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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 31, 2012, there were 528,863,145 shares of the registrant s common stock ($5 par value) outstanding.

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

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

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

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

MD&A TABLE REFERENCE

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE (Continued)

Table of Contents

FINANCIAL REVIEW

TABLE 1: CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended September 30 2012	 2011	Nine months ended September 30 2012	 2011
Financial Results (a)				
Revenue				
Net interest income	$ 2,399	$ 2,175	$ 7,216	$ 6,501
Noninterest income	1,689	1,369	4,227	4,276
Total revenue	4,088	3,544	11,443	10,777
Noninterest expense	2,650	2,140	7,753	6,386
Pretax, pre-provision earnings (b)	1,438	1,404	3,690	4,391
Provision for credit losses	228	261	669	962
Income before income taxes and noncontrolling interests (pretax earnings)	$ 1,210	$ 1,143	$ 3,021	$ 3,429
Net Income	$ 925	$ 834	$ 2,282	$ 2,578
Less: Net income (loss) attributable to noncontrolling interests	(14)	4	(13)	(2)
Preferred stock dividends and discount accretion	63	4	127	33
Net income attributable to common shareholders	$ 876	$ 826	$ 2,168	$ 2,547
Diluted earnings per common share	$ 1.64	$ 1.55	$ 4.06	$ 4.79
Cash dividends declared per common share	$ .40	$ .35	$ 1.15	$ .80
Gain on sale of Visa Class B common shares:				
Pretax	$ 137		$ 137	
After-tax	$ 89		$ 89	
Impact on diluted earnings per share	$ .17		$ .17	
Integration costs:				
Pretax	$ 35	$ 8	$ 232	$ 14
After-tax	$ 23	$ 5	$ 151	$ 9
Impact on diluted earnings per share	$ .04	$ .01	$ .29	$ .02
Noncash charges for unamortized discounts related to redemption of trust preferred securities:				
Pretax	$ 95		$ 225	
After-tax	$ 61		$ 146	
Impact on diluted earnings per share	$ .12		$ .28	
Provision for residential mortgage repurchase obligations:				
Pretax	$ 37	$ 31	$ 507	$ 66
After-tax	$ 24	$ 20	$ 330	$ 43
Impact on diluted earnings per share	$ .05	$ .04	$ .62	$ .08
Performance Ratios				
Net interest margin (c)	3.82%	3.89%	3.93%	3.92%
Noninterest income to total revenue	41	39	37	40
Efficiency	65	60	68	59
Return on:				
Average common shareholders equity	10.15	10.25	8.61	10.93
Average assets	1.23	1.24	1.04	1.31

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

Certain prior period amounts have been reclassified to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. The after-tax amounts in this table were calculated using a marginal federal income tax rate of 35% and include applicable income tax adjustments.

(a) The Executive Summary and Consolidated Income Statement Review portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.
(b) We believe that pretax, pre-provision earnings, a non-GAAP measure, is useful as a tool to help evaluate the ability to provide for credit costs through operations.
(c) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended September 30, 2012 and September 30, 2011 were $36 million and $27 million, respectively. The taxable-equivalent adjustments to net interest income for the nine months ended September 30, 2012 and September 30, 2011 were $102 million and $76 million.

Table of Contents

Table 1: Consolidated Financial Highlights (Continued) (a)

Unaudited	September 30 2012	December 31 2011	September 30 2011
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$ 300,803	$ 271,205	$ 269,470
Loans (b) (c)	181,864	159,014	154,543
Allowance for loan and lease losses (b)	4,039	4,347	4,507
Interest-earning deposits with banks (b)	2,321	1,169	2,773
Investment securities (b)	62,814	60,634	62,105
Loans held for sale (c)	2,737	2,936	2,491
Goodwill and other intangible assets	10,941	10,144	10,156
Equity investments (b) (d)	10,846	10,134	9,915
Noninterest-bearing deposits	64,484	59,048	55,180
Interest-bearing deposits	141,779	128,918	132,552
Total deposits	206,263	187,966	187,732
Transaction deposits	168,377	147,637	143,015
Borrowed funds (b)	43,104	36,704	35,102
Shareholders equity	38,683	34,053	34,219
Common shareholders equity	35,124	32,417	32,583
Accumulated other comprehensive income (loss)	991	(105)	397
Book value per common share	66.41	61.52	61.92
Common shares outstanding (millions)	529	527	526
Loans to deposits	88%	85%	82%
Client Assets (billions)			
Discretionary assets under management	$ 112	$ 107	$ 103
Nondiscretionary assets under administration	110	103	99
Total assets under administration	222	210	202
Brokerage account assets	38	34	33
Total client assets	$ 260	$ 244	$ 235
Capital Ratios			
Tier 1 common	9.5%	10.3%	10.5%
Tier 1 risk-based (e)	11.7	12.6	13.1
Total risk-based (e)	14.5	15.8	16.5
Leverage (e)	10.4	11.1	11.4
Common shareholders equity to assets	11.7	12.0	12.1
Asset Quality			
Nonperforming loans to total loans	1.88%	2.24%	2.39%
Nonperforming assets to total loans, OREO and foreclosed assets	2.20	2.60	2.77
Nonperforming assets to total assets	1.34	1.53	1.59
Net charge-offs to average loans (for the three months ended) (annualized)	.73	.83	.95
Allowance for loan and lease losses to total loans	2.22	2.73	2.92
Allowance for loan and lease losses to nonperforming loans (f)	118	122	122
Accruing loans past due 90 days or more (g)	$ 2,456	$ 2,973	$ 2,768

(a) The Executive Summary and Consolidated Balance Sheet Review portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.
(b) Amounts include consolidated variable interest entities. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information.
(c) Amounts include assets for which we have elected the fair value option. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information.
(d) Amounts include our equity interest in BlackRock.

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

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

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

Table of Contents

FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2011 Annual Report on Form 10-K as amended by Amendment No. 1 on Form 10-K/A (2011 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following sections as they appear in this Report and in our 2011 Form 10-K and in our First and Second Quarter 2012 Form 10-Qs: the Risk Management and Recourse and Repurchase Obligation sections of the Financial Review portion of the respective report; Item 1A Risk Factors included in our 2011 Form 10-K and this Report; and the Legal Proceedings and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements included in the respective report. Also, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and the Critical Accounting Estimates And Judgments section in this Financial Review and in our 2011 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 19 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis.

EXECUTIVE SUMMARY

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

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

KEY STRATEGIC GOALS

At PNC we manage our company for the long term. We are focused on customer and loan growth, growing quality revenue, controlling costs while investing for the future, and managing risk and capital. We continue to invest in our products, markets and brand, and embrace our corporate responsibility to the communities where we do business.

The primary drivers of revenue are the acquisition, expansion and retention of customer relationships. We strive to expand and deepen customer relationships by offering convenient banking options and leading and innovative technology solutions, providing a broad range of fee-based and credit products and services, focusing on customer service, and enhancing our brand. This strategy is designed to give our customers choices based on their needs. Our approach is focused on effectively growing targeted market share and share of wallet rather than short term fee revenue optimization. We may also grow revenue through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

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

Our capital priorities for 2012 are to build capital to support client growth and business investment, maintain appropriate capital in light of economic uncertainty and return excess capital to shareholders. We continue to improve the quality of our capital and expect to build capital through retained earnings. PNC continues to maintain a strong bank holding company liquidity position. See the 2012 Capital and Liquidity Actions section of this Executive Summary, the Funding and Capital Sources section of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 of our 2011 Form 10-K.

RBC Bank (USA) Acquisition

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

RBC Bank (USA), based in Raleigh, North Carolina, operated more than 400 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The primary reasons for the acquisition of RBC Bank (USA) were to enhance shareholder value, to improve PNC s competitive position in the financial services industry, and to further expand PNC s existing branch network in the states where it currently operates as well as expanding into new markets. When combined with PNC s existing network, PNC now has 2,887 branches across 17 states and the District of Columbia, ranking it fifth among U.S. banks in branches. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in this Report for additional information regarding this acquisition and 2011 branch acquisition activity.

Sale of Smartstreet

Effective October 26, 2012, PNC divested certain deposits and assets of the Smartstreet business unit, which was acquired by PNC as part of the RBC Bank (USA) acquisition, to Union Bank, N.A. Smartstreet is a nationwide business focused on homeowner or community association managers and had approximately $1 billion of assets and deposits as of September 30, 2012. Upon recording of the sale transaction in the fourth quarter of 2012, the gain on sale will be immaterial and we will reduce goodwill and core deposit intangibles by $46 million and $13 million, respectively, and record accrued taxes payable of approximately $32 million.

2012 Capital and Liquidity Actions

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Board of Governors of the Federal Reserve System (Federal Reserve) and our primary bank regulators as part of the Comprehensive Capital Analysis and Review (CCAR) process. This capital adequacy assessment is based on a review of a comprehensive capital plan submitted to the Federal Reserve. In connection with the annual review process for 2012 (2012 CCAR), management reviewed the capital plan with our Board of Directors on January 5, 2012. At that meeting, the Risk Committee of our Board approved the capital plan and authorized management to file the plan with the Federal Reserve. We filed our capital plan with the Federal Reserve on January 9, 2012. As we announced on March 13, 2012, the Federal Reserve accepted the capital plan that we submitted for its review and did not object to our capital actions proposed as part of that plan. The capital actions included recommendations to increase the quarterly common stock dividend and a modest share repurchase program. For additional information concerning the CCAR process and the factors the Federal Reserve takes into consideration in evaluating capital plans, see Item 1 Business Supervision and Regulation included in our 2011 Form 10-K.

On April 5, 2012, consistent with our capital plan submitted to the Federal Reserve in January 2012, our Board of Directors approved an increase to PNC s quarterly common stock dividend from $.35 per common share to $.40 per common share. Additionally, also consistent with that capital plan, PNC may purchase up to $250 million of common stock under our existing 25 million share repurchase program in open market or privately negotiated transactions during 2012. Such purchases were initiated in the second quarter with approximately $50 million repurchased during the second quarter of 2012 and an additional $85 million in the third quarter of 2012. The discussion of capital within the Consolidated Balance Sheet Review section of this Financial Review includes additional information regarding our common stock repurchase program.

Debt Securities Issued

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

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

On October 22, 2012, PNC Bank, N.A. issued $1.0 billion of subordinated notes with a maturity date of November 1, 2022. Interest is payable semi-annually, at a fixed rate of 2.70%, on May 1 and November 1 of each year, beginning on May 1, 2013.

Trust Preferred Securities Redeemed

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

Table of Contents

On July 30, 2012 we redeemed $450 million of trust preferred securities issued by PNC Capital Trust E with a current distribution rate of 7.750% and $517.5 million of enhanced trust preferred securities issued by National City Capital Trust IV with a current distribution rate of 8.000%. These redemptions together resulted in a noncash charge for unamortized discounts of approximately $95 million in the third quarter of 2012.

Preferred Stock Issued

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

On September 21, 2012 we issued 18 million depositary shares, each representing a 1/4,000th interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series Q, in an underwritten public offering resulting in gross proceeds of $450 million to us before commissions and expenses. On October 9, 2012, pursuant to the underwriting agreement for this offering, we issued an additional 1.2 million depositary shares in satisfaction of an option granted to the underwriters in the underwriting agreement to cover over-allotments, resulting in additional gross proceeds of $30 million. We intend to use the net proceeds from the sales of the depositary shares for general corporate purposes, which may include advances to our subsidiaries to finance their activities, repayment of outstanding indebtedness, and repurchases and redemptions of issued and outstanding securities of PNC and its subsidiaries.

Senior Debt and Intended Redemption of Normal APEX

On November 1, 2012 PNC priced its parent company Senior Notes due November 9, 2022 in a secondary public offering made in connection with the remarketing transaction described in Note 20 Subsequent Events in the Notes To Consolidated Financial Statements in this Report. As described in Note 20, PNC has submitted redemption notices to the Property Trustee for the redemption on December 10, 2012 of the 12% Fixed-to-Floating Rate Normal APEX (the Normal APEX) issued by the National City Preferred Capital Trust I and related securities and has instructed the Property Trustee to issue the redemption notices to the applicable holders on November 9, 2012, contingent upon the settlement of the secondary offering of parent company senor notes described above and related transactions on that day, which are subject to customary closing conditions. In the fourth quarter of 2012, PNC expects noncash charges for unamortized discounts of $67 million related to this redemption. After the closing of these transactions, including the redemption of the Normal

APEX, only the Senior Notes due November 9, 2022 will remain outstanding.

Recent Market and Industry Developments

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

Among the recent legislative and regulatory developments affecting the banking industry are evolving regulatory capital standards for banking organizations. These evolving standards include the so-called Basel III initiatives that are part of the effort by international banking supervisors to improve the ability of the banking sector to absorb shocks in periods of financial and economic stress and changes by the federal banking agencies to reduce the use of credit ratings in the rules governing regulatory capital.

In June 2012, the US banking regulators requested comment on three sets of proposed rules that implement the Basel III capital framework and also make other changes to US regulatory capital standards for banking institutions. The Basel III proposed rules include heightened capital requirements for banking institutions in terms of both higher quality capital and higher regulatory capital ratios. These proposed rules, among other things, would revise the capital levels at which a banking institution would be subject to the prompt corrective action framework (including the establishment of a new Tier 1 common equity requirement), eliminate or reduce the ability of certain types of capital instruments (including capital issued to third parties by consolidated subsidiaries) to count as regulatory capital, eliminate the Tier 1 treatment of trust preferred securities (as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank)) following a phase-in period beginning in 2013, remove the filter that currently excludes unrealized gains and losses (other than those resulting from other-than-temporary impairments) on available for sale debt securities from affecting regulatory capital, and require new deductions from capital for investments in unconsolidated financial institutions (possibly including BlackRock, Inc.), mortgage servicing assets and deferred tax assets that exceed specified thresholds. The proposed rules also would establish a new capital conservation buffer and, for large or internationally active banks, a

Table of Contents

supplemental leverage capital requirement that would take into account certain off-balance sheet exposures and a countercyclical capital buffer that would initially be set at zero in the United States. The proposed Basel III rules would become effective under a phase-in period beginning January 1, 2013 and would be in full effect on January 1, 2019.

The other proposed capital rules issued by the US banking regulators in June 2012 would revise the manner in which a banking institution determines its risk-weighted assets for risk-based capital purposes under the Basel II framework applicable to large or internationally active banks (referred to as the advanced approaches) and under the Basel I framework applicable to all banking institutions (referred to as the standardized approach). These rules would replace references to credit ratings with alternative methodologies for assessing creditworthiness. In addition, among other things, the advanced approaches proposal would implement the changes made to counterparty credit risk weightings by the Basel III capital framework (including the establishment of a credit valuation adjustment for counterparty risk in OTC derivative transactions), and the standardized approach would modify the risk-weighting framework for residential mortgage assets. The advanced approaches proposal would become effective on January 1, 2013, and the standardized approach changes to the Basel I risk-weighting rules are proposed to become effective no later than July 1, 2015. The public comment period on the Basel III, advanced approaches and standardized approach proposed rules closed on October 22, 2012.

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

In October 2012, the Federal Reserve and Office of the Comptroller of the Currency (OCC) adopted final stress testing rules for banking organizations with total consolidated assets of $50 billion or more, including PNC and PNC Bank, N.A. The rules, among other things, describe the types of supervisory scenarios that may be provided in connection with the annual CCAR process conducted by the Federal Reserve in coordination with the OCC, and require that PNC (as well as other bank holding companies with $50 billion or more in total consolidated assets) conduct a separate mid-year stress test and file the results of such test with the Federal Reserve in early July of each year. The rules also require that PNC in March 2013 and September 2013 publicly disclose certain information concerning the company s estimated revenue, income, losses and regulatory capital position over a forward-looking nine quarter planning horizon under supervisory hypothetical severely adverse macroeconomic scenarios for

March 2013 disclosures and under PNC s hypothetical severely adverse macroeconomic scenarios for September 2013 disclosures.

Hurricane Sandy

During the last week of October 2012, Hurricane Sandy caused widespread damage along the East Coast particularly in New Jersey, a key market area for us. The storm resulted in significant property damage to our customers and to the community and the closing or disruption of many businesses, with much of the impact not yet remediated. We are actively reviewing our exposure but are currently unable to reasonably estimate the extent of losses we may incur as a result of these storms.

Key Factors Affecting Financial Performance

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

- General economic conditions, including the continuity, speed and stamina of the moderate economic recovery in general and on our customers in particular,
- The level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve,
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets,
- Loan demand, utilization of credit commitments and standby letters of credit, and asset quality,
- Customer demand for non-loan products and services,
- Changes in the competitive and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment,
- The impact of the extensive reforms enacted in the Dodd-Frank legislation and other legislative, regulatory and administrative initiatives, including those outlined in our 2011 Form 10-K, our First and Second Quarter 2012 Form 10-Qs and elsewhere in this Report, and
- The impact of market credit spreads on asset valuations.

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

Further success in the acquisition, growth and retention of customers,
Continued development of the geographic markets related to our recent acquisitions, including full deployment of our product offerings and integration of the acquired RBC Bank (USA) businesses into PNC,
Revenue growth and our ability to provide innovative and valued products to our customers,
Our ability to utilize technology to develop and deliver products and services to our customers,
Our ability to manage and implement strategic business objectives within the changing regulatory environment,

Table of Contents

- A sustained focus on expense management,
- Managing the non-strategic assets portfolio and impaired assets,
- Improving our overall asset quality,
- Continuing to maintain and grow our deposit base as a low-cost funding source,
- Prudent risk and capital management related to our efforts to manage risk in keeping with a moderate risk philosophy, and to meet evolving regulatory capital standards,
- Actions we take within the capital and other financial markets,
- The impact of legal and regulatory-related contingencies, and
- The appropriateness of reserves needed for critical estimates and related contingencies.

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

INCOME STATEMENT HIGHLIGHTS

- Net income for the third quarter of 2012 of $925 million increased 11 percent compared to the third quarter of 2011. Strong earnings for the third quarter were driven by customer growth, higher revenue and disciplined credit and expense management. For additional detail, please see the Consolidated Income Statement Review section in this Financial Review.
- Net interest income of $2.4 billion for the third quarter of 2012 increased 10 percent compared with the third quarter of 2011 driven by the RBC Bank (USA) acquisition, organic loan growth and lower funding costs, somewhat offset by lower purchase accounting accretion.
- Net interest margin decreased to 3.82% for the third quarter of 2012 compared to 3.89% for the third quarter of 2011, primarily due to lower purchase accounting accretion.
- Noninterest income of $1.7 billion for the third quarter of 2012 increased $320 million compared to the third quarter of 2011. The increase was primarily due to a pretax gain of $137 million on the sale of 5 million Visa Class B common shares, higher corporate services revenue from the impact of impairments on commercial mortgage servicing rights taken in the third quarter of 2011, and an increase in value of hedges on deferred compensation obligations.
- The provision for credit losses decreased to $228 million for the third quarter of 2012 compared to $261 million for the third quarter of 2011 as overall credit quality improved.
- Noninterest expense of $2.7 billion for the third quarter of 2012 increased $510 million compared with the third quarter of 2011 primarily driven by
operating expense for the RBC Bank (USA) acquisition, noncash charges related to redemption of trust preferred securities, higher integration costs, and higher personnel expense including an increase in the cost of deferred compensation obligations driven by higher stock market prices.

CREDIT QUALITY HIGHLIGHTS

- Overall credit quality improved during the third quarter of 2012.
- Nonperforming assets of $4.0 billion at September 30, 2012 decreased 3 percent compared to December 31, 2011. The decline in nonperforming assets from December 31, 2011 was primarily attributable to decreases in commercial real estate and commercial nonperforming loans. This decrease was offset by higher nonperforming home equity loans from a change in policy made in the first quarter of 2012 which places home equity loans on nonaccrual status when past due 90 days or more compared with 180 days under the prior policy. Additionally, pursuant to regulatory guidance in the third quarter of 2012, nonperforming consumer loans, primarily home equity and residential mortgage, increased $112 million related to changes in treatment of certain loans classified as troubled debt restructurings (TDRs) resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability. Of these loans, approximately 90% are current on their payments.
- Accruing loans past due 90 days or more of $2.5 billion at September 30, 2012 decreased $517 million, or 17 percent, from December 31, 2011, primarily due to a decline in government insured residential real estate loans and a change in policy for home equity loans past due 90 days being placed on nonaccrual status, compared to prior policy of past due 180 days.
- Net charge-offs of $331 million decreased $34 million compared to the third quarter of 2011. On an annualized basis, net charge-offs were 0.73% of average loans for the third quarter of 2012 and 0.95% of average loans for the third quarter of 2011.
- The allowance for loan and lease losses was 2.22% of total loans and 118% of nonperforming loans at September 30, 2012, compared with 2.73% and 122% at December 31, 2011, respectively.

BALANCE SHEET HIGHLIGHTS

- PNC continued to grow and deepen customer relationships across businesses and geographies through new client acquisition and cross sales.

Retail Banking net checking relationships grew 230,000 organically in the first nine months of 2012, or 4 percent on an annualized basis.

Corporate & Institutional Banking continued to organically grow and deepen client relationships that meet appropriate risk/return measures. Approximately 775 new primary clients in Corporate Banking were added in the first nine months of 2012.

Asset management new primary client acquisitions were nearly 25 percent higher in the first nine months of 2012 compared with the same period of 2011.

Total loans increased by $23 billion, or 14 percent, to $182 billion at September 30, 2012 compared to December 31, 2011.

Total commercial lending increased by $16.9 billion, or 19 percent, from December 31, 2011, due to strong organic growth and the impact from the RBC Bank (USA) acquisition.

Total consumer lending increased $6 billion from December 31, 2011 primarily in home equity and automobile loans, including the impact from the RBC Bank (USA) acquisition.

Total deposits were $206 billion at September 30, 2012 compared with $188 billion at December 31, 2011.

Transaction deposits increased to $168 billion at September 30, 2012 compared to $148 billion at December 31, 2011, including the impact from the RBC Bank (USA) acquisition as well as organic transaction deposit growth from increases in both consumer and commercial liquidity. Transaction deposits were 82 percent of total deposits at September 30, 2012, reflecting our strong customer focus and core strategy to grow checking relationships.

Retail certificates of deposit declined by $4.4 billion at September 30, 2012 from December 31, 2011 due to runoff of maturing accounts.

PNC s balance sheet remained core funded with a loans to deposits ratio of 88 percent at September 30, 2012 and retained a strong bank holding company liquidity position.

