PNC FINANCIAL SERVICES GROUP INC
Form 10-Q
August 08, 2011
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 June 30, 2011

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of July 29, 2011, there were 526,240,991 shares of the registrant s common stock ($5 par value) outstanding.

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

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

	Pages
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited).	
Consolidated Income Statement	65
Consolidated Balance Sheet	66
Consolidated Statement Of Cash Flows	67
Notes To Consolidated Financial Statements (Unaudited)	
Note 1 Accounting Policies	69
Note 2 Acquisition and Divestiture Activity	73
Note 3 Loan Sale and Servicing Activities and Variable Interest Entities	74
Note 4 Loans and Commitments to Extend Credit	79
Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit	79
Note 6 Purchased Impaired Loans	88
Note 7 Investment Securities	89
Note 8 Fair Value	94
Note 9 Goodwill and Other Intangible Assets	106
Note 10 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities	108
Note 11 Certain Employee Benefit And Stock-Based Compensation Plans	108
Note 12 Financial Derivatives	111
Note 13 Earnings Per Share	118
Note 14 Total Equity And Other Comprehensive Income	119
Note 15 Income Taxes	120
Note 16 Legal Proceedings	120
Note 17 Commitments and Guarantees	123
Note 18 Segment Reporting	128
Statistical Information (Unaudited)	
Average Consolidated Balance Sheet And Net Interest Analysis	132
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.	
Financial Review	
Consolidated Financial Highlights	1
Executive Summary	3
Consolidated Income Statement Review	9
Consolidated Balance Sheet Review	12
Off-Balance Sheet Arrangements And Variable Interest Entities	21
Fair Value Measurements	22
Business Segments Review	23
Critical Accounting Estimates And Judgments	36
Status Of Qualified Defined Benefit Pension Plan	37
Recourse And Repurchase Obligations	38
Risk Management	41
Internal Controls And Disclosure Controls And Procedures	59
Glossary Of Terms	59
Cautionary Statement Regarding Forward-Looking Information	63
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	41-58 and 111-117
Item 4. Controls and Procedures.	59

PART II OTHER INFORMATION

Item 1.	Legal Proceedings.	134
Item 1A.	Risk Factors.	134
Item 2.	Unregistered Sales Of Equity Securities And Use Of Proceeds.	137
Item 6.	Exhibits.	138
Exhibit Index.		138
Signature		138
Corporate Information		139

Table of Contents

FINANCIAL REVIEW

CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended June 30 **2011**	 2010	Six months ended June 30 **2011**	 2010
FINANCIAL RESULTS (a)				
Revenue				
Net interest income	**$ 2,150**	$ 2,435	**$ 4,326**	$ 4,814
Noninterest income	**1,452**	1,477	**2,907**	2,861
Total revenue	**3,602**	3,912	**7,233**	7,675
Noninterest expense	**2,176**	2,002	**4,246**	4,115
Pretax, pre-provision earnings from continuing operations (b)	**1,426**	1,910	**2,987**	3,560
Provision for credit losses	**280**	823	**701**	1,574
Income from continuing operations before income taxes and noncontrolling interests (pretax earnings)	**$ 1,146**	$ 1,087	**$ 2,286**	$ 1,986
Income from continuing operations before noncontrolling interests	**$ 912**	$ 781	**$ 1,744**	$ 1,429
Income from discontinued operations, net of income taxes (c)		22		45
Net income	**$ 912**	$ 803	**$ 1,744**	$ 1,474
Less:				
Net income (loss) attributable to noncontrolling interests	**(1)**	(9)	**(6)**	(14)
Preferred stock dividends, including TARP (d)	**24**	25	**28**	118
Preferred stock discount accretion and redemptions, including redemption of TARP preferred stock discount accretion (d)	**1**	1	**1**	251
Net income attributable to common shareholders (d)	**$ 888**	$ 786	**$ 1,721**	$ 1,119
Diluted earnings per common share				
Continuing operations	**$ 1.67**	$ 1.43	**$ 3.24**	$ 2.06
Discontinued operations (c)		.04		.09
Net income	**$ 1.67**	$ 1.47	**$ 3.24**	$ 2.15
Cash dividends declared per common share	**$ .35**	$ .10	**$ .45**	$ .20
PERFORMANCE RATIOS				
Net interest margin (e)	**3.93%**	4.35%	**3.93%**	4.29%
Noninterest income to total revenue	**40**	38	**40**	37
Efficiency	**60**	51	**59**	54
Return on:				
Average common shareholders equity	**11.44**	11.52	**11.29**	8.63
Average assets	**1.40**	1.22	**1.34**	1.12

See page 59 for a glossary of certain terms used in this Report.

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

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

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

(c) Includes results of operations for PNC Global Investment Servicing Inc. (GIS). We sold GIS effective July 1, 2010. See Sale of PNC Global Investment Servicing in the Executive Summary section of the Financial Review section of this Report and Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements of this Report for additional information.

(d)

We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of $250 million in the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share. The impact on diluted earnings per share was $.49 for the six months ended June 30, 2010. Total dividends declared during the first six months of 2010 included $89 million on the Series N Preferred Stock.

(e) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended June 30, 2011 and June 30, 2010 were $25 million and $19 million, respectively. The taxable-equivalent adjustments to net interest income for the six months ended June 30, 2011 and June 30, 2010 were $49 million and $37 million, respectively.

Table of Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS (CONTINUED) (a)

Unaudited	**June 30 2011**	December 31 2010	June 30 2010
Balance Sheet Data (dollars in millions, except per share data)			
Assets	**$ 263,117**	$ 264,284	$ 261,695
Loans (b) (c)	**150,319**	150,595	154,342
Allowance for loan and lease losses (b)	**4,627**	4,887	5,336
Interest-earning deposits with banks (b)	**4,508**	1,610	5,028
Investment securities (b)	**59,414**	64,262	53,717
Loans held for sale (c)	**2,679**	3,492	2,756
Goodwill and other intangible assets	**10,594**	10,753	12,138
Equity investments (b)	**9,776**	9,220	10,159
Noninterest-bearing deposits	**52,683**	50,019	44,312
Interest-bearing deposits	**129,208**	133,371	134,487
Total deposits	**181,891**	183,390	178,799
Transaction deposits	**137,109**	134,654	125,712
Borrowed funds (b)	**35,176**	39,488	40,427
Shareholders equity	**32,235**	30,242	28,377
Common shareholders equity	**31,588**	29,596	27,725
Accumulated other comprehensive income (loss)	**69**	(431)	(442)
Book value per common share	**60.02**	56.29	52.77
Common shares outstanding (millions)	**526**	526	525
Loans to deposits	**83%**	82%	86%
Assets Under Administration (billions)			
Discretionary assets under management	**$ 109**	$ 108	$ 99
Nondiscretionary assets under administration	**110**	104	100
Total assets under administration	**219**	212	199
Capital Ratios			
Tier 1 common	**10.5%**	9.8%	8.3%
Tier 1 risk-based (d)	**12.8**	12.1	10.7
Total risk-based (d)	**16.2**	15.6	14.3
Leverage (d)	**11.0**	10.2	9.1
Common shareholders equity to assets	**12.0**	11.2	10.6
Asset Quality Ratios			
Nonperforming loans to total loans	**2.57%**	2.97%	3.31%
Nonperforming assets to total loans, OREO and foreclosed assets	**2.97**	3.39	3.70
Nonperforming assets to total assets	**1.70**	1.94	2.19
Net charge-offs to average loans (for the three months ended) (annualized)	**1.11**	2.09	2.18
Allowance for loan and lease losses to total loans	**3.08**	3.25	3.46
Allowance for loan and lease losses to nonperforming loans (e)	**120**	109	104

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

(b) Amounts include consolidated variable interest entities. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information. Also includes our equity interest in BlackRock under Equity investments.

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

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

(e) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. Nonperforming loans do not include purchased impaired loans or loans held for sale and, effective in 2011, do not include nonperforming residential real estate loans accounted for under the fair value option.

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

EXECUTIVE SUMMARY

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

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

KEY STRATEGIC GOALS

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

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

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

through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

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

PENDING ACQUISITION OF RBC BANK (USA)

On June 19, 2011, PNC entered into a definitive agreement to acquire RBC Bank (USA), the US retail banking subsidiary of Royal Bank of Canada. RBC Bank (USA) has approximately $25 billion of assets and 424 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The transaction is expected to add approximately $19 billion of deposits and $16 billion of loans to PNC s Consolidated Balance Sheet and to close in March 2012, subject to customary closing conditions, including regulatory approvals. Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements of this Report and our Current Report on Form 8-K dated June 19, 2011 contain additional information regarding this pending acquisition.

Pending Acquisition of Flagstar Branches

On July 26, 2011, PNC signed a definitive agreement to acquire 27 branches in metropolitan Atlanta, Georgia from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc., and assume approximately $240 million of deposits associated with those branches based on balances as of June 30, 2011. Under the agreement, PNC will purchase 21 branches and lease six branches located in a seven-county area primarily

north of Atlanta. Acquired real estate and fixed assets associated with the branches will be purchased for net book value, of approximately $42 million. No deposit premium will be paid and no loans will be acquired in the transaction, which is expected to close in December 2011 subject to customary closing conditions, including regulatory approvals.

