareholders equity increased $4.0 billion, to $34.2 billion, at September 30, 2011 compared with December 31, 2010 as retained earnings increased $2.1 billion. The issuance of $1.0 billion of preferred stock in July 2011 contributed to the increase in capital surplus preferred stock from $.6 billion at December 31, 2010 to $1.6 billion at September 30, 2011. Accumulated other comprehensive income increased $.8 billion, to $.4 billion, at September 30, 2011 compared with a loss of $.4 billion at December 31, 2010 due to net unrealized gains on securities and cash flow hedge derivatives. Common shares outstanding were 526 million at both September 30, 2011 and December 31, 2010.

Our current common stock repurchase program permits us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital, regulatory and contractual limitations, and the potential impact on our credit ratings. We did not purchase any shares in the first nine months of 2011 under this program.

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Risk-Based Capital

Dollars in millions	September 30 2011	December 31 2010
Capital components		
Shareholders equity		
Common	**$ 32,583**	$ 29,596
Preferred	**1,636**	646
Trust preferred capital securities	**2,905**	2,907
Noncontrolling interests	**1,350**	1,351
Goodwill and other intangible assets	**(8,990)**	(9,053)
Eligible deferred income taxes on goodwill and other intangible assets	**438**	461
Pension, other postretirement benefit plan adjustments	**370**	380
Net unrealized securities (gains) losses, after-tax	**(48)**	550
Net unrealized gains on cash flow hedge derivatives, after-tax	**(731)**	(522)
Other	**(174)**	(224)
Tier 1 risk-based capital	**29,339**	26,092
Subordinated debt	**4,758**	4,899
Eligible allowance for credit losses	**2,819**	2,733
Total risk-based capital	**$ 36,916**	$ 33,724
Tier 1 common capital		
Tier 1 risk-based capital	**$ 29,339**	$ 26,092
Preferred equity	**(1,636)**	(646)
Trust preferred capital securities	**(2,905)**	(2,907)
Noncontrolling interests	**(1,350)**	(1,351)
Tier 1 common capital	**$ 23,448**	$ 21,188
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$ 223,564**	$ 216,283
Adjusted average total assets	**257,663**	254,693
Capital ratios		
Tier 1 common	**10.5%**	9.8%
Tier 1 risk-based	**13.1**	12.1
Total risk-based	**16.5**	15.6
Leverage	**11.4**	10.2

Federal banking regulators have stated that they expect all bank holding companies to have a level and composition of Tier 1 capital well in excess of the 4% regulatory minimum, and they have required the largest US bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet credit needs of their customers through estimated stress scenarios. They have also stated their view that common equity should be the dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels, although a

formal ratio for this metric is not provided for in current regulations. We seek to manage our capital consistent with these regulatory principles, and believe that our September 30, 2011 capital levels were aligned with them.

Dodd-Frank requires the Federal Reserve Board to establish capital requirements that would, among other things, eliminate the Tier 1 treatment of trust preferred securities following a phase-in period expected to begin in 2013. Accordingly, PNC will evaluate its alternatives, including the potential for redemption on the first call date of some or all of its trust preferred securities, based on such considerations it may consider relevant, including dividend rates, the specifics of the future capital requirements, capital market conditions and other factors. See 2011 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our upcoming November 2011 redemption of trust preferred securities. PNC is also subject to replacement capital covenants with respect to certain of its trust preferred securities as discussed in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in Item 8 of our 2010 Form 10-K.

Our Tier 1 common capital ratio was 10.5% at September 30, 2011, compared with 9.8% at December 31, 2010. Our Tier 1 risk-based capital ratio increased 100 basis points to 13.1% at September 30, 2011 from 12.1% at December 31, 2010. Retention of earnings in 2011 contributed to the increases in both ratios, and the issuance of $1.0 billion of Series O preferred shares in July 2011 also contributed to the increase in our Tier

1 risk-based capital ratio.

At September 30, 2011, PNC Bank, our domestic bank subsidiary, was considered well capitalized based on US regulatory capital ratio requirements under Basel I. To qualify as well-capitalized , regulators currently require banks to maintain capital ratios of at least 6% for Tier 1 risk-based, 10% for total risk-based, and 5% for leverage, which are indicated on page 3 of this Report. We believe PNC Bank, will continue to meet these requirements during the remainder of 2011.

The access to, and cost of, funding for new business initiatives including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs, and the level and nature of regulatory oversight depend, in part, on a financial institution s capital strength.

We provide additional information regarding enhanced capital requirements and some of their potential impacts on PNC in Item 1A Risk Factors included in Part II of our second quarter 2011 Form 10-Q.

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OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

We engage in a variety of activities that involve unconsolidated entities or that are otherwise not reflected in our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. Additional information on these types of activities is included in our 2010 Form 10-K and in the following sections of this Report:

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Financial Review,
- Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements,
- Note 10 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements, and
- Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements.

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

A summary of VIEs, including those that we have consolidated and those in which we hold variable interests but

have not consolidated into our financial statements, as of September 30, 2011 and December 31, 2010 is included in Note 3 of this Report.

Trust Preferred Securities

In connection with the $950 million in principal amount of junior subordinated debentures associated with the trust preferred securities issued by PNC Capital Trusts C, D and E, as well as in connection with the obligations assumed by PNC with respect to $2.6 billion in principal amount of junior subordinated debentures issued by acquired entities in association with trust preferred securities issued by various subsidiary statutory trusts, we are subject to certain restrictions, including restrictions on dividend payments. Generally, if there is an event of default under the debentures, PNC elects to defer interest on the debentures , 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, as specified in the applicable governing documents, PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in our 2010 Form 10-K. See 2011 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our upcoming November 2011 redemption of trust preferred securities.

Also, in connection with the Trust E Securities sale, we are subject to a replacement capital covenant, which is described in Note 13 in our 2010 Form 10-K.

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FAIR VALUE MEASUREMENTS

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

Assets recorded at fair value represented 25% of total assets at September 30, 2011 and 27% at December 31, 2010. Liabilities recorded at fair value represented 4% of total liabilities at September 30, 2011 and 3% at December 31, 2010, respectively.

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

	September 30, 2011		December 31, 2010	
In millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Assets				
Securities available for sale	**$ 49,715**	**$ 7,268**	$ 57,310	$ 8,583
Financial derivatives	**9,608**	**88**	5,757	77
Residential mortgage loans held for sale	**1,353**		1,878	
Trading securities	**2,960**	**47**	1,826	69
Residential mortgage servicing rights	**684**	**684**	1,033	1,033
Commercial mortgage loans held for sale	**831**	**831**	877	877
Equity investments	**1,520**	**1,520**	1,384	1,384
Customer resale agreements	**802**		866	
Loans	**226**	**4**	116	2
Other assets	**622**	**181**	853	403
Total assets	**$ 68,321**	**$ 10,623**	$ 71,900	$ 12,428
Level 3 assets as a percentage of total assets at fair value		**16%**		17%
Level 3 assets as a percentage of consolidated assets		**4%**		5%
Liabilities				
Financial derivatives	**$ 7,429**	**$ 192**	$ 4,935	$ 460
Trading securities sold short	**796**		2,530	
Other liabilities	**5**		6	
Total liabilities	**$ 8,230**	**$ 192**	$ 7,471	$ 460
Level 3 liabilities as a percentage of total liabilities at fair value		**2%**		6%
Level 3 liabilities as a percentage of consolidated liabilities		**<1%**		<1%

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

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

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BUSINESS SEGMENTS REVIEW

We have six reportable business segments:

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

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

Business segment results, including inter-segment revenues, and a description of each business are included in Note 18 Segment Reporting included in the Notes To Consolidated Financial Statements of this Report. Certain amounts included in this Financial Review differ from those amounts shown in Note 18 primarily due to the presentation in this Financial Review of business net interest revenue on a taxable-equivalent basis.

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

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

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

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

Total business segment financial results differ from total consolidated results from continuing operations before noncontrolling interests, which itself excludes the earnings and revenue attributable to GIS through June 30, 2010 and the related third quarter 2010 after-tax gain on the sale of GIS that are reflected in discontinued operations. The impact of these differences is reflected in the Other category. Other for purposes of this Business Segments Review and the Business Segment Highlights in the Executive Summary includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions including long-term incentive plan (LTIP) share distributions and obligations, integration costs, asset and liability management activities including net securities gains or losses, other-than-temporary impairment of investment securities and certain trading activities, exited businesses, equity management activities, alternative investments, intercompany eliminations, most corporate overhead, tax adjustments that are not allocated to business segments, and differences between business segment performance reporting and financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests.

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Results Of Businesses Summary

(Unaudited)

Nine months ended September 30 - in millions	Income		Revenue		Average Assets (a)	
	2011	2010	**2011**	2010	**2011**	2010
Retail Banking	**$ 59**	$ 100	**$ 3,801**	$ 4,108	**$ 66,193**	$ 67,782
Corporate & Institutional Banking	**1,299**	1,251	**3,398**	3,574	**79,315**	77,835
Asset Management Group	**124**	109	**665**	660	**6,744**	6,977
Residential Mortgage Banking	**148**	266	**729**	764	**11,103**	8,903
BlackRock	**271**	253	**351**	326	**5,441**	6,275
Distressed Assets Portfolio	**202**	14	**753**	936	**13,392**	18,246
Total business segments	**2,103**	1,993	**9,697**	10,368	**182,188**	186,018
Other (b) (c)	**475**	211	**1,080**	905	**81,331**	79,337
Income from continuing operations before noncontrolling interests (d)	**$ 2,578**	$ 2,204	**$ 10,777**	$ 11,273	**$ 263,519**	$ 265,355

(a) Period-end balances for BlackRock.

(b) For our segment reporting presentation in this Financial Review, Other for the first nine months of 2010 included $309 million of pretax integration costs related to acquisitions.

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

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

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RETAIL BANKING

(Unaudited)

Nine months ended September 30

Dollars in millions, except as noted	**2011**	2010
Income Statement		
Net interest income	**$ 2,448**	$ 2,609
Noninterest income		
Service charges on deposits	**375**	556
Brokerage	**153**	161
Consumer services	**732**	673
Other	**93**	109
Total noninterest income	**1,353**	1,499
Total revenue	**3,801**	4,108
Provision for credit losses	**662**	946
Noninterest expense	**3,047**	3,008
Pretax earnings	**92**	154
Income taxes	**33**	54
Earnings	**$ 59**	$ 100
Average Balance Sheet		
Loans		
Consumer		
Home equity	**$ 25,907**	$ 26,538
Indirect auto	**2,825**	2,024
Indirect other	**1,520**	1,936
Education	**9,036**	8,409
Credit cards	**3,715**	3,975
Other	**1,835**	1,792
Total consumer	**44,838**	44,674
Commercial and commercial real estate	**10,634**	11,271
Floor plan	**1,449**	1,287
Residential mortgage	**1,210**	1,669
Total loans	**58,131**	58,901
Goodwill and other intangible assets	**5,756**	5,881
Other assets	**2,306**	3,000
Total assets	**$ 66,193**	$ 67,782
Deposits		
Noninterest-bearing demand	**$ 18,209**	$ 17,055
Interest-bearing demand	**21,729**	19,654
Money market	**40,788**	40,045
Total transaction deposits	**80,726**	76,754
Savings	**7,979**	6,864
Certificates of deposit	**34,020**	42,749
Total deposits	**122,725**	126,367
Other liabilities	**898**	1,583
Capital	**8,173**	8,478
Total liabilities and equity	**$ 131,796**	$ 136,428
Performance Ratios		
Return on average capital	**1%**	2%
Return on average assets	**.12**	.20
Noninterest income to total revenue	**36**	36
Efficiency	**80**	73
Other Information (a)		
Credit-related statistics:		
Commercial nonperforming assets	**$ 330**	$ 262
Consumer nonperforming assets	**454**	400
Total nonperforming assets (b)	**$ 784**	$ 662
Impaired loans (c)	**$ 786**	$ 939
Commercial lending net charge-offs	**$ 171**	$ 281

Credit card lending net charge-offs	**167**	248
Consumer lending (excluding credit card) net charge-offs	**324**	316
Total net charge-offs	**$ 662**	$ 845
Commercial lending annualized net charge-off ratio	**1.89%**	2.99%
Credit card lending annualized net charge-off ratio	**6.01%**	8.34%
Consumer lending (excluding credit card) annualized net charge-off ratio	**1.02%**	1.00%
Total annualized net charge-off ratio	**1.52%**	1.92%

At September 30 Dollars in millions, except as noted	**2011**	2010
Other Information (Continued) (a)		
Home equity portfolio credit statistics: (d)		
% of first lien positions (e)	**38%**	35%
Weighted-average loan-to-value ratios (e)	**72%**	73%
Weighted-average FICO scores (f)	**743**	725
Annualized net charge-off ratio	**1.11%**	.87%
Loans 30 59 days past due	**.58%**	.49%
Loans 60 89 days past due	**.32%**	.30%
Loans 90 days past due	**1.12%**	.94%
Other statistics:		
ATMs	**6,754**	6,626
Branches (g)	**2,469**	2,461
Customer-related statistics: (in thousands)		
Retail Banking checking relationships	**5,722**	5,438
Retail online banking active customers	**3,479**	2,968
Retail online bill payment active customers	**1,079**	942
Brokerage statistics:		
Financial consultants (h)	**703**	713
Full service brokerage offices	**37**	40
Brokerage account assets (billions)	**$ 33**	$ 33

(a) Presented as of September 30, except for net charge-offs and annualized net charge-off ratios, which are for the nine months ended.
(b) Includes nonperforming loans of $748 million at September 30, 2011 and $638 million at September 30, 2010.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Home equity lien position, loan to value, FICO and delinquency statistics are based on borrower contractual amounts and include purchased impaired loans.
(e) Includes loans from acquired portfolios for which lien position and loan-to-value information was limited. Additionally, excludes brokered home equity loans.
(f) Represents the most recent FICO scores we have on file.
(g) Excludes certain satellite offices that provide limited products and/or services.
(h) Financial consultants provide services in full service brokerage offices and traditional bank branches.

Retail Banking earned $59 million in the first nine months of 2011 compared with earnings of $100 million for the same period a year ago. Earnings declined from the prior year as lower revenues from the impact of Regulation E rules related to overdraft fees and a low interest rate environment were partially offset by a lower provision for credit losses. Retail Banking continued to maintain its focus on growing customers and deposits, improving customer and employee satisfaction, investing in the business for future growth, and disciplined expense management during this period of market and economic uncertainty.