PNC issued $480 million of 5.375 percent preferred stock in late September and early October 2012. In total, approximately $2 billion of preferred stock was issued in the first nine months of 2012 with a weighted average rate of 5.9 percent. Trust preferred securities redeemed in the first nine months of 2012 totaled $1.8 billion with a weighted average rate of 7.2 percent, effectively lowering funding costs.

PNC strengthened its strong capital levels during the third quarter with a Tier 1 common capital ratio of 9.5 percent at September 30, 2012 compared to 9.3 percent at June 30, 2012. The Tier 1 common capital ratio was 10.3 percent at December 31, 2011, and the comparison to September 30, 2012 reflects a decrease
of approximately 1.2 percentage points from the acquisition of RBC Bank (USA).

PNC s goal is to be within a Basel III Tier 1 common capital ratio range of between 8.0 to 8.5 percent by year end 2013 without benefit of phase-ins. We believe we are positioned to reach this goal. This belief is based on current understanding of Basel III proposed rules, estimates of Basel II (with proposed modifications) risk-weighted assets, and application of Basel II.5 rules and is subject to development, validation and regulatory approval of related models.

In April 2012 the PNC board of directors raised the quarterly cash dividend on common stock to 40 cents per share, an increase of 5 cents per share, or 14 percent. PNC may purchase up to $250 million of common stock under its existing 25 million share repurchase program in open market or privately negotiated transactions during 2012. Such purchases were initiated in the second quarter with approximately $50 million repurchased during the second quarter of 2012 and an additional $85 million repurchased in the third quarter of 2012.

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

AVERAGE CONSOLIDATED BALANCE SHEET HIGHLIGHTS

Various seasonal and other factors impact our period-end balances whereas average balances are generally more indicative of underlying business trends apart from the impact of acquisitions and divestitures. The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at September 30, 2012 compared with December 31, 2011.

Total average assets increased to $292.6 billion for the first nine months of 2012 compared with $263.5 billion for the first nine months of 2011, primarily due to an increase of $23.9 billion in average interest-earning assets to $246.8 billion for the first nine months of 2012, compared with $223.0 billion in the first nine months of 2011. The increase in average interest-earning assets was driven primarily by an increase in average total loans, including those acquired from the RBC Bank (USA) acquisition.

Average total loans increased by $23.8 billion to $174.4 billion for the first nine months of 2012 compared with the first nine months of 2011, primarily due to an increase in average commercial loans of $17.2 billion and an increase in average consumer loans of $4.8 billion. Loans added from the RBC Bank (USA) acquisition contributed to the increase. In

addition, average commercial loans increased from organic loan growth primarily in corporate banking and asset-based lending and average consumer loans increased due to growth in indirect auto loans.

Loans represented 71% of average interest-earning assets for the first nine months of 2012 and 68% of average interest-earning assets for the first nine months of 2011.

Average investment securities increased $1.8 billion to $61.3 billion in the first nine months of 2012 compared with the first nine months of 2011. Total investment securities comprised 25% of average interest-earning assets for the first nine months of 2012 and 27% for the first nine months of 2011.

Average noninterest-earning assets totaled $45.8 billion in the first nine months of 2012 compared with $40.5 billion in the first nine months of 2011. The increase included the impact of the RBC Bank (USA) acquisition, including goodwill, and the impact of increases in equity investments.

Average total deposits were $199.6 billion for the first nine months of 2012 compared with $181.9 billion for the first nine months of 2011. The increase of $17.7 billion primarily resulted from an increase in average transaction deposits of $23.1 billion partially offset by a decrease of $7.7 billion in retail certificates of deposit attributable to runoff of maturing accounts. Growth in average noninterest-bearing deposits, average interest-bearing demand deposits and average money market deposits drove the increase in transaction deposits and resulted from deposits added in the RBC Bank (USA) acquisition and organic growth. Average transaction deposits were $159.1 billion for the first nine months of 2012 compared with $136.0 billion for the first nine months of 2011. Total deposits at September 30, 2012 were $206.3 billion compared with $188.0 billion at December 31, 2011 and are further discussed within the Consolidated Balance Sheet Review section of this Report.

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

Average borrowed funds increased to $42.4 billion for the first nine months of 2012 compared with $35.7 billion for the first nine months of 2011. An increase in commercial paper and net issuances of Federal Home Loan Bank (FHLB) borrowings during the first nine months of 2012 drove the increase compared with the first nine months of 2011. Total borrowed funds at September 30, 2012 were $43.1 billion compared with $36.7 billion at December 31, 2011 and are further discussed within the Consolidated Balance Sheet Review section of this Financial Review. The Liquidity Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding our sources and uses of borrowed funds.

Business Segment Highlights

Total business segment earnings were $2.6 billion for the first nine months of 2012 and $2.4 billion for the first nine months of 2011. Highlights of results for the first nine months and the third quarter of 2012 and 2011 are included below. Enhancements were made to the internal funds transfer pricing methodology during the second quarter of 2012. Retrospective application of our new funds transfer pricing methodology has been made to the prior period reportable business segment results and disclosures to create comparability to the current period presentation, which we believe is more meaningful to readers of our financial statements. During the third quarter of 2012, enhancements were made to certain processes and assumptions used to estimate our Allowance for Loan and Lease Losses (ALLL). Specifically, PNC increased the amount of internally observed data used in estimating commercial lending Probabilities of Default (PDs) and Losses Given Default (LGDs). The estimated impact as of the beginning of the third quarter 2012 was approximately an increase of $41 million and a decrease of $55 million to the provision for credit losses of Retail Banking and Corporate & Institutional Banking, respectively. Prior periods are not presented on a comparable basis as it is not practicable to do so. The Business Segments Review section of this Financial Review includes a Results of Businesses-Summary table and further analysis of our business segment results over the first nine months of 2012 and 2011 including presentation differences from Note 19 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

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

Retail Banking

Retail Banking earned $475 million in the first nine months of 2012 compared with $309 million for the same period a year ago. Earnings increased from the prior year as a result of organic growth in loan and transaction deposit balances, lower rates paid on deposits, a lower provision for credit losses, higher levels of customer-initiated transactions, a gain on the sale of a portion of Visa Class B common shares, and the impact of the RBC Bank (USA) acquisition, partially offset by the regulatory impact of lower interchange fees on debit card transactions and higher additions to legal reserves.

In the third quarter of 2012, Retail Banking earned $192 million compared with earnings of $121 million for the third quarter of 2011. The increase in earnings was primarily due to higher net interest income resulting from the RBC Bank (USA) acquisition, improvements in deposit spreads and growth in indirect auto loans and an increase in noninterest income due to the gain on the sale of a portion of Visa Class B common shares. These increases were partially offset by an increase in noninterest expense due to operating expense for the RBC Bank (USA) acquisition.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $1.7 billion in the first nine months of 2012 as compared with $1.3 billion in the first nine months of 2011. The increase in earnings was primarily due to higher net interest income. We continued to focus on building client relationships including increasing cross sales, adding new clients where the risk-return profile is attractive, and remaining committed to expense discipline.

In the third quarter of 2012, Corporate & Institutional Banking earned $607 million compared with earnings of $437 million in the third quarter of 2011. The increase reflected higher net interest income primarily due to higher average loans from organic growth and the RBC Bank (USA) acquisition as well as an increase in corporate service fees due to the impact of impairments on commercial mortgage servicing rights taken in the third quarter of 2011. These increases, together with higher other noninterest income and lower provision for loan losses, were partially offset by an increase in noninterest expense due to higher compensation-related costs driven by improved performance, higher staffing and operating expense for the RBC Bank (USA) acquisition.

Asset Management Group

Asset Management Group earned $111 million in the first nine months of 2012 compared with $143 million in the first nine months of 2011. Assets under administration were $222 billion at September 30, 2012 and $202 billion at September 30, 2011 driven by the stronger equity markets. Earnings for the first nine months of 2012 reflected an increase in the provision for credit losses and an increase in noninterest expense partially offset by growth in net interest income and noninterest income. Noninterest expense increased due to continued strategic investments in the business. The core growth strategies for the business continue to include: investing in higher growth geographies, increasing internal referral sales and adding new front line sales staff.

In the third quarter of 2012, Asset Management Group earned $37 million compared with $40 million in the third quarter of 2011. The decrease is primarily due to an increase in the provision for credit losses and higher noninterest expense from strategic business investments.

Residential Mortgage Banking

Residential Mortgage Banking reported a loss of $116 million in the first nine months of 2012 compared with earnings of $150 million in the first nine months of 2011. Earnings declined from the prior year period primarily as a result of

higher provision for residential mortgage repurchase obligations and higher noninterest expense, partially offset by increased loan sales revenue driven by higher loan origination volume.

In the third quarter of 2012, Residential Mortgage Banking reported earnings of $36 million compared with earnings of $23 million in the third quarter of 2011 due to increased loan sales revenue driven by higher loan origination volume substantially offset by lower net hedging gains on mortgage servicing rights. Noninterest expense increased due to higher residential mortgage volume and servicing costs, partially offset by lower residential mortgage foreclosure-related expenses.

BlackRock

Our BlackRock business segment earned $283 million in the first nine months of 2012 and $271 million in the first nine months of 2011. In the third quarter of 2012, business segment earnings from BlackRock were $105 million compared with $92 million in the third quarter of 2011.

Non-Strategic Assets Portfolio

This business segment consists primarily of acquired non-strategic assets. Non-Strategic Assets Portfolio had earnings of $178 million for the first nine months of 2012 compared with $202 million in the first nine months of 2011. The decrease was primarily attributable to lower net interest income, driven by declines in loan balances and purchase accounting accretion, and an increase in noninterest expense, partially offset by a lower provision for credit losses.

In the third quarter of 2012, Non-Strategic Assets Portfolio had earnings of $40 million compared with $93 million for the third quarter of 2011. The decrease was due to a decrease in net interest income driven by lower purchase accounting accretion and lower loan balances and an increase in noninterest expense primarily related to taxes and insurance on delinquent mortgage loans and higher other real estate owned expense.

Other

"Other" reported a loss of $328 million for the nine months of 2012 compared with earnings of $160 million for the first nine months of 2011. In the third quarter of 2012, "Other" reported a loss of $92 million compared with earnings of $28 million in the third quarter of 2011. The decreases in both 2012 periods were primarily due to higher integration costs and noncash charges related to redemption of trust preferred securities.

Table of Contents

Consolidated Income Statement Review

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

Net income for the first nine months of 2012 was $2.3 billion, a decrease of 11 percent compared with $2.6 billion for the first nine months of 2011. Revenue growth of 6 percent and a decline in the provision for credit losses was more than offset by an increase in noninterest expense which included noncash charges related to redemption of trust preferred securities and higher integration costs. Revenue for the first nine months of 2012 reflected higher net interest income and a gain on sale of 5 million Visa Class B common shares partially offset by a higher provision for residential mortgage repurchase obligations.

Net income for the third quarter of 2012 was $925 million, an increase of 11 percent, compared with $834 million for the third quarter of 2011. The increase in net income was due to revenue growth of 15 percent, a decrease in the provision for credit losses and a lower effective tax rate partially offset by higher noninterest expense. Third quarter 2012 results reflected the RBC Bank (USA) acquisition and included the gain on sale of Visa Class B common shares partially offset by noncash charges related to redemption of trust preferred securities.

Table 2: Net Interest Income and Net Interest Margin

	Three months ended September 30		Nine months ended September 30	
Dollars in millions	2012	2011	2012	2011
Net interest income	$ 2,399	$ 2,175	$ 7,216	$ 6,501
Net interest margin	3.82%	3.89%	3.93%	3.92%

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

The increases in net interest income compared with both the third quarter of 2011 and the first nine months of 2011 were primarily due to the impact of the RBC Bank (USA) acquisition, organic loan growth, and lower funding costs, somewhat offset by lower purchase accounting accretion.

The net interest margin was 3.93% for the first nine months of 2012 and 3.92% for the first nine months of 2011. The following factors impacted the comparison:

- The weighted-average rate accrued on interest-bearing liabilities decreased 30 basis points. The rate accrued on interest-bearing deposits, the largest component, decreased 26 basis points, and the rate on total borrowed funds decreased by 60 basis points.
- The rate on interest-bearing deposits declined primarily due to the runoff of maturing retail certificates of deposit. The decline in the rate on total borrowed funds is primarily attributable to the redemption of trust preferred securities in the second and third quarters of 2012 in addition to an increase in FHLB borrowings as a lower-cost funding source.
- These factors were partially offset by a 22 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 30 basis points primarily due to lower rates on new loan volume in the current low rate environment, as well as the impact from lower purchase accounting accretion.

The net interest margin was 3.82% for the third quarter of 2012 and 3.89% for the third quarter of 2011. The decline was primarily due to lower purchase accounting accretion which accounted for an approximate 13 basis point decrease in net interest margin. The following factors also impacted the comparison:

- The weighted-average rate accrued on interest-bearing liabilities decreased 28 basis points. The rate accrued on interest-bearing deposits, the largest component, decreased 22 basis points, and the rate on total borrowed funds decreased by 67 basis points. Similar to the nine months comparison, the decreases were primarily due to the runoff of maturing retail certificates of deposit as well as the redemption of trust preferred securities during the second and third quarters of 2012 in addition to an increase in FHLB borrowings as a lower-cost funding source.
- These factors were partially offset by a 28 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, due to lower rates on new loan volume in the current low rate environment, as well as the impact from lower purchase accounting accretion.

We expect our fourth quarter 2012 net interest income to remain stable compared to third quarter 2012, as the core net interest income component should continue to grow, offset by the expected decline of approximately $30 million to $35 million in purchase accounting accretion.

With respect to 2013, we expect purchase accounting accretion to decline by approximately $400 million compared to full year 2012. Despite this decline, we expect total revenues in 2013 to exceed total revenues in 2012.

We believe our net interest margin will come under pressure in 2013, assuming that the current low rate environment continues.

Noninterest Income

Noninterest income totaled $4.2 billion for the first nine months of 2012 and $4.3 billion for the first nine months of

2011. The overall decrease in the comparison was primarily due to higher provision for residential mortgage repurchase obligations and lower consumer service fees from the regulatory impact of lower interchange fees on debit card transactions, which were largely offset by the gain on sale of a portion of our Visa Class B common shares, an increase in residential mortgage loan sales revenue related to an increase in loan origination volume and higher corporate services fees from the impact of impairments on commercial mortgage servicing rights taken in the 2011 period.

Noninterest income was $1.7 billion for the third quarter of 2012 and $1.4 billion for the third quarter of 2011. The overall increase was primarily due to the gain on the sale of a portion of our Visa Class B common shares, higher corporate services revenue from the impact of impairments on commercial mortgage servicing rights taken in the third quarter of 2011, and an increase in value of hedges on deferred compensation obligations.

Asset management revenue, including BlackRock, totaled $867 million in the first nine months of 2012 compared with $838 million in the first nine months of 2011. Asset management revenue was $305 million in the third quarter of 2012 compared to $287 million in the third quarter of 2011. The increases were due to stronger equity markets, growth in customers and higher earnings from our BlackRock investment. Discretionary assets under management increased to $112 billion at September 30, 2012 compared with $103 billion at September 30, 2011 driven by stronger equity markets and net positive flows.

For the first nine months of 2012, consumer services fees totaled $842 million compared with $974 million in the first nine months of 2011. Consumer services fees were $288 million in the third quarter of 2012 compared with $330 million in the third quarter of 2011. Lower consumer services fees for both periods reflected the regulatory impact of lower interchange fees on debit card transactions partially offset by customer growth. As further discussed in the Retail Banking section of the Business Segments Review portion of this Financial Review, the Dodd-Frank limits on interchange rates were effective October 1, 2011 and had a negative impact on revenue of approximately $230 million in the first nine months of 2012. This impact was partially offset by higher volumes of customer credit and debit card transactions and the RBC Bank (USA) acquisition.

Corporate services revenue increased to $817 million in the first nine months of 2012 compared with $632 million in the first nine months of 2011. Corporate services revenue was $295 million in the third quarter of 2012 compared with $187 million in the third quarter of 2011. The impact of commercial mortgage servicing rights impairments taken in the 2011 periods, and higher merger and acquisition advisory fees in the nine months comparison led to the increases in corporate services revenue.

Residential mortgage revenue decreased to $284 million in the first nine months of 2012 from $556 million in the first nine months of 2011 due to a higher provision for residential mortgage repurchase obligations of $507 million in the 2012 period, including $438 million in the second quarter of 2012, compared with $66 million in the first nine months of 2011. This decrease in residential mortgage revenue was partially offset by an increase in loan sales revenue driven by higher loan origination volume.

For the third quarter of 2012, residential mortgage revenue increased to $227 million compared to $198 million in the third quarter of 2011 due to higher loan sales revenue driven by higher loan origination volume partially offset by lower net hedging gains on mortgage servicing rights. Provision for residential mortgage repurchase obligations for these periods was $37 million and $31 million, respectively. Third quarter 2012 mortgage repurchase activity continued to track expectations and primarily reflected refinements to our life of loan reserve estimates and also new origination activity.

Service charges on deposits grew to $423 million for the first nine months of 2012 from $394 million for the first nine months of 2011 and increased to $152 million for the third quarter of 2012 compared with $140 million for the third quarter of 2011. The increases in both periods reflected continued success in growing customers, including the RBC Bank (USA) acquisition.

Net gains on sales of securities totaled $159 million for the first nine months of 2012 and $187 million for the first nine months of 2011. Net gains on sales of securities were $40 million for the third quarter of 2012 and $68 million for the third quarter of 2011.

The net credit component of other-than-temporary impairment (OTTI) of securities recognized in earnings was a loss of $96 million in the first nine months of 2012, including a loss of $24 million in the third quarter, compared with losses of $108 million and $35 million for the same periods in 2011, respectively.

Other noninterest income totaled $931 million for the first nine months of 2012 compared with $803 million for the first nine months of 2011. Other noninterest income totaled $406 million for the third quarter of 2012 and $194 million for the third quarter of 2011. The increases in both periods were primarily due to the $137 million gain on the sale of 5 million Visa Class B common shares during the third quarter of 2012 and, in the comparison to the prior year quarter, an increase in value of hedges on deferred compensation obligations due to higher stock market prices.

These higher prices also resulted in a similar increase in noninterest expense compared to the third quarter 2011.

We continue to hold approximately 18 million Visa Class B common shares with an estimated fair value of approximately $1 billion as of September 30, 2012. Our recorded investment

Table of Contents

in these remaining shares was approximately $343 million at September 30, 2012.

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

Product Revenue

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

Treasury management revenue comprised of fees and net interest income from customer deposit balances, totaled $1.0 billion for the first nine months of 2012 and $943 million for the first nine months of 2011. For the third quarter of 2012, treasury management revenue was $346 million compared with $319 million for the third quarter of 2011. Higher deposit balances along with strong growth in commercial card, lockbox and traditional payment products including wire and ACH led to the favorable results.

Revenue from capital markets-related products and services totaled $482 million in the first nine months of 2012 compared with $462 million in the first nine months of 2011. The year-to-date comparison reflects strong customer driven capital markets activity and higher merger and acquisition advisory fees. For the third quarter of 2012, capital markets-related revenue was $175 million compared with $158 million for the third quarter of 2011. This comparison reflects the decreased impact of counterparty credit risk on valuations of customer derivatives positions.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income from loan servicing and ancillary services, net of commercial mortgage servicing rights amortization, and commercial mortgage servicing rights valuations net of economic hedge), and revenue derived from

commercial mortgage loans intended for sale and related hedges (including loan origination fees, net interest income, valuation adjustments and gains or losses on sales).

Commercial mortgage banking activities resulted in revenue of $213 million in the first nine months of 2012 compared with $43 million in the first nine months of 2011. For the third quarter of 2012, revenue from commercial mortgage banking activities was $84 million compared to a loss of $21 million for the third quarter of 2011. Both comparisons increased due to the impact of impairments on commercial mortgage servicing rights taken in the 2011 periods.

Provision For Credit Losses

The provision for credit losses totaled $669 million for the first nine months of 2012 compared with $962 million for the first nine months of 2011. The provision for credit losses was $228 million for the third quarter of 2012 compared with $261 million for the third quarter of 2011. The declines in the comparisons were driven by overall credit quality improvement.

We expect provision for the fourth quarter of 2012 to be similar to the provision recorded in recent quarters.

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

Noninterest Expense

Noninterest expense was $7.8 billion for the first nine months of 2012 and $6.4 billion for the first nine months of 2011. Noninterest expense for the first nine months of 2012 included integration costs of $232 million, noncash charges of $225 million related to redemption of trust preferred securities, and $134 million of residential mortgage foreclosure-related expenses. The first nine months of 2011 included $84 million of residential mortgage foreclosure-related expenses and $14 million of integration costs. In addition, operating expense for the RBC Bank (USA) acquisition, higher personnel expense, including an increase in the cost of deferred compensation obligations driven by higher stock market prices, higher additions to legal reserves and increased expenses for other real estate owned contributed to the increase in noninterest expense in the first nine months of 2012.

Noninterest expense totaled $2.7 billion for the third quarter of 2012 compared with noninterest expense of $2.1 billion for the third quarter of 2011. Third quarter 2012 expense included noncash charges of $95 million related to redemption of trust preferred securities and integration costs of $35 million. The third quarter of 2011 included integration costs of $8 million. Similar to the nine month comparison, operating expenses for the RBC Bank (USA) acquisition, higher personnel expense, including an increase in the cost of deferred compensation obligations driven by higher stock market prices, and increased expenses for other real estate owned also

Table of Contents

contributed to the increase in noninterest expense compared to the prior year quarter.

We expect noninterest expense for the fourth quarter of 2012 to include $67 million in non-cash charges assuming a redemption and remarketing of approximately $500 million in hybrid capital securities with a current all-in funding cost of 12 percent. If we complete the planned remarketing process, we will need to replace this funding with bank holding company debt in the near future.

We expect integration costs of $51 million in the fourth quarter of 2012. PNC s continuous improvement target for 2012 is to exceed a total of $550 million in annualized cost savings at PNC and in integration savings at RBC Bank (USA). As of September 30, 2012, we had identified more than 600 initiatives to deliver these savings goals and captured more than $417 million in estimated savings year to date.

Effective Income Tax Rate

The effective income tax rate was 24.5% in the first nine months of 2012 compared with 24.8% in the first nine months of 2011. For the third quarter of 2012, our effective income tax rate was 23.6% compared with 27.0% for the third quarter of 2011. The effective tax rate is generally lower than the statutory rate primarily due to tax credits PNC receives from our investments in low income housing partnerships and other tax exempt investments.