2011 Capital Actions

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

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

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

Recent Market and Industry Developments

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

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

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) mandates the most wide-ranging overhaul of financial industry regulation in decades. Dodd-Frank was signed into law on July 21, 2010. Although Dodd-Frank and other reforms will affect a number of the areas in which we do business, it is not clear at this time the full extent of the adjustments that will be required and the extent to which we will be able to adjust our businesses in response to the requirements. Many parts of the law are now in effect and others are now in the implementation stage, which is likely to continue for several years. The law requires that regulators, some of which are new regulatory bodies created by Dodd-Frank, draft, review and approve more than 300 implementing regulations and conduct numerous studies that are likely to lead to more regulations, a process that, while well underway, is proceeding somewhat slower than originally anticipated, thus extending the uncertainty surrounding the ultimate impact of Dodd-Frank on us.

A number of reform provisions are likely to significantly impact the ways in which banks and bank holding companies, including PNC, do business. We provide additional information on a number of these provisions (including new consumer protection regulation, enhanced capital requirements, limitations on investment in and sponsorship of funds, risk retention by securitization participants, new regulation of derivatives, potential applicability of state consumer protection laws, and limitations on interchange fees) and some of their potential impacts on PNC in Item 1A Risk Factors included in Part II of this Report.

Residential Mortgage Foreclosure Matters

Beginning in the third quarter of 2010, mortgage foreclosure documentation practices among US financial institutions received heightened attention by regulators and the media. PNC s US market share for residential servicing based on retail origination volume is approximately 1.6%. The vast majority of our servicing business is on behalf of other investors, principally the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA). Following the initial reports regarding these practices, we conducted an internal review of our foreclosure procedures. Based upon our review, we believe that PNC has systems designed to ensure that no foreclosure proceeds unless the loan is genuinely in default.

Table of Contents

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

The Federal Reserve and the Office of the Comptroller of the Currency (OCC), together with the FDIC and others, conducted a publicly-disclosed interagency horizontal review of residential mortgage servicing operations at PNC and thirteen other federally regulated mortgage servicers. As a result of that review, in April 2011 PNC entered into a consent order with the Federal Reserve and PNC Bank, National Association (PNC Bank) entered into a consent order with the OCC. Collectively, these consent orders describe certain foreclosure-related practices and controls that the regulators found to be deficient and require PNC and PNC Bank to, among other things, develop and implement plans and programs to enhance PNC s residential mortgage servicing and foreclosure processes, retain an independent consultant to review certain residential mortgage foreclosure actions, take certain remedial actions, and oversee compliance with the orders and the new plans and programs. The two orders do not foreclose the potential for civil money penalties from either of these regulators.

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

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

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

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

- Further success in the acquisition, growth and retention of customers,
- Continued development of the geographic markets related to our recent acquisitions, including full deployment of our product offerings,
- Progress towards closing the pending RBC Bank (USA) and Flagstar branches acquisitions,
- Revenue growth,
- A sustained focus on expense management,
- Managing the distressed assets portfolio and other impaired assets,
- Improving our overall asset quality and continuing to meet evolving regulatory capital standards,
- Continuing to maintain and grow our deposit base as a low-cost funding source,
- Prudent risk and capital management related to our efforts to return to our desired moderate risk profile,
- Actions we take within the capital and other financial markets, and
- The impact of legal and regulatory contingencies.

Sale of PNC Global Investment Servicing

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

Results of operations of GIS through June 30, 2010 are presented as income from discontinued operations, net of income taxes, on our Consolidated Income Statement in this Report. Once we entered into the sales agreement, GIS was no longer a reportable business segment. See Note 2 Acquisition and Divestiture Activity in our Notes To Consolidated Financial Statements in this Report.

Table of Contents

Income Statement Highlights

- Strong earnings for the second quarter of 2011 reflected improved credit quality and client sales and revenue momentum.
- Net interest income of $2.2 billion and net interest margin of 3.93% for the second quarter both declined compared with the second quarter of 2010, reflecting a lower yield on interest-earning assets resulting from lower purchase accounting accretion, soft loan demand and the low interest rate environment.
- Noninterest income of $1.5 billion for the second quarter reflected lower service charges on deposits from the impact of Regulation E rules pertaining to overdraft fees, partially offset by higher asset management fees.
- The provision for credit losses of $280 million for the second quarter declined from $823 million in the second quarter of 2010 as overall credit quality continued to improve.
- Noninterest expense of $2.2 billion for the second quarter of 2011 increased $174 million compared with the second quarter of 2010 primarily due the impact of second quarter 2010 benefits from the reversal of certain accrued liabilities, with $73 million associated with a franchise tax settlement and $47 million associated with an indemnification liability for certain Visa litigation.
- A decline in the effective tax rate to 20.4% for the second quarter compared with 28.2% for the second quarter of 2010 was primarily attributable to a reversal of certain deferred tax liabilities.

Credit Quality Highlights

- Credit quality further improved in the second quarter of 2011. Nonperforming assets declined $642 million, or 13%, to $4.5 billion at June 30, 2011 compared with December 31, 2010. Accruing loans past due decreased 8% to $4.1 billion from $4.5 billion at December 31, 2010. Net charge-offs totaled $947 million for the first half of 2011 compared with $1.5 billion for the first half of 2010, a decline of 38%. Second quarter 2011 net charge-offs declined to $414 million compared with $840 million in the second quarter of 2010. The allowance for loan and lease losses was 3.08% of total loans and 120% of nonperforming loans as of June 30, 2011.

Balance Sheet Highlights

- We continued our momentum in acquiring new clients and deepening customer relationships during the second quarter of 2011 with our innovative products and services, distribution network and cross sell expertise. Retail banking checking relationships grew organically by 74,000 during the second quarter of 2011 compared with 10,000 during second quarter of 2010. Corporate banking is on track to exceed its goal of adding 1,000 new primary clients in 2011.
- Asset management sales referrals from PNC s retail, corporate and commercial bankers for the first half of 2011 were double those in first half 2010.
- Total loans of $150 billion at June 30, 2011 were about flat compared with December 31, 2010 as a result of growth in commercial loans largely from new client acquisition and increased utilization from existing clients partially offset by declines in commercial real estate and consumer loans. Loans and commitments originated and renewed totaled approximately $38 billion in the second quarter of 2011, including $1 billion of small business loans.
- Total deposits were $182 billion at June 30, 2011, down slightly from December 31, 2010. Higher cost retail certificates of deposit continued to decline with a net reduction of 4% in the second quarter, offset by growth in noninterest-bearing demand deposits.
- PNC s high quality balance sheet remained core funded with a loan to deposit ratio of 83% at June 30, 2011 and a strong liquidity position to support growth.
- PNC had strong capital levels at June 30, 2011 with a Tier 1 common capital ratio of 10.5% at June 30, 2011, an increase from 9.8% at December 31, 2010.
- PNC successfully completed the acquisition and conversion of 19 branches and $324 million of deposits from BankAtlantic in the Tampa, Florida area, on June 6, 2011.

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 six months of 2011 and 2010.

Average Consolidated Balance Sheet Highlights

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

Total average assets were $261.8 billion for the first six months of 2011 compared with $265.7 billion for the first six months of 2010. Average interest-earning assets were $222.4 billion for the first six months of 2011, compared with $225.8 billion in the first six months of 2010. In both comparisons, the declines were primarily driven by a $6.8 billion decrease in average total loans partially offset by a $4.3 billion increase in average total investment securities. The overall decline in average loans reflected soft customer loan demand, loan repayments, dispositions and

net charge-offs. The increase in total investment securities reflected net investments of excess liquidity in high quality securities primarily agency residential mortgage-backed securities.

Table of Contents

Average total loans decreased $6.8 billion, to $150.0 billion for the first six months of 2011 compared with the first six months of 2010. The decrease in average total loans primarily reflected declines in commercial real estate of $4.5 billion and residential real estate of $3.7 billion, partially offset by a $2.2 billion increase in commercial loans. Commercial real estate loans declined due to loan sales, paydowns, and charge-offs. The decrease in residential real estate was impacted by portfolio management activities, paydowns and net charge-offs. Commercial loans increased due to a combination of new client acquisition and improved utilization. Loans represented 67% of average interest-earning assets for the first six months of 2011 and 69% of average interest-earning assets for the first six months of 2010.

Average securities available for sale increased $4.0 billion, to $53.1 billion, in the first six months of 2011 compared with the first six months of 2010. Average agency residential mortgage-backed securities increased $6.4 billion and other debt securities increased $1.6 billion in the comparison while US Treasury and government agency securities decreased $3.0 billion and non-agency residential mortgage-backed securities declined $1.9 billion. The impact of purchases of high quality agency residential mortgage-backed securities and other debt was partially offset by paydowns of other security types.

Average securities held to maturity increased $.3 billion, to $7.2 billion, in the first six months of 2011 compared with the first six months of 2010. The increases of $1.0 billion in commercial mortgage-backed securities and $.6 billion in residential mortgage-backed securities more than offset a $1.3 billion decrease in asset-backed securities in the comparison.

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

Average noninterest-earning assets totaled $39.4 billion in the first six months of 2011 compared with $40.0 billion in the first six months of 2010.

Average total deposits were $180.8 billion for the current year-to-date compared with $182.7 billion for the prior year-to-date. Average deposits declined from the prior year period primarily as a result of decreases of $9.6 billion in average retail certificates of deposit and $.5 billion in average other time deposits, which were partially offset by increases of $5.3 billion in average noninterest-bearing deposits, $1.8 billion in average demand deposits and $1.1 billion in average savings deposits. Total deposits at June 30, 2011 were $181.9 billion compared with $183.4 billion at December 31, 2010 and are further discussed within the Consolidated Balance Sheet Review section of this Report.