Highlights of Retail Banking s performance for the first nine months of 2011 include the following:

- Net new checking relationships grew 225,000 in the first nine months of 2011 exclusive of the 32,000 added with the BankAtlantic branch acquisition, which reflects strong results and gains in all of our markets. We are seeing strong customer retention in the overall network.
- Success in implementing Retail Banking s deposit strategy resulted in growth in average demand deposits for the first nine months of 2011 of $3.2 billion, or 9%, over the first nine months of 2010. Average certificates of deposit declined $8.7 billion, or 20%, over the same period in accordance with our business plan.
- Our investment in online banking capabilities continues to pay off. Excluding the impact of the BankAtlantic branch acquisition, active online

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banking customers and active online bill payment customers grew by 13% and 10%, respectively, during the first nine months of 2011.

The planned acquisition of RBC Bank (USA), which is currently scheduled to close in March 2012 subject to customary closing conditions, including regulatory approvals, is expected to expand PNC s footprint to 19 states and over 2,800 branches.

On July 26, 2011, PNC signed a definitive agreement to acquire 27 branches and related deposits in metropolitan Atlanta, Georgia from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc. The transaction is currently expected to close in December 2011 subject to customary closing conditions. PNC and Flagstar have both received regulatory approval in relation to the respective applications filed with the regulators.

In June, Retail Banking added approximately $280 million in deposits, 32,000 checking relationships, 19 branches and 27 ATMs through the acquisition from BankAtlantic in the Tampa, Florida area.

Retail Banking launched new checking account and credit card products during the first quarter. These new products are designed to provide more choices for customers.

PNC s expansive branch footprint covers nearly one-third of the U.S. population in 15 states and Washington, DC with a network of 2,469 branches and 6,754 ATMs at September 30, 2011.

Total revenue for the first nine months of 2011 was $3.8 billion compared with $4.1 billion for the same period of 2010. Net interest income of $2.4 billion declined $161 million compared with the first nine months of 2010. The decrease over the prior period resulted from lower interest credits assigned to deposits, reflective of the rate environment, and lower average loan balances while benefiting from higher demand deposit balances.

Noninterest income for the first nine months of 2011 declined $146 million compared to the first nine months of 2010. The decline was driven by lower overdraft fees resulting from the impact of Regulation E rules partially offset by higher volumes of customer-initiated transactions including debit and credit cards.

For 2011, Retail Banking revenue has declined for the year-to-date period compared to same period of 2010 as a result of the rules set forth in Regulation E related to overdraft fees and will further decline in the fourth quarter based on the Dodd-Frank limits related to interchange rates on debit card transactions. The Dodd-Frank limits related to interchange rates on debit cards were effective October 1, 2011 and are expected to have a negative impact on revenues of approximately $75 million in the fourth quarter of 2011 and an additional incremental reduction in future periods annual revenue of approximately $175 million, based on expected

2011 transaction volumes. These estimates do not include any additional financial impact to revenue of other or additional regulatory requirements. There could be other aspects of regulatory reform that further impact these or other areas of our business as regulatory agencies, including the new Consumer Financial Protection Bureau (CFPB), issue proposed and final regulations pursuant to Dodd-Frank and other legislation. See additional information regarding legislative and regulatory developments in the Executive Summary section of this Financial Review.

For 2011, the incremental decline compared to 2010 from the impact of the Credit CARD Act was not material.

The provision for credit losses was $662 million through September 30, 2011 compared with $946 million over the same period in 2010. Net charge-offs were $662 million for the first nine months of 2011 compared with $845 million in the same period last year. Improvements in credit quality are evident in the small business, credit card and indirect portfolios; however, we have experienced some volatility in our home equity portfolio as we continued to work with borrowers as employment and home values have been slow to recover in this economy. The level of provisioning will be dependent on general economic conditions, loan growth, utilization of credit commitments and asset quality.

Noninterest expense for the first nine months of the year increased $39 million from the same period last year. The increase resulted from investments in the business partially offset by lower FDIC expenses resulting from an FDIC required methodology change.

Growing core checking deposits, as a low-cost funding source and as the cornerstone product to build customer relationships, is the primary objective of our retail strategy. Furthermore, core checking accounts are critical to growing our overall 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 2011, average total deposits of $122.7 billion decreased $3.6 billion, or 3%, compared with the first nine months of 2010.

Average demand deposits increased $3.2 billion, or 9%, over the first nine months of 2010. The increase was primarily driven by customer growth and customer preferences for liquidity.

Average money market deposits increased $743 million, or 2%, from the first nine months of 2010. The increase was primarily due to core money market growth as customers generally prefer more liquid deposits in a low rate environment.

Average savings deposits increased $1.1 billion, or 16%, over the first nine months of 2010. The increase is attributable to net customer growth and new product offerings.

In the first nine months of 2011, average consumer certificates of deposit decreased $8.7 billion or 20% from the same period last year. The decline is expected to continue through 2012 due to the continued run-off of higher rate certificates of deposit.

Currently, our primary focus is on a relationship-based lending strategy that targets specific customer sectors (mass consumers, homeowners, students, small businesses and auto dealerships). In the first nine months of 2011, average total loans were $58.1 billion, a decrease of $770 million, or 1%, over the same period last year.

Average indirect auto loans increased $801 million, or 40%, over the first nine months of 2010. The increase was due to the expansion of our indirect sales force and product introduction to acquired markets, as well as overall increases in auto sales. The indirect other portfolio is primarily a run-off portfolio comprised of marine, RV, and other indirect loan products.

Average education loans grew $627 million, or 7%, compared with the first nine months of 2010, primarily due to portfolio purchases in December 2010 and July 2011.

Average auto dealer floor plan loans grew $162 million, or 13%, compared with the first nine months of 2010, primarily resulting from additional dealer relationships and higher line utilization.

Average credit card balances decreased $260 million, or 7%, over the first nine months of 2010. The decrease was primarily the result of fewer active accounts generating balances coupled with increased paydowns on existing accounts.

Average commercial and commercial real estate loans declined $637 million, or 6%, compared with the first nine months of 2010. The decline was primarily due to loan demand being outpaced by refinancings, paydowns, and charge-offs.

Average home equity loans declined $631 million, or 2%, compared with the first nine months of 2010. Home equity loan demand remained soft in the current economic climate. The decline is driven by loan demand being outpaced by paydowns, refinancings, and charge-offs. Retail Banking s home equity loan portfolio is relationship based, with 96% of the portfolio attributable to borrowers in our primary geographic footprint. The nonperforming assets and charge-offs that we have experienced are within our expectations given current market conditions.

Average indirect other and residential mortgages are primarily run-off portfolios and declined $416 million and $459 million, respectively, compared with the first nine months of 2010. The indirect other portfolio is comprised of marine, RV, and other indirect loan products.

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CORPORATE & INSTITUTIONAL BANKING

(Unaudited)

Nine months ended September 30

Dollars in millions, except as noted	2011	2010
Income Statement		
Net interest income	**$ 2,513**	$ 2,670
Noninterest income		
Corporate service fees	**537**	627
Other	**348**	277
Noninterest income	**885**	904
Total revenue	**3,398**	3,574
Provision for credit losses	**12**	285
Noninterest expense	**1,336**	1,315
Pretax earnings	**2,050**	1,974
Income taxes	**751**	723
Earnings	**$ 1,299**	$ 1,251
Average Balance Sheet		
Loans		
Commercial	**$ 34,771**	$ 33,088
Commercial real estate	**13,949**	16,948
Commercial real estate related	**3,553**	3,016
Asset-based lending	**7,928**	6,124
Equipment lease financing	**5,499**	5,447
Total loans	**65,700**	64,623
Goodwill and other intangible assets	**3,444**	3,669
Loans held for sale	**1,251**	1,415
Other assets	**8,920**	8,128
Total assets	**$ 79,315**	$ 77,835
Deposits		
Noninterest-bearing demand	**$ 30,010**	$ 23,759
Money market	**12,770**	12,246
Other	**5,662**	7,097
Total deposits	**48,442**	43,102
Other liabilities	**13,064**	11,541
Capital	**7,927**	8,762
Total liabilities and equity	**$ 69,433**	$ 63,405

Nine months ended September 30

Dollars in millions, except as noted	2011	2010
Performance Ratios		
Return on average capital	**22%**	19%
Return on average assets	**2.19**	2.15
Noninterest income to total revenue	**26**	25
Efficiency	**39**	37
Commercial Mortgage Servicing Portfolio (in billions)		
Beginning of period	**$ 266**	$ 287
Acquisitions/additions	**31**	23
Repayments/transfers	**(30)**	(47)
End of period	**$ 267**	$ 263

Other Information		
Consolidated revenue from: (a)		
Treasury Management	**$ 891**	$ 915
Capital Markets	**$ 462**	$ 401
Commercial mortgage loans held for sale (b)	**$ 75**	$ 49
Commercial mortgage loan servicing income, net of amortization (c)	**108**	196
Commercial mortgage servicing rights (impairment)/recovery	**(157)**	(99)
Total commercial mortgage banking activities	**$ 26**	$ 146
Total loans (d)	**$ 70,307**	$ 62,477
Credit-related statistics:		
Nonperforming assets (d) (e)	**$ 2,033**	$ 3,064
Impaired loans (d) (f)	**$ 472**	$ 890
Net charge-offs	**$ 332**	$ 725
Net carrying amount of commercial mortgage servicing rights (d)	**$ 482**	$ 616

(a) Represents consolidated PNC amounts. See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of the Consolidated Income Statement Review.
(b) Includes valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(c) Includes net interest income and noninterest income from loan servicing and ancillary services, net of commercial mortgage servicing rights amortization. Commercial mortgage servicing rights (impairment)/recovery is shown separately. Higher amortization and impairment charges in 2011 were due primarily to decreased interest rates and related prepayments by borrowers.
(d) As of September 30.
(e) Includes nonperforming loans of $1.8 billion at September 30, 2011 and $2.9 billion at September 30, 2010.
(f) Recorded investment of purchased impaired loans related to acquisitions.

Corporate & Institutional Banking earned $1.3 billion in the first nine months of 2011 and 2010. The comparison was impacted by a lower provision for credit losses in 2011, offset by a decline in net interest income and lower commercial mortgage loan servicing income combined with higher commercial mortgage servicing rights impairment. We continued to focus on adding new clients and increased our cross selling to serve our clients needs, particularly in the western markets, and remained committed to strong expense discipline.

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

- Overall results benefited from successful sales efforts to new clients and product penetration of the existing customer base. New client acquisitions in our Corporate Banking business were on pace to exceed the 1,000 new primary client goal for the year and increased 21% compared to the first nine months of 2010.
- Loan commitments, primarily in our Business Credit, Healthcare, and Public Finance businesses, grew from 2010 due to new clients and higher commitments to selected existing clients.
- Loan balances have increased since the fourth quarter of 2010, including an increase in average loans for the third quarter of 2011 of $5.0 billion or 8% in the comparison.
- Our Treasury Management business, which is one of the top providers in the country, continued to invest in markets, products and infrastructure as well as major initiatives such as healthcare. The healthcare initiative is designed to help provide our customers in that industry opportunity to reduce operating costs.
- Cross sales of treasury management and capital markets products to customers in PNC s western markets continued to be successful and were ahead of both targets and the first nine months of 2010.
- Midland Loan Services, one of the leading third-party providers of servicing for the commercial real estate industry, received the highest U.S. servicer and special servicer ratings from Fitch Ratings and Standard & Poor s and is in its 11th consecutive year of achieving these ratings.
- Midland was the number one servicer of FNMA and FHLMC multifamily and healthcare loans and was the second leading servicer of commercial and multifamily loans by volume as of June 30, 2011 according to Mortgage Bankers Association.
- Mergers and Acquisitions Journal named Harris Williams & Co. Advisor of the Year in its March 2011 issue.

Net interest income for the first nine months of 2011 was $2.5 billion, a 6% decline from the first nine months of 2010, reflecting lower purchase accounting accretion and lower interest credits assigned to deposits, partially offset by an increase in average deposits and an increase in average loans.

Corporate service fees were $537 million for the first nine months of 2011, a decrease of $90 million from the first nine months of 2010, primarily due to a reduction in the value of commercial mortgage servicing rights largely driven by lower interest rates and higher loan prepayment rates, and lower ancillary commercial mortgage servicing fees. The major components of corporate service fees are treasury management, corporate finance fees and commercial mortgage servicing revenue.

Other noninterest income was $348 million for the first nine months of 2011 compared with $277 million in the first nine months of 2010. The increase of $71 million was primarily due to valuations associated with the commercial mortgage held-for-sale portfolio and derivatives executed for clients.

The provision for credit losses was $12 million in the first nine months of 2011 compared with $285 million in 2010. The improvement reflected continued positive migration in portfolio credit quality. Net charge-offs for the first nine months of 2011 of $332 million decreased $393 million, or 54%, compared with the 2010 period. The decline was attributable primarily to the commercial real estate and equipment finance portfolios. Nonperforming assets declined for the sixth consecutive quarter, and at $2.0 billion were a third lower than they were at September 30, 2010.

Noninterest expense was $1.3 billion in both the first nine months of 2011and 2010. Higher compensation-related costs were mostly offset by the impact of the sale of a duplicative agency servicing operation in the second quarter of 2010.

Average loans were $65.7 billion for the first nine months of 2011 compared with $64.6 billion in the first nine months of 2010, an increase of 2%.

- The Corporate Banking business provides lending, treasury management, and capital markets-related products and services to mid-sized corporations, government and not-for-profit entities and selectively to large corporations. Average loans for this business increased $1.3 billion or 4% in the first nine months of 2011 compared with the first nine months of 2010. Loan commitments have increased since the second quarter of 2010 due to the impact of new customers and increased demand.
- PNC Real Estate provides commercial real estate and real-estate related lending and is one of the industry s top providers of both conventional and affordable multifamily financing. Average loans for this business declined $1.7 billion or 10% in the first nine months of 2011 compared with the first nine months of 2010 due to loan sales, paydowns and charge-offs.
- PNC Business Credit is one of the top asset-based lenders in the country. The loan portfolio is relatively high yielding, with moderate risk, as the loans are mainly secured by liquid assets. Average loans increased $1.8 billion or 30% in the first nine months of 2011 compared with the first nine months of 2010 due to customers seeking stable lending sources, loan usage rates, and market expansion. We also expanded our operations with the acquisition of an asset-based lending group in the United Kingdom, completed in November 2010. Total loans acquired were approximately $300 million.

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

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Average deposits were $48 billion for the first nine months of 2011, an increase of $5.3 billion, or 12%, compared with the first nine months of 2010.

- Deposit growth has been very strong, particularly in the third quarter 2011, and is an industry-wide trend as clients are holding record levels of cash and liquidity.
- Deposit inflows into noninterest-bearing demand deposits continued as FDIC insurance has been an attraction for customers maintaining liquidity during this prolonged period of low interest rates.
- The repeal of Regulation Q limitations on interest-bearing commercial demand deposit accounts became effective in the third quarter of 2011. As
expected, interest in this product has been muted due to the current rate environment and the limited amount of FDIC insurance coverage.

