PNC FINANCIAL SERVICES GROUP INC
Form 10-Q
May 09, 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 March 31, 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 April 29, 2011, there were 526,282,991 shares of the registrant s common stock ($5 par value) outstanding.

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The PNC Financial Services Group, Inc.

Cross-Reference Index to First Quarter 2011 Form 10-Q

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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 March 31 **2011**	 2010
FINANCIAL RESULTS (a)		
Revenue		
Net interest income	**$ 2,176**	$ 2,379
Noninterest income	**1,455**	1,384
Total revenue	**3,631**	3,763
Noninterest expense	**2,070**	2,113
Pretax, pre-provision earnings from continuing operations (b)	**1,561**	1,650
Provision for credit losses	**421**	751
Income from continuing operations before income taxes and noncontrolling interests (pretax earnings)	**$ 1,140**	$ 899
Income from continuing operations before noncontrolling interests	**$ 832**	$ 648
Income from discontinued operations, net of income taxes (c)		23
Net income	**$ 832**	$ 671
Less:		
Net income (loss) attributable to noncontrolling interests	**(5)**	(5)
Preferred stock dividends, including TARP (d)	**4**	93
Redemption of TARP preferred stock discount accretion (d)		250
Net income attributable to common shareholders (d)	**$ 833**	$ 333
Diluted earnings per common share		
Continuing operations	**$ 1.57**	$ .61
Discontinued operations (c)		.05
Net income	**$ 1.57**	$ .66
Cash dividends declared per common share (e)	**$ .10**	$ .10
PERFORMANCE RATIOS		
Net interest margin (f)	**3.94%**	4.24%
Noninterest income to total revenue	**40**	37
Efficiency	**57**	56
Return on:		
Average common shareholders equity	**11.12**	5.37
Average assets	**1.29**	1.02

See page 53 for a glossary of certain terms used in this Report.

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

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

(b) We believe that pretax, pre-provision earnings 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). We sold GIS effective July 1, 2010. See Sale of PNC Global Investment Servicing in the Executive Summary section of the Financial Review section of this Report and Note 2 Divestiture in the Notes To Consolidated Financial Statements of this Report for additional information.

(d) We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of $250 million in the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share. The impact on diluted earnings per share was $.50 for the first quarter of 2010. Total dividends declared for the first quarter of 2010 included $89 million on the Series N Preferred Stock.

(e) In April 2011, the PNC Board of Directors declared a quarterly cash dividend on common stock of 35 cents per share, an increase of 25 cents per share, or 250%, from the prior quarterly dividend of 10 cents per share. The increased dividend was paid May 5, 2011 to shareholders of record at the close of business on April 18, 2011.

(f) 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 GAAP in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended March 31, 2011 and March 31, 2010 were $24 million and $18 million, respectively.

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CONSOLIDATED FINANCIAL HIGHLIGHTS (CONTINUED) (a)

Unaudited	March 31 2011	December 31 2010	March 31 2010
BALANCE SHEET DATA (dollars in millions, except per share data)			
Assets	**$ 259,378**	$ 264,284	$ 265,396
Loans (b) (c)	**149,387**	150,595	157,266
Allowance for loan and lease losses (b)	**4,759**	4,887	5,319
Interest-earning deposits with banks (b)	**1,359**	1,610	607
Investment securities (b)	**60,992**	64,262	57,606
Loans held for sale (c)	**2,980**	3,492	2,691
Goodwill and other intangible assets	**10,764**	10,753	12,714
Equity investments (b)	**9,595**	9,220	10,256
Noninterest-bearing deposits	**48,707**	50,019	43,122
Interest-bearing deposits	**133,283**	133,371	139,401
Total deposits	**181,990**	183,390	182,523
Transaction deposits	**134,516**	134,654	126,420
Borrowed funds (b)	**34,996**	39,488	42,461
Shareholders equity	**31,132**	30,242	26,818
Common shareholders equity	**30,485**	29,596	26,466
Accumulated other comprehensive income (loss)	**(309)**	(431)	(1,288)
Book value per common share	**58.01**	56.29	50.32
Common shares outstanding (millions)	**526**	526	526
Loans to deposits	**82%**	82%	86%
ASSETS UNDER ADMINISTRATION (billions)			
Discretionary assets under management	**$ 110**	$ 108	$ 105
Nondiscretionary assets under administration	**109**	104	104
Total assets under administration	**219**	212	209
CAPITAL RATIOS			
Tier 1 common	**10.3%**	9.8%	7.9%
Tier 1 risk-based (d)	**12.6**	12.1	10.3
Total risk-based (d)	**16.2**	15.6	13.9
Leverage (d)	**10.6**	10.2	8.8
Common shareholders equity to assets	**11.8**	11.2	10.0
ASSET QUALITY RATIOS			
Nonperforming loans to total loans	**2.94%**	2.97%	3.66%
Nonperforming assets to total loans, OREO and foreclosed assets	**3.50**	3.50	4.14
Nonperforming assets to total assets	**2.03**	2.01	2.46
Net charge-offs to average loans (for the three months ended) (annualized)	**1.44**	2.09	1.77
Allowance for loan and lease losses to total loans	**3.19**	3.25	3.38
Allowance for loan and lease losses to nonperforming loans (e)	**108**	109	92

(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. Also includes our equity interest in BlackRock under Equity investments.

(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) 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.

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

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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 and regulatory risks, see the Risk Management section in this Financial Review, Item 1A and the Risk Management section of Item 7 of our 2010 Form 10-K, and Note 16 Legal Proceedings and Note 17 Commitments and Guarantees in the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Report. Also, see the Cautionary Statement Regarding Forward-Looking Information and Critical Accounting Estimates And Judgments sections in this Financial Review for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and those anticipated in the forward-looking statements included in this Report. See Note 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 are focused on managing toward a moderate risk profile while maintaining strong capital and liquidity positions, investing in our markets and products, and embracing our corporate responsibility to the communities where we do business.

Our strategy to enhance shareholder value centers on driving 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 growth are the acquisition, expansion and retention of customer relationships. We strive to expand our customer base by offering convenient banking options and leading technology solutions, providing a broad range of fee-based and credit products and services, focusing on customer service, and through a significantly enhanced branding initiative. This strategy is designed to give our consumer 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 are committed to 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 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 created a well-positioned balance sheet, strong bank level liquidity and investment flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

2011 CAPITAL ACTIONS

On April 7, 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. Our Board of Directors also confirmed that PNC may begin to purchase common stock under its existing 25 million share repurchase program in open market or privately negotiated transactions. PNC plans to repurchase up to $500 million of common stock during the remainder of 2011. The discussion of capital within the Consolidated Balance Sheet Review section of this Financial Review includes additional information regarding our common stock repurchase program.

Our ability to take these actions had 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.

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Recent Market and Industry Developments

In addition to numerous legislative and regulatory developments, there have been dramatic changes in the competitive landscape of our industry over the last several years.

Beginning in late 2008, efforts by the Federal government, including the US Congress, the US Department of the Treasury, the Federal Reserve, the FDIC, and the Securities and Exchange Commission, to stabilize and restore confidence in the financial services industry have impacted and will likely continue to impact PNC and our stakeholders. These efforts, which will continue to evolve, include the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), in particular, and other legislative, administrative and regulatory initiatives, including the new rules set forth in Regulation E related to overdraft charges.

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

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

Included in these recent legislative and regulatory developments are evolving regulatory capital standards for financial institutions. Dodd-Frank requires the Federal Reserve Board to establish capital requirements that would, among other things, eliminate the Tier 1 treatment of trust preferred securities following a phase-in period expected to begin in 2013. Evolving standards also include the so-called Basel III initiatives that are part of the Basel II effort by international banking supervisors to update the original international bank capital accord (Basel I), which has been in effect since 1988. The recent Basel III capital initiative, which has the support of US banking regulators, includes heightened capital requirements for major banking institutions in terms of both higher quality capital and higher regulatory capital ratios. Basel III capital standards will require implementing regulations by the banking regulators. These regulations will

become effective under a phase-in period beginning January 1, 2013, and will become fully effective January 1, 2019.

Dodd-Frank also establishes, as an independent agency organized as a bureau within the Federal Reserve, the Bureau of Consumer Financial Protection (CFPB). Starting July 21, 2011, the CFPB will have the authority to prescribe rules governing the provision of consumer financial products and services, and it is expected that the CFPB will issue new regulations, and amend existing regulations, regarding consumer protection practices. Also on that date, the authority of the Office of the Comptroller of the Currency (OCC) to examine PNC Bank, N.A. for compliance with consumer protection laws, and to enforce such laws, will transfer to CFPB.

Additionally, new provisions concerning the applicability of state consumer protection laws will become effective on July 21, 2011. Questions may arise as to whether certain state consumer financial laws that may have previously been preempted are no longer preempted after this date. Depending on how such questions are resolved, we may experience an increase in state-level regulation of our retail banking business and additional compliance obligations, revenue impacts, and costs.

Dodd-Frank and its implementation, as well as other statutory and regulatory initiatives that will be ongoing, will introduce numerous regulatory changes over the next several years. While we believe that we are well positioned to navigate through this process, we cannot predict the ultimate impact of these actions on PNC s business plans and strategies.

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 is approximately 1.5%. 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 or are in the process of 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.

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The Federal Reserve and the 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 N.A. 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 two orders do not resolve any other federal or state governmental, legislative or regulatory authority investigations, which may result in significant additional actions, penalties or other remedies, and they do not foreclose the potential for civil money penalties from the bank regulators.

For additional information, please see Note 16 Legal Proceedings and Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements in this Report and our Current Report on Form 8-K dated April 14, 2011.

PNC s Participation in Select Government Programs

Information on these programs is provided in Item 7 of our 2010 Form 10-K.

Key Factors Affecting Financial Performance

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

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

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

- Further success in the acquisition, growth and retention of customers,
- Continued development of the geographic markets related to our recent acquisitions, including full deployment of our product offerings,
- Revenue growth,
- A sustained focus on expense management,
- Managing the distressed assets portfolio and other impaired assets,
- Improving our overall asset quality and continuing to meet evolving regulatory capital standards,
- Continuing to maintain and grow our deposit base as a low-cost funding source,
- Prudent risk and capital management related to our efforts to return to our desired moderate risk profile,
- 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 March 31, 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 Divestiture in our Notes To Consolidated Financial Statements in this Report.

Income Statement Highlights

Strong results for the first quarter reflected pretax earnings from continuing operations of $1.1 billion, compared with $.9 billion for the first quarter of 2010.

Net interest income for the first three months of 2011 was $2.2 billion and the net interest margin was 3.94%, compared with $2.4 billion and 4.24% for the first three months of 2010. The decreases compared with the prior year quarter were attributable to lower purchase accounting accretion, soft loan demand and the low interest rate environment partially offset by lower funding costs.

Noninterest income of $1.5 billion for the first quarter of 2011 increased from $1.4 billion in the prior year first quarter.

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The provision for credit losses declined to $421 million for the first three months of 2011 from $751 million for the first three months of 2010 driven by overall credit quality improvement and continuation of actions to reduce exposure levels.

Noninterest expense totaled $2.1 billion for the first quarter of both 2011 and 2010.

Credit Quality Highlights

Improvement in overall credit quality continued in the first quarter of 2011. Nonperforming assets decreased $43 million to $5.3 billion at March 31, 2011 compared with December 31, 2010. Accruing loans past due of $1.9 billion were relatively unchanged from December 31, 2010. The allowance for loan and lease losses was $4.8 billion, or 3.19% of total loans and 108% of nonperforming loans, as of March 31, 2011.

Balance Sheet Highlights

Total loans were $149 billion at March 31, 2011 and $151 billion at December 31, 2010. Growth in commercial loans of $1.4 billion during the quarter was offset by declines in commercial real estate loans of $.8 billion and residential mortgage loans of $.7 billion. Loans and commitments originated and renewed totaled approximately $27 billion in the first quarter, including $.9 billion of small business loans.

Total deposits were $182 billion at March 31, 2011 and $183 billion at December 31, 2010. Transaction deposits of $135 billion were essentially stable compared with December 31, 2010. Higher cost retail certificates of deposit continued to decline with a reduction of $1.5 billion, or 4%, in the first quarter.

PNC s high quality balance sheet was core funded with a loan to deposit ratio of 82% at March 31, 2011 and a strong bank liquidity position to support growth.

PNC s strong capital levels were reflected in its Tier 1 common capital ratio which increased to 10.3% at March 31, 2011 from 9.8% at December 31, 2010.

PNC reached a definitive agreement in January 2011 to acquire 19 branches and approximately $390 million of deposits from BankAtlantic Bancorp, Inc. located in the Tampa, Florida area. The transaction has received regulatory approval and is expected to close in June 2011, subject to customary closing conditions.

Our Consolidated Income Statement and Consolidated Balance Sheet Review sections of this Financial Review describe in greater detail the various items that impacted our results for the first three months of 2011 and 2010.

Average Consolidated Balance Sheet Highlights

Various seasonal and other factors impact our period-end balances whereas average balances are generally more

indicative of underlying business trends apart from the impact of acquisitions, divestitures and consolidations of variable interest entities.

The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at March 31, 2011 compared with December 31, 2010.

Total average assets were $262.6 billion for the first three months of 2011 compared with $267.1 billion for the first three months of 2010. Average interest-earning assets were $224.1 billion for the first three months of 2011, compared with $227.0 billion in the first three months of 2010. In both comparisons, the declines were primarily driven by an $8.6 billion decrease in average total loans partially offset by a $5.5 billion increase in average total investment securities. The overall decline in average loans reflected soft customer loan demand, loan repayments, dispositions and net charge-offs. The increase in total investment securities reflected net investments of excess liquidity in short duration, high quality securities, primarily residential mortgage-backed securities.

The decrease in average total loans primarily reflected declines in commercial real estate of $4.9 billion and residential real estate of $3.9 billion, partially offset by a $.8 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 volume, improved utilization and new Market Street commitments. Loans represented 67% of average interest-earning assets for the first three months of 2011 and 70% of average interest-earning assets for the first three months of 2010.

Average securities available for sale increased $4.8 billion, to $55.4 billion, in the first quarter of 2011 compared with the first quarter of 2010. Average residential mortgage-backed agency securities increased $7.2 billion and other debt securities increased $2.1 billion in the comparison while residential mortgage-backed non-agency securities declined $2.2 billion and commercial mortgage-backed securities decreased $2.1 billion. The impact of purchases of high quality agency residential mortgage-backed securities and diversifiable other debt was partially offset by the natural run-off from paydowns of other security types.

Average securities held to maturity increased $.8 billion, to $6.7 billion, in the first three months of 2011 compared with the first three months of 2010. An increase of $2.1 billion in commercial mortgage-backed securities more than offset a $1.2 billion decrease in asset-backed securities in the comparison. Purchases of commercial mortgage-backed securities during the first quarter of 2011 outpaced the effect of paydowns of other security types.

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Total investment securities comprised 28% of average interest-earning assets for the first three months of 2011 and 25% for the first three months of 2010.

Average noninterest-earning assets totaled $38.5 billion in the first three months of 2011 compared with $40.2 billion in the first three months of 2010. The decline reflected a decrease in average goodwill and other intangible assets.

Average total deposits were $180.8 billion for the first quarter of 2011 compared with $183.1 billion for the first quarter of 2010. Average deposits declined from the prior year period primarily as a result of decreases in retail certificates of deposit and other time deposits, which were partially offset by increases in money market balances, demand and other noninterest-bearing deposits. Growing core checking deposits as a lower-cost funding source and as the cornerstone product to build customer relationships is the primary objective of our deposit strategy. Furthermore, core checking accounts are critical to our strategy of expanding our payment business. Total deposits at March 31, 2011 were $182.0 billion compared with $183.4 billion at December 31, 2010 and are further discussed within the Consolidated Balance Sheet Review section of this Report.

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

Average transaction deposits were $132.6 billion for the first three months of 2011 compared with $125.2 billion for the first three months of 2010. The ongoing planned reduction of high-cost and primarily nonrelationship certificates of deposit is part of our overall deposit strategy that is focused on growing demand and other transaction deposits as the cornerstone product of customer relationships and a lower-cost, stable funding source.

Average borrowed funds were $38.4 billion for the first quarter of 2011 compared with $42.3 billion for the first quarter of 2010. Maturities of Federal Home Loan Bank (FHLB) borrowings drove the decline compared with the first quarter of 2010. Total borrowed funds at March 31, 2011 were $35.0 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. In addition, 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 $639 million for the first three months of 2011 and $659 million for the first three months of 2010. Highlights of results for the first three months 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 these periods 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 incurred a loss of $18 million for the quarter compared with earnings of $24 million for the year ago quarter. Earnings declined from the prior year quarter as lower revenues resulting 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.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $432 million in the first quarter of 2011 compared with $368 million in the first quarter of 2010. The increase in earnings was due to a decrease in the provision for credit losses, somewhat offset by declines in net interest income and revenue from commercial mortgage banking activities. 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.

Asset Management Group

Asset Management Group earned $43 million in the first quarter of 2011 compared with $39 million in the first quarter of 2010. Assets under administration were $219 billion as of March 31, 2011. Earnings for the first quarter of 2011 reflected a benefit from the provision for credit losses compared with the provision for the first quarter of 2010. The business maintained its focus on new client acquisition and client asset growth during the quarter.

Residential Mortgage Banking

Residential Mortgage Banking earned $71 million in the first quarter of 2011 compared with $78 million in the first quarter of 2010. Earnings declined from the prior year first quarter primarily as a result of a higher provision for credit losses, lower servicing fees, lower net interest income and higher noninterest expense offset partially by increased loans sales revenue and higher net economic hedging gains on mortgage servicing rights.

BlackRock

Our BlackRock business segment earned $86 million in the first three months of 2011 and $77 million in the first three

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months of 2010. Higher earnings at BlackRock for the first quarter of 2011 compared to the first quarter of 2010 were due to the effect of growth in base and performance fees as well as *BlackRock Solutions* ® and advisory fees.

Distressed Assets Portfolio

This business segment consists primarily of assets acquired with acquisitions and had earnings of $25 million for the first three months of 2011 compared with $73 million in the first three months of 2010. The decline was driven by a decrease in net interest income, partially offset by a lower provision for credit losses and an increase in noninterest income.