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

Average transaction deposits were $133.9 billion for the first six months of 2011 compared with $126.6 billion for the first six months of 2010. The ongoing planned reduction of high-cost and primarily non-relationship certificates of deposit is part of our overall deposit strategy that is focused on growing demand and other transaction deposits as cornerstone products of customer relationships and a lower-cost, stable funding source. Furthermore, core checking accounts are critical to our strategy of expanding our payments business.

Average borrowed funds were $36.7 billion for the current year-to-date compared with $41.7 billion for the prior year-to-date. Maturities of Federal Home Loan Bank (FHLB) borrowings drove the decline compared with the first half of 2010. Total borrowed funds at June 30, 2011 were $35.2 billion compared with $39.5 billion at December 31, 2010 and are further discussed within the Consolidated Balance Sheet Review section of this Financial Review. The Liquidity Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding our sources and uses of borrowed funds.

Business Segment Highlights

Total business segment earnings were $1.4 billion for the first six months of 2011 and $1.3 billion for the first six months of 2010. Highlights of results for the second quarters of 2011 and 2010 are included below. The Business Segments Review section of this Financial Review includes a Results of Business-Summary table and further analysis of our business segment results over the first six months of 2011 and 2010 including presentation differences from Note 18 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

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

Retail Banking

Retail Banking earned $26 million in the first six months of 2011 compared with earnings of $104 million for the same period a year ago. Earnings declined from the prior year as lower revenues from the impact of Regulation E rules related to overdraft fees and a low interest rate environment were partially offset by a lower provision for credit losses. Retail Banking continued to maintain its focus on growing customers and deposits, improving customer and employee satisfaction, investing in the business for future growth, and disciplined expense management during this period of market and economic uncertainty.

Retail Banking earned $44 million for the second quarter of 2011 compared with earnings of $80 million for second quarter 2010. The decrease from the prior year second quarter

was a result of lower revenue from the impact of Regulation E rules related to overdraft fees, lower net interest income and higher noninterest expense somewhat offset by a lower provision for credit losses and higher consumer service fees.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $880 million in the first six months of 2011 compared with $816 million in the first six months of 2010. The increase in earnings was due to a decrease in the provision for credit losses, somewhat offset by declines in net interest income and revenue from commercial mortgage banking activities. We continued to focus on adding new clients and increased our cross selling to serve our clients needs, particularly in the western markets, and remained committed to strong expense discipline.

Corporate & Institutional Banking earned $448 million in both the second quarter of 2011 and the second quarter of 2010. While earnings were flat in the comparison, lower net interest income and higher noninterest expense were offset by a lower provision for credit losses and higher noninterest income.

Asset Management Group

Asset Management Group earned $91 million in the first six months of 2011 compared with $66 million in the first six months of 2010. Earnings for the first half of 2011 reflected a benefit from the provision for credit losses and growth in noninterest income as assets under administration increased to $219 billion, a 10% increase over June 30, 2010. The business remained focused on its core strategies to drive growth, including: increasing channel penetration; investing in higher growth geographies; and investing in differentiated client facing technology.

Asset Management Group earned $48 million in the second quarter of 2011 compared with $27 million in the second quarter of 2010. Higher earnings for the 2011 quarter were driven by a benefit from the provision for credit losses and growth in noninterest income partially offset by an increase in noninterest expense from investments in the business in the comparison. Overall second quarter results benefited from strong sales and significant referrals from other PNC lines of business.

Residential Mortgage Banking

Residential Mortgage Banking earned $126 million in the first six months of 2011 compared with $169 million in the first six months of 2010. Earnings declined from the prior year period

primarily as a result of higher noninterest expense, lower net interest income, a benefit from the provision for credit losses in the first six months of 2010, and lower servicing fees partially offset by increased loan sales revenue.

Residential Mortgage Banking earned $55 million in the second quarter of 2011 compared with $91 million in the second quarter of 2010. The decline in earnings primarily resulted from higher noninterest expense and lower net interest income.

BlackRock

Our BlackRock business segment earned $179 million in the first six months of 2011 and $154 million in the first six months of 2010. Second quarter 2011 business segment earnings from BlackRock were $93 million compared with $77 million in the second quarter of 2010. Higher earnings at BlackRock for the second quarter of 2011 compared to the second quarter of 2010 were primarily due to the effect of growth in investment advisory fees related to growth in long-term assets under management.

Distressed Assets Portfolio

This business segment consists primarily of assets acquired with acquisitions and had earnings of $109 million for the first six months of 2011 compared with a loss of $6 million in the first six months of 2010. The increase was driven primarily by a lower provision for credit losses partially offset by a decline in net interest income.

Distressed Assets Portfolio segment had earnings of $84 million for the second quarter of 2011 compared with a loss of $79 million for the second quarter of 2010. The increase primarily resulted from a lower provision for loan losses.

Other

Other reported earnings of $333 million for the six months of 2011 compared with earnings of $126 million for the first six months of 2010. The increase in earnings over the first six months of 2010 primarily reflected the impact of integration costs incurred in the 2010 period, the benefit of the lower effective tax rate in the 2011 period and lower net other-than-temporary impairments (OTTI) in the 2011 period.

Other reported earnings of $140 million in the second quarter of 2011 and $137 million in the second quarter of 2010.

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 six months of 2011 was $1.7 billion compared with $1.5 billion for the first six months of 2010. Net income for the second quarter of 2011 was $912 million compared with $803 million for the second quarter of 2010. Strong earnings for the first half and second quarter of 2011 reflect improved credit quality, client sales and revenue momentum.

Total revenue for the first six months of 2011 was $7.2 billion compared with $7.7 billion for the first six months of 2010. Total revenue for the second quarter of 2011 was $3.6 billion compared with $3.9 billion for the second quarter of 2010. The decline in both comparisons reflected lower net interest income in the 2011 periods attributable to purchase accounting.

NET INTEREST INCOME AND NET INTEREST MARGIN

	Three months ended June 30		Six months ended June 30	
Dollars in millions	**2011**	2010	**2011**	2010
Net interest income	**$ 2,150**	$ 2,435	**$ 4,326**	$ 4,814
Net interest margin	**3.93%**	4.35%	**3.93%**	4.29%

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

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

The net interest margin was 3.93% for the first six months of 2011 and 4.29% for the first six months of 2010. The following factors impacted the comparison:

- A 49 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 44 basis points.
- These factors were partially offset by an 11 basis point decline in the rate accrued on interest-bearing liabilities. The rate accrued on interest-bearing deposits, the largest component, decreased 21 basis points, the impact of which was partially offset by a 29 basis point increase in the rate accrued on total borrowed funds.

The net interest margin was 3.93% for the second quarter of 2011 and 4.35% for the second quarter of 2010. The following factors impacted the comparison:

- A 49 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 47 basis points.
- These factors were partially offset by a 3 basis point decline in the rate accrued on interest-bearing liabilities. The rate accrued on interest-bearing deposits, the largest component, decreased 16 basis points, the impact of which was partially offset by a 58 basis point increase in the rate accrued on total borrowed funds.

We expect that our purchase accounting accretion will decline by approximately $700 million for full year 2011 compared with 2010. Excluding the impact of this factor, we expect our net interest income and net interest margin to be stable for full year 2011 compared with 2010. Approximately $11.3 billion of higher cost retail consumer CDs are scheduled to mature in the second half of 2011 at a weighted-average rate of about 1.74%. We expect that these will be redeemed or re-priced at a lower rate, which will benefit our funding costs.

NONINTEREST INCOME

Summary

Noninterest income totaled $2.9 billion for the first six months of both 2011 and 2010 and was $1.5 billion for the second quarter of both 2011 and 2010. Noninterest income for the second quarter of 2011 reflected lower service charges on deposits from the impact of Regulation E rules pertaining to overdraft fees, partially offset by higher asset management fees.

Additional Analysis

Asset management revenue increased $49 million to $551 million in the first six months of 2011 compared with the first six months of 2010. Asset management revenue was $288 million in the second quarter of 2011 compared with $243 million in the second quarter of 2010. These increases in the comparisons were driven by higher equity earnings from our BlackRock investment and by higher equity markets, successful client retention, growth in new clients and strong sales performance. Discretionary assets under management at June 30, 2011 totaled $109 billion compared with $99 billion at June 30, 2010.

For the first half of 2011, consumer services fees totaled $644 million compared with $611 million in the first half of 2010. Consumer services fees were $333 million in the second quarter of 2011 compared with $315 million in the second quarter of 2010. The increases reflected higher volume-related transaction fees, such as debit and credit cards and merchant services.

Table of Contents

Corporate services revenue totaled $445 million in the first six months of 2011 and $529 million in the first six months of 2010. Corporate services revenue was $228 million in the second quarter of 2011 compared with $261 million in the second quarter of 2010. Commercial mortgage servicing revenue declined in both comparisons due to higher mortgage servicing rights impairment charges and lower ancillary fee income. Corporate services fees include the noninterest component of treasury management fees, which continued to be a strong contributor to revenue.