The commercial mortgage servicing portfolio was $267 billion at September 30, 2011 compared with $263 billion at September 30, 2010. The increase was largely the result of servicing additions, net of portfolio run-off.

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

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ASSET MANAGEMENT GROUP

(Unaudited)

Nine months ended September 30

Dollars in millions, except as noted	2011	2010
Income Statement		
Net interest income	**$ 177**	$ 191
Noninterest income	**488**	469
Total revenue	**665**	660
Provision for credit losses (benefit)	**(34)**	11
Noninterest expense	**503**	476
Pretax earnings	**196**	173
Income taxes	**72**	64
Earnings	**$ 124**	$ 109
Average Balance Sheet		
Loans		
Consumer	**$ 4,086**	$ 4,005
Commercial and commercial real estate	**1,337**	1,437
Residential mortgage	**710**	893
Total loans	**6,133**	6,335
Goodwill and other intangible assets	**365**	404
Other assets	**246**	238
Total assets	**$ 6,744**	$ 6,977
Deposits		
Noninterest-bearing demand	**$ 1,177**	$ 1,288
Interest-bearing demand	**2,305**	1,768
Money market	**3,577**	3,245
Total transaction deposits	**7,059**	6,301
CDs/IRAs/savings deposits	**646**	767
Total deposits	**7,705**	7,068
Other liabilities	**73**	94
Capital	**347**	410
Total liabilities and equity	**$ 8,125**	$ 7,572
Performance Ratios		
Return on average capital	**48%**	36%
Return on average assets	**2.46**	2.09
Noninterest income to total revenue	**73**	71
Efficiency	**76**	72
Other Information		
Total nonperforming assets (a) (b)	**$ 69**	$ 102
Impaired loans (a) (c)	**$ 134**	$ 155
Total net charge-offs (recoveries)	**$ (6)**	$ 21
Assets Under Administration (in billions) (a) (d)		
Personal	**$ 95**	$ 95
Institutional	**107**	111
Total	**$ 202**	$ 206
Asset Type		
Equity	**$ 104**	$ 107
Fixed Income	**66**	66
Liquidity/Other	**32**	33
Total	**$ 202**	$ 206
Discretionary assets under management		
Personal	**$ 65**	$ 67
Institutional	**38**	38
Total	**$ 103**	$ 105
Asset Type		
Equity	**$ 49**	$ 51
Fixed Income	**38**	38
Liquidity/Other	**16**	16

Total	**$ 103**	$ 105
Nondiscretionary assets under administration		
Personal	**$ 30**	$ 28
Institutional	**69**	73
Total	**$ 99**	$ 101
Asset Type		
Equity	**$ 55**	$ 56
Fixed Income	**28**	28
Liquidity/Other	**16**	17
Total	**$ 99**	$ 101

(a) As of September 30.
(b) Includes nonperforming loans of $64 million at September 30, 2011 and $94 million at September 30, 2010.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account assets.

Asset Management Group earned $124 million in the first nine months of 2011 compared with $109 million in the first nine months of 2010. Assets under administration were $202 billion at September 30, 2011. Earnings for the first nine months of 2011 reflected a benefit from the provision for credit losses and growth in noninterest income. Noninterest expense increased due to continued investments in the business including additional headcount and the roll-out of our new reporting technology, PNC Wealth Insight[SM]. The core growth strategies for the business include: increasing channel penetration; investing in higher growth geographies; and investing in differentiated client-facing technology such as PNC Wealth Insight[SM]. During the first nine months of 2011, the business delivered strong sales production, grew high value clients and benefitted from significant referrals from other PNC lines of business. Over time, the successful execution of these strategies and the accumulation of our strong sales performance are expected to create meaningful growth in assets under management and noninterest income.

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

- Strong sales production, up nearly 50% over the prior year including a 34% increase in the acquisition of new high value clients;
- Significant referrals from other PNC lines of business, an increase of approximately 90% over the same period in 2010;
- Year-to-date positive net flows in total assets under administration; and
- Continuing levels of new business investment and focused hiring to drive growth with over 200 external new hires.

Assets under administration were $202 billion at September 30, 2011 compared with $206 billion at September 30, 2010. Discretionary assets under management were $103 billion at September 30, 2011 compared with $105 billion at September 30, 2010. The decrease in the comparisons was driven by lower equity markets, offsetting strong sales performance and successful client retention.

Total revenue for the first nine months of 2011 was $665 million compared with $660 million for the same period in 2010. Net interest income was $177 million for the first nine months of 2011 compared with $191 million in the first nine months of 2010. The decrease was attributable to lower loan yields, lower loan balances and lower interest credits assigned to deposits reflective of the current low rate environment. Noninterest income was $488 million for the first nine months of 2011, up $19 million from the prior year period due to stronger equity markets earlier in the year and new client acquisition. Noninterest income in the prior year period

benefitted from approximately $19 million of tax, termination, integration, and litigation related items that were not repeated in 2011. Excluding these items in the comparison, total noninterest income grew 8%.

Provision for credit losses was a benefit of $34 million in the first nine months of 2011 reflecting improved credit quality compared with provision of $11 million for the first nine months of 2010. A net recovery of $6 million was recognized for the first nine months of 2011 compared with net charge-offs of $21 million in the first nine months of 2010.

Noninterest expense was $503 million in the first nine months of 2011, an increase of $27 million or 6% from the prior year period. The increase was attributable to investments in the

business to drive growth and higher compensation-related costs. Asset Management Group remains focused on disciplined expense management as it invests in these strategic growth opportunities.

Average deposits for the first nine months of 2011 increased $637 million, or 9%, over the prior year first nine months. Average transaction deposits grew 12% compared with the first nine months of 2010 and were substantially offset by the strategic run-off of higher rate certificates of deposit in the comparison. Average loan balances decreased $202 million, or 3%, from the prior year first nine months primarily due to credit risk management activities within the portfolio offsetting new client acquisition.

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RESIDENTIAL MORTGAGE BANKING

(Unaudited)

Nine months ended September 30

Dollars in millions, except as noted	**2011**	2010
Income Statement		
Net interest income	**$ 149**	$ 196
Noninterest income		
Loan servicing revenue		
Servicing fees	**173**	196
Net MSR hedging gains	**185**	198
Loan sales revenue	**208**	165
Other	**14**	9
Total noninterest income	**580**	568
Total revenue	**729**	764
Provision for credit losses (benefit)	**15**	(3)
Noninterest expense	**480**	348
Pretax earnings	**234**	419
Income taxes	**86**	153
Earnings	**$ 148**	$ 266
Average Balance Sheet		
Portfolio loans	**$ 2,738**	$ 2,643
Loans held for sale	**1,520**	1,184
Mortgage servicing rights (MSR)	**974**	1,069
Other assets	**5,871**	4,007
Total assets	**$ 11,103**	$ 8,903
Deposits	**$ 1,648**	$ 2,927
Borrowings and other liabilities	**3,726**	2,614
Capital	**697**	978
Total liabilities and equity	**$ 6,071**	$ 6,519
Performance Ratios		
Return on average capital	**28%**	36%
Return on average assets	**1.78**	3.99
Noninterest income to total revenue	**80**	74
Efficiency	**66**	46
Residential Mortgage Servicing Portfolio (in billions)		
Beginning of period	**$ 125**	$ 145
Acquisitions	**5**	
Additions	**9**	7
Repayments/transfers	**(18)**	(21)
End of period	**$ 121**	$ 131
Servicing portfolio statistics: (a)		
Fixed rate	**90%**	89%
Adjustable rate/balloon	**10%**	11%
Weighted-average interest rate	**5.44%**	5.69%
MSR capitalized value (in billions)	**$ 0.7**	$ 0.8
MSR capitalization value (in basis points)	**56**	60
Weighted-average servicing fee (in basis points)	**29**	30
Other Information		
Loan origination volume (in billions)	**$ 8.4**	$ 7.0
Percentage of originations represented by:		
Agency and government programs	**100%**	99%
Refinance volume	**75%**	69%

Total nonperforming assets (a) (b)	**$ 77**	$ 164
Impaired loans (a) (c)	**$ 132**	$ 173

(a) As of September 30.
(b) Includes nonperforming loans of $30 million at September 30, 2011 and $104 million at September 30, 2010.
(c) Recorded investment of purchased impaired loans related to acquisitions.

Residential Mortgage Banking earned $148 million in the first nine months of 2011 compared with $266 million in the first nine months of 2010. Earnings declined from the prior year period primarily as a result of higher noninterest expense, lower net interest income and a higher provision for credit losses.

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

Total loan originations were $8 billion for the first nine months of 2011 compared with $7 billion in the first nine months of 2010. Refinance volume increased compared to the 2010 period. Loans continue to be originated primarily through direct channels under FNMA, FHLMC and FHA/VA agency guidelines.

Investors may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. At September 30, 2011, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $85 million compared with $155 million at September 30, 2010. See the Recourse And Repurchase Obligations section of this Financial Review and Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.

Residential mortgage loans serviced for others totalled $121 billion at September 30, 2011 compared with $131 billion at September 30, 2010 as payoffs continued to outpace new direct loan origination volume.

Noninterest income was $580 million in the first nine months of 2011 compared with $568 million in the first nine months of 2010. The increase resulted from higher loan sales revenue driven by higher loan origination volume, partially offset by lower loan servicing revenue and lower net hedging gains on mortgage servicing rights.

Net interest income was $149 million in the first nine months of 2011 compared with $196 million in the first nine months of 2010. The decrease in the comparison was primarily due to lower interest earned on escrow deposits.

Noninterest expense was $480 million in the first nine months of 2011 compared with $348 million in the first nine months of 2010. The increase from the prior year period was driven by foreclosure-related expenses.

The fair value of mortgage servicing rights was $.7 billion at September 30, 2011 compared with $.8 billion at September 30, 2010. The decline in fair value was primarily due to lower mortgage rates.

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BLACKROCK

(Unaudited)

Information related to our equity investment in BlackRock follows:

Nine months ended September 30 Dollars in millions	**2011**	2010
Business segment earnings (a)	**$ 271**	$ 253
PNC s economic interest in BlackRock (b)	**21%**	24%

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

(c) The September 30, 2011 amount is comprised of our equity investment of $5,256 million and $15 million of goodwill and accumulated other comprehensive income related to our BlackRock investment. The comparable amounts at December 31, 2010 were $5,017 million and $37 million.
PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $1.7 billion at September 30, 2011 and $1.8 billion at December 31, 2010.
(d) Does not include liquidity discount.

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

On September 29, 2011, PNC transferred 1.3 million shares of BlackRock Series C Preferred Stock to BlackRock to satisfy a portion of our LTIP obligation. Upon transfer, Other assets and Other liabilities on our Consolidated Balance Sheet were reduced by $172 million.

PNC accounts for its remaining investment in BlackRock under the equity method of accounting. Our voting interest in BlackRock common stock (approximately 24% at September 30, 2011) is higher than our overall share of BlackRock s equity and earnings.

Our 2010 Form 10-K includes additional information about our investment in BlackRock, including BlackRock s November 2010 secondary common stock offering and our sale of a portion of our shares of BlackRock common stock in that offering.

DISTRESSED ASSETS PORTFOLIO

(Unaudited)

Nine months ended September 30 Dollars in millions	**2011**	2010
Income Statement		
Net interest income	**$ 721**	$ 973
Noninterest income	**32**	(37)
Total revenue	**753**	936
Provision for credit losses	**278**	745

Noninterest expense	**156**	169
Pretax earnings	**319**	22
Income taxes	**117**	8
Earnings	**$ 202**	$ 14
Average Balance Sheet		
Commercial Lending:		
Commercial/Commercial real estate	**$ 1,360**	$ 2,374
Lease financing	**715**	788
Total commercial lending	**2,075**	3,162
Consumer Lending:		
Consumer	**5,341**	6,354
Residential real estate	**6,237**	7,835
Total consumer lending	**11,578**	14,189
Total portfolio loans	**13,653**	17,351
Other assets (e)	**(261)**	895
Total assets	**$ 13,392**	$ 18,246
Deposits and other liabilities	**$ 119**	167
Capital	**1,355**	1,669
Total liabilities and equity	**$ 1,474**	$ 1,836
Performance Ratios		
Return on average capital	**20%**	1%
Return on average assets	**2.02**	.10
Other Information		
Nonperforming assets (a) (b)	**$ 1,064**	$ 1,218
Impaired loans (a) (c)	**$ 5,390**	$ 6,001
Net charge-offs (d)	**$ 293**	$ 494
Annualized net charge-off ratio (d)	**2.87%**	3.81%
Loans (a)		
Commercial Lending		
Commercial/Commercial real estate	**$ 1,077**	$ 1,911
Lease financing	**701**	757
Total commercial lending	**1,778**	2,668
Consumer Lending		
Consumer	**5,066**	6,011
Residential real estate	**6,065**	7,014
Total consumer lending	**11,131**	13,025
Total loans	**$ 12,909**	$ 15,693

(a) As of September 30.

(b) Includes nonperforming loans of $.8 billion at September 30, 2011 and $.9 billion at September 30, 2010.

(c) Recorded investment of purchased impaired loans related to acquisitions. At September 30, 2011, this segment contained 78% of PNC s purchased impaired loans.

(d) For the nine months ended September 30.

(e) Other assets includes deferred taxes and loan reserves.

This business segment consists primarily of acquired non-strategic assets. The business activities of the segment are focused on maximizing value when exiting the under-performing portion of the portfolio. Distressed Assets

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Portfolio had earnings of $202 million for the first nine months of 2011compared with $14 million in the first nine months of 2010. The increase was driven primarily by a lower provision for credit losses partially offset by a decline in net interest income.

Highlights of Distressed Assets Portfolio s performance during the first nine months of 2011 include the following:

Average loans declined to $13.7 billion in the first nine months of 2011 compared with $17.4 billion in the first nine months of 2010. The decline was impacted by portfolio management activities to reduce under-performing assets.
Net interest income was $721 million in the first nine months of 2011 compared with $973 million for the first nine months of 2010. The decrease reflected lower loan balances and lower purchase accounting accretion.
Noninterest income was $32 million for the first nine months of 2011 compared with a loss of $37 million for the first nine months of 2010. 2010 includes an increase to the liability for estimated losses on repurchase and indemnification claims on sold brokered home equity loans.
The provision for credit losses was $278 million in the first nine months of 2011 compared with $745 million in the first nine months of 2010. The decline was driven primarily by lower losses in first mortgage and residential construction portfolios.
Noninterest expense for the first nine months of 2011 was $156 million compared with $169 million in the first nine months of 2010. The decrease was driven by a reduction in expenses related to other real estate owned and volume related expenses as the portfolio declined.
Nonperforming loans decreased to $.8 billion at September 30, 2011 compared with $.9 billion at September 30, 2010. The consumer lending portfolio comprised 63% of the nonperforming loans at September 30, 2011. Nonperforming consumer loans increased $.1 billion.
Net charge-offs were $293 million for the first nine months of 2011 and $494 million for the first nine months of 2010. The decrease was due to lower charge-offs on residential mortgage loans and commercial loans.