Other

Other reported earnings of $193 million for the three months of 2011 compared with a net loss of $11 million for the first three months of 2010. The increase in earnings over the first quarter of 2010 primarily reflected the impact of integration costs incurred in the 2010 period, the reversal of a portion of an indemnification liability for certain Visa litigation in the first quarter of 2011 and higher net gains on sales of securities net of other-than-temporary impairments (OTTI) in the first quarter of 2011.

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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 the first three months of 2011 was $832 million compared with $671 million for the first three months of 2010. Total revenue for the first three months of 2011 was $3.6 billion compared with $3.8 billion for the three months of 2010. The decline in total revenue in the comparison reflected lower net interest income in 2011.

NET INTEREST INCOME AND NET INTEREST MARGIN

	Three months ended March 31	
Dollars in millions	**2011**	2010
Net interest income	**$ 2,176**	$ 2,379
Net interest margin	**3.94%**	4.24%

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 decrease in net interest income and net interest margin compared with the first quarter of 2010 was attributable to lower purchase accounting accretion, soft loan demand and the low interest rate environment partially offset by lower funding costs.

The net interest margin was 3.94% for the first three months of 2011 and 4.24% for the first three months of 2010. The following factors impacted the comparison:

- A 50 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 41 basis points.
- These factors were partially offset by a 21 basis point decline in the rate accrued on interest-bearing liabilities. The rate accrued on interest-bearing deposits, the largest component, decreased 26 basis points.

We expect that our purchase accounting accretion will decrease by as much as $700 million for full year 2011 compared with 2010. Excluding the impact of this factor, we expect our net interest income to increase for full year 2011 by $100 million or more. Overall, we also expect that our net interest margin will decline for full year 2011 compared with 2010.

NONINTEREST INCOME

Summary

Noninterest income totaled $1.5 billion for the first three months of 2011, compared with $1.4 billion for the first three months of 2010.

Noninterest income in the first quarter of 2011 increased $71 million compared with the first quarter of 2010 due to higher residential mortgage fees, higher net gains on sales of securities net of OTTI and a decrease in repurchase reserves partially offset by lower corporate service fees and a decline in service charges on deposits primarily from the impact of Regulation E rules pertaining to overdraft fees.

Additional Analysis

Asset management revenue increased $4 million to $263 million in the first three months of 2011 compared with the first three months of 2010. The increase in the comparisons was driven by higher equity markets, successful client retention, growth in new clients and strong sales performance. Assets under management at March 31, 2011 totaled $110 billion compared with $105 billion at March 31, 2010. Higher equity earnings from our BlackRock investment also contributed to the improved first quarter results.

For the first quarter of 2011, consumer services fees totaled $311 million compared with $296 million in the first quarter of 2010. The increase in fees reflected higher volume-related transaction fees, such as debit cards and credit cards.

Corporate services revenue totaled $217 million in the first three months of 2011 and $268 million in the first three months of 2010. Commercial mortgage servicing revenue declined due to higher impairment charges and lower ancillary fee income. Corporate services fees include the noninterest component of treasury management fees, which continued to be a strong contributor to revenue.

Residential mortgage revenue totaled $195 million in the first quarter of 2011 and $147 million in the first quarter of 2010. Higher loan sales revenue and net economic hedging gains on mortgage servicing rights drove the increase over the first quarter of 2010.

Service charges on deposits totaled $123 million for the first three months of 2011 and $200 million for the first three months of 2010. The decline resulted primarily from the impact of Regulation E rules pertaining to overdraft fees.

Net gains on sales of securities totaled $37 million for the first quarter of 2011 and $90 million for the first quarter of 2010. The net credit component of OTTI of securities recognized in earnings was a loss of $34 million in the first quarter of 2011, compared with a loss of $116 million in the first quarter of 2010.

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Other noninterest income totaled $343 million for the first three months of 2011 compared with $240 million for the first three months of 2010. The increase was 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 full year 2011, we see momentum in our fee-based revenues resulting from client growth and depth in our expanded franchise. At the same time, we will see the continued impact of ongoing regulatory reforms. Excluding the expected incremental negative impact of two aspects of anticipated regulatory changes on fees related to Regulation E and interchange rates of approximately $400 million for full year 2011 as further discussed in the Retail Banking portion of the Business Segments Review section of this Report, we expect noninterest income for full year 2011 to increase in the low-to-mid single digits (in terms of percentages) compared with 2010.

Product Revenue

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

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, totaled $301 million for the first three months of 2011 and $296 million for the first three months of 2010.

Revenue from capital markets-related products and services totaled $139 million in the first quarter of 2011 compared with $161 million in the first quarter of 2010. The decrease was due to a number of large underwriting transactions and loan sale activity in the first quarter a year ago which did not recur, which were partially offset by increased derivatives client revenue and reduced impact of credit risk on customer derivative position values

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

Commercial mortgage banking activities resulted in revenue of $41 million in the first three months of 2011 compared with $115 million in the first three months of 2010. This decline was due to a reduction in the value of commercial mortgage servicing rights largely driven by higher loan prepayment rates and lower interest rates, and lower ancillary commercial mortgage servicing fees.

Provision For Credit Losses

The provision for credit losses totaled $421 million for the first three months of 2011 compared with $751 million for the first three months of 2010. The significant decline from the first three months of 2010 was driven by overall credit quality improvement and continuation of actions to reduce exposure levels.

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.

We anticipate an overall improvement in credit migration for full year 2011 and a continued reduction in our nonperforming loans assuming modest GDP growth. As a result, we expect that our full year 2011 provision for credit losses will be at least $800 million less than our full year 2010 provision for credit losses assuming budgeted loan growth projections.

Noninterest Expense

Noninterest expense was $2.1 billion for the first three months of both 2011 and 2010. Integration costs included in noninterest expense totaled $102 million in the first quarter of 2010.

Apart from the possible impact of the legal and regulatory contingencies disclosed in our 2010 Form 10-K and this Report, we expect that total noninterest expense for full year 2011 will be less than total noninterest expense for full year 2010. The magnitude of the decline will be dependent upon the pace of our investment in business growth opportunities.

EFFECTIVE TAX RATE

The effective tax rate was 27.0% in the first quarter of 2011 compared with 27.9% in the first quarter of 2010. We anticipate that the effective tax rate will remain approximately the same for the remainder of 2011.

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CONSOLIDATED BALANCE SHEET REVIEW

SUMMARIZED BALANCE SHEET DATA

In millions	Mar. 31 2011	Dec. 31 2010
Assets		
Loans	**$ 149,387**	$ 150,595
Investment securities	**60,992**	64,262
Cash and short-term investments	**9,242**	10,437
Loans held for sale	**2,980**	3,492
Goodwill and other intangible assets	**10,764**	10,753
Equity investments	**9,595**	9,220
Other, net	**16,418**	15,525
Total assets	**$ 259,378**	$ 264,284
Liabilities		
Deposits	**$ 181,990**	$ 183,390
Borrowed funds	**34,996**	39,488
Other	**8,675**	8,568
Total liabilities	**225,661**	231,446
Total shareholders equity	**31,132**	30,242
Noncontrolling interests	**2,585**	2,596
Total equity	**33,717**	32,838
Total liabilities and equity	**$ 259,378**	$ 264,284

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

The decline in total assets at March 31, 2011 compared with December 31, 2010 was primarily due to lower 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 reflect unearned income, unamortized discount and premium, and purchase discounts and premiums totaling $2.6 billion at March 31, 2011 and $2.7 billion at December 31, 2010. The balances do not include future accretable net interest (i.e., the difference between the undiscounted expected cash flows and the recorded investment in the loan) on the purchased impaired loans.

Loans decreased $1.2 billion, or 1%, as of March 31, 2011 compared with December 31, 2010. Growth in commercial loans of $1.4 billion was offset by declines of $.8 billion in commercial real estate loans, $.7 billion of residential real estate loans and $.6 billion of home equity loans compared with year end. Commercial loans increased due to a combination of new volume, improved utilization and new Market Street commitments. 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. Home

equity loans declined due to increased paydowns in the first quarter of 2011 as well as lower refinancing activity.

Loans represented 58% of total assets at March 31, 2011 and 57% at December 31, 2010. Commercial lending represented 54% of the loan portfolio at March 31, 2011 and 53% at December 31, 2010. Consumer lending represented 46% at March 31, 2011 and 47% at December 31, 2010.

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

Details Of Loans

In millions	Mar. 31 2011	Dec. 31 2010
Commercial		
Retail/wholesale	**$ 10,665**	$ 9,901
Manufacturing	**9,805**	9,334
Service providers	**8,690**	8,866
Real estate related (a)	**8,040**	7,500
Financial services	**5,034**	4,573
Health care	**3,839**	3,481
Other	**10,529**	11,522
Total commercial	**56,602**	55,177
Commercial real estate		
Real estate projects	**11,581**	12,211
Commercial mortgage	**5,552**	5,723
Total commercial real estate	**17,133**	17,934
Equipment lease financing	**6,215**	6,393
TOTAL COMMERCIAL LENDING (b)	**79,950**	79,504
Consumer		
Home equity		
Lines of credit	**23,001**	23,473
Installment	**10,655**	10,753
Residential real estate		
Residential mortgage	**14,602**	15,292
Residential construction	**731**	707
Credit card	**3,707**	3,920
Other consumer		
Education	**9,041**	9,196
Automobile	**3,156**	2,983
Other	**4,544**	4,767
TOTAL CONSUMER LENDING	**69,437**	71,091
Total loans	**$ 149,387**	$ 150,595

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

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

Total loans above include purchased impaired loans of $7.5 billion, or 5% of total loans, at March 31, 2011, and $7.8 billion, or 5% of total loans, at December 31, 2010.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $27 billion for the first three months of 2011.

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

Commercial lending is the largest category and is the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan and lease losses (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. We established specific and pooled reserves on the total commercial

lending category of $2.5 billion at March 31, 2011. This commercial lending reserve included what we believe to be adequate and appropriate loss coverage on the higher risk commercial loans in the total commercial portfolio. The commercial lending reserve represented 52% of the total ALLL of $4.8 billion at that date. The remaining 48% 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/government guaranteed loans to be higher risk as we do not believe these loans will result in a significant loss because of their structure. 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 three months of 2011 and 2010 follows.

Valuation of Purchased Impaired Loans

	March 31, 2011		December 31, 2010	
Dollars in billions	**Balance**	**Net Investment**	Balance	Net Investment
Commercial and commercial real estate loans:				
Unpaid principal balance	**$ 1.6**		$ 1.8	
Purchased impaired mark	**(.3)**		(.4)	
Recorded investment	**1.3**		1.4	
Allowance for loan losses	**(.3)**		(.3)	
Net investment	**1.0**	**63%**	1.1	61%
Consumer and residential mortgage loans:				
Unpaid principal balance	**7.6**		7.9	
Purchased impaired mark	**(1.4)**		(1.5)	
Recorded investment	**6.2**		6.4	
Allowance for loan losses	**(.6)**		(.6)	
Net investment	**5.6**	**74%**	5.8	73%
Total purchased impaired loans:				
Unpaid principal balance	**9.2**		9.7	
Purchased impaired mark	**(1.7)**		(1.9)	
Recorded investment	**7.5**		7.8	
Allowance for loan losses	**(.9)(a)**		(.9)	

Net investment	**$ 6.6**	**72%**	$ 6.9	71%

(a) Impairment reserves of $.9 billion at March 31, 2011 reflect impaired loans with further credit quality deterioration since acquisition. This deterioration was more than offset by the cash received to date in excess of recorded investment of $.8 billion and the net reclassification to accretable net interest, to be recognized over time, of $1.3 billion.

The unpaid principal balance of purchased impaired loans declined from $9.7 billion at December 31, 2010 to $9.2 billion at March 31, 2011 due to amounts determined to be uncollectible, payoffs and disposals. The remaining purchased impaired mark at March 31, 2011 was $1.7 billion which was a decline from $1.9 billion at December 31, 2010. The net investment of $6.9 billion at December 31, 2010 declined 4% to $6.6 billion at March 31, 2011 primarily due to payoffs, disposals and further impairment partially offset by accretion during 2011. At March 31, 2011, our largest individual

purchased impaired loan had a recorded investment of $22 million.

We currently expect to collect total cash flows of $8.8 billion on purchased impaired loans, representing the $6.6 billion net investment at March 31, 2011 and the accretable net interest of $2.2 billion shown in the Accretable Net Interest-Purchased Impaired Loans table that follows. These represent the net future cash flows on purchased impaired loans, as contractual interest will be reversed.

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Purchase Accounting Accretion

In millions	Three months ended March 31, 2011	2010
Non-impaired loans	**$ 68**	$ 112
Impaired loans	**160**	265
Reversal of contractual interest on impaired loans	**(106)**	(134)
Net impaired loans	**54**	131
Securities	**9**	11
Deposits	**100**	167
Borrowings	**(31)**	(56)
Total	**$ 200**	$ 365

In addition to the amounts in the table above, cash received in excess of recorded investment from sales or payoffs of impaired commercial loans (cash recoveries) totaled $81 million for the first quarter of 2011 and $75 million for the first quarter of 2010. We do not expect this level of cash recoveries to be sustainable.

Remaining Purchase Accounting Accretion

In billions	**Mar. 31 2011**	Dec. 31 2010
Non-impaired loans	**$ 1.1**	$ 1.2
Impaired loans	**2.2**	2.2
Total loans (gross)	**3.3**	3.4
Securities	**.2**	.1
Deposits	**.4**	.5
Borrowings	**(1.0)**	(1.1)
Total	**$ 2.9**	$ 2.9

Accretable Net Interest   Purchased Impaired Loans

In billions	**2011**	2010
January 1	**$ 2.2**	$ 3.5
Accretion (including cash recoveries)	**(.3)**	(.3)
Net reclassifications to accretable from non-accretable	**.3**	.5
Disposals		(.1)
March 31	**$ 2.2**	$ 3.6

Net unfunded credit commitments are comprised of the following:

Net Unfunded Credit Commitments

In millions	**March 31, 2011**	December 31, 2010
Commercial / commercial real estate (a)	**$ 60,150**	$ 59,256
Home equity lines of credit	**19,161**	19,172
Consumer credit card and other unsecured lines	**14,832**	14,725
Other	**2,638**	2,652
Total	**$ 96,781**	$ 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 $16.3 billion at March 31, 2011 and $16.7 billion at December 31, 2010.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $229 million at March 31, 2011 and $458 million at December 31, 2010 and are included in the preceding table primarily within the Commercial / commercial real estate category.

In addition to credit commitments, our net outstanding standby letters of credit totaled $10.2 billion at March 31, 2011 and $10.1 billion at December 31, 2010. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

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INVESTMENT SECURITIES

Details of Investment Securities

In millions	Amortized Cost	Fair Value
March 31, 2011		
Securities Available for Sale		
Debt securities		
US Treasury and government agencies	**$ 5,119**	**$ 5,229**
Residential mortgage-backed		
Agency	**29,519**	**29,469**
Non-agency	**7,876**	**7,171**
Commercial mortgage-backed		
Agency	**1,305**	**1,325**
Non-agency	**1,998**	**2,079**
Asset-backed	**3,005**	**2,864**
State and municipal	**2,254**	**2,234**
Other debt	**3,748**	**3,816**
Corporate stocks and other	**340**	**340**
Total securities available for sale	**$ 55,164**	**$ 54,527**
Securities Held to Maturity		
Debt securities		
Commercial mortgage-backed (non-agency)	**$ 4,169**	**$ 4,310**
Asset-backed	**2,287**	**2,320**
Other debt	**9**	**10**
Total securities held to maturity	**$ 6,465**	**$ 6,640**
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 $61.0 billion at March 31, 2011, a decrease of $3.3 billion, or 5%, from $64.3 billion at December 31, 2010. The decline resulted from principal payments and net sales of primarily agency mortgage-backed securities and government agency securities. Investment securities represented 24% of total assets at both March 31, 2011 and 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 59% of the investment securities portfolio at March 31, 2011.

At March 31, 2011, the securities available for sale portfolio included a net unrealized loss of $637 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 improved liquidity in non-agency residential mortgage-backed securities markets. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders equity as accumulated other comprehensive income or loss from continuing operations, net of tax.

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

The expected weighted-average life of investment securities (excluding corporate stocks and other) was 4.8 years at March 31, 2011 and 4.7 years at December 31, 2010.

We estimate that, at March 31, 2011, the effective duration of investment securities was 3.4 years for an immediate 50 basis points parallel increase in interest rates and 3.3 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.

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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:

	March 31, 2011				
	Agency		Non-agency		
Dollars in millions	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Asset-Backed Securities
Fair Value Available for Sale	**$ 29,469**	**$ 1,325**	**$ 7,171**	**$ 2,079**	**$ 2,864**
Fair Value Held to Maturity				**4,310**	**2,320**
Total Fair Value	**$ 29,469**	**$ 1,325**	**$ 7,171**	**$ 6,389**	**$ 5,184**
% of Fair Value:					
By Vintage					
2011	**11%**	**7%**		**1%**	
2010	**38%**	**25%**		**2%**	**7%**
2009	**17%**	**33%**		**3%**	**14%**
2008	**5%**	**4%**			**13%**
2007	**8%**	**4%**	**18%**	**9%**	**10%**
2006	**5%**	**7%**	**24%**	**30%**	**12%**
2005 and earlier	**16%**	**20%**	**58%**	**55%**	**14%**
Not Available					**30%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By Credit Rating					
Agency	**100%**	**100%**			
AAA			**5%**	**81%**	**80%**
AA			**3%**	**6%**	**1%**
A			**3%**	**7%**	
BBB			**5%**	**4%**	**1%**
BB			**9%**	**1%**	
B			**14%**		**4%**
Lower than B			**60%**		**12%**
No rating			**1%**	**1%**	**2%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By FICO Score					
>720			**56%**		**3%**
<720 and >660			**35%**		**9%**
<660					**3%**
No FICO score			**9%**		**85%**
Total			**100%**		**100%**

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

We also consider the severity of the impairment and the length of time that the security has been impaired in our assessment. Results of the periodic assessment are reviewed by a cross-functional senior management team representing Asset & Liability Management, Finance, and Market Risk

Management. The senior management team considers the results of the assessments, as well as other factors, in determining whether the impairment is other-than-temporary.