Residential mortgage revenue totaled $358 million in the first half of 2011 and $326 million in the first half of 2010. Second quarter 2011 residential mortgage revenue totaled $163 million compared with $179 million in the second quarter of 2010. Higher loans sales revenue drove the year-to-date comparison, while lower net hedging gains on mortgage servicing rights were reflected in the quarterly decline.

Service charges on deposits totaled $254 million for the first six months of 2011 and $409 million for the first six months of 2010. Service charges on deposits totaled $131 million for the second quarter of 2011 and $209 million for second quarter of 2010. The decline in both comparisons resulted primarily from the impact of Regulation E rules pertaining to overdraft fees.

Net gains on sales of securities totaled $119 million for the first half of 2011 and $237 million for the first half of 2010. Net gains on sales of securities were $82 million for the second quarter of 2011 and $147 million for second quarter of 2010.

The net credit component of OTTI of securities recognized in earnings was a loss of $73 million in the six months of 2011, including $39 million in the second quarter, compared with losses of $210 million and $94 million, respectively for the same periods in 2010.

Other noninterest income totaled $609 million for the first six months of 2011 compared with $457 million for the first six months of 2010. Other noninterest income totaled $266 million for second quarter of 2011 compared with $217 million for second quarter of 2010. Both increases over the comparable 2010 periods were driven by several individually insignificant items.

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

Looking to full year 2011, we see opportunities for growth in our fee-based revenues resulting from client growth and depth in our expanded franchise. At the same time, we will see the continued impact of ongoing regulatory reforms. Revenue is likely to decline compared with 2010 from the impact of the rules set forth in Regulation E related to overdraft fees and the Dodd-Frank limits related to interchange rates on debit card transactions. Regulation E, which became effective July 1, 2010, is expected to have an incremental negative impact to 2011 revenues of approximately $200 million based on expected 2011 transaction volumes. The Dodd-Frank limits related to interchange rates on debit cards will be effective October 1, 2011 and are expected to have a negative incremental impact of approximately $75 million in 2011 and an additional incremental reduction in future periods annual revenue of approximately $175 million based on expected 2011 transaction volumes. Excluding the expected incremental negative impact of these two regulatory changes, we expect noninterest income for full year 2011 to increase in the low-to-mid single digits (in terms of percentages) compared with 2010.

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, capital markets-related products and services, and commercial real estate loan servicing.

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, totaled $593 million for the first six months of 2011 and $595 million for the first six months of 2010. For the second quarter of 2011, treasury management revenue was $292 million compared with $299 million for the second quarter of 2010. Declining deposit spreads offset increases in core processing products, such as lockbox and information reporting, and in growth products such as commercial card and healthcare related services.

Revenue from capital markets-related products and services totaled $304 million in the first half of 2011 compared with $285 million in the first half of 2010. Second quarter 2011 revenue was $165 million compared with $124 million for the second quarter of 2010. Both comparisons were driven by improved valuations on customer derivatives and sales volumes.

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

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

Commercial mortgage banking activities resulted in revenue of $53 million in the first six months of 2011 compared with $162 million in the first six months of 2010. For the second quarter of 2011, revenue from commercial mortgage banking activities totaled $12 million compared with $47 million for the second quarter of 2010. Higher amortization and impairment charges in 2011 were due primarily to decreased interest rates and related prepayments by borrowers. Impairments totaled $75 million in the first half of 2011, including $40 million for the second quarter. The comparable amounts for 2010 were $18 million and $14 million, respectively. The six months of 2010 included a higher level of ancillary commercial mortgage servicing fees and revenue from a duplicative agency servicing operation that was sold in the second quarter of last year which contributed to the year-over-year decrease. Improved valuations on commercial mortgage loans held for sale benefited both comparisons.

Provision For Credit Losses

The provision for credit losses totaled $.7 billion for the first six months of 2011 compared with $1.6 billion for the first six months of 2010. The provision for credit losses totaled $280 million for the second quarter of 2011 compared with $823 million for the second quarter of 2010. The decline in both comparisons was driven by overall credit quality improvement and continuation of actions to reduce exposure levels.

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

We anticipate an overall improvement in credit migration for full year 2011 and a continued reduction in our nonperforming loans assuming modest GDP growth. As a result, we expect that our full year 2011 provision for credit losses will be at least $1 billion less than our full year 2010 provision for credit losses assuming budgeted loan growth projections.

Noninterest Expense

Noninterest expense was $4.2 billion for the first six months of 2011 and $4.1 billion for the first six months of 2010. Noninterest expense totaled $2.2 billion for the second quarter of 2011 compared with $2.0 billion for the second quarter of 2010. The increase in noninterest expense compared with the second quarter of 2010 was primarily due to the impact of second quarter of 2010 benefits from the reversal of certain accrued liabilities, with $73 million associated with a franchise tax settlement and $47 million associated with an indemnification liability for certain Visa litigation, and various small increases in expenses incurred in the second quarter of 2011 partially offset by the impact of integration costs during the second quarter of 2010. Integration costs included in noninterest expense totaled $213 million for the first half of 2010, including $100 million in the second quarter of that year. Noninterest expense for the first half of 2011 included higher personnel and occupancy expense and, in the second quarter, a charge of approximately $40 million related to accruals for legal contingencies primarily associated with pending lawsuits offset in part by anticipated insurance recoveries.

Apart from the possible impact of legal and regulatory contingencies we expect that total noninterest expense for full year 2011 will be flat compared with full year 2010. This expectation reflects the shift in the deposit insurance base calculations from deposits to average assets less Tier 1 capital which was effective April 1, 2011 under Dodd-Frank. The difference in premium is not material.

Effective Tax Rate

The effective tax rate was 23.7% in the first half of 2011 compared with 28.0% in the first half of 2010. For the second quarter of 2011, our effective tax rate was 20.4% compared with 28.2% for the second quarter of 2010. The decline in the effective tax rate in both comparisons was primarily driven by a $54 million benefit related to the reversal of deferred tax liabilities associated with adjustments to the tax basis of an asset during the second quarter of 2011. We anticipate that the effective tax rate will be approximately 27% for the second half of 2011.

Table of Contents

CONSOLIDATED BALANCE SHEET REVIEW

SUMMARIZED BALANCE SHEET DATA

In millions	June 30 2011	Dec. 31 2010
Assets		
Loans	**$ 150,319**	$ 150,595
Investment securities	**59,414**	64,262
Cash and short-term investments	**12,805**	10,437
Loans held for sale	**2,679**	3,492
Goodwill and other intangible assets	**10,594**	10,753
Equity investments	**9,776**	9,220
Other, net	**17,530**	15,525
Total assets	**$ 263,117**	$ 264,284
Liabilities		
Deposits	**$ 181,891**	$ 183,390
Borrowed funds	**35,176**	39,488
Other	**11,177**	8,568
Total liabilities	**228,244**	231,446
Total shareholders equity	**32,235**	30,242
Noncontrolling interests	**2,638**	2,596
Total equity	**34,873**	32,838
Total liabilities and equity	**$ 263,117**	$ 264,284

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

The decline in total assets at June 30, 2011 compared with December 31, 2010 was primarily due to lower investment securities, partially offset by an increase in interest-earning deposits with banks.

An analysis of changes in selected balance sheet categories follows.

LOANS

A summary of the major categories of loans outstanding follows. Outstanding loan balances reflect unearned income, unamortized discount and premium, and purchase discounts and premiums totaling $2.5 billion at June 30, 2011 and $2.7 billion at December 31, 2010. The balances do not include future accretable net interest (i.e., the difference between the undiscounted expected cash flows and the carrying value of the loan) on the purchased impaired loans.

Loans decreased $.3 billion as of June 30, 2011 compared with December 31, 2010. Growth in commercial loans of $3.4 billion was offset by declines of $1.6 billion in commercial real estate loans, $1 billion of residential real estate loans and $.8 billion of home equity loans compared with year end. Commercial loans increased due to a combination of new client acquisition and improved utilization. Commercial real estate loans declined due to loan sales, paydowns, and charge-offs. The decrease in residential real estate was impacted by paydowns, loans sales, and charge-offs. Home equity loans

declined in the second quarter as paydowns, charge-offs, and portfolio management activities exceeded new loan production and draws on existing lines.

Loans represented 57% of total assets at June 30, 2011 and December 31, 2010. Commercial lending represented 54% of the loan portfolio at June 30, 2011 and 53% at December 31, 2010. Consumer lending represented 46% at June 30, 2011 and 47% at December 31, 2010.

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

Details Of Loans

In millions	Jun. 30 2011	Dec. 31 2010
Commercial		
Retail/wholesale trade	$ 10,952	$ 9,901
Manufacturing	10,426	9,334
Service providers	8,984	8,866
Real estate related (a)	7,515	7,500
Financial services	5,206	4,573
Health care	4,115	3,481
Other industries	11,422	11,522
Total commercial	58,620	55,177
Commercial real estate		
Real estate projects	11,086	12,211
Commercial mortgage	5,233	5,723
Total commercial real estate	16,319	17,934
Equipment lease financing	6,210	6,393
TOTAL COMMERCIAL LENDING (b)	81,149	79,504
Consumer		
Home equity		
Lines of credit	22,838	23,473
Installment	10,541	10,753
Residential real estate		
Residential mortgage	14,302	15,292
Residential construction	680	707
Credit card	3,754	3,920
Other consumer		
Education	8,816	9,196
Automobile	3,705	2,983
Other	4,534	4,767
TOTAL CONSUMER LENDING	69,170	71,091
Total loans	$ 150,319	$ 150,595

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

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

Total loans above include purchased impaired loans of $7.3 billion, or 5% of total loans, at June 30, 2011, and $7.8 billion, or 5% of total loans, at December 31, 2010.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $65 billion for the first six months of 2011.