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 $12.9 billion of loans held in this portfolio at September 30, 2011 are stated inclusive of a fair value adjustment on purchased impaired loans at acquisition. Taking the adjustment and the ALLL into account, the net carrying basis of this loan portfolio is 79% of customer outstandings.
The Commercial Lending portfolio within this segment is comprised of $1.1 billion in residential development loans (i.e. condominiums, townhomes, developed and undeveloped land) primarily acquired from National City and $.7 billion of performing cross-border leases. This portfolio has declined 33% since September 30, 2010. For the residential development portfolio, 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 cross-border lease portfolio continues to demonstrate good credit quality.
The performance of the Consumer Lending portfolio within this segment is dependent upon economic growth, unemployment rates, the housing market recovery and the interest rate environment. The portfolio s credit quality performance has stabilized through actions taken by management over the last two years. Approximately 75% of customers have been current with principal and interest payments for the past 12 months. Consumer Lending consists of residential real estate mortgages and consumer or brokered home equity loans primarily acquired with the National City acquisition. The residential real estate mortgage portfolio is composed of jumbo and ALT-A first lien mortgages, non-prime first and second lien mortgages and, to a lesser extent, residential construction loans. Home equity loans include second liens and brokered home equity lines of credit. We have implemented various refinance and line availability programs to mitigate risks within these portfolios while assisting borrowers to maintain homeownership when possible.
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 contractual loan origination covenants and representations and warranties we have made. From 2005 to 2007, home equity loans were sold with such contractual provisions. At September 30, 2011, the liability for estimated losses on repurchase and indemnification claims for the Distressed Assets Portfolio business segment was $51 million. No substantial additional reserves were recorded in the first nine months of 2011. See the Recourse And Repurchase Obligations section of this Financial Review and Commitments and Guarantees in the Notes To Consolidated Financial Statements included in this Report for additional information.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Note 1 Accounting Policies in Part II, Item 8 of our 2010 Form 10-K and in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report describe the most significant accounting policies that we use. Certain of these policies require us to make estimates or economic assumptions that may prove inaccurate or be subject to variations that may significantly affect our reported results and financial position for the period or in future periods.

We must use estimates, assumptions, and judgments when assets and liabilities are required to be recorded at, or adjusted to reflect, fair value.

Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by independent third-party sources, including appraisers and valuation specialists, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, or estimates could materially impact our future financial condition and results of operations.

We discuss the following critical accounting policies and judgments under this same heading in Part II, Item 7 of our 2010 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 and Commercial 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 residential mortgage servicing rights (MSRs) at fair value. This election was made to be consistent with our risk management strategy to hedge changes in the fair value of these assets as described below. The fair value of these residential MSRs is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors which are determined based on current market conditions.

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

Commercial MSRs are purchased in the open market or are originated when loans are sold with servicing retained. Commercial MSRs are initially recorded at fair value and are subsequently accounted for at amortized cost. Commercial MSRs are periodically evaluated for impairment. For purposes of impairment, the commercial mortgage servicing rights are stratified based on asset type, which characterizes the predominant risk of the underlying financial asset. The fair value of commercial MSRs is estimated by using an internal valuation model. The model calculates the present value of estimated future net servicing cash flows considering estimates of servicing revenue and costs, discount rates and prepayment speeds.

PNC employs risk management strategies designed to protect the value of MSRs from changes in interest rates and related market factors. Residential MSRs values are economically hedged with securities and derivatives, including interest-rate swaps, options, and forward mortgage-backed and futures contracts. As interest rates change, these financial instruments are expected to have changes in fair value negatively correlated to the change in fair value of the hedged residential MSRs portfolio. The hedge relationships are actively managed in response to changing market conditions over the life of the residential MSRs assets. Commercial MSRs are economically hedged (at a macro

level or with specific derivatives) to protect against a significant decline in interest rates. Selecting appropriate financial instruments to hedge residential or commercial MSRs requires significant management judgment to assess how mortgage rates and prepayment speeds could affect the future values of MSRs. Hedging results can frequently be less predictable in the short term, but over longer periods of time are expected to protect the economic value of the MSRs portfolio.

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The fair value of residential and commercial MSRs and significant inputs to the valuation model as of September 30, 2011 are shown in the tables below. The expected and actual rates of mortgage loan prepayments and future interest rates are the most significant factors driving the fair values. 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. For residential MSRs management uses a third party model to estimate future loan prepayments. This model has been refined based on current market conditions. For commercial MSRs a static internal model is used to estimate future loan prepayments.

Residential Mortgage Servicing Rights

Dollars in millions	**September 30, 2011**	December 31, 2010
Fair value	**$ 684**	$ 1,033
Weighted-average life (in years) (a)	**3.8**	5.8
Weighted-average constant prepayment rate (a)	**21.02%**	12.61%
Spread over forward interest rate swap rates	**11.80%**	12.18%

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

Commercial Mortgage Servicing Rights

Dollars in millions	**September 30, 2011**	December 31, 2010
Fair value	**$ 484**	$ 674
Weighted-average life (in years) (a)	**6.0**	6.3
Prepayment rate range (a)	**13%-27%**	10%-24%
Effective discount rate range	**5%-9%**	7%-9%

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

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

Residential Mortgage Servicing Rights

Dollars in millions	**September 30, 2011**	December 31, 2010
Weighted-average constant prepayment rate:		
Decline in fair value from 10% adverse change	**$ 46**	$ 41
Decline in fair value from 20% adverse change	**$ 87**	$ 86
Spread over forward interest rate swap rates:		
Decline in fair value from 10% adverse change	**$ 27**	$ 43
Decline in fair value from 20% adverse change	**$ 51**	$ 83

Commercial Mortgage Servicing Rights

Dollars in millions	**September 30, 2011**	December 31, 2010
Prepayment rate range:		
Decline in fair value from 10% adverse change	**$ 6**	$ 8
Decline in fair value from 20% adverse change	**$ 12**	$ 16
Effective discount rate range:		
Decline in fair value from 10% adverse change	**$ 9**	$ 13
Decline in fair value from 20% adverse change	**$ 19**	$ 26

Recent Accounting Pronouncements

See Note 1 Accounting Policies in the Notes to the Consolidated Financial Statements of this Report regarding the impact of the adoption of new accounting guidance issued by the Financial Accounting Standards Board.

STATUS OF QUALIFIED DEFINED BENEFIT PENSION PLAN

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are a percentage of eligible compensation. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. Consistent with our investment strategy, plan assets are primarily invested in equity investments and fixed income instruments. Plan fiduciaries determine and review the plan s investment policy, which is described more fully in Note 14 Employee Benefit Plans in our 2010 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. The primary assumptions used to measure

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

The discount rate used to measure pension obligations is determined by comparing the expected future benefits that will be paid under the plan with yields available on high quality corporate bonds of similar duration. In lower interest rate environments, the sensitivity of pension expense to the assumed discount rate increases. The impact on pension expense of a 0.5% decrease in discount rate in the current environment is $19 million per year. In contrast, the sensitivity to the same change in discount rate in a higher interest rate environment is less significant.

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

To evaluate the continued reasonableness of our assumption, we examine a variety of viewpoints and data. Various studies have shown that portfolios comprised primarily of US equity securities have returned approximately 10% annually over long periods of time, while US debt securities have returned approximately 6% annually over long periods. Application of these historical returns to the plan s allocation ranges for equities and bonds produces a result between 7.25% and 8.75% and is one point of reference, among many other factors, that is taken into consideration. We also examine the plan s actual historical returns over various periods. Recent experience is considered in our evaluation with appropriate consideration that, especially for short time periods, recent returns are not reliable indicators of future returns. While annual returns can vary significantly (rates of return for 2010, 2009, and 2008 were +14.87%, +20.61%, and -32.91%, respectively), the selected assumption represents our estimated long-term average prospective returns.

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

As more fully described in our 2010 Form 10-K, the expected long-term return on plan assets for determining net periodic pension cost for 2011 is 7.75%, down from 8.00% in 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 increase or decrease by up to $9 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 2011 estimated expense as a baseline.

Change in Assumption (a)	Estimated Increase to 2011 Pension Expense (In millions)
.5% decrease in discount rate	$ 19
.5% decrease in expected long-term return on assets	$ 19
.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 $3 million in 2011 compared with pretax expense of $46 million in 2010. This year-over-year expected reduction is primarily due to the amortization impact of the favorable 2010 investment returns as compared with the expected long-term return assumption, which has been established by considering the time over which the plan s obligations are expected to be paid.

Our pension plan contribution requirements are not particularly sensitive to actuarial assumptions. Investment performance has the most impact on contribution requirements and will drive the amount of permitted contributions in future years. Also, current law, including the provisions of

the Pension Protection Act of 2006, sets limits as to both minimum and maximum contributions to the plan. We do not expect to be required by law to make any contributions to the plan during 2011.

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

RECOURSE AND REPURCHASE OBLIGATIONS

As discussed in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in our 2010 Form 10-K, PNC has sold commercial mortgage and residential mortgage loans directly or indirectly in securitizations and whole-loan sale transactions with continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets in these transactions.

COMMERCIAL MORTGAGE LOAN RECOURSE OBLIGATIONS

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

Under these programs, we generally assume up to a one-third pari passu risk of loss on unpaid principal balances through a loss share arrangement. At September 30, 2011 and December 31, 2010, the unpaid principal balance outstanding of loans sold as a participant in these programs was $12.9 billion and $13.2 billion, respectively. At September 30, 2011 and December 31, 2010, the potential maximum exposure under the loss share arrangements was $3.9 billion and $4.0 billion, respectively. We maintain a reserve for estimated losses based on our exposure. The reserve for losses under these programs totaled $49 million and $54 million as of September 30, 2011 and December 31, 2010, respectively, and is included in Other liabilities on our Consolidated Balance Sheet. If payment is required under these programs, we would not have a contractual interest in the collateral underlying the mortgage loans on which losses occurred, although the value of the collateral is taken into account in determining our share of such losses. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment.

RESIDENTIAL MORTGAGE LOAN AND HOME EQUITY REPURCHASE OBLIGATIONS

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to situations where PNC is alleged to have breached certain origination covenants and representations and warranties made to purchasers of the loans in the respective purchase and sale agreements. Residential mortgage loans covered by these loan repurchase obligations include first and second-lien mortgage loans we have sold through Agency securitizations, Non-Agency securitizations, and whole-loan sale transactions. As discussed in Note 3 in our 2010 Form 10-K, Agency securitizations consist of mortgage loans sale transactions with FNMA, FHLMC, and the Government National Mortgage Association (GNMA) program, while Non-Agency securitizations and whole-loan sale transactions consist of mortgage loans sale transactions with private investors. Our historical exposure and activity associated with Agency securitization repurchase obligations has primarily been related to transactions with FNMA and FHLMC, as indemnification and repurchase losses associated with Federal Housing Agency (FHA) and Department of Veterans Affairs (VA)-insured and uninsured loans pooled in GNMA securitizations historically have been minimal. Repurchase obligation activity associated with residential mortgages is reported in the Residential Mortgage Banking segment.

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

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

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

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

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The following table details the unpaid principal balance of our unresolved indemnification and repurchase claims at September 30, 2011 and December 31, 2010.

Analysis of Unresolved Asserted Indemnification and Repurchase Claims

In millions	**Sept. 30, 2011**	Dec. 31, 2010
Residential mortgages:		
Agency securitizations	**$ 242**	$ 110
Private investors (a)	**72**	100
Home equity loans/lines:		
Private investors (b)	**98**	299
Total unresolved claims	**$ 412**	$ 509

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

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

The table below details our indemnification and repurchase claim settlement activity during the first nine months and three months of 2011 and 2010.

Analysis of Indemnification and Repurchase Claim Settlement Activity

	2011			2010		
Nine months ended September 30 - In millions	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
Agency securitizations	**$ 171**	**$ 88**	**$ 57**	$ 292	$ 122	$ 125
Private investors (e)	**67**	**36**	**14**	111	48	28
Home equity loans/lines:						
Private investors - Repurchases (f) (g)	**35**	**102**	**2**	13	14	3
Total indemnification and repurchase settlements	**$ 273**	**$ 226**	**$ 73**	$ 416	$ 184	$ 156

	2011			2010		
Three months ended September 30 - In millions	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
Agency securitizations	**$ 61**	**$ 34**	**$ 15**	$ 112	$ 46	$ 57
Private investors (e)	**11**	**6**	**2**	24	4	4
Home equity loans/lines:						
Private investors - Repurchases (f)	**5**	**4**	**1**	6	5	1

Total indemnification and repurchase settlements	**$ 77**	**$ 44**	**$ 18**	$ 142	$ 55	$ 62

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

During 2010 and the first nine months of 2011, unresolved and settled investor indemnification and repurchase claims were primarily related to one of the following alleged breaches in representations and warranties: 1) misrepresentation of income, assets or employment; 2) property evaluation or status issues (e.g., appraisal, title, etc.); 3) underwriting guideline violations; or 4) mortgage insurance

rescissions. During 2010, the frequency and timing of unresolved and settled investor indemnification and repurchase claims increased as a result of higher loan delinquencies which have been impacted by overall weak economic conditions and the prolonged weak residential housing sector. The increased volume of claims was also reflective of an industry trend where Agency investors

implemented certain strategies to aggressively reduce their exposure to losses on purchased loans. These same factors, along with an increase in the average time to resolve investor claims, have contributed to the higher balances of unresolved claims for residential mortgages at September 30, 2011. The extended period of time to resolve these investor claims coupled with higher claim rescission rates drove the decline in residential mortgage indemnification and repurchase settlement activity in 2011. As the level of residential mortgage claims increased over the past couple of years, management focused its efforts on improving its process to review and respond to these claims. The lower balance of unresolved indemnification and repurchase claims for home equity loans/lines at September 30, 2011 was primarily attributed to pooled settlement activity and higher claim rescission rates during 2011. Management also implemented enhancements to its process of reviewing and responding to investor claims for this sold portfolio. The year-over-year increase in home equity indemnification and repurchase settlements was primarily attributed to the timing of when repurchases and pooled settlement activities were executed.