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

We recognized OTTI for the first three months of 2011 and 2010 as follows:

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Other-Than-Temporary Impairments

In millions	Three months ended March 31 2011	2010
Credit portion of OTTI losses (a)		
Non-agency residential mortgage-backed	**$ 28**	$ 73
Asset-backed	**5**	43
Other debt	**1**	
Total credit portion of OTTI losses	**34**	116
Noncredit portion of OTTI losses (recoveries) (b)	**(4)**	124
Total OTTI losses	**$ 30**	$ 240

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

March 31, 2011 In millions	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	**$ 394**	**$ (12)**	**$ 1,042**	**$ 37**	**$ 1,978**	**$ 7**
Other Investment Grade (AA, A, BBB)	**839**	**(26)**	**885**	**36**	**42**	**(5)**
Total Investment Grade	**1,233**	**(38)**	**1,927**	**73**	**2,020**	**2**
BB	**619**	**6**	**70**	**4**		
B	**980**	**(102)**	**7**	**4**	**206**	**(27)**
Lower than B	**4,297**	**(571)**			**606**	**(100)**
Total Sub-Investment Grade	**5,896**	**(667)**	**77**	**8**	**812**	**(127)**
Total No Rating	**42**		**75**		**28**	**(16)**
Total	**$ 7,171**	**$ (705)**	**$ 2,079**	**$ 81**	**$ 2,860**	**$ (141)**
OTTI Analysis						
Investment Grade:						
OTTI has been recognized	**$ 109**	**$ (12)**				
No OTTI recognized to date	**1,124**	**(26)**	**$ 1,927**	**$ 73**	**$ 2,020**	**$ 2**
Total Investment Grade	**1,233**	**(38)**	**1,927**	**73**	**2,020**	**2**
Sub-Investment Grade:						
OTTI has been recognized	**3,807**	**(638)**			**617**	**(126)**
No OTTI recognized to date	**2,089**	**(29)**	**77**	**8**	**195**	**(1)**
Total Sub-Investment Grade	**5,896**	**(667)**	**77**	**8**	**812**	**(127)**
No Rating:						
OTTI has been recognized					**28**	**(16)**
No OTTI recognized to date	**42**		**75**			
Total No Rating	**42**		**75**		**28**	**(16)**
Total	**$ 7,171**	**$ (705)**	**$ 2,079**	**$ 81**	**$ 2,860**	**$ (141)**
Securities Held to Maturity (Non-Agency)						
Credit Rating Analysis						

AAA	**$ 4,119**	**$ 139**	**$ 2,148**	**$ 32**
Other Investment Grade (AA, A, BBB)	**191**	**2**	**61**	**1**
Total Investment Grade	**4,310**	**141**	**2,209**	**33**
BB			**6**	
B			**2**	
Lower than B				
Total Sub-Investment Grade			**8**	
Total No Rating			**93**	
Total	**$ 4,310**	**$ 141**	**$ 2,310**	**$ 33**

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Residential Mortgage-Backed Securities

At March 31, 2011, our residential mortgage-backed securities portfolio was comprised of $29.5 billion fair value of US government agency-backed securities and $7.2 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 quarter of 2011, we recorded OTTI credit losses of $28 million on non-agency residential mortgage-backed securities. As of March 31, 2011, $26 million of the credit losses related to securities rated below investment grade. As of March 31, 2011, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for non-agency residential mortgage-backed securities totaled $650 million and the related securities had a fair value of $4 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of March 31, 2011 totaled $2 billion, with unrealized net losses of $29 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 $6.4 billion at March 31, 2011 and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. The agency commercial mortgage-backed securities portfolio was $1.3 billion fair value at March 31, 2011 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

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

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $5.2 billion at March 31, 2011 and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including residential mortgage loans, credit cards, automobile loans, and student loans. Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

We recorded OTTI credit losses of $5 million on asset-backed securities during first three months of 2011. All of the securities were collateralized by first and second lien residential mortgage loans and were rated below investment grade. As of March 31, 2011, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for asset-backed securities totaled $142 million and the related securities had a fair value of $645 million.

For the sub-investment grade investment securities (available for sale and held to maturity) for which we have not recorded an OTTI loss through March 31, 2011, the remaining fair value was $203 million, with unrealized net losses of $1 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.

If current housing and economic conditions were to worsen, 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	March 31 2011	December 31 2010
Commercial mortgages at fair value	**$ 858**	$ 877
Commercial mortgages at lower of cost or market	**189**	330
Total commercial mortgages	**1,047**	1,207
Residential mortgages at fair value	**1,826**	1,878
Residential mortgages at lower of cost or market	**14**	12
Total residential mortgages	**1,840**	1,890
Other	**93**	395
Total	**$ 2,980**	$ 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 $16 million of commercial mortgage loans held for

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sale carried at fair value in the first three months of 2011 and sold $24 million in the first three months of 2010.

We recognized net gains of $13 million in the first three months of 2011 on the valuation and sale of commercial mortgage loans held for sale, net of hedges, compared with net gains of $9 million recognized in the first three months of 2010.

Residential mortgage loan origination volume was $3.2 billion in the first three months of 2011. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $3.4 billion of loans and recognized related gains of $84 million during the first three months of 2011. The comparable amounts for the first three months of 2010 were $1.9 billion and $39 million, respectively.

Interest income on loans held for sale was $69 million in the first three months of 2011, and $66 million in the first three months of 2010 and is included in Other interest income on our Consolidated Income Statement.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $10.8 billion at both March 31, 2011 and 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	**March 31 2011**	December 31 2010
Deposits		
Money market	**$ 86,726**	$ 84,581
Demand	**47,786**	50,069
Retail certificates of deposit	**35,834**	37,337
Savings	**8,098**	7,340
Other time	**454**	549
Time deposits in foreign offices	**3,092**	3,514
Total deposits	**181,990**	183,390
Borrowed funds		
Federal funds purchased and repurchase agreements	**4,079**	4,144
Federal Home Loan Bank borrowings	**5,020**	6,043
Bank notes and senior debt	**11,324**	12,904
Subordinated debt	**9,310**	9,842
Other	**5,263**	6,555
Total borrowed funds	**34,996**	39,488
Total	**$ 216,986**	$ 222,878

Total funding sources decreased $5.9 billion at March 31, 2011 compared with December 31, 2010.

Total deposits decreased $1.4 billion, or 1%, at March 31, 2011 compared with December 31, 2010. Interest-bearing deposits represented 73% of total deposits at both March 31, 2011 and December 31, 2010. Total borrowed funds decreased $4.5 billion since December 31, 2010. The decline from December 31, 2010 was primarily due to maturities of bank notes and senior debt, FHLB borrowings and other borrowings.

Capital

See 2011 Capital Actions in the Executive Summary section of this Financial Review for additional information regarding our April 2011 increase to PNC s quarterly common stock dividend and our plans to purchase shares under PNC s existing common stock repurchase program (described below) during the remainder of 2011.

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 $.9 billion, to $31.1 billion, at March 31, 2011 compared with December 31, 2010 as retained earnings increased $.8 billion. Common shares outstanding were 526 million at both March 31, 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 three months of 2011 under this program.

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Risk-Based Capital

Dollars in millions	March 31 2011	December 31 2010
Capital components		
Shareholders equity		
Common	**$ 30,485**	$ 29,596
Preferred	**647**	646
Trust preferred capital securities	**2,908**	2,907
Noncontrolling interests	**1,348**	1,351
Goodwill and other intangible assets	**(9,008)**	(9,053)
Eligible deferred income taxes on goodwill and other intangible assets	**419**	461
Pension, other postretirement benefit plan adjustments	**371**	380
Net unrealized securities losses, after-tax	**387**	550
Net unrealized losses (gains) on cash flow hedge derivatives, after-tax	**(454)**	(522)
Other	**(224)**	(224)
Tier 1 risk-based capital	**26,879**	26,092
Subordinated debt	**4,913**	4,899
Eligible allowance for credit losses	**2,694**	2,733
Total risk-based capital	**$ 34,486**	$ 33,724
Tier 1 common capital		
Tier 1 risk-based capital	**$ 26,879**	$ 26,092
Preferred equity	**(647)**	(646)
Trust preferred capital securities	**(2,908)**	(2,907)
Noncontrolling interests	**(1,348)**	(1,351)
Tier 1 common capital	**$ 21,976**	$ 21,188
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$ 213,281**	$ 216,283
Adjusted average total assets	**253,727**	254,693
Capital ratios		
Tier 1 common	**10.3%**	9.8%
Tier 1 risk-based	**12.6**	12.1
Total risk-based	**16.2**	15.6
Leverage	**10.6**	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 the economic downturn. They have also stated their view that common equity should be the dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels, although this metric is not provided for in the regulations. We seek to manage our capital consistent with these regulatory principles, and believe that our March 31, 2011 capital levels were aligned with them.

Dodd-Frank requires the Federal Reserve Board to establish capital requirements that would, among other things, eliminate the Tier 1 treatment of trust preferred securities following a phase-in period expected to begin in 2013. Accordingly, PNC will evaluate its alternatives, including the potential for early redemption of some or all of its trust preferred securities, based on such considerations it may consider relevant, including dividend rates, the specifics of the future capital requirements, capital market conditions and other factors. 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 10.3% at March 31, 2011, compared with 9.8% at December 31, 2010. Our Tier 1 risk-based capital ratio increased 50 basis points to 12.6% at March 31, 2011 from 12.1% at December 31, 2010. Increases in both ratios were attributable to retention of earnings and a decline in risk-weighted assets in 2011.

At March 31, 2011, PNC Bank, N.A., our domestic bank subsidiary, was considered well capitalized based on US regulatory capital ratio requirements. 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 2 of this Report. We believe PNC Bank, N.A. 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.

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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 March 31, 2011 and December 31, 2010 is included in Note 3 of this Report.

PNC Capital Trust E Trust Preferred Securities

In February 2008, PNC Capital Trust E issued $450 million of 7.75% Trust Preferred Securities due March 15, 2068 (the Trust E Securities). PNC Capital Trust E s only assets are $450 million of 7.75% Junior Subordinated Notes due March 15, 2068 and issued by PNC (the JSNs). The Trust E Securities are fully and unconditionally guaranteed by PNC. We may, at our option, redeem the JSNs at 100% of their principal amount on or after March 15, 2013.

In connection with the closing of the Trust E Securities sale, we agreed that, if we have given notice of our election to defer interest payments on the JSNs or a related deferral period is continuing, then PNC would be subject during such period to restrictions on dividends and other provisions protecting the status of the JSN debenture holder similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities (Note 13) in our 2010 Form 10-K. PNC Capital Trusts C and D have similar protective provisions with respect to $500 million in principal amount of junior subordinated debentures. Also, in connection with the closing of the Trust E Securities sale, we entered into a replacement capital covenant, which is described in Note 13 in our 2010 Form 10-K.

Acquired Entity Trust Preferred Securities

As a result of the National City acquisition, we assumed obligations with respect to $2.4 billion in principal amount of junior subordinated debentures issued by the acquired entity. As a result of other prior acquisitions, we assumed obligations with respect to $158 million in principal amount of junior subordinated debentures issued by the acquired entities. As described in Note 13 in our 2010 Form 10-K, during 2010 we redeemed $81 million in principal amount related to the junior subordinated debentures issued by the acquired entities. Under the terms of the outstanding debentures, if there is an event of default under the debentures or PNC exercises its right to defer payments on the related trust preferred securities issued by the statutory trusts or there is a default under PNC s guarantee of such payment obligations, PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described 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 27% of total assets at both March 31, 2011 and December 31, 2010. Liabilities recorded at fair value represented 2% and 3% of total liabilities at March 31, 2011 and 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.

	March 31, 2011		December 31, 2010	
In millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Assets				
Securities available for sale	**$ 54,527**	**$ 8,610**	$ 57,310	$ 8,583
Financial derivatives	**5,076**	**50**	5,757	77
Residential mortgage loans held for sale	**1,826**		1,878	
Trading securities	**2,254**	**60**	1,826	69
Residential mortgage servicing rights	**1,109**	**1,109**	1,033	1,033
Commercial mortgage loans held for sale	**858**	**858**	877	877
Equity investments	**1,457**	**1,457**	1,384	1,384
Customer resale agreements	**823**		866	
Loans	**229**	**2**	116	2
Other assets	**915**	**455**	853	403
Total assets	**$ 69,074**	**$ 12,601**	$ 71,900	$ 12,428
Level 3 assets as a percentage of total assets at fair value		**18%**		17%
Level 3 assets as a percentage of consolidated assets		**5%**		5%
Liabilities				
Financial derivatives	**$ 4,322**	**$ 476**	$ 4,935	$ 460
Trading securities sold short	**1,244**		2,530	
Other liabilities	**3**		6	
Total liabilities	**$ 5,569**	**$ 476**	$ 7,471	$ 460
Level 3 liabilities as a percentage of total liabilities at fair value		**9%**		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 three months of 2011, no significant 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.

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

Total business segment financial results differ from total consolidated results from continuing operations before noncontrolling interests, which itself excludes the earnings and revenue attributable to GIS through March 31, 2010 that is reflected in discontinued operations. The impact of these differences is reflected in the Other category. Other for purposes of this Business Segments Review and the Business Segment Highlights in the Executive Summary includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions including LTIP share distributions and obligations, integration costs, asset and liability management activities including net securities gains or losses and certain trading activities, exited businesses, equity management activities, alternative investments, intercompany eliminations, most corporate overhead, and differences between business segment performance reporting and financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests.

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Results Of Businesses Summary

(Unaudited)

Three months ended March 31 - in millions	Income (Loss) 2011	Income (Loss) 2010	Revenue 2011	Revenue 2010	Average Assets (a) 2011	Average Assets (a) 2010
Retail Banking	**$ (18)**	$ 24	**$ 1,247**	$ 1,359	**$ 66,669**	$ 68,354
Corporate & Institutional Banking	**432**	368	**1,098**	1,261	**76,980**	79,575
Asset Management Group	**43**	39	**222**	227	**6,918**	7,041
Residential Mortgage Banking	**71**	78	**258**	228	**11,619**	8,855
BlackRock	**86**	77	**108**	99	**5,530**	6,225
Distressed Assets Portfolio	**25**	73	**245**	330	**14,101**	19,507
Total business segments	**639**	659	**3,178**	3,504	**181,817**	189,557
Other (b) (c)	**193**	(11)	**453**	259	**80,737**	77,591
Income from continuing operations before noncontrolling interests (d)	**$ 832**	$ 648	**$ 3,631**	$ 3,763	**$ 262,554**	$ 267,148

(a) Period-end balances for BlackRock.

(b) For our segment reporting presentation in this Financial Review, Other for the first three months of 2010 included $113 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 three months of 2010.

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RETAIL BANKING

(Unaudited)

Three months ended March 31 Dollars in millions, except as noted	2011	2010
INCOME STATEMENT		
Net interest income	**$ 818**	$ 869
Noninterest income		
Service charges on deposits	**117**	195
Brokerage	**53**	53
Consumer services	**228**	208
Other	**31**	34
Total noninterest income	**429**	490
Total revenue	**1,247**	1,359
Provision for credit losses	**276**	339
Noninterest expense	**1,001**	975
Pretax earnings (loss)	**(30)**	45
Income taxes (benefit)	**(12)**	21
Earnings (loss)	**$ (18)**	$ 24
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	**$ 26,064**	$ 26,821
Indirect auto	**2,400**	1,893
Indirect other	**1,612**	2,080
Education	**9,101**	8,060
Credit cards	**3,731**	4,079
Other	**1,823**	1,793
Total consumer	**44,731**	44,726
Commercial and commercial real estate	**10,786**	11,455
Floor plan	**1,572**	1,296
Residential mortgage	**1,287**	1,801
Total loans	**58,376**	59,278
Goodwill and other intangible assets	**5,769**	5,934
Other assets	**2,524**	3,142
Total assets	**$ 66,669**	$ 68,354
Deposits		
Noninterest-bearing demand	**$ 18,102**	$ 16,776
Interest-bearing demand	**20,920**	19,212
Money market	**40,382**	39,699
Total transaction deposits	**79,404**	75,687
Savings	**7,573**	6,552
Certificates of deposit	**35,364**	45,614
Total deposits	**122,341**	127,853
Other liabilities	**1,147**	1,652
Capital	**8,048**	8,310
Total liabilities and equity	**$ 131,536**	$ 137,815
PERFORMANCE RATIOS		
Return on average capital	**(1)%**	1%
Return on average assets	**(.11)**	.14
Noninterest income to total revenue	**34**	36
Efficiency	**80**	72
OTHER INFORMATION (a)		
Credit-related statistics:		
Commercial nonperforming assets	**$ 301**	$ 324
Consumer nonperforming assets	**409**	276
Total nonperforming assets (b)	**$ 710**	$ 600
Impaired loans (c)	**$ 869**	$ 1,013
Commercial lending net charge-offs	**$ 67**	$ 96

Credit card lending net charge-offs	**68**	96
Consumer lending (excluding credit card) net charge-offs	**122**	108
Total net charge-offs	**$ 257**	$ 300
Commercial lending annualized net charge-off ratio	**2.20 %**	3.05%
Credit card lending annualized net charge-off ratio	**7.39 %**	9.54%
Consumer lending (excluding credit card) annualized net charge-off ratio	**1.17 %**	1.03%
Total annualized net charge-off ratio	**1.79 %**	2.05%
Other statistics:		
ATMs	**6,660**	6,467
Branches (d)	**2,446**	2,461

At March 31 Dollars in millions, except as noted	**2011**	2010
OTHER INFORMATION (CONTINUED) (a)		
Home equity portfolio credit statistics:		
% of first lien positions (e)	**36%**	34%
Weighted average loan-to-value ratios (e)	**73%**	73%
Weighted average FICO scores (f)	**731**	725
Annualized net charge-off ratio	**1.28%**	.70%
Loans 30 59 days past due	**.47%**	.44%
Loans 60 89 days past due	**.31%**	.30%
Loans 90 days past due	**.99%**	.85%
Customer-related statistics:		
Retail Banking checking relationships	**5,521,000**	5,379,000
Retail online banking active customers	**3,226,000**	2,782,000
Retail online bill payment active customers	**1,029,000**	826,000
Brokerage statistics:		
Financial consultants (g)	**700**	722
Full service brokerage offices	**34**	41
Brokerage account assets (billions)	**$ 34**	$ 33

(a) Presented as of March 31 except for net charge-offs and annualized net charge-off ratios, which are for the three months ended.
(b) Includes nonperforming loans of $688 million at March 31, 2011 and $579 million at March 31, 2010.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes certain satellite branches that provide limited products and/or services.
(e) Includes loans from acquired portfolios for which lien position and loan-to-value information was limited.
(f) Represents the most recent FICO scores we have on file.
(g) Financial consultants provide services in full service brokerage offices and traditional bank branches.