Table of Contents

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

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

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

Higher Risk Loans

Our loan portfolio includes certain loans deemed to be higher risk and therefore more likely to result in credit losses. We established specific and pooled reserves on the total

commercial lending category of $2.4 billion at June 30, 2011. This commercial lending reserve included what we believe to be appropriate loss coverage on the higher risk commercial loans in the total commercial portfolio. The commercial lending reserve represented 52% of the total ALLL of $4.6 billion at that date. The remaining 48% of ALLL pertained to the total consumer lending category. This category of loans is more homogenous in nature and has certain characteristics that can be assessed at a total portfolio level in terms of loans representing higher risk. We do not consider government insured/government guaranteed loans to be higher risk as we do not believe these loans will result in a significant loss because of their structure. Additional information regarding our higher risk loans is included in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in this Report.

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

Valuation of Purchased Impaired Loans

	June 30, 2011		December 31, 2010	
Dollars in billions	**Balance**	**Net Investment**	Balance	Net Investment
Commercial and commercial real estate loans:				
Unpaid principal balance	**$ 1.4**		$ 1.8	
Purchased impaired mark	**(.3)**		(.4)	
Recorded investment	**1.1**		1.4	
Allowance for loan losses	**(.3)**		(.3)	
Net investment	**.8**	**57%**	1.1	61%
Consumer and residential mortgage loans:				
Unpaid principal balance	**7.1**		7.9	
Purchased impaired mark	**(.9)**		(1.5)	
Recorded investment	**6.2**		6.4	
Allowance for loan losses	**(.7)**		(.6)	
Net investment	**5.5**	**77%**	5.8	73%
Total purchased impaired loans:				
Unpaid principal balance	**8.5**		9.7	
Purchased impaired mark	**(1.2)**		(1.9)	
Recorded investment	**7.3**		7.8	
Allowance for loan losses	**(1.0)**		(.9)	
Net investment	**$ 6.3**	**74%**	$ 6.9	71%

The unpaid principal balance of purchased impaired loans declined from $9.7 billion at December 31, 2010 to $8.5 billion at June 30, 2011 due to payments, disposals, and charge-offs of amounts determined to be uncollectible. The remaining purchased impaired mark at June 30, 2011 was $1.2 billion which was a decline from $1.9 billion at December 31, 2010. The associated allowance for loan losses increased slightly by $.1 billion to $1.0 billion at June 30, 2011. The net investment of $6.9 billion at December 31, 2010 declined 9% to $6.3 billion at June 30, 2011. At June 30, 2011, our largest

individual purchased impaired loan had a recorded investment of $25 million.

We currently expect to collect total cash flows of $8.6 billion on purchased impaired loans, representing the $6.3 billion net investment at June 30, 2011 and the accretable net interest of $2.3 billion shown in the Accretable Net Interest-Purchased Impaired Loans table that follows. These represent the net future cash flows on purchased impaired loans, as contractual interest will be reversed.

Table of Contents

Purchase Accounting Accretion

In millions	Three months ended June 30 **2011**	2010	Six months ended June 30 **2011**	2010
Non-impaired loans	**$ 72**	$ 111	**$ 140**	$ 223
Impaired loans	**186**	258	**346**	523
Reversal of contractual interest on impaired loans	**(88)**	(136)	**(194)**	(270)
Net impaired loans	**98**	122	**152**	253
Securities	**14**	13	**23**	24
Deposits	**91**	144	**191**	311
Borrowings	**(25)**	(14)	**(56)**	(70)
Total	**$ 250**	$ 376	**$ 450**	$ 741

In addition to the amounts in the table above, cash received in excess of recorded investment from sales or payoffs of impaired commercial loans (cash recoveries) totaled $40 million for the second quarter of 2011 and $164 million for the second quarter of 2010.

Remaining Purchase Accounting Accretion

In billions	**June 30 2011**	Dec. 31 2010
Non-impaired loans	**$ 1.1**	$ 1.2
Impaired loans	**2.3**	2.2
Total loans (gross)	**3.4**	3.4
Securities	**.2**	.1
Deposits	**.3**	.5
Borrowings	**(1.0)**	(1.1)
Total	**$ 2.9**	$ 2.9

Accretable Net Interest Purchased Impaired Loans

In billions	**2011**	2010
January 1	**$ 2.2**	$ 3.5
Accretion (including cash recoveries)	**(.5)**	(.8)
Net reclassifications to accretable from non-accretable	**.6**	(.3)
Disposals		(.1)
June 30	**$ 2.3**	$ 2.3

Net unfunded credit commitments are comprised of the following:

Net Unfunded Credit Commitments

In millions	**June 30, 2011**	December 31, 2010
Commercial / commercial real estate (a)	**$ 62,834**	$ 59,256
Home equity lines of credit	**18,994**	19,172
Consumer credit card and other unsecured lines	**15,206**	14,725
Other	**2,757**	2,652
Total	**$ 99,791**	$ 95,805

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

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments reported above exclude syndications, assignments and participations, primarily to financial institutions, totaling $18.5 billion at June 30, 2011 and $16.7 billion at December 31, 2010.

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

In addition to credit commitments, our net outstanding standby letters of credit totaled $10.7 billion at June 30, 2011 and $10.1 billion at December 31, 2010. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Table of Contents

INVESTMENT SECURITIES

Details of Investment Securities

In millions	Amortized Cost	Fair Value
June 30, 2011		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	**$ 3,954**	**$ 4,130**
Residential mortgage-backed		
Agency	**25,126**	**25,500**
Non-agency	**7,232**	**6,454**
Commercial mortgage-backed		
Agency	**1,276**	**1,303**
Non-agency	**2,494**	**2,545**
Asset-backed	**3,839**	**3,685**
State and municipal	**2,281**	**2,302**
Other debt	**3,343**	**3,442**
Corporate stocks and other	**306**	**306**
Total securities available for sale	**$ 49,851**	**$ 49,667**
SECURITIES HELD TO MATURITY		
Debt securities		
Residential mortgage-backed (agency)	**$ 2,775**	**$ 2,768**
Commercial mortgage-backed		
Agency	**508**	**506**
Non-agency	**4,027**	**4,172**
Asset-backed	**2,063**	**2,092**
State and municipal	**8**	**9**
Other debt	**366**	**363**
Total securities held to maturity	**$ 9,747**	**$ 9,910**
December 31, 2010		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	$ 5,575	$ 5,710
Residential mortgage-backed		
Agency	31,697	31,720
Non-agency	8,193	7,233
Commercial mortgage-backed		
Agency	1,763	1,797
Non-agency	1,794	1,856
Asset-backed	2,780	2,582
State and municipal	1,999	1,957
Other debt	3,992	4,077
Corporate stocks and other	378	378
Total securities available for sale	$ 58,171	$ 57,310
SECURITIES HELD TO MATURITY		
Debt securities		
Commercial mortgage-backed (non-agency)	$ 4,316	$ 4,490
Asset-backed	2,626	2,676
Other debt	10	11
Total securities held to maturity	$ 6,952	$ 7,177

The carrying amount of investment securities totaled $59.4 billion at June 30, 2011, a decrease of $4.9 billion, or 8%, from $64.3 billion at December 31, 2010. The decline resulted from principal payments and net sales of primarily agency mortgage-backed securities and government agency securities.

Investment securities represented 23% of total assets at June 30, 2011 and 24% of total assets at December 31, 2010.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. US Treasury and government agencies, agency residential mortgage-backed securities and agency commercial mortgage-backed securities collectively represented 58% of the investment securities portfolio at June 30, 2011.

During the second quarter of 2011, we transferred securities with a fair value of $3.4 billion from available for sale to held to maturity. The securities transferred included $2.8 billion of agency residential-mortgage backed securities, $285 million of agency commercial mortgage-backed securities, and $365 million of agency guaranteed other debt securities. We changed our intent and committed to hold these high-quality securities to maturity. The reclassification was made at fair value at the date of transfer, resulting in no impact on net income. Net pretax unrealized gains in accumulated other comprehensive income totaled $40 million at the transfer date and will be accreted over the remaining life of the related securities as an adjustment of yield in a manner consistent with the amortization of a premium.

At June 30, 2011, the securities available for sale portfolio included a net unrealized loss of $184 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2010 was a net unrealized loss of $861 million. The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa.

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

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

Table of Contents

The expected weighted-average life of investment securities (excluding corporate stocks and other) was 4.4 years at June 30, 2011 and 4.7 years at December 31, 2010.

We estimate that, at June 30, 2011, the effective duration of investment securities was 3.2 years for an immediate 50 basis

points parallel increase in interest rates and 3.0 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2010 were 3.1 years and 2.9 years, respectively.