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

Origination and sale of residential mortgages is an ongoing business activity and, accordingly, management continually assesses the need to recognize indemnification and repurchase liabilities pursuant to the associated investor sale agreements. We establish indemnification and repurchase liabilities for estimated losses on sold first and second-lien mortgages and home equity loans/lines for which indemnification is expected to be provided or for loans that are expected to be repurchased. For the first and second-lien mortgage sold portfolio, we have established an indemnification and

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

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

Management s subsequent evaluation of these indemnification and repurchase liabilities is based upon trends in indemnification and repurchase requests, actual loss experience, risks in the underlying serviced loan portfolios, and current economic conditions. As part of its evaluation, management considers estimated loss projections over the life of the subject loan portfolio. At September 30, 2011 and December 31, 2010, the liability for estimated losses on indemnification and repurchase claims for residential mortgages totaled $85 million and $144 million, respectively. The indemnification and repurchase liability for home equity loans/lines was $51 million and $150 million at September 30, 2011 and December 31, 2010, respectively. These liabilities are included in Other liabilities on the Consolidated Balance Sheet. We believe our indemnification and repurchase liabilities appropriately reflect the estimated probable losses on investor indemnification and repurchase claims at September 30, 2011 and December 31, 2010.

The lower residential mortgage indemnification and repurchase liability balance at September 30, 2011 compared to December 31, 2010 reflects lower estimated losses driven primarily by the seasoning of the sold portfolio and higher claim rescission rates as described above. This decrease resulted despite higher levels of investor indemnification and repurchase claim activity. The reduction in the home equity loans/lines indemnification and repurchase liability at September 30, 2011 is reflective of lower anticipated indemnification and repurchase activity for the sold portfolio. This lower estimated activity is primarily attributed to pooled settlement activities, improved investor rescission rates as described above, and the seasoning of the sold home equity portfolio.

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RISK MANAGEMENT

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

The Risk Management section included in Part II, Item 7 of our 2010 Form 10-K describes our risk management philosophy, principles, governance and various aspects of our corporate-level risk management program. Additionally, our 2010 Form 10-K provides an analysis of 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 2010 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.

ASSET QUALITY OVERVIEW

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

- Third quarter 2011 net charge-offs declined significantly to $365 million, down 41% from third quarter 2010 net charge-offs of $614 million. Third quarter 2011 net charge-offs represented the lowest quarterly level of net charge-offs since fourth quarter 2008.
- Reflecting ongoing reductions in credit exposure and improvements in asset quality, the provision for credit losses declined to $261 million for the third quarter 2011 compared to the third quarter of 2010 of $486 million. As a result of both these net charge-offs and provision amounts, the level of ALLL has decreased.
- Aided by a continued, albeit slowly, improving economy, nonperforming loans declined $774 million, or 17%, to $3.7 billion as of September 30, 2011 compared with December 31, 2010. Similarly, nonperforming assets decreased $825 million, or 16%, to $4.3 billion as of September 30, 2011, compared with December 31, 2010.
- Overall loan delinquencies have declined from year-end 2010 levels helped by the slowly improving economy.
- Commercial credit quality trends improved noticeably with levels of criticized commercial loan outstandings declining by approximately $2.9 billion, or 21% compared with December 31, 2010, to $10.8 billion at September 30, 2011. See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in this Report for additional information.

These positive trends were partially offset by our ongoing loan modification efforts to assist homeowners and other borrowers. These efforts continued to increase our overall level of troubled debt restructurings (TDRs). In particular, TDRs included in nonperforming loans increased to 29% of total nonperforming loans. However, as the economy has slowly improved, our loan modification efforts have begun to show signs of slowing and the amount of TDRs returning to performing status has increased.

NONPERFORMING ASSETS AND LOAN DELINQUENCIES

Nonperforming Assets, including OREO and Foreclosed Assets

Nonperforming assets include nonaccrual loans and leases for which ultimate collectability of the full amount of contractual principal and interest is doubtful and include TDRs, OREO and other foreclosed assets. Loans held for sale, government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonaccrual policies is included in Note 1 Accounting Policies in the Notes to Consolidated Financial Statements in this Report. A summary of nonperforming assets is presented in the table below.

Nonperforming assets decreased $825 million from December 31, 2010, to $4.3 billion at September 30, 2011. Nonperforming loans decreased $774 million to $3.7 billion while OREO and foreclosed assets decreased $51 million to $606 million. The ratio of nonperforming assets to total loans and OREO and foreclosed assets was 2.77% at September 30, 2011 and 3.39% at December 31, 2010. The ratio of nonperforming loans to total loans declined to 2.39% at September 30, 2011, compared to 2.97% at December 31, 2010. The decrease in nonperforming loans from December 31, 2010 occurred across all loan classes except for home equity and credit card. Total nonperforming assets have declined $2.1

billion, or 33%, from their peak of $6.4 billion at March 31, 2010.

At September 30, 2011, TDRs included in nonperforming loans increased to $1.1 billion or 29% of total nonperforming loans compared to $784 million or 18% of nonperforming loans as of December 31, 2010. Within consumer nonperforming loans, residential real estate TDRs comprise 46% of total residential real estate nonperforming loans at

September 30, 2011, up from 30% at December 31, 2010. Similarly, home equity TDRs comprise 79% of home equity nonperforming loans at September 30, 2011, up slightly from

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75% at December 31, 2010. The level of TDRs in these portfolios is expected to result in elevated nonperforming loan levels for longer periods because TDRs remain in nonperforming status until a borrower has made at least six consecutive months of payments under the modified terms or ultimate resolution occurs.

At September 30, 2011, our largest nonperforming asset was $30 million in the Accommodation and Food Services Industry and our average nonperforming loan associated with commercial lending was under $1 million. Our ten largest outstanding nonperforming assets are all from the commercial lending portfolio and represent 9% and 5% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of September 30, 2011.

Nonperforming Assets By Type

In millions	**Sept. 30 2011**	Dec. 31 2010
Nonperforming loans		
Commercial		
Retail/wholesale trade	**$ 117**	$ 197
Manufacturing	**149**	250
Service providers	**198**	218
Real estate related (a)	**256**	233
Financial services	**31**	16
Health care	**39**	50
Other industries	**204**	289
Total commercial	**994**	1,253
Commercial real estate		
Real estate projects	**1,115**	1,422
Commercial mortgage	**310**	413
Total commercial real estate	**1,425**	1,835
Equipment lease financing	**30**	77
TOTAL COMMERCIAL LENDING	**2,449**	3,165
Consumer (b)		
Home equity	**484**	448
Residential real estate		
Residential mortgage (c)	**676**	764
Residential construction	**46**	54
Credit card (d)	**7**	
Other consumer	**30**	35
TOTAL CONSUMER LENDING	**1,243**	1,301
Total nonperforming loans (e)	**3,692**	4,466
OREO and foreclosed assets		
Other real estate owned (OREO) (f)	**553**	589
Foreclosed and other assets	**53**	68
OREO and foreclosed assets	**606**	657
Total nonperforming assets	**$ 4,298**	$ 5,123
Amount of commercial nonperforming loans contractually current as to remaining principal and interest	**$ 994**	$ 988
Percentage of total commercial nonperforming loans	**41%**	31%
Amount of TDRs included in nonperforming loans	**$ 1,062**	$ 784
Percentage of total nonperforming loans	**29%**	18%
Nonperforming loans to total loans	**2.39%**	2.97%
Nonperforming assets to total loans, OREO and foreclosed assets	**2.77**	3.39

In millions	**Sept. 30 2011**	Dec. 31 2010
Nonperforming assets to total assets	**1.59**	1.94
Allowance for loan and lease losses to total nonperforming loans (e) (g)	**122**	109

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

(b) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.
(c) Effective in 2011, nonperforming residential mortgage excludes loans of $68 million accounted for under the fair value option as of September 30, 2011. The comparable balance at December 31, 2010 was not material.
(d) Effective in the second quarter 2011, the commercial nonaccrual policy was applied to certain small business credit card balances. This change resulted in loans placed on nonaccrual status when they become 90 days or more past due, rather than being excluded and charged off at 180 days past due.
(e) Nonperforming loans do not include government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.
(f) Other real estate owned excludes $256 million and $178 million at September 30, 2011 and December 31, 2010, respectively, related to serviced loans insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).
(g) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans.

OREO and Foreclosed Assets

In millions	**Sept. 30 2011**	Dec. 31 2010
Other real estate owned (OREO):		
Residential properties	**$ 196**	$ 304
Residential development properties	**200**	166
Commercial properties	**157**	119
Total OREO	**553**	589
Foreclosed and other assets	**53**	68
OREO and foreclosed assets	**$ 606**	$ 657

Total OREO and foreclosed assets decreased $51 million during the first nine months of 2011 from $657 million at December 31, 2010, to $606 million at September 30, 2011, which represents 14% of total nonperforming assets. As of September 30, 2011 and December 31, 2010, 32% and 46%, respectively, of our OREO and foreclosed assets were comprised of single family residential properties. The lower level of OREO and foreclosed assets was driven completely by lower levels of residential properties as new foreclosures have fallen from the very high levels of early 2010 and sales have rebounded from the low point in the fourth quarter 2010. Excluded from OREO at September 30, 2011 and December 31, 2010, respectively, was $256 million and $178 million of residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

Change in Nonperforming Assets

In millions	**2011**	2010
January 1	**$ 5,123**	$ 6,204
New nonperforming assets	**2,771**	4,103
Charge-offs and valuation adjustments	**(999)**	(1,604)
Principal activity, including paydowns and payoffs	**(1,454)**	(939)
Asset sales and transfers to loans held for sale	**(461)**	(1,036)
Returned to performing status	**(682)**	(1,222)
September 30	**$ 4,298**	$ 5,506

The table above presents nonperforming asset activity for the nine months ended September 30, 2011 and 2010. For the nine months ended September 30, 2011, nonperforming assets decreased $825 million from $5.1 billion at December 31, 2010, to $4.3 billion at September 30, 2011, driven primarily by paydowns, payoffs and charge-offs, offset partly by net new nonperforming assets. Approximately 78% of total nonperforming loans are secured by collateral which would be expected to reduce credit losses and require less reserves in the event of default, and 41% of commercial lending nonperforming loans are contractually current as to principal and interest. As a measure of the level of charge-offs already taken, as of September 30, 2011, commercial nonperforming loans are carried at approximately 62% of their unpaid principal balance before consideration of the allowance for loan and lease losses.

Purchased impaired loans are considered performing, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans. The accretable yield represents the excess of the expected cash flows on the loans at the measurement date over the carrying value. 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 is deemed 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 yield for the remaining life of the purchased impaired loans. Total nonperforming loans and assets in the tables above are significantly lower than they would have been due to this accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of nonperforming loans to total loans and a higher ratio of ALLL to nonperforming loans. See Note 6 Purchased Impaired Loans in the Notes To Consolidated Financial Statements in this Report for additional information on these loans.

Loan Delinquencies

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

Total early stage loan delinquencies (accruing loans past due 30 to 89 days) decreased by $266 million from December 31, 2010, to $1.6 billion at September 30, 2011. Commercial early stage delinquencies declined by $233 million from December 31, 2010, while consumer delinquencies fell by $33 million. Improvement in early stage delinquency levels was

experienced across most loan classes, offset by modest increases in government insured, primarily other consumer education loans, and home equity.

Accruing loans past due 90 days or more are referred to as late stage delinquencies. These loans are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral, are in the process of collection and are reasonably expected to result in repayment or restoration to current status, or are managed in homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines. These loans increased 2% from $2.7 billion at December 31, 2010, to $2.8 billion at September 30, 2011, reflecting improvement in commercial and consumer delinquency levels, offset by slightly higher government insured delinquent loans, primarily other consumer education loans, and home equity. The following tables display the delinquency status of our loans at September 30, 2011 and December 31, 2010. Additional information regarding accruing loans past due is included in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in this Report.

Accruing Loans Past Due 30 To 59 Days

	Amount		Percent of Total Outstandings	
Dollars in millions	**Sept. 30 2011**	Dec. 31 2010	**Sept. 30 2011**	Dec. 31 2010
Commercial	**$ 163**	$ 251	**.26%**	.45%
Commercial real estate	**84**	128	**.51**	.71
Equipment lease financing	**9**	37	**.15**	.58
Residential real estate				
Non government insured	**198**	226	**1.35**	1.41
Government insured	**121**	105	**.83**	.66

Home equity	**177**	159	**.53**	.47
Credit card	**39**	46	**1.03**	1.17
Other consumer				
Non government insured	**55**	95	**.30**	.56
Government insured	**161**	165	**.89**	.97
Total	**$ 1,007**	$ 1,212	**.65**	.81

Accruing Loans Past Due 60 To 89 Days

	Amount		Percent of Total Outstandings	
Dollars in millions	**Sept. 30 2011**	Dec. 31 2010	**Sept. 30 2011**	Dec. 31 2010
Commercial	**$ 54**	$ 92	**.09%**	.17%
Commercial real estate	**25**	62	**.15**	.35
Equipment lease financing	**4**	2	**.06**	.03
Residential real estate				
Non government insured	**81**	107	**.55**	.67
Government insured	**110**	118	**.75**	.74
Home equity	**101**	91	**.30**	.27
Credit card	**26**	32	**.69**	.82
Other consumer				
Non government insured	**22**	32	**.12**	.19
Government insured	**121**	69	**.67**	.41
Total	**$ 544**	$ 605	**.35**	.40

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Accruing Loans Past Due 90 Days Or More

	Amount		Percent of Total Outstandings	
Dollars in millions	**Sept. 30 2011**	Dec. 31 2010	**Sept. 30 2011**	Dec. 31 2010
Commercial	**$ 34**	$ 59	**.05%**	.11%
Commercial real estate	**13**	43	**.08**	.24
Equipment lease financing	**2**	1	**.03**	.02
Residential real estate				
Non government insured	**137**	160	**.93**	1.00
Government insured	**1,998**	1,961	**13.63**	12.26
Home equity	**206**	174	**.62**	.51
Credit card	**45**	77	**1.19**	1.96
Other consumer				
Non government insured	**23**	28	**.13**	.16
Government insured	**310**	206	**1.71**	1.22
Total	**$ 2,768**	$ 2,709	**1.79**	1.80

Our Special Asset Committee closely monitors loans that are not included in the nonperforming or accruing past due categories and for which we are uncertain about the borrower s ability to comply with existing repayment terms over the next six months. These loans totaled $421 million at September 30, 2011 and $574 million at December 31, 2010.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $33.2 billion as of September 30, 2011, or 21% of the total loan portfolio. Of that total, $22.7 billion, or 68%, was outstanding under primarily variable-rate home equity lines of credit and $10.5 billion, or 32%, consisted of closed-end home equity installment loans. Less than 2% of the portfolio was on nonperforming status as of September 30, 2011.

As of September 30, 2011, we are in an originated first lien position for approximately 32% of the total portfolio and, where originated as a second lien, we currently hold the first lien position for approximately an additional 1% of the portfolio. The remaining 67% of the portfolio was secured by second liens where we do not hold the first lien position. Historically, we have originated and sold first mortgages which has resulted in a low percentage of home equity loans where we hold the first lien position.

