PNC FINANCIAL SERVICES GROUP, INC.
Form 10-K
March 01, 2013
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# UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-K

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended December 31, 2012**

**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)**

Registrant s telephone number, including area code **- (412) 762-2000**

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| **Common Stock, par value $5.00** | New York Stock Exchange |
| **Depositary Shares Each Representing 1/4,000 Interest in a Share of 9.875% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series L, par value $1.00** | New York Stock Exchange |
| **Depositary Shares Each Representing a 1/4,000 Interest in a Share of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series P** | New York Stock Exchange |
| **Depositary Shares Each Representing a 1/4,000 Interest in a Share of 5.375% Non-Cumulative Perpetual Preferred Stock, Series Q** | New York Stock Exchange |

**Warrants (expiring December 31, 2018) to purchase Common Stock** New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

**$1.80 Cumulative Convertible Preferred Stock - Series B, par value $1.00**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No __

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No X

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 if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

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 Act). Yes __ No X

The aggregate market value of the registrant s outstanding voting common stock held by nonaffiliates on June 30, 2012, determined using the per share closing price on that date on the New York Stock Exchange of $61.11, was approximately $32.2 billion. There is no non-voting common equity of the registrant outstanding.

Number of shares of registrant s common stock outstanding at February 15, 2013: 528,435,413

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of The PNC Financial Services Group, Inc. to be filed pursuant to Regulation 14A for the 2013 annual meeting of shareholders (Proxy Statement) are incorporated by reference into Part III of this Form 10-K.

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**PART I**

*Forward-Looking Statements: From time to time, The PNC Financial Services Group, Inc. (PNC or the Corporation) has made and may continue to make written or oral forward-looking statements regarding our outlook for earnings, revenues, expenses, capital levels and ratios, liquidity levels, asset levels, asset quality, financial position and other matters regarding or affecting PNC and its future business and operations or the impact of legal, regulatory or supervisory matters on our business operations or performance. This Annual Report on Form 10-K (the Report or Form 10-K) also includes forward-looking statements. With respect to all such forward-looking statements, you should review our Risk Factors discussion in Item 1A, our Risk Management, Critical Accounting Estimates And Judgments, and Cautionary Statement Regarding Forward-Looking Information sections included in Item 7, and Note 23 Legal Proceedings and Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report.*

## ITEM 1 BUSINESS

### BUSINESS OVERVIEW

Headquartered in Pittsburgh, Pennsylvania, we are one of the largest diversified financial services companies in the United States. We have businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking, providing many of our products and services nationally, as well as products and services in our primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, North Carolina, Florida, Kentucky, Washington, D.C., Delaware, Alabama, Virginia, Georgia, Missouri, Wisconsin and South Carolina. We also provide certain products and services internationally. At December 31, 2012, our consolidated total assets, total deposits and total shareholders equity were $305.1 billion, $213.1 billion and $39.0 billion, respectively.

We were incorporated under the laws of the Commonwealth of Pennsylvania in 1983 with the consolidation of Pittsburgh National Corporation and Provident National Corporation. Since 1983, we have diversified our geographical presence, business mix and product capabilities through internal growth, strategic bank and non-bank acquisitions and equity investments, and the formation of various non-banking subsidiaries.

### RBC BANK (USA) ACQUISITION

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

RBC Bank (USA), based in Raleigh, North Carolina, operated more than 400 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The primary reasons for the acquisition of RBC Bank (USA) were to enhance

shareholder value, to improve PNC s competitive position in the financial services industry, and to further expand PNC s existing branch network in the states where it currently operates as well as expanding into new markets.

### SALE OF SMARTSTREET

Effective October 26, 2012, PNC divested certain deposits and assets of the Smartstreet business unit, which was acquired by PNC as part of the RBC Bank (USA) acquisition, to Union Bank, N.A. Smartstreet is a nationwide business focused on homeowner or community association managers and had approximately $1 billion of assets and deposits as of September 30, 2012. The gain on sale was immaterial and we reduced goodwill and core deposit intangibles of $46 million and $13 million, respectively.

### FLAGSTAR BRANCH ACQUISITION

Effective December 9, 2011, PNC acquired 27 branches in the northern metropolitan Atlanta, Georgia area from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc. We assumed approximately $210 million of deposits associated with these branches. No loans were acquired in the transaction.

**BankAtlantic Branch Acquisition**

Effective June 6, 2011, PNC acquired 19 branches in the greater Tampa, Florida area from BankAtlantic, a subsidiary of BankAtlantic Bancorp, Inc. We assumed approximately $324 million of deposits associated with these branches. No loans were acquired in the transaction.

**Review Of Business Segments**

In addition to the following information relating to our lines of business, we incorporate the information under the captions Business Segment Highlights, Product Revenue, and Business Segments Review in Item 7 of this Report here by reference. Also, we include the financial and other information by business in Note 26 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report here by reference.

Assets, revenue and earnings attributable to foreign activities were not material in the periods presented. Business segment results for periods prior to 2012 have been reclassified to reflect current methodologies and current business and management structure and to present those periods on the same basis. Business segment information does not include PNC Global Investment Servicing Inc. (GIS). Results of operations of GIS through June 30, 2010 and the related after-tax gain on its sale in the third quarter of 2010 are reflected in discontinued operations.

***Retail Banking*** provides deposit, lending, brokerage, investment management and cash management services to consumer and small business customers within our primary geographic markets. Our customers are serviced through our branch network, call centers, online banking and mobile channels. The branch network is principally located in our primary geographical markets.

Our core strategy is to acquire and retain customers who maintain their primary checking and transaction relationships with PNC. We also seek revenue growth by deepening our share of our customers financial assets, including savings and liquidity deposits, loans and investable assets, including retirement assets. A key element of our strategy is to expand the use of lower-cost alternative distribution channels while continuing to optimize the traditional branch network. In addition, we have a disciplined process to continually improve the engagement of both our employees and customers, which is a strong indicator of customer growth, retention and relationship expansion.

***Corporate & Institutional Banking*** provides lending, treasury management and capital markets-related products and services to mid-sized corporations, government and not-for-profit entities and selectively to large corporations. Lending products include secured and unsecured loans, letters of credit and equipment leases. Treasury management services include cash and investment management, receivables management, disbursement services, funds transfer services, information reporting and global trade services. Capital markets-related products and services include foreign exchange, derivatives, loan syndications, mergers and acquisitions advisory and related services to middle-market companies, our multi-seller conduit, securities underwriting and securities sales and trading. Corporate & Institutional Banking also provides commercial loan servicing, and real estate advisory and technology solutions for the commercial real estate finance industry. Corporate & Institutional Banking provides products and services generally within our primary geographic markets, with certain products and services offered nationally and internationally.

Corporate & Institutional Banking is focused on becoming a premier provider of financial services in each of the markets it serves. The value proposition to our customers is driven by providing a broad range of competitive and high quality products and services by a team fully committed to delivering the comprehensive resources of PNC to help each client succeed. Corporate & Institutional Banking s primary goals are to achieve market share growth and enhanced returns by means of expansion and retention of customer relationships and prudent risk and expense management.

***Asset Management Group*** includes personal wealth management for high net worth and ultra high net worth clients and institutional asset management. Wealth management products and services include investment and retirement planning, customized investment management, private banking, tailored credit solutions and trust management and administration for individuals and their families. Institutional asset management provides investment management, custody and retirement administration services. Institutional clients include corporations, unions, municipalities, non-profits, foundations and endowments, primarily located in our geographic footprint.

Asset Management Group is focused on being one of the premier bank-held individual and institutional asset managers in each of the markets it serves. The business seeks to deliver high quality banking advice and trust and investment management services to our high net worth, ultra high net worth and institutional client sectors through a broad array of products and services. Asset Management Group s primary goals are to service our clients, grow the business and deliver solid financial performance with prudent risk and expense management.

***Residential Mortgage Banking*** directly originates primarily first lien residential mortgage loans on a nationwide basis with a significant presence within the retail banking footprint, and also originates loans through majority owned affiliates. Mortgage loans represent loans collateralized by one-to-four-family residential real estate. These loans are typically underwritten to government agency and/or third-party standards, and sold, servicing retained, to secondary mortgage conduits of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks and third-party investors, or are securitized and issued under the Government National Mortgage Association (GNMA) program, as described in more detail in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in Item 8 of this Report and included here by reference. The mortgage servicing operation performs all functions related to servicing mortgage loans, primarily those in first lien position, for various investors and for loans owned by PNC. Certain loan applications are brokered by majority owned affiliates to others.

Residential Mortgage Banking is focused on adding value to the PNC franchise by building stronger customer relationships, providing quality investment loans, and delivering acceptable returns consistent with a moderate risk philosophy. Our national distribution capability provides volume that drives economies of scale, risk dispersion, and cost-effective extension of the retail banking footprint for cross-selling opportunities.

***BlackRock*** is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. BlackRock provides diversified investment

management services to institutional clients, intermediary and individual investors through various investment vehicles. Investment management services primarily consist of the management of equity, fixed income, multi-asset class, alternative investment and cash management products. BlackRock offers its investment products in a variety of vehicles, including open-end and closed-end mutual funds, *iShares*® exchange-traded funds (ETFs), collective investment trusts and separate accounts. In addition, BlackRock provides market risk management, financial markets advisory and enterprise investment system services to a broad base of clients. Financial markets advisory services include valuation services relating to illiquid securities, dispositions and workout assignments (including long-term portfolio liquidation assignments), risk management and strategic planning and execution.

We hold an equity investment in BlackRock, which is a key component of our diversified revenue strategy. BlackRock is a publicly traded company, and additional information regarding its business is available in its filings with the Securities and Exchange Commission (SEC).

***Non-Strategic Assets Portfolio*** (formerly, Distressed Assets Portfolio) includes a consumer portfolio of mainly residential mortgage and brokered home equity loans and a small commercial loan and lease portfolio. We obtained a significant portion of these non-strategic assets through acquisitions of other companies.

## Subsidiaries

Our corporate legal structure at December 31, 2012 consisted of one domestic subsidiary bank, including its subsidiaries, and approximately 141 active non-bank subsidiaries. Our bank subsidiary is PNC Bank, National Association (PNC Bank, N.A.), headquartered in Pittsburgh, Pennsylvania. For additional information on our subsidiaries, see Exhibit 21 to this Report.

## Statistical Disclosure By Bank Holding Companies

The following statistical information is included on the indicated pages of this Report and is incorporated herein by reference:

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| Average Consolidated Balance Sheet And Net Interest Analysis | 237 238 |
| Analysis Of Year-To-Year Changes In Net Interest Income | 239 |
| Book Values Of Securities | 46 49 and 165 171 |
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| Nonaccrual, Past Due And Restructured Loans And Other Nonperforming Assets | 85 95, 130 131, 146 158 and 240 241 |
| Potential Problem Loans And Loans Held For Sale | 49 50 and 86 97 |
| Summary Of Loan Loss Experience | 95 97, 146 158, 162 164 and 241 |
| Assignment Of Allowance For Loan And Lease Losses | 95 97 and 242 |
| Average Amount And Average Rate Paid On Deposits | 237 238 |
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| Selected Consolidated Financial Data | 29 30 |

Short-term borrowings not included as average balances during 2012, 2011, and 2010 were less than 30% of total shareholders equity at the end of each period.

## European Exposure

For information regarding our exposure to European entities at December 31, 2012 and December 31, 2011, see the European Exposure section included in Item 7 of this Report.

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## Supervision and Regulation

### Overview

PNC is a bank holding company registered under the Bank Holding Company Act of 1956 as amended (BHC Act) and a financial holding company under the Gramm-Leach-Bliley Act (GLB Act).

We are subject to numerous governmental regulations, some of which are highlighted below. See Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, for additional information regarding our regulatory matters. Applicable laws and regulations restrict our permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, investment management and other customers, among other things. They also restrict our ability to repurchase stock or pay dividends, or to receive dividends from our bank subsidiary, and impose capital adequacy requirements. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions.

In addition, we are subject to comprehensive examination and supervision by, among other regulatory bodies, the Board of Governors of the Federal Reserve System (Federal Reserve) and the Office of the Comptroller of the Currency (OCC), which result in examination reports and ratings (which are not publicly available) that can impact the conduct and growth of our businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity and various other factors. The results of examination activity by any of our federal bank regulators potentially can result in the imposition of significant limitations on our activities and growth. These regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the relevant agency determines, among other things, that such operations are conducted in an unsafe or unsound manner, fail to comply with applicable law or are otherwise inconsistent with the regulations or supervisory policies of the agency. This supervisory framework could materially impact the conduct, growth and profitability of our operations.

The Consumer Financial Protection Bureau (CFPB), a new agency established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), is responsible for examining PNC Bank, N.A. and its affiliates (including PNC) for compliance with most consumer financial protection laws and for enforcing such laws with respect to PNC Bank, N.A. and its affiliates. This authority previously was exercised by the OCC and the Federal Reserve. The CFPB also now has authority for prescribing rules governing the provision of consumer financial products and services such as credit cards, student and other loans, deposits and residential mortgages. The agency has issued final regulations that impose broad new

requirements relating to our mortgage origination activities and the servicing activities we perform for residential mortgage loans. These regulations include a requirement that residential mortgage lenders, like PNC Bank, make a good faith and reasonable determination at or before the time of consummation of a residential mortgage loan that the prospective borrower has a reasonable ability to repay that loan. The new regulations also include broad new requirements applicable to servicers of residential mortgage loans, like PNC, which include provisions requiring policies and procedures relating to how servicers respond to and manage loans of borrowers who are in default. Most of these regulations are scheduled to take effect in January of 2014. In addition, the CFPB is now considering additional regulations that will modify the application and closing disclosures that must be provided to borrowers in connection with residential mortgage loans.

As a result of Dodd-Frank, after July 21, 2011, subsidiaries of PNC Bank, N.A. are subject to state law and regulation to the same extent as if they were not subsidiaries of a national bank. Additionally, based on Dodd-Frank, state authorities may assert that certain state consumer financial laws that provide different requirements or limitations than Federal law may apply to national banks, including PNC Bank, N.A. Such state laws may be preempted if they meet certain standards set forth in Dodd-Frank or other applicable law. We expect to experience an increase in regulation of our Retail Banking, Asset Management Group and Residential Mortgage Banking businesses and additional compliance obligations, revenue and cost impacts.

We also are subject to regulation by the SEC by virtue of our status as a public company and by the SEC and the Commodity Futures Trading Commission (CFTC) due to the nature of some of our businesses. Our banking and securities businesses with operations outside the United States, including those conducted by BlackRock, are also subject to regulation by appropriate authorities in the foreign jurisdictions in which they do business.

As a regulated financial services firm, our relationships and good standing with regulators are of fundamental importance to the operation and growth of our businesses. The Federal Reserve, OCC, CFPB, SEC, CFTC and other domestic and foreign regulators have broad enforcement powers, and certain of the regulators have the power to approve, deny, or refuse to act upon our applications or notices to conduct new activities, acquire or divest businesses or assets and deposits, or reconfigure existing operations.