Consolidated Balance Sheet Review

Table 3: Summarized Balance Sheet Data

In millions	Sept. 30 2012	Dec. 31 2011
Assets		
Loans	$ 181,864	$ 159,014
Investment securities	62,814	60,634
Cash and short-term investments	10,993	9,992
Loans held for sale	2,737	2,936
Goodwill and other intangible assets	10,941	10,144
Equity investments	10,846	10,134
Other, net	20,608	18,351
Total assets	$ 300,803	$ 271,205
Liabilities		
Deposits	$ 206,263	$ 187,966
Borrowed funds		
Commercial paper	10,731	4,271
Other	32,373	32,433
Other	9,634	9,289
Total liabilities	259,001	233,959
Total shareholders equity	38,683	34,053
Noncontrolling interests	3,119	3,193
Total equity	41,802	37,246
Total liabilities and equity	$ 300,803	$ 271,205

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

The increase in total assets of $29.6 billion at September 30, 2012 compared with December 31, 2011 was primarily due to the addition of assets from the RBC Bank (USA) acquisition and organic loan growth. Total liabilities increased $25 billion from September 30, 2012 compared with December 31, 2011 primarily due to the addition of deposits from the RBC Bank (USA) acquisition, organic growth in transaction deposits and net commercial paper issuances.

An analysis of changes in selected balance sheet categories follows.

Loans

A summary of the major categories of loans outstanding follows. Outstanding loan balances of $181.9 billion at September 30, 2012 and $159.0 billion at December 31, 2011 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums of $2.9 billion at September 30, 2012 and $2.3 billion at December 31, 2011, respectively. The balances include purchased impaired loans but do not include future accretable net interest (i.e., the difference between the undiscounted expected cash flows and the carrying value of the loan) on those loans.

Loans increased $22.9 billion as of September 30, 2012 compared with December 31, 2011. On March 2, 2012, our RBC Bank (USA) acquisition added $14.5 billion of loans, which included $6.4 billion of commercial, $2.5 billion of commercial real estate, $3.4 billion of consumer (including $3.0 billion of home equity loans and $.3 billion of credit card loans), $2.1 billion of residential real estate, and $.1 billion of equipment lease financing loans. Excluding acquisition activity, the growth in commercial loans was due to organic growth in the portfolio while the growth in consumer loans was primarily driven by organic growth in automobile loans and the acquisition of an indirect automobile loan portfolio. In addition, excluding acquisition activity, the decline in residential real estate loans was due to continued run-off of acquired portfolios and lower education loans.

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

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

Table of Contents

Table 4: Details Of Loans

In millions	Sept. 30 2012	Dec. 31 2011
Commercial Lending		
Commercial		
Retail/wholesale trade	$ 13,381	$ 11,539
Manufacturing	13,498	11,453
Service providers	11,822	9,717
Real estate related (a)	10,208	8,488
Financial services	9,136	6,646
Health care	6,652	5,068
Other industries	14,971	12,783
Total commercial	79,668	65,694
Commercial real estate		
Real estate projects	12,801	10,640
Commercial mortgage	5,808	5,564
Total commercial real estate	18,609	16,204
Equipment lease financing	6,923	6,416
Total Commercial Lending	105,200	88,314
Consumer Lending		
Home equity		
Lines of credit	24,007	22,491
Installment	11,871	10,598
Total home equity	35,878	33,089
Residential real estate		
Residential mortgage	14,505	13,885
Residential construction	878	584
Total residential real estate	15,383	14,469
Credit card	4,135	3,976
Other consumer		
Education	8,415	9,582
Automobile	8,328	5,181
Other	4,525	4,403
Total other consumer	21,268	19,166
Total Consumer Lending	76,664	70,700
Total loans (b)	$ 181,864	$ 159,014

(a) Includes loans to customers in the real estate and construction industries.
(b) Construction loans with interest reserves, and A/B Note restructurings are not significant to PNC.

Total loans above include purchased impaired loans of $7.7 billion, or 4% of total loans, at September 30, 2012, and $6.7 billion, or 4% of total loans, at December 31, 2011. The increase is related to the addition of purchased impaired loans from the RBC Bank (USA) acquisition.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $116 billion for the first nine months of 2012, including $40 billion in the third quarter.

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

Because commercial lending is 58% of total loans, the commercial lending allowance for loan and lease losses is most impacted by changes in assumptions and judgments underlying the determination of the ALLL. This estimate considers factors such as:

Industry concentrations and conditions,
Recent credit quality trends,
Recent loss experience in particular portfolios,

Recent macro economic factors,
Changes in risk selection and underwriting standards, and
Timing of available information.

Higher Risk Loans

Our total ALLL of $4.0 billion at September 30, 2012 consisted of $1.8 billion and $2.2 billion established for the commercial lending and consumer lending categories, respectively. The ALLL included what we believe to be appropriate loss coverage on higher risk loans in the commercial and consumer portfolios. We do not consider government insured or guaranteed loans to be higher risk as defaults are materially mitigated by payments of insurance or guarantee amounts for approved claims. Additional information regarding our higher risk loans and ALLL is included in Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in this Report.

Table of Contents

Table 5: Accretion Purchased Impaired Loans

In millions	Three months ended September 30 2012 (a)	2011 (b)	Nine months ended September 30 2012 (a)	2011 (b)
Impaired loans				
Scheduled accretion	$ 175	$ 166	$ 511	$ 512
Reversal of contractual interest on impaired loans	(103)	(99)	(311)	(293)
Scheduled accretion net of contractual interest	72	67	200	219
Excess cash recoveries	21	72	112	193
Total impaired loans	$ 93	$ 139	$ 312	$ 412

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

Table 6: Accretable Net Interest Purchased Impaired Loans

In millions	2012	2011
January 1	$ 2,109	$ 2,185
Addition of accretable yield due to RBC Bank (USA) acquisition on March 2, 2012	587	
Accretion	(511)	(512)
Excess cash recoveries	(112)	(193)
Net reclassifications to accretable from non-accretable and other activity	191	795
September 30 (a)	$ 2,264	$ 2,275

(a) As of September 30, 2012, we estimate that the reversal of contractual interest on purchased impaired loans will total approximately $1.3 billion in future periods. This will offset the total net accretable interest in future interest income of $2.3 billion on purchased impaired loans.

Table 7: Valuation of Purchased Impaired Loans

Dollars in millions	September 30, 2012 (a) Balance	Net Investment	December 31, 2011 (b) Balance	Net Investment
Commercial and commercial real estate loans:				
Unpaid principal balance	$ 1,937		$ 988	
Purchased impaired mark	(535)		(136)	
Recorded investment	1,402		852	
Allowance for loan losses	(229)		(229)	
Net investment	1,173	61 %	623	63 %
Consumer and residential mortgage loans:				
Unpaid principal balance	6,976		6,533	
Purchased impaired mark	(629)		(718)	
Recorded investment	6,347		5,815	
Allowance for loan losses	(839)		(769)	
Net investment	5,508	79 %	5,046	77 %
Total purchased impaired loans:				
Unpaid principal balance	8,913		7,521	
Purchased impaired mark	(1,164)		(854)	
Recorded investment	7,749		6,667	
Allowance for loan losses	(1,068)		(998)	
Net investment	$ 6,681	75 %	$ 5,669	75 %

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

The unpaid principal balance of purchased impaired loans increased from $7.5 billion at December 31, 2011 to $8.9 billion at September 30, 2012 due to the acquisition of RBC Bank (USA), partially offset by payments, disposals, and charge-offs of amounts determined to be uncollectible. The remaining purchased impaired mark at September 30, 2012 was $1.2 billion, which was an increase from $0.9 billion at December 31, 2011. The associated allowance for loan losses increased $70 million at September 30, 2012 compared to December 31, 2011. The net investment of $5.7 billion at December 31, 2011 also increased 18% to $6.7 billion at September 30, 2012. At September 30, 2012, our largest individual purchased impaired loan had a recorded investment of $18 million.

We currently expect to collect total cash flows of $9.0 billion on purchased impaired loans, representing the $6.7 billion net investment (carrying value) at September 30, 2012 and the accretable net interest of $2.3 billion shown in the Accretable Net Interest-Purchased Impaired Loans table. These represent the net future expected cash flows on purchased impaired loans, as contractual interest will be reversed.

Weighted Average Life of the Purchased Impaired Portfolios

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

Table 8: Weighted Average Life of the Purchased Impaired Portfolios

	September 30, 2012	
in millions	Recorded Investment	WAL (a)
Commercial	$ 354	2.1 years
Commercial real estate	1,048	2.1 years
Consumer (b)	2,697	4.2 years
Residential real estate	3,650	4.5 years
Total	$ 7,749	3.9 years

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

Purchased Impaired Loans Accretable Difference Sensitivity Analysis

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

Table 9: Accretable Difference Sensitivity Total Purchased Impaired Loans

In billions	For quarter ended September 30, 2012	Declining Scenario (a)	Improving Scenario (b)
Expected Cash Flows	$ 9.0	$ (.4)	$ .7
Accretable Difference	2.3		.4
Allowance for Loan and Lease Losses	(1.1)	(.4)	.3

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

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

Net Unfunded Credit Commitments

Net unfunded credit commitments are comprised of the following:

Table 10: Net Unfunded Credit Commitments

In millions	September 30 2012	December 31 2011
Commercial / commercial real estate (a)	$ 75,790	$ 64,955
Home equity lines of credit	20,075	18,317
Credit card	17,692	16,216
Other	4,728	3,783
Total	$ 118,285	$ 103,271

(a) Less than 5% of these amounts at each date relate to commercial real estate.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments reported above exclude syndications, assignments and participations, primarily to financial institutions, totaling $21.4 billion at September 30, 2012 and $20.2 billion at December 31, 2011.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $770 million at September 30, 2012 and $742 million at December 31, 2011 and are included in the preceding table primarily within the Commercial / commercial real estate category.

In addition to the credit commitments set forth in the table above, our net outstanding standby letters of credit totaled $11.4 billion at September 30, 2012 and $10.8 billion at December 31, 2011. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Table of Contents

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

Investment Securities

Table 11: Details of Investment Securities

	September 30, 2012		December 31, 2011	
In millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities available for sale (a)	$ 50,534	$ 52,133	$ 48,609	$ 48,568
Securities held to maturity	10,681	11,232	12,066	12,450
Total securities	$ 61,215	$ 63,365	$ 60,675	$ 61,018

(a) Includes $321 million of both amortized cost and fair value of securities classified as corporate stocks and other at September 30, 2012. Comparably, at December 31, 2011, amortized cost and fair value of these corporate stocks and other was $368 million. The remainder of securities available for sale are debt securities.

The carrying amount of investment securities totaled $62.8 billion at September 30, 2012, an increase of $2.2 billion, or 4%, from $60.6 billion at December 31, 2011. The increase primarily reflected an increase of $1.9 billion in available for sale asset-backed securities which is primarily due to securities added in the RBC Bank (USA) acquisition, an increase of $1.1 billion in available for sale agency residential mortgage-backed securities due to net purchase activity, and an increase of $0.7 billion in available for sale non-agency residential mortgage-backed securities due to increases in fair value at September 30, 2012. These increases were partially offset by a $1.4 billion decrease in held to maturity debt securities due to principal payments of the held to maturity securities. Investment securities represented 21% of total assets at September 30, 2012 and 22% at December 31, 2011.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. US Treasury and government agencies, agency residential mortgage-backed and agency commercial mortgage-backed securities collectively represented 60% of the investment securities portfolio at September 30, 2012.

At September 30, 2012, the securities available for sale portfolio included a net unrealized gain of $1.6 billion, which represented the difference between fair value and amortized

cost. The comparable amount at December 31, 2011 was a net unrealized loss of $41 million. The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa.

The improvement in the net unrealized gain as compared with a loss at December 31, 2011 was primarily due to the effect of higher valuations of non-agency residential mortgage-backed securities which had a decrease in net unrealized losses of $1.0 billion. Net unrealized gains and losses in the securities available for sale portfolio are included in Shareholders equity as Accumulated other comprehensive income or loss from continuing operations, net of tax on our Consolidated Balance Sheet.

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

Unrealized gains and losses on available for sale securities do not impact liquidity or risk-based capital under currently effective capital rules. However, reductions in the credit ratings of these securities could have an impact on the liquidity of the securities or the determination of risk-weighted assets which could reduce our regulatory capital ratios under currently effective capital rules. In addition, the amount representing the credit-related portion of OTTI on available for sale securities would reduce our earnings and regulatory capital ratios. Reductions in credit ratings of these securities would not have a direct impact on the risk-weightings of these securities under the proposed capital rules issued by the US banking regulators in June 2012 as discussed in Recent Market and Industry Developments in the Executive Summary section of this Financial Review.

The expected weighted-average life of investment securities (excluding corporate stocks and other) was 3.8 years at September 30, 2012 and 3.7 years at December 31, 2011.

We estimate that, at September 30, 2012, the effective duration of investment securities was 2.3 years for an immediate 50 basis points parallel increase in interest rates and 2.3 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2011 were 2.6 years and 2.4 years, respectively.

Table of Contents

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

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

	September 30, 2012				
	Agency		Non-agency		
Dollars in millions	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Asset-Backed Securities (a)
Fair Value Available for Sale	$ 27,930	$ 651	$ 6,220	$ 3,281	$ 5,539
Fair Value Held to Maturity	4,800	1,380		2,893	775
Total Fair Value	$ 32,730	$ 2,031	$ 6,220	$ 6,174	$ 6,314
% of Fair Value:					
By Vintage					
2012	15%	1%		7%	
2011	28%	48%		6%	1%
2010	26%	11%		4%	4%
2009	10%	19%		2%	2%
2008	3%	3%			1%
2007	3%	2%	25%	11%	4%
2006	1%	4%	21%	21%	7%
2005 and earlier	6%	12%	53%	48%	6%
Not Available	8%		1%	1%	75%
Total	100%	100%	100%	100%	100%
By Credit Rating (at September 30, 2012)					
Agency	100%	100%			
AAA			1%	73%	62%
AA			1%	7%	27%
A			2%	14%	1%
BBB			4%	2%	
BB			13%	2%	
B			6%		1%
Lower than B			72%		9%
No rating			1%	2%	
Total	100%	100%	100%	100%	100%
By FICO Score (at origination)					
>720			56%		2%
<720 and >660			31%		6%
<660					3%
No FICO score			13%		89%
Total			100%		100%

(a) Available for sale asset-backed securities include $3 million of available for sale agency asset-backed securities.

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

We also consider the severity of the impairment and the length of time that the security has been impaired in our assessment. Results of the periodic assessment are reviewed by a cross-functional senior management team representing Asset & Liability Management, Finance, and Market Risk Management. The senior management team considers the results of the assessments, as well as other factors, in determining whether the impairment is other-than-temporary.

Table of Contents

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 we recognize the credit portion of OTTI charges in current earnings and the noncredit portion of OTTI is included in Accumulated other comprehensive income (loss). Also see our Consolidated Statement of Comprehensive Income.

We recognized OTTI for the third quarter and first nine months of 2012 and 2011 as follows:

Table 13: Other-Than-Temporary Impairments

In millions	Three months ended September 30 2012	Three months ended September 30 2011	Nine months ended September 30 2012	Nine months ended September 30 2011
Credit portion of OTTI losses (a)				
Non-agency residential mortgage-backed	$ 23	$ 30	$ 86	$ 93
Asset-backed	1	5	9	14
Other debt			1	1
Total credit portion of OTTI losses	24	35	96	108
Noncredit portion of OTTI (recoveries) (b)	2	87	(22)	117
Total OTTI losses	$ 26	$ 122	$ 74	$ 225

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

Table of Contents

The following table summarizes net unrealized gains and losses recorded on non-agency residential and commercial mortgage-backed securities and other asset-backed securities, which represent our most significant categories of securities not backed by the US government or its agencies. A summary of all OTTI credit losses recognized for the first nine months of 2012 by investment type is included in Note 8 Investment Securities in the Notes To Consolidated Financial Statements in this Report.

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

	September 30, 2012					
In millions	Residential Mortgage-Backed Securities		Commercial Mortgage-Backed Securities		Asset-Backed Securities (a)	
Available for Sale Securities (Non-Agency)						
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain	Fair Value	Net Unrealized Gain (Loss)
Credit Rating Analysis						
AAA	$ 76	$ 2	$ 1,849	$ 95	$ 3,323	$ 23
Other Investment Grade (AA, A, BBB)	410	38	1,224	89	1,574	9
Total Investment Grade	486	40	3,073	184	4,897	32
BB	814	(81)	98	4	4	
B	397	(8)			54	(2)
Lower than B	4,493	(45)			558	(63)
Total Sub-Investment Grade	5,704	(134)	98	4	616	(65)
Total No Rating	30	1	110	5	23	(16)
Total	$ 6,220	$ (93)	$ 3,281	$ 193	$ 5,536	$ (49)
OTTI Analysis						
Investment Grade:						
OTTI has been recognized						
No OTTI recognized to date	$ 486	$ 40	$ 3,073	$ 184	$ 4,897	$ 32
Total Investment Grade	486	40	3,073	184	4,897	32
Sub-Investment Grade:						
OTTI has been recognized	3,783	(233)			583	(62)
No OTTI recognized to date	1,921	99	98	4	33	(3)
Total Sub-Investment Grade	5,704	(134)	98	4	616	(65)
No Rating:						
OTTI has been recognized					23	(16)
No OTTI recognized to date	30	1	110	5		
Total No Rating	30	1	110	5	23	(16)
Total	$ 6,220	$ (93)	$ 3,281	$ 193	$ 5,536	$ (49)
Securities Held to Maturity (Non-Agency)						
Credit Rating Analysis						
AAA			$ 2,646	$ 95	$ 563	$ 2
Other Investment Grade (AA, A, BBB)			247	14	208	1
Total Investment Grade			2,893	109	771	3
BB					4	
B						
Lower than B						
Total Sub-Investment Grade					4	
Total No Rating						
Total			$ 2,893	$ 109	$ 775	$ 3

(a) Excludes $3 million of available for sale agency asset-backed securities.

Table of Contents

Residential Mortgage-Backed Securities

At September 30, 2012, our residential mortgage-backed securities portfolio was comprised of $32.7 billion fair value of US government agency-backed securities and $6.2 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 nine months of 2012, we recorded OTTI credit losses of $86 million on non-agency residential mortgage-backed securities. All of the losses were associated with securities rated below investment grade. As of September 30, 2012, the noncredit portion of impairment recorded in Accumulated other comprehensive income for non-agency residential mortgage-backed securities for which we have recorded an OTTI credit loss totaled $233 million and the related securities had a fair value of $3.8 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of September 30, 2012 totaled $1.9 billion, with unrealized net gains of $99 million. The results of our security-level assessments indicate that we will recover the entire cost basis of these securities. Note 8 Investment Securities in the Notes To Consolidated Financial Statements in this Report provides further detail regarding our process for assessing OTTI for these securities.

Commercial Mortgage-Backed Securities

The fair value of the non-agency commercial mortgage-backed securities portfolio was $6.2 billion at September 30, 2012 and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. The agency commercial mortgage-backed securities portfolio was $2 billion fair value at September 30, 2012 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

There were no OTTI credit losses on commercial mortgage-backed securities during the first nine months of 2012.

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $6.3 billion at September 30, 2012 and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including residential mortgage loans, credit cards, automobile loans, and student loans. Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

We recorded OTTI credit losses of $9 million on asset-backed securities during the first nine months of 2012. All of the securities are collateralized by first lien and second lien residential mortgage loans and are rated below investment grade. As of September 30, 2012, the noncredit portion of impairment recorded in Accumulated other comprehensive income for asset-backed securities for which we have recorded an OTTI credit loss totaled $78 million and the related securities had a fair value of $606 million.

For the sub-investment grade investment securities (available for sale and held to maturity) for which we have not recorded an OTTI loss through September 30, 2012, the remaining fair value was $37 million, with unrealized net losses of $3 million. The results of our security-level assessments indicate that we will recover the cost basis of these securities. Note 8 Investment Securities in the Notes To Consolidated Financial Statements in this Report provides further detail regarding our process for assessing OTTI for these securities.

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

Table 15: Loans Held For Sale

In millions	September 30 2012	December 31 2011
Commercial mortgages at fair value	$ 811	$ 843
Commercial mortgages at lower of cost or fair value	372	451
Total commercial mortgages	1,183	1,294
Residential mortgages at fair value	1,477	1,522
Other	77	120
Total	$ 2,737	$ 2,936

We stopped originating certain commercial mortgage loans designated as held for sale in 2008 and continue pursuing opportunities to reduce these positions at appropriate prices. We sold $32 million in unpaid principal balance of these commercial mortgage loans held for sale carried at fair value

Table of Contents

in the first nine months of 2012. We sold $25 million of these loans in the first nine months of 2011.

We recognized total net gains of $13 million in the first nine months of 2012, including losses of $2 million in the third quarter, on the valuation and sale of commercial mortgage loans held for sale, net of hedges. Total net gains of $26 million on the valuation and sale of commercial mortgage loans held for sale, net of hedges, were recognized in the first nine months of 2011, including gains of $6 million in the third quarter.

Residential mortgage loan origination volume was $10.8 billion in the first nine months of 2012 compared to $8.4 billion for the first nine months of 2011. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards.

We sold $10.5 billion of residential mortgage loans and recognized related gains of $534 million during the first nine months of 2012, of which $216 million occurred in the third quarter. The comparable amounts for the first nine months of 2011 were $9.2 billion and $274 million, respectively, including $103 million in the third quarter.

Interest income on loans held for sale was $127 million in the first nine months of 2012, including $32 million in the third quarter. Comparable amounts for 2011 were $153 million and $46 million, respectively. These amounts are included in Other interest income on our Consolidated Income Statement.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $10.9 billion at September 30, 2012 and $10.1 billion at December 31, 2011. During the first nine months of 2012, PNC recorded goodwill of $950 million and other intangible assets of $180 million associated with the RBC Bank (USA) acquisition. See Note 2 Acquisition and Divestiture Activity and Note 10 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in this Report.

Funding and Capital Sources

Table 16: Details Of Funding Sources

In millions	September 30 2012	December 31 2011
Deposits		
Money market	$ 103,228	$ 89,912
Demand	65,145	57,717
Retail certificates of deposit	25,070	29,518
Savings	10,098	8,705
Time deposits in foreign offices and other time	2,722	2,114
Total deposits	206,263	187,966
Borrowed funds		
Federal funds purchased and repurchase agreements	3,877	2,984
Federal Home Loan Bank borrowings	9,942	6,967
Bank notes and senior debt	9,960	11,793
Subordinated debt	6,754	8,321
Commercial paper	10,731	4,271
Other	1,840	2,368
Total borrowed funds	43,104	36,704
Total	$ 249,367	$ 224,670

Total funding sources increased $24.7 billion at September 30, 2012 compared with December 31, 2011.