We track borrower performance and other credit metrics monthly for the home equity portfolio, including historical performance of the first lien loan, FICO scores and loan-to-value ratios. This information is used for credit analysis and segmentation of the portfolio by risk, including the portion of the portfolio in a second lien position, for inclusion in allowance roll rate models. This process is consistent with prior periods allowance process and methodology. For the majority of the home equity portfolio where we are in or hold the first lien position, the credit performance of this portion of the portfolio is superior to the portion of the portfolio where we hold the second lien position but do not hold the first lien.

For the portion of the home equity portfolio in a second lien position, our ability to validate lien positions, and therefore determine whether the first lien position is in default, is based upon available external information, which we continue to obtain and analyze for accuracy and reliability. In certain circumstances, we may be unable to determine whether the same collateral applies to both the first and second liens.

Generally, our variable-rate home equity lines of credit have either a seven or ten year draw period, followed by a 20 year amortization term. Based upon outstanding balances at September 30, 2011, approximately $.2 billion, $.9 billion, $1.1 billion, $1.3 billion, and $7.0 billion will convert to amortizing during the remainder of 2011, and the years 2012, 2013, 2014, and beyond, respectively.

Based upon outstanding amortizing home equity lines of credit balances, including purchased impaired loans, at September 30, 2011, approximately 4.93% were 1-89 days past due and approximately 5.43% were greater than or equal to 90 days past due. When a borrower becomes 60 days past due, we terminate borrowing privileges and the outstanding balance becomes an amortizing loan. Accordingly, the majority of non-amortizing home equity lines of credit are current. Additionally, for those non-amortizing home equity lines of credit approximately 24% of our borrowers are paying interest only per the loan s contractual terms.

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

Loan Modifications and Troubled Debt Restructurings

Consumer Loan Modifications

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

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

For consumer loan programs, such as, residential mortgages and home equity loans and lines, we will enter into a temporary modification when the borrower has indicated a temporary hardship and a willingness to bring current the delinquent loan balance. Examples of this situation often include delinquency due to illness or death in the family, or a loss of employment. Permanent modifications are entered into when it is confirmed that the borrower does not possess the income necessary to continue making loan payments at the current amount, but our expectation is that payments at lower amounts can be made. Residential mortgage and home equity loans and lines have been modified with changes in terms for up to 60 months, although the majority involve periods of three to 24 months.

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

Bank-Owned Consumer Real Estate Related Loan Modifications

	September 30, 2011		December 31, 2010	
Dollars in millions	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Residential Mortgages				
Permanent Modifications	**7,015**	**$ 1,291**	5,517	$ 1,137
Non-Prime Mortgages				
Permanent Modifications	**4,334**	**596**	3,405	441
Residential Construction				
Permanent Modifications	**1,152**	**521**	470	235
Home Equity				
Temporary Modifications	**13,707**	**1,252**	12,643	1,151
Permanent Modifications	**1,169**	**73**	163	17
Total Home Equity	**14,876**	**1,325**	12,806	1,168
Total Bank-Owned Consumer Real Estate Related Loan Modifications	**27,377**	**$ 3,733**	22,198	$ 2,981

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

September 30, 2011	Six Months		Nine Months		12 Months		
Dollars in millions, except as noted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Unpaid Principal Balance (b)
Permanent Modifications							
Residential Mortgages							
First Quarter 2011	**359**	**21.8%**					**$ 59.0**
Fourth Quarter 2010	**351**	**18.9**	**551**	**29.7%**			**95.8**
Third Quarter 2010	**502**	**25.3**	**612**	**30.8**	**721**	**36.3%**	**121.4**
Second Quarter 2010	**323**	**22.2**	**412**	**28.3**	**479**	**32.9**	**76.0**
First Quarter 2010	**268**	**20.9**	**413**	**32.2**	**468**	**36.5**	**64.2**
Fourth Quarter 2009	**203**	**24.4**	**270**	**32.5**	**346**	**41.6**	**46.4**
Non-Prime Mortgages							
First Quarter 2011	**79**	**18.6**					**10.7**
Fourth Quarter 2010	**13**	**13.5**	**24**	**25.0**			**3.4**
Third Quarter 2010	**95**	**18.3**	**114**	**22.0**	**144**	**27.8**	**19.4**
Second Quarter 2010	**102**	**23.6**	**111**	**25.7**	**127**	**29.4**	**17.6**
First Quarter 2010	**64**	**19.6**	**77**	**23.5**	**89**	**27.2**	**8.7**
Fourth Quarter 2009	**115**	**18.4**	**188**	**30.1**	**216**	**34.6**	**14.5**
Residential Construction (c)							
First Quarter 2011	**7**	**4.2**					**3.6**
Fourth Quarter 2010	**9**	**4.0**	**15**	**6.7**			**4.6**
Third Quarter 2010	**19**	**6.9**	**22**	**7.9**	**24**	**8.7**	**2.7**
Second Quarter 2010	**31**	**11.9**	**32**	**12.3**	**34**	**13.1**	**7.9**
First Quarter 2010	**5**	**13.5**	**6**	**16.2**	**5**	**13.5**	**3.0**
Home Equity (d)							
First Quarter 2011	**1**	**2.8**					
Fourth Quarter 2010	**4**	**14.3**	**6**	**21.4**			
Third Quarter 2010	**1**	**9.1**	**2**	**18.2**	**1**	**9.1**	
Second Quarter 2010	**2**	**12.5**	**4**	**25.0**	**4**	**25.0**	
First Quarter 2010	**1**	**2.6**	**5**	**12.8**	**7**	**17.9**	
Fourth Quarter 2009			**1**	**8.3**	**3**	**25.0**	
Temporary Modifications							
Home Equity							
First Quarter 2011	**99**	**6.6%**					**$ 9.1**
Fourth Quarter 2010	**131**	**6.4**	**267**	**13.0%**			**23.5**
Third Quarter 2010	**142**	**6.8**	**249**	**11.9**	**375**	**17.9%**	**33.5**
Second Quarter 2010	**165**	**7.8**	**260**	**12.3**	**348**	**16.5**	**29.1**
First Quarter 2010	**241**	**8.8**	**403**	**14.7**	**511**	**18.6**	**42.9**
Fourth Quarter 2009	**227**	**10.4**	**370**	**17.0**	**491**	**22.6**	**47.2**

(a) Vintage refers to the quarter in which the modification occurred.

(b) Reflects September 30, 2011 principal balances for the First Quarter 2011 Vintage at Six Months, for the Fourth Quarter 2010 Vintage at Nine Months, and for the Third Quarter 2010 and prior Vintages at 12 Months.

(c) Amounts for fourth quarter 2009 are zero.

(d) The unpaid principal balance for permanent home equity modifications totals less than $1 million for each vintage.

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

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

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under

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PNC-developed programs, which in some cases may operate similarly to HAMP. These programs first require a reduction of the interest rate followed by an extension of term and, if appropriate, deferral of principal payments. As of September 30, 2011 and December 31, 2010, 2,546 accounts with a balance of $456 million and 1,027 accounts with a balance of $262 million, respectively, of residential real estate loans have been modified under HAMP and were still outstanding on our balance sheet.

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

Commercial Loan Modifications and Payment Plans

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

Beginning in 2010, we established certain commercial loan modification and payment programs for small business loans, Small Business Administration loans, and investment real estate loans. As of September 30, 2011 and December 31, 2010, $93 million and $88 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $22 million have been determined to be TDRs as of September 30, 2011. No balances were considered TDRs at December 31, 2010. As noted below, we adopted new TDR guidance, effective retroactively to January 1, 2011.

Troubled Debt Restructurings

In the third quarter of 2011, we adopted new accounting guidance pertaining to TDRs, which was effective retroactive to January 1, 2011. For additional information, see Note 1 Accounting Policies and Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes to Consolidated Financial Statements in this Report. A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs typically result from our loss mitigation activities and include interest rate reductions, term extensions, and deferral or forgiveness of principal intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Consumer government insured or guaranteed loans, held for sale loans, loans accounted for under the fair value option and pooled purchased impaired loans are not classified as TDRs and totaled $1.4 billion at September 30, 2011.

Summary of Troubled Debt Restructurings

In millions	**Sept. 30 2011**	Dec. 31 2010
Consumer lending:		
Real estate-related	**$ 1,434**	$ 1,087
Credit card (a)	**305**	331
Other consumer	**12**	4
Total consumer lending	**1,751**	1,422
Total commercial lending	**396**	236
Total TDRs	**$ 2,147**	$ 1,658
Nonperforming	**$ 1,062**	$ 784
Accruing (b)	**780**	543
Credit card (a)	**305**	331
Total TDRs	**$ 2,147**	$ 1,658

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

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

Total TDRs increased $489 million or 29% during the nine months of 2011 to $2.1 billion as of September 30, 2011. Of this total, nonperforming TDRs totaled $1.1 billion, which represents approximately 29% of total nonperforming loans. However, as the economy has continued to slowly improve, our consumer real estate related loan modification efforts have begun to show signs of slowing and the amount of TDRs returning to performing status has been increasing as noted below.

TDRs that have returned to performing (accruing) status are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of consecutive performance under the restructured terms. These TDRs increased $237 million or 30% during the first nine months of 2011 to $780 million as of September 30, 2011. This increase reflects the further seasoning and performance of the TDRs. See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes to Consolidated Financial Statements in this Report for additional information.

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

We recorded $1.3 billion in net charge-offs for the first nine months of 2011, compared to $2.1 billion in the nine months of 2010. Commercial net charge-offs fell from $1.2 billion in the first nine months of 2010 to $601 million in the first nine months of 2011. Consumer net charge-offs declined from $987 million in the first nine months of 2010 to $711 million in the first nine months of 2011.

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Loan Charge-Offs And Recoveries

Nine months ended September 30 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2011				
Commercial	**$ 557**	**$ 256**	**$ 301**	**.69 %**
Commercial real estate	**374**	**65**	**309**	**2.45**
Equipment lease financing	**28**	**37**	**(9)**	**(.19)**
Residential real estate	**121**	**10**	**111**	**0.98**
Home equity	**375**	**37**	**338**	**1.35**
Credit card	**185**	**18**	**167**	**5.96**
Other consumer	**142**	**47**	**95**	**.74**
Total	**$ 1,782**	**$ 470**	**$ 1,312**	**1.16**
2010				
Commercial	$ 896	$ 223	$ 673	1.65 %
Commercial real estate	489	57	432	2.74
Equipment lease financing	91	38	53	1.14
Residential real estate	282	20	262	1.92
Home equity	364	32	332	1.26
Credit card	262	15	247	8.26
Other consumer	184	38	146	1.22
Total	$ 2,568	$ 423	$ 2,145	1.85

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

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

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

Allocations to commercial loan classes (pool reserve methodology) are assigned to pools of loans as defined by our business structure and are based on internal probability of default and loss given default credit risk ratings. Key elements of the pool reserve methodology include:

- Probability of Default (PD), which is primarily based on historical default analyses and is derived from the borrower s internal PD credit risk rating;
- Exposure at Default (EAD), which is derived from historical default data; and
- Loss Given Default (LGD), which is based on historical loss data, collateral value and other structural factors that may affect our ultimate ability to collect on the loan and is derived from the loan s internal LGD credit risk rating.

As more fully described in Part II, Item 7 of our 2010 Form 10-K, our pool reserve methodology is sensitive to changes in key risk parameters such as PDs, LGDs and EADs. In general, a given change in any of the major risk parameters will have a corresponding change in the pool reserve allocations for non-impaired commercial loans. Our commercial loans are the largest category of credits and are most sensitive to

changes in the key risk parameters and pool reserve loss rates. Additionally, other factors such as the rate of migration in the severity of problem loans will contribute to the final pool reserve allocations.

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

Allocations to consumer loan classes are based upon a roll-rate model which uses statistical relationships, calculated from historical data that estimate the movement of loan outstandings through the various stages of delinquency and ultimately charge-off. In general, the estimated rates at which loan outstandings roll from one stage of delinquency to another are influenced by various factors such as FICO credit scores, loan-to-value ratios, the current economic environment, and geography.

The ALLL 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 ALLL to total loans. Loan loss reserves on the purchased impaired loans were not carried over on the date of acquisition. As of September 30, 2011, we have established reserves of $986 million for purchased impaired loans.

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

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

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

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

Allowance for Loan and Lease Losses

Dollars in millions	**2011**	2010
January 1	**$ 4,887**	$ 5,072
Total net charge-offs	**(1,312)**	(2,145)
Provision for credit losses	**962**	2,060
Adoption of ASU 2009-17, *Consolidations*		141
Other	**(1)**	
Net change in allowance for unfunded loan commitments and letters of credit	**(29)**	103
September 30	**$ 4,507**	$ 5,231
Net charge-offs to average loans (for the nine months ended) (annualized)	**1.16%**	1.85%
Allowance for loan and lease losses to total loans	**2.92**	3.48
Commercial lending net charge-offs	**$ (601)**	$ (1,158)
Consumer lending net charge-offs	**(711)**	(987)
Total net charge-offs	**$ (1,312)**	$ (2,145)
Net charge-offs to average loans (for the nine months ended) (annualized)		
Commercial lending	**0.99%**	1.89%
Consumer lending	**1.37**	1.80

Net charge-offs to average loans

As further described in the Consolidated Income Statement section of this Report, the provision for credit losses totaled $962 million for the first nine months of 2011 compared to $2.1 billion for the first nine months of 2010. For the first nine months of 2011, the provision for commercial credit losses

declined by $392 million or 59% from the first nine months of 2010. Similarly, the provision for consumer credit losses decreased $706 million or 50% from the first nine months of 2010. As a result of both these net charge-offs and provision amounts, the level of ALLL has decreased.

The portion of the ALLL allocated to commercial nonperforming loans was 26% at September 30, 2011, and 28% at December 31, 2010. The allowance allocated to purchased impaired loans and consumer loans and lines of credit not secured by residential real estate, which are both excluded from nonperforming loans, was $1.4 billion at both September 30, 2011, and December 31, 2010. Excluding these balances, the allowance as a percent of nonperforming loans was 85% and 77% as of September 30, 2011 and December 31, 2010, respectively.

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

Credit Default Swaps

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

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

We 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.

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

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contingent liquidity is not available in a stressed environment. We manage liquidity risk at the consolidated company level (bank, parent company, and nonbank subsidiaries combined) to help ensure that we can obtain cost-effective funding to meet current and future obligations under both normal business as usual and stressful circumstances and to help ensure that we maintain an appropriate level of contingent liquidity.