We anticipate new legislative and regulatory initiatives over the next several years, focused specifically on banking and other financial services in which we are engaged. These initiatives would be in addition to the actions already taken by Congress and the regulators, including the Credit Card Accountability, Responsibility, and Disclosure Act of 2009

(Credit CARD Act), the Secure and Fair Enforcement for Mortgage Licensing Act (the SAFE Act), and Dodd-Frank, as well as changes to the regulations implementing the Real Estate Settlement Procedures Act, the Federal Truth in Lending Act, and the Electronic Fund Transfer Act, including the new rules set forth in Regulation E related to overdraft charges.

Dodd-Frank, which was signed into law on July 21, 2010, comprehensively reforms the regulation of financial institutions, products and services. Dodd-Frank requires various federal regulatory agencies to implement numerous new rules and regulations. Because the federal agencies are granted broad discretion in drafting these rules and regulations, and many implementing rules either have not yet been issued or have only been issued in proposed form, many of the details and much of the impact of Dodd-Frank may not be known for many months or years. Among other things, Dodd-Frank provides for new capital standards that eliminate the treatment of trust preferred securities as Tier 1 regulatory capital; requires that deposit insurance assessments be calculated based on an insured depository institution s assets rather than its insured deposits; raises the minimum Designated Reserve Ratio (the balance in the Deposit Insurance Fund divided by estimated insured deposits) to 1.35%; establishes a comprehensive regulatory regime for the derivatives activities of financial institutions; limits proprietary trading and owning or sponsoring hedge funds and private equity funds by banking entities; requires the Federal Reserve to establish a variety of enhanced prudential standards for bank holding companies with $50 billion or more in total assets; places limitations on the interchange fees charged for debit card transactions; and establishes new minimum mortgage underwriting standards for residential mortgages.

Dodd-Frank established the 10-member inter-agency Financial Stability Oversight Council (FSOC), which is charged with identifying systemic risks and strengthening the regulation of financial holding companies and certain non-bank companies deemed to be systemically important and could, in extraordinary cases and in conjunction with the Federal Reserve, break up financial firms that are deemed to present a grave threat to the financial stability of the United States. Dodd-Frank also requires the Federal Reserve to establish prudential standards for bank holding companies with total consolidated assets equal to or greater than $50 billion that are more stringent than the standards and requirements applicable to bank holding companies with assets below this threshold, and that increase in stringency for bank holding companies that present heightened risk to the financial system. Additional information concerning these enhanced prudential standards is provided in Item 1A Risk Factors of this Report. The FSOC may make recommendations to the Federal Reserve concerning the establishment and refinement of these prudential standards and reporting and disclosure requirements.

Legislative and regulatory developments to date, as well as those that come in the future, have had and are likely to continue to have an impact on the conduct of our business. The more detailed description of the significant regulations to which we are subject included in this Report is based on the current regulatory environment and is subject to potentially material change. See also the additional information included in Item 1A of this Report under the risk factors discussing the impact of financial regulatory reform initiatives, including Dodd-Frank and regulations promulgated to implement it, on the regulatory environment for PNC and the financial services industry.

Among other areas that have been receiving a high level of regulatory focus over the last several years are compliance with anti-money laundering laws and the protection of confidential customer information. In addition, at least in part driven by the current economic and financial situation, there is an increased focus on fair lending and other issues related to the mortgage industry. Ongoing mortgage-related regulatory reforms include measures aimed at reducing mortgage foreclosures.

Additional legislation, changes in rules promulgated by the Federal Reserve, the OCC, the Federal Deposit Insurance Corporation (FDIC), the CFPB, the SEC, the CFTC, other federal and state regulatory authorities and self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules, may directly affect the method of operation and profitability of our businesses. The profitability of our businesses could also be affected by rules and regulations that impact the business and financial communities in general, including changes to the laws governing taxation, antitrust regulation and electronic commerce.

There are numerous rules governing the regulation of financial services institutions and their holding companies. Accordingly, the following discussion is general in nature and does not purport to be complete or to describe all of the laws and regulations that apply to us. To a substantial extent, the purpose of the regulation and supervision of financial services institutions and their holding companies is not to protect our shareholders and our non-customer creditors, but rather to protect our customers (including depositors) and the financial markets in general.

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BANKING REGULATION AND SUPERVISION

*Capital Regulations*. PNC and PNC Bank, N.A. are subject to the regulatory capital requirements established by the Federal Reserve and the OCC, respectively. In addition, PNC is subject to the Federal Reserve s capital plan rule and annual capital stress testing and Comprehensive Capital Analysis and Review (CCAR) process. As part of this annual capital planning process, the Federal Reserve undertakes a supervisory assessment of the capital adequacy of bank holding companies (BHCs), including PNC, that have $50 billion or more in total consolidated assets. This capital adequacy assessment is based on a review of a comprehensive capital plan submitted by each participating BHC to the Federal Reserve that describes the company s planned capital actions during the nine quarter review period, as well as the results of stress tests conducted by both the company and the Federal Reserve under different hypothetical macro-economic scenarios, including a severely stressed scenario provided by the Federal Reserve (supervisory severely adverse scenario). In evaluating a BHC s capital plan, the Federal Reserve considers a number of factors, including the company s risk profile, the strength of the company s internal capital assessment process, and whether the company s projected pro forma Basel I Tier 1 common capital ratio under the hypothetical supervisory severely adverse scenario would remain above 5 percent throughout the nine quarter planning horizon even if the company continued with the capital distributions proposed under a baseline scenario. In addition, the Federal Reserve evaluates a company s projected path towards compliance with the proposed Basel III regulatory capital framework. After completing its review, the Federal Reserve may object or not object to the firm s proposed capital actions, such as plans to pay or increase common stock dividends, reinstate or increase common stock repurchase programs, or redeem preferred stock or other regulatory capital instruments.

In connection with the 2013 CCAR, PNC filed its capital plan and stress testing results using financial data as of September 30, 2012 with the Federal Reserve on January 7, 2013. PNC expects to receive the Federal Reserve s response (either a non-objection or objection) to the capital plan submitted as part of the 2013 CCAR by March 15, 2013. The Federal Reserve also has announced that it intends to publish on this date the results of its assessments, including the Federal Reserve s estimates of the Basel I capital ratios for each of the largest 19 BHCs participating in the 2013 reviews, including PNC, during the review period under the Federal Reserve s severely adverse macro-economic scenario and applying the firm s proposed base case capital distributions. Prior to this release, the Federal Reserve will release on March 7, 2013 its estimate of the Basel I capital ratios, as well as its estimate of certain revenue and loss information, for such BHCs under the same supervisory severely adverse scenario but applying the common assumptions concerning capital distributions by firms established by the Federal Reserve for the stress tests required by Dodd-Frank (Dodd-

Frank capital action assumptions). PNC also is required to publicly disclose, in March 2013, its estimates of certain capital, revenue and loss information under the same hypothetical supervisory severely adverse macro-economic scenario and applying the Dodd-Frank capital action assumptions. Federal Reserve regulations also require that PNC and other large bank holding companies conduct a separate mid-year stress test using financial data as of March 31$^{st}$ and three company-derived macro-economic scenarios (base, adverse and severely adverse) and publish a summary of the results under the severely adverse scenario in September.

The Federal banking agencies have requested comment on proposed rules to implement the Basel III capital framework in the United States. These rules have not yet been finalized and remain subject to change. For additional information on these proposed rules, see Recent Market and Industry Developments in Item 7 and Item 1A Risk Factors in this Report. PNC s estimated pro forma Basel III Tier 1 common ratio was 7.5% at December 31, 2012, excluding the benefits of the transitional phase-in periods provided by Basel III. This estimate is based on management s understanding of the Basel III proposed rules issued by the U.S. banking agencies in June 2012 and on available data and information as of December 31, 2012. It also reflects our estimates of PNC s risk-weighted assets under Basel II (with the modifications proposed in June 2012) and application of the Basel II.5 market risk rules that became effective on January 1, 2013. Both our Basel II and Basel III estimates are point in time estimates and are subject to further regulatory guidance and clarity, as well as the development, refinement, validation and regulatory approval of internal models.

*Parent Company Liquidity and Dividends*. The principal source of our liquidity at the parent company level is dividends from PNC Bank, N.A. PNC Bank, N.A. is subject to various federal restrictions on its ability to pay dividends to PNC Bancorp, Inc., its direct parent. PNC Bank, N.A. is also subject to federal laws limiting extensions of credit to its parent holding company and non-bank affiliates as discussed in Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report. Further information on bank level liquidity and parent company liquidity and on certain contractual restrictions is also available in the Liquidity Risk Management portion of the Risk Management section and the Trust Preferred Securities portion of the Off-Balance Sheet Arrangements And Variable Interest Entities section of Item 7 of this Report, and in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Federal Reserve rules provide that a bank holding company is expected to serve as a source of financial strength to its subsidiary banks and to commit resources to support such banks if necessary. Consistent with the source of strength

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policy for subsidiary banks, the Federal Reserve has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the corporation s capital needs, asset quality and overall financial condition. Further, in providing guidance to the large BHCs participating in the 2013 CCAR, discussed above, the Federal Reserve stated that it expects capital plans submitted in 2013 will reflect conservative dividend payout ratios and net share repurchase programs, and that requests that imply common dividend payout ratios above 30% of projected after-tax net income available to common shareholders will receive particularly close scrutiny. The Federal Reserve also has stated that it expects BHCs that meet the minimum capital ratio requirements under Basel III during the transition periods provided by Basel III, but that do not meet the fully-phased in Basel III minimum plus capital conservation buffer ratio of 7 percent Tier 1 common (plus any applicable capital surcharge for globally systemically important banks), to maintain prudent earnings retention policies with a view to meeting this standard in accordance with the phase-in schedule included in the agencies proposed Basel III rules.

*Additional Powers Under the GLB Act*. The Gramm Leach Bliley Act (GLB Act) permits a qualifying bank holding company to become a financial holding company and thereby engage in, or affiliate with financial companies engaging in, a broader range of activities than would otherwise be permitted for a bank holding company. Permitted affiliates include securities underwriters and dealers, insurance companies and companies engaged in other activities that are determined by the Federal Reserve, in consultation with the Secretary of the Treasury, to be financial in nature or incidental thereto or are determined by the Federal Reserve unilaterally to be complementary to financial activities. We became a financial holding company as of March 13, 2000. In order to be and remain a financial holding company, a bank holding company and its subsidiary depository institutions must be well capitalized and well managed. In addition, a financial holding company generally may not engage in a new financial activity if any of its insured depository institutions received a less than Satisfactory rating at its most recent evaluation under the Community Reinvestment Act (CRA).

The Federal Reserve is the umbrella regulator of a financial holding company, with its operating entities, such as its subsidiary broker-dealers, investment advisers, insurance companies and banks, as well as investment companies advised by investment adviser subsidiaries of the financial holding company, also being subject to the jurisdiction of various federal and state functional regulators with normal regulatory responsibility for companies in their lines of business.

As subsidiaries of a financial holding company under the GLB Act, our non-bank subsidiaries are generally allowed to conduct new financial activities, and PNC is generally permitted to acquire non-bank financial companies that have less than $10 billion in assets, with after-the-fact notice to the Federal Reserve. In addition, our non-bank subsidiaries (and any financial subsidiaries of subsidiary banks) are permitted to engage in certain activities that were not permitted for bank holding companies and banks prior to enactment of the GLB Act, and to engage on less restrictive terms in certain activities that were previously permitted. Among other activities, we currently rely on our status as a financial holding company to conduct merchant banking activities and securities underwriting and dealing activities.

In addition, the GLB Act permits national banks, such as PNC Bank, N.A., to engage in expanded activities through the formation of a financial subsidiary. PNC Bank, N.A. has filed a financial subsidiary certification with the OCC and currently engages in insurance agency activities through financial subsidiaries. PNC Bank, N.A. may also generally engage through a financial subsidiary in any activity that is determined to be financial in nature or incidental to a financial activity by the Secretary of the Treasury, in consultation with the Federal Reserve. Certain activities, however, are impermissible for a financial subsidiary of a national bank, including certain insurance underwriting activities, insurance company investment activities, real estate investment or development, and merchant banking.

*Other Federal Reserve and OCC Regulation and Supervision*. The federal banking agencies possess broad powers to take corrective action as deemed appropriate for an insured depository institution and its holding company. In some cases, the extent of these powers depends upon whether the institution in question is considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. Generally, the smaller an institution s capital base in relation to its risk-weighted or total assets, the greater the scope and severity of the agencies powers, ultimately permitting the agencies to appoint a receiver for the institution. Business activities may also be influenced by an institution s capital classification. For instance, only a well capitalized depository institution may accept brokered deposits without prior regulatory approval and an adequately capitalized depository institution may accept brokered deposits only with prior regulatory approval. At December 31, 2012, PNC Bank, N.A. exceeded the required ratios for classification as well capitalized. For additional discussion of capital adequacy requirements, we refer you to the Funding and Capital Sources portion of the Consolidated Balance Sheet Review section of Item 7 of this Report and to Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Laws and regulations limit the scope of our permitted activities and investments. National banks (such as PNC Bank, N.A.) and their operating subsidiaries generally may engage only in any activities that are determined by the OCC to be part of or incidental to the business of banking, although a financial subsidiary may engage in a broader range of activities as described above.

Moreover, examination ratings of 3 or lower, lower capital ratios than peer group institutions, regulatory concerns regarding management, controls, assets, operations or other factors, can all potentially result in practical limitations on the ability of a bank or bank holding company to engage in new activities, grow, acquire new businesses, repurchase its stock or pay dividends, or to continue to conduct existing activities.

The Federal Reserve s prior approval is required whenever we propose to acquire all or substantially all of the assets of any bank or thrift, to acquire direct or indirect ownership or control of more than 5% of any class of voting shares of any bank or thrift, or to merge or consolidate with any other bank holding company or thrift holding company. The BHC Act enumerates the factors the Federal Reserve must consider when reviewing the merger of bank holding companies or the acquisition of banks. These factors include the competitive effects of the proposal in the relevant geographic markets; the financial and managerial resources and future prospects of the companies and banks involved in the transaction; the effect of the transaction on financial stability of the United States; the organizations compliance with anti-money laundering laws and regulations; the convenience and needs of the communities to be served; and the records of performance under the CRA of the insured depository institutions involved in the transaction. In cases involving interstate bank acquisitions, the Federal Reserve also must consider the concentration of deposits nationwide and in certain individual states. OCC prior approval is required for PNC Bank, N.A. to acquire another insured bank or thrift by merger. In deciding whether to approve such a transaction, the OCC is required to consider factors similar to those that must be considered by the Federal Reserve. Our ability to grow through acquisitions could be limited by these approval requirements.

At December 31, 2012, PNC Bank, N.A. was rated Outstanding with respect to CRA.

Because of PNC s ownership interest in BlackRock, BlackRock is subject to the supervision and regulation of the Federal Reserve.

*FDIC Insurance*. PNC Bank, N.A. is insured by the FDIC and subject to premium assessments. Regulatory matters could increase the cost of FDIC deposit insurance premiums to an insured bank as FDIC deposit insurance premiums are risk based. Therefore, higher fee percentages would be charged to banks that have lower capital ratios or higher risk profiles. These risk profiles take into account weaknesses that are found by the primary banking regulator through its examination and supervision of the bank. A negative

evaluation by the FDIC or a bank s primary federal banking regulator could increase the costs to a bank and result in an aggregate cost of deposit funds higher than that of competing banks in a lower risk category. Under Dodd-Frank, in April 2011, the deposit insurance base calculation shifted from deposits to average assets less Tier 1 capital. This methodology change did not materially impact the premiums due to the FDIC for PNC.