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

	June 30, 2011				
	Agency		Non-agency		
Dollars in millions	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Asset-Backed Securities
Fair Value Available for Sale	**$ 25,500**	**$ 1,303**	**$ 6,454**	**$ 2,545**	**$ 3,685**
Fair Value Held to Maturity	**2,768**	**506**		**4,172**	**2,092**
Total Fair Value	**$ 28,268**	**$ 1,809**	**$ 6,454**	**$ 6,717**	**$ 5,777**
<u>% of Fair Value:</u>					
By Vintage					
2011	**16%**	**8%**		**4%**	
2010	**32%**	**26%**		**2%**	**6%**
2009	**14%**	**24%**		**2%**	**12%**
2008	**5%**	**3%**			**6%**
2007	**7%**	**3%**	**18%**	**9%**	**7%**
2006	**4%**	**5%**	**24%**	**29%**	**10%**
2005 and earlier	**12%**	**15%**	**58%**	**53%**	**11%**
Not Available	**10%**	**16%**		**1%**	**48%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By Credit Rating					
Agency	**100%**	**100%**			
AAA			**3%**	**82%**	**78%**
AA			**1%**	**6%**	**5%**
A			**3%**	**7%**	**1%**
BBB			**9%**	**4%**	
BB			**9%**		
B			**14%**		**3%**
Lower than B			**60%**		**10%**
No rating			**1%**	**1%**	**3%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By FICO Score					
>720			**55%**		**3%**
<720 and >660			**36%**		**7%**
<660			**1%**		**2%**
No FICO score			**8%**		**88%**
Total			**100%**		**100%**

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

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

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

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

Table of Contents

We recognized OTTI for the second quarter and first six months of 2011 and 2010 as follows:

Other-Than-Temporary Impairments

In millions	Three months ended June 30 2011	Three months ended June 30 2010	Six months ended June 30 2011	Six months ended June 30 2010
Credit portion of OTTI losses (a)				
Non-agency residential mortgage-backed	**$ (35)**	$ (81)	**$ (63)**	$ (154)
Non-agency commercial mortgage-backed		(3)		(3)
Asset-backed	**(4)**	(10)	**(9)**	(53)
Other debt			**(1)**	
Total credit portion of OTTI losses	**(39)**	(94)	**(73)**	(210)
Noncredit portion of OTTI losses (b)	**(34)**	(24)	**(30)**	(148)
Total OTTI losses	**$ (73)**	$ (118)	**$ (103)**	$ (358)

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

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

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

June 30, 2011 In millions	Residential Mortgage-Backed Securities Fair Value	Residential Mortgage-Backed Securities Net Unrealized Gain (Loss)	Commercial Mortgage-Backed Securities Fair Value	Commercial Mortgage-Backed Securities Net Unrealized Gain (Loss)	Asset-Backed Securities Fair Value	Asset-Backed Securities Net Unrealized Gain (Loss)
Available for Sale Securities (Non-Agency)						
Credit Rating Analysis						
AAA	**$ 189**	**$ (16)**	**$ 1,515**	**$ 35**	**$ 2,761**	**$ 8**
Other Investment Grade (AA, A, BBB)	**826**	**(34)**	**928**	**16**	**125**	**(8)**
Total Investment Grade	**1,015**	**(50)**	**2,443**	**51**	**2,886**	
BB	**594**	**(6)**	**27**			
B	**929**	**(116)**			**191**	**(29)**
Lower than B	**3,877**	**(606)**			**579**	**(107)**
Total Sub-Investment Grade	**5,400**	**(728)**	**27**		**770**	**(136)**
Total No Rating	**39**		**75**		**26**	**(18)**
Total	**$ 6,454**	**$ (778)**	**$ 2,545**	**$ 51**	**$ 3,682**	**$ (154)**
OTTI Analysis						
Investment Grade:						
OTTI has been recognized	**$ 103**	**$ (14)**				
No OTTI recognized to date	**912**	**(36)**	**$ 2,443**	**$ 51**	**$ 2,886**	
Total Investment Grade	**1,015**	**(50)**	**2,443**	**51**	**2,886**	
Sub-Investment Grade:						
OTTI has been recognized	**3,403**	**(659)**			**621**	**(146)**
No OTTI recognized to date	**1,997**	**(69)**	**27**		**149**	**10**
Total Sub-Investment Grade	**5,400**	**(728)**	**27**		**770**	**(136)**
No Rating:						
OTTI has been recognized					**26**	**(18)**
No OTTI recognized to date	**39**		**75**			
Total No Rating	**39**		**75**		**26**	**(18)**
Total	**$ 6,454**	**$ (778)**	**$ 2,545**	**$ 51**	**$ 3,682**	**$ (154)**

Securities Held to Maturity (Non-Agency)				
Credit Rating Analysis				
AAA	**$ 3,967**	**$ 142**	**$ 1,714**	**$ 22**
Other Investment Grade (AA, A, BBB)	**205**	**3**	**234**	**1**
Total Investment Grade	**4,172**	**145**	**1,948**	**23**
BB			**6**	
B			**1**	
Lower than B				
Total Sub-Investment Grade			**7**	
Total No Rating			**128**	**6**
Total	**$ 4,172**	**$ 145**	**$ 2,083**	**$ 29**

Table of Contents

Residential Mortgage-Backed Securities

At June 30, 2011, our residential mortgage-backed securities portfolio was comprised of $28.3 billion fair value of US government agency-backed securities and $6.5 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 half of 2011, we recorded OTTI credit losses of $63 million on non-agency residential mortgage-backed securities, including $35 million in the second quarter. Almost all of the losses were associated with securities rated below investment grade. As of June 30, 2011, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for non-agency residential mortgage-backed securities totaled $673 million and the related securities had a fair value of $3.5 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of June 30, 2011 totaled $2.0 billion, with unrealized net losses of $69 million. The results of our security-level assessments indicate that we will recover the entire cost basis of these securities. Note 7 Investment Securities in the Notes To Consolidated Financial Statements in this Report provides further detail regarding our process for assessing OTTI for these securities.

Commercial Mortgage-Backed Securities

The fair value of the non-agency commercial mortgage-backed securities portfolio was $6.7 billion at June 30, 2011 and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. The agency commercial mortgage-backed securities portfolio was $1.8 billion fair value at June 30, 2011 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

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

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $5.8 billion at June 30, 2011 and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including residential mortgage loans, credit cards, automobile loans, and student loans. Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

We recorded OTTI credit losses of $9 million on asset-backed securities during the first six months of 2011, including $4 million during the second quarter. All of the securities are collateralized by first and second lien residential mortgage loans and are rated below investment grade. As of June 30, 2011, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for asset-backed securities totaled $164 million and the related securities had a fair value of $647 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 June 30, 2011, the remaining fair value was $156 million, with unrealized net gains of $10 million. The results of our security-level assessments indicate that we will recover the cost basis of these securities. Note 7 Investment Securities in the Notes To Consolidated Financial Statements in this Report provides further detail regarding our process for assessing OTTI for these securities.

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

Loans Held For Sale

In millions	**June 30 2011**	December 31 2010
Commercial mortgages at fair value	**$ 856**	$ 877
Commercial mortgages at lower of cost or market	**370**	330
Total commercial mortgages	**1,226**	1,207
Residential mortgages at fair value	**1,351**	1,878
Residential mortgages at lower of cost or market		12
Total residential mortgages	**1,351**	1,890
Other	**102**	395
Total	**$ 2,679**	3,492

Table of Contents

We stopped originating certain commercial mortgage loans designated as held for sale in 2008 and continue pursuing opportunities to reduce these positions at appropriate prices. We sold $25 million of commercial mortgage loans held for sale carried at fair value in the first six months of 2011 and sold $44 million in the first six months of 2010.

We recognized net gains of $20 million in the first six months of 2011, including $7 million in the second quarter, on the valuation and sale of commercial mortgage loans held for sale, net of hedges. Net losses of $13 million on the valuation and sale of commercial mortgage loans held for sale, net of hedges, were recognized in the first six months of 2010, including $22 million in the second quarter.

Residential mortgage loan origination volume was $5.8 billion in the first six months of 2011. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $6.5 billion of loans and recognized related gains of $136 million during the first six months of 2011, of which $52 million occurred in the second quarter. The comparable amounts for the first six months of 2010 were $4.2 billion and $88 million, respectively, including $49 million in the second quarter.

Interest income on loans held for sale was $107 million in the first six months of 2011, including $38 million in the second quarter. Comparable amounts for 2010 were $153 million and $73 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 $10.6 billion at June 30, 2011 and $10.8 billion at December 31, 2010. See Note 9 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in this Report.

Funding and Capital Sources

Details Of Funding Sources

In millions	**June 30 2011**	December 31 2010
Deposits		
Money market	**$ 85,170**	$ 84,581
Demand	**51,930**	50,069
Retail certificates of deposit	**34,351**	37,337
Savings	**8,257**	7,340
Other time	**390**	549
Time deposits in foreign offices	**1,793**	3,514
Total deposits	**181,891**	183,390
Borrowed funds		
Federal funds purchased and repurchase agreements	**3,812**	4,144
Federal Home Loan Bank borrowings	**5,022**	6,043
Bank notes and senior debt	**10,526**	12,904
Subordinated debt	**9,358**	9,842
Other	**6,458**	6,555
Total borrowed funds	**35,176**	39,488
Total	**$ 217,067**	$ 222,878

Total funding sources decreased $5.8 billion at June 30, 2011 compared with December 31, 2010.

Total deposits decreased $1.5 billion, or 1% at June 30, 2011 compared with December 31, 2010 primarily due to redemption of retail certificates of deposit. Interest-bearing deposits represented 71% of total deposits at June 30, 2011 compared to 73% at December 31, 2010. Total borrowed funds decreased $4.3 billion since December 31, 2010. The decline from December 31, 2010 was primarily due to maturities of FHLB borrowings, bank notes and senior debt, and subordinated debt.