Spot and forward funding gap analyses are used to measure and monitor consolidated liquidity risk. Funding gaps represent the difference in projected sources of liquidity available to offset projected uses. We calculate funding gaps for the overnight, thirty-day, ninety-day, one hundred eighty-day and one-year time intervals. Management also monitors liquidity through a series of early warning indicators that may indicate a potential market, or PNC-specific, liquidity stress event. Finally, management performs a set of liquidity stress tests and maintains a contingency funding plan to address a potential liquidity crisis. In the most severe liquidity stress simulation, we assume that PNC s liquidity position is under pressure, while the market in general is under systemic pressure. The simulation considers, among other things, the impact of restricted access to both secured and unsecured external sources of funding, accelerated run-off of customer deposits, valuation pressure on assets, and heavy demand to fund contingent obligations. Risk limits are established within our Liquidity Risk Policy. Management s Asset and Liability Committee regularly reviews compliance with the established limits.

Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet our parent company obligations over the succeeding 24-month period. Risk limits for parent company liquidity are established within our Enterprise Capital and Liquidity Management Policy. The Board of Directors Risk Committee regularly reviews compliance with the established limits.

Bank Level Liquidity Uses

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

As of September 30, 2011, there were approximately $5.3 billion of bank borrowings with maturities of less than one year.

Bank Level Liquidity Sources

Our largest source of bank liquidity on a consolidated basis is the deposit base that comes from our retail and commercial businesses. Liquid assets and unused borrowing capacity from

a number of sources are also available to maintain our liquidity position. Borrowed funds come from a diverse mix of short and long-term funding sources.

At September 30, 2011, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning deposits with banks) totaling $7.5 billion and securities available for sale totaling $49.7 billion. Of our total liquid assets of $57.2 billion, we had $22.6 billion pledged as collateral for borrowings, trust, and other commitments. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and active balance sheet management.

In addition to the customer deposit base, which has historically provided the single largest source of relatively stable and low-cost funding and liquid assets, the bank also obtains liquidity through the issuance of traditional forms of funding including long-term debt (senior notes and subordinated debt and FHLB advances) and short-term borrowings (Federal funds purchased, securities sold under repurchase agreements, commercial paper issuances, and other short-term borrowings).

PNC Bank, N.A. has the ability to offer up to $20 billion in senior and subordinated unsecured debt obligations with maturities of more than nine months. Through September 30, 2011, PNC Bank, N.A. had issued $6.9 billion of debt under this program. Total senior and subordinated debt declined to $5.0 billion at September 30, 2011 from $5.5 billion at December 31, 2010 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, 2011, our unused secured borrowing capacity was $13.1 billion with FHLB-Pittsburgh. Total FHLB borrowings declined to $5.0 billion at September 30, 2011 from $6.0 billion at December 31, 2010 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, 2011, there were no issuances outstanding under this program. Other borrowed funds on our Consolidated Balance Sheet includes $3.3 billion of commercial paper issued by Market Street Funding LLC, a consolidated VIE.

PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland s (Federal Reserve Bank) discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by securities and commercial loans. At September 30, 2011, our unused secured borrowing capacity was $27.6 billion with the Federal Reserve Bank.

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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.

See 2011 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our upcoming November 2011 redemption of trust preferred securities, our September 2011 issuance of senior notes, our July 2011 issuance of preferred stock, our April 2011 increase to PNC s quarterly common stock dividend, and our plans regarding purchase of shares under PNC s existing common stock repurchase program.

As of September 30, 2011, there were approximately $4.0 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 by PNC Bank, N.A. to the parent company without prior regulatory approval was approximately $2.0 billion at September 30, 2011. There are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. See Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Part II, Item 8 of our 2010 Form 10-K for a further discussion of these limitations. Dividends may also be impacted by the bank s capital needs and by contractual restrictions. We provide additional information on certain contractual restrictions under the Trust Preferred Securities section of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review and in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Part II, Item 8 of our 2010 Form 10-K.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and short-term investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of September 30, 2011, the parent company

had approximately $7.9 billion in funds available from its cash and short-term investments.

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

We have effective shelf registration statements pursuant to which we can issue additional debt and equity securities, including certain hybrid capital instruments. Total senior and subordinated debt and hybrid capital instruments declined to $16.6 billion at September 30, 2011 from $17.3 billion at December 31, 2010 due to maturities.

During 2011 we issued the following securities under our shelf registration statement:

- $1.25 billion of senior notes issued September 19, 2011 and due September 2016. Interest is paid semi-annually at a fixed rate of 2.70%,
- One million depository shares, each representing a $1/100^{th}$ interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series O, issued July 27, 2011, resulting in gross proceeds to us before commissions and expenses of $1 billion.

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, 2011, there were no issuances outstanding under this program.

Note 18 Equity in Part II, Item 8 of our 2010 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 issuance of a related common stock warrant to the US Treasury under the TARP Capital Purchase Program. In addition, Note 18 in our 2010 Form 10-K describes our February 2010 redemption of the Series N Preferred Stock, the acceleration of the accretion of the remaining issuance discount on the Series N Preferred Stock in the first quarter of 2010 (and a corresponding reduction in retained earnings of $250 million in the first quarter of 2010), and the exchange by the US Treasury of the TARP warrant into warrants sold by the US Treasury in a secondary public offering. These common stock warrants will expire December 31, 2018.

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

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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 September 30, 2011 for PNC and PNC Bank, N.A. follow:

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

Commitments

The following tables set forth contractual obligations and various other commitments as of September 30, 2011 representing required and potential cash outflows.

Contractual Obligations

		Payment Due By Period			
September 30, 2011 in millions	Total	Less than one year	One to three years	Four to five years	After five years
Remaining contractual maturities of time deposits (a)	**$ 36,329**	**$ 29,847**	**$ 4,338**	**$ 1,197**	**$ 947**
Borrowed funds (a) (b)	**35,102**	**13,811**	**5,105**	**5,116**	**11,070**
Minimum annual rentals on noncancellable leases	**2,498**	**334**	**585**	**425**	**1,154**
Nonqualified pension and postretirement benefits	**572**	**69**	**123**	**117**	**263**
Purchase obligations (c)	**629**	**300**	**240**	**82**	**7**
Total contractual cash obligations	**$ 75,130**	**$ 44,361**	**$ 10,391**	**$ 6,937**	**$ 13,441**

(a) Includes purchase accounting adjustments.
(b) Includes basis adjustment relating to accounting hedges.
(c) Includes purchase obligations for goods and services covered by noncancellable contracts and contracts including cancellation fees.

At September 30, 2011, the liability for uncertain tax positions, excluding associated interest and penalties, was $218 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 $84.6 billion at December 31, 2010. The decline in the comparison is primarily attributable to decreases in the remaining contractual maturities of time deposits and maturities on borrowed funds.

Other Commitments (a)

September 30, 2011 in millions	Total Amounts Committed	Amount Of Commitment Expiration By Period Less than one year	One to three years	Four to five years	After five years
Net unfunded credit commitments	**$ 103,236**	**$ 52,949**	**$ 31,655**	**$ 18,079**	**$ 553**
Standby letters of credit (b)	**10,883**	**4,444**	**5,263**	**1,047**	**129**
Reinsurance agreements (c)	**6,601**	**3,022**	**108**	**54**	**3,417**
Other commitments (d)	**692**	**398**	**232**	**58**	**4**
Total commitments	**$ 121,412**	**$ 60,813**	**$ 37,258**	**$ 19,238**	**$ 4,103**

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of syndications, assignments and participations.

(b) Includes $7.6 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.

(c) Reinsurance agreements are with third-party insurers related to insurance sold to our customers.

(d) Includes unfunded commitments related to private equity investments of $270 million and other investments of $4 million that are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $387 million and other direct equity investments of $31 million that are included in Other liabilities on our Consolidated Balance Sheet.

MARKET RISK MANAGEMENT OVERVIEW

Market risk is the risk of a loss in earnings or economic value due to adverse movements in market factors such as interest rates, credit spreads, foreign exchange rates, and equity prices. We are exposed to market risk primarily by our involvement in the following activities, among others:

- Traditional banking activities of taking deposits and extending loans,
- Equity and other investments and activities whose economic values are directly impacted by market factors, and
- Trading in fixed income products, equities, derivatives, and foreign exchange, as a result of customer activities and underwriting.

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

MARKET RISK MANAGEMENT INTEREST RATE RISK

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

Asset and Liability Management centrally manages interest rate risk within limits and guidelines set forth in our risk management policies approved by management s Asset and Liability Committee and the Risk Committee of the Board.

Sensitivity results and market interest rate benchmarks for the third quarters of 2011 and 2010 follow:

Interest Sensitivity Analysis

	Third Quarter 2011	Third Quarter 2010
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	**1.8%**	1.5%
100 basis point decrease (a)	**(1.2)%**	(1.8)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**6.5%**	4.6%
100 basis point decrease (a)	**(3.7)%**	(5.9)%
Duration of Equity Model (a)		
Base case duration of equity (in years):	**(5.4)**	(3.0)
Key Period-End Interest Rates		
One-month LIBOR	**.24%**	.26%
Three-year swap	**.74%**	.87%

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

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. The following Net Interest Income Sensitivity to Alternative Rate Scenarios table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist s most

likely rate forecast, (ii) implied market forward rates, and (iii) a Two-Ten Slope decrease (a 200 basis point decrease between two-year and ten-year rates superimposed on current base rates) scenario.

Net Interest Income Sensitivity to Alternative Rate Scenarios (Third Quarter 2011)

	PNC Economist	Market Forward	Two-Ten Slope
First year sensitivity	**.9%**	**.4%**	**(.1)%**
Second year sensitivity	**3.2%**	**2.9%**	**.2%**

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

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

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

The third quarter 2011 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates and an upward sloping interest rate yield curve. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

Market Risk Management Trading Risk

Our trading activities are primarily customer-driven trading in fixed income securities, derivatives, and foreign exchange contracts. They also include the underwriting of fixed income and equity securities.

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in trading activities. We calculate VaR at both a 99% non diversified and 95% diversified confidence interval. The 99% VaR is used for computing our regulatory market risk capital charge while 95% VaR is used for internal management reporting. PNC began measuring enterprise wide VaR internally on a diversified basis at a 95% confidence interval in the second quarter of 2011. We believe a diversified VaR is a better representation of risk as it reflects empirical correlations across different asset classes. Additionally, moving to a 95% confidence level provides a more stable measure of the VaR for day-to-day risk management. During the first nine months of 2011, our 95% VaR ranged between $.4 million and $3.5 million, averaging $.8 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. Over a typical business cycle, we would expect an average of twelve to thirteen instances a year in which actual losses exceeded the prior day VaR measure at the enterprise-wide level at a 95% confidence interval. There were no such instances during the three months from July 1, 2011 to September 30, 2011 and during the nine months from January 1, 2011 to September 30, 2011 under our diversified VaR measure. We use a 500 day look back period for backtesting and include customer related revenue. Including customer revenue helps to reduce trading losses and therefore, there were no instances of actual losses exceeding the prior day VaR measure.

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

Total trading revenue was as follows:

Trading Revenue

Nine months ended September 30

In millions	**2011**	2010
Net interest income	**$ 33**	$ 43
Noninterest income	**159**	99
Total trading revenue	**$ 192**	$ 142
Securities underwriting and trading (a)	**$ 58**	$ 70
Foreign exchange	**69**	59
Financial derivatives and other	**65**	13
Total trading revenue (b)	**$ 192**	$ 142

Three months ended September 30

In millions	**2011**	2010
Net interest income	**$ 11**	$ 11
Noninterest income	**51**	21
Total trading revenue	**$ 62**	$ 32
Securities underwriting and trading (a)	**$ 13**	$ 17
Foreign exchange	**33**	14
Financial derivatives and other	**16**	1
Total trading revenue (b)	**$ 62**	$ 32

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

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

Trading revenue for the first nine months of 2011 increased $50 million compared with the first nine months of 2010 primarily due to the reduced impact of counterparty credit risk on valuations of customer derivative positions and improved customer derivative sales results. These increases were partially offset by lower underwriting activity.

Trading revenue for the third quarter increased $30 million compared with the third quarter of 2010 due to the reduced impact of counterparty credit risk on valuations of customer derivative positions, improved customer derivative sales and foreign exchange results.

Market Risk Management Equity And Other Investment Risk

Equity investment risk is the risk of potential losses associated with investing in both private and public equity markets. PNC invests primarily in private equity markets. In addition to extending credit, taking deposits, and underwriting and trading financial instruments, we make and manage direct investments in a variety of transactions, including management buyouts, recapitalizations, and growth financings in a variety of industries. We also have investments in affiliated and non-affiliated funds that make similar investments in private equity and in debt and equity-oriented hedge funds. The economic and/or book value of these investments and other assets such as loan servicing rights are directly affected by changes in market factors.

The primary risk measurement for equity and other investments is economic capital. Economic capital is a common measure of risk for credit, market and operational risk. It is an estimate of the worst-case value depreciation over a one year horizon to a level commensurate with a financial institution with an A rating by the credit rating agencies. Given the illiquid nature of many of these types of investments, it can be a challenge to determine their fair values. Market Risk Management and Finance provide independent oversight of the valuation process.

Various PNC business units manage our equity and other investment activities. Our businesses are responsible for making investment decisions within the approved policy limits and associated guidelines.

A summary of our equity investments follows:

In millions	**Sept. 30 2011**	Dec. 31 2010
BlackRock	**$ 5,256**	$ 5,017
Tax credit investments	**2,420**	2,054
Private equity	**1,507**	1,375
Visa	**456**	456
Other	**276**	318
Total	**$ 9,915**	$ 9,220

BlackRock

PNC owned approximately 36 million common stock equivalent shares of BlackRock equity at September 30, 2011, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

Tax Credit Investments

Included in our equity investments are tax credit investments which are accounted for under the equity method. These investments, as well as equity investments held by consolidated partnerships, totaled $2.4 billion at September 30, 2011 and $2.1 billion at December 31, 2010.

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 $1.5 billion at September 30, 2011 and $1.4 billion at December 31, 2010. As of September 30, 2011, $861 million was invested directly in a variety of companies and $646 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 $251 million as of September 30, 2011. The indirect

private equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee.

Our unfunded commitments related to private equity totaled $270 million at September 30, 2011 compared with $319 million at December 31, 2010.

Visa

At September 30, 2011, our investment in Visa Class B common shares totaled approximately 23 million shares. In March 2011, Visa funded $400 million to their litigation escrow account and reduced the conversion ratio of Visa B to A shares. We consequently recognized our estimated $38 million share of the $400 million as a reduction of our previously established indemnification liability and a reduction of noninterest expense. Our indemnification liability included on our Consolidated Balance Sheet at September 30, 2011 totaled $32 million. Our ultimate exposure to the specified Visa litigation may be different than this amount.