*CFPB Regulation and Supervision*. Dodd-Frank gives the CFPB authority to examine PNC and PNC Bank, N.A. for compliance with a broad range of federal consumer financial laws and regulations, including the laws and regulations that relate to credit card, deposit, mortgage and other consumer financial products and services we offer. In addition, Dodd-Frank gives the CFPB broad authority to take corrective action against PNC Bank, N.A. and PNC as it deems appropriate. The CFPB also has powers that it was assigned in Dodd-Frank to issue regulations and take enforcement actions to prevent and remedy acts and practices relating to consumer financial products and services that it deems to be unfair, deceptive or abusive. The agency also has authority to impose new disclosure requirements for any consumer financial product or service. These authorities are in addition to the authority the CFPB assumed on July 21, 2011 under existing consumer financial law governing the provision of consumer financial products and services.

SECURITIES AND DERIVATIVES REGULATION

Our registered broker-dealer and investment adviser subsidiaries are subject to rules and regulations promulgated by the SEC.

Several of our subsidiaries are registered with the SEC as investment advisers and may provide investment advisory services to clients, other PNC affiliates or related entities, including registered investment companies. Certain of these advisers are registered as investment advisers to private equity funds under rules adopted under Dodd-Frank.

Broker-dealer subsidiaries are subject to the requirements of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder. The Financial Industry Regulatory Authority (FINRA) is the primary self-regulatory organization (SRO) for our registered broker-dealer subsidiaries. Investment adviser subsidiaries are subject to the requirements of the Investment Advisers Act of 1940, as amended, and the regulations thereunder. An investment adviser to a registered investment company is also subject to the requirements of the Investment Company Act of 1940, as amended, and the regulations thereunder. Our broker-dealer and investment adviser subsidiaries also are subject to additional regulation by states or local jurisdictions.

Over the past several years, the SEC and other regulatory agencies have increased their focus on the mutual fund and broker-dealer industries. Congress and the SEC have adopted

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regulatory reforms and are considering additional reforms that have increased, and are likely to continue to increase, the extent of regulation of the mutual fund and broker-dealer industries and impose additional compliance obligations and costs on our subsidiaries involved with those industries. Under provisions of the federal securities laws applicable to broker-dealers, investment advisers and registered investment companies and their service providers, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in fines, restitution, a limitation on permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations can also affect a public company in its timing and ability to expeditiously issue new securities into the capital markets. In addition, certain changes in the activities of a broker-dealer require approval from FINRA, and FINRA takes into account a variety of considerations in acting upon applications for such approval, including internal controls, capital levels, management experience and quality, prior enforcement and disciplinary history and supervisory concerns.

Title VII of Dodd-Frank imposes new comprehensive and significant regulations on the activities of financial institutions that are active in the U.S. over-the-counter ( OTC ) derivatives and foreign exchange markets. Title VII was enacted to (i) address systemic risk issues, (ii) bring greater transparency to the derivatives markets, (iii) provide enhanced disclosures and protection to customers, and (iv) promote market integrity. Among other things, Title VII: (i) requires the registration of both swap dealers and major swap participants with one or both of the Commodity Futures Trading Commission ( CFTC ) (in the case of non security-based swaps) and the SEC (in the case of security-based swaps); (ii) requires that most standardized swaps be centrally cleared through a regulated clearing house and traded on a centralized exchange or swap execution facility; (iii) subjects swap dealers and major swap participants to capital and margin requirements in excess of historical practice; (iv) subjects swap dealers and major swap participants to comprehensive new recordkeeping and real-time public reporting requirements; (v) subjects swap dealers and major swap participants to new business conduct requirements (including the providing of daily marks to counterparties and disclosing to counterparties (pre-execution) the material risks associated with their swap and of material incentives and any conflicts of interest associated with their swap); and (vi) imposes special duties on swap dealers and major swap participants when transacting a swap with a special entity (e.g., governmental agency (federal, state or local) or political subdivision thereof, pension plan or endowment).

Based on the definition of a swap dealer under Title VII, PNC Bank, N.A. registered with the CFTC as a swap dealer on January 31, 2013. As a result thereof, PNC Bank, N.A. is subject to all of the above-described regulations and

requirements imposed on registered swap dealers, and the CFTC will have a meaningful supervisory role with respect to PNC Bank, N.A. s derivatives and foreign exchange businesses. Because of the limited volume of our security-based swap activities, we have not registered with the SEC as a security-based swap dealer. The above described requirements will collectively impose implementation and ongoing compliance burdens on PNC Bank, N.A. and will introduce additional legal risks (including as a result of newly applicable antifraud and anti-manipulation provisions and private rights of action).

In addition, an investment adviser to private funds or to registered investment companies may be required to register with the CFTC as a commodity pool operator. Registration could impose significant new regulatory compliance burdens. Presently, we expect our subsidiaries that serve as investment advisers to such entities to be eligible for exemptions from registration as a commodity pool operator.

BlackRock has subsidiaries in securities and related businesses subject to SEC, other governmental agencies, state, local and FINRA regulation, as described above, and a federally chartered nondepository trust company subsidiary subject to supervision and regulation by the OCC. For additional information about the regulation of BlackRock by these agencies and otherwise, we refer you to the discussion under the Regulation section of Item 1 Business in BlackRock s most recent Annual Report on Form 10-K, which may be obtained electronically at the SEC s website at www.sec.gov.

### Competition

We are subject to intense competition from various financial institutions and from non-bank entities that can offer a number of similar products and services without being subject to bank regulatory supervision and restrictions.

In making loans, PNC Bank, N.A. competes with traditional banking institutions as well as consumer finance companies, leasing companies and other non-bank lenders, and institutional investors including collateralized loan obligation (CLO) managers, hedge funds, mutual fund complexes and private equity firms. Loan pricing, structure and credit standards are extremely important in the current environment as we seek to achieve appropriate risk-adjusted returns. Traditional deposit-taking activities are also subject to pricing pressures and to customer migration as a result of intense competition for consumer investment dollars.

PNC Bank, N.A. competes for deposits with:

- Other commercial banks,

Savings banks,
Savings and loan associations,
Credit unions,
Treasury management service companies,
Insurance companies, and

Issuers of commercial paper and other securities, including mutual funds.

Our various non-bank businesses engaged in investment banking and alternative investment activities compete with:

Commercial banks,
Investment banking firms,
Merchant banks,
Insurance companies,
Private equity firms, and
Other investment vehicles.

In providing asset management services, our businesses compete with:

Investment management firms,
Large banks and other financial institutions,
Brokerage firms,
Mutual fund complexes, and
Insurance companies.

We include here by reference the additional information regarding competition included in the Item 1A Risk Factors section of this Report.

### Employees

Employees totaled 56,285 at December 31, 2012. This total includes 50,947 full-time and 5,338 part-time employees, of which 23,331 full-time and 4,563 part-time employees were employed by our Retail Banking business.

### SEC Reports and Corporate Governance Information

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (Exchange Act), and, in accordance with the Exchange Act, we file annual, quarterly and current reports, proxy statements, and other information with the SEC. Our SEC File Number is 001-09718. You may read and copy this information at the SEC s Public Reference Room located at 100 F Street NE, Room 1580, Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

You can also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street NE, Washington, D.C. 20549, at prescribed rates.

The SEC also maintains an internet website that contains reports, proxy and information statements, and other information about issuers, like us, who file electronically with the SEC. The address of that site is www.sec.gov. You can also inspect reports, proxy statements and other information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We also make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge on our internet website as soon as

reasonably practicable after we electronically file such material with, or furnish it to, the SEC. PNC s corporate internet address is www.pnc.com and you can find this information at www.pnc.com/secfilings. Shareholders and bondholders may also obtain copies of these filings without charge by contacting Shareholder Services at 800-982-7652 or via the online contact form at www.computershare.com/contactus for copies without exhibits, and by contacting Shareholder Relations at 800-843-2206 or via e-mail at investor.relations@pnc.com for copies of exhibits, including financial statement and schedule exhibits where applicable. The interactive data file (XBRL) exhibit is only available electronically.

Information about our Board of Directors and its committees and corporate governance at PNC is available on PNC s corporate website at www.pnc.com/corporategovernance. Our PNC Code of Business Conduct and Ethics is available on our corporate website at www.pnc.com/corporategovernance. In addition, any future amendments to, or waivers from, a provision of the PNC Code of Business Conduct and Ethics that applies to our directors or executive officers (including the Chairman and Chief Executive Officer, the Chief Financial Officer and the Controller) will be posted at this internet address.

Shareholders who would like to request printed copies of the PNC Code of Business Conduct and Ethics or our Corporate Governance Guidelines or the charters of our Board s Audit, Nominating and Governance, Personnel and Compensation, or Risk Committees (all of which are posted on the PNC corporate website) may do so by sending their requests to George P. Long, III, Chief Governance Counsel and Corporate

Secretary, at corporate headquarters at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707. Copies will be provided without charge to shareholders.

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol PNC.

**INTERNET INFORMATION**

The PNC Financial Services Group, Inc. s financial reports and information about its products and services are available on the internet at www.pnc.com. We provide information for investors on our corporate website under About PNC Investor Relations, such as Investor Events, Quarterly Earnings, SEC Filings, Financial Information, Financial Press Releases and Message from the Chairman. Under Investor Relations, we will from time to time post information that we believe may be important or useful to investors. We generally post the following shortly before or promptly following its first use or release: financially-related press releases (including earnings releases), various SEC filings, presentation materials associated with earnings and other investor conference calls or events, and access to live and replay audio from such calls or events. When warranted, we will also use our website to expedite public access to time-critical information regarding PNC in advance of distribution of a press release or a filing with the SEC disclosing the same information.

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Starting in 2013, PNC will be required to provide additional public disclosure regarding estimated income, losses and pro forma regulatory capital ratios under a supervisory hypothetical severely adverse economic scenario in March of each year and under a PNC-developed hypothetical severely adverse economic scenario in September of each year, as well as information concerning its capital stress testing processes, pursuant to the stress testing regulations adopted by the Federal Reserve and the OCC. Under these regulations, PNC may be able to satisfy at least a portion of these requirements through postings on its website, and PNC may elect to do so

without also providing disclosure of this information through filings with the Securities and Exchange Commission.

You can also find the SEC reports and corporate governance information described in the sections above in the Investor Relations section of our website.

Where we have included web addresses in this Report, such as our web address and the web address of the SEC, we have included those web addresses as inactive textual references only. Except as specifically incorporated by reference into this Report, information on those websites is not part hereof.

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## ITEM 1A RISK FACTORS

We are subject to a number of risks potentially impacting our business, financial condition, results of operations and cash flows. As a financial services organization, certain elements of risk are inherent in our transactions and are present in the business decisions we make. Thus, we encounter risk as part of the normal course of our business, and we design risk management processes to help manage these risks.

There are risks that are known to exist at the outset of a transaction. For example, every loan transaction presents credit risk (the risk that the borrower may not perform in accordance with contractual terms) and market risk (a potential loss in earnings or economic value due to adverse movement in market interest rates or credit spreads), with the nature and extent of these risks principally depending on the financial profile of the borrower and overall economic conditions. We focus on lending that is within the boundaries of our risk framework, and manage these risks by adjusting the terms and structure of the loans we make and through our oversight of the borrower relationship, as well as through management of our deposits and other funding sources.

Risk management is an important part of our business model. The success of our business is dependent on our ability to identify, understand and manage the risks presented by our business activities so that we can appropriately balance revenue generation and profitability. These risks include, but are not limited to, credit risk, market risk, liquidity risk, operational risk, model risk, technology, compliance and legal risk, and strategic and reputation risk. We discuss our principal risk management processes and, in appropriate places, related historical performance in the Risk Management section included in Item 7 of this Report.

The following are the key risk factors that affect us. Any one or more of these risk factors could have a material adverse impact on our business, financial condition, results of operations or cash flows, in addition to presenting other possible adverse consequences, which are described below. These risk factors and other risks are also discussed further in other sections of this Report.

**The possibility of the moderate economic recovery returning to recessionary conditions or of turmoil or volatility in the financial markets would likely have an adverse effect on our business, financial position and results of operations.**

Although the United States economy has shown modest improvement recently, economic conditions continue to pose a risk to financial institutions, including PNC. The economic recovery, although continuing, did so only at a pace in 2012 below trend for other recent recoveries from recessions. Job growth has not yet been sufficient to significantly reduce high unemployment in the United States. Consumer and business confidence is improving but remains in the cautious zone.

There continues to be concern regarding the possibility of a return to recessionary conditions, as well as regarding the possibility of increased turmoil or volatility in financial markets.

The recent global recession and disruption of the financial markets has led to concerns over the solvency of certain Eurozone states, including Greece, Ireland, Italy, Portugal and Spain, affecting these countries capital markets access, as well as market perception of financial institutions that have significant direct or indirect exposure to these countries creditworthiness. Certain of the major rating agencies have downgraded the sovereign credit ratings of Greece, Portugal and Ireland to below investment grade. The sovereign credit ratings of France, Italy and Spain have also been downgraded. These ratings downgrades, uncertainties surrounding the implementation of reform programs, the effect of economic contraction, and the Eurozone s financial inter-linkages increase the risk of financial distress spreading to other Eurozone states. If measures to address sovereign debt and financial sector problems in Europe are inadequate, they may result in a delayed economic recovery, the exit of one or more member states from the Eurozone, or more severe recessionary conditions. If realized, these risk scenarios could contribute to severe financial market stress or a global recession, likely affecting the economy and capital markets in the United States as well.

Although the so-called fiscal cliff was averted in early 2013, Congress and the President still need to resolve issues with respect to the U.S. government s debt ceiling and other budgetary and spending matters. Uncertainty as to whether these issues can be resolved or how effective a resolution might be increases the risk of slower economic growth. The nature and ultimate resolution of these issues, or a failure to achieve a timely and effective resolution, may further adversely affect the U.S. economy through possible consequences including downgrades in the ratings for U.S. Treasury securities, government shutdowns, or substantial spending cuts resulting from sequestration.

Current economic conditions have had an adverse effect on our business and financial performance and may not improve in the near future. We expect these conditions to continue to have an ongoing negative impact on us and a worsening of conditions would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry.

In particular, we may face the following risks in connection with the current economic and market environment:

Investors may have less confidence in the equity markets in general and in financial services industry stocks in particular, which could place downward pressure on PNC s stock price and resulting market valuation.

Economic and market developments, in the United States, Europe or elsewhere, may further affect

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consumer and business confidence levels and may cause declines in credit usage and adverse changes in payment patterns, causing increases in delinquencies and default rates.

The continuation of the current very low interest rate environment, which is expected to continue at least through mid-year 2015 based on statements by the Chairman of the Federal Reserve Board, could affect consumer and business behavior in ways that are adverse to us and could also hamper our ability to increase our net interest income.

Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors.

The process we use to estimate losses in our credit exposures requires difficult, subjective and complex judgments, including with respect to economic conditions and how economic conditions might impair the ability of our borrowers to repay their loans. At any point in time or for any length of time, such losses may no longer be capable of accurate estimation, which may, in turn, adversely impact the reliability of the process for estimating losses and, therefore, the establishment of adequate reserves for those losses.