Retail Banking incurred a loss of $18 million for the quarter compared with earnings of $24 million for the year ago quarter. Earnings declined from the prior year quarter as lower revenues resulting 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 quarter of 2011 include the following:

- In January, PNC reached a definitive agreement to acquire 19 branches and approximately $390 million of deposits from BankAtlantic Bancorp, Inc. All of the branches are located in the Tampa, Florida area. The transaction is expected to close in June 2011, subject to customary closing conditions. The transaction is expected to provide Retail Banking with the opportunity to establish a foothold in the Tampa area and to expand our branch presence in the Florida market.
- Retail Banking launched a new checking account line-up and a new credit card suite during the first quarter. The new products are designed to provide more choices for customers.
- Net new checking relationships grew 56,000 in the first quarter and 142,000 over the prior year, strong results reflecting gains in all of our markets. We are

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- seeing strong retention and increasing acquisition in all of our markets.
- Success in implementing Retail Banking s deposit strategy resulted in growth in average demand deposits of $3.0 billion, or 8%, over the prior year.
- Our investment in online banking capabilities continues to pay off. Active online bill payment and active online banking customers grew by 5% and 6%, respectively, during the first quarter of 2011. In a year-over-year comparison, active online bill payment grew 25% and active online banking customers grew 16%.
- PNC s branch footprint covers nearly one-third of the US population with a network of 2,446 branches and 6,660 ATM machines at March 31, 2011. We continue to invest in the branch network. In the first quarter of 2011, we opened 6 traditional branches, consolidated 30 branches, and had a net decrease of 13 ATMs.

Total revenue for the first quarter of 2011 was $1.2 billion compared with $1.4 billion for the first quarter of 2010. Net interest income of $818 million declined $51 million compared with the first quarter of 2010. Net interest income was negatively impacted by lower interest credits assigned to deposits, reflective of the rate environment, and benefited from higher demand deposits and increased education loans.

Noninterest income declined $61 million when compared with the first quarter of 2010. The decline was driven by lower overdraft fees resulting from Regulation E rules.

For 2011, Retail Banking revenue continues to be negatively impacted by the rules set forth in Regulation E related to overdraft fees and is expected to be negatively impacted by the potential limits related to interchange rates on debit card transactions (proposed in Dodd-Frank.) The incremental negative impact of these two aspects of regulatory reform on fees is estimated to be approximately $400 million in 2011 compared with 2010 if limits to interchange rates are implemented consistent with rules currently proposed by the Federal Reserve Board. Changes in the proposed interchange rules could impact this estimate. Further, this estimate does not include any additional 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 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.

The provision for credit losses was $276 million for the first quarter of 2011 compared with $339 million in the first quarter of 2010. Net charge-offs were $257 million for the first quarter of 2011 compared with $300 million in prior year first quarter. Improvements in credit quality are evident in the

credit card and small business portfolios. However, the home equity portfolio is challenged by trends reflecting an increase in bankruptcies, continued loan modifications, many of which resulted in troubled debt restructurings, and a longer foreclosure timeline.

Noninterest expense for the first three months of 2011 increased $26 million from the same period last year. The increase was driven by continued investment in the business.

Growing core checking deposits as a lower-cost funding source and as the cornerstone product to build customer relationships is the primary objective of our deposit strategy. Furthermore, core checking accounts are critical to our strategy of expanding our payments business. The deposit strategy of Retail Banking is to remain disciplined on pricing, target specific products and markets for growth, and focus on the retention and growth of balances for relationship customers.

In the first quarter of 2011, average total deposits decreased $5.5 billion, or 4%, compared with 2010.

- Average demand deposits increased $3.0 billion, or 8%, over the same quarter in 2010. The increase was primarily driven by customer growth and customer preferences for liquidity.
- Average money market deposits increased $683 million, or 2%, from the first three 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.
- In the first three months of 2011, average certificates of deposit decreased $10.3 billion from the same period last year. This decline is expected to continue in 2011, although at a slower pace, due to the continued run-off of higher rate certificates of deposits.

Currently, we plan to maintain our focus on a relationship-based lending strategy that targets specific customer sectors (mass consumers, homeowners, students, small businesses and auto dealerships) and our moderate risk lending approach. In the first quarter of 2011, average total loans were $58.4 billion, a decrease of $902 million, or 2%, over the same quarter last year.

- Average education loans grew $1.0 billion compared with the first three months of 2010, primarily due to portfolio purchases.
- Average indirect auto loans increased $507 million over the first quarter 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 floor plan loans grew $276 million compared with the first quarter of 2010, primarily due to higher line utilization as dealers maintained higher inventory levels due to product availability and improved sales prospects.

Average credit card balances decreased $348 million over the first quarter of 2010. The decrease was primarily the result of weak consumer demand in response to the economic environment. This resulted in fewer active accounts generating balances coupled with increased paydowns on existing accounts.

Average home equity loans declined $757 million compared with the first three months of 2010. Consumer 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 commercial and commercial real estate loans declined $669 million compared with the first quarter of 2010. The decline was primarily due to loan demand being outpaced by refinancings, paydowns, and charge-offs.

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CORPORATE & INSTITUTIONAL BANKING

(Unaudited)

Three months ended March 31 Dollars in millions, except as noted	2011	2010
INCOME STATEMENT		
Net interest income	**$ 799**	$ 890
Noninterest income		
Corporate service fees	**187**	242
Other	**112**	129
Noninterest income	**299**	371
Total revenue	**1,098**	1,261
Provision for (recoveries of) credit losses	**(30)**	236
Noninterest expense	**445**	446
Pretax earnings	**683**	579
Income taxes	**251**	211
Earnings	**$ 432**	$ 368
AVERAGE BALANCE SHEET		
Loans		
Commercial	**$ 33,194**	$ 34,081
Commercial real estate	**14,347**	17,961
Commercial real estate related	**3,463**	3,128
Asset-based lending	**7,370**	5,940
Equipment lease financing	**5,540**	5,320
Total loans	**63,914**	66,430
Goodwill and other intangible assets	**3,484**	3,795
Loans held for sale	**1,341**	1,410
Other assets	**8,241**	7,940
Total assets	**$ 76,980**	$ 79,575
Deposits		
Noninterest-bearing demand	**$ 27,843**	$ 22,271
Money market	**12,131**	12,253
Other	**6,057**	7,610
Total deposits	**46,031**	42,134
Other liabilities	**12,205**	10,871
Capital	**7,858**	8,800
Total liabilities and equity	**$ 66,094**	$ 61,805

Three months ended March 31 Dollars in millions, except as noted	2011	2010
PERFORMANCE RATIOS		
Return on average capital	**22%**	17%
Return on average assets	**2.28**	1.88
Noninterest income to total revenue	**27**	29
Efficiency	**41**	35
COMMERCIAL MORTGAGE SERVICING PORTFOLIO (in billions)		
Beginning of period	**$ 266**	$ 287
Acquisitions/additions	**10**	8
Repayments/transfers	**(10)**	(13)
End of period	**$ 266**	$ 282
OTHER INFORMATION		
Consolidated revenue from: (a)		
Treasury Management	**$ 301**	$ 296

Capital Markets	**$ 139**	$ 161
Commercial mortgage loans held for sale (b)	**$ 29**	$ 27
Commercial mortgage loan servicing (c)	**12**	88
Total commercial mortgage banking activities	**$ 41**	$ 115
Total loans (d)	**$ 64,368**	$ 65,137
Credit-related statistics:		
Nonperforming assets (d) (e)	**$ 2,574**	$ 3,343
Impaired loans (d) (f)	**$ 659**	$ 1,033
Net charge-offs	**$ 153**	$ 271
Net carrying amount of commercial mortgage servicing rights (d)	**$ 645**	$ 921

(a) Represents consolidated PNC amounts.

(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.

(d) At March 31.

(e) Includes nonperforming loans of $2.4 billion at March 31, 2011 and $3.2 billion at March 31, 2010.

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

Corporate & Institutional Banking earned $432 million in the first quarter of 2011 compared with $368 million in the first quarter of 2010. The increase in earnings was due to a decrease in the provision for credit losses, somewhat offset by declines in net interest income and revenue from commercial mortgage banking activities. 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.

Highlights of Corporate & Institutional Banking performance include:

- Added new clients at a record pace in 2010 and continued this momentum during the first quarter of 2011.
- Loan commitments, primarily in our Middle Market and Business Credit segments, grew from the first quarter of 2010. Average loans grew over $1 billion from the fourth quarter of 2010.

Cross sales of treasury management and capital markets products to customers in PNC s western markets continued to be successful following the systems conversions. Sales in the first quarter of 2011 were ahead of target and were up compared with the first quarter last year.

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 loans and was the second leading servicer of commercial and multifamily loans by volume as of December 31, 2010 according to Mortgage Bankers Association.

Mergers and Acquisitions Journal named Harris William & Co. Advisor of the Year in its March 2011 issue.

Net interest income for the first quarter of 2011 was $799 million, a decrease of $91 million from the first quarter of 2010, reflecting lower purchase accounting accretion, lower interest credits assigned to deposits and a decrease in average loans, partially offset by improved loan spreads and an increase in average deposits.

Corporate service fees were $187 million for the first three months of 2011, a decrease of $55 million from the first three months of 2010, primarily due to a reduction in the value of commercial mortgage servicing rights largely driven by higher loan prepayment rates and lower interest 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.

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 opportunities to reduce operating costs.

Other noninterest income was $112 million for the first three months of 2011 compared with $129 million in the first quarter of 2010 primarily due to a decline in underwriting revenues.

The provision for credit losses was a recovery of $30 million in the first quarter 2011 compared with a provision of $236 million in the first three months of 2010. The improvement reflected continued positive migration in portfolio credit quality along with lower loan levels. Net charge-offs for the first three months of 2011 of $153 million decreased $118 million or 44% compared with the 2010 period. The decline

was attributable primarily to the commercial real estate and equipment finance portfolios. Nonperforming assets declined across all portfolios for the fourth consecutive quarter.

Noninterest expense was $445 million in the first three months of 2011 and was flat compared to the same period a year ago. Lower compensation costs due to the sale of a duplicative agency servicing operation were offset by higher credit-related costs.

Average loans were $63.9 billion for the first quarter of 2011 compared with $66.4 billion in the first quarter of 2010. The decrease in average loans of $2.5 billion or 4% compared with 2010 was driven by exits of certain client relationships combined with lower utilization rates.

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. Commercial real estate loans declined in the first three months of 2011 compared with the first three 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. It expanded its operations with the acquisition of an asset-based lending group in the United Kingdom which was completed in November 2010. Total loans acquired were approximately $300 million. Loan commitments and loan utilization rates increased throughout 2010 and into the first quarter of 2011.

PNC Equipment Finance is the 6th largest bank-affiliated leasing company with $9 billion in equipment finance assets. Average loans and leases declined slightly in the first quarter 2011 compared with the first quarter of 2010 due to runoff and sales of non-strategic portfolios, which offset portfolio acquisitions and improved origination volumes within our middle market customer base.

Average deposits were $46.0 billion for the first quarter of 2011, an increase of $3.9 billion, or 9%, compared with the first three months of 2010. Our customers have continued to move balances to noninterest-bearing demand deposits to maintain liquidity.

The commercial mortgage servicing portfolio was $266 billion at March 31, 2011 compared with $282 billion at March 31, 2010. The decrease was primarily the result of the sale of a duplicative agency servicing operation, a non-core business, in the second quarter of 2010.

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)

Three months ended March 31

Dollars in millions, except as noted	**2011**	2010
Income Statement		
Net interest income	**$ 60**	$ 63
Noninterest income	**162**	164
Total revenue	**222**	227
Provision for (recoveries of) credit losses	**(6)**	9
Noninterest expense	**160**	156
Pretax earnings	**68**	62
Income taxes	**25**	23
Earnings	**$ 43**	$ 39
Average Balance Sheet		
Loans		
Consumer	**$ 4,054**	$ 3,993
Commercial and commercial real estate	**1,503**	1,442
Residential mortgage	**715**	963
Total loans	**6,272**	6,398
Goodwill and other intangible assets	**374**	415
Other assets	**272**	228
Total assets	**$ 6,918**	$ 7,041
Deposits		
Noninterest-bearing demand	**$ 1,162**	$ 1,228
Interest-bearing demand	**2,291**	1,699
Money market	**3,597**	3,217
Total transaction deposits	**7,050**	6,144
Certificates of deposit and other	**677**	818
Total deposits	**7,727**	6,962
Other liabilities	**70**	112
Capital	**344**	418
Total liabilities and equity	**$ 8,141**	$ 7,492
Performance Ratios		
Return on average capital	**51%**	38%
Return on average assets	**2.52**	2.25
Noninterest income to total revenue	**73**	72
Efficiency	**72**	69
Other Information		
Total nonperforming assets (a) (b)	**$ 74**	$ 139
Impaired loans (a) (c)	**$ 143**	$ 191
Total net charge-offs (recoveries)	**$ (11)**	$ 4
Assets Under Administration (in billions) (a) (d)		
Personal	**$ 102**	$ 96
Institutional	**117**	113
Total	**$ 219**	$ 209
Asset Type		
Equity	**$ 120**	$ 104
Fixed Income	**64**	59
Liquidity/Other	**35**	46
Total	**$ 219**	$ 209
Discretionary assets under management		
Personal	**$ 71**	$ 69

Institutional	**39**	36
Total	**$ 110**	$ 105
Asset Type		
Equity	**$ 57**	$ 51
Fixed Income	**36**	35
Liquidity/Other	**17**	19
Total	**$ 110**	$ 105
Nondiscretionary assets under administration		
Personal	**$ 31**	$ 27
Institutional	**78**	77
Total	**$ 109**	$ 104
Asset Type		
Equity	**$ 63**	$ 53
Fixed Income	**28**	24
Liquidity/Other	**18**	27
Total	**$ 109**	$ 104

(a) As of March 31.
(b) Includes nonperforming loans of $69 million at March 31, 2011 and $132 million at March 31, 2010.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account assets.

Asset Management Group earned $43 million in the first quarter of 2011 compared with $39 million in the first quarter of 2010. Assets under administration were $219 billion as of March 31, 2011. Earnings for the first quarter of 2011 reflected a benefit from the provision for credit losses compared with the provision for the first quarter of 2010. The business maintained its focus on new client acquisition and client asset growth during the quarter.

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

- Substantially increased new client acquisition and year-over-year sales and also outperformed first quarter goals;
- Focused hiring to drive growth across the footprint;
- Piloted new financial reporting technology to clients in several markets, and
- Continued signs of improvement in credit performance.

Assets under administration were $219 billion at March 31, 2011 compared with $209 billion at March 31, 2010. Discretionary assets under management were $110 billion at March 31, 2011 compared with $105 billion at March 31, 2010. The increase in the comparisons was driven by higher equity markets, successful client retention, growth in new clients and strong sales performance.

Total revenue for the first quarter of 2011 was $222 million compared with $227 million for the same period in 2010. Net interest income was $60 million for the first quarter of 2011 compared with $63 million in the first quarter of 2010. The decrease was attributable to lower loan yields and lower interest credits assigned to deposits reflective of the current low rate environment. Noninterest income of $162 million for the first three months of 2011 declined slightly from the prior year first quarter as the exit of acquisition-related noncore products mitigated solid growth in asset management fees from improved equity markets and strong sales performance.

Provision for credit losses was a benefit of $6 million in the first quarter of 2011 reflecting improved credit quality compared with provision of $9 million for the first quarter of 2010. A net recovery of $11 million was recognized for the first quarter compared with net charge-offs of $4 million in the first quarter of 2010.

Noninterest expense of $160 million in the first quarter of 2011 increased $4 million, or 3%, from the year ago first quarter. The increase was attributable to investments in the business to drive growth.

Average deposits for the quarter increased $765 million, or 11%, over the prior year first quarter. Average transaction deposits grew 15% compared with first quarter 2010 and were substantially offset by the strategic run off of higher rate certificates of deposit in the comparison. Average loan balances decreased $126 million, or 2%, from the prior year first quarter primarily due to the current economy.

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RESIDENTIAL MORTGAGE BANKING

(Unaudited)

Three months ended March 31 Dollars in millions, except as noted	2011	2010
INCOME STATEMENT		
Net interest income	**$ 56**	$ 74
Noninterest income		
Loan servicing revenue		
Servicing fees	**50**	69
Net MSR hedging gains	**64**	46
Loan sales revenue	**84**	39
Other	**4**	
Total noninterest income	**202**	154
Total revenue	**258**	228
Provision for (recoveries of) credit losses	**8**	(16)
Noninterest expense	**137**	120
Pretax earnings	**113**	124
Income taxes	**42**	46
Earnings	**$ 71**	$ 78
AVERAGE BALANCE SHEET		
Portfolio loans	**$ 2,734**	$ 2,820
Loans held for sale	**1,802**	974
Mortgage servicing rights (MSR)	**1,048**	1,264
Other assets	**6,035**	3,797
Total assets	**$ 11,619**	$ 8,855
Deposits	**$ 1,587**	$ 3,602
Borrowings and other liabilities	**4,144**	2,279
Capital	**729**	1,195
Total liabilities and equity	**$ 6,460**	$ 7,076
PERFORMANCE RATIOS		
Return on average capital	**39%**	26%
Return on average assets	**2.48%**	3.57%
Noninterest income to total revenue	**78%**	68%
Efficiency	**53%**	53%
RESIDENTIAL MORTGAGE SERVICING PORTFOLIO		
(in billions)		
Beginning of period	**$ 125**	$ 145
Acquisitions	**5**	
Additions	**3**	2
Repayments/transfers	**(6)**	(6)
End of period	**$ 127**	$ 141
Servicing portfolio statistics: (a)		
Fixed rate	**90%**	89%
Adjustable rate/balloon	**10%**	11%
Weighted average interest rate	**5.53%**	5.79%
MSR capitalized value (in billions)	**$ 1.1**	$ 1.3
MSR capitalization value (in basis points)	**88**	90
Weighted average servicing fee (in basis points)	**30**	30
OTHER INFORMATION		
Loan origination volume (in billions)	**$ 3.2**	$ 2.0
Percentage of originations represented by:		
Agency and government programs	**100%**	98%

Refinance volume		**85%**		73%
Total nonperforming assets (a) (b)	**$**	**395**	$	418
Impaired loans (a) (c)	**$**	**158**	$	298

(a) As of March 31

(b) Includes nonperforming loans of $101 million at March 31, 2011 and $239 million at March 31, 2010.