Capital

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

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

Total shareholders equity increased $2 billion, to $32.2 billion, at June 30, 2011 compared with December 31, 2010 as retained earnings increased $1.5 billion. Common shares outstanding were 526 million at both June 30, 2011 and December 31, 2010.

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

Table of Contents

Risk-Based Capital

Dollars in millions	June 30 2011	December 31 2010
Capital components		
Shareholders equity		
Common	**$ 31,588**	$ 29,596
Preferred	**647**	646
Trust preferred capital securities	**2,909**	2,907
Noncontrolling interests	**1,350**	1,351
Goodwill and other intangible assets	**(9,005)**	(9,053)
Eligible deferred income taxes on goodwill and other intangible assets	**445**	461
Pension, other postretirement benefit plan adjustments	**373**	380
Net unrealized securities losses, after-tax	**101**	550
Net unrealized gains on cash flow hedge derivatives, after-tax	**(544)**	(522)
Other	**(213)**	(224)
Tier 1 risk-based capital	**27,651**	26,092
Subordinated debt	**4,742**	4,899
Eligible allowance for credit losses	**2,734**	2,733
Total risk-based capital	**$ 35,127**	$ 33,724
Tier 1 common capital		
Tier 1 risk-based capital	**$ 27,651**	$ 26,092
Preferred equity	**(647)**	(646)
Trust preferred capital securities	**(2,909)**	(2,907)
Noncontrolling interests	**(1,350)**	(1,351)
Tier 1 common capital	**$ 22,745**	$ 21,188
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$ 216,643**	$ 216,283
Adjusted average total assets	**252,032**	254,693
Capital ratios		
Tier 1 common	**10.5%**	9.8%
Tier 1 risk-based	**12.8**	12.1
Total risk-based	**16.2**	15.6
Leverage	**11.0**	10.2

Federal banking regulators have stated that they expect all bank holding companies to have a level and composition of Tier 1 capital well in excess of the 4% regulatory minimum, and they have required the largest US bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet credit needs of their customers through the economic downturn. They have also stated their view that common equity should be the

dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels, although this metric is not provided for in the regulations. We seek to manage our capital consistent with these regulatory principles, and believe that our June 30, 2011 capital levels were aligned with them.

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

Our Tier 1 common capital ratio was 10.5% at June 30, 2011, compared with 9.8% at December 31, 2010. Our Tier 1 risk-based capital ratio increased 70 basis points to 12.8% at June 30, 2011 from 12.1% at December 31, 2010. Increases in both ratios were attributable to retention of earnings in 2011.

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

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

We provide additional information regarding enhanced capital requirements and some of their potential impacts on PNC in Item 1A Risk Factors included in Part II of this Report.

Table of Contents

Off-Balance Sheet Arrangements And Variable Interest Entities

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

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

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

A summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements, as of June 30, 2011 and December 31, 2010 is included in Note 3 of this Report.

PNC Capital Trust E Trust Preferred Securities

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

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

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

Acquired Entity Trust Preferred Securities

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

Table of Contents

FAIR VALUE MEASUREMENTS

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

Assets recorded at fair value represented 24% of total assets at June 30, 2011 and 27% at December 31, 2010. Liabilities recorded at fair value represented 3% of total liabilities at both June 30, 2011 and December 31, 2010, respectively.

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

	June 30, 2011		December 31, 2010	
In millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Assets				
Securities available for sale	**$ 49,667**	**$ 7,821**	$ 57,310	$ 8,583
Financial derivatives	**5,855**	**60**	5,757	77
Residential mortgage loans held for sale	**1,351**		1,878	
Trading securities	**2,075**	**56**	1,826	69
Residential mortgage servicing rights	**996**	**996**	1,033	1,033
Commercial mortgage loans held for sale	**856**	**856**	877	877
Equity investments	**1,513**	**1,513**	1,384	1,384
Customer resale agreements	**813**		866	
Loans	**239**	**4**	116	2
Other assets	**902**	**434**	853	403
Total assets	**$ 64,267**	**$ 11,740**	$ 71,900	$ 12,428
Level 3 assets as a percentage of total assets at fair value		**18%**		17%
Level 3 assets as a percentage of consolidated assets		**4%**		5%
Liabilities				
Financial derivatives	**$ 4,863**	**$ 444**	$ 4,935	$ 460
Trading securities sold short	**1,845**		2,530	
Other liabilities			6	
Total liabilities	**$ 6,708**	**$ 444**	$ 7,471	$ 460
Level 3 liabilities as a percentage of total liabilities at fair value		**7%**		6%
Level 3 liabilities as a percentage of consolidated liabilities		**<1%**		<1%

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

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

BUSINESS SEGMENTS REVIEW

We have six reportable business segments:

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

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

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

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

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

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

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

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

Table of Contents

Results Of Businesses Summary

(Unaudited)

Six months ended June 30 - in millions	Income (Loss) 2011	Income (Loss) 2010	Revenue 2011	Revenue 2010	Average Assets (a) 2011	Average Assets (a) 2010
Retail Banking	**$ 26**	$ 104	**$ 2,518**	$ 2,748	**$ 66,210**	$ 68,178
Corporate & Institutional Banking	**880**	816	**2,278**	2,491	**78,002**	78,295
Asset Management Group	**91**	66	**448**	444	**6,786**	7,016
Residential Mortgage Banking	**126**	169	**477**	480	**11,218**	8,770
BlackRock	**179**	154	**229**	198	**5,596**	6,125
Distressed Assets Portfolio	**109**	(6)	**515**	688	**13,743**	19,009
Total business segments	**1,411**	1,303	**6,465**	7,049	**181,555**	187,393
Other (b) (c)	**333**	126	**768**	626	**80,271**	78,356
Income from continuing operations before noncontrolling interests (d)	**$ 1,744**	$ 1,429	**$ 7,233**	$ 7,675	**$ 261,826**	$ 265,749

(a) Period-end balances for BlackRock.

(b) For our segment reporting presentation in this Financial Review, Other for the first six months of 2010 included $213 million of pretax integration costs related to acquisitions.

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

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

Table of Contents

Retail Banking

(Unaudited)

Six months ended June 30

Dollars in millions, except as noted	**2011**	2010
Income Statement		
Net interest income	**$ 1,628**	$ 1,748
Noninterest income		
Service charges on deposits	**242**	399
Brokerage	**105**	108
Consumer services	**481**	431
Other	**62**	62
Total noninterest income	**890**	1,000
Total revenue	**2,518**	2,748
Provision for credit losses	**456**	619
Noninterest expense	**2,022**	1,969
Pretax earnings	**40**	160
Income taxes	**14**	56
Earnings	**$ 26**	$ 104
Average Balance Sheet		
Loans		
Consumer		
Home equity	**$ 25,984**	$ 26,665
Indirect auto	**2,579**	1,950
Indirect other	**1,565**	2,009
Education	**8,991**	8,202
Credit cards	**3,706**	4,013
Other	**1,815**	1,784
Total consumer	**44,640**	44,623
Commercial and commercial real estate	**10,711**	11,365
Floor plan	**1,522**	1,297
Residential mortgage	**1,241**	1,741
Total loans	**58,114**	59,026
Goodwill and other intangible assets	**5,760**	5,904
Other assets	**2,336**	3,248
Total assets	**$ 66,210**	$ 68,178
Deposits		
Noninterest-bearing demand	**$ 18,272**	$ 17,009
Interest-bearing demand	**21,397**	19,597
Money market	**40,575**	39,992
Total transaction deposits	**80,244**	76,598
Savings	**7,856**	6,780
Certificates of deposit	**34,708**	43,955
Total deposits	**122,808**	127,333
Other liabilities	**955**	1,654
Capital	**8,147**	8,424
Total liabilities and equity	**$ 131,910**	$ 137,411
Performance Ratios		
Return on average capital	**1%**	2%
Return on average assets	**.08**	.31
Noninterest income to total revenue	**35**	36
Efficiency	**80**	72
Other Information (a)		
Credit-related statistics:		
Commercial nonperforming assets	**$ 301**	$ 297
Consumer nonperforming assets	**403**	336
Total nonperforming assets (b)	**$ 704**	$ 633
Impaired loans (c)	**$ 826**	$ 974
Commercial lending net charge-offs	**$ 132**	$ 196

Credit card lending net charge-offs	**122**	185
Consumer lending (excluding credit card) net charge-offs	**226**	217
Total net charge-offs	**$ 480**	$ 598
Commercial lending annualized net charge-off ratio	**2.18%**	3.12%
Credit card lending annualized net charge-off ratio	**6.64%**	9.30%
Consumer lending (excluding credit card) annualized net charge-off ratio	**1.08%**	1.03%
Total annualized net charge-off ratio	**1.67%**	2.04%
Other statistics:		
ATMs	**6,707**	6,539
Branches (d)	**2,459**	2,458

At June 30 Dollars in millions, except as noted	**2011**	2010
OTHER INFORMATION (CONTINUED) (a)		
Home equity portfolio credit statistics: (e)		
% of first lien positions (f)	**37%**	35%
Weighted average loan-to-value ratios (f)	**73%**	73%
Weighted average FICO scores (g)	**743**	727
Annualized net charge-off ratio	**1.16%**	.86%
Loans 30 59 days past due	**.48%**	.45%
Loans 60 89 days past due	**.30%**	.29%
Loans 90 days past due	**1.02%**	.91%
Customer-related statistics: (in thousands)		
Retail Banking checking relationships	**5,627**	5,389
Retail online banking active customers	**3,354**	2,774
Retail online bill payment active customers	**1,045**	870
Brokerage statistics:		
Financial consultants (h)	**712**	711
Full service brokerage offices	**37**	41
Brokerage account assets (billions)	**$ 35**	$ 33

(a) Presented as of June 30 except for net charge-offs and annualized net charge-off ratios, which are for the six months ended.
(b) Includes nonperforming loans of $679 million at June 30, 2011 and $612 million at June 30, 2010.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes certain satellite branches that provide limited products and/or services.
(e) Home equity lien position, loan to value, FICO and delinquency statistics are based on borrower contractual amounts and include purchased impaired loans.
(f) Includes loans from acquired portfolios for which lien position and loan-to-value information was limited. Additionally, excludes brokered home equity loans.
(g) Represents the most recent FICO scores we have on file.
(h) Financial consultants provide services in full service brokerage offices and traditional bank branches.