We could suffer decreases in customer desire to do business with us, whether as a result of a decreased demand for loans or other financial products and services or decreased deposits or other investments in accounts with PNC.

Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions, or otherwise.

A continuation or deterioration of current economic trends may lead to declines in the values of our businesses potentially resulting in goodwill impairments.

A lessening of confidence in the creditworthiness of the United States or other governments whose securities we hold could impact the value of those holdings.

Increased regulation of compensation at financial services companies as part of government efforts to reform the industry may hinder our ability to attract, retain and incentivize well-qualified individuals in key positions.

Investors in mortgage loans and other assets that we sell or sold are more likely to seek indemnification from us against losses or otherwise seek to have us share in such losses or to request us to repurchase loans that they believe do not comply with applicable representations and warranties or other contractual provisions.

We may be subject to additional fees and taxes as the government seeks to recover some of the costs of its recovery efforts, reduce the national debt or pay for additional government programs, in particular from the financial services industry.

**The regulatory environment for the financial services industry is being significantly impacted by financial regulatory reform initiatives in the United States and elsewhere, including Dodd-Frank and regulations promulgated to implement it.**

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 reduce systemic risks and protect consumers and investors. 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 laws and 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. 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.

Newly created regulatory bodies include the Consumer Financial Protection Bureau (CFPB) and the Financial Stability Oversight Council (FSOC). The CFPB has been given authority to regulate consumer financial products and services sold by banks and non-bank companies and to supervise banks with assets of more than $10 billion and their affiliates for compliance with Federal consumer protection laws. The FSOC has been charged with identifying systemic risks, promoting stronger financial regulation and identifying those non-bank companies that are systemically important and thus should be subject to regulation by the Federal Reserve. In addition, in extraordinary cases and together with the Federal Reserve, the FSOC could break up financial firms that are deemed to present a grave threat to the financial stability of the United States.

Dodd-Frank (through provisions commonly known as the Volcker Rule ) prohibits banks and their affiliates from engaging in some types of proprietary trading and restricts the ability of banks and their affiliates to sponsor, invest in or have other financial relationships with private equity or hedge funds. In October 2011, four of the five agencies with authority for rulemaking issued proposed rules to implement the Volcker Rule. In January 2012, the fifth agency issued substantially similar proposed rules. The rules set forth a complex and detailed compliance, reporting and monitoring program for large banks, and seek comments on numerous questions. Although the comment deadline expired in February 2012 on the four agency proposals (and later in 2012 on the single agency proposal), the agencies have not yet issued final rules. The timing and content of the final rules remain uncertain. The manner in which the questions posed by the proposed rules are addressed by the agencies will have an important influence on the impact of the final rules on PNC.

Although PNC no longer has a designated proprietary trading operation, the proposed rules broadly define what constitutes potentially prohibited proprietary trading, thereby making the scope of the statutory and regulatory exemptions for trading activities, including the exemptions for hedging activities and customer trading, all the more important. Until more is known about how the final rules will define proprietary trading and the scope of permissible trading activities, it is not possible to determine the impact to PNC of the proprietary trading prohibition. However, any meaningful limitation on PNC s ability to hedge its risks in the ordinary course or to trade on behalf of customers would likely be adverse to PNC s business and results of operations. In addition, the proposed rules contain extensive compliance and recordkeeping requirements related to permissible trading activities. Such requirements, if included in a final rule, could increase the costs of hedging or other types of permissible transactions and potentially result in PNC not engaging in certain transactions, or types of transactions, in which we would otherwise engage.

With respect to the restrictions on private equity and hedge fund activities, as of December 31, 2012, PNC held interests in such funds likely to be covered totaling approximately $859 million including three

sponsored funds with total invested capital of approximately $389 million. PNC expects that over time it will need to eliminate these investments and cease sponsoring these funds, although it is likely that at least some of these amounts will reduce over time in the ordinary course before compliance is required, and the Volcker Rule also permits extensions of the compliance date under some circumstances. A forced sale of some of these investments due to the Volcker Rule could result in PNC receiving less value than it would otherwise have received. Depending on the provisions of the final rule, it is possible that other structures through which PNC conducts business, such as operating subsidiaries, joint ventures or securitization vehicles, but that are not typically referred to as private equity or hedge funds, could be restricted, with an impact that cannot now be evaluated.

Pursuant to Dodd-Frank, in December 2011 the Federal Reserve requested comment on proposed rules that would establish enhanced prudential standards governing U.S. bank holding companies with $50 billion or more in consolidated total assets ( covered companies ). The proposed enhanced prudential standards would include, among other things, heightened liquidity risk management standards; new standards governing oversight by a covered company s board of directors and board-level risk committee; and new limits on the aggregate amount of credit exposure a covered company may have to any single customer or counterparty. These proposed rules also would establish an early remediation regime for covered companies, under which the Federal Reserve would be required to take increasingly stringent actions against a covered company as its financial condition or risk management deteriorated as reflected by the company s current or projected post-stress capital levels, compliance with supervisory liquidity and risk management standards and, in some instances, market-based indicators, such as credit default swap spreads. The comment period on the proposed rules closed in March 2012. Final rules, however, have not been issued, and as such the impact of these rules cannot now be evaluated.

In addition, the relevant regulatory agencies have proposed rules to implement the Dodd-Frank provisions requiring retention of risk by certain securitization participants through holding interests in the securitization vehicles, but the rules are not yet finalized or effective. As a result, the ultimate impact of these Dodd-Frank provisions on PNC remains unpredictable. That impact on PNC could be direct, by requiring PNC to hold interests in a securitization vehicle or other assets that represent a portion of the credit risk of the assets held by the securitization vehicle, or indirect, by impacting markets in which

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PNC participates and increasing the costs associated with mortgage assets that we originate. Since the beginning of the financial crisis, there has been and continues to be substantially less private (that is, non-government backed) securitization activity than had previously been the case. It is unclear at present whether and to what extent the private securitization markets will rebound. In recent years, PNC has only engaged to a limited extent in securitization transactions under circumstances where we might expect to be required to retain additional risk on our balance sheet as a result of implementation of these Dodd-Frank provisions. If the market for private securitizations rebounds and PNC decides to increase its participation in that market, we would likely be required under the regulations to retain more risk than would otherwise have been the case, and as a result could be required to consolidate certain securitization vehicles on our balance sheet, with currently an uncertain financial impact.

On the indirect impact side, PNC originates loans of a variety of types, including residential and commercial mortgages, credit card, auto, and student, that historically have commonly been securitized, and PNC is also a significant servicer of residential and commercial mortgages held by others, including securitization vehicles. PNC anticipates that the risk retention requirements will impact the market for loans of types that historically have been securitized, potentially affecting the volumes of loans securitized, the types of loan products made available, the terms on which loans are offered, consumer and business demand for loans, and the need for third-party loan servicers. It should be noted that the risk retention rules themselves could have the effect of slowing the rebound in the securitization markets. One effect of having substantially reduced opportunities to securitize loans would likely be a reduction in the willingness of banks, including PNC, to make loans due to balance sheet management requirements. Any of these potential impacts of the Dodd-Frank risk retention rules could affect the way in which PNC conducts its business, including its product offerings, and could also affect PNC s revenue and profitability, although, as noted above, not in ways that are currently predictable.

Title VII of Dodd-Frank imposes new comprehensive and significant restrictions on the activities of financial institutions that are active in the U.S. over-the-counter ( OTC ) derivatives and foreign exchange markets. Title VII (i) requires the registration of both swap dealers and major swap participants with one or both of the Commodity Futures Trading Commission ( CFTC ) (in the case of non security-based swaps) and the Securities Exchange Commission ( SEC ) (in the case of security-based swaps); (ii) requires that most standardized swaps be centrally cleared through a regulated clearing house and traded on a centralized exchange or swap execution facility; (iii) subjects swap dealers and major swap participants to capital and margin requirements in excess of current practice; (iv) subjects swap dealers and major swap participants to comprehensive new recordkeeping and real-time public reporting requirements; (v) subjects swap dealers and major swap participants to new business conduct requirements (including an obligation to provide daily marks to counterparties and to disclose to counterparties (pre-execution) the material risks associated with a swap and material incentives and conflicts of interest associated with the swap); and (vi) imposes special duties on swap dealers and major swap participants when transacting a swap with a special entity (e.g., governmental agency (federal, state or local) or political subdivision thereof, pension plan or endowment). Based on the definition of a swap dealer under Title VII, PNC Bank, N.A. registered with the CFTC as a swap dealer effective January 31, 2013. As a result, PNC Bank, N.A. will be subject to all of the above-described restrictions and the CFTC will have a meaningful supervisory role with respect to PNC Bank, N.A. s derivatives and foreign exchange businesses.

The above described requirements will collectively impose potentially significant implementation and ongoing compliance burdens on PNC and will introduce additional legal risk (including as a result of newly applicable antifraud and anti-manipulation provisions and private rights of action).

New provisions under Dodd-Frank concerning the applicability of state consumer protection laws to national banks, such as PNC Bank, N.A., became effective in 2011. Questions may arise as to whether certain state consumer financial laws that may have previously been preempted by federal law are no longer preempted as a result of the effectiveness of these new provisions. Depending on how such questions are resolved, we may experience an increase in state-level regulation of our retail banking business and additional compliance obligations, revenue impacts and costs. In addition, provisions under Dodd-Frank that also took effect in 2011 permit state attorneys general to bring civil actions against national banks, such as PNC Bank, N.A., for violations of law, as well as regulations issued by the CFPB.

Dodd-Frank requires bank holding companies that have $50 billion or more in assets, such as PNC, to periodically submit to the Federal Reserve, the FDIC and the FSOC a resolution plan that includes, among other things, an analysis of how the company could be resolved in a rapid and orderly fashion if the company were to fail or experience material financial distress. The Federal Reserve and the FDIC may jointly impose restrictions on PNC, including additional capital requirements or limitations on growth, if the agencies jointly determine that the company s plan is not credible or would not facilitate a rapid and orderly resolution of PNC under the U.S. Bankruptcy Code, and additionally could require PNC to divest assets or take other actions if we did not submit an acceptable resolution plan within two years after any such restrictions were imposed. The FDIC also has adopted a rule that requires large insured depository institutions, including PNC Bank, N.A., to periodically submit a resolution plan to the FDIC that includes, among other things, an analysis of how the institution could be resolved under the Federal Deposit Insurance Act (FDI Act) in a manner that protects depositors and limits losses or costs to creditors of the bank in accordance with the FDI Act. PNC and PNC Bank, N.A. must file their first plans under these rules by December 31, 2013. Depending on how the agencies conduct their review of the resolution plans submitted by PNC and PNC Bank, N.A., it is possible that these requirements could affect the ways in which PNC structures and conducts its business and result in higher compliance and operating costs.

Other provisions of Dodd-Frank will affect regulatory oversight, holding company capital requirements, and residential mortgage products.

While much of how the Dodd-Frank and other financial industry reforms will change our current business operations depends on the specific regulatory promulgations and interpretations, many of which have yet to be released or finalized, it is clear that the reforms, both under Dodd-Frank and otherwise, will have a significant effect on our entire industry. 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. Although it is difficult to predict the magnitude and extent of these effects at this stage, we believe compliance with Dodd-Frank and its implementing regulations and other initiatives will continue to negatively impact revenue, at least to some extent, and increase the cost of doing business, both in terms of transition expenses and on an ongoing basis, and may also limit our ability to pursue certain desirable business opportunities.

**New capital and liquidity standards will result in banks and bank holding companies needing to maintain more and higher quality capital and greater liquidity than has historically been the case.**

New and evolving capital and liquidity standards will have a significant effect on banks and bank holding companies, including PNC. These evolving standards include the

proposals issued by the U.S. banking agencies in June 2012 to implement the Basel III capital framework in the United States and revise the framework for the risk-weighting of assets under Basel I. The Basel III proposed rules would, among other things, narrow the definition of regulatory capital, require the phase-out of trust preferred securities from Tier 1 regulatory capital, establish a new Tier 1 common capital requirement for banking organizations and revise the capital levels at which a bank would be subject to prompt corrective action. As of December 31, 2012, PNC had $331 million of trust preferred securities included in Tier 1 capital which, under these rules and Dodd-Frank, will no longer qualify as Tier 1 capital over time to the extent they remain outstanding. The proposed rules also would require that unconsolidated investments in financial entities (potentially including PNC s investment in BlackRock), as well as mortgage servicing rights and deferred tax assets, above certain thresholds be deducted from regulatory capital and significantly limit the extent to which minority interests in consolidated subsidiaries (including minority interests in the form of REIT preferred securities) may be included in regulatory capital. As of December 31, 2012, PNC had approximately $1.4 billion of REIT preferred securities outstanding. PNC has submitted the necessary redemption notice to redeem $375 million of this amount on March 15, 2013, as discussed further in the Capital and Liquidity Actions portion of the Executive Summary section in Item 7 of this Report. In addition, the proposed rules would remove the filter that currently excludes unrealized gains and losses (other than those resulting from other-than-temporary impairments) on available for sale debt securities from affecting regulatory capital, which could increase the volatility of regulatory capital of banking organizations, including PNC. When fully phased-in on January 1, 2019, the Basel III rules would require that banking organizations maintain a minimum Tier 1 common ratio of 4.5%, a Tier 1 capital ratio of 6.0%, a total capital ratio of 8.0% and a leverage ratio of 4%. Moreover, the proposed rules, when fully phased-in, would require banking organizations, including PNC, to maintain a minimum Tier 1 common ratio of 7.0%, a Tier 1 capital ratio of 8.5%, and a total capital ratio of 10.5% to avoid limitations on capital distributions (including common stock dividends and share repurchases) and certain discretionary incentive compensation payments. For banking organizations subject to the Basel II advanced approaches (such as PNC), these levels could be supplemented by an additional countercyclical capital buffer of up to an additional 2.5% during periods of excessive credit growth, although this buffer is proposed to initially be set at zero in the United States. Such organizations would also be subject to a new supplementary leverage ratio that would take into account certain off-balance sheet items.

The proposed rules issued in June 2012 that would revise the Basel I risk-weighting framework (referred to as the standardized approach) and the Basel II risk-weighting framework (referred to as the advanced approaches) would replace the use of credit ratings with alternative

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methodologies for assessing creditworthiness and establish a new framework (referred to as the Simplified Supervisory Framework Approach) for risk-weighting securitization exposures (such as privately issued mortgage-backed securities and asset-backed securities). The standardized approach also would, among other things, significantly revise the risk weight assigned to residential mortgages (with risk weights changing from between 50% to 100% to between 35% and 200%) and increase the risk weight applicable to certain types of commercial real estate loans under Basel I. The advanced approaches rule would, among other things, significantly alter the methodology for determining counterparty credit risk weights, including the establishment of a credit valuation adjustment for counterparty risk in over-the-counter (OTC) derivative transactions, under Basel II.

The Basel III framework adopted by the Basel Committee also includes new short-term liquidity standards (the Liquidity Coverage Ratio) and long-term funding standards (the Net Stable Funding Ratio). The Liquidity Coverage Ratio, which is scheduled to begin to take effect on January 1, 2015 and be fully phased in by January 1, 2019, is designed to ensure that banking organizations maintain an adequate level of cash, or other high quality and unencumbered liquid assets that can readily be converted to cash, to meet estimated liquidity needs in a stress scenario lasting 30 days. The Basel Committee has defined the types of assets that would qualify as high quality liquid assets, and also has established various assumptions regarding cash outflows and inflows during the 30-day stress period, for purposes of the Liquidity Coverage Ratio. The Net Stable Funding Ratio is designed to promote a stable maturity structure of assets and liabilities of banking organizations over a one-year time horizon. The Net Stable Funding Ratio is scheduled to take effect by January 1, 2018 but continues to undergo review by the Basel Committee.