Total deposits increased $18.3 billion, or 10%, at September 30, 2012 compared with December 31, 2011. On March 2, 2012, our RBC Bank (USA) acquisition added $18.1 billion of deposits, including $6.9 billion of money market, $6.7 billion of demand deposit, $4.1 billion of retail certificates of deposit, and $.4 billion of savings accounts. Excluding acquisition activity, money market, demand deposits, savings and time deposits in foreign offices and other time deposit accounts increased for the nine months ended September 30, 2012, partially offset by the maturity of retail certificates of deposit. Interest-bearing deposits represented 69% of total deposits at both September 30, 2012 and

December 31, 2011. Total borrowed funds increased $6.4 billion since December 31, 2011. The change from December 31, 2011 was due to an increase in Federal funds purchased and repurchase agreements along with an increase in FHLB borrowings and commercial paper, partially offset by repayments and maturities of bank notes and senior debt and the redemption of trust preferred securities.

Capital

See 2012 Capital and Liquidity Actions in the Executive Summary section of this Financial Review and Note 20 Subsequent Events in the Notes To Consolidated Financial Statements in this Report for information regarding our 2012 capital activities.

Table of Contents

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

Total shareholders equity increased $4.6 billion, to $38.7 billion, at September 30, 2012 compared with December 31, 2011 and included an increase in retained earnings of $1.6 billion. The issuance of preferred stock in September 2012 and April 2012 contributed to the increase in capital surplus of $1.9 billion. Accumulated other comprehensive income increased $1.1 billion, to $1.0 billion, at September 30, 2012 compared with a loss of $0.1 billion at December 31, 2011 primarily due to net unrealized gains on securities compared to a net loss. Common shares outstanding were 529 million at September 30, 2012 and 527 million at December 31, 2011.

Our current common stock repurchase program permits us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital, regulatory and contractual limitations, and the potential impact on our credit ratings. Consistent with our capital plan submitted to the Federal Reserve in the first quarter of 2012, we may purchase up to $250 million of common stock under this program during 2012. Such purchases were initiated during the second quarter and approximately $135 million had been repurchased as of September 30, 2012.

Table 17: Risk-Based Capital

Dollars in millions	September 30 2012	December 31 2011
Capital components		
Shareholders equity		
Common	$ 35,124	$ 32,417
Preferred	3,559	1,636
Trust preferred capital securities	771	2,354
Noncontrolling interests	1,346	1,351
Goodwill and other intangible assets	(9,945)	(9,027)
Eligible deferred income taxes on goodwill and other intangible assets	367	431
Pension, other postretirement benefit plan adjustments	686	755
Net unrealized securities (gains) losses, after-tax	(1,050)	41
Net unrealized gains on cash flow hedge derivatives, after-tax	(656)	(717)
Other	(144)	(168)
Tier 1 risk-based capital	30,058	29,073
Subordinated debt	3,996	4,571
Eligible allowance for credit losses	3,229	2,904
Total risk-based capital	$ 37,283	$ 36,548
Tier 1 common capital		
Tier 1 risk-based capital	$ 30,058	$ 29,073
Preferred equity	(3,559)	(1,636)
Trust preferred capital securities	(771)	(2,354)
Noncontrolling interests	(1,346)	(1,351)
Tier 1 common capital	$ 24,382	$ 23,732
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	$ 257,297	$ 230,705
Adjusted average total assets	289,491	261,958
Capital ratios		
Tier 1 common	9.5%	10.3%
Tier 1 risk-based	11.7	12.6
Total risk-based	14.5	15.8
Leverage	10.4	11.1

Federal banking regulators have stated that they expect all bank holding companies to have a level and composition of Tier 1 capital well in excess of the 4% Basel I regulatory minimum, and they have required the largest US bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet credit needs of their customers through estimated stress scenarios. They have also stated their view that common equity should be the dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels, although a formal ratio for this metric is not provided for in current regulations. We seek to manage our capital consistent with these regulatory principles, and believe that our September 30, 2012 capital levels were aligned with them.

Dodd-Frank requires the Federal Reserve Board to establish capital requirements that would, among other things, eliminate the Tier 1 treatment of trust preferred securities following a phase-in period expected to begin in 2013. Accordingly, PNC has redeemed some of its trust preferred securities and will consider redeeming others on or after their first call date, based on such considerations as dividend rates, future capital requirements, capital market conditions and other factors. See 2012 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our April 2012, May 2012, and July 2012 redemptions of trust preferred securities. See Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in Item 8 of our 2011 Form 10-K and Note 11 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities and Note 20 Subsequent Events in the Notes To Consolidated Financial Statements in this Report for additional information on trust preferred securities.

Our Tier 1 common capital ratio was 9.5% at September 30, 2012, compared with 10.3% at December 31, 2011. Our Tier 1 risk-based capital ratio decreased 90 basis points to 11.7% at September 30, 2012 from 12.6% at December 31, 2011. Our total risk-based capital ratio declined 130 basis points to 14.5% at September 30, 2012 from 15.8% at December 31, 2011. The decline in these ratios was primarily due to goodwill and risk-weighted assets as a result of the RBC Bank (USA) acquisition and organic asset growth resulting in higher risk-weighted assets. Our Tier 1 risk-based capital ratio reflected our 2012 capital actions of issuing approximately $1.9 billion of preferred stock and redeeming approximately $1.8 billion of trust preferred securities. Risk-weighted assets increased $26.6 billion from $230.7 billion at December 31, 2011 to $257.3 billion at September 30, 2012 due to the RBC Bank (USA) acquisition and organic loan growth for the first nine months of 2012.

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

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

PNC and PNC Bank, N.A. expect to enter the parallel run qualification phase under the Basel II capital framework on January 1, 2013. The Basel II framework, which was adopted by the Basel Committee on Banking Supervision in 2004, seeks to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. The U.S. banking agencies adopted final rules to implement the Basel II capital framework in December 2007 and in June 2012 requested comment on proposed modifications to these rules (collectively referred to as the advanced approaches). See Recent Market and Industry Developments in the Executive Summary section of this Financial Review. Prior to fully implementing the advanced approaches to calculate risk-weighted assets, PNC and PNC Bank, N.A. must successfully complete a parallel run qualification phase. This phase must last at least four consecutive quarters, although, consistent with the experience of other U.S. banks, we currently anticipate a multi-year parallel run period.

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

Off-Balance Sheet Arrangements And Variable Interest Entities

We engage in a variety of activities that involve unconsolidated entities or that are otherwise not reflected in our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. Additional information on these types of activities is included in our 2011 Form 10-K and in the following sections of this Report:

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

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

A summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements, as of

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

Trust Preferred Securities

In connection with $.9 billion in principal amount of junior subordinated debentures associated with trust preferred securities outstanding as of September 30, 2012 that were issued by various subsidiary statutory trusts, we are subject to certain restrictions, including restrictions on dividend payments. Generally, if there is (i) an event of default under the debentures, (ii) PNC elects to defer interest on the debentures, (iii) PNC exercises its right to defer payments on the related trust preferred securities issued by the statutory trusts, or (iv) there is a default under PNC s guarantee of such payment obligations, as specified in the applicable governing documents, then PNC would be subject during the period of such default or deferral to restrictions on dividends and other

provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with PNC Preferred Funding Trust II and Trust III, as described in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in our 2011 Form 10-K. See 2012 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our second and third quarter redemptions of trust preferred securities.

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

Fair Value Measurements

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

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

Table 18: Fair Value Measurements Summary

	September 30, 2012		December 31, 2011	
In millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	$ 70,759	$ 10,889	$ 66,658	$ 10,051
Total assets at fair value as a percentage of consolidated assets	24%		25%	
Level 3 assets as a percentage of total assets at fair value		15%		15%
Level 3 assets as a percentage of consolidated assets		4%		4%
Total liabilities	$ 8,401	$ 330	$ 8,625	$ 308
Total liabilities at fair value as a percentage of consolidated liabilities	3%		4%	
Level 3 liabilities as a percentage of total liabilities at fair value		4%		4%
Level 3 liabilities as a percentage of consolidated liabilities		<1%		<1%

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

An instrument s categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. PNC reviews and updates fair value hierarchy classifications quarterly. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification (transfer) of assets or liabilities between hierarchy levels. PNC s policy is to recognize transfers in and transfers out as of the end of the reporting period. During the first nine months of 2012, there were transfers of assets and liabilities from Level 2 to Level 3 of $462 million consisting primarily of mortgage-backed securities as a result of a ratings downgrade which reduced the observability of valuation inputs. Also during the first nine months of 2012, $279 million of assets in the Rabbi Trust were classified as Level 1 based upon refinement in our methodology. This reclassification has been reflected as if it were a transfer from Level 2 to Level 1. During the first nine months of 2011, there were no material transfers of assets or liabilities between the hierarchy levels.

Table of Contents

European Exposure

Table 19: Summary of European Exposure

In millions	Direct	Indirect	Total
September 30, 2012			
Greece, Ireland, Italy, Portugal, and Spain (GIIPS)	$ 209	$ 29	$ 238
Belgium, France, and Turkey	171	1,144	1,315
Subtotal	380	1,173	1,553
United Kingdom	1,126	584	1,710
Others (a)	918	853	1,771
Total	$ 2,424	$ 2,610	$ 5,034
December 31, 2011			
Greece, Ireland, Italy, Portugal, and Spain (GIIPS)	$ 118	$ 63	$ 181
Belgium, France, and Turkey	154	935	1,089
Subtotal	272	998	1,270
United Kingdom	847	529	1,376
Others (a)	968	803	1,771
Total	$ 2,087	$ 2,330	$ 4,417

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

European entities are defined as supranational, sovereign, financial institutions and non-financial entities within the countries that comprise the European Union, European Union candidate countries and other European countries. Foreign exposure underwriting and approvals are centralized. PNC currently underwrites new foreign activities if the credit is generally associated with activities of its United States commercial customers, and in the case of PNC Business Credit s United Kingdom operations, transactions that are predominantly well collateralized by self liquidating assets such as receivables, inventories or, in limited situations, the borrower s appraised value of certain fixed assets, such that PNC is at minimal risk of loss. Formerly, PNC had underwritten foreign infrastructure leases supported by highly rated bank letters of credit, US Treasury securities and the underlying assets of the lease. Country exposures are monitored and reported on a regular basis. We actively monitor sovereign risk, banking system health, and market conditions and adjust limits as appropriate. We rely on information from internal and external sources, including international financial institutions, economists and analysts, industry trade organizations, rating agencies, econometric data analytical service providers, and geopolitical news analysis services.

Direct exposure primarily consists of loans, leases, securities, derivatives, letters of credit and unfunded contractual commitments with European entities, and totaled $2.4 billion at September 30, 2012. Direct exposure outstanding was $1.8 billion and other direct exposure was $580 million, primarily for unfunded contractual commitments. The $1.8 billion outstanding balance (.61% of PNC total assets) primarily

represents $640 million for cross-border leases in support of national infrastructure, which are supported by letters of credit and other collateral having trigger mechanisms that require replacement or collateral in the form of cash or United States Treasury or government securities, $618 million for United Kingdom foreign office loans and $225 million of securities issued by AAA-rated sovereigns. The remaining $580 million of our direct exposure is largely comprised of $500 million for unfunded contractual commitments primarily for United Kingdom local office commitments to PNC Business Credit corporate customers on a secured basis or activities supporting our domestic customers export activities through the confirmation of trade letters of credit.

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

We also track European financial exposures where PNC is appointed as a fronting bank by our clients and we elect to assume the joint probability of default risk. As of September 30, 2012 and December 31, 2011, PNC had $2.6 billion and $2.3 billion, respectively, of indirect exposure. For PNC to incur a loss in these indirect exposures, both the obligor and the financial counterparty participating bank would need to default. PNC assesses both the corporate customers and the participating banks for counterparty risk and where PNC has found that a participating bank exposes PNC to unacceptable risk, PNC will reject the participating bank as an acceptable counterparty and will ask the corporate customer to find an acceptable participating bank.

Among the regions and nations that PNC monitors, we have identified eight countries for which we are more closely monitoring their economic and financial situation. The basis for the increased monitoring includes, but is not limited to, sovereign debt burden, near term financing risk, political instability, GDP trends, balance of payments, market confidence, banking system distress and/or holdings of stressed sovereign debt. The countries identified are: Greece, Ireland, Italy, Portugal, Spain (collectively GIIPS), Belgium, France and Turkey.

Direct and indirect exposure to entities in the GIIPS countries totaled $238 million as of September 30, 2012, of which $121 million is direct exposure for cross-border leases within Portugal, $66 million represents direct exposure for loans outstanding within Ireland and indirect exposure of $29 million for letters of credit with strong underlying obligors within Ireland, Italy and Spain. The comparable amounts as of December 31, 2011 were total direct and indirect exposure of $181 million, consisting of $118 million of direct exposure for cross-border leases within Portugal, indirect exposure of $48 million for letters of credit with strong underlying obligors within Ireland, Italy and Spain and $15 million for unfunded contractual commitments in Spain.

Direct and indirect exposure to entities in Belgium, France, and Turkey totaled $1.3 billion as of September 30, 2012. Direct exposure of $171 million primarily consists of $69 million for cross-border leases within Belgium, $62 million for unfunded contractual commitments in France and $30 million of covered bonds issued by a financial institution in France. Indirect exposure is $1.1 billion for letters of credit with strong underlying obligors and creditworthy participant banks in France and Belgium. The comparable amounts as of December 31, 2011 were total direct and indirect exposure of $1.1 billion as of December 31, 2011 of which there was $154 million of direct exposure primarily consisting of $75 million for cross-border leases within Belgium, $62 million for unfunded contractual commitments in France and $11 million for 90% Overseas Private Investment Corporation (OPIC) guaranteed Turkish loans. Indirect exposure was $935 million for letters of credit with strong underlying obligors and creditworthy participant banks in France and Belgium.

Business Segments Review

We have six reportable business segments:

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

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

Results of individual businesses are presented based on our internal management reporting practices. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our individual businesses are not necessarily comparable with similar information for any other company. We periodically refine our internal methodologies as management reporting practices are enhanced.

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

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

A portion of capital is intended to cover unexpected losses and is assigned to our business segments using our risk-based economic capital model, including consideration of the goodwill and other intangible assets at those business segments, as well as the diversification of risk among the business segments.

We have allocated the allowances for loan and lease losses and for unfunded loan commitments and letters of credit based on our assessment of risk in the business segment loan portfolios. Our allocation of the costs incurred by operations and other shared support areas not directly aligned with the businesses is primarily based on the use of services. During the third quarter of 2012, enhancements were made to certain processes and assumptions used to estimate our ALLL. Specifically, PNC increased the amount of internally observed data used in estimating commercial lending PDs and LGDs. The estimated impact as of the beginning of the third quarter 2012 was approximately an increase of $41 million and a decrease of $55 million to the provision for credit losses of Retail Banking and Corporate & Institutional Banking, respectively. Prior periods are not presented on a comparable basis as it is not practicable to do so.

Total business segment financial results differ from total consolidated net income. The impact of these differences is reflected in the Other category. Other for purposes of this Business Segments Review and the Business Segment Highlights in the Executive Summary includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions, integration costs, asset and liability management activities including net securities gains or losses, other-than-temporary impairment of investment securities and certain trading activities, exited businesses, alternative investments, including private equity, intercompany

Table of Contents

eliminations, most corporate overhead, tax adjustments that are not allocated to business segments, and differences between business segment performance reporting and

financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests.

Table 20: Results Of Businesses Summary (a)

(Unaudited)

	Net Income		Revenue		Average Assets (b)	
Nine months ended September 30 in millions	2012	2011	2012	2011	2012	2011
Retail Banking	$ 475	$ 309	$ 4,651	$ 4,196	$ 72,048	$ 66,193
Corporate & Institutional Banking	1,679	1,343	4,121	3,469	100,907	79,315
Asset Management Group	111	143	726	695	6,666	6,744
Residential Mortgage Banking	(116)	150	468	732	11,663	11,103
BlackRock	283	271	366	351	5,727	5,441
Non-Strategic Assets Portfolio	178	202	625	753	12,276	13,392
Total business segments	2,610	2,418	10,957	10,196	209,287	182,188
Other (c) (d)	(328)	160	486	581	83,352	81,331
Total	$ 2,282	$ 2,578	$ 11,443	$ 10,777	$ 292,639	$ 263,519

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

(b) Period-end balances for BlackRock.

(c) For our segment reporting presentation in this Financial Review, Other for the first nine months of 2012 included $232 million of pretax integration costs related to acquisitions.

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

Table of Contents

Retail Banking

(Unaudited)

Table 21: Retail Banking Table

Nine months ended September 30

Dollars in millions, except as noted	2012	2011
Income Statement		
Net interest income	$ 3,235	$ 2,834
Noninterest income		
Service charges on deposits	404	375
Brokerage	141	153
Consumer services	618	732
Other	253	102
Total noninterest income	1,416	1,362
Total revenue	4,651	4,196
Provision for credit losses	520	662
Noninterest expense	3,380	3,047
Pretax earnings	751	487
Income taxes	276	178
Earnings	$ 475	$ 309
Average Balance Sheet		
Loans		
Consumer		
Home equity	$ 28,136	$ 25,999
Indirect auto	5,047	2,830
Indirect other	1,212	1,533
Education	9,049	9,036
Credit cards	4,037	3,715
Other	1,987	1,725
Total consumer	49,468	44,838
Commercial and commercial real estate	11,176	10,634
Floor plan	1,745	1,449
Residential mortgage	974	1,210
Total loans	63,363	58,131
Goodwill and other intangible assets	6,105	5,756
Other assets	2,580	2,306
Total assets	$ 72,048	$ 66,193
Deposits		
Noninterest-bearing demand	$ 19,938	$ 18,209
Interest-bearing demand	27,496	21,729
Money market	46,148	40,788
Total transaction deposits	93,582	80,726
Savings	9,645	7,979
Certificates of deposit	26,448	34,020
Total deposits	129,675	122,725
Other liabilities	358	898
Capital	8,607	8,173
Total liabilities and equity	$ 138,640	$ 131,796

Table of Contents

Nine months ended September 30

Dollars in millions, except as noted	2012	2011
Performance Ratios		
Return on average capital	7%	5%
Return on average assets	.88	.62
Noninterest income to total revenue	30	32
Efficiency	73	73
Other Information (a)		
Credit-related statistics:		
Commercial nonperforming assets	$ 266	$ 330
Consumer nonperforming assets	799	454
Total nonperforming assets (b)	$ 1,065	$ 784
Purchased impaired loans (c)	$ 852	$ 786
Commercial lending net charge-offs	$ 85	$ 171
Credit card lending net charge-offs	139	167
Consumer lending (excluding credit card) net charge-offs	373	324
Total net charge-offs	$ 597	$ 662
Commercial lending annualized net charge-off ratio	.88%	1.89%
Credit card lending annualized net charge-off ratio	4.60%	6.01%
Consumer lending (excluding credit card) annualized net charge-off ratio	1.07%	1.02%
Total annualized net charge-off ratio	1.26%	1.52%
Home equity portfolio credit statistics: (d)		
% of first lien positions at origination	41%	38%
Weighted-average loan-to-value ratios (LTVs) (e)	80%	72%
Weighted-average updated FICO scores (f)	742	743
Annualized net charge-off ratio	1.21%	1.11%
Loans 30 59 days past due	.51%	.58%
Loans 60 89 days past due	.33%	.32%
Loans 90 days past due (g)	1.24%	1.12%
Other statistics:		
ATMs	7,261	6,754
Branches (h)	2,887	2,469
Customer-related statistics: (in thousands)		
Retail Banking checking relationships	6,451	5,722
Retail online banking active customers	4,117	3,479
Retail online bill payment active customers	1,219	1,079
Brokerage statistics:		
Financial consultants (i)	655	703
Full service brokerage offices	42	37
Brokerage account assets (billions)	$ 38	$ 33

(a) Presented as of September 30, except for net charge-offs and annualized net charge-off ratios, which are for the nine months ended.

(b) Includes nonperforming loans of $1.0 billion at September 30, 2012 and $748 million at September 30, 2011. In the first quarter of 2012, we adopted a policy stating that Home equity loans past due 90 days or more would be placed on nonaccrual status. The prior policy required that these loans be past due 180 days before being placed on nonaccrual status.

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

(d) Lien position, LTV, FICO and delinquency statistics are based upon balances and other data that exclude the impact of accounting for acquired loans.

(e) Updated LTV is reported for September 30, 2012. For September 30, 2011, LTV is based upon data from loan origination. Original LTV excludes certain acquired portfolio loans where this data is not available.

(f) Represents FICO scores that are updated monthly for home equity lines and quarterly for the home equity installment loans.

(g) Includes non-accrual loans.

(h) Excludes satellite offices (e.g., drive-ups, electronic branches, and retirement centers) that provide limited products and/or services.

(i) Financial consultants provide services in full service brokerage offices and traditional bank branches.

Retail Banking earned $475 million for the first nine months of 2012 compared with earnings of $309 million for the same period a year ago. The increase in earnings resulted from organic growth in loan and transaction deposit balances, lower rates paid on deposits, a lower provision for credit losses, higher levels of customer-initiated transactions, a gain on the sale of a portion of Visa Class B common shares, and the impact of the RBC Bank (USA) acquisition, partially offset by the regulatory impact of lower interchange fees on debit card transactions and higher additions to legal reserves.

The results for the first nine months of 2012 include the impact of the retail business associated with the acquisition of RBC Bank (USA) and the credit card portfolio purchase from RBC Bank (Georgia), National Association in March 2012. Retail Banking added approximately $12.1 billion in deposits, $4.9 billion in loans, 460,000 checking relationships, over 400 branches, and over 400 ATMs through this acquisition. Retail Banking s footprint extends across 17 states and Washington, D.C., covering nearly half the US population and serving 5,710,000 consumers and 741,000 small businesses with 2,887 branches and 7,261 ATMs.

Retail Banking s core strategy is to grow consumer and small business checking households by providing an experience that builds customer loyalty and creates opportunities to sell other products and services, including loans, savings accounts, investment products and money management services. Net new checking relationships grew 690,000 in the first nine months of 2012, including 460,000 from the RBC Bank (USA) acquisition. Year to date organic customer relationship growth was 4% on an annualized basis. The growth reflects strong results and gains in all of our markets as well as strong customer retention in the overall network. The business is also focused on expanding the use of technology, using services such as online banking and mobile deposit taking to improve customer service convenience and lower our service delivery costs. Active online banking customers and active online bill payment customers increased by 18% and 13%, respectively, from September 30 of the prior year.