Retail Banking earned $26 million in the first six months of 2011 compared with earnings of $104 million for the same period a year ago. Earnings declined from the prior year as lower revenues from the impact of Regulation E rules related to overdraft fees and a low interest rate environment were partially offset by a lower provision for credit losses. Retail Banking continued to maintain its focus on growing customers and deposits, improving customer and employee satisfaction, investing in the business for future growth, and disciplined expense management during this period of market and economic uncertainty.

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

- The planned acquisition of RBC Bank (USA) in March 2012 is expected to add 424 banking locations and expand PNC s footprint to 19 states and over 2,800 branches.
- On July 26, 2011, PNC signed a definitive agreement to acquire 27 branches and related deposits in metropolitan Atlanta, Georgia from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc.
- Retail Banking added approximately $280 million in deposits, 32,000 checking relationships, 19 branches and 27 ATMs in the June 2011 acquisition from BankAtlantic in the Tampa, Florida area.
- Retail Banking launched new checking account and credit card products during the first quarter. These new products are designed to provide more choices for customers.
- Net new checking relationships grew 130,000 in the first half of 2011 exclusive of the 32,000 added with

- the BankAtlantic acquisition, strong results reflecting gains in all of our markets. We are seeing strong customer retention in the overall network.
- Success in implementing Retail Banking s deposit strategy resulted in growth in average demand deposits of $3.1 billion, or 8%, over the prior year.
- Our investment in online banking capabilities continues to pay off. Excluding the impact of the BankAtlantic branches, active online bill payment and active online banking customers grew by 7% and 9%, respectively, during the first half of 2011; and both have grown approximately 20% since June 30, 2010.
- PNC s expansive branch footprint covers nearly one-third of the U.S. population in 15 states and Washington, DC with a network of 2,459 branches and 6,707 ATMs at June 30, 2011. In the first six months of 2011, we opened 11 traditional and 3 in-store branches and consolidated 44 branches.

Total revenue for the first half of 2011 was $2.5 billion compared with $2.7 billion for the same period of 2010. Net interest income of $1.6 billion declined $120 million compared with the first half of 2010. The decrease over the prior period resulted from lower interest credits assigned to deposits, reflective of the rate environment, and lower average loan balances while benefiting from higher demand deposit balances.

Noninterest income declined $110 million over the first six months of 2010. The decline was driven by lower overdraft fees resulting from the impact of Regulation E rules partially offset by higher volumes of customer-initiated transactions including debit and credit cards and merchant services.

For 2011, Retail Banking revenue is likely to decline compared with 2010 from the impact of the rules set forth in Regulation E related to overdraft fees and the Dodd-Frank limits related to interchange rates on debit card transactions. Regulation E, which became effective July 1, 2010, is expected to have an incremental negative impact to 2011 revenues of approximately $200 million based on expected 2011 transaction volumes.

The Dodd-Frank limits related to interchange rates on debit cards will be effective October 1, 2011 and are expected to have a negative incremental impact of approximately $75 million in 2011 and an additional incremental reduction in future periods annual revenue of approximately $175 million based on expected 2011 transaction volumes.

For 2011, the incremental decline compared to 2010 from the impact of the Credit CARD Act was not material. These estimates do not include any additional financial impact to revenue of other or additional regulatory requirements. There could be other aspects of regulatory reform that further impact

these or other areas of our business as regulatory agencies, including the new Bureau of Consumer Financial Protection (CFPB), issue proposed and final regulations pursuant to Dodd-Frank and other legislation. See additional information regarding legislative and regulatory developments in the Executive Summary section of this Financial Review and in Item 1A Risk Factors in Part II of this Report.

The provision for credit losses was $456 million through June 30, 2011 compared with $619 million over the same period in 2010. Net charge-offs were $480 million for the first half of 2011 compared with $598 million in the same period last year. Improvements in credit quality are evident in the credit card and small business portfolios. Additionally, the home equity portfolio has shown recent signs of improvement during the second quarter of 2011. The level of provisioning will be dependent on general economic conditions, loan growth, utilization of credit commitments and asset quality.

Noninterest expense for the first half of the year increased $53 million from the same period last year. The increase resulted from higher new product marketing expenses and investments in the business partially offset by lower FDIC expenses resulting from an FDIC required methodology change.

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

In the first half of 2011, average total deposits of $122.8 billion decreased $4.5 billion, or 4%, compared with the first half of 2010.

- Average demand deposits increased $3.1 billion, or 8%, over the first six months of 2010. The increase was primarily driven by customer growth and customer preferences for liquidity.
- Average money market deposits increased $583 million, or 1%, from the first six months of 2010. The increase was primarily due to core money market growth as customers generally prefer more liquid deposits in a low rate environment.

Average savings deposits increased $1.1 billion, or 16%, over the first six months of 2010. The increase is attributable to net customer growth and new product offerings.
In the first half of 2011, average consumer certificates of deposit decreased $9.2 billion or 21% from the same period last year. This decline is expected to continue in 2011, although at a slower pace, due to the continued run-off of higher rate certificates of deposit.

Table of Contents

Currently, our primary focus is on a relationship-based lending strategy that targets specific customer sectors (mass consumers, homeowners, students, small businesses and auto dealerships). In the first six months of 2011, average total loans were $58.1 billion, a decrease of $912 million, or 2%, over the same period last year.

- Average education loans grew $789 million, or 10%, compared with the first half of 2010, primarily due to portfolio purchases.
- Average indirect auto loans increased $629 million, or 32%, over the first six months of 2010. The increase was due to the expansion of our indirect sales force and product introduction to acquired markets, as well as overall increases in auto sales.
- The indirect other portfolio is primarily a run-off portfolio comprised of marine, RV, and other indirect loan products.
- Average auto dealer floor plan loans grew $225 million, or 17%, compared with the first half of 2010, primarily resulting from higher line utilization as dealers maintained larger inventory levels due to product availability and improved sales prospects.
- Average credit card balances decreased $307 million, or 8%, over the first six months of 2010. The decrease was primarily the result of fewer active accounts generating balances coupled with increased paydowns on existing accounts.
- Average commercial and commercial real estate loans declined $654 million, or 6%, compared with the first half of 2010. The decline was primarily due to loan demand being outpaced by refinancings, paydowns, and charge-offs.
- Average home equity loans declined $681 million, or 3% compared with the first six months of 2010. Consumer loan demand remained soft in the current economic climate. The decline is driven by loan demand being outpaced by paydowns, refinancings, and charge-offs. Retail Banking s home equity loan portfolio is relationship based, with 96% of the portfolio attributable to borrowers in our primary geographic footprint. The nonperforming assets and charge-offs that we have experienced are within our expectations given current market conditions.

Table of Contents

CORPORATE & INSTITUTIONAL BANKING

(Unaudited)

Six months ended June 30

Dollars in millions, except as noted	2011	2010
INCOME STATEMENT		
Net interest income	**$ 1,647**	$ 1,824
Noninterest income		
Corporate service fees	**384**	479
Other	**247**	188
Noninterest income	**631**	667
Total revenue	**2,278**	2,491
Provision for credit losses	**1**	333
Noninterest expense	**888**	868
Pretax earnings	**1,389**	1,290
Income taxes	**509**	474
Earnings	**$ 880**	$ 816
AVERAGE BALANCE SHEET		
Loans		
Commercial	**$ 33,939**	$ 33,541
Commercial real estate	**14,091**	17,483
Commercial real estate related	**3,478**	3,014
Asset-based lending	**7,667**	6,003
Equipment lease financing	**5,511**	5,292
Total loans	**64,686**	65,333
Goodwill and other intangible assets	**3,470**	3,727
Loans held for sale	**1,285**	1,409
Other assets	**8,561**	7,826
Total assets	**$ 78,002**	$ 78,295
Deposits		
Noninterest-bearing demand	**$ 28,678**	$ 22,997
Money market	**12,388**	12,317
Other	**5,601**	7,231
Total deposits	**46,667**	42,545
Other liabilities	**12,540**	10,833
Capital	**7,893**	8,902
Total liabilities and equity	**$ 67,100**	$ 62,280

Six months ended June 30

Dollars in millions, except as noted	2011	2010
PERFORMANCE RATIOS		
Return on average capital	**22%**	18