In November 2011, the Basel Committee also adopted a framework that would require globally systemically important banks ( G-SIBs ) to maintain additional Tier 1 common capital ranging between 1.0% to 2.5% of risk-weighted assets, with the actual required amount varying based on the firm s global systemic importance as determined using five criteria (size, interconnectedness, lack of substitutability, cross-jurisdictional activity, and complexity). The Federal Reserve has indicated that it expects to propose a capital surcharge in the United States based on the Basel Committee s G-SIB framework. While these rules have not yet been proposed, and the identity of the banking organizations that would be subject to a surcharge as a G-SIB definitively determined, PNC believes that it is unlikely to be deemed a G-SIB based on the criteria included in the Basel Committee s framework. Dodd-Frank directs the Federal Reserve to establish heightened risk-based and leverage capital requirements and liquidity requirements for bank holding companies, like PNC, that have $50 billion or more in assets. The Basel Committee also has adopted an analytical framework for national jurisdictions to use in determining whether to apply a capital surcharge to

firms that may be systemically important on a domestic basis ( D-SIBs ), but that are not G-SIBs. The Federal Reserve has stated that it is still considering whether to impose an additional capital surcharge on bank holding companies that have $50 billion or more in consolidated total assets, but that are not subject to a G-SIB surcharge.

Because proposals by the U.S. agencies to implement the Basel III capital standards and revise the Basel I risk-weighting framework have not been finalized, and any additional heightened capital or liquidity standards that may be established by the Federal Reserve under Basel III or Dodd-Frank (such as, for example, a D-SIB surcharge) remain subject to rulemaking in the U.S., the full effect of these standards on PNC s regulatory capital and liquidity, both during and after any applicable phase-in periods, is uncertain at this time.

The need to maintain more and higher quality capital, as well as greater liquidity, going forward than historically has been required could limit PNC s business activities, including lending, and its ability to expand, either organically or through acquisitions. It could also result in PNC taking steps to increase its capital that may be dilutive to shareholders or being limited in its ability to pay dividends or otherwise return capital to shareholders, or selling or refraining from acquiring assets, the capital requirements for which are inconsistent with the assets underlying risks. In addition, the new liquidity standards could require PNC to increase its holdings of highly liquid short-term investments, thereby reducing PNC s ability to invest in longer-term or less liquid assets even if more desirable from a balance sheet management perspective. Moreover, although these new requirements are being phased in over time, U.S. federal banking agencies have been taking into account expectations regarding the ability of banks to meet these new requirements, including under stressed conditions, in approving actions that represent uses of capital, such as dividend increases, share repurchases and acquisitions.

**Our lending and servicing businesses and the value of the loans and debt securities we hold may be adversely affected by economic conditions, including a reversal or slowing of the current moderate recovery. Downward valuation of debt securities could also negatively impact our capital position.**

Given the high percentage of our assets represented directly or indirectly by loans, and the importance of lending to our overall business, weak economic conditions are likely to have a negative impact on our business and our results of operations. This could adversely impact loan utilization rates as well as delinquencies, defaults and customer ability to meet obligations under the loans. This is particularly the case during the period in which the aftermath of recessionary conditions continues and the positive effects of economic recovery appear to be slow to materialize and unevenly spread among our customers.

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Further, weak economic conditions would likely have a negative impact on our business, our ability to serve our customers, and our results of operations. Such conditions are likely to lead to increases in the number of borrowers who become delinquent or default or otherwise demonstrate a decreased ability to meet their obligations under their loans. This would result in higher levels of nonperforming loans, net charge-offs, provision for credit losses and valuation adjustments on loans held for sale. The value to us of other assets such as investment securities, most of which are debt securities or other financial instruments supported by loans, similarly would be negatively impacted by widespread decreases in credit quality resulting from a weakening of the economy.

We have historically not considered government insured or guaranteed loans to be higher risk loans as defaults are materially mitigated by payments of insurance or guaranteed amounts for approved claims by the applicable government agency. While the level of claim denials by government agencies, including the Department of Housing and Urban Development, has historically been low, if financial conditions prompt government agencies to deny or curtail an increasing number of these claims, we could face additional losses in our lending business. In addition, in the event that submitted claims are denied or curtailed as a result of our failure as a servicer of the loan to adhere to applicable agency servicing guidelines, we will be required to remit the difference between the claims proceeds that should have been received and the claim amounts actually received to the holder of the loan.

**A failure to sustain reduced amounts of the provision for credit losses, which has benefitted results of operations in recent periods, could result in decreases in net income.**

As was typical in the banking industry, the economic downturn that started in 2007 resulted in PNC experiencing high levels of provision for credit losses. In 2009, PNC reported provision for credit losses totaling $3.9 billion. Subsequently, in part due to improvement in economic conditions, as well as actions taken by PNC to manage its portfolio, PNC s provision for credit losses has declined substantially, to $2.5 billion in 2010, $1.2 billion in 2011 and $1.0 billion in 2012. This decline in provision for credit losses has been a major contributor to PNC s ability to maintain and grow its net income during this period. As the provision for credit losses stabilizes, there may not be as much opportunity as there has been for declining provision to help PNC maintain and grow net income. In addition, if PNC s provision for credit losses were to rise back towards levels experienced during the height of the economic downturn, it would have an adverse effect on PNC s net income and could result in lower levels of net income than PNC has reported in recent periods.

**Our regional concentrations make us particularly at risk to adverse economic conditions in our primary retail banking footprint.**

Although many of our businesses are national in scope, our retail banking business is concentrated within our retail branch network footprint, located principally in our primary geographic markets. Thus, we are particularly vulnerable to adverse changes in economic conditions in the Mid-Atlantic, Midwest, and Southeast regions.

**Our business and performance are vulnerable to the impact of volatility in debt and equity markets.**

As most of our assets and liabilities are financial in nature, we tend to be particularly sensitive to the performance of the financial markets. Turmoil and volatility in U.S. and global financial markets, such as that experienced during the recent financial crisis, can be a major contributory factor to overall weak economic conditions, leading to some of the risks discussed above, including the impaired ability of borrowers and other counterparties to meet obligations to us. Financial market volatility also can have some of the following adverse effects on PNC and our business and financial performance.

- It can affect the value or liquidity of our on-balance sheet and off-balance sheet financial instruments.
- It can affect the value of servicing rights, including those we carry at fair value.
- It can affect our ability to access capital markets to raise funds necessary to support our businesses and maintain our overall liquidity position. Inability to access capital markets as needed, or at cost effective rates, could adversely affect our liquidity and results of operations.
- It can affect the value of the assets that we manage or otherwise administer for others or the assets for which we provide processing and information services. Although we are not directly impacted by changes in the value of such assets, decreases in the value of those assets would affect related fee income and could result in decreased demand for our services.
- It can affect the required funding of our pension obligations to the extent that the value of the assets supporting those obligations drops below minimum levels.
- In general, it can impact the nature, profitability or risk profile of the financial transactions in which we engage.

Volatility in the markets for real estate and other assets commonly securing financial products has been and is likely to continue to be a significant contributor to overall volatility in financial markets.

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**Our business and financial performance is impacted significantly by market interest rates and movements in those rates. The monetary, tax and other policies of governmental agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance over which we have no control and which we may not be able to predict adequately.**

As a result of the high percentage of our assets and liabilities that are in the form of interest-bearing or interest-related instruments, changes in interest rates, in the shape of the yield curve or in spreads between different market interest rates can have a material effect on our business, our profitability and the value of our financial assets and liabilities. For example:

- Changes in interest rates or interest rate spreads can affect the difference between the interest that we earn on assets and the interest that we pay on liabilities, which impacts our overall net interest income and profitability.
- Such changes can affect the ability of borrowers to meet obligations under variable or adjustable rate loans and other debt instruments, and can, in turn, affect our loss rates on those assets.
- Such changes may decrease the demand for interest rate-based products and services, including loans and deposit accounts.
- Such changes can also affect our ability to hedge various forms of market and interest rate risk and may decrease the profitability or increase the risk associated with such hedges.
- Movements in interest rates also affect mortgage prepayment speeds and could result in impairments of mortgage servicing assets or otherwise affect the profitability of such assets.

The monetary, tax and other policies of the government and its agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance. These governmental policies can thus affect the activities and results of operations of banking companies such as PNC. An important function of the Federal Reserve is to regulate the national supply of bank credit and certain interest rates. The actions of the Federal Reserve influence the rates of interest that we charge on loans and that we pay on borrowings and interest-bearing deposits and can also affect the value of our on-balance sheet and off-balance sheet financial instruments. Both due to the impact on rates and by controlling access to direct funding from the Federal Reserve Banks, the Federal Reserve s policies also influence, to a significant extent, our cost of funding. We cannot predict the nature or timing of future changes in monetary, tax and other policies or the effects that they may have on our activities and financial results.

**PNC faces legal and regulatory risk arising out of its residential mortgage businesses.**

Numerous federal and state governmental, legislative and regulatory authorities are investigating practices in the business of mortgage and home equity loan lending and servicing and in the mortgage-related insurance and reinsurance industries. PNC has received inquiries from governmental, legislative and regulatory authorities on these topics and is responding to these inquiries. These inquiries and investigations could lead to administrative, civil or criminal proceedings, possibly resulting in remedies including fines, penalties, restitution, alterations in our business practices and additional expenses and collateral costs.

In addition to governmental or regulatory inquiries and investigations, PNC, like other companies with residential mortgage and home equity loan origination and servicing operations, faces the risk of class actions, other litigation and claims from: the owners of, investors in, or purchasers of such loans originated or serviced by PNC (or securities backed by such loans), homeowners involved in foreclosure proceedings or various mortgage-related insurance programs, downstream purchasers of homes sold after foreclosure, title insurers, and other potential claimants. Included among these claims are claims from purchasers of mortgage and home equity loans seeking the repurchase of loans where the loans allegedly breached origination covenants and representations and warranties made to the purchasers in the purchase and sale agreements.

At this time PNC cannot predict the ultimate overall cost to or effect upon PNC from governmental, legislative or regulatory actions and private litigation or claims arising out of residential mortgage and home equity loan lending, servicing or reinsurance practices, although such actions, litigation and claims could, individually or in the aggregate, result in significant expense. See Note 23 Legal Proceedings and Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information regarding federal and state governmental, legislative and regulatory inquiries and investigations and additional information regarding potential repurchase obligations relating to mortgage and home equity loans.

Moreover, the CFPB recently issued final regulations that impose new requirements relating to our residential mortgage origination practices and servicing practices. These regulations are not yet in effect, but we are in the processes of implementing them. We cannot predict at this time the overall cost of implementing these requirements, but implementation is likely to result in significant expense.

The issues described above may affect the value of our ownership interests, direct or indirect, in property subject to foreclosure. In addition, possible delays in the schedule for processing foreclosures may result in an increase in nonperforming loans, additional servicing costs and possible demands for contractual fees or penalties under servicing agreements.

There is also a continuing risk of incurring costs related to further remedial and related efforts required by the consent orders and related to repurchase requests arising out of either the foreclosure process or origination issues. Reputational damage arising out of this industry-wide inquiry could also have an adverse effect upon our existing mortgage and home equity loan business and could reduce future business opportunities.

One or more of the foregoing could adversely affect PNC s business, financial condition, results of operations or cash flows.

**We grow our business in part by acquiring other financial services companies from time to time, and these acquisitions present a number of risks and uncertainties related both to the acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing.**

Acquisitions of other financial services companies, financial services assets and related deposits and other liabilities present risks and uncertainties to PNC in addition to those presented by the nature of the business acquired.

In general, acquisitions may be substantially more expensive to complete than anticipated (including unanticipated costs incurred in connection with the integration of the acquired company). Anticipated benefits (including anticipated cost savings and strategic gains) may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events.

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

Integration of an acquired company s business and operations into PNC, including conversion of the acquired company s different systems and procedures, may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to the acquired company s or PNC s existing businesses. In some cases, acquisitions involve our entry into new businesses or new geographic or other markets, and these situations also present risks and uncertainties in instances where we may be inexperienced in these new areas.

Our ability to analyze the risks presented by prospective acquisitions, as well as our ability to prepare in advance of closing for integration, depends, in part, on the information we can gather with respect to the target, which is more limited than the information we have regarding companies we already own.

As a regulated financial institution, our ability to pursue or complete attractive acquisition opportunities could be negatively impacted by regulatory delays or other regulatory issues. In addition, legal and regulatory or other governmental proceedings, claims, investigations or inquiries relating to pre-acquisition business and activities of acquired companies may result in future monetary judgments or settlements or other remedies, including damages, fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to PNC. The processes of integrating acquired businesses, as well as the deconsolidation of divested businesses, also pose many additional possible risks which could result in increased costs, liability or other adverse consequences to PNC. Note 23 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report describes several legal proceedings related to pre-acquisition activities of companies we have acquired, including National City. Other such legal proceedings may be commenced in the future.

**The soundness of other financial institutions could adversely affect us.**

Financial services institutions are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices that are not sufficient to recover the full amount of the loan or derivative exposure due us.

**We operate in a highly competitive environment, in terms of the products and services we offer and the geographic markets in which we conduct business, as well as in our labor markets where we compete for talented employees. Competition could adversely impact our customer acquisition, growth and retention, as well as our credit spreads and product pricing, causing us to lose market share and deposits and revenues.**

We are subject to intense competition from various financial institutions as well as from non-bank entities that engage in many similar activities without being subject to bank regulatory supervision and restrictions. This competition is described in Item 1 of this Report under Competition.

In all, the principal bases for competition are pricing (including the interest rates charged on loans or paid on interest-bearing deposits), product structure, the range of products and services offered, and the quality of customer service (including convenience and responsiveness to customer needs and concerns). The ability to access and use technology is an increasingly important competitive factor in the financial services industry, and it is a critically important component to customer satisfaction as it affects our ability to deliver the right products and services.

Another increasingly competitive factor in the financial services industry is the competition to attract and retain talented employees across many of our business and support areas. This competition leads to increased expenses in many business areas and can also cause us to not pursue certain business opportunities.

A failure to adequately address the competitive pressures we face could make it harder for us to attract and retain customers across our businesses. On the other hand, meeting these competitive pressures could require us to incur significant additional expense or to accept risk beyond what we would otherwise view as desirable under the circumstances. In addition, in our interest rate sensitive businesses, pressures to increase rates on deposits or decrease rates on loans could reduce our net interest margin with a resulting negative impact on our net interest income.

**The performance of our asset management businesses may be adversely impacted by overall economic and market conditions as well as the relative performance of our products compared with the offerings by competitors.**

Asset management revenue is primarily based on a percentage of the value of the assets and thus is impacted by general changes in market valuations, customer preferences and needs. In addition, investment performance is an important factor influencing the level of assets. Poor investment performance could impair revenue and growth as existing clients might withdraw funds in favor of better performing products. Additionally, the ability to attract funds from existing and new clients might diminish. Overall economic conditions may limit

the amount that customers are able or willing to invest as well as the value of the assets they do invest.