Total revenue for the first nine months of 2012 was $4.7 billion compared with $4.2 billion for the same period of 2011. Net interest income of $3.2 billion increased $401 million compared with the first nine months of 2011. The increase resulted from higher organic loan and transaction deposit balances, lower rates paid on deposits, and the impact of the RBC Bank (USA) acquisition.

Noninterest income increased $54 million compared to the first nine months of 2011. The increase was driven by the pretax gain of $137 million on the sale of 5 million Visa Class B common shares. Noninterest revenue has been adversely affected by Dodd-Frank limits related to interchange rates that became effective in October 2011. In the first nine months of 2012, the negative impact of these limits was approximately $230 million. This impact has been partially offset by higher

volumes of merchant, customer credit card and debit card transactions and the RBC Bank (USA) acquisition.

The provision for credit losses was $520 million in the first nine months of 2012 compared with $662 million in prior year. Net charge-offs were $597 million for the first nine months of 2012 compared with $662 million for the same period in 2011. Improvements in credit quality over the prior year were evident in the small business and credit card portfolios. Pursuant to regulatory guidance, additional net consumer charge-offs have been taken as of September 30, 2012 related to changes in treatment of certain loans where borrowers have been discharged from personal liability under bankruptcy protection where no formal reaffirmation of the loan obligation was provided by the borrower. Such loans have been classified as troubled debt restructurings and have been measured at fair value of the collateral less costs to sell. The level of provisioning going forward will be dependent on general economic conditions, loan growth, utilization of credit commitments and asset quality.

Noninterest expense increased $333 million in the first nine months of 2012 compared to the same period of 2011. The increase was primarily attributable to the operating expenses associated with RBC Bank (USA) and higher additions to legal reserves.

Growing core checking deposits is key to Retail Banking s growth and to providing a source of low-cost funding to PNC. The deposit product strategy of Retail Banking is to remain disciplined on pricing, target specific products and markets for growth, and focus on the retention and growth of balances for relationship customers. In the first nine months of 2012, average total deposits of $129.7 billion increased $7.0 billion, or 6%, compared with the same period in 2011.

- Average transaction deposits grew $12.9 billion, or 16% and average savings deposit balances grew $1.7 billion or 21% year over year as a result of organic deposit growth, continued customer preference for liquidity, and the RBC Bank (USA) acquisition. In the first nine months of 2012, compared with the same period a year ago, average demand deposits increased $7.5 billion, or 19%, to $47.4 billion; average money market deposits increased $5.4 billion, or 13%, to $46.1 billion.
- Total average certificates of deposit decreased $7.6 billion or 22% compared to the same period in 2011. The decline in average certificates of deposit was due to the run-off of maturing accounts partially offset by the impact of the RBC Bank (USA) acquisition.

Retail Banking continues to focus on a relationship-based lending strategy that targets specific customer sectors, including mass and mass affluent consumers, small businesses and auto dealerships. In the first nine months of 2012, average total loans were $63.4 billion, an increase of

$5.2 billion, or 9%, over the same period in 2011, of which $3.7 billion was

Table of Contents

attributable to the RBC Bank (USA) acquisition, primarily in the home equity portfolio.

Average indirect auto loans increased $2.2 billion, or 78%, over the first nine months of 2011. The increase was due to the expansion of our indirect sales force and product introduction to acquired markets, as well as overall increases in auto sales. An indirect auto portfolio of $522 million was purchased in September 2012.

Average home equity loans increased $2.1 billion, or 8%, compared with the same period in 2011. The increase was due to the RBC Bank (USA) acquisition. The remainder of the portfolio showed a decline as loan demand was outpaced by paydowns, refinancings, and charge-offs. Retail Banking s home equity loan portfolio is relationship based, with 97% of the portfolio attributable to borrowers in our primary geographic footprint.

Average commercial and commercial real estate loans increased $542 million, or 5%, compared with the same period in 2011. The increase was due to the acquisition of RBC Bank (USA). The remainder of the portfolio showed a decline as loan demand was outpaced by paydowns, refinancings, and charge-offs.

Average credit card balances increased $322 million, or 9%, compared with the first nine months of 2011 as a result of the portfolio purchase from RBC Bank (Georgia), National Association in March 2012 and an increase in active accounts.

Average auto dealer floor plan loans grew $296 million, or 20%, compared with the first nine months of 2011, primarily resulting from dealer line utilization and additional dealer relationships.

Average education loans for the first nine months of 2012 were flat compared with the same period in 2011.

Average indirect other and residential mortgages in this segment are primarily run-off portfolios and declined $321 million and $236 million, respectively, compared with the same period in 2011. The indirect other portfolio is comprised of marine, RV, and other indirect loan products.

Table of Contents

Corporate & Institutional Banking

(Unaudited)

Table 22: Corporate & Institutional Banking Table

Nine months ended September 30

Dollars in millions, except as noted	2012	2011
Income Statement		
Net interest income	$ 3,042	$ 2,595
Noninterest income		
Corporate service fees	706	526
Other	373	348
Noninterest income	1,079	874
Total revenue	4,121	3,469
Provision for credit losses (benefit)	(9)	12
Noninterest expense	1,479	1,337
Pretax earnings	2,651	2,120
Income taxes	972	777
Earnings	$ 1,679	$ 1,343
Average Balance Sheet		
Loans		
Commercial	$ 47,560	$ 34,771
Commercial real estate	15,516	13,949
Commercial real estate related	5,510	3,553
Asset-based lending	9,811	7,928
Equipment lease financing	5,904	5,499
Total loans	84,301	65,700
Goodwill and other intangible assets	3,633	3,444
Loans held for sale	1,233	1,251
Other assets	11,740	8,920
Total assets	$ 100,907	$ 79,315
Deposits		
Noninterest-bearing demand	$ 37,575	$ 30,010
Money market	15,284	12,770
Other	5,862	5,662
Total deposits	58,721	48,442
Other liabilities	17,586	13,064
Capital	9,100	7,927
Total liabilities and equity	$ 85,407	$ 69,433
Performance Ratios		
Return on average capital	25%	23%
Return on average assets	2.22	2.26
Noninterest income to total revenue	26	25
Efficiency	36	39
Commercial Mortgage Servicing Portfolio (in billions)		
Beginning of period	$ 267	$ 266
Acquisitions/additions	29	31
Repayments/transfers	(31)	(30)
End of period	$ 265	$ 267
Other Information		
Consolidated revenue from: (a)		
Treasury Management (b)	$ 1,043	$ 943
Capital Markets (c)	$ 482	$ 462
Commercial mortgage loans held for sale (d)	$ 60	$ 75
Commercial mortgage loan servicing income, net of amortization (e)	138	125
Commercial mortgage servicing rights recovery/(impairment), net of economic hedge	15	(157)
Total commercial mortgage banking activities	$ 213	$ 43
Total loans (f)	$ 90,099	$ 70,307
Credit-related statistics:		

Nonperforming assets (f) (g)	$ 1,500	$ 2,033
Purchased impaired loans (f) (h)	$ 990	$ 472
Net charge-offs	$ 108	$ 332
Net carrying amount of commercial mortgage servicing rights (f)	$ 402	$ 482

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

(b) Includes amounts reported in net interest income and corporate service fees.

(c) Includes amounts reported in net interest income, corporate service fees and other noninterest income.

(d) 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.

(e) Includes net interest income and noninterest income from loan servicing and ancillary services, net of commercial mortgage servicing rights amortization and a direct write-down of commercial mortgage servicing rights of $24 million recognized in the first quarter of 2012. Commercial mortgage servicing rights (impairment)/recovery, net of economic hedge is shown separately.

(f) As of September 30.

(g) Includes nonperforming loans of $1.3 billion at September 30, 2012 and $1.8 billion at September 30, 2011.

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

Corporate & Institutional Banking earned $1.7 billion in the first nine months of 2012 compared with $1.3 billion in the first nine months of 2011. The increase in earnings was primarily due to higher net interest income. We continued to focus on building client relationships including increasing cross sales, adding new clients where the risk-return profile is attractive, and remaining committed to expense discipline.

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

Highlights of Corporate & Institutional Banking s performance during the first nine months of 2012 include the following:

- Corporate & Institutional Banking continued to execute on strategic initiatives, including in the Southeast, by organically growing and deepening client relationships that meet appropriate risk/return measures. Approximiately 775 new corporate banking clients were added in the first nine months of 2012.
- Loan commitments increased 22% to $174 billion at September 30, 2012 compared to September 30, 2011, primarily due to the RBC Bank (USA) acquisition and growth in our Financial Services Advisory and Banking (FSAB), Corporate Finance, Public Finance, Healthcare, Real Estate and Business Credit businesses.
- Period-end loan balances have increased for the eighth consecutive quarter, including an increase of 1.5% at September 30, 2012 compared with June 30, 2012 and 28% compared with September 30, 2011.
- Our Treasury Management business, which ranks among the top providers in the country, continued to invest in markets, products and infrastructure as well as major initiatives such as healthcare.
- Cross sales of treasury management and capital markets-related products and services to customers in PNC s markets continued to be successful and were ahead of 2011.
- Midland Loan Services was the number one servicer of Fannie Mae and Freddie Mac multifamily and healthcare loans and was the second leading servicer of commercial and multifamily loans by volume as of June 30, 2012 according to Mortgage Bankers Association. Midland is the only U.S commercial mortgage servicer to receive the highest primary, master and special servicer ratings from Fitch Ratings, Standard & Poor s and Morningstar.

Net interest income for the first nine months of 2012 was $3.0 billion, a 17% increase from the first nine months of 2011, reflecting higher average loans and deposits including the impact of the RBC Bank (USA) acquisition.

Corporate service fees were $706 million in the first nine months of 2012, an increase of $180 million from the first nine months of 2011, primarily due to higher commercial mortgage banking revenue. The major components of corporate service fees are treasury management, corporate finance fees and commercial mortgage servicing revenue.

Other noninterest income was $373 million in the first nine months of 2012 compared with $348 million in the first nine months of 2011. The increase of $25 million was primarily due to the impact of customer driven capital markets activity.

The provision for credit losses was a benefit of $9 million in the first nine months of 2012 compared with a provision of $12 million in the first nine months of 2011. The decrease reflects improving credit characteristics of the portfolio, mostly offset by the impact of higher loan and commitment levels. Net charge-offs were $108 million in the first nine months of 2012, which decreased $224 million, or 67%, compared with the first nine months of 2011. The decline was attributable primarily to the commercial real estate portfolio. Nonperforming assets declined for the tenth consecutive quarter, and at $1.5 billion, represented a 26% decrease from September 30, 2011.

Noninterest expense was $1.5 billion in the first nine months of 2012, an increase of $142 million from the first nine months of 2011. Higher compensation-related costs were driven by improved performance and higher staffing, including the impact of the RBC Bank (USA) acquisition.

Average loans were $84.3 billion in the first nine months of 2012 compared with $65.7 billion in the first nine months of 2011, an increase of 28%.

- The Corporate Banking business provides lending, treasury management, and capital markets-related products and services to mid-sized corporations, government and not-for-profit entities, and selectively to large corporations. Average loans for this business increased $11.0 billion or 33% in the first nine months of 2012 compared with the first nine months of 2011, primarily due to an increase in loan commitments from new customers.

PNC Real Estate provides commercial real estate and real estate-related lending and is one of the industry s top providers of both conventional and affordable multifamily financing. Average loans for this business increased $2.5 billion or 16% in the first nine months of 2012 compared to the first nine months of 2011 due to increased originations.

PNC Business Credit is one of the top five asset-based lenders in the country with increasing market share according to the Commercial Finance Association. The loan portfolio is relatively high yielding, with moderate risk as the loans are mainly

Table of Contents

secured by short-term assets. Average loans increased $1.9 billion or 24% in the first nine months of 2012 compared with the first nine months of 2011 due to customers seeking stable lending sources, loan usage rates, and market share expansion.

PNC Equipment Finance is the 4th largest bank-affiliated leasing company with over $10 billion in equipment finance assets.

Average deposits were $58.7 billion in the first nine months of 2012, an increase of $10.3 billion, or 21%, compared with the first nine months of 2011.

Deposit growth has been very strong, consistent with the industry-wide trend, as clients hold record levels of cash.

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

The repeal of Regulation Q limitations on interest-bearing commercial demand deposit accounts became effective in the third quarter of 2011. Interest in this product has been muted due to the current rate environment.

The commercial mortgage servicing portfolio was $265 billion at September 30, 2012 compared with $267 billion at September 30, 2011. Servicing additions were more than offset by portfolio run-off.

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

Table of Contents

Asset Management Group

(Unaudited)

Table 23: Asset Management Group Table

Nine months ended September 30

Dollars in millions, except as noted	2012	2011
Income Statement		
Net interest income	$ 223	$ 207
Noninterest income	503	488
Total revenue	726	695
Provision for credit losses (benefit)	13	(34)
Noninterest expense	537	503
Pretax earnings	176	226
Income taxes	65	83
Earnings	$ 111	$ 143
Average Balance Sheet		
Loans		
Consumer	$ 4,330	$ 4,086
Commercial and commercial real estate	1,095	1,337
Residential mortgage	691	710
Total loans	6,116	6,133
Goodwill and other intangible assets	334	365
Other assets	216	246
Total assets	$ 6,666	$ 6,744
Deposits		
Noninterest-bearing demand	$ 1,424	$ 1,177
Interest-bearing demand	2,658	2,305
Money market	3,550	3,577
Total transaction deposits	7,632	7,059
CDs/IRAs/savings deposits	501	646
Total deposits	8,133	7,705
Other liabilities	69	73
Capital	425	347
Total liabilities and equity	$ 8,627	$ 8,125
Performance Ratios		
Return on average capital	35%	55%
Return on average assets	2.22	2.83
Noninterest income to total revenue	69	70
Efficiency	74	72
Other Information		
Total nonperforming assets (a) (b)	$ 61	$ 69
Purchased impaired loans (a) (c)	$ 118	$ 134
Total net charge-offs (recoveries)	$ 4	$ (6)
Assets Under Administration (in billions) (a) (d)		
Personal	$ 106	$ 95
Institutional	116	107
Total	$ 222	$ 202

Table of Contents

Nine months ended September 30

Dollars in millions, except as noted	2012	2011
Asset Type		
Equity	$ 120	$ 104
Fixed Income	68	66
Liquidity/Other	34	32
Total	$ 222	$ 202
Discretionary assets under management		
Personal	$ 73	$ 65
Institutional	39	38
Total	$ 112	$ 103
Asset Type		
Equity	$ 57	$ 49
Fixed Income	39	38
Liquidity/Other	16	16
Total	$ 112	$ 103
Nondiscretionary assets under administration		
Personal	$ 33	$ 30
Institutional	77	69
Total	$ 110	$ 99
Asset Type		
Equity	$ 63	$ 55
Fixed Income	29	28
Liquidity/Other	18	16
Total	$ 110	$ 99

(a) As of September 30.
(b) Includes nonperforming loans of $55 million at September 30, 2012 and $64 million at September 30, 2011.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account assets.

Asset Management Group earned $111 million through the first nine months of 2012 compared with $143 million through the same period in 2011. Assets under administration were $222 billion as of September 30, 2012 compared to $202 billion as of September 30, 2011 driven by the stronger equity markets. Revenue increased $31 million or 4% in the year over year comparison as higher average deposit balances increased net interest income by 8% and stronger average equity markets and strong sales drove a 3% increase in noninterest income. This revenue increase was offset by higher provision for credit losses and higher noninterest expense from strategic business investments. Net charge-offs were $4 million compared with net recoveries of $6 million through the first nine months of 2011.

The core growth strategies for the business continue to include: investing in higher growth geographies, increasing internal referral sales and adding new front line sales staff. Through the third quarter of 2012, the business delivered strong sales production and benefited from significant referrals from other PNC lines of business. Over time, the successful execution of these strategies and the accumulation of our strong sales performance are expected to create meaningful growth in assets under management and noninterest income.

Highlights of Asset Management Group s performance during the first nine months of 2012 include the following:

- Net flows of approximately $.7 billion in discretionary assets under management after adjustments to total net flows for cyclical client activities;
- New primary client acquisition increased nearly 25% over 2011;
- Strong sales as production increased nearly 26% over the first nine months of 2011;
- Significant referrals from other PNC lines of business, an increase of 21% over 2011;
- Continuing levels of new business investment and focused hiring to drive growth with 270 external new hires; and
- PNC Wealth Insight® was recently awarded a 2012 CIO 100 Award by CIO Magazine.

Assets under administration were $222 billion at September 30, 2012, compared to $202 billion at September 30, 2011. Discretionary assets under management were $112 billion at September 30, 2012 and $103 billion at September 30, 2011. Nondiscretionary assets under administration were $110 billion, an increase of $11 billion from September 30, 2011.

Table of Contents

Total revenue for the first nine months of 2012 was $726 million compared with $695 million for the same period in 2011. Net interest income was $223 million for the first nine months of 2012 compared with $207 million in the same period in 2011. The increase was primarily attributable to higher average deposit balances. Noninterest income was $503 million for the first nine months of 2012, an increase of $15 million from the prior year due to stronger average equity markets and strong sales.

Provision for credit losses was $13 million for the first nine months of 2012 compared to a benefit of $34 million for the same period of 2011. Noninterest expense was $537 million in the first nine months of 2012, an increase of $34 million or 7% from the prior year period. The increase was attributable

to investments in the business to drive growth, including increases in the front-line sales staff. Over the last 12 months, total full-time headcount has increased by approximately 210 positions or 7%. Asset Management Group remains focused on expense management as it invests in these strategic growth opportunities.

Average deposits for the first nine months of 2012 increased $428 million, or 6%, over the prior year period. Average transaction deposits grew 8% compared with the 2011 period and were partially offset by the strategic run-off of higher rate certificates of deposit in the comparison. Average loan balances of $6.1 billion remained flat in comparison to the prior year period as portfolio repositioning and loan pay downs equaled new loan production.

Table of Contents

Residential Mortgage Banking

(Unaudited)

Table 24: Residential Mortgage Banking Table

Nine months ended September 30 Dollars in millions, except as noted	2012	2011
Income Statement		
Net interest income	$ 156	$ 149
Noninterest income		
Loan servicing revenue		
Servicing fees	157	173
Net MSR hedging gains	117	185
Loan sales revenue		
Provision for residential mortgage repurchase obligations	(507)	(66)
Loan sales revenue	534	274
Other	11	17
Total noninterest income	312	583
Total revenue	468	732
Provision for credit losses (benefit)	(7)	15
Noninterest expense	659	480
Pretax earnings (loss)	(184)	237
Income taxes (benefit)	(68)	87
Earnings (loss)	$ (116)	$ 150
Average Balance Sheet		
Portfolio loans	$ 2,773	$ 2,738
Loans held for sale	1,733	1,520
Mortgage servicing rights (MSR)	636	974
Other assets	6,521	5,871
Total assets	$ 11,663	$ 11,103
Deposits	$ 2,317	$ 1,648
Borrowings and other liabilities	4,206	3,726
Capital	1,160	697
Total liabilities and equity	$ 7,683	$ 6,071
Performance Ratios		
Return on average capital	(13)%	29%
Return on average assets	(1.33)	1.81
Noninterest income to total revenue	67	80
Efficiency	141	66
Residential Mortgage Servicing Portfolio Third-Party		
(in billions)		
Beginning of period	$ 118	$ 125
Acquisitions	15	5
Additions	10	9
Repayments/transfers	(24)	(18)
End of period	$ 119	$ 121
Servicing portfolio third-party statistics: (a)		
Fixed rate	91%	90%
Adjustable rate/balloon	9%	10%
Weighted-average interest rate	5.06%	5.44%
MSR capitalized value (in billions)	$ .6	$ .7
MSR capitalization value (in basis points)	50	56
Weighted-average servicing fee (in basis points)	29	29
Residential Mortgage Repurchase Reserve		
Beginning of period	$ 83	$ 144
Provision	507	66
RBC Bank (USA) acquisition	26	
Losses - loan repurchases and settlements	(195)	(125)
End of Period	$ 421	$ 85

Other Information		
Loan origination volume (in billions)	$ 10.8	$ 8.4
Percentage of originations represented by:		
Agency and government programs	100%	100%
Refinance volume	76%	75%
Total nonperforming assets (a) (b)	$ 82	$ 77
Purchased impaired loans (a) (c)	$ 69	$ 132

(a) As of September 30.

(b) Includes nonperforming loans of $39 million at September 30, 2012 and $30 million at September 30, 2011.

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

Table of Contents

Residential Mortgage Banking reported a loss of $116 million in the first nine months of 2012 compared with earnings of $150 million in the first nine months of 2011. Earnings declined from the prior year nine month period primarily as a result of higher provision for residential mortgage repurchase obligations and higher noninterest expense, partially offset by increased loan sales revenue driven by higher loan origination volume.

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

Residential Mortgage Banking overview:

- Total loan originations were $10.8 billion for the first nine months of 2012 compared with $8.4 billion in the comparable period of 2011. Loans continue to be originated primarily through direct channels under Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Housing Administration (FHA)/Department of Veterans Affairs (VA) agency guidelines. Refinancings were 76% of originations for the first nine months of 2012 and 75% in the first nine months of 2011. During the first nine months of 2012, 30% of loan originations were under the original or revised Home Affordable Refinance Program (HARP or HARP 2).
- Investors having purchased mortgage loans may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. At September 30, 2012, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $421 million compared with $85 million at September 30, 2011. See the Recourse And Repurchase Obligations section of this Financial Review and Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.
  - PNC has and expects to experience elevated levels of residential mortgage loan repurchase demands reflecting a change in behavior and demand patterns of two government-sponsored enterprises, FNMA and FHLMC, primarily related to loans sold in 2006 through 2008 in agency securitizations.
- Residential mortgage loans serviced for others totaled $119 billion at September 30, 2012 compared with $121 billion at September 30, 2011 as payoffs continued to outpace new direct loan origination volume and acquisitions.
- Noninterest income was $312 million in the first nine months of 2012 compared with $583 million in the first nine months of 2011. The decrease resulted from current year additions to reserves of $507 million for residential mortgage loan repurchase obligations compared to $66 million for the prior year period, partially offset by increased loan sales revenue driven by higher loan origination volume.
- Net interest income was $156 million in the first nine months of 2012 compared with $149 million in the first nine months of 2011.
- Noninterest expense was $659 million in the first nine months of 2012 compared with $480 million in the first nine months of 2011. The increase from the prior year period was primarily driven by increased residential mortgage origination volumes, higher additions to legal reserves and higher residential mortgage foreclosure-related expenses.
- The fair value of mortgage servicing rights was $0.6 billion at September 30, 2012 compared with $0.7 billion at September 30, 2011. The decline was due to lower mortgage rates at September 30, 2012 and a smaller mortgage servicing portfolio.