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

Residential Mortgage Banking earned $71 million in the first quarter of 2011 compared with $78 million in the first quarter of 2010. Earnings declined from the prior year first quarter primarily as a result of a higher provision for credit losses, lower servicing fees, lower net interest income and higher noninterest expense offset partially by increased loans sales revenue and higher net economic hedging gains on mortgage servicing rights.

Residential Mortgage Banking overview:

Total loan originations were $3.2 billion for the first quarter of 2011 compared with $2.0 billion in the first quarter of 2010. Refinance application volume was up compared to first quarter 2010. 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 March 31, 2011, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $124 million compared with $188 million at March 31, 2010. See Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.

Residential mortgage loans serviced for others totaled $127 billion at March 31, 2011 compared with $141 billion at March 31, 2010 as payoffs continued to outpace new direct loan origination volume.

Noninterest income was $202 million in the first quarter of 2011 compared with $154 million in the first quarter of 2010. The increase resulted from higher loan sales revenue driven by higher loan origination volume and higher net economic hedging gains on mortgage servicing rights.

Net interest income was $56 million in the first quarter of 2011 compared with $74 million in the first quarter of 2010. The decrease in the comparisons was primarily due to lower interest earned on escrow deposits.

Noninterest expense was $137 million in the first quarter of 2011 compared with $120 million in the first quarter of 2010. The increase from the prior year first quarter was driven by higher loan origination volume and higher foreclosure-related expenses.

The fair value of mortgage servicing rights was $1.1 billion at March 31, 2011 compared with $1.3 billion at March 31, 2010. The decline was due to lower mortgage rates at March 31, 2011 and a smaller mortgage servicing portfolio.

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BLACKROCK

(Unaudited)

Information related to our equity investment in BlackRock follows:

Three months ended March 31 Dollars in millions	**2011**	2010
Business segment earnings (a)	**$ 86**	$ 77
PNC s economic interest in BlackRock (b)	**20%**	24%

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

In billions	**Mar. 31 2011**	Dec. 31 2010
Carrying value of PNC s investment in BlackRock (c)	**$ 5.1**	$ 5.1
Market value of PNC s investment in BlackRock (d)	**7.2**	6.9

(c) The March 31, 2011 amount is comprised of our equity investment of $5,068 million and $22 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 $1.8 billion deferred tax liability at both March 31, 2011 and 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 help 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.

PNC accounts for its remaining investment in BlackRock under the equity method of accounting. Our percentage ownership of BlackRock common stock (approximately 25% at March 31, 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)

Three months ended March 31 Dollars in millions, except as noted	**2011**	2010
INCOME STATEMENT		
Net interest income	**$ 236**	$ 342
Noninterest income	**9**	(12)
Total revenue	**245**	330
Provision for credit losses	**152**	165
Noninterest expense	**53**	48
Pretax earnings	**40**	117
Income taxes	**15**	44
Earnings	**$ 25**	$ 73
AVERAGE BALANCE SHEET		

Commercial Lending:		
Commercial/Commercial real estate	**$ 1,582**	$ 2,599
Lease financing	**757**	803
Total commercial lending	**2,339**	3,402
Consumer Lending:		
Consumer	**5,559**	6,573
Residential real estate	**6,332**	8,190
Total consumer lending	**11,891**	14,763
Total portfolio loans	**14,230**	18,165
Other assets	**(129)**	1,342
Total assets	**$ 14,101**	$ 19,507
Deposits		$ 85
Other liabilities	**$ 159**	55
Capital	**1,371**	1,734
Total liabilities and equity	**$ 1,530**	$ 1,874
Performance Ratios		
Return on average capital	**7%**	17%
Return on average assets	**.72**	1.52
Other Information		
Nonperforming assets (a) (b)	**$ 1,209**	$ 1,777
Impaired loans (a) (c)	**$ 5,685**	$ 7,124
Net charge-offs (d)	**$ 123**	$ 111
Annualized net charge-off ratio (d)	**3.51%**	2.48%
Loans (a)		
Commercial Lending		
Commercial/Commercial real estate	**$ 1,474**	$ 2,641
Lease financing	**695**	806
Total commercial lending	**2,169**	3,447
Consumer Lending		
Consumer	**5,381**	6,511
Residential real estate	**6,325**	8,105
Total consumer lending	**11,706**	14,616
Total loans	**$ 13,875**	$ 18,063

(a) As of March 31.
(b) Includes nonperforming loans of $.9 billion at March 31, 2011 and $1.4 billion at March 31, 2010.
(c) Recorded investment of purchased impaired loans related to acquisitions. At March 31, 2011, this segment contained 76% of PNC s purchased impaired loans.
(d) For the three months ended March 31.

This business segment consists primarily of assets acquired with acquisitions and had earnings of $25 million for the first three months of 2011 compared with $73 million in the first three months of 2010. The decline was driven by a decrease in net interest income, partially offset by a lower provision for credit losses and an increase in noninterest income.

Distressed Assets Portfolio overview:

- Average loans declined to $14.2 billion in the first quarter of 2011 compared with $18.2 billion in the first quarter of 2010. The decline was impacted by portfolio management activities including loan sales, paydowns and net charge-offs.
- Net interest income was $236 million in the first three months of 2011 compared with $342 million for the first three months of 2010. The decline was driven by lower purchase accounting accretion on impaired loans and a decline in average loan balances.
- Noninterest income was $9 million for the first quarter of 2011 compared with a loss of $12 million for the first quarter of 2010. An increase in reserves for brokered home equity loan indemnification and repurchase obligations was recorded in the first quarter a year ago.
- The provision for credit losses was $152 million in the first quarter of 2011 compared with $165 million in the first quarter of 2010. The decline was driven by improved credit performance within the mortgage and construction loan portfolios.
- Noninterest expense for the first three months of 2011 was $53 million compared with $48 million in the first three months of 2010. The increase was driven by other real estate owned-related losses and expenses.
- Nonperforming loans decreased $.5 billion, to $.9 billion, at March 31, 2011 compared with March 31, 2010. The consumer lending portfolio comprised 53% of the nonperforming loans at March 31, 2011. Nonperforming consumer loans decreased $.3 billion.
- Net charge-offs were $123 million for the first quarter of 2011 and $111 million for the first quarter of 2010. The increase was driven by increased net charge-offs in the consumer lending portfolio.

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 $13.9 billion of loans held in this portfolio at March 31, 2011 are stated inclusive of a fair value adjustment on purchased impaired loans at acquisition. Taking the adjustment and the ALLL into account, the net carrying basis of this loan portfolio is 77% of customer outstandings.
- Commercial Lending within the Distressed Assets Portfolio business segment is comprised of $1.5 billion in residential development assets (i.e. condominiums, townhomes, developed and undeveloped land) primarily acquired from National City and $.7 billion of performing cross-border leases. This commercial lending portfolio has declined 37% since March 31, 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 overall credit quality of this portfolio is considered to be moderately better at March 31, 2011 compared with the beginning of 2010 based upon continuing dispositions of credits, improved economic conditions and increased activity in several markets. The cross-border lease portfolio continues to demonstrate good credit quality.
- The performance of the Consumer Lending portfolio 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 76% of customers have been current with principal and interest payments for the past 12 months. Currently, the portfolio yields over 7%. Consumer Lending consists of residential real estate mortgages and consumer or brokered home equity loans.
- Residential real estate mortgages are primarily legacy National City, originate for sale programs (now discontinued) and acquired portfolios. 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. We have implemented internal and external programs to proactively explore refinancing opportunities that would allow the borrower to qualify for a conforming mortgage loan which would be originated and sold by PNC or originated by a third-party originator. Also, loss mitigation programs have been developed to help manage risk and assist borrowers to maintain homeownership, when possible.
- Home equity loans include second liens and brokered home equity lines of credit. We have implemented several modification programs to assist the loss mitigation teams that manage this risk. Additionally, we have initiated several voluntary and involuntary programs to reduce and/or block line availability on home equity lines of credit.
- When loans are sold, investors may request PNC to indemnify them against losses or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. From 2005 to 2007, home equity loans were sold with such contractual provisions. At March 31, 2011, the

liability for estimated losses on repurchase and indemnification claims for the Distressed Assets Portfolio business segment was $128 million. No additional reserves were recorded in the first quarter of 2011. See the Recourse and Repurchase Obligations section of this Financial Review and Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements included 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 Mortgage Servicing Rights

In conjunction with the acquisition of National City, PNC acquired servicing rights for residential real estate loans. We have elected to measure these mortgage servicing rights (MSRs) at fair value. MSRs are established and valued using

discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other factors.

PNC employs a risk management strategy designed to protect the value of MSRs from changes in interest rates and related market factors. MSR 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 MSR portfolio. The hedge relationships are actively managed in response to changing market conditions over the life of the MSR assets. Selecting appropriate financial instruments to hedge MSR valuation risk requires significant management judgment to assess how mortgage rates and prepayment speeds could affect the future values of MSRs. Hedging results can frequently be less predictable in the short term, but over longer periods of time are expected to protect the economic value of the MSR portfolio.

The fair value of residential MSRs and significant inputs to the valuation model as of March 31, 2011 are shown in the table below. The expected and actual rates of mortgage loan prepayments are the most significant factors driving the fair value. Management uses a third party model to estimate future loan prepayments. This model has been refined based on historical performance of PNC s managed portfolio, as adjusted for current market conditions. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied forward interest rates to estimate the future direction of mortgage and discount rates. The forward rates utilized are derived from the current yield curve for U.S. dollar interest rate swaps and are consistent with pricing of capital markets instruments. Changes in the shape and slope of the forward curve in future periods may result in volatility in the fair value estimate.

Dollars in millions	**March 31, 2011**	December 31, 2010
Fair value	**$ 1,109**	$ 1,033
Weighted-average life (in years) (a)	**6.2**	5.8
Weighted-average constant prepayment rate (a)	**11.75%**	12.61%
Spread over forward interest rate swap rates	**12.11%**	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.

A sensitivity analysis of the hypothetical effect on the fair value of MSRs for 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

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

Dollars in millions	March 31, 2011	December 31, 2010
Prepayment rate:		
Decline in fair value from 10% adverse change	**$ 48**	$ 41
Decline in fair value from 20% adverse change	**$ 93**	$ 86
Spread over forward interest rate swap rates:		
Decline in fair value from 10% adverse change	**$ 47**	$ 43
Decline in fair value from 20% adverse change	**$ 90**	$ 83

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. 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.

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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 change 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 $11 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 Recourse Obligations

We originate, close, and service certain 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. The unpaid principal balance outstanding of loans sold as a participant in these programs was $13.2 billion at both March 31, 2011 and December 31, 2010, and the potential maximum exposure under the loss share arrangements was $4.0 billion at both March 31, 2011 and December 31, 2010. We maintain a reserve based upon these potential losses. The reserve for losses under these programs totaled $56 million and $54 million as of March 31, 2011 and December 31, 2010, respectively, and is included in Other liabilities on our Consolidated Balance Sheet. If payment is required under these programs, we would not have a contractual interest in the collateral underlying the mortgage loans on which losses occurred, although the value of the collateral is taken into account in determining our share of such losses. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment.

Residential Mortgage Loan 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

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exposure and activity associated with these loan repurchase obligations is reported in the Residential Mortgage Banking segment. In addition, PNC s residential mortgage loan repurchase obligations include certain brokered home equity loans/lines that were sold to private investors 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 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. The following table details the unpaid principal balance of our unresolved indemnification and repurchase claims at March 31, 2011 and December 31, 2010.

Analysis of Unresolved Asserted Indemnification and Repurchase Claims

In millions	**Mar. 31, 2011**	Dec. 31, 2010
Residential mortgages:		
Agency securitizations	**$ 166**	$ 110
Private investors (a)	**112**	100
Home equity loans/lines:		
Private investors (b)	**210**	299
Total unresolved claims	**$ 488**	$ 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 three months of 2011 and 2010. Any repurchased loan is appropriately considered in our nonperforming loan disclosures and statistics.

Analysis of Indemnification and Repurchase Claim Settlement Activity

Three months ended March 31 - In millions	**2011**	2010

	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	**$ 59**	**$ 29**	**$ 24**	$ 91	$ 42	$ 32
Private investors (e)	**21**	**5**	**6**	44	26	16
Home equity loans/lines:						
Private investors - Repurchases (f)	**22**	**22**		1	1	
Total indemnification and repurchase settlements	**$ 102**	**$ 56**	**$ 30**	$ 136	$ 69	$ 48

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date.

(b) Represents both i) amounts paid for indemnification 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 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.

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During 2010 and the first three 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.); or 3) underwriting guideline violations. 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 the deterioration in the overall economy and the prolonged weak residential housing sector. The increased volume of claims was also reflective of an industry trend where investors implemented certain strategies to aggressively reduce their exposure to losses on purchased loans. These same factors also contributed to the first quarter 2011 increase in the balance of unresolved indemnification and repurchase claims for residential mortgages. The year-over-year first quarter 2011 decline in indemnification and repurchase settlements for residential mortgages resulted primarily from higher claim rescission rates. Higher claim rescission rates also drove the first quarter 2011 decline in the balance of home equity loans/lines unresolved indemnification and repurchase claims. The year-over-year first quarter increase in home equity indemnification and repurchase settlements was attributed solely to the timing of when repurchases 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.). All of these factors 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 for 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 for adequacy by management. Initial recognition and subsequent adjustments to the indemnification and repurchase liability for the first and second-lien mortgage sold 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, known and inherent 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 March 31, 2011 and December 31, 2010, the liability for estimated losses on indemnification and repurchase claims for residential mortgages totaled $124 million and $144 million, respectively. The indemnification and repurchase liability for home equity loans/lines was $128 million and $150 million at March 31, 2011 and December 31, 2010, respectively. These liabilities are included in Other liabilities on the Consolidated Balance Sheet.

The residential mortgages indemnification and repurchase liability declined during the first three months of 2011, reflecting lower actual repurchase and indemnification losses primarily driven by higher claim rescission rates. This decrease resulted despite higher levels of investor indemnification and repurchase claim activity as described above. The first quarter 2011 reduction in the home equity loans/lines indemnification and repurchase liability primarily resulted from loan repurchases.

We believe our indemnification and repurchase liabilities adequately reflect the estimated losses on anticipated investor indemnification and repurchase claims at March 31, 2011 and December 31, 2010. However, actual losses could be more or less than our established indemnification and repurchase liability. Factors that could affect our estimate include the

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timing and frequency of investor claims driven by investor strategies and behavior, our ability to successfully negotiate claims with investors, the housing markets which drive the estimates made for loan indemnification and repurchase losses, and other economic conditions. Accordingly, if we assumed an adverse change of 10% for the indemnification and repurchase claims, claim rescission rates, and indemnification and repurchase loss assumptions in our indemnification and repurchase liability model, this liability would increase to $296 million at March 31, 2011.

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

Asset quality trends for the first quarter of 2011 were mostly positive and included the following:

- First quarter 2011 net charge-offs declined significantly to $533 million, down 23% from first quarter 2010 net charge-offs of $691 million and 33% from fourth quarter 2010 net charge-offs of $791 million. First quarter 2011 net charge-offs represented the lowest quarterly level of net charge-offs since first quarter 2009.
- Reflecting ongoing reductions in credit exposure and improvements in asset quality, the provision for credit losses declined for the third consecutive quarter. The ALLL has also been decreasing.
- Due to the improvement in the economy, nonperforming loans declined $73 million to $4.4 billion as of March 31, 2011.
- Overall loan delinquency levels have mostly stabilized or improved modestly due to the improving economy, especially in late stage delinquencies with accruing loans 90 days or more past due declining 10% from year-end 2010.
- Commercial credit quality trends improved noticeably with levels of criticized commercial loan outstandings declining by approximately $1 billion or over 7% to $12.7 billion at March 31, 2011. See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in this Report for additional information.

These positive trends were partially offset by the following:

- Our ongoing loan modification efforts to assist homeowners and other borrowers continued to increase total trouble debt restructurings (TDRs). In particular, nonperforming TDRs increased to over 20% of total nonperforming loans. However, as the economy continues to improve, our loan modification efforts have begun to show signs of slowing.
- Levels of other real estate owned (OREO) and foreclosed assets continued to increase modestly and now represent over 16% of total nonperforming assets. The majority of these assets are comprised of single family residential properties.

NONPERFORMING ASSETS AND LOAN DELINQUENCIES

Nonperforming Assets, including OREO and Foreclosed Assets

Nonperforming assets decreased $43 million from December 31, 2010, to March 31, 2011, remaining stable at approximately $5.3 billion. Nonperforming loans decreased $73 million to $4.4 billion while OREO and foreclosed assets increased $30 million to $865 million. The ratio of nonperforming assets to total loans and OREO and foreclosed assets was 3.50% for both March 31, 2011, and December 31, 2010. The ratio of nonperforming loans to total loans declined slightly, to 2.94%. The modest decrease in nonperforming loans from December 31, 2010, occurred across almost all loan classes, except for an increase in nonperforming commercial real estate loans and a small increase in nonperforming home equity loans. The increase in home equity loans was driven by increased levels of modifications that were determined to be TDRs.