The failure or negative performance of products of other financial institutions could lead to a loss of confidence in similar products offered by us without regard to the performance of our products. Such a negative contagion could lead to withdrawals, redemptions and liquidity issues in such products and have a material adverse impact on our assets under management and asset management revenues and earnings.

**As a regulated financial services firm, we are subject to numerous governmental regulations and to comprehensive examination and supervision by regulators, which affect our business as well as our competitive position.**

PNC is a bank holding company and a financial holding company and is subject to numerous governmental regulations involving both its business and organization.

Our businesses are subject to regulation by multiple bank regulatory bodies as well as multiple securities industry regulators. Applicable laws and regulations restrict our ability to repurchase stock or to receive dividends from subsidiaries that operate in the banking and securities businesses and impose capital adequacy requirements. PNC s ability to service its obligations is dependent on the receipt of dividends and advances from its subsidiaries. Applicable laws and regulations also restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, and for the protection of customer information, among other things. We are also subject to laws and regulations designed to combat money laundering, terrorist financing, and transactions with persons, companies or foreign governments designated by U.S. authorities. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions as well as damage to our reputation and businesses.

In addition, we are subject to comprehensive examination and supervision by banking and other regulatory bodies. Examination reports and ratings (which often are not publicly available) and other aspects of this supervisory framework can materially impact the conduct, growth, and profitability of our businesses.

Due to the current economic environment and issues facing the financial services industry, we anticipate that there will be new legislative and regulatory initiatives over the next several years, including many focused specifically on banking and other financial services in which we are engaged. These initiatives will be in addition to the actions already taken by Congress and the regulators, through enactment of the Credit CARD Act, the SAFE Act, and Dodd-Frank, as well as changes to the regulations implementing the Real Estate Settlement Procedures Act, the Federal Truth in Lending Act,

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and the Electronic Fund Transfer Act. Legislative and regulatory initiatives have had and are likely to continue to have an impact on the conduct of our business. This impact could include rules and regulations that affect the nature and profitability of our business activities, how we use our capital, how we compensate and incent our employees, the type and amount of instruments we hold for liquidity purposes, and other matters potentially having a negative effect on our overall business results and prospects.

Under the regulations of the Federal Reserve, a bank holding company is expected to act as a source of financial and managerial strength for its subsidiary banks. As a result, the Federal Reserve could require PNC to commit resources to PNC Bank, N.A. when doing so is not otherwise in the interests of PNC or its shareholders or creditors.

Our ability to pay dividends to shareholders is largely dependent on dividends from our operating subsidiaries, principally PNC Bank, N.A. Banks are subject to regulation that limits and governs the payout of dividends to their holding companies.

We discuss these and other regulatory issues applicable to PNC, including some particular areas of current regulatory focus or concern, in the Supervision and Regulation section included in Item 1 of this Report and in Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report.

A failure to comply, or to have adequate policies and procedures designed to comply, with regulatory requirements could expose us to damages, fines and regulatory penalties and other regulatory actions, which could be significant, and could also injure our reputation with customers and others with whom we do business.

We must comply with generally accepted accounting principles established by the Financial Accounting Standards Board, accounting, disclosure and other rules set forth by the SEC, income tax and other regulations established by the U.S. Treasury and state and local taxing authorities, and revenue rulings and other guidance issued by the Internal Revenue Service, which affect our financial condition and results of operations.

Changes in accounting standards, or interpretations of those standards, can impact our revenue recognition and expense policies and affect our estimation methods used to prepare the consolidated financial statements. Changes in income tax regulations, revenue rulings, revenue procedures, and other guidance can impact our tax liability and alter the timing of cash flows associated with tax deductions and payments. New guidance often dictates how changes to standards and regulations are to be presented in our consolidated financial statements, as either an adjustment to beginning retained earnings for the period or as income or expense in current

period earnings. In some cases, changes may be applied to previously reported disclosures.

**The determination of the amount of loss allowances and impairments taken on our assets is highly subjective, and inaccurate estimates could materially impact our results of operations or financial position.**

The determination of the amount of loss allowances and asset impairments varies by asset type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations are revised. Although we have policies and procedures in place to determine loss allowance and asset impairments, due to the substantial subjective nature of this area, there can be no assurance that our management has accurately assessed the level of impairments taken and allowances reflected in our financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

**Our asset valuation may include methodologies, estimations and assumptions that are subject to differing interpretations and this, along with market factors such as volatility in one or more markets, could result in changes to asset valuations that may materially adversely affect our results of operations or financial condition.**

We must use estimates, assumptions, and judgments when assets and liabilities are measured and reported at fair value. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices and/or other observable inputs provided by independent third-party sources, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques utilizing assumptions such as credit quality, liquidity, interest rates and other relevant inputs. Changes in underlying factors or assumptions in any of the areas underlying our estimates could materially impact our future financial condition and results of operations.

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be more difficult to value certain of our assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were historically in active markets with significant observable data that rapidly become illiquid due to market volatility, a loss in market confidence or other factors. In such cases, valuations in certain asset classes may require

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more subjectivity and management judgment; valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented market conditions in any particular market (e.g. credit, equity, fixed income, foreign exchange) could materially impact the valuation of assets as reported within our consolidated financial statements, and the period-to-period changes in value could vary significantly.

**There are risks resulting from the extensive use of models in our business.**

PNC relies on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, and calculating regulatory capital levels, as well as to estimate the value of financial instruments and balance sheets items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating models will be adversely affected due to the inadequacy of that information. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our shareholders, could be affected adversely due to their perception that the quality of the models used to generate the relevant information is insufficient. See the Model Risk Management portion of the Risk Management section included in Item 7 of this Report.

**We are subject to operational risk.**

Like all businesses, we are subject to operational risk, which represents the risk of loss resulting from inadequate or failed internal processes and systems, human error and external events. Operational risk also encompasses technology, compliance and legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards, as well as the risk of our noncompliance with contractual and other obligations. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to perform operational functions necessary to our business. Although we seek to mitigate operational risk through a system of internal controls which we review and update, no system of controls, however well designed and maintained, is infallible. Control weaknesses or failures or other operational risks could result in charges, increased operational costs, harm to our reputation or foregone business opportunities.

**We continually encounter technological change and we could falter in our ability to remain competitive in this arena.**

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our continued success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that satisfy customer demands and create efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services that allow us to remain competitive or be successful in marketing these products and services to our customers.

**Our information systems may experience interruptions or breaches in security.**

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in disruptions to our accounting, deposit, loan and other systems, and adversely affect our customer relationships. While we have policies, procedures and systems designed to prevent or limit the effect of these possible events, there remains the risk that such a failure, interruption or security breach might occur and, if it does occur, that it might not be sufficiently remediated.

Recently, there have been several well-publicized series of apparently related denial of service attacks on large financial services companies, including PNC. In a denial of service attack, hackers flood commercial websites with extraordinarily high volumes of traffic, with the goal of disrupting the ability of commercial enterprises to process transactions and possibly making their websites unavailable to customers for extended periods of time. The recent attacks against PNC resulted in temporary disruptions in customers ability to access the corporate website and to perform on-line banking transactions, although no customer data was lost or compromised. Furthermore, even if not directed at PNC specifically, attacks on other entities with whom we do business or on whom we otherwise rely or attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of PNC s business.

In addition, there have been increasing efforts on the part of third parties to breach data security at financial institutions or with respect to financial transactions, including through the use of social engineering schemes such as phishing. The ability of our customers to bank remotely, including online and through mobile devices, requires secure transmission of confidential information and increases the risk of data security breaches.

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Because the techniques used to attack financial services company communications and information systems change frequently (and generally increasing in sophistication), often are not recognized until launched against a target, may be supported by foreign governments or other well-financed entities, and may originate from less regulated and remote areas around the world, we may be unable to address these techniques in advance of attacks, including by implementing adequate preventative measures.

Despite temporary disruptions in our ability to provide products and services to our customers, to date these efforts have not had a material impact on PNC. Nonetheless, the occurrence of any such failure, interruption or security breach of our systems, particularly if widespread or resulting in financial losses to our customers, could damage the reputation of PNC, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and financial liability. In addition, the increasing prevalence of cyberattacks and other efforts to breach or disrupt our systems has led, and we expect will continue to lead, to increased costs to PNC with respect to prevention and mitigation of these risks, as well as costs reimbursing customers for losses suffered as a result of these actions. Successful attacks or systems failures at other large financial institutions, whether or not PNC is included, could lead to a general loss of customer confidence in financial institutions with a potential negative impact on PNC s business, additional demands on the part of our regulators, and increased costs to deal with risks identified as a result of the problems affecting others.

**Our business and financial results could be impacted materially by adverse results in legal proceedings.**

Many aspects of our business involve substantial risk of legal liability. We have been named or threatened to be named as defendants in various lawsuits arising from our business activities (and in some cases from the activities of companies we have acquired). In addition, we are regularly the subject of governmental investigations and other forms of regulatory inquiry. We also are at risk when we have agreed to indemnify others for losses related to legal proceedings, including litigation and governmental investigations and inquiries, they face, such as in connection with the sale of a business or assets by us. The results of these legal proceedings could lead to significant monetary damages or penalties, restrictions on the way in which we conduct our business, or reputational harm.

Although we establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, we do not have accruals for all legal proceedings where we face a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, amounts accrued may not represent the ultimate loss to us from the legal proceedings in question. Thus, our ultimate

losses may be higher, and possibly significantly so, than the amounts accrued for legal loss contingencies.

We discuss further the unpredictability of legal proceedings and describe some of our pending legal proceedings in Note 23 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report.

**Our business and financial performance could be adversely affected, directly or indirectly, by disasters, natural or otherwise, by terrorist activities or by international hostilities.**

Neither the occurrence nor the potential impact of disasters (such as earthquakes, hurricanes, tornadoes, floods, fires, explosions, and other severe weather conditions or catastrophic accidents), terrorist activities and international hostilities can be predicted. However, these occurrences could impact us directly (for example, by causing significant damage to our facilities or preventing us from conducting our business in the ordinary course), or indirectly as a result of their impact on our borrowers, depositors, other customers, suppliers or other counterparties. We could also suffer adverse consequences to the extent that disasters, terrorist activities or international hostilities affect the financial markets or the economy in general or in any particular region. These types of impacts could lead, for example, to an increase in delinquencies, bankruptcies or defaults that could result in our experiencing higher levels of nonperforming assets, net charge-offs and provisions for credit losses.

Our ability to mitigate the adverse consequences of such occurrences is in part dependent on the quality of our resiliency planning, and our ability, if any, to anticipate the nature of any such event that occurs. The adverse impact of disasters or terrorist activities or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon but have no control over.

## ITEM 1B UNRESOLVED STAFF COMMENTS

There are no SEC staff comments regarding PNC s periodic or current reports under the Exchange Act that are pending resolution.

## ITEM 2 PROPERTIES

Our executive and primary administrative offices are currently located at One PNC Plaza, Pittsburgh, Pennsylvania. The 30-story structure is owned by PNC Bank, N.A.

We own or lease numerous other premises for use in conducting business activities, including operations centers, offices, and branch and other facilities. We consider the facilities owned or occupied under lease by our subsidiaries to be adequate for the purposes of our business operations. We include here by reference the additional information regarding our properties in Note 11 Premises, Equipment and Leasehold

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Improvements in the Notes To Consolidated Financial Statements in Item 8 of this Report.

**ITEM 3 LEGAL PROCEEDINGS**

See the information set forth in Note 23 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated here by reference.

**ITEM 4 MINE SAFETY DISCLOSURES**

Not applicable

**EXECUTIVE OFFICERS OF THE REGISTRANT**

Information regarding each of our executive officers as of February 22, 2013 is set forth below. Executive officers do not have a stated term of office. Each executive officer has held the position or positions indicated or another executive position with the same entity or one of its affiliates for the past five years unless otherwise indicated below.

| Name | Age | Position with PNC | Year Employed (a) |
|---|---|---|---|
| James E. Rohr | 64 | Chairman and Chief Executive Officer (b) | 1972 |
| William S. Demchak | 50 | President (b) | 2002 |
| Joseph C. Guyaux | 62 | Senior Vice Chairman and Chief Risk Officer | 1972 |
| Thomas K. Whitford | 56 | Vice Chairman | 1983 |
| Joan L. Gulley | 65 | Executive Vice President and Chief Human Resources Officer | 1986 |
| Neil F. Hall | 64 | Executive Vice President | 1995 |
| Michael J. Hannon | 56 | Executive Vice President and Chief Credit Officer | 1982 |
| Robert F. Hoyt | 48 | Executive Vice President, General Counsel, and Chief Regulatory Affairs Officer | 2009 |
| Richard J. Johnson | 56 | Executive Vice President and Chief Financial Officer | 2002 |
| Michael P. Lyons | 42 | Executive Vice President | 2011 |
| Saiyid Naqvi | 63 | Executive Vice President | 2009 |
| E. William Parsley, III | 47 | Executive Vice President, Chief Investment Officer, and Treasurer | 2003 |
| Robert Q. Reilly | 48 | Executive Vice President | 1987 |
| Steven Van Wyk | 54 | Executive Vice President | 2013 |
| Gregory H. Kozich | 49 | Senior Vice President and Controller | 2010 |

(a) Where applicable, refers to year employed by predecessor company.
(b) Mr. Rohr and Mr. Demchak also serve as directors. Biographical information for Mr. Rohr and Mr. Demchak is included in Election of Directors (Item 1) in our proxy statement for the 2013 annual meeting of shareholders. See Item 10 of this Report.

Joseph C. Guyaux was appointed Senior Vice Chairman and Chief Risk Officer in February 2012, prior to which he served as President.

Thomas K. Whitford has served as Vice Chairman since February 2009. He was appointed Chief Administrative Officer in May 2007. From April 2002 through May 2007 and then from November 2009 until April 2010, he served as Chief Risk Officer. Mr. Whitford has announced that he intends to retire from PNC in April 2013.

Joan L. Gulley has served as Chief Human Resources Officer since April 2008. She was appointed Senior Vice President in April 2008 and then Executive Vice President in February 2009. She served as Chief Executive Officer for PNC s wealth management business from 2002 to 2006. From 1998 until April 2008, she served as Executive Vice President of PNC Bank, N.A. and was responsible for product and segment management, as well as advertising and brand management for PNC.

Neil F. Hall has been an Executive Vice President since April 2012 and head of PNC s Retail Banking since February 2012. Prior to being named to his current position, Mr. Hall led the delivery of sales and service to PNC s retail and small business customers, directed branch banking, business banking, community development and PNC Investments. Mr. Hall joined PNC in 1995 and has held various positions within retail banking.

Michael J. Hannon has served as Executive Vice President since February 2009, prior to which he served as Senior Vice President. He has served as Chief Credit Officer since November 2009. From February 2009 to November 2009 he also served as Chief Risk Officer and served as Interim Chief Risk Officer from December 2011 to February 2012.

Robert F. Hoyt has served as General Counsel since June 2012 and as PNC s Chief Regulatory Affairs Officer since May 2009. He served as Senior Deputy General Counsel from October 2009 to May 2012 and as director of business planning from May 2009 to November 2011. He was appointed Executive Vice President in November 2011 and was previously Senior Vice President. From December 2006 to January 2009, Mr. Hoyt served as General Counsel of the U.S. Department of the Treasury.