BlackRock

(Unaudited)

Table 25: BlackRock Table

Information related to our equity investment in BlackRock follows:

Nine months ended September 30 Dollars in millions	2012	2011
Business segment earnings (a)	$ 283	$ 271
PNC s economic interest in BlackRock (b)	22%	21%

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

In billions	Sept. 30 2012	Dec. 31 2011
Carrying value of PNC s investment in BlackRock (c)	$ 5.5	$ 5.3
Market value of PNC s investment in BlackRock (d)	6.4	6.4

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

(d) Does not include liquidity discount.

PNC accounts for its BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the

Table of Contents

obligation to deliver these shares to BlackRock to partially fund BlackRock LTIP programs. The fair value amount of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 9 Fair Value in the Notes To Consolidated Financial Statements of this Report.

At September 30, 2012, approximately 1.5 million shares of BlackRock Series C Preferred Stock were available to fund a

portion of awards under certain BlackRock LTIP programs.

PNC accounts for its remaining investment in BlackRock under the equity method of accounting. Our voting interest in BlackRock common stock was approximately 21% at September 30, 2012.

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

Table of Contents

Non-Strategic Assets Portfolio

(Unaudited)

Table 26: Non-Strategic Assets Portfolio Table

Nine months ended September 30

Dollars in millions	2012	2011
Income Statement		
Net interest income	$ 633	$ 721
Noninterest income	(8)	32
Total revenue	625	753
Provision for credit losses	129	278
Noninterest expense	214	156
Pretax earnings	282	319
Income taxes	104	117
Earnings	$ 178	$ 202
Average Balance Sheet		
Commercial Lending:		
Commercial/Commercial real estate	$ 952	$ 1,360
Lease financing	674	715
Total commercial lending	1,626	2,075
Consumer Lending:		
Home equity	4,671	5,341
Residential real estate	6,303	6,237
Total consumer lending	10,974	11,578
Total portfolio loans	12,600	13,653
Other assets (a)	(324)	(261)
Total assets	$ 12,276	$ 13,392
Deposits and other liabilities	$ 182	$ 119
Capital	1,255	1,355
Total liabilities and equity	$ 1,437	$ 1,474
Performance Ratios		
Return on average capital	19%	20%
Return on average assets	1.94	2.02
Noninterest income to total revenue	(1)	4
Efficiency	34	21
Other Information		
Nonperforming assets (b) (c)	$ 1,056	$ 1,064
Purchased impaired loans (b) (d)	$ 5,702	$ 5,390
Net charge-offs (e)	$ 239	$ 293
Annualized net charge-off ratio (e)	2.53%	2.87%
Loans (b)		
Commercial Lending		
Commercial/Commercial real estate	$ 795	$ 1,077
Lease financing	680	701
Total commercial lending	1,475	1,778
Consumer Lending		
Home equity	4,408	5,066
Residential real estate	6,272	6,065
Total consumer lending	10,680	11,131
Total loans	$ 12,155	$ 12,909

(a) Other assets includes deferred taxes, ALLL and OREO. Other assets were negative in both periods due to the ALLL.
(b) As of September 30.

(c) Includes nonperforming loans of $.7 billion at September 30, 2012 and $.8 billion at September 30, 2011.
(d) Recorded investment of purchased impaired loans related to acquisitions. At September 30, 2012, this segment contained 74% of PNC s purchased impaired loans.
(e) For the nine months ended September 30.

Table of Contents

This business segment consists primarily of non-strategic assets obtained through acquisitions of other companies. Non-Strategic Assets Portfolio had earnings of $178 million in the first nine months of 2012 compared with $202 million in the first nine months of 2011. The decrease was primarily attributable to lower net interest income, driven by declines in loan balances and purchase accounting accretion, and an increase in noninterest expense, partially offset by a lower provision for credit losses.

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

Non-Strategic Assets Portfolio overview:

- Net interest income was $633 million in the first nine months of 2012 compared with $721 million in the first nine months of 2011. The decrease was driven by lower loan yields and loan balances.
- Noninterest income was a loss of $8 million in the first nine months of 2012 compared with earnings of $32 million in the first nine months of 2011. The decline was driven mainly by larger valuation adjustments to liabilities for estimated repurchase losses on home equity loans sold.
- The provision for credit losses was $129 million in the first nine months of 2012 compared with $278 million in the first nine months of 2011. The decrease in the provision for credit losses reflected overall improvement in credit quality.
- Noninterest expense in the first nine months of 2012 was $214 million compared with $156 million in the first nine months of 2011. The increase was primarily due to higher other real estate owned expenses.
- Average portfolio loans declined to $12.6 billion in the first nine months of 2012 compared with $13.7 billion in the first nine months of 2011. The overall decline was driven by customer payment activity and portfolio management activities to reduce under-performing assets partially offset by the addition of loans from the RBC Bank (USA) acquisition.
- Nonperforming loans decreased to $.7 billion as of September 30, 2012 compared with $.8 billion at September 30, 2011. The consumer lending portfolio comprised 76% of the nonperforming loans at September 30, 2012. Nonperforming consumer loans increased $66 million, from September 30, 2011.
- Net charge-offs were $239 million in the first nine months of 2012 and $293 million in the first nine months of 2011. The decrease was due to lower net charge-offs on residential and commercial real estate loans and home equity loans.

The business activity of this segment is to manage the wind-down of the portfolio assigned to it while maximizing the value and mitigating risk. The fair value marks taken upon acquisition of the assets, the team we have in place, and targeted asset resolution strategies help us to manage these assets.

- The Commercial Lending portfolio declined 17% since September 30, 2011. Loans to residential developers declined 26% to $.8 billion while the lease financing portfolio remained relatively flat at $.7 billion. The leases are long-term with relatively low credit risk.
- The Consumer Lending portfolio declined $.5 billion or 4% when compared to the same period last year. Excluding $.9 billion of residential mortgage and lot loans from the RBC Bank (USA) acquisition, the portfolio decreased 13%. The portfolio s credit quality has stabilized through actions taken by management. We have implemented various refinance programs, line management programs, and loss mitigation programs to mitigate risks within these portfolios while assisting borrowers to maintain homeownership when possible.
- When loans are sold, we may assume certain loan repurchase obligations to indemnify investors against losses or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. From 2005 to 2007, home equity loans were sold with such contractual provisions. At September 30, 2012, the liability for estimated losses on repurchase and indemnification claims for the Non-Strategic Assets Portfolio was $62 million compared to $51 million at September 30, 2011. See the Recourse And Repurchase Obligations section of this Financial Review and Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in this Report for additional information.

Critical Accounting Estimates And Judgments

Note 1 Accounting Policies in Item 8 of our 2011 Form 10-K and in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report describe the most significant accounting policies that we use. Certain of these policies require us to make estimates or economic assumptions that may prove inaccurate or be subject to variations that may significantly affect our reported results and financial position for the period or in future periods.

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

Table of Contents

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

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

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

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

The following critical accounting estimates and judgments have been updated during the first nine months of 2012:

Goodwill

Goodwill arising from business acquisitions represents the value attributable to unidentifiable intangible elements in the business acquired. Most of our goodwill relates to value inherent in the Retail Banking and Corporate & Institutional Banking businesses. The value of this goodwill is dependent upon our ability to provide quality, cost effective services in the face of competition from other market participants on a national and, with respect to some products and services, an international basis. We also rely upon continuing investments in processing systems, the development of value-added service features, and the ease of access by customers to our services.

As such, the value of goodwill is supported by earnings, which is driven by transaction volume and, for certain businesses, the market value of assets under administration or for which processing services are provided. Lower earnings resulting from a lack of growth or our inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could result in a current period charge to earnings. At least annually, in the fourth quarter, or more

frequently if events occur or circumstances have changed significantly from the annual test date, management reviews the current operating environment and strategic direction of each reporting unit taking into consideration any events or changes in circumstances that may have an effect on the unit. For this review, inputs are generated and used in calculating the fair value of the reporting unit, which is compared to its carrying amount (the step 1 goodwill impairment test) as further discussed below. A reporting unit is defined as an operating segment or one level below an operating segment. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit is not considered impaired. However, if the fair value of the reporting unit is less than its carrying amount, the reporting unit s goodwill would be evaluated for impairment. In this circumstance, the implied fair value of reporting unit goodwill would be compared to the carrying amount of that goodwill. If the carrying amount of goodwill exceeds the implied fair value of goodwill, the difference is recognized as an impairment loss. The implied fair value of reporting unit goodwill is determined by assigning the fair value of a reporting unit to its assets and liabilities (including any unrecognized intangible assets) with the residual amount equal to the implied fair value of goodwill as if the reporting unit had been acquired in a business combination.

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

Assigned reporting unit economic capital as determined by our internal management methodologies, inclusive of goodwill.

- A 6%, well capitalized , Tier 1 common ratio for the reporting unit.
- The capital levels for comparable companies (as reported in comparable company public financial statements), adjusted for differences in risk characteristics between the comparable companies and the reporting unit.

In determining a reporting unit s fair value and comparing it to its carrying value, we utilize the highest of these three amounts (the targeted equity) in our discounted cash flow methodology. Under this methodology, we will infuse capital to achieve the targeted equity amount. Additionally, we may also evaluate certain financial metrics that are indicative of fair value, including price to earnings ratios and recent acquisitions involving other financial institutions.

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

Table of Contents

Based on the results of our analysis, there have been no impairment charges related to goodwill in 2011, 2010 or 2009. Despite the impact of challenging market conditions and Dodd-Frank regulations on earnings, we believe our Retail Banking reporting unit is well positioned given expected long-term growth in deposits (including the impact of continued run off of maturing certificates of deposit), its demonstrated ability to acquire new customers while retaining existing ones, based in part upon a suite of best-in-class products that are continually enhanced (e.g., Virtual Wallet®, PNC Cash Flow Options℠, and credit cards), expansion into new markets with above average demographic growth attributes, cross-sell opportunities for existing and new customers, a focus on retirement and investment services for the mass and mass affluent customer sectors, a scale that helps lower per unit cost for increased regulatory costs, and disciplined expense management.

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

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

Allowance for Loan and Lease Losses

During the third quarter of 2012, enhancements were made to certain processes and assumptions used to estimate our ALLL. Specifically, PNC increased the amount of internally observed data used in estimating commercial lending PDs and LGDs. The estimated impact as of the beginning of the third quarter 2012 was approximately an increase of $41 million and a decrease of $55 million to the provision for credit losses of Retail Banking and Corporate & Institutional Banking, respectively.

See Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Credit Risk Management section of this Financial Review and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Part 1, Item 1 of this Report for additional information.

Recent Accounting Pronouncements

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

of new accounting guidance issued by the Financial Accounting Standards Board.

Status Of Qualified Defined Benefit Pension Plan

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are a percentage of eligible compensation. We calculate the expense associated with the pension plan and the assumptions and methods that we use reflect trust assets at their fair market value. On an annual basis, we review the actuarial assumptions related to the pension plan.

We currently estimate a pretax pension expense of $89 million in 2012 compared with pretax expense of $3 million in 2011. This year-over-year expected increase is primarily due to the amortization impact of the unfavorable 2011 investment returns as compared with the expected long-term return assumption and the increase in obligations due to the decline in the discount rate. In addition, the estimate for 2012 includes approximately $1 million for employees from the RBC Bank (USA) acquisition joining the plan upon attainment of certain eligibility criteria.

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

Table 27: Pension Expense Sensitivity Analysis

Change in Assumption (a)

		Estimated Increase to 2012 Pension Expense (In millions)
.5% decrease in discount rate	$	23
.5% decrease in expected long-term return on assets	$	18
.5% increase in compensation rate	$	2

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

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

Recourse And Repurchase Obligations

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

Commercial Mortgage Loan Recourse Obligations

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

Under these programs, we generally assume up to a one-third pari passu risk of loss on unpaid principal balances through a loss share arrangement. At September 30, 2012 and December 31, 2011, the unpaid principal balance outstanding of loans sold as a participant in these programs was $12.9 billion and $13.0 billion, respectively. The potential maximum exposure under the loss share arrangements was $3.9 billion at September 30, 2012 and $4.0 billion at December 31, 2011. We maintain a reserve for estimated losses based on our exposure. The reserve for losses under these programs totaled $43 million and $47 million as of September 30, 2012 and December 31, 2011, respectively, and is included in Other liabilities on our Consolidated Balance Sheet. If payment is required under these programs, we would not have a contractual interest in the collateral underlying the mortgage loans on which losses occurred, although the value of the collateral is taken into account in determining our share of such losses. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment.

Residential Mortgage Repurchase Obligations

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to situations where PNC is alleged to have breached certain origination covenants and representations and warranties made to purchasers of the loans in the respective purchase and sale agreements. Residential mortgage loans covered by these loan repurchase obligations include first and second-lien mortgage loans we have sold through Agency securitizations, Non-Agency securitizations, and loan sale transactions. As discussed in Note 3 in our 2011 Form 10-K, Agency securitizations consist of mortgage loan sale transactions with FNMA, FHLMC, and the Government National Mortgage Association (GNMA) program, while Non-Agency securitizations consist of mortgage loan sale transactions with private investors. Mortgage loan sale transactions that are not part of a securitization may involve FNMA, FHLMC or private investors. Our historical exposure and activity associated with Agency securitization repurchase obligations has primarily been related to transactions with FNMA and FHLMC, as indemnification and repurchase losses associated with Federal Housing Agency (FHA) and Department of Veterans Affairs (VA)-insured and uninsured loans pooled in GNMA securitizations historically have been minimal. Repurchase obligation activity associated with residential mortgages is reported in the Residential Mortgage Banking segment.

Loan covenants and representations and warranties are established through loan sale agreements with various

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

We investigate every investor claim on a loan by loan basis to determine the existence of a legitimate claim, and that all other conditions for indemnification or repurchase have been met prior to the settlement with that investor. Indemnifications for loss or loan repurchases typically occur when, after review of the claim, we agree insufficient evidence exists to dispute the investor s claim that a breach of a loan covenant and representation and warranty has occurred, such breach has not been cured, and the effect of such breach is deemed to have had a material and adverse effect on the value of the transferred loan. Depending on the sale agreement and upon proper notice from the investor, we typically respond to such indemnification and repurchase requests within 90 days, although final resolution of the claim may take a longer period of time. With the exception of the sales agreements associated with the Agency securitizations, most sale agreements do not provide for penalties or other remedies if we do not respond timely to investor indemnification or repurchase requests.

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

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

Table of Contents

Origination and sale of residential mortgages is an ongoing business activity and, accordingly, management continually assesses the need to recognize indemnification and repurchase liabilities pursuant to the associated investor sale agreements. We establish indemnification and repurchase liabilities for estimated losses on sold first and second-lien mortgages for which indemnification is expected to be provided or for loans that are expected to be repurchased. For the first and second-lien mortgage sold portfolio, we have established an indemnification and repurchase liability pursuant to investor sale agreements based on claims made and our estimate of future claims on a loan by loan basis. To estimate the mortgage repurchase liability arising from breaches of representations and warranties, we consider the following factors: 1) borrower performance in our historically sold portfolio (both actual and estimated future defaults), 2) the level of outstanding unresolved repurchase claims, 3)

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

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

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

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

Dollars in millions	September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011
2004 & Prior	$ 15	$ 31	$ 10	$ 11	$ 14
2005	10	19	12	13	14
2006	30	56	41	28	22
2007	137	182	100	90	78
2008	23	49	17	18	9
2008 & Prior	215	337	180	160	137
2009 - 2012	52	42	33	29	26
Total	$ 267	$ 379	$ 213	$ 189	$ 163
FNMA, FHLMC, and GNMA %	87%	86%	88%	91%	84%

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

Dollars in millions	September 30 2012	June 30 2012	March 31 2012	December 31 2011	September 30 2011
FNMA, FHLMC, and GNMA Securitizations	$ 430	$ 419	$ 337	$ 302	$ 242
Private Investors (a)	82	83	69	73	72
Total unresolved claims	$ 512	$ 502	$ 406	$ 375	$ 314
FNMA, FHLMC, and GNMA %	84%	83%	83%	81%	77%

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

Table of Contents

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

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

Nine months ended September 30 - In millions	2012 Unpaid Principal Balance (a)	2012 Losses Incurred (b)	2012 Fair Value of Repurchased Loans (c)	2011 Unpaid Principal Balance (a)	2011 Losses Incurred (b)	2011 Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
FNMA, FHLMC, and GNMA securitizations	$ 267	$ 155	$ 62	$ 171	$ 88	$ 57
Private investors (e)	65	40	4	67	36	14
Total indemnification and repurchase settlements	$ 332	$ 195	$ 66	$ 238	$ 124	$ 71

Three months ended September 30 - In millions	2012 Unpaid Principal Balance (a)	2012 Losses Incurred (b)	2012 Fair Value of Repurchased Loans (c)	2011 Unpaid Principal Balance (a)	2011 Losses Incurred (b)	2011 Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
FNMA, FHLMC, and GNMA securitizations	$ 114	$ 66	$ 24	$ 61	$ 34	$ 15
Private investors (e)	19	12		11	6	2
Total indemnification and repurchase settlements	$ 133	$ 78	$ 24	$ 72	$ 40	$ 17

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date. Excluded from these balances are amounts associated with pooled settlement payments as loans are typically not repurchased in these transactions.
(b) Represents both i) amounts paid for indemnification/settlement payments and ii) the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability.
(c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification/settlement payments are made to investors.
(d) Repurchase activity associated with insured loans, government-guaranteed loans, and loans repurchased through the exercise of our removal of account provision (ROAP) option are excluded from this table. Refer to Note 3 in the Notes To Consolidated Financial Statements in this Report for further discussion of ROAPs.
(e) Activity relates to loans sold through Non-Agency securitizations and loan sale transactions.

During 2011 and the first nine months of 2012, unresolved and settled investor indemnification and repurchase claims were primarily related to one of the following alleged breaches in representations and warranties: 1) misrepresentation of income, assets or employment; 2) property evaluation or status issues (e.g., appraisal, title, etc.); 3) underwriting guideline violations; or 4) mortgage insurance rescissions. In the second quarter of 2012, FNMA and FHLMC enhanced efforts to reduce their exposure to losses on purchased loans resulted in a dramatic increase in repurchase claims, primarily on the 2006-2008 vintages, but also on other vintages, while loss severity and claim rescission rates remained relatively unchanged from prior quarters. Included in this higher volume were repurchase claims made on loans in later stages of default than had previously been observed. For example, in the second quarter of 2012, we experienced repurchase claims on loans which had defaulted more than two years prior to the claim date, which was inconsistent with historical activity. In response to these changes in behavior, we held discussions with both FNMA and FHLMC to clarify their intentions and to confirm our expectations of future claim activity. To date, government-sponsored enterprise (GSE) demands continue to track the expectations we developed in the second quarter as a result of these discussions.

The ongoing elevated repurchase claim activity has contributed to the higher balance of unresolved claims for residential mortgages at September 30, 2012, as well as the increase in residential mortgage indemnification and repurchase settlement activity in 2012. In response to the

significant increase in claims and change in FNMA s and FHLMC s behavior, management revised its estimates of future claims resulting in an increase to the indemnification and repurchase liability in the second quarter of 2012. In the third quarter of 2012, PNC recorded an additional reserve primarily as a result of refinements to our life of loan reserve estimates, and also new origination activity.

At September 30, 2012 and December 31, 2011, the liability for estimated losses on indemnification and repurchase claims for residential mortgages totaled $421 million and $83 million, respectively. We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all residential mortgage loans sold and outstanding as of September 30, 2012 and December 31, 2011. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

Indemnification and repurchase liabilities, which are included in Other liabilities on the Consolidated Balance Sheet, are initially recognized when loans are sold to investors and are subsequently evaluated by management. Initial recognition and subsequent adjustments to the indemnification and repurchase liability for the sold residential mortgage portfolio are recognized in residential mortgage revenue on the Consolidated Income Statement.

Home Equity Repurchase Obligations

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

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

We investigate every investor claim on a loan by loan basis to determine the existence of a legitimate claim, and that all other conditions for indemnification or repurchase have been met prior to settlement with that investor. Indemnifications for loss or loan repurchases typically occur when, after review of the claim, we agree insufficient evidence exists to dispute the investor s claim that a breach of a loan covenant and

representation and warranty has occurred, such breach has not been cured, and the effect of such breach is deemed to have had a material and adverse effect on the value of the transferred loan. Depending on the sale agreement and upon proper notice from the investor, we typically respond to home equity indemnification and repurchase requests within 60 days, although final resolution of the claim may take a longer period of time. Most home equity sale agreements do not provide for penalties or other remedies if we do not respond timely to investor indemnification or repurchase requests.

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

The following table details the unpaid principal balance of our unresolved home equity indemnification and repurchase claims at September 30, 2012 and December 31, 2011.

Table 31: Analysis of Home Equity Unresolved Asserted

Indemnification and Repurchase Claims

In millions	Sept. 30 2012	Dec. 31 2011
Home equity loans/lines:		
Private investors (a)	$ 71	$ 110

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

The table below details our home equity indemnification and repurchase claim settlement activity during the first nine months and the third quarter of 2012 and 2011.

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

2012	2011

Nine months ended September 30 - In millions		Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Home equity loans/lines:							
Private investors	Repurchases (d)	$ 19	$ 16	$ 3	$ 35	$ 102	$ 2

			2012			2011	
Three months ended September 30 - In millions		Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Home equity loans/lines:							
Private investors	Repurchases (d)	$ 3	$ 3		$ 5	$ 4	$ 1

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date. Excluded from these balances are amounts associated with pooled settlement payments as loans are typically not repurchased in these transactions.

(b) Represents the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability. 2011 also includes amounts for settlement payments.

(c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification/settlement payments are made to investors.

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

During 2011 and the first nine months of 2012, unresolved and settled investor indemnification and repurchase claims were primarily related to one of the following alleged breaches in representations and warranties: 1) misrepresentation of income, assets or employment; 2) property evaluation or status issues (e.g., appraisal, title, etc.); or 3) underwriting guideline violations. The lower balance of unresolved indemnification and repurchase claims at September 30, 2012 is attributed to lower claims submissions and lower inventories of claims undergoing review due to elevated settlement activity in 2011. The lower first nine months of 2012 indemnification and repurchase settlement activity was also affected by the lower claim activity and the lower inventory of claims mentioned above as well as a higher rate of claim rescissions.