At March 31, 2011, TDRs included in nonperforming loans increased to $882 million or 20% of total nonperforming loans compared to $784 million or 18% of nonperforming loans as of December 31, 2010. Within consumer nonperforming

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loans, residential real estate TDRs comprise approximately 37% of total residential real estate nonperforming loans at March 31, 2011, up modestly from 30% at December 31, 2010. Similarly, home equity TDRs comprise approximately 77% of home equity nonperforming loans at March 31, 2011, up slightly from 75% at December 31, 2010. The level of modifications that were determined to be TDRs in these portfolios is expected to result in elevated nonperforming loan levels for longer periods because TDRs remain in nonperforming status until a borrower has made at least six consecutive months of payments under the modified terms or ultimate resolution occurs. At March 31, 2011, our largest nonperforming asset was $33 million in the Accommodation and Food Services Industry and our average nonperforming loan associated with commercial lending was approximately $1 million. Our top ten nonperforming assets are all commercial loans and represent approximately 7% and 4% of total commercial nonperforming loans and total nonperforming assets, respectively, as of March 31, 2011.

Nonperforming Assets By Type

In millions	**Mar. 31 2011**	Dec. 31 2010
Nonperforming loans		
Commercial		
Retail/wholesale	**$ 180**	$ 197
Manufacturing	**213**	250
Real estate related (a)	**277**	263
Financial services	**27**	16
Health care	**46**	50
Other industries	**460**	477
Total commercial	**1,203**	1,253
Commercial real estate		
Real estate projects	**1,468**	1,422
Commercial mortgage	**416**	413
Total commercial real estate	**1,884**	1,835
Equipment lease financing	**41**	77
TOTAL COMMERCIAL LENDING	**3,128**	3,165
Consumer (b)		
Home equity	**464**	448
Residential real estate		
Residential mortgage	**726**	764
Residential construction	**46**	54
Other consumer	**29**	35
TOTAL CONSUMER LENDING	**1,265**	1,301
Total nonperforming loans	**4,393**	4,466
OREO and foreclosed assets		
Other real estate owned (OREO)	**802**	767
Foreclosed and other assets	**63**	68
OREO and foreclosed assets	**865**	835
Total nonperforming assets	**$ 5,258**	$ 5,301
Amount of nonperforming loans current as to remaining principal and interest	**$ 906**	$ 1,002
Percentage of total nonperforming loans	**21%**	22%
Amount of TDRs included in nonperforming loans	**$ 882**	$ 784
Percentage of total nonperforming loans	**20%**	18%
Nonperforming loans to total loans	**2.94%**	2.97%
Nonperforming assets to total loans, OREO and foreclosed assets	**3.50**	3.50
Nonperforming assets to total assets	**2.03**	2.01
Allowance for loan and lease losses to total nonperforming loans	**108**	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.

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OREO and Foreclosed Assets

In millions	Mar. 31 2011	Dec. 31 2010
Other real estate owned (OREO):		
Residential properties	**$ 515**	$ 482
Residential development properties	**171**	166
Commercial properties	**116**	119
Total OREO	**802**	767
Foreclosed and other assets	**63**	68
OREO and foreclosed assets	**$ 865**	$ 835

Total OREO and foreclosed assets increased $30 million during the first quarter of 2011 from $835 million at December 31, 2010, to $865 million at March 31, 2011, which represents approximately 16% of total nonperforming assets. As of March 31, 2011, and December 31, 2010, approximately 60% and 58%, respectively, of our OREO and foreclosed assets are comprised of single family residential properties. The increase in the first quarter of 2011 was largely due to the resumption of foreclosures under enhanced procedures following the completion of a review of some of our foreclosure practices.

Change in Nonperforming Assets

In millions	2011	2010
January 1	**$ 5,301**	$ 6,316
Transferred in	**1,143**	1,774
Charge-offs and valuation adjustments	**(390)**	(620)
Principal activity including payoffs	**(380)**	(278)
Asset sales and transfers to held for sale	**(178)**	(265)
Returned to performing-TDRs	**(104)**	(217)
Returned to performing-Other	**(134)**	(170)
March 31	**$ 5,258**	$ 6,540

Loans held for sale and purchased impaired loans are excluded from nonperforming loans. Additionally, most consumer loans and lines of credit, not secured by residential real estate, are charged off after 120 to 180 days past due and as such are excluded from nonperforming status.

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 recorded investment. 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. We recorded purchased impaired loans at estimated fair value, including life of loan credit losses, of $12.7 billion at December 31, 2008. 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, purchased impaired loans and loans that are government insured or guaranteed.

Total early stage loan delinquencies (accruing loans past due 30 to 89 days) increased by $50 million from December 31, 2010, to March 31, 2011, remaining relatively stable at approximately $1.4 billion. Commercial early stage delinquencies rose by $149 million from the prior quarter, mostly due to increases in commercial real estate, while consumer delinquencies fell by $99 million. The increase in commercial real estate early stage delinquencies was largely due to maturing loans in the first quarter of 2011 that were not repaid.

The improvement in consumer delinquencies was experienced across all loan classes.

Accruing loans past due 90 days or more are referred to as late stage delinquencies and are not included in nonperforming loans because they are well secured by collateral and in the process of collection. These loans declined approximately 10% from $542 million at December 31, 2010, to $486 million at March 31, 2011, reflecting improvement in commercial delinquency levels. The following tables display the delinquency status of our loans at March 31, 2011 and December 31, 2010. Additional information regarding accruing loans past due is included in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in this Report.

Accruing Loans Past Due 30 To 59 Days

	Amount		Percent of Total Outstandings	
Dollars in millions	**Mar. 31 2011**	Dec. 31 2010	**Mar. 31 2011**	Dec. 31 2010
Commercial	**$ 208**	$ 251	**.37%**	.45%
Commercial real estate	**315**	128	**1.84**	.71
Equipment lease financing	**72**	37	**1.16**	.58
Residential real estate	**205**	226	**1.34**	1.41
Home equity	**146**	159	**.43**	.47
Credit card	**41**	46	**1.11**	1.17
Other consumer	**60**	95	**.36**	.56
Total	**$ 1,047**	$ 942	**.70**	.62

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Accruing Loans Past Due 60 To 89 Days

	Amount		Percent of Total Outstandings	
Dollars in millions	**Mar. 31 2011**	Dec. 31 2010	**Mar. 31 2011**	Dec. 31 2010
Commercial	**$ 56**	$ 92	**.10%**	.17%
Commercial real estate	**65**	62	**.38**	.35
Equipment lease financing	**5**	2	**.08**	.03
Residential real estate	**91**	107	**.59**	.67
Home equity	**96**	91	**.29**	.26
Credit card	**25**	32	**.67**	.82
Other consumer	**25**	32	**.15**	.19
Total	**$ 363**	$ 418	**.24**	.28

Accruing Loans Past Due 90 Days Or More

	Amount		Percent of Total Outstandings	
Dollars in millions	**Mar. 31 2011**	Dec. 31 2010	**Mar. 31 2011**	Dec. 31 2010
Commercial	**$ 49**	$ 59	**.09%**	.11%
Commercial real estate	**6**	43	**.04**	.24
Equipment lease financing		1		.02
Residential real estate	**174**	160	**1.13**	1.00
Home equity	**165**	174	**.49**	.51
Credit card	**65**	77	**1.75**	1.96
Other consumer	**27**	28	**.16**	.16
Total	**$ 486**	$ 542	**.33**	.36

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 $523 million at March 31, 2011 and $574 million at December 31, 2010.

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 or forgive principal. Temporary and permanent modifications under programs involving a contractual change to loan terms are substantially all classified as TDRs, regardless of the period of time for which the modified terms apply, as discussed in more detail below.

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 (e.g., residential mortgages, 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 contractual terms for up to 60 months, although the majority involve periods of three to 24 months. The change in terms may include a reduced interest rate and/or an extension of the amortization period.

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

Dollars in millions	**March 31, 2011** Number of Accounts	Unpaid Principal Balance	December 31, 2010 Number of Accounts	Unpaid Principal Balance
Conforming Mortgages				
Permanent Modifications	**5,892**	**$ 1,099**	5,517	$ 1,137
Non-Prime Mortgages				
Permanent Modifications	**3,740**	**482**	3,405	441
Residential Construction				
Permanent Modifications	**984**	**467**	470	235
Home Equity				
Temporary Modifications	**13,479**	**1,216**	12,643	1,151
Permanent Modifications	**189**	**19**	163	17
Total Home Equity	**13,668**	**1,235**	12,806	1,168
Total Bank-Owned Consumer Real Estate Related Loan Modifications	**24,284**	**$ 3,283**	22,198	$ 2,981

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

March 31, 2011 Dollars in millions	Six Months Number of Accounts Re-defaulted	Six Months % of Vintage Re-defaulted	Nine Months Number of Accounts Re-defaulted	Nine Months % of Vintage Re-defaulted	12 Months Number of Accounts Re-defaulted	12 Months % of Vintage Re-defaulted	Unpaid Principal Balance
Permanent Modifications							
Conforming Mortgages							
Third Quarter 2010	**529**	**26.3%**					**$ 88.7**
Second Quarter 2010	**354**	**23.7**	**446**	**29.9%**			**74.1**
First Quarter 2010	**306**	**22.9**	**462**	**34.6**	**519**	**38.8%**	**77.4**
Fourth Quarter 2009	**224**	**25.4**	**306**	**34.7**	**392**	**44.4**	**57.0**
Non-Prime Mortgages							
Third Quarter 2010	**98**	**18.8**					**15.8**
Second Quarter 2010	**106**	**24.0**	**117**	**26.5**			**17.5**
First Quarter 2010	**72**	**21.4**	**87**	**25.8**	**99**	**29.4**	**12.3**
Fourth Quarter 2009	**126**	**19.0**	**212**	**31.9**	**244**	**36.7**	**20.4**
Residential Construction (a)							
Third Quarter 2010	**20**	**7.1**					**5.9**
Second Quarter 2010	**32**	**11.9**	**33**	**12.3**			**10.5**
First Quarter 2010	**5**	**12.8**	**6**	**15.4**	**5**	**12.8**	**3.2**
Home Equity (b)							
Third Quarter 2010	**1**	**7.7**					
Second Quarter 2010	**2**	**12.5**	**4**	**25.0**			
First Quarter 2010	**1**	**2.3**	**5**	**11.6**	**8**	**18.6**	
Fourth Quarter 2009			**1**	**8.3**	**3**	**25.0**	
Temporary Modifications							
Home Equity							
Third Quarter 2010	**117**	**5.4%**					**$ 10.1**
Second Quarter 2010	**168**	**7.7**	**197**	**9.0%**			**14.2**
First Quarter 2010	**243**	**8.5**	**401**	**14.1**	**413**	**14.5%**	**30.2**
Fourth Quarter 2009	**199**	**8.9**	**333**	**14.8**	**430**	**19.2**	**29.0**

(a) Amounts for fourth quarter 2009 are zero.

(b) 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 and the expectation that all contractual principal and interest will be collected, there is a minimal impact to the ALLL.

Under a HAMP trial payment period, we allow a borrower to demonstrate successful payment performance before contractually establishing an alternative payment amount. Subsequent to successful borrower performance under the trial payment period, we will change a loan s contractual terms and the loan would be classified as a TDR and a nonperforming

loan. However, the borrower is often already delinquent at the time of participation in the HAMP trial payment period. As such, upon successful completion, there is not a significant increase in the ALLL. If the trial payment period is unsuccessful, the loan will be charged-off at the end of the trial payment period to its estimated fair value of the underlying collateral less costs to sell.

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under PNC- developed programs, which in some cases may operate similar to HAMP. These programs first require a reduction of the interest rate followed by an extension of term and, if appropriate, deferral or forgiveness of principal payments. As of March 31, 2011 and December 31, 2010, 1,188 accounts with a balance of $295 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. In October 2010, we signed a Service Provider Agreement for the government-sponsored Second Lien Modification Program and have begun modifying loans under this program. As of March 31, 2011, we have modified 11 accounts with a total balance of less than $1 million.

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

Modifications of terms for 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 programs for small business loans, Small Business Administration loans, and investment real estate loans. As of March 31, 2011 and December 31, 2010, approximately $100 million and $88 million, respectively, in loan balances had been modified under these small business modification programs. None of these small business loan modifications have been determined to be TDRs.

Troubled Debt Restructurings

Loan modifications are evaluated and subject to classification as a TDR if the borrower is experiencing financial difficulty and we grant a concession to the borrower. TDRs typically result from our loss mitigation activities and could include rate reductions and/or principal forgiveness intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. Purchased impaired loans are excluded from consideration as TDRs.

Troubled Debt Restructurings By Type

In millions	**Mar. 31 2011**	Dec. 31 2010
Consumer lending:		
Real estate-related	**$ 1,257**	$ 1,087
Credit card (a)	**314**	331
Other consumer	**4**	4
Total consumer lending	**1,575**	1,422
Total commercial lending	**260**	236
Total TDRs	**$ 1,835**	$ 1,658
Nonperforming status	**$ 882**	$ 784
Accrual status	**639**	543
Credit card (a)	**314**	331
Total TDRs	**$ 1,835**	$ 1,658

(a) Credit cards and certain consumer small business and other credit agreements whose terms have been modified primarily through interest rate reductions are also classified as TDRs. However, these loans are excluded from nonperforming loans since our policy is to exempt these loans from being placed on nonaccrual status as permitted by regulatory guidance. As such, generally under modified terms, these loans are directly charged off in the period that they become 120 to 180 days past due.

Total TDRs increased $177 million or 11% during the first quarter 2011 to $1.8 billion as of March 31, 2011. Of this total, nonperforming TDRs totaled $882 million, which represents approximately 20% of total nonperforming loans. However, as the economy continues to improve, our consumer real estate related loan modification efforts have begun to show signs of slowing.

TDRs that have returned to performing (accrual) status are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of consecutive performance under the modified terms. These TDRs increased $96 million or 18% during the first quarter 2011 to $639 million as of March 31, 2011. This increase reflects the further seasoning and performance of the loan modification portfolio. Cumulatively, of the TDRs that have returned to performing status, approximately $46 million have subsequently re-defaulted and are no longer current under their modified terms.

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

We recorded $533 million in net charge-offs for the first quarter of 2011, compared to $691 million in the first quarter of 2010. This significantly lower level of total net charge-offs represents our lowest level of quarterly net charge-offs in two years. Commercial net charge-offs fell from $437 million in the first quarter of 2010 to $248 million in the first quarter of 2011. Consumer net charge-offs increased slightly from $254 million in the first quarter of 2010 to $285 million in the first quarter of 2011. This consumer increase was primarily due to higher net charge-offs in our home equity portfolio.

Loan Charge-Offs And Recoveries

Three months ended March 31 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2011				
Commercial	**$ 179**	**$ 80**	**$ 99**	**.71%**
Commercial real estate	**158**	**14**	**144**	**3.33**
Equipment lease financing	**14**	**9**	**5**	**.32**
Residential real estate	**58**	**1**	**57**	**1.49**
Home equity	**140**	**10**	**130**	**1.57**
Credit card	**74**	**6**	**68**	**7.21**
Other consumer	**51**	**21**	**30**	**.73**
Total	**$ 674**	**$ 141**	**$ 533**	**1.44**
2010				
Commercial	$ 273	$ 65	$ 208	1.52%
Commercial real estate	238	33	205	3.71
Equipment lease financing	36	12	24	1.59
Residential real estate	38		38	.79
Home equity	73	10	63	.71
Credit card	100	5	95	9.51
Other consumer	69	11	58	1.51
Total	$ 827	$ 136	$ 691	1.77

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Total net charge-offs are significantly lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. Customer balances related to these purchased impaired loans were reduced by the fair value adjustments of $9.2 billion as of December 31, 2008. 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. 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 quarter 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 based on 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 dependent on 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. In addition, these loans were recorded net of $9.2 billion of fair value adjustments as of December 31, 2008. As of March 31, 2011, we have established reserves of $876 million for purchased impaired loans.

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

- industry concentrations and conditions;
- credit quality trends;
- recent loss experience in particular sectors of the portfolio;
- 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 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 the adequacy of our ALLL.

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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 and Unfunded Loan Commitments and Letters of Credit

Dollars in millions	**2011**	2010
January 1	**$ 4,887**	$ 5,072
Total net charge-offs	**(533)**	(691)
Provision for credit losses	**421**	751
Adoption of ASU 2009-17, Consolidations		141
Acquired allowance adjustments		2
Net change in allowance for unfunded loan commitments and letters of credit	**(16)**	44
March 31	**$ 4,759**	$ 5,319
Net charge-offs to average loans (for the three months ended) (annualized)	**1.44%**	1.77%
Allowance for loan and lease losses to total loans	**3.19**	3.38
Commercial lending net charge-offs	**$ (248)**	$ (437)
Consumer lending net charge-offs	**(285)**	(254)
Total net charge-offs	**$ (533)**	$ (691)
Net charge-offs to average loans		
Commercial lending	**1.25%**	2.11%
Consumer lending	**1.65**	1.38

The provision for credit losses totaled $421 million for the first quarter of 2011 compared to $751 million for the first quarter of 2010. This decrease in provision reflected reductions in overall credit exposure, changes in loan portfolio composition as well as the improvement in asset quality over the past year. For the first quarter of 2011, the provision for commercial credit losses declined by $266 million or 68% from the first quarter of 2010. Similarly, the provision for consumer credit losses decreased $64 million or 18% from the first quarter of 2010. Correspondingly, the level of ALLL has also been decreasing.

The portion of the ALLL allocated to commercial nonperforming loans was 26% at March 31, 2011 and 28% at December 31, 2010. Approximately 77% 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.

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 $1.3 billion and $1.4 billion at March 31, 2011, and December 31, 2010, respectively. Excluding these balances, the allowance as a percent of nonperforming loans was 79% and 77% as of March 31, 2011 and December 31, 2010, respectively.

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 6 Purchased Impaired Loans in the Notes To Consolidated Financial Statements 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 buy and sell credit loss protection via the use of credit derivatives. When we buy loss protection by purchasing a credit default swap (CDS), we pay a fee to the seller, or CDS counterparty, in return for the right to receive a payment if a specified credit event occurs for a particular obligor or reference entity. We purchase CDSs to mitigate the risk of economic loss on a portion of our loan exposures.