Richard J. Johnson has served as Chief Financial Officer since August 2005. He was appointed Executive Vice President in February 2009 and was previously Senior Vice President.

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Michael P. Lyons has been an Executive Vice President since November 2011 and is head of Corporate and Institutional Banking. Prior to joining PNC in October 2011, from May 2010 until October 2011, Mr. Lyons was head of corporate development and strategic planning for Bank of America. Prior to joining Bank of America, from September 2004 to May 2010, Mr. Lyons held various positions at Maverick Capital, most recently as a principal focused on financial institutions investments.

Saiyid Naqvi has been an Executive Vice President since April 2012 and has served as Chief Executive Officer of PNC Mortgage since he returned to PNC in 2009. Mr. Naqvi had previously served as Chief Executive Officer of PNC Mortgage from 1993 until its sale in 2001. Prior to returning to PNC in 2009, Mr. Naqvi served as president of Harley Davidson Financial Services Inc.

E. William Parsley, III has served as Treasurer and Chief Investment Officer since January 2004. He was appointed Executive Vice President of PNC in February 2009.

Robert Q. Reilly has served as the head of PNC s Asset Management Group since 2005. Previously, he held numerous management roles in both Corporate Banking and Asset Management. He was appointed Executive Vice President in February 2009.

Steven Van Wyk joined PNC as head of Technology and Operations in January 2013. Prior to joining PNC, Mr. Van Wyk served as Global Chief Operating Officer for ING. He was appointed Executive Vice President of PNC in February 2013.

Gregory H. Kozich has served as a Senior Vice President and Corporate Controller of PNC since 2011. Mr. Kozich joined PNC as Senior Vice President of PNC Bank, N.A. in October 2010. Prior to joining PNC, Mr. Kozich was with Fannie Mae from 2005 until late 2010, most recently serving as its corporate controller.

**DIRECTORS OF THE REGISTRANT**

The name, age and principal occupation of each of our directors as of February 22, 2013, and the year he or she first became a director is set forth below:

Richard O. Berndt, 70, Managing Partner of Gallagher, Evelius & Jones LLP (*law firm*) (2007)
Charles E. Bunch, 63, Chairman and Chief Executive Officer of PPG Industries, Inc. (*coatings, sealants and glass products*) (2007)
Paul W. Chellgren, 70, Operating Partner, Snow Phipps Group, LLC (*private equity*) (1995)
William S. Demchak, 50, President of PNC (2013)
Kay Coles James, 63, President and Founder of The Gloucester Institute (*non-profit*) (2006)
Richard B. Kelson, 66, President and Chief Executive Officer, ServCo, LLC (*strategic sourcing, supply chain management*) (2002)
Bruce C. Lindsay, 71, Chairman and Managing Member of 2117 Associates, LLC (*business consulting firm)* (1995)
Anthony A. Massaro, 68, Retired Chairman and Chief Executive Officer of Lincoln Electric Holdings, Inc. (*manufacturer of welding and cutting products*) (2002)
Jane G. Pepper, 67, Retired President of the Pennsylvania Horticultural Society (*non-profit*) (1997)
James E. Rohr, 64, Chairman and Chief Executive Officer of PNC (1990)
Donald J. Shepard, 66, Retired Chairman of the Executive Board and Chief Executive Officer of AEGON N.V. (*insurance*) (2007)
Lorene K. Steffes, 67, Independent Business Advisor (*technology and technical services*) (2000)
Dennis F. Strigl, 66, Retired President and Chief Operating Officer of Verizon Communications Inc. (*telecommunications*) (2001)
Thomas J. Usher, 70, Non-executive Chairman of Marathon Petroleum Corporation (*oil and gas industry*) (1992)
George H. Walls, Jr., 70, former Chief Deputy Auditor for the State of North Carolina (2006)
Helge H. Wehmeier, 70, Retired Vice Chairman of Bayer Corporation (*healthcare, crop protection, and chemicals*) (1992)

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**PART II**

**ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a) (1) Our common stock is listed on the New York Stock Exchange and is traded under the symbol PNC. At the close of business on February 15, 2013, there were 75,100 common shareholders of record.

Holders of PNC common stock are entitled to receive dividends when declared by the Board of Directors out of funds legally available for this purpose. Our Board of Directors may not pay or set apart dividends on the common stock until dividends for all past dividend periods on any series of outstanding preferred stock have been paid or declared and set apart for payment. The Board presently intends to continue the policy of paying quarterly cash dividends. The amount of any future dividends will depend on economic and market conditions, our financial condition and operating results, and other factors, including contractual restrictions and applicable government regulations and policies (such as those relating to the ability of bank and non-bank subsidiaries to pay dividends to the parent company and regulatory capital limitations). The amount of our dividend is also currently subject to the results of the Federal Reserve s 2013 Comprehensive Capital Analysis and Review (CCAR) as part of its supervisory assessment of capital adequacy described under Supervision and Regulation in Item 1 of this Report.

The Federal Reserve has the power to prohibit us from paying dividends without its approval. For further information concerning dividend restrictions and restrictions on loans, dividends or advances from bank subsidiaries to the parent company, see Supervision and Regulation in Item 1 of this Report, Funding and Capital Sources in the Consolidated Balance Sheet Review section, Liquidity Risk Management in the Risk Management section, and Trust Preferred Securities in the Off-Balance Sheet Arrangements And Variable Interest Entities section of Item 7 of this Report, and Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities and Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, which we include here by reference.

We include here by reference additional information relating to PNC common stock under the caption Common Stock Prices/Dividends Declared in the Statistical Information (Unaudited) section of Item 8 of this Report.

We include here by reference the information regarding our compensation plans under which PNC equity securities are authorized for issuance as of December 31, 2012 in the table (with introductory paragraph and notes) that appears in Item 12 of this Report.

Our registrar, stock transfer agent, and dividend disbursing agent is:

Computershare Trust Company, N.A.

250 Royall Street

Canton, MA 02021

800-982-7652

We include here by reference the information that appears under the caption Common Stock Performance Graph at the end of this Item 5.

(a)(2) None.

(b) Not applicable.

(c) Details of our repurchases of PNC common stock during the fourth quarter of 2012 are included in the following table:
In thousands, except per share data

| 2012 period (a) | Total shares purchased (b) | Average price paid per share | Total shares purchased as part of publicly announced programs (c) | Maximum number of shares that may yet be purchased under the programs (c) |
|---|---|---|---|---|
| October 1 31 | 13 | $ 60.05 | | 22,552 |
| November 1 30 | 750 | $ 55.08 | 750 | 21,802 |
| December 1 31 | 292 | $ 55.74 | 251 | 21,551 |
| Total | 1,055 | $ 55.32 | 1,001 | |

(a) In addition to the repurchases of PNC common stock during the fourth quarter of 2012 included in the table above, PNC redeemed all 5,001 shares of its Series M Preferred Stock on December 10, 2012 as further described below.

As part of the National City transaction, we established the PNC Non-Cumulative Perpetual Preferred Stock, Series M (the Series M Preferred Stock ), which mirrored in all material respects the former National City Non-Cumulative Perpetual Preferred Stock, Series E. On December 10, 2012, PNC issued $500.1 million aggregate liquidation amount (5,001 shares) of the Series M Preferred Stock to the National City Preferred Capital Trust I (the Trust ) as required pursuant to the settlement of a Stock Purchase Contract Agreement between the Trust and PNC dated as of January 30, 2008. Immediately upon such issuance, PNC redeemed all 5,001 shares of the Series M Preferred Stock from the Trust on December 10, 2012 at a redemption price equal to $100,000 per share.

(b) Includes PNC common stock purchased under the program referred to in note (c) to this table and PNC common stock purchased in connection with our various employee benefit plans. Note 15 Employee Benefit Plans and Note 16 Stock Based Compensation Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report include additional information regarding our employee benefit plans that use PNC common stock.

(c) Our current stock repurchase program allows us to purchase up to 25 million shares on the open market or in privately negotiated transactions. This program was authorized on October 4, 2007 and 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 capital and regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, and contractual and regulatory limitations, including the impact of the Federal Reserve s supervisory assessment of capital adequacy program.

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**COMMON STOCK PERFORMANCE GRAPH**

This graph shows the cumulative total shareholder return (i.e., price change plus reinvestment of dividends) on our common stock during the five-year period ended December 31, 2012, as compared with: (1) a selected peer group of our competitors, called the Peer Group; (2) an overall stock market index, the S&P 500 Index; and (3) a published industry index, the S&P 500 Banks. The yearly points marked on the horizontal axis of the graph correspond to December 31 of that year. The stock performance graph assumes that $100 was invested on January 1, 2008 for the five-year period and that any dividends were reinvested. The table below the graph shows the resultant compound annual growth rate for the performance period.

| | Assumes $100 investment at Close of Market on December 31, 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Base Period | Total Return = Price change plus reinvestment of dividends | | | | | 5-Year Compound Growth Rate |
| | Dec. 07 | Dec. 08 | Dec. 09 | Dec. 10 | Dec. 11 | Dec. 12 | |
| PNC | 100 | 77.82 | 85.81 | 99.37 | 96.33 | 99.87 | (0.03)% |
| S&P 500 Index | 100 | 63.00 | 79.68 | 91.68 | 93.61 | 108.59 | 1.66 % |
| S&P 500 Banks | 100 | 52.51 | 49.05 | 58.78 | 52.53 | 65.28 | (8.18)% |
| Peer Group | 100 | 69.81 | 75.86 | 96.52 | 82.36 | 99.87 | (0.03)% |

The Peer Group for the preceding chart and table consists of the following companies: BB&T Corporation; Comerica Inc.; Fifth Third Bancorp; KeyCorp; The PNC Financial Services Group, Inc.; SunTrust Banks, Inc.; U.S. Bancorp; Regions Financial Corporation; Wells Fargo & Company; Capital One Financial, Inc.; Bank of America Corporation; M&T Bank; and JP Morgan Chase and Company. This Peer Group was approved by the Board s Personnel and Compensation Committee (the Committee) for 2012. The Committee has approved the same Peer Group for 2013.

Each yearly point for the Peer Group is determined by calculating the cumulative total shareholder return for each company in the Peer Group from December 31, 2007 to December 31 of that year (End of Month Dividend Reinvestment Assumed) and then using the median of these returns as the yearly plot point.

In accordance with the rules of the SEC, this section, captioned Common Stock Performance Graph, shall not be incorporated by reference into any of our future filings made under the Securities Exchange Act of 1934 or the Securities Act of 1933. The Common Stock Performance Graph, including its accompanying table and footnotes, is not deemed to be soliciting material or to be filed under the Exchange Act or the Securities Act.

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## ITEM 6 SELECTED FINANCIAL DATA

| | Year ended December 31 | | | | |
|---|---|---|---|---|---|
| Dollars in millions, except per share data | 2012 (a) (b) | 2011 (b) | 2010 (b) | 2009 (b) | 2008 |
| **SUMMARY OF OPERATIONS** | | | | | |
| Interest income | $ 10,734 | $ 10,194 | $ 11,150 | $ 12,086 | $ 6,301 |
| Interest expense | 1,094 | 1,494 | 1,920 | 3,003 | 2,447 |
| Net interest income | 9,640 | 8,700 | 9,230 | 9,083 | 3,854 |
| Noninterest income (c) | 5,872 | 5,626 | 5,946 | 7,145 | 2,442 |
| Total revenue | 15,512 | 14,326 | 15,176 | 16,228 | 6,296 |
| Provision for credit losses (d) | 987 | 1,152 | 2,502 | 3,930 | 1,517 |
| Noninterest expense | 10,582 | 9,105 | 8,613 | 9,073 | 3,685 |
| Income from continuing operations before income taxes and noncontrolling interests | 3,943 | 4,069 | 4,061 | 3,225 | 1,094 |
| Income taxes | 942 | 998 | 1,037 | 867 | 298 |
| Income from continuing operations before noncontrolling interests | 3,001 | 3,071 | 3,024 | 2,358 | 796 |
| Income from discontinued operations (net of income taxes of zero, zero, $338, $54 and $63) (e) | | | 373 | 45 | 118 |
| Net income | 3,001 | 3,071 | 3,397 | 2,403 | 914 |
| Less: Net income (loss) attributable to noncontrolling interests | (12) | 15 | (15) | (44) | 32 |
| Preferred stock dividends (f) | 177 | 56 | 146 | 388 | 21 |
| Preferred stock discount accretion and redemptions (f) | 4 | 2 | 255 | 56 | |
| Net income attributable to common shareholders (f) | $ 2,832 | $ 2,998 | $ 3,011 | $ 2,003 | $ 861 |
| **PER COMMON SHARE** | | | | | |
| Basic earnings | | | | | |
| Continuing operations | $ 5.36 | $ 5.70 | $ 5.08 | $ 4.30 | $ 2.15 |
| Discontinued operations (e) | | | .72 | .10 | .34 |
| Net income | $ 5.36 | $ 5.70 | $ 5.80 | $ 4.40 | $ 2.49 |
| Diluted earnings | | | | | |
| Continuing operations | $ 5.30 | $ 5.64 | $ 5.02 | $ 4.26 | $ 2.10 |
| Discontinued operations (e) | | | .72 | .10 | .34 |
| Net income | $ 5.30 | $ 5.64 | $ 5.74 | $ 4.36 | $ 2.44 |
| Book value | $ 67.05 | $ 61.52 | $ 56.29 | $ 47.68 | $ 39.44 |
| Cash dividends declared | $ 1.55 | $ 1.15 | $ .40 | $ .96 | $ 2.61 |

(a) Includes the impact of RBC Bank (USA), which we acquired on March 2, 2012.

(b) Includes the impact of National City, which we acquired on December 31, 2008.

(c) Amount for 2009 includes recognition of a $1.1 billion pretax gain on our portion of the increase in BlackRock s equity resulting from the value of BlackRock shares issued in connection with BlackRock s acquisition of Barclays Global Investors (BGI) on December 1, 2009.

(d) Amount for 2008 includes the $504 million conforming provision for credit losses related to our National City acquisition.

(e) Includes results of operations for PNC Global Investment Servicing Inc. (GIS) through June 30, 2010 and the related after-tax gain on sale. We sold GIS effective July 1, 2010, resulting in a gain of $639 million, or $328 million after taxes, recognized during the third quarter of 2010. See Sale of PNC Global Investment Servicing in the Executive Summary section of Item 7 and Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information.

(f) We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of $250 million in the first quarter of 2010. This resulted in a noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share. The Series N Preferred Stock was issued on December 31, 2008.

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.

For information regarding certain business, regulatory and legal risks, see Item 1A Risk Factors, the Risk Management section of Item 7 of this Report, and Note 23 Legal Proceedings and Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information. Also, see the Cautionary Statement Regarding Forward-Looking Information and Critical Accounting Estimates And Judgments sections included in Item 7 of this Report for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See also the Executive Summary section in Item 7 of this Report for additional information affecting financial performance.