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

At September 30, 2012 and December 31, 2011, the liability for estimated losses on indemnification and repurchase claims for home equity loans/lines was $62 million and $47 million, respectively. We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all home equity loans/lines sold and outstanding as of September 30, 2012 and December 31, 2011. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

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

Risk Management

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

The Risk Management section included in Item 7 of our 2011 Form 10-K describes our risk management philosophy, principles, governance and various aspects of our corporate-

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

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

Credit Risk Management

Credit risk represents the possibility that a customer, counterparty or issuer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers, purchasing securities, and entering into financial derivative transactions and certain guarantee contracts. Credit risk is one of our most significant risks. Our processes for managing credit risk are embedded in PNC s risk culture and in our decision-making processes using a systematic approach whereby credit risks and related exposures are: identified and assessed; managed through specific policies and processes; measured and evaluated against our risk tolerance limits; and reported, along with specific mitigation activities, to management and the board through our governance structure.

Asset Quality Overview

Overall asset quality trends for the first nine months of 2012 improved from both December 31, and September 30, 2011 and included the following:

- Overall loan delinquencies have decreased $657 million, or 14%, from year-end 2011 levels. The reduction was mainly due to a decline in government insured residential real estate in addition to a change in policy in the first quarter of 2012 for home equity loans past due 90 days being placed on nonaccrual status, compared to prior policy of past due 180 days. These decreases were partially offset by an increase in commercial real estate related to RBC Bank (USA) along with an increase in commercial loans.

Nonperforming assets decreased $135 million due to the decrease in nonperforming loans of $146 million, or 4%, to $3.4 billion as of September 30, 2012 compared with $3.6 billion as of December 31, 2011 mainly attributable to decreases in commercial real estate and commercial nonperforming loans. These decreases were offset by higher nonperforming home equity loans from a change in policy made in the first quarter of 2012 which places home equity loans on nonaccrual status when past due 90 days or more compared with 180 days under the prior policy. Additionally, pursuant to regulatory guidance in the third quarter of 2012, nonperforming consumer loans, primarily home equity and residential mortgage, increased $112 million related to changes in treatment of certain loans classified as TDRs resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability. Of these loans, approximately 90% are current on their payments.

Third quarter 2012 net charge-offs were $331 million, down 9% from third quarter 2011 net charge-offs of $365 million. Nine months ending September 30, 2012 net charge-offs were $979 million, down 25% from nine months ending September 30, 2011 net charge-offs of $1.3 billion. Pursuant to regulatory guidance, additional consumer charge-offs of $82.9 million have been taken as of September 30, 2012 related to changes in treatment of certain loans where borrowers have been discharged from personal liability under bankruptcy protection where no formal reaffirmation was provided by the borrower. Such loans have been classified as TDRs and have been measured at the fair value of the collateral less costs to sell. The risk of loss associated with these specific loans has been considered in the determination of our ALLL as of September 30, 2012.

The provision for credit losses declined to $228 million in the third quarter of 2012 compared with $261 million for the third quarter of 2011 as overall credit quality improved. The provision for credit losses declined to $669 million for the nine months ending September 30, 2012 compared with $962 million for the nine months ending September 30, 2011.

The level of ALLL has decreased to $4 billion at September 30, 2012 from $4.3 billion at December 31, 2011 and $4.5 billion at September 30, 2011.

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets, including OREO and Foreclosed Assets

Nonperforming assets include nonaccrual loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include TDRs, OREO and foreclosed assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonaccrual policies is included in Note 1 Accounting Policies in the Notes to Consolidated Financial Statements in this Report. The major categories of nonperforming assets are presented in the following table.

Nonperforming assets decreased $135 million from December 31, 2011, to $4.0 billion at September 30, 2012, as

discussed above. Nonperforming loans decreased $146 million to $3.4 billion while OREO and foreclosed assets increased $11 million to $607 million. The ratio of nonperforming assets to total loans, OREO and foreclosed assets decreased to 2.20% at September 30, 2012 from 2.60% at December 31, 2011. The ratio of nonperforming loans to total loans declined to 1.88% at September 30, 2012, compared to 2.24% at December 31, 2011. Total nonperforming assets have declined $2.4 billion, or 39%, from their peak of $6.4 billion at March 31, 2010.

Management continues to evaluate nonaccrual and charge off policies for second-lien consumer loans (residential mortgages and home equity loans and lines) pursuant to interagency supervisory guidance on practices for loans and lines of credit secured by junior liens on 1-4 family residential properties. This may result in future classification of performing second-lien consumer loans as nonperforming, including where the first-lien loan is 90 days or more past due. The credit loss policies for these loans are considered in our reserving process. Pursuant to the guidance, the Company will adopt a policy in the first quarter of 2013, subsequent to operationalizing related procedures, to charge-off a portion of certain second-lien consumer loans (residential mortgage and home equity lines of credit) where the first lien is delinquent. If this policy had been in effect as of September 30, 2012, there would have been approximately $81 million of additional cumulative charge-offs as of that date. The risk of loss associated with these loans has been considered in the determination of our ALLL at September 30, 2012.

At September 30, 2012, TDRs included in nonperforming loans was $1.4 billion or 41% of total nonperforming loans compared to $1.1 billion or 32% of nonperforming loans as of December 31, 2011. Within consumer nonperforming loans, residential real estate TDRs comprise 56% of total residential real estate nonperforming loans at September 30, 2012, up from 51% at December 31, 2011. Home equity TDRs comprise 62% of home equity nonperforming loans at September 30, 2012, down from 77% at December 31, 2011. The level of TDRs in these portfolios is expected to result in elevated nonperforming loan levels for longer periods because TDRs generally remain in nonperforming status until a borrower has made at least six consecutive months of payments under the modified terms or ultimate resolution occurs.

At September 30, 2012, our largest nonperforming asset was $38 million in the Real Estate Rental and Leasing Industry and our average nonperforming loans associated with commercial lending was under $1 million. Our ten largest outstanding nonperforming assets are all from the commercial lending portfolio and represent 30% and 6% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of September 30, 2012.

Table of Contents

Table 33: Nonperforming Assets By Type

In millions	Sept. 30 2012	Dec. 31 2011
Nonperforming loans		
Commercial lending		
Commercial		
Retail/wholesale trade	$ 88	$ 109
Manufacturing	104	117
Service providers	144	147
Real estate related (a)	236	252
Financial services	13	36
Health care	26	29
Other industries	138	209
Total commercial	749	899
Commercial real estate		
Real estate projects	802	1,051
Commercial mortgage	198	294
Total commercial real estate	1,000	1,345
Equipment lease financing	15	22
Total commercial lending	1,764	2,266
Consumer lending (b)		
Home equity (c)	818	529
Residential real estate		
Residential mortgage (d)	766	685
Residential construction	24	41
Credit card	5	8
Other consumer	37	31
Total consumer lending (e)	1,650	1,294
Total nonperforming loans (f)	3,414	3,560
OREO and foreclosed assets		
Other real estate owned (OREO) (g)	578	561
Foreclosed and other assets	29	35
Total OREO and foreclosed assets	607	596
Total nonperforming assets	$ 4,021	$ 4,156
Amount of commercial lending nonperforming loans contractually current as to remaining principal and interest	$ 534	$ 632
Percentage of total commercial lending nonperforming loans	30%	28%
Amount of TDRs included in nonperforming loans	$ 1,383	$ 1,141
Percentage of total nonperforming loans	41%	32%
Nonperforming loans to total loans	1.88%	2.24%
Nonperforming assets to total loans, OREO and foreclosed assets	2.20	2.60
Nonperforming assets to total assets	1.34	1.53
Allowance for loan and lease losses to total nonperforming loans (f) (h)	118	122

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

(b) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.

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

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

(e) Pursuant to regulatory guidance, in the third quarter of 2012, nonperforming consumer loans, primarily home equity and residential mortgage, increased $112 million related to changes in treatment of certain loans classified as TDRs, net of charge-offs, resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability. Of these loans, approximately 90% are current on their payments. Charge-offs have been taken where the fair value less costs to sell the collateral was less than the recorded investment of the loan and were $82.9 million.

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

(g) OREO excludes $363 million and $280 million at September 30, 2012 and December 31, 2011, respectively, related to residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

(h) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. See Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in this Report for additional information.

Table 34: OREO and Foreclosed Assets

In millions	Sept. 30 2012	Dec. 31 2011
Other real estate owned (OREO):		
Residential properties	$ 176	$ 191
Residential development properties	168	183
Commercial properties	234	187
Total OREO	578	561
Foreclosed and other assets	29	35
Total OREO and foreclosed assets	$ 607	$ 596

Total OREO and foreclosed assets increased $11 million during the first nine months of 2012 from $596 million at December 31, 2011, to $607 million at September 30, 2012, which represents 15% of total nonperforming assets. As of September 30, 2012 and December 31, 2011, 29% and 32%, respectively, of our OREO and foreclosed assets were comprised of single family residential properties. The higher level of OREO and foreclosed assets was driven mainly by the acquisition of RBC Bank (USA). This was partially offset by higher sales of OREO as well as higher valuation losses on residential development and commercial OREO. Excluded from OREO at September 30, 2012 and December 31, 2011, respectively, was $363 million and $280 million of residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

Table 35: Change in Nonperforming Assets

In millions	2012	2011
January 1	$ 4,156	$ 5,123
New nonperforming assets	2,844	2,771
Charge-offs and valuation adjustments	(921)	(999)
Principal activity, including paydowns and payoffs	(1,280)	(1,454)
Asset sales and transfers to loans held for sale	(476)	(461)
Returned to performing status	(302)	(682)
September 30	$ 4,021	$ 4,298

The table above presents nonperforming asset activity for the nine months ended September 30, 2012 and 2011. For the nine months ended September 30, 2012, nonperforming assets decreased $135 million from $4.2 billion at December 31, 2011, to $4.0 billion at September 30, 2012, driven primarily by decreases in commercial real estate and commercial nonperforming loans. These decreases were offset by higher nonperforming home equity loans from a change in policy made in the first quarter of 2012 which places home equity loans on nonaccrual status when past due 90 days or more compared with 180 days under the prior policy. Additionally, pursuant to regulatory guidance in the third quarter of 2012, nonperforming consumer loans, primarily home equity and

residential mortgage, increased $112 million related to changes in treatment of certain loans classified as TDRs resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability. Of these loans, approximately 90% are current on their payments. Approximately 85% of total nonperforming loans are secured by collateral which would be expected to reduce credit losses and require less reserves in the event of default, and 30% of commercial lending nonperforming loans are contractually current as to principal and interest. As of September 30, 2012, commercial nonperforming loans are carried at approximately 59% of their unpaid principal balance, due to charge-offs recorded to date, before consideration of the allowance for loan and lease losses. See Note 5 Asset Quality in the Notes To Consolidated Financial Statements in this Report for additional information on these loans.

Purchased impaired loans are considered performing, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans. The accretable yield represents the excess of the expected cash flows on the loans at the measurement date over the carrying value. Generally decreases, other than interest rate decreases for variable rate notes, in the net present value of expected cash flows of individual commercial or pooled purchased impaired loans would result in an impairment charge to the provision for loan losses in the period in which the change is deemed probable. Generally increases in the net present value of expected cash flows of purchased impaired loans would first result in a recovery of previously recorded allowance for loan losses, to the extent applicable, and then an increase to accretable yield for the remaining life of the purchased impaired loans. Total nonperforming loans and assets in the tables above are significantly lower than they would have been due to this accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of nonperforming loans to total loans and a higher ratio of ALLL to nonperforming loans. See Note 6 Purchased Loans in the Notes To Consolidated Financial Statements in this Report for additional information on these loans.

Loan Delinquencies

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

Total early stage loan delinquencies (accruing loans past due 30 to 89 days) decreased from $1.6 billion at December 31, 2011, to $1.4 billion at September 30, 2012. Consumer lending early stage delinquencies decreased by $216 million.

Table of Contents

This reduction included government insured other consumer amounts. This reduction was partially offset by an increase in commercial lending early stage delinquencies due to commercial and commercial real estate loans.

Accruing loans past due 90 days or more are referred to as late stage delinquencies. These loans are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral, are in the process of collection and are reasonably expected to result in repayment and/or restoration to current status, or are managed in

homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines. These loans decreased $517 million, or 17%, from $3.0 billion at December 31, 2011, to $2.5 billion at September 30, 2012, mainly due to improvements in government insured delinquent residential real estate loans and the change in policy for home equity loans. The following tables display the delinquency status of our loans at September 30, 2012 and December 31, 2011. Additional information regarding accruing loans past due is included in Note 5 Asset Quality in the Notes To Consolidated Financial Statements in this Report.

Table 36: Accruing Loans Past Due 30 To 59 Days (a)

	Amount		Percent of Total Outstandings	
Dollars in millions	Sept. 30 2012	Dec. 31 2011	Sept. 30 2012	Dec. 31 2011
Commercial	$ 141	$ 122	.18%	.19%
Commercial real estate	91	96	.49	.59
Equipment lease financing	8	22	.12	.34
Home equity	130	173	.36	.52
Residential real estate				
Non government insured	147	180	.96	1.24
Government insured	127	122	.80	.84
Credit card	31	38	.75	.96
Other consumer				
Non government insured	54	58	.25	.30
Government insured	154	207	.72	1.08
Total	$ 883	$ 1,018	.49	.64

Table 37: Accruing Loans Past Due 60 To 89 Days (a)

	Amount		Percent of Total Outstandings	
Dollars in millions	Sept. 30 2012	Dec. 31 2011	Sept. 30 2012	Dec. 31 2011
Commercial	$ 92	$ 47	.12%	.07%
Commercial real estate	66	35	.35	.22
Equipment lease financing	5	5	.07	.08
Home equity	69	114	.19	.34
Residential real estate				
Non government insured	52	72	.34	.50
Government insured	94	104	.59	.72
Credit card	20	25	.48	.63
Other consumer				
Non government insured	23	21	.11	.11
Government insured	121	124	.57	.65
Total	$ 542	$ 547	.30	.34

Table of Contents

Table 38: Accruing Loans Past Due 90 Days Or More (a)

	Amount		Percentage of Total Outstandings	
Dollars in millions	Sept. 30 2012	Dec. 31 2011	Sept. 30 2012	Dec. 31 2011
Commercial	$ 41	$ 49	.05%	.07%
Commercial real estate	36	6	.19	.04
Equipment lease financing	1		.01	
Home equity (b)		221		.67
Residential real estate				
Non government insured	97	152	.63	1.05
Government insured	1,896	2,129	11.98	14.71
Credit card	32	48	.77	1.21
Other consumer				
Non government insured	18	23	.08	.12
Government insured	335	345	1.58	1.80
Total	$ 2,456	$ 2,973	1.35	1.87

(a) Amounts in table represent recorded investment.

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

On a regular basis our Special Asset Committee closely monitors loans, primarily commercial loans, that are not included in the nonperforming or accruing past due categories and for which we are uncertain about the borrower s ability to comply with existing repayment terms over the next six months. These loans totaled $320 million at September 30, 2012 and $438 million at December 31, 2011.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $35.9 billion as of September 30, 2012, or 20% of the total loan portfolio. Of that total, $24.0 billion, or 67%, was outstanding under primarily variable-rate home equity lines of credit and $11.9 billion, or 33%, consisted of closed-end home equity installment loans. Approximately 2% of the home equity portfolio was on nonperforming status as of September 30, 2012.

As of September 30, 2012, we are in an originated first lien position for approximately 35% of the total portfolio and, where originated as a second lien, we currently hold or service the first lien position for approximately an additional 2% of the portfolio. Historically, we have originated and sold first residential real estate mortgages which resulted in a low percentage of home equity loans where we hold the first lien mortgage position. The remaining 63% of the portfolio was secured by second liens where we do not hold the first lien position. For the majority of the home equity portfolio where we are in, hold or service the first lien position, the credit performance of this portion of the portfolio is superior to the portion of the portfolio where we hold the second lien position but do not hold the first lien.

Subsequent to origination, PNC is not typically notified when a senior lien position that is not held by PNC is satisfied. Therefore, information about the current lien status of the

loans is limited, for loans that were originated in subordinated lien positions where PNC does not also hold the senior lien, to what can be obtained from external sources. PNC contracted with a third-party service provider to provide updated loan, lien and collateral data that is aggregated from public and private sources.

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

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

Generally, our variable-rate home equity lines of credit have either a seven or ten year draw period, followed by a 20 year amortization term. During the draw period, we have home equity lines of credit where borrowers pay interest only and home equity lines of credit where borrowers pay principal and interest. Based upon outstanding balances at September 30, 2012, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

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

In millions	Interest Only Product	Principal and Interest Product
Remainder of 2012	$ 605	$ 36
2013	1,383	227
2014	2,122	487
2015	2,092	669
2016	1,631	518
2017 and thereafter (a)	8,721	5,407
Total (b)	$ 16,554	$ 7,344

(a) 2017 and thereafter includes a $2.6 billion reclassification from Principal and Interest Product to Interest Only Product to correct for a misclassification of acquired RBC Bank (USA) loans.

(b) Includes approximately $63 million, $152 million, $183 million, $184 million, $22 million and $355 million of home equity lines of credit with balloon payments with draw periods scheduled to end in the remainder of 2012, 2013, 2014, 2015, 2016, and 2017 and thereafter, respectively.

We view home equity lines of credit where borrowers are paying principal and interest under the draw period as less risky than those where the borrowers are paying interest only, as these borrowers have a demonstrated ability to make some level of principal and interest payments.

Based upon outstanding balances, and excluding purchased impaired loans, at September 30, 2012, for home equity lines of credit for which the borrower can no longer draw (e.g., draw period has ended or borrowing privileges have been terminated), approximately 4.13% were 30-89 days past due and approximately 6.19% were greater than or equal to 90 days past due. Generally, when a borrower becomes 60 days past due, we terminate borrowing privileges, and those privileges are not subsequently reinstated. At that point, we continue our collection/recovery processes, which may include a loss mitigation loan modification resulting in a loan that is classified as a TDR.

See Note 5 Asset Quality in the Notes To Consolidated Financial Statements in this Report for additional information.

LOAN MODIFICATIONS AND TROUBLED DEBT RESTRUCTURINGS

Consumer Loan Modifications

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

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

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

We also monitor the success rates and delinquency status of our loan modification programs to assess their effectiveness in 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

Table of Contents

past due as of six months, nine months, twelve months and fifteen months after the modification date.

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

	September 30, 2012		December 31, 2011	
Dollars in millions	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Home equity				
Temporary Modifications	10,175	$ 894	13,352	$ 1,215
Permanent Modifications	6,293	434	1,533	92
Total home equity	16,468	1,328	14,885	1,307
Residential Mortgages				
Permanent Modifications	8,776	1,496	7,473	1,342
Non-Prime Mortgages				
Permanent Modifications	4,426	622	4,355	610
Residential Construction				
Permanent Modifications	1,653	614	1,282	578
Total Bank-Owned Consumer Real Estate Related Loan Modifications	31,323	$ 4,060	27,995	$ 3,837

Table of Contents

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

September 30, 2012	Six Months		Nine Months		Twelve Months		Fifteen Months		
Dollars in millions, except as noted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Unpaid Principal Balance (c)
Permanent Modifications									
Home Equity									
First Quarter 2012	24	2.1%							$ 1,476
Fourth Quarter 2011	9	2.0	18	3.9%					1,656
Third Quarter 2011	23	4.0	31	5.4	37	6.5%			2,461
Second Quarter 2011	20	5.4	29	7.8	38	10.2	42	11.3%	2,599
First Quarter 2011	9	9.5	9	9.5	12	12.6	12	12.6	1,532
Residential Mortgages									
First Quarter 2012	184	17.9							28,701
Fourth Quarter 2011	212	22.2	289	30.3					51,224
Third Quarter 2011	272	22.3	365	29.9	460	37.6			76,476
Second Quarter 2011	352	26.1	442	32.8	489	36.2	554	41.1	89,398
First Quarter 2011	306	19.5	442	28.2	499	31.8	526	33.5	92,080
Non-Prime Mortgages									
First Quarter 2012	46	21.3							6,235
Fourth Quarter 2011	38	14.7	59	22.9					8,956
Third Quarter 2011	86	23.2	104	28.0	134	36.1			19,079
Second Quarter 2011	109	18.3	147	24.7	168	28.2	195	32.7	31,594
First Quarter 2011	73	17.6	97	23.4	112	27.0	133	32.0	19,323
Residential Construction									
First Quarter 2012	2	1.6							1,208
Fourth Quarter 2011	5	5.6	7	7.8					2,870
Third Quarter 2011	2	1.8	2	1.8	6	5.5			1,892
Second Quarter 2011	4	3.9	4	3.9	3	2.9	5	4.9	1,920
First Quarter 2011	7	4.3	10	6.1	17	10.4	17	10.4	9,221
Temporary Modifications									
Home Equity									
First Quarter 2012	36	7.5%							$ 2,534
Fourth Quarter 2011	27	5.3	42	8.3%					3,346
Third Quarter 2011	43	10.0	52	12.1	67	15.5%			7,619
Second Quarter 2011	63	10.4	92	15.3	114	18.9	139	23.1%	14,599
First Quarter 2011	89	6.6	153	11.4	192	14.3	238	17.7	24,388

(a) An account is considered in re-default if it is 60 days or more delinquent after modification. The data in this table represents loan modifications completed during the quarter ending March 31, 2011 through March 31, 2012 and represents a vintage look at all quarterly accounts and the number of those modified accounts (for each quarterly vintage) 60 days or more delinquent at six, nine, twelve, and fifteen months after modification. Account totals include active and inactive accounts that were delinquent when they achieved inactive status.

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

(c) Reflects September 30, 2012 unpaid principal balances of the re-defaulted accounts for the First Quarter 2012 Vintage at Six Months, Fourth Quarter 2011 Vintage at Nine Months, for the Third Quarter 2011 Vintage at Twelve Months, and for the Second Quarter 2011 and prior Vintages at Fifteen Months.

In addition to temporary loan modifications, we may make available to a borrower a payment plan or a HAMP trial payment period. Under a payment plan or a HAMP trial payment period, there is no change to the loan s contractual terms so the borrower remains legally responsible for payment of the loan under its original terms. A payment plan involves the borrower paying the past due amounts over a short period of time, generally three months, in addition to the contractual payment amounts over that period upon which a borrower is brought current. Due to the short term nature of the payment plan there is a minimal impact to the ALLL.