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

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

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

Liquidity Risk Management

Liquidity risk has two fundamental components. The first is the potential loss if we were unable to meet our funding requirements at a reasonable cost. The second is the potential inability to operate our businesses because adequate contingent liquidity is not available in a stressed environment. We manage liquidity risk at the bank and parent company levels to help ensure that we can obtain cost-effective funding to meet current and future obligations under both normal business as usual and stressful circumstances and to help ensure that we maintain an appropriate level of contingent liquidity.

Spot and forward funding gap analyses are the primary metrics used to measure and monitor bank liquidity risk. Funding gaps represent the difference in projected sources of liquidity available to offset projected uses. We calculate funding gaps for the overnight, thirty-day, ninety-day, one hundred eighty-day and one-year time intervals. Risk limits are established within our Liquidity Risk Policy. Management s Asset and Liability Committee regularly reviews compliance with the established limits.

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Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet our parent company obligations over the succeeding 24-month period. Risk limits for parent company liquidity are established within our Enterprise Capital Management Policy. The Board of Directors 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 March 31, 2011, there were approximately $3.9 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 March 31, 2011, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning deposits with banks) totaling $5.9 billion and securities available for sale totaling $54.5 billion. Of our total liquid assets of $60.4 billion, we had $24.6 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 March 31, 2011, PNC Bank, N.A. had issued $6.9 billion of debt under this program. Total senior and subordinated debt declined to $4.9 billion at March 31, 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 March 31, 2011, our unused secured borrowing capacity was $15.2 billion with FHLB-Pittsburgh. Total FHLB borrowings declined to $5.0 billion at March 31, 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 March 31, 2011, there were no issuances outstanding under this program. Commercial paper included in Other borrowed funds on our Consolidated Balance Sheet is issued by Market Street as described in Off-Balance Sheet Arrangements and Variable Interest Entities in this Financial Review.

PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland s (Federal Reserve Bank) discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by securities and commercial loans. At March 31, 2011, our unused secured borrowing capacity was $25.0 billion with the Federal Reserve Bank.

Parent Company Liquidity Uses

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

See 2011 Capital Actions in the Executive Summary section of this Financial Review for additional information regarding our April 2011 increase to PNC s quarterly common stock dividend and our plans to purchase shares under PNC s existing common stock repurchase plan during the remainder of 2011.

As of March 31, 2011, there were approximately $1.7 billion of parent company borrowings with maturities of less than one year.

Parent Company Liquidity Sources

The principal source of parent company liquidity is the dividends it receives from its subsidiary bank, which may be impacted by the following:

- Bank-level capital needs,
- Laws and regulations,
- Corporate policies,
- Contractual restrictions, and
- Other factors.

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The amount available for dividend payments by PNC Bank, N.A. to the parent company without prior regulatory approval was approximately $1.9 billion at March 31, 2011. There are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. See Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in 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 PNC Capital Trust E Trust Preferred Securities and Acquired Entity Trust Preferred Securities sections of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review 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 March 31, 2011, the parent company had approximately $5.4 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 was $15.8 billion at March 31, 2011 compared with $17.3 billion at December 31, 2010.

The parent company, through its subsidiary PNC Funding Corp, has the ability to offer up to $3.0 billion of commercial paper to provide additional liquidity. As of March 31, 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 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 March 31, 2011 for PNC and PNC Bank, N.A. follow:

	Moody s	Standard & Poor s	Fitch
The PNC Financial Services Group, Inc.			
Senior debt	A3	A	A+
Subordinated debt	Baa1	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 March 31, 2011 representing required and potential cash outflows.

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Contractual Obligations

			Payment Due By Period		
March 31, 2011 in millions	Total	Less than one year	One to three years	Four to five years	After five years
Remaining contractual maturities of time deposits (a)	**$ 39,380**	**$ 30,182**	**$ 7,025**	**$ 1,435**	**$ 738**
Borrowed funds (a)	**34,996**	**11,420**	**8,319**	**4,820**	**10,437**
Minimum annual rentals on noncancellable leases	**2,386**	**329**	**567**	**405**	**1,085**
Nonqualified pension and postretirement benefits	**572**	**69**	**123**	**117**	**263**
Purchase obligations (b)	**651**	**272**	**261**	**111**	**7**
Total contractual cash obligations	**$ 77,985**	**$ 42,272**	**$ 16,295**	**$ 6,888**	**$ 12,530**

(a) Includes purchase accounting adjustments.

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

At March 31, 2011, the liability for uncertain tax positions, excluding associated interest and penalties, was $294 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 the maturities of borrowed funds.

Other Commitments (a)

			Amount Of Commitment Expiration By Period		
March 31, 2011 in millions	Total Amounts Committed	Less than one year	One to three years	Four to five years	After five years
Net unfunded credit commitments	**$ 96,781**	**$ 51,816**	**$ 35,543**	**$ 9,149**	**$ 273**
Standby letters of credit (b)	**10,173**	**4,505**	**4,929**	**641**	**98**
Reinsurance agreements (c)	**4,894**	**1,262**	**130**	**65**	**3,437**
Other commitments (d)	**708**	**359**	**238**	**98**	**13**
Total commitments	**$ 112,556**	**$ 57,942**	**$ 40,840**	**$ 9,953**	**$ 3,821**

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

(b) Includes $7.1 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.

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

(d) Includes unfunded commitments related to private equity investments of $300 million and other investments of $9 million which are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $364 million and other direct equity investments of $35 million which are included in Other liabilities on our Consolidated Balance Sheet.

MARKET RISK MANAGEMENT OVERVIEW

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

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

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

Market Risk Management Interest Rate Risk

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

Asset and Liability Management centrally manages interest rate risk 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 first quarters of 2011 and 2010 follow:

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Interest Sensitivity Analysis

	First Quarter 2011	First 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	**1.1%**	1.3%
100 basis point decrease (a)	**(.9)%**	(2.1)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**3.4%**	1.3%
100 basis point decrease (a)	**(3.4)%**	(6.3)%
Duration of Equity Model (a)		
Base case duration of equity (in years):		(1.7)
Key Period-End Interest Rates		
One-month LIBOR	**.24%**	.25%
Three-year swap	**1.47%**	1.81%

(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 (First Quarter 2011)

	PNC Economist	Market Forward	Two-Ten Slope
First year sensitivity	**.2%**	**%**	**.1%**
Second year sensitivity	**1.1%**	**2.1%**	**(.4)%**

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

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

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

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

MARKET RISK MANAGEMENT TRADING RISK

Our trading activities are primarily customer-driven trading in fixed income securities, 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. The Risk Committee of the Board establishes an enterprise-wide VaR limit on our trading activities.

During the first three months of 2011, our VaR ranged between $1.8 million and $3.8 million, averaging $3.1 million. During the first three months of 2010, our VaR ranged between $5.9 million and $8.8 million, averaging $7.1 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. Over a typical business cycle, we would expect an average of two to three instances a year in which actual losses exceeded the prior day VaR measure at the enterprise-wide level. There were no such instances during the first three months of 2011 or 2010, as the trading markets have moved into a period of relatively low pricing volatility.

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

Total trading revenue was as follows:

Trading Revenue

Three months ended March 31

In millions	**2011**	2010
Net interest income	**$ 11**	$ 16
Noninterest income	**50**	58
Total trading revenue	**$ 61**	$ 74
Securities underwriting and trading (a)	**$ 16**	$ 40
Foreign exchange	**17**	22
Financial derivatives and other	**28**	12
Total trading revenue (b)	**$ 61**	$ 74

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

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

Trading revenue for the first quarter of 2011 decreased $13 million compared with the first quarter of 2010 primarily due to lower underwriting revenues, which were partially offset by increased derivative client sales and reduced impact of credit risk on customer derivative position values.

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. 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	**Mar. 31 2011**	Dec. 31 2010
BlackRock	**$ 5,068**	$ 5,017
Tax credit investments	**2,304**	2,054
Private equity	**1,446**	1,375

Visa	**456**	456
Other	**321**	318
Total	**$ 9,595**	$ 9,220

BlackRock

PNC owned approximately 36 million common stock equivalent shares of BlackRock equity at March 31, 2011, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

Tax Credit Investments

Included in our equity investments are tax credit investments which are mostly accounted for under the equity method. These investments, as well as equity investments held by consolidated partnerships, totaled $2.3 billion at March 31, 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 $1.4 billion at both March 31, 2011 and December 31, 2010. As of March 31, 2011, $794 million was invested directly in a variety of companies and $652 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 $255 million as of March 31, 2011. The indirect private equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee.

Our unfunded commitments related to private equity totaled $300 million at March 31, 2011 compared with $319 million at December 31, 2010.

Visa

At March 31, 2011, our investment in Visa Class B common shares totaled approximately 23 million shares. In March 2011, Visa funded $400 million to their litigation escrow account and reduced the conversion ratio of Visa B to A shares. We consequently recognized our estimated $38 million share of the $400 million as a reduction of our previously established indemnification liability and a reduction of noninterest expense. Our indemnification liability included on our Consolidated Balance Sheet at March 31, 2011 totaled $32 million. Our ultimate exposure to the specified Visa litigation may be different than this amount.

As of March 31, 2011, we had recognized $456 million of our Visa ownership, which we acquired with National City, on our Consolidated Balance Sheet. Based on the March 31, 2011 closing price of $73.62 for the Visa Class A shares, the market value of our investment was $837 million. The Visa Class B common shares we own generally will not be transferable, except under limited circumstances, until they can be converted into shares of the publicly traded class of stock, which cannot happen until the 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 March 31, 2011, other investments totaled $321 million compared with $318 million at December 31, 2010. We recognized net gains related to these investments of $15 million during the first three months of 2011 compared with $17 million during the first three months of 2010.

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

Our unfunded commitments related to other investments totaled $9 million at March 31, 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 March 31, 2011 and December 31, 2010.

Financial Derivatives

In millions	March 31, 2011 Notional/ Contractual Amount	March 31, 2011 Estimated Net Fair Value	December 31, 2010 Notional/ Contractual Amount	December 31, 2010 Estimated Net Fair Value
Derivatives designated as hedging instrument under GAAP				
Interest rate contracts (a)				
Asset rate conversion				
Receive fixed swaps	**$ 15,546**	**$ 284**	$ 14,452	$ 332
Pay fixed swaps	**2,160**	**24**	1,669	12
Liability rate conversion				
Receive fixed swaps	**9,803**	**717**	9,803	834
Forward purchase commitments	**700**	**4**	2,350	(8)
Total interest rate risk management	**28,209**	**1,029**	28,274	1,170
Total derivatives designated as hedging instruments (b)	**$ 28,209**	**$ 1,029**	$ 28,274	$ 1,170
Derivatives not designated as hedging instruments under GAAP				
Derivatives used for residential mortgage banking activities:				
Interest rate contracts				
Swaps	**$ 92,278**	**$ 156**	$ 83,421	$ 63
Futures	**52,913**		51,699	
Future options	**18,200**	**8**	31,250	21
Swaptions	**8,930**	**103**	11,040	28
Commitments related to residential mortgage assets	**13,250**	**20**	16,652	47
Total residential mortgage banking activities	**$ 185,571**	**$ 287**	$ 194,062	$ 159
Derivatives used for commercial mortgage banking activities:				
Interest rate contracts				
Swaps	**$ 1,747**	**$ (37)**	$ 1,744	$ (41)
Commitments related to commercial mortgage assets	**608**	**1**	1,228	5
Credit contracts				
Credit default swaps	**215**	**8**	210	8
Total commercial mortgage banking activities	**$ 2,570**	**$ (28)**	$ 3,182	$ (28)
Derivatives used for customer-related activities:				
Interest rate contracts				
Swaps	**$ 92,802**	**$ (93)**	$ 92,248	$ (104)
Caps/floors				
Sold (c)	**3,639**	**(16)**	3,207	(15)
Purchased	**3,052**	**18**	2,528	14
Swaptions	**2,115**	**8**	2,165	13
Futures	**2,379**		2,793	
Commitments related to residential mortgage assets	**1,347**	**1**	738	
Foreign exchange contracts (c)	**9,930**	**(10)**	7,913	(6)
Equity contracts (c)	**339**	**(4)**	334	(3)
Credit contracts				
Risk participation agreements	**3,003**	**1**	2,738	3
Other contracts	**340**			
Total customer-related	**$ 118,946**	**$ (95)**	$ 114,664	$ (98)
Derivatives used for other risk management activities:				
Interest rate contracts				
Swaps	**$ 818**	**$ 4**	$ 3,021	$ 6
Swaptions			100	4
Futures	**294**		298	
Commitments related to residential mortgage assets	**340**	**1**	1,100	1
Foreign exchange contracts	**31**	**(4)**	32	(4)
Credit contracts				
Credit default swaps	**543**	**7**	551	8
Other contracts (c) (d)	**209**	**(447)**	209	(396)
Total other risk management	**$ 2,235**	**$ (439)**	$ 5,311	$ (381)
Total derivatives not designated as hedging instruments	**$ 309,322**	**$ (275)**	$ 317,219	$ (348)

Total Gross Derivatives	**$ 337,531**	**$ 754**	$ 345,493	$ 822

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 59% were based on 1-month LIBOR and 41% on 3-month LIBOR at March 31, 2011 compared with 58% and 42%, respectively, at December 31, 2010.

(b) Fair value amount includes net accrued interest receivable of $123 million at March 31, 2011 and $132 million at December 31, 2010.

(c) The increases in the negative fair values from December 31, 2010 to March 31, 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 three months of 2011 and contracts terminated.

(d) 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 March 31, 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 March 31, 2011, and that there has been no change in PNC s internal control over financial reporting that occurred during the first 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.

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 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.

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

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

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

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

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.

Nonperforming loans   Loans for which we do not accrue interest income. Nonperforming loans include loans to commercial, commercial real estate, equipment lease

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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) Foreclosed 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.

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

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

Provision-adjusted net interest margin Net interest margin less the ratio of the annualized provision for credit losses to average interest-earning assets.

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.

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

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

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

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

Securitization   The process of legally transforming financial assets into securities.

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

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

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

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

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

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

net unrealized holding gains (losses) on cash flow hedge derivatives are excluded from total shareholders   equity for Tier 1 risk-based capital purposes.

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

Total equity   Total shareholders   equity plus noncontrolling interests.

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

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

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

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

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

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

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

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

We make statements in this Report, and we may from time to time make other statements, regarding our outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality and/or other matters regarding or affecting PNC 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, intend, outlook, estimate, forecast, will, should, pr other similar 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 they are made. We do not assume any duty and do not undertake to update our forward-looking statements. Actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements, and future results could differ materially from our historical performance.

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

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

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

Disruptions in the liquidity and other functioning of financial markets, including such disruptions in the markets for real estate and other assets commonly securing financial products.

Actions by the Federal Reserve and other government agencies, including those that impact money supply and market interest rates.

Changes in our customers , suppliers and other counterparties performance in general and their creditworthiness in particular.

A slowing or failure of the moderate economic recovery that began in mid-2009 and continued throughout 2010 and into 2011.

Continued effects of the aftermath of recessionary conditions and the uneven spread of the positive impacts of the recovery on the economy in general

and our customers in particular, including adverse impact on loan utilization rates as well as delinquencies, defaults and customer ability to meet credit obligations.

Changes in levels of unemployment.

Changes in customer preferences and behavior, whether as a result of changing business and economic conditions, climate-related physical changes or legislative and regulatory initiatives, or other factors.

Turbulence in significant portions of the US and global financial markets could impact our performance, both directly by affecting our revenues and the value of our assets and liabilities and indirectly by affecting our counterparties and the economy generally.

We will be impacted by the extensive reforms provided for in the Dodd-Frank Act and ongoing reforms impacting the financial institutions industry generally. Further, as much of the Dodd-Frank Act will require the adoption of implementing regulations by a number of different regulatory bodies, the precise nature, extent and timing of many of these reforms and the impact on us is still uncertain.

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

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

Given current economic and financial market conditions, our forward-looking financial statements are subject to the risk that these conditions will be substantially different than we are currently expecting. These statements are based on our current view that the moderate economic recovery that began in mid-2009 and continued throughout 2010 will transition into a self-sustaining economic expansion in 2011 pushing the unemployment rate lower amidst continued low interest rates.

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

Changes resulting from legislative and regulatory responses to the current economic and financial industry environment.

Other legislative and regulatory reforms, including broad-based restructuring of financial industry regulation (such as those under the Dodd-Frank Act)

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as well as changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other aspects of the financial institution industry.

Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. In addition to matters relating to PNC s business and activities, such matters may also include proceedings, claims, investigations, or inquiries relating to pre-acquisition business and activities of acquired companies, such as National City. 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.

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

Changes in accounting policies and principles.

Changes resulting from legislative and regulatory initiatives relating to climate change that have or may have a negative impact on our customers demand for or use of our products and services in general and their creditworthiness in particular.

Changes to regulations governing bank capital, including as a result of the Dodd-Frank Act and of the Basel III initiatives.

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

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

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

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

Competition can have an impact on customer acquisition, growth and retention, as well as on our credit spreads and product pricing, which can affect market share, deposits and revenues.

Our business and operating results can also be affected by widespread disasters, terrorist activities or international hostilities, either as a result of the impact on the economy and capital and other financial markets generally or on us or on our customers, suppliers or other counterparties specifically.

Also, risks and uncertainties that could affect the results anticipated in forward-looking statements or from historical performance relating to our equity interest in BlackRock, Inc. are discussed in more detail in BlackRock s filings with the SEC, including in the Risk Factors sections of BlackRock s reports. BlackRock s SEC filings are accessible on the SEC s website and on or through BlackRock s website at www.blackrock.com. This material is referenced for informational purposes only and should not be deemed to constitute a part of this Report.

We grow our business in part by acquiring from time to time other financial services companies, financial services assets and related deposits. Acquisitions present us with risks in addition to those presented by the nature of the business acquired. These include risks and uncertainties related both to the acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing.

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

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

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Consolidated Income Statement

The PNC Financial Services Group, Inc.