As of September 30, 2011, 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, 2011 closing price of $85.72 for the Visa Class A shares, the market value of our total investment was $975 million at the current conversion ratio. The Visa Class B common shares we own generally will not be transferable, except under limited circumstances, until they can be converted into shares of the publicly traded class of stock, which cannot happen until the settlement of all of the specified litigation. It is expected that Visa will continue to adjust the conversion ratio of Visa Class B to Class A shares in connection with any settlements in excess of any amounts then in escrow for that purpose and will also reduce the conversion ratio to the extent that it adds any funds to the escrow in the future.

Note 17 Commitments and Guarantees in our Notes To Consolidated Financial Statements of this Report has further information on our Visa indemnification obligation.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At September 30, 2011, other investments totaled $276 million compared with $318 million at December 31, 2010. We recognized net gains related to these investments of $8 million during the first nine months of 2011, including net losses of $5 million during the third quarter. 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.

Given the nature of these investments, if market conditions affecting their valuation were to worsen, we could incur future losses.

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Our unfunded commitments related to other investments totaled $4 million at September 30, 2011 and $11 million at December 31, 2010.

Financial Derivatives

We use a variety of financial derivatives as part of the overall asset and liability risk management process to help manage interest rate, market and credit risk inherent in our business activities. Substantially all such instruments are used to manage risk related to changes in interest rates. Interest rate and total return swaps, interest rate caps and floors, swaptions, options, forwards and futures contracts are the primary instruments we use for interest rate risk management. We also enter into derivatives with customers to facilitate their risk management activities.

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. For interest rate swaps and total return

swaps, options and futures contracts, only periodic cash payments and, with respect to options, premiums are exchanged. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments.

Further information on our financial derivatives is presented in Note 1 Accounting Policies in our Notes To Consolidated Financial Statements under Part II, Item 8 of our 2010 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.

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The following table provides the notional or contractual amounts and estimated net fair value of financial derivatives at September 30, 2011 and December 31, 2010.

Financial Derivatives

In millions	September 30, 2011 Notional/ Contractual Amount	September 30, 2011 Estimated Net Fair Value	December 31, 2010 Notional/ Contractual Amount	December 31, 2010 Estimated Net Fair Value
Derivatives designated as hedging instruments under GAAP				
Interest rate contracts (a)				
Asset rate conversion				
Receive fixed swaps	**$ 12,676**	**$ 598**	$ 14,452	$ 332
Pay fixed swaps (c) (d)	**2,001**	**(121)**	1,669	12
Liability rate conversion				
Receive fixed swaps	**10,476**	**1,316**	9,803	834
Forward purchase commitments	**3,187**	**39**	2,350	(8)
Total interest rate risk management	**28,340**	**1,832**	28,274	1,170
Total derivatives designated as hedging instruments (b)	**$ 28,340**	**$ 1,832**	$ 28,274	$ 1,170
Derivatives not designated as hedging instruments under GAAP				
Derivatives used for residential mortgage banking activities:				
Interest rate contracts				
Swaps	**$ 98,122**	**$ 477**	$ 83,421	$ 63
Futures	**61,719**		51,699	
Future options	**14,300**	**2**	31,250	21
Bond options	**750**	**1**		
Swaptions	**11,476**	**30**	11,040	28
Commitments related to residential mortgage assets	**18,189**	**61**	16,652	47
Total residential mortgage banking activities	**$ 204,556**	**$ 571**	$ 194,062	$ 159
Derivatives used for commercial mortgage banking activities:				
Interest rate contracts				
Swaps	**$ 970**	**$ (37)**	$ 1,744	$ (41)
Swaptions	**400**	**3**		
Commitments related to commercial mortgage assets	**1,211**	**13**	1,228	5
Credit contracts				
Credit default swaps	**95**	**6**	210	8
Total commercial mortgage banking activities	**$ 2,676**	**$ (15)**	$ 3,182	$ (28)
Derivatives used for customer-related activities:				
Interest rate contracts				
Swaps (d)	**$ 104,467**	**$ (200)**	$ 92,248	$ (104)
Caps/floors				
Sold	**5,766**	**(7)**	3,207	(15)
Purchased	**5,330**	**20**	2,528	14
Swaptions	**2,081**	**96**	2,165	13
Futures	**3,556**		2,793	
Commitments related to residential mortgage assets	**841**		738	
Foreign exchange contracts	**11,455**	**81**	7,913	(6)
Equity contracts	**343**	**(2)**	334	(3)
Credit contracts				
Risk participation agreements	**3,079**	**2**	2,738	3
Total customer-related	**$ 136,918**	**$ (10)**	$ 114,664	$ (98)
Derivatives used for other risk management activities:				
Interest rate contracts				
Swaps (d)	**$ 1,729**	**$ (30)**	$ 3,021	$ 6
Swaptions			100	4
Futures	**390**		298	
Commitments related to residential mortgage assets	**1,364**		1,100	1
Foreign exchange contracts	**27**	**(2)**	32	(4)
Credit contracts				
Credit default swaps	**398**	**7**	551	8
Other contracts (e)	**111**	**(174)**	209	(396)
Total other risk management	**$ 4,019**	**$ (199)**	$ 5,311	$ (381)

Total derivatives not designated as hedging instruments	**$ 348,169**	**$ 347**	$ 317,219	$ (348)
Total Gross Derivatives	**$ 376,509**	**$ 2,179**	$ 345,493	$ 822

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 55% were based on 1-month LIBOR and 45% on 3-month LIBOR at September 30, 2011 compared with 58% and 42%, respectively, at December 31, 2010.

(b) Fair value amount includes net accrued interest receivable of $127 million at September 30, 2011 and $132 million at December 31, 2010.

(c) Includes zero-coupon swaps.

(d) The increases in the negative fair values from December 31, 2010 to September 30, 2011 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 the first nine months of 2011 and contracts terminated during that period.

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

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INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of September 30, 2011, 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, 2011, and that there has been no change in PNC s internal control over financial reporting that occurred during the third quarter of 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

GLOSSARY OF TERMS

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

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

Annualized Adjusted to reflect a full year of activity.

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

Basis point One hundredth of a percentage point.

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

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

Charge-off Process of removing a loan or portion of a loan from our balance sheet because it is considered uncollectible.

We also record a charge-off when a loan is transferred from portfolio holdings to held for sale by reducing the loan carrying amount to the fair value of the loan, if fair value is less than carrying amount.

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

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

Earning assets   Assets that generate income, which include: Federal funds sold; resale agreements; trading securities; interest-earning deposits with banks; loans held for sale; loans; investment securities; and certain other assets.

Economic capital   Represents the amount of resources that a business or business segment should hold to guard against potentially large losses that could cause insolvency. 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 total revenue.

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

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

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

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

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

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

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

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

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

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

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

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

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

Loss Given Default (LGD) An estimate of recovery based on collateral type, collateral value, loan exposure, or the guarantor(s) quality and guaranty type (full or partial). Each loan has its own LGD. The LGD risk rating measures the percentage of exposure of a specific credit obligation that we expect to lose if default occurs. LGD is net of recovery, through either liquidation of collateral or deficiency judgments rendered from foreclosure or bankruptcy proceedings. The LGD rating is updated with the same frequency as the borrower s PD rating, and should be done more frequently than the PD if the collateral values and amounts change often.

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.

Nonperforming assets   Nonperforming assets include non-accrual loans, certain non-accrual troubled debt restructured loans, OREO, foreclosed and other assets. We do not accrue interest income on assets classified as nonperforming.

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Nonperforming loans   Loans for which we do not accrue interest income. Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, consumer (including loans and lines of credit secured by residential real estate), and residential real estate (including mortgages and construction) customers as well as certain non-accrual troubled debt restructured loans. Nonperforming loans do not include loans held for sale or OREO and foreclosed assets. 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 derivative contract.

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

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

Other real estate owned (OREO) and foreclosed assets   Assets taken in settlement of troubled loans through surrender or foreclosure. Foreclosed assets include all assets received in full or partial satisfaction of a loan and include real and personal property, equity interests in corporations, partnerships, joint ventures, and beneficial interests in trusts. Premises that are no longer used in operations may also be included in real estate owned.

Other-than-temporary impairment (OTTI)   When the fair value of a security is less than its amortized cost basis, an assessment is performed to determine whether the impairment is other-than-temporary. If we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment is considered to have occurred. In such cases, an other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment s amortized cost basis and its fair value at the balance sheet date. Further, if we do not expect to recover the entire amortized cost of the security, an other-than-temporary impairment is considered to have occurred. However for debt securities, if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before its recovery, the other-than-temporary loss is separated into (a) the amount representing the credit loss, and (b) the amount related to all other factors. The other-than-temporary impairment related to credit losses is recognized in earnings while the amount related to all other factors is recognized in other comprehensive income, net of tax.

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

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

Pretax, pre-provision earnings from continuing operations   Total revenue less noninterest expense, both from continuing operations.

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

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

Purchase accounting accretion   Accretion of the discounts and premiums on acquired assets and liabilities. The purchase accounting accretion is recognized in net interest income over the weighted-average life of the financial instruments using the constant effective yield method.

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

Recorded investment   The initial investment of a purchased impaired loan plus interest accretion and less any cash payments and writedowns to date. The recorded investment excludes any valuation allowance which is included in our allowance for loan and lease losses.

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

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

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

change in the fair value of MSRs, exclusive of changes due to time decay and payoffs, combined with the change in the fair value of the associated securities and derivative instruments.

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

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

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

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

Securitization The process of legally transforming financial assets into securities.

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

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

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

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

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

Tier 1 risk-based capital Total shareholders equity, plus trust preferred capital securities, plus certain noncontrolling interests that are held by others; less goodwill and certain other intangible assets (net of eligible deferred taxes relating to taxable and nontaxable combinations), less equity investments in nonfinancial companies less ineligible

servicing assets and less net unrealized holding losses on available for sale equity securities. Net unrealized holding gains on available for sale equity securities, net unrealized holding gains (losses) on available for sale debt securities and net unrealized holding gains (losses) on cash flow hedge derivatives are excluded from total shareholders equity for Tier 1 risk-based capital purposes.

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

Total equity Total shareholders equity plus noncontrolling interests.

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

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

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

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

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

Value-at-risk (VaR)   A statistically-based measure of risk 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 95 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.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

- Our businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:
  - Changes in interest rates and valuations in debt, equity and other financial markets.
  - Disruptions in the liquidity and other functioning of U.S. and global financial markets.
  - The impact on financial markets and the economy of the downgrade by Standard & Poor s of U.S. Treasury obligations and other U.S. government-backed debt, as well as issues surrounding the level of U.S. and European government debt and concerns regarding the creditworthiness of certain sovereign governments in Europe.
  - Actions by Federal Reserve, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.
  - Changes in customers , suppliers and other counterparties performance and creditworthiness.
  - Slowing or failure of the current moderate economic recovery.
  - Continued effects of aftermath of recessionary conditions and uneven spread of positive impacts of recovery on the economy and our counterparties, including adverse impacts on levels of unemployment, loan utilization rates, delinquencies, defaults and counterparty ability to meet credit and other obligations.
  - Changes in customer preferences and behavior, whether due to changing business and economic conditions, legislative and regulatory initiatives, or other factors.
- Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than we are currently expecting. These statements are based on our current view that the modest economic expansion will persist in the year ahead and interest rates will remain very low.
- Legal and regulatory developments could have an impact on ability to operate our businesses, financial condition, results of operations, competitive position, reputation, or pursuit of attractive acquisition opportunities. Reputational impacts could affect matters such as business generation and retention, liquidity, funding, and ability to attract and retain management. These developments could include:
  - Changes resulting from legislative and regulatory reforms, including broad-based restructuring of financial industry regulation and changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other industry aspects, and changes in accounting policies and principles. We will be impacted by extensive reforms provided for in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and otherwise growing out of the recent financial crisis, the precise nature, extent and timing of which, and their impact on us, remains uncertain.
  - Changes to regulations governing bank capital and liquidity standards, including due to the Dodd-Frank Act and to Basel III initiatives.
  - Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. In addition to matters relating to PNC s business and activities, such matters may include proceedings, claims, investigations, or inquiries relating to pre-acquisition business and activities of acquired companies, such as National City. These matters may result in monetary judgments or settlements or other remedies, including fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to PNC.
  - Results of regulatory examination and supervision process, including our failure to satisfy requirements of agreements with governmental agencies.
  - Impact on business and operating results of any costs associated with obtaining rights in intellectual property claimed by others and of adequacy of our intellectual property protection in general.
- Business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through effective use of third-party insurance, derivatives, and capital management techniques, and to meet evolving regulatory capital standards. In particular, our results currently depend on our ability to manage elevated levels of impaired assets.

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

Our planned acquisition of RBC Bank (USA) presents us with risks and uncertainties related both to the acquisition transaction itself and its integration into PNC after closing, including:

Closing is dependent on, among other things, receipt of regulatory and other applicable approvals, the timing of which cannot be predicted with precision at this point and which may not be received at all. The impact of closing on PNC s financial statements will be affected by the timing of the transaction.

The transaction (including integration of RBC Bank (USA) s businesses) may be substantially more expensive to complete than anticipated. Anticipated benefits, including cost savings and strategic gains, may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events.

Our ability to achieve anticipated results from this transaction is dependent also on the following factors, in part related to the state of economic and financial markets: the extent of credit losses in the acquired loan portfolios and the extent of deposit attrition. Also, litigation and governmental investigations that may be filed or commenced, as a result of this transaction or otherwise, could impact the timing or realization of anticipated benefits to PNC.

Integration of RBC Bank (USA) s business and operations into PNC, which will include conversion of RBC Bank (USA) s different systems and procedures, may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to RBC Bank (USA) s or

PNC s existing businesses. PNC s ability to integrate RBC Bank (USA) successfully may be adversely affected by the fact that this transaction will result in PNC entering several markets where PNC does not currently have any meaningful retail presence.

In addition to the planned RBC Bank (USA) transaction, we grow our business in part by acquiring from time to time other financial services companies, financial services assets and related deposits. These other acquisitions, including our planned acquisition of branches and related deposits in metropolitan Atlanta, Georgia from Flagstar Bank, FSB, often present risks and uncertainties analogous to those presented by the RBC Bank (USA) transaction, as well as, in some cases, with risks related to entering into new lines of business.

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

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

We provide greater detail regarding some of these factors in our 2010 Form 10-K, our first and second quarter 2011 Form 10-Qs, and elsewhere in this Report, including 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.

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Consolidated Income Statement

The PNC Financial Services Group, Inc.

In millions, except per share data *Unaudited*	Three months ended September 30 **2011**	2010	Nine months ended September 30 **2011**	2010
Interest Income				
Loans	**$ 1,904**	$ 1,996	**$ 5,693**	$ 6,314
Investment securities	**511**	592	**1,638**	1,787
Other	**115**	113	**329**	378
Total interest income	**2,530**			