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

Table of Contents

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

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under PNC-developed programs, which in some cases may operate similarly to HAMP. These programs first require a reduction of the interest rate followed by an extension of term and, if appropriate, deferral of principal payments. As of September 30, 2012 and December 31, 2011, 3,952 accounts with a balance of $594 million and 2,701 accounts with a balance of $478 million, respectively, of residential real estate loans have been modified under HAMP and were still outstanding on our balance sheet.

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

Commercial Loan Modifications and Payment Plans

Modifications of terms for large commercial loans are based on individual facts and circumstances. Commercial loan modifications may involve reduction of the interest rate, extension of the term of the loan and/or forgiveness of principal. Modified large commercial loans are usually already nonperforming prior to modification. We evaluate these modifications for TDR classification based upon whether we granted a concession to a borrower experiencing financial difficulties. Additional detail on TDRs is discussed below as well as in Note 5 Asset Quality in the Notes To Consolidated Financial Statements in this Report.

Beginning in 2010, we established certain commercial loan modification and payment programs for small business loans, Small Business Administration loans, and investment real estate loans. As of September 30, 2012 and December 31, 2011, $72 million and $81 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $25 million and $24 million have been determined to be TDRs as of September 30, 2012 and December 31, 2011.

Troubled Debt Restructurings

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs typically result from our loss mitigation activities and include rate reductions, principal forgiveness, postponement/reduction of scheduled amortization, and extensions, which are intended to minimize economic loss and to avoid foreclosure or repossession of collateral. For the nine months ended September 30, 2012, $2.3 billion of loans held for sale, loans accounted for under

the fair value option, pooled purchased impaired loans, as well as certain consumer government insured or guaranteed loans which were evaluated for TDR consideration, are not classified as TDRs. The comparable amount for the nine months ended September 30, 2011 was $1.9 billion.

Table 42: Summary of Troubled Debt Restructurings

In millions	Sept. 30 2012	Dec. 31 2011
Consumer lending:		
Real estate-related	$ 1,742	$ 1,492
Credit card (a)	242	291
Other consumer	35	15
Total consumer lending (b)	2,019	1,798
Total commercial lending	556	405
Total TDRs	$ 2,575	$ 2,203
Nonperforming	$ 1,383	$ 1,141
Accruing (c)	950	771
Credit card (a)	242	291
Total TDRs	$ 2,575	$ 2,203

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

(b) Pursuant to regulatory guidance, additional troubled debt restructurings of $154.8 million, net of charge-offs, resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability were added to the consumer lending population in the third quarter of 2012. Charge-offs have been taken where the fair value less costs to sell the collateral was less than the recorded investment of the loan and were $82.9 million

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

As described in Table 42: Summary of Troubled Debt Restructurings, regulatory guidance was implemented in the third quarter of 2012 to (a) classify loans as TDRs where borrowers have been discharged from bankruptcy and have not formally reaffirmed their loan obligation and (b) charge-off the difference when the fair value less costs to sell the collateral was less than the recorded investment of the loan. Pursuant to adoption of this guidance as of September 30, 2012, we recorded $154.8 million of troubled debt restructurings, net of charge-offs. Because our estimated allowance for loan loss reserves is driven primarily by defaults as opposed to bankruptcy status, prior to this quarter, certain information relevant under this guidance was not collected for financial reporting purposes. Therefore, our estimate of additional TDRs and related charge-off amounts, nonperforming assets and ALLL may change as management confirms the accuracy and completeness of information related to the population of loans in bankruptcy as used in determining these estimates.

Total TDRs increased $372 million or 17% during the first nine months of 2012 to $2.6 billion as of September 30, 2012. Of this total, nonperforming TDRs totaled $1.4 billion, which represents approximately 40% of total nonperforming loans.

TDRs that have returned to performing (accruing) status are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of consecutive performance under the restructured terms. These TDRs increased $179 million or 23% during the first nine months of 2012 to $950 million as of September 30, 2012. This increase reflects the further seasoning and performance of the TDRs. See Note 5 Asset Quality in the Notes to Consolidated Financial Statements in this Report for additional information.

Allowances For Loan And Lease Losses And

Unfunded Loan Commitments And Letters Of Credit

We recorded $979 million in net charge-offs for the first nine months of 2012, compared to $1.3 billion in the first nine months of 2011. Commercial lending net charge-offs fell from $601 million in the first nine months of 2011 to $271 million in the first nine months of 2012. Consumer lending net charge-offs declined from $711 million in the first nine months of 2011 to $708 million in the first nine months of 2012.

Table 43: Loan Charge-Offs And Recoveries

Nine months ended September 30 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans (annualized)
2012				
Commercial	$ 348	$ 223	$ 125	.22%
Commercial real estate	242	86	156	1.16
Equipment lease financing	12	22	(10)	(.20)
Home equity	419	46	373	1.42
Residential real estate	92	(1)	93	.80
Credit card	157	17	140	4.61
Other consumer	140	38	102	.68
Total	$ 1,410	$ 431	$ 979	.75
2011				
Commercial	$ 557	$ 256	$ 301	.69%
Commercial real estate	374	65	309	2.45
Equipment lease financing	28	37	(9)	(.19)
Home equity	375	37	338	1.35
Residential real estate	121	10	111	.98
Credit card	185	18	167	5.96
Other consumer	142	47	95	.74
Total	$ 1,782	$ 470	$ 1,312	1.16

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

We maintain an ALLL to absorb losses from the loan portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan portfolio. We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan portfolio as of the balance sheet date. While we make allocations to specific loans and pools of loans, the total reserve is available for all loan and lease losses. Quantitative modeling factors as discussed below are constantly changing as the financial strength of the borrower and overall economic conditions change. During the third quarter of 2012, enhancements were made to certain processes and assumptions used to estimate our ALLL. Specifically, PNC increased the amount of internally observed data used in estimating commercial lending PDs and LGDs. See the Critical Accounting Estimates and Judgments section of this Financial Review for additional information.

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

Table of Contents

Reserves allocated to non-impaired commercial loan classes are based on PD and LGD credit risk ratings.

Our pool reserve methodology is sensitive to changes in key risk parameters such as PD, LGD and exposure at date of default (EAD). In general, a given change in any of the major risk parameters will have a corresponding change in the pool reserve allocations for non-impaired commercial loans. Our commercial loans are the largest category of credits and are most sensitive to changes in the key risk parameters and pool reserve loss rates.

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

Allocations to non-impaired consumer loan classes are based upon a roll-rate model which uses statistical relationships, calculated from historical data that estimate the movement of loan outstandings through the various stages of delinquency and ultimately charge-off.

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

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

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

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

Table 44: Allowance for Loan and Lease Losses

Dollars in millions	2012	2011
January 1	$ 4,347	$ 4,887
Total net charge-offs	(979)	(1,312)
Provision for credit losses	669	962
Net change in allowance for unfunded loan commitments and letters of credit	1	(29)
Other	1	(1)
September 30	$ 4,039	$ 4,507
Net charge-offs to average loans (for the nine months ended) (annualized)	.75%	1.16%
Allowance for loan and lease losses to total loans	2.22	2.92
Commercial lending net charge-offs	$ (271)	$ (601)
Consumer lending net charge-offs	(708)	(711)
Total net charge-offs	$ (979)	$ (1,312)
Net charge-offs to average loans (for the nine months ended) (annualized)		
Commercial lending	.36%	.99%
Consumer lending	1.27	1.37

As further described in the Consolidated Income Statement Review section of this Report, the provision for credit losses totaled $669 million for the first nine months of 2012 compared to $962 million for the first nine months of 2011. For the first nine months of 2012, the provision for commercial lending credit losses declined by $175 million or 65% from the first nine months of 2011. Similarly, the provision for consumer lending credit losses decreased $118 million or 17% from the first nine months of 2011.

Purchased impaired loans are recorded at fair value and applicable accounting guidance prohibits the carry over or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At September 30, 2012, we had established reserves of $1.1 billion for purchased impaired loans. In addition, all loans (purchased impaired and non-impaired) acquired in the RBC Bank (USA) acquisition were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at acquisition. See Note 6 Purchased Loans for additional information.

At September 30, 2012, total ALLL to total nonperforming loans was 118%. The comparable amount for December 31, 2011 was 122%. These ratios are 78% and 84%, respectively, when excluding the $1.4 billion of allowance at both September 30, 2012 and December 31, 2011 allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded consumer loans and lines of credit not secured by real estate as they are charged off after 120 to 180 days past due and not placed on nonperforming status. Additionally, we have excluded purchased impaired loans as they are considered performing regardless of their delinquency status as interest is accreted based on our estimate of expected cash flows and additional allowance is recorded when these cash flows are below recorded investment. See the Nonperforming Assets By Type table within this Credit Risk Management section for additional information.

See Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 6 Purchased Loans in the Notes To Consolidated Financial Statements of this Report regarding changes in the ALLL and in the allowance for unfunded loan commitments and letters of credit.

Credit Default Swaps

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

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

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

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

Liquidity Risk Management

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

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

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

Bank Level Liquidity Uses

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. At the bank level, primary contractual obligations include funding loan commitments, satisfying deposit withdrawal requests and maturities and debt service related to bank borrowings. As of September 30, 2012, there were approximately $20.9 billion of bank borrowings with maturities of less than one year. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary. See the Bank

Level Liquidity Sources section below.

Bank Level Liquidity Sources

Our largest source of bank liquidity on a consolidated basis is the deposit base that comes from our retail and commercial businesses. Total deposits increased to $206.3 billion at September 30, 2012 from $188.0 billion at December 31, 2011, primarily due to the RBC Bank (USA) acquisition. Liquid assets and unused borrowing capacity from a number of sources are also available to maintain our liquidity position. Borrowed funds come from a diverse mix of short and long-term funding sources.

At September 30, 2012, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning deposits with banks) totaling $6.7 billion and securities available for sale totaling $52.1 billion. Of our total liquid assets of $58.8 billion, we had $23.1 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, 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. is authorized by its board to offer up to $20 billion in senior and subordinated unsecured debt obligations with maturities of more than nine months. Through September 30, 2012, PNC Bank, N.A. had issued $9.4 billion of debt under this program including the following during 2012:

- $100 million of senior bank notes issued March 5, 2012 and due April 8, 2015. Interest is paid semi-annually at a fixed rate of 1.07%,
- $1.0 billion of senior extendible floating rate bank notes issued June 20, 2012 with an initial maturity date of July 20, 2013, subject to the holder s monthly option to extend, and a final maturity date of June 20, 2014. Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder,
- $900 million of senior extendible floating rate bank notes issued to an affiliate on June 27, 2012 with an initial maturity date of July 27, 2013, subject to the holder s monthly option to extend, and a final maturity date of April 27, 2014. Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points, and
- $500 million of senior extendible floating rate bank notes issued to an affiliate on June 27, 2012 with an initial maturity date of July 27, 2013, subject to the holder s monthly option to extend, and a final maturity date of January 27, 2014. Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points.

On October 22, 2012, PNC Bank, N.A. issued additional debt under this program consisting of $1.0 billion of subordinated notes with a maturity date of November 1, 2022. Interest is payable semi-annually, at a fixed rate of 2.70%, on May 1 and November 1 of each year, beginning on May 1, 2013.

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

PNC Bank, N.A. is a member of the FHLB-Pittsburgh and as such has access to advances from FHLB-Pittsburgh secured generally by residential mortgage and other mortgage-related loans. At September 30, 2012, our unused secured borrowing capacity was $11.4 billion with FHLB-Pittsburgh. Total FHLB borrowings increased to $9.9 billion at September 30, 2012 from $7.0 billion at December 31, 2011 due to $11.5 billion in new borrowings partially offset by $8.5 billion in maturities.

PNC Bank, N.A. has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of September 30, 2012, there was $4.6 billion outstanding under this program. Commercial paper on our Consolidated Balance Sheet also includes $6.1 billion of commercial paper issued by Market Street Funding LLC, a consolidated VIE.

PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland s (Federal Reserve Bank) discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by securities and commercial loans. At September 30, 2012, our unused secured borrowing capacity was $29.2 billion with the Federal Reserve Bank.

Parent Company Liquidity Uses

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. The parent company s contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. As of September 30, 2012, there were approximately $300 million of parent company borrowings with maturities of less than one year.

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

See 2012 Capital and Liquidity Actions in the Executive Summary section of this Financial Review for additional information regarding our 2012 capital activities.

Table of Contents

Parent Company Liquidity Sources

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

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

The amount available for dividend payments by PNC Bank, N.A. to the parent company without prior regulatory approval was approximately $1.6 billion at September 30, 2012. There are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. See Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of our 2011 Form 10-K for a further discussion of these limitations. Dividends may also be impacted by the bank s capital needs and by contractual restrictions. We provide additional information on certain contractual restrictions under the Trust Preferred Securities section of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review and in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of our 2011 Form 10-K.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of September 30, 2012, the parent company had approximately $2.7 billion in funds available from its cash and investments.

We can also generate liquidity for the parent company and PNC s non-bank subsidiaries through the issuance of debt securities and equity securities, including certain capital securities, in public or private markets and commercial paper. We have effective shelf registration statements pursuant to which we can issue additional debt and equity securities, including certain hybrid capital instruments. Total senior and subordinated debt and hybrid capital instruments decreased to $11.5 billion at September 30, 2012 from $16.0 billion at December 31, 2011 primarily due to $4.0 billion in maturities and $1.8 billion in redemptions partially offset by $1.0 billion in new borrowings.

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

- $1.0 billion of senior notes issued March 8, 2012 and due March 8, 2022. Interest is paid semi-annually at a fixed rate of 3.30%. The offering resulted in gross proceeds to us, before offering related expenses, of $990 million,
- Sixty million depositary shares, each representing a 1/4,000th interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series P, issued April 24, 2012, resulting in gross proceeds to us, before commissions and expenses, of $1.5 billion,
- Eighteen million depositary shares, each representing a 1/4,000th interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series Q, issued September 21, 2012, resulting in gross proceeds to us, before commissions and expenses, of $450 million. On October 9, 2012, pursuant to the underwriting agreement for this offering, we issued an additional 1.2 million depositary shares in satisfaction of an option granted to the underwriters in the agreement to cover over-allotments, resulting in additional gross proceeds of $30 million.

On November 1, 2012, PNC priced its parent company Senior Notes due November 9, 2022 in a secondary public offering under our shelf registration statement that was made in connection with the remarketing transaction described in Note 20 Subsequent Events in the Notes To Consolidated Financial Statements in this Report. The offering is subject to customary closing conditions.

The parent company, through its subsidiary PNC Funding Corp, has the ability to offer up to $3.0 billion of commercial paper to provide additional liquidity. As of September 30, 2012, there were no issuances outstanding under this program.

Note 18 Equity in Item 8 of our 2011 Form 10-K describes the 16,885,192 warrants we have outstanding, each to purchase one share of PNC common stock at an exercise price of $67.33 per share. These warrants were sold by the US Treasury in a secondary public offering in May 2010 after the US Treasury exchanged its TARP Warrant. These warrants will expire December 31, 2018.

Status of Credit Ratings

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

In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current legislative and regulatory environment, including implied government support. In addition, rating agencies themselves have been subject to scrutiny arising from the financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in Dodd-Frank. Potential changes in the legislative and

Table of Contents

regulatory environment and the timing of those changes could impact our ratings, which as noted above, could impact our liquidity and financial condition. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect liquidity and financial condition.

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

	Moody s	Standard & Poor s	Fitch
The PNC Financial Services Group, Inc.			
Senior debt	A3	A-	A+
Subordinated debt	Baa1	BBB+	A
Preferred stock	Baa3	BBB	BBB-
PNC Bank, N.A.			
Subordinated debt	A3	A-	A
Long-term deposits	A2	A	AA-
Short-term deposits	P-1	A-1	F1+

Commitments

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

Table 46: Contractual Obligations

		Payment Due By Period			
September 30, 2012 in millions	Total	Less than one year	One to three years	Four to five years	After five years
Remaining contractual maturities of time deposits (a)	$ 27,792	$ 19,372	$ 4,649	$ 1,804	$ 1,967
Borrowed funds (a) (b)	43,104	25,867	4,765	5,399	7,073
Minimum annual rentals on noncancellable leases	2,808	407	667	474	1,260
Nonqualified pension and postretirement benefits	558	64	122	116	256
Purchase obligations (c)	670	420	179	40	31
Total contractual cash obligations	$ 74,932	$ 46,130	$ 10,382	$ 7,833	$ 10,587

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

We had unrecognized tax benefits of $178 million at September 30, 2012. This liability for unrecognized tax benefits represents an estimate of tax positions that we have taken in our tax returns which ultimately may not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the contractual obligations table. See Note 16 Income Taxes in the Notes To Consolidated Financial Statements of this Report for additional information.

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

Table 47: Other Commitments (a)

		Amount Of Commitment Expiration By Period			
September 30, 2012 in millions	Total Amounts Committed	Less than one year	One to three years	Four to five years	After five years
Net unfunded credit commitments	$ 118,285	$ 51,856	$ 36,195	$ 29,760	$ 474
Standby letters of credit (b)	11,413	5,101	4,817	1,447	48
Reinsurance agreements (c)	5,969	2,851	91	47	2,980
Other commitments (d)	802	502	204	93	3
Total commitments	$ 136,469	$ 60,310	$ 41,307	$ 31,347	$ 3,505

(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 $7.5 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.

(c) Reinsurance agreements are with third-party insurers related to insurance sold to our customers. Balances represent estimates based on availability of financial information.

(d) Includes unfunded commitments related to private equity investments of $201 million and other investments of $4 million that are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $550 million and other direct equity investments of $47 million that are included in Other liabilities on our Consolidated Balance Sheet.

Table of Contents

Market Risk Management

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

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

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

Market Risk Management Interest Rate Risk

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

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

Sensitivity results and market interest rate benchmarks for the third quarters of 2012 and 2011 follow:

Table 48: Interest Sensitivity Analysis

	Third Quarter 2012	Third Quarter 2011
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	2.4%	1.8%
100 basis point decrease (a)	(1.7)%	(1.2)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	7.9%	6.5%
100 basis point decrease (a)	(5.2)%	(3.7)%
Duration of Equity Model (a)		
Base case duration of equity (in years):	(8.3)	(5.4)
Key Period-End Interest Rates		
One-month LIBOR	.21%	.24%
Three-year swap	.44%	.74%

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

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. The following Net Interest Income Sensitivity to Alternative Rate Scenarios table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist s most likely rate forecast, (ii) implied market forward rates, and (iii) Yield Curve Slope Flattening (a 100 basis point yield curve slope flattening between 1-month and ten-year rates superimposed on current base rates) scenario.

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

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	.4%	.2%	(.9)%
Second year sensitivity	1.9%	1.4%	(3.7)%

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

Table of Contents

consider forward projections of purchase accounting accretion when forecasting net interest income.

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

Table 50: Alternate Interest Rate Scenarios: One Year Forward

The third quarter 2012 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates and an upward sloping interest rate yield curve. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

Market Risk Management Trading Risk

Our trading activities are primarily customer-driven trading in fixed income securities, derivatives and foreign exchange contracts, as well as the daily mark-to-market impact from the credit valuation adjustment (CVA) on the customer derivatives portfolio. They also include the underwriting of fixed income and equity securities.

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in trading activities. We calculate a diversified VaR at a 95% confidence interval. VaR is used to estimate the probability of portfolio losses based on the statistical analysis of historical market risk factors.

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

mark-to-market impact from the CVA in determining the diversified VaR measure during the first quarter of 2012 and comparative periods are stated on a similar basis. During the first nine months of 2012, our 95% VaR ranged between $2.2 million and $5.3 million, averaging $3.7 million. During the first nine months of 2011, our 95% VaR ranged between $.7 million and $4.8 million, averaging $2.8 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. Over a normal business cycle, we would expect an average of twelve to thirteen instances a year in which actual losses exceeded the prior day VaR measure at the enterprise-wide level at a 95% confidence interval. This assumes that market exposures remain constant throughout the day and that recent historical market variability is a good predictor of future variability. Also, including customer revenue and intraday hedging helps to reduce trading losses and may reduce the number of instances of actual losses exceeding the prior day VaR measure. There were two such instances during the first nine months of 2012 under our diversified VaR measure. In comparison, there was one such instance during the first nine months of 2011. We use a 500 day look back period for backtesting and include customer related revenue.

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

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

Table of Contents

Total trading revenue was as follows:

Table 52: Trading Revenue

Nine months ended September 30

In millions	2012	2011
Net interest income	$ 29	$ 33
Noninterest income	187	159
Total trading revenue	$ 216	$ 192
Securities underwriting and trading (a)	$ 71	$ 58
Foreign exchange	69	69
Financial derivatives and other	76	65
Total trading revenue	$ 216	$ 192

Three months ended September 30

In millions	2012	2011
Net interest income	$ 9	$ 11
Noninterest income	82	51
Total trading revenue	$ 91	$ 62
Securities underwriting and trading (a)	$ 28	$ 13
Foreign exchange	22	33
Financial derivatives and other	41	16
Total trading revenue	$ 91	$ 62

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

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

Trading revenue for the first nine months of 2012 increased $24 million compared with the first nine months of 2011 primarily due to higher derivative, foreign exchange, and securities client sales revenue and improved client related trading results.

Trading revenue for the third quarter of 2012 increased $29 million compared with the third quarter of 2011 primarily due to the reduced impact of counterparty credit risk on valuations of customer derivative positions and to a lesser extent, higher underwriting activity.

Market Risk Management Equity And Other Investment Risk

Equity investment risk is the risk of potential losses associated with investing in both private and public equity markets. PNC invests primarily in private equity markets. In addition to

extending credit, taking deposits, and underwriting and trading financial instruments, we make and manage direct investments in a variety of transactions, including management buyouts, recapitalizations, and growth financings in a variety of industries. We also have investments in affiliated and non-affiliated funds that make similar investments in private equity and in debt and equity-oriented hedge funds. The economic and/or book value of these investments and other assets such as loan servicing rights are directly affected by changes in market factors.

The primary risk measurement for equity and other investments is economic capital. Economic capital is a common measure of risk for credit, market and operational risk. It is an estimate of the potential value depreciation over a one year horizon commensurate with solvency expectations of an institution rated single-A by the credit rating agencies. Given the illiquid nature of many of these types of investments, it can be a challenge to determine their fair values. See Note 9 Fair Value in the Notes To Consolidated Financial Statements in this Report for additional information.

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

A summary of our equity investments follows:

Table 53: Equity Investments Summary

In millions	Sept. 30 2012	Dec. 31 2011
BlackRock	$ 5,517	$ 5,291
Tax credit investments	3,008	2,646
Private equity	1,741	1,491
Visa	343	456
Other	237	250