In millions, except per share data *Unaudited*	Three months ended March 31 **2011**	2010
Interest Income		
Loans	**$ 1,884**	$ 2,160
Investment securities	**578**	623
Other	**121**	122
Total interest income	**2,583**	2,905
Interest Expense		
Deposits	**182**	281
Borrowed funds	**225**	245
Total interest expense	**407**	526
Net interest income	**2,176**	2,379
Noninterest Income		
Asset management	**263**	259
Consumer services	**311**	296
Corporate services	**217**	268
Residential mortgage	**195**	147
Service charges on deposits	**123**	200
Net gains on sales of securities	**37**	90
Other-than-temporary impairments	**(30)**	(240)
Less: Noncredit portion of other-than-temporary impairments (a)	**4**	(124)
Net other-than-temporary impairments	**(34)**	(116)
Other	**343**	240
Total noninterest income	**1,455**	1,384
Total revenue	**3,631**	3,763
Provision For Credit Losses	**421**	751
Noninterest Expense		
Personnel	**989**	956
Occupancy	**193**	187
Equipment	**167**	172
Marketing	**40**	50
Other	**681**	748
Total noninterest expense	**2,070**	2,113
Income from continuing operations before income taxes and noncontrolling interests	**1,140**	899
Income taxes	**308**	251
Income from continuing operations before noncontrolling interests	**832**	648
Income from discontinued operations (net of income taxes of zero and $14)		23
Net income	**832**	671
Less: Net income (loss) attributable to noncontrolling interests	**(5)**	(5)
Preferred stock dividends	**4**	93
Preferred stock discount accretion		250
Net income attributable to common shareholders	**$ 833**	$ 333
Basic Earnings Per Common Share		
Continuing operations	**$ 1.59**	$ .62
Discontinued operations		.05
Net income	**$ 1.59**	$ .67
Diluted Earnings Per Common Share		
Continuing operations	**$ 1.57**	$ .61
Discontinued operations		.05
Net income	**$ 1.57**	$ .66

Average Common Shares Outstanding		
Basic	**524**	498
Diluted	**526**	500

(a) Included in accumulated other comprehensive income (loss).
See accompanying Notes To Consolidated Financial Statements.

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Consolidated Balance Sheet

The PNC Financial Services Group, Inc.

In millions, except par value

Unaudited	**March 31 2011**	December 31 2010
Assets		
Cash and due from banks (includes $2 and $2 for VIEs) (a)	**$ 3,389**	$ 3,297
Federal funds sold and resale agreements (includes $823 and $866 measured at fair value) (b)	**2,240**	3,704
Trading securities	**2,254**	1,826
Interest-earning deposits with banks (includes $83 and $288 for VIEs) (a)	**1,359**	1,610
Loans held for sale (includes $2,684 and $2,755 measured at fair value) (b)	**2,980**	3,492
Investment securities (includes $110 and $192 for VIEs) (a)	**60,992**	64,262
Loans (includes $4,796 and $4,645 for VIEs) (includes $229 and $116 measured at fair value) (a) (b)	**149,387**	150,595
Allowance for loan and lease losses (includes $(128) and $(183) for VIEs) (a)	**(4,759)**	(4,887)
Net loans	**144,628**	145,708
Goodwill	**8,146**	8,149
Other intangible assets	**2,618**	2,604
Equity investments (includes $1,332 and $1,177 for VIEs) (a)	**9,595**	9,220
Other (includes $741 and $676 for VIEs) (includes $447 and $396 measured at fair value) (a) (b)	**21,177**	20,412
Total assets	**$ 259,378**	$ 264,284
Liabilities		
Deposits		
Noninterest-bearing	**$ 48,707**	$ 50,019
Interest-bearing	**133,283**	133,371
Total deposits	**181,990**	183,390
Borrowed funds		
Federal funds purchased and repurchase agreements	**4,079**	4,144
Federal Home Loan Bank borrowings	**5,020**	6,043
Bank notes and senior debt	**11,324**	12,904
Subordinated debt	**9,310**	9,842
Other (includes $3,397 and $3,354 for VIEs) (a)	**5,263**	6,555
Total borrowed funds	**34,996**	39,488
Allowance for unfunded loan commitments and letters of credit	**204**	188
Accrued expenses (includes $113 and $88 for VIEs) (a)	**3,078**	3,188
Other (includes $715 and $456 for VIEs) (a)	**5,393**	5,192
Total liabilities	**225,661**	231,446
Equity		
Preferred stock (c)		
Common stock $5 par value		
Authorized 800 shares, issued 536 and 536 shares	**2,682**	2,682
Capital surplus preferred stock	**647**	647
Capital surplus common stock and other	**12,056**	12,057
Retained earnings	**16,640**	15,859
Accumulated other comprehensive income (loss)	**(309)**	(431)
Common stock held in treasury at cost: 10 and 10 shares	**(584)**	(572)
Total shareholders equity	**31,132**	30,242
Noncontrolling interests	**2,585**	2,596
Total equity	**33,717**	32,838
Total liabilities and equity	**$ 259,378**	$ 264,284

(a) Amounts represent the assets or liabilities of consolidated variable interest entities (VIEs).
(b) Amounts represent items for which the Corporation has elected the fair value option.

(c) Par value less than $.5 million at each date.
See accompanying Notes To Consolidated Financial Statements.

Consolidated Statement Of Cash Flows

The PNC Financial Services Group, Inc.

In millions *Unaudited*	Three months ended March 31 **2011**	 2010
Operating Activities		
Net income	**$ 832**	$ 671
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for credit losses	**421**	751
Depreciation and amortization	**279**	226
Deferred income taxes	**46**	254
Net gains on sales of securities	**(37)**	(90)
Net other-than-temporary impairments	**34**	116
Undistributed earnings of BlackRock	**(55)**	(57)
Net change in		
Trading securities and other short-term investments	**(294)**	885
Loans held for sale	**166**	(218)
Other assets	**(291)**	437
Accrued expenses and other liabilities	**(411)**	(907)
Other	**37**	204
Net cash provided (used) by operating activities	**727**	2,272
Investing Activities		
Sales		
Securities available for sale	**8,018**	6,040
Loans	**590**	299
Repayments/maturities		
Securities available for sale	**1,590**	1,815
Securities held to maturity	**506**	256
Purchases		
Securities available for sale	**(7,237)**	(9,154)
Securities held to maturity	**(22)**	(527)
Loans	**(417)**	(1,532)
Net change in		
Federal funds sold and resale agreements	**1,456**	1,024
Interest-earning deposits with banks	**251**	3,881
Loans	**458**	3,251
Other	**(80)**	264
Net cash provided (used) by investing activities	**5,113**	5,617

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Consolidated Statement of Cash Flows

The PNC Financial Services Group, Inc.

(continued from previous page)

In millions	Three months ended March 31	
Unaudited	**2011**	2010
Financing Activities		
Net change in		
Noninterest-bearing deposits	**$ (1,266)**	$ (559)
Interest-bearing deposits	**(88)**	(2,527)
Federal funds purchased and repurchase agreements	**(63)**	1,514
Federal Home Loan Bank short-term borrowings		(280)
Other short-term borrowed funds	**(1,361)**	(1,149)
Sales/issuances		
Bank notes and senior debt		1,991
Other long-term borrowed funds	**2,201**	1,303
Common and treasury stock	**14**	3,409
Repayments/maturities		
Federal Home Loan Bank long-term borrowings	**(1,023)**	(1,757)
Bank notes and senior debt	**(1,525)**	(1,754)
Subordinated debt	**(480)**	29
Other long-term borrowed funds	**(2,068)**	(1,050)
Preferred stock TARP		(7,579)
Acquisition of treasury stock	**(33)**	(67)
Preferred stock cash dividends paid	**(4)**	(93)
Common stock cash dividends paid	**(52)**	(45)
Net cash provided (used) by financing activities	**(5,748)**	(8,614)
Net Increase (Decrease) In Cash And Due From Banks	**92**	(725)
Cash and due from banks at beginning of period	**3,297**	4,288
Cash and due from banks at end of period	**$ 3,389**	$ 3,563
Supplemental Disclosures		
Interest paid	**$ 445**	$ 515
Income taxes paid	**265**	308
Income taxes refunded	**26**	1
Non-cash Investing and Financing Items		
Transfer from (to) loans to (from) loans held for sale, net	**100**	83
Transfer from loans to foreclosed assets	**161**	382

See accompanying Notes To Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THE PNC FINANCIAL SERVICES GROUP, INC.

Business

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

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

NOTE 1 ACCOUNTING POLICIES

BASIS OF FINANCIAL STATEMENT PRESENTATION

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

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform with the 2011 presentation. These reclassifications did not have a material impact on our consolidated financial condition or results of operations.

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

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

When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2010 Annual Report on Form 10-K (2010 Form 10-K). Reference is made to Note 1 Accounting Policies in the 2010 Form 10-K for a detailed description of significant accounting policies.

There have been no significant changes to these policies in the first three months of 2011 other than as disclosed herein. These interim consolidated financial statements serve to update the 2010 Form 10-K and may not include all information and notes necessary to constitute a complete set of financial statements.

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

USE OF ESTIMATES

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

Investment In BlackRock, Inc.

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

We also own 2.9 million shares of Series C Preferred Stock of BlackRock. Since these preferred shares are not deemed to be in substance common stock, we have elected to account for these preferred shares at fair value and the changes in fair value will offset the impact of marking-to-market the obligation to deliver these shares to BlackRock. Our investment in the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in Other assets.

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

Nonperforming Assets

Nonperforming assets include:

- Nonaccrual loans,
- Troubled debt restructurings, and
- Foreclosed assets.

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Nonperforming loans are those loans that have deteriorated in credit quality to the extent that full collection of original contractual principal and interest is doubtful. When a loan is determined to be nonperforming (and as a result is impaired), the accrual of interest is ceased and the loan is classified as nonaccrual. The current year accrued and uncollected interest is reversed out of net interest income.

A loan acquired and accounted for under ASC Sub-Topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality is reported as an accruing loan and a performing asset.

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

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

We charge off commercial nonaccrual loans based on the facts and circumstances of the individual loans.

Additionally, in general, small business commercial term loans of less than $1 million and small business commercial revolving loans are placed on nonaccrual status at 90 days past due and charged off at 120 and 180 days past due, respectively.

Home equity installment loans and lines of credit, as well as residential real estate loans, that are well secured are classified as nonaccrual at 180 days past due. A consumer loan is considered well-secured when the collateral in the form of liens on (or pledges of) real or personal property, including marketable securities, have a realizable value sufficient to discharge the debt in full, including accrued interest.

Home equity installment loans and lines of credit and residential real estate loans that are not well secured and/or are in the process of collection are charged off at 180 days past due to the estimated fair value of the collateral less cost to sell. The remaining portion of the loan is placed on nonaccrual status.

Subprime mortgage loans for first liens with a loan-to-value (LTV) ratio of equal to or greater than 90% and second liens are classified as nonaccrual at 90 days past due. These loans are charged off as discussed above.

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

If payment is received on a nonperforming loan, the payment is first applied to the past due principal; once this principal obligation has been fulfilled, payments are applied to recover any partial charge-off related to the impaired loan that might exist. Finally, if both past due principal and any partial charge-off have been recovered, then the payment will result in the recognition and recording of interest income. This process is followed for impaired loans with the exception of performing troubled debt restructurings (TDRs). Payments received on performing TDRs and other modified loans will be applied in accordance with the terms of the modified loan.

A loan is categorized as a TDR if a concession is granted due to deterioration in the financial condition of the borrower. TDRs may include certain modifications of terms of loans, receipts of assets from debtors in partial or full satisfaction of loans, or a combination thereof. Modified loans classified as TDRs are included in nonperforming loans until returned to performing status through the fulfilling of contractual terms for a reasonable period of time (generally 6 months).

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

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

Foreclosed assets are comprised of any asset seized or property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Other real estate owned is comprised principally of commercial real estate and residential real estate properties obtained in partial or total satisfaction of loan obligations. Following the obtaining of a foreclosure judgment, or in some jurisdictions the initiation of proceedings under a power of sale in the loan instruments, the property will be sold. When we acquire the deed, we transfer the loan to other real estate owned included in Other assets on our Consolidated Balance Sheet. Property obtained in satisfaction of a loan is recorded at the lower of recorded investment or estimated fair value less cost to sell. We estimate fair values primarily based on appraisals, when available, or quoted market prices on liquid assets. Anticipated recoveries and government guarantees are also considered in evaluating the potential impairment of loans at the date of transfer. If the estimated fair value less cost to sell is less than the recorded investment, a charge-off is recognized against the Allowance for loan and lease losses (ALLL).

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

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

Allowance For Loan And Lease Losses

We maintain the ALLL at a level that we believe to be adequate to absorb estimated probable credit losses incurred in the loan portfolio as of the balance sheet date. Our determination of the adequacy of the allowance is based on periodic evaluations of the loan and lease portfolios and other relevant factors. This evaluation is inherently subjective as it requires material estimates, all of which may be susceptible to significant change, including, among others:

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

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

- Recent Credit quality trends,
- Recent Loss experience in particular portfolios,
- Recent Macro economic factors, and
- Changes in risk selection and underwriting standards.

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

Nonperforming loans are considered impaired under ASC 310-Receivables and are allocated a specific reserve.

Specific reserve allocations are determined as follows:

- For nonperforming loans greater than or equal to a defined dollar threshold and TDRs, specific reserves are based on an analysis of the present value of the loan s expected future cash flows, the loan s observable market price or the fair value of the collateral.
- For nonperforming loans below the defined dollar threshold, the loans are aggregated for purposes of measuring specific reserve impairment using the applicable loan s LGD percentage multiplied by the balance of the loans.

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

Our credit risk management policies, procedures and practices are designed to promote sound and fair lending standards while achieving prudent credit risk management. We have policies, procedures and practices that address financial statement requirements, collateral review and appraisal requirements, advance rates based upon collateral types, appropriate levels of exposure, cross-border risk, lending to specialized industries or borrower type, guarantor requirements, and regulatory compliance.

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

Allowance For Unfunded Loan Commitments And Letters Of Credit

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

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

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

EARNINGS PER COMMON SHARE

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2011, the FASB issued ASU 2011- 03 *Transfers and Servicing (Topic 860)*: *Reconsideration of Effective Control for Repurchase Agreements.* This ASU removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control have not been changed by this ASU. ASU 2011-03 is effective for the first interim or annual period beginning on or after December 15, 2011 and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of this new guidance is not expected to have a material effect on our results of operations or financial position.

In April 2011, the FASB issued ASU 2011-02, *Receivables (Topic 310): A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The ASU clarifies when a loan modification constitutes a troubled debt

restructuring (TDR). This ASU (1) eliminates the sole use of the borrowers effective interest rate test to determine if a concession has occurred on the part of the creditor, (2) requires a modification with below market terms to be considered in determining classification as a TDR, (3) specifies that a borrower not currently in default may still be experiencing *financial difficulty* when payment default is probable in the foreseeable future, and (4) specifies that a delay in payment should be considered along with all other factors in determining classification as a TDR. The ASU guidance is effective for interim and annual periods beginning after June 15, 2011 and is to be applied retrospectively to the beginning of the annual period of adoption. We are currently evaluating the impact of this ASU.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820), *Improving Disclosures About Fair Value Measurements.* This ASU requires purchases, sales, issuances and settlements to be reported separately in the Level 3 fair value measurement rollforward beginning with the first quarter 2011 reporting. See Note 8 Fair Value for additional information.

In July 2010, the FASB issued ASU 2010-20 Receivables (Topic 310) *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. While the majority of the disclosures within this ASU were already required to be adopted and included in the 2010 Form 10-K, required disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. Comparative disclosures for earlier reporting periods that ended before initial adoption is encouraged. Comparative disclosures for those reporting periods ending after initial adoption are required. See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information. The effective date for disclosures related to troubled debt restructurings required by ASU 2010-20 was deferred by ASU 2011-01 Receivables (Topic 310): *Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*, which was issued in January 2011. The disclosures were deferred until the FASB had completed ASU 2011-02. The effective date of the TDR disclosures is now consistent with the effective date of ASU 2011-02.

NOTE 2 DIVESTITURE

SALE OF PNC GLOBAL INVESTMENT SERVICING

On July 1, 2010, we sold PNC Global Investment Servicing Inc. (GIS), a leading provider of processing, technology and business intelligence services to asset managers, broker-dealers and financial advisors worldwide, for $2.3 billion in cash pursuant to a definitive agreement entered into on February 2, 2010. This transaction resulted in a pretax gain of $639 million, net of transaction costs, in the third quarter of 2010. Results of operations of GIS through March 31, 2010 are presented as Income from discontinued operations, net of income taxes, on our Consolidated Income Statement. As part of the sale agreement, PNC has agreed to provide certain transitional services on behalf of GIS until completion of related systems conversion activities. There were no assets or liabilities of GIS remaining at December 31, 2010.

NOTE 3 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES

LOAN SALE AND SERVICING ACTIVITIES

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

have purchased (in whole-loan sale transactions) and subsequently sold our loans into securitization SPEs. Third-party investors have also purchased our loans in whole-loan sale transactions. Securitization SPEs, which are legal entities that are utilized in the Agency and Non-Agency securitization transactions, are VIEs.

Our continuing involvement in the Agency securitizations, Non-Agency securitizations, and whole-loan sale transactions generally consists of servicing, repurchases of previously transferred loans and loss share arrangements, and, in limited circumstances, holding of mortgage-backed securities issued by the securitization SPEs. Refer to Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in our 2010 Form 10-K for additional information regarding our continuing involvement in these transactions. In addition, further details of our repurchase and loss share obligations are contained in Note 17 Commitments and Guarantees.

Certain loans transferred to the Agencies contain removal of account provisions (ROAPs). Under these ROAPs, we hold an option to repurchase at par individual delinquent loans that meet certain criteria. When we have the unilateral ability to repurchase a delinquent loan, effective control over the loan has been regained and we recognize the loan and a corresponding liability on the balance sheet regardless of our intent to repurchase the loan. At March 31, 2011 and December 31, 2010, the balance of our ROAP asset and liability totaled $256 million and $336 million, respectively.

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

In millions