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| | At or for the year ended December 31 | | | | |
|---|---|---|---|---|---|
| Dollars in millions, except as noted | 2012 (a) (b) | 2011 (b) | 2010 (b) | 2009 (b) | 2008 (c) |
| **Balance Sheet Highlights** | | | | | |
| Assets | $ 305,107 | $ 271,205 | $ 264,284 | $ 269,863 | $ 291,081 |
| Loans | 185,856 | 159,014 | 150,595 | 157,543 | 175,489 |
| Allowance for loan and lease losses | 4,036 | 4,347 | 4,887 | 5,072 | 3,917 |
| Interest-earning deposits with banks | 3,984 | 1,169 | 1,610 | 4,488 | 14,859 |
| Investment securities | 61,406 | 60,634 | 64,262 | 56,027 | 43,473 |
| Loans held for sale | 3,693 | 2,936 | 3,492 | 2,539 | 4,366 |
| Goodwill and other intangible assets | 10,869 | 10,144 | 10,753 | 12,909 | 11,688 |
| Equity investments | 10,877 | 10,134 | 9,220 | 10,254 | 8,554 |
| Noninterest-bearing deposits | 69,980 | 59,048 | 50,019 | 44,384 | 37,148 |
| Interest-bearing deposits | 143,162 | 128,918 | 133,371 | 142,538 | 155,717 |
| Total deposits | 213,142 | 187,966 | 183,390 | 186,922 | 192,865 |
| Transaction deposits (d) | 176,705 | 147,637 | 134,654 | 126,244 | 110,997 |
| Borrowed funds (e) | 40,907 | 36,704 | 39,488 | 39,261 | 52,240 |
| Total shareholders equity | 39,003 | 34,053 | 30,242 | 29,942 | 25,422 |
| Common shareholders equity | 35,413 | 32,417 | 29,596 | 22,011 | 17,490 |
| **Client Assets** (billions) | | | | | |
| Discretionary assets under management | $ 112 | $ 107 | $ 108 | $ 103 | $ 103 |
| Nondiscretionary assets under management | 112 | 103 | 104 | 102 | 125 |
| Total assets under administration | 224 | 210 | 212 | 205 | 228 |
| Brokerage account assets (f) | 38 | 34 | 34 | 32 | 29 |
| Total client assets | $ 262 | $ 244 | $ 246 | $ 237 | $ 257 |
| **Selected Ratios** | | | | | |
| Net interest margin (g) | 3.94% | 3.92% | 4.14% | 3.82% | 3.37% |
| Noninterest income to total revenue | 38 | 39 | 39 | 44 | 39 |
| Efficiency | 68 | 64 | 57 | 56 | 59 |
| Return on | | | | | |
| Average common shareholders equity | 8.31 | 9.56 | 10.88 | 9.78 | 6.52 |
| Average assets | 1.02 | 1.16 | 1.28 | .87 | .64 |
| Loans to deposits | 87 | 85 | 82 | 84 | 91 |
| Dividend payout | 29.0 | 20.2 | 6.8 | 21.4 | 104.6 |
| Tier 1 common | 9.6 | 10.3 | 9.8 | 6.0 | 4.8 |
| Tier 1 risk-based | 11.6 | 12.6 | 12.1 | 11.4 | 9.7 |
| Common shareholders equity to total assets | 11.6 | 12.0 | 11.2 | 8.2 | 6.0 |
| Average common shareholders equity to average assets | 11.5 | 11.9 | 10.4 | 7.2 | 9.6 |
| **Selected Statistics** | | | | | |
| Employees | 56,285 | 51,891 | 50,769 | 55,820 | 59,595 |
| Retail Banking branches | 2,881 | 2,511 | 2,470 | 2,513 | 2,581 |
| ATMs | 7,282 | 6,806 | 6,673 | 6,473 | 6,233 |
| Residential mortgage servicing portfolio (billions) | $ 135 | $ 131 | $ 139 | $ 158 | $ 187 |
| Commercial mortgage servicing portfolio (billions) | $ 282 | $ 267 | $ 266 | $ 287 | $ 270 |

(a) Includes the impact of RBC Bank (USA), which we acquired on March 2, 2012.

(b) Includes the impact of National City, which we acquired on December 31, 2008.

(c) Includes the impact of National City except for the following Selected Ratios: Net interest margin, Noninterest income to total revenue, Efficiency, Return on Average common shareholders equity, Return on Average assets, Dividend payout and Average common shareholders equity to average assets.

(d) Represents the sum of interest-bearing money market deposits, interest-bearing demand deposits, and noninterest-bearing deposits.

(e) Includes long-term borrowings of $19.3 billion, $20.9 billion, $24.8 billion, $26.3 billion and $33.6 billion for 2012, 2011, 2010, 2009 and 2008, respectively. Borrowings which mature more than one year after December 31, 2012 are considered to be long-term.

(f) Amounts for 2012, 2011 and 2010 include cash and money market balances.

(g) Calculated as 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 accounting principles generally accepted in the United States of America (GAAP) on the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the years 2012, 2011, 2010, 2009 and 2008 were $144 million, $104 million, $81 million, $65 million and $36 million, respectively.

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## ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

# EXECUTIVE SUMMARY

***KEY STRATEGIC GOALS***

At PNC we manage our company for the long term. We are focused on revenue growth, with an emphasis on deepening customer relationships and increasing fee income, while reducing expenses. Our goal for 2013 is to deliver positive operating leverage and create momentum going into 2014, while investing for the future, and managing risk and capital. We continue to invest in our products, markets and brand, and embrace our corporate responsibility to the communities where we do business.

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

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

Our priorities for 2013 are to build capital to support client growth and business investment, maintain appropriate capital in light of economic uncertainty and the Basel III framework and return excess capital to shareholders, subject to regulatory approval. We continue to work to improve the quality of our capital and expect to build capital through retained earnings. PNC continues to maintain a strong bank holding company liquidity position. See the Capital and Liquidity Actions section of this Executive Summary, the Funding and Capital Sources section of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 of this Report.

***RBC BANK (USA) ACQUISITION***

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

RBC Bank (USA), based in Raleigh, North Carolina, operated more than 400 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The primary reasons for the acquisition of RBC Bank (USA) were to enhance shareholder value, to improve PNC s competitive position in the financial services industry, and to further expand PNC s existing branch network in the states where it currently operates as well as expanding into new markets. When combined with PNC s existing network, PNC now has 2,881 branches across 17 states and the District of Columbia, ranking it fifth among U.S. banks in branches. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information regarding this acquisition and the Smartstreet divestiture and 2011 branch acquisitions described below.

***SALE OF SMARTSTREET***

Effective October 26, 2012, PNC divested certain deposits and assets of the Smartstreet business unit, which was acquired by PNC as part of the RBC Bank (USA) acquisition, to Union Bank, N.A. Smartstreet is a nationwide business focused on homeowner or community association managers and had approximately $1 billion of assets and deposits as of September 30, 2012. The gain on sale was immaterial and resulted in a reduction of goodwill and core deposit intangibles of $46 million and $13 million, respectively.

***BRANCH ACQUISITIONS***

Effective December 9, 2011, PNC acquired 27 branches in the northern metropolitan Atlanta, Georgia area from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc. Effective June 6, 2011, PNC acquired 19 branches in the greater Tampa, Florida area from BankAtlantic, a subsidiary of BankAtlantic Bancorp, Inc. Our Consolidated Income Statement includes the impact of the branch activity subsequent to each date of the respective acquisitions.

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### *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. The pretax gain in discontinued operations recorded in the third quarter of 2010 related to this sale was $639 million, net of transaction costs, 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 the Notes To Consolidated Financial Statements in Item 8 of this Report.

### *Capital and Liquidity Actions*

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Board of Governors of the Federal Reserve System (Federal Reserve) and our primary bank regulators as part of the Comprehensive Capital Analysis and Review (CCAR) process. This capital adequacy assessment is based on a review of a comprehensive capital plan submitted to the Federal Reserve. In connection with the 2013 CCAR, PNC filed its capital plan and stress testing results with the Federal Reserve on January 7, 2013. PNC expects to receive the Federal Reserve s response (either a non-objection or objection) to the capital plan submitted as part of the 2013 CCAR by March 15, 2013. For additional information concerning the CCAR process and the factors the Federal Reserve takes into consideration in evaluating capital plans, see Item 1 Business Supervision and Regulation of this Report.

A summary of 2012 capital and liquidity actions follows.

#### Debt Securities Issued

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

On June 20, 2012, PNC Bank, N.A. issued $1.0 billion of senior extendible floating rate bank notes with an initial maturity date of July 20, 2013, subject to the holder s monthly option to extend, and a final maturity date of June 20, 2014.

Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder.

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

#### Trust Preferred Securities Redeemed

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

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

#### Preferred Stock Issued

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

On September 21, 2012 we issued 18 million depositary shares, each representing a 1/4,000th interest in a share of our 5.375% Non-Cumulative Perpetual Preferred Stock, Series Q, in an underwritten public offering resulting in gross proceeds of $450 million to us before commissions and expenses. On October 9, 2012, pursuant to the underwriting agreement for this offering, we issued an additional 1.2 million depositary shares in satisfaction of an option granted to the underwriters in the underwriting agreement to cover over-allotments, resulting in additional gross proceeds of $30 million. We used the net proceeds from the sales of the depositary shares for general corporate purposes, which included advances to our subsidiaries to finance their activities, repayment of outstanding indebtedness, and repurchases and redemptions of issued and outstanding securities of PNC and its subsidiaries.

SENIOR DEBT ISSUED AND REDEMPTION OF NORMAL APEX

On November 9, 2012 PNC issued $500.1 million of its parent company Senior Notes due November 9, 2022 (the Senior Notes ) which were sold in a secondary public offering made in connection with the remarketing of PNC s Remarketable 8.729% Junior Subordinated Notes due 2043 (the Subordinated Notes ) owned by the National City Preferred Capital Trust I (the Trust ). In the remarketing the Trust sold the Subordinated Notes and PNC exchanged the Senior Notes with the purchasers of the Subordinated Notes. The Senior Notes were then sold by the purchasers in the secondary public offering. The Senior Notes bore interest at 8.729% from and including June 10, 2012, to but excluding November 9, 2012 and thereafter bear interest at 2.854% per annum. The proceeds of the remarketing were ultimately used by the Trust, after the completion of the Preferred Stock transactions described below, to redeem all $500.0 million outstanding of its 12% Fixed-to-Floating Rate Normal APEX and $.1 million Common Securities of the Trust.

In the fourth quarter of 2012, PNC incurred noncash charges for unamortized discounts of $70 million related to this redemption. After the closing of these transactions, including the redemption of the Normal APEX, only the Senior Notes due November 9, 2022 remain outstanding.

As required under a stock purchase contract agreement, the Trust purchased $500.1 million of PNC s Non-Cumulative Perpetual Preferred Stock, Series M (the Preferred Stock ). PNC then redeemed all of the Preferred Stock from the Trust immediately upon its issuance. See Note 19 Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report for further detail.

A summary of 2013 capital and liquidity actions to date follows.

On January 28, 2013, PNC Bank, N.A. issued:

- $750 million of fixed rate senior notes with a maturity date of January 28, 2016. Interest is payable semi-annually, at a fixed rate of .80%, on January 28 and July 28 of each year, beginning on July 28, 2013.
- $250 million of floating rate senior notes with a maturity date of January 28, 2016. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .31% on January 28, April 28, July 28, and October 28 of each year, beginning on April 28, 2013.
- $750 million of subordinated notes with a maturity date of January 30, 2023. Interest is payable semi-annually, at a fixed rate of 2.905%, on January 30 and July 30 of each year, beginning on July 30, 2013.

On February 7, 2013, PNC announced that on March 15, 2013 we will redeem all $375 million of REIT preferred securities

issued by PNC Preferred Funding Trust III. See Note 27 Subsequent Events in the Notes To Consolidated Financial Statements in Item 8 of this Report.

***RECENT MARKET AND INDUSTRY DEVELOPMENTS***

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

The United States and other governments have undertaken major reform of the regulation of the financial services industry, including engaging in new efforts to impose requirements designed to strengthen the stability of the financial system and protect consumers and investors. We expect to face further increased regulation of our industry as a result of current and future initiatives intended to provide economic stimulus, financial market stability and enhanced regulation of financial services companies and to enhance the liquidity and solvency of financial institutions and markets. We also expect in many cases more intense scrutiny from our bank supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state levels. Compliance with new regulations will increase our costs and reduce our revenue. Some new regulations may limit our ability to pursue certain desirable business opportunities.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), enacted in July 2010, mandates the most wide-ranging overhaul of financial industry regulation in decades. 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.

Until such time as the regulatory agencies issue final regulations implementing all of the numerous provisions of Dodd-Frank, PNC will not be able to fully assess the impact the legislation will have on its businesses. However, we believe that the expected changes will be manageable for PNC and will have an overall smaller impact on us than on our larger peers.

Included in these recent legislative and regulatory developments are evolving regulatory capital standards for financial institutions. These evolving standards include the three sets of proposed rules that the U.S. banking agencies released in June 2012 to implement the Basel III regulatory capital framework developed by the Basel Committee on Banking Supervision (Basel III) and also make other changes to U.S. regulatory capital standards for banking institutions. The Basel III proposed rules include heightened capital requirements for banking institutions in terms of both higher quality capital and higher regulatory capital ratios. The proposed Basel III rules would become effective under a phase-in period and would be in full effect on January 1, 2019.

The capital rules issued by the Federal banking agencies in June 2012 would also revise the manner in which a banking institution determines its risk-weighted assets for risk-based capital purposes under the Basel II framework applicable to large or internationally active banks (referred to as the advanced approaches) and under the Basel I framework applicable to all banking institutions (referred to as the standardized approach). For additional information on the proposed capital rules issued by the U.S. banking agencies in June 2012 and the potential impact of such rules on PNC, please see Risk Factors in Item 1A of this Report.

The public comment period on these three sets of proposed rules closed on October 22, 2012, and final rules have not yet been issued. The agencies originally proposed that the Basel III and advanced approaches proposal would become effective on January 1, 2013, but subsequently indicated that the effective date of these rules remains under consideration. The standardized approach proposal is proposed to become effective on January 1, 2015.

In June 2012, the Federal banking agencies also adopted final market risk capital rules to implement the enhancements to the market risk framework adopted by the Basel Committee (commonly referred to as Basel II.5 ). The final rules, which apply to PNC, became effective January 1, 2013 and, among other things, narrow the types of positions that are subject to the market risk capital framework, establish a new stressed Value at Risk ( VaR ) charge for covered trading positions, provide for certain market risk-related public disclosures and replace references to credit ratings in the market risk rules with alternative methodologies for assessing credit risk.

A number of other 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 regulatory agencies (such as the Consumer Financial Protection Bureau (CFPB)), consumer protection regulation, enhanced prudential standards (including stress test requirements), limitations on investment in and sponsorship of funds, risk retention by securitization participants, new regulation of derivatives, and potential applicability of state consumer protection laws) and some of their potential impacts on PNC in Item 1 Business Supervision and Regulation and Item 1A Risk Factors of this Report.

As noted in prior filings, in April 2011, PNC and other mortgage servicers entered into Consent Orders with the OCC and Federal Reserve Board requiring, among other matters, that the servicers retain independent consultants to conduct reviews of default and foreclosure files from the 2009-2010 timeframe regarding possible improper financial harm to borrowers as a result of such default and foreclosure activities. In early 2013, PNC and 12 other servicers agreed with the OCC and the Federal Reserve to end the independent consultants files review program and to replace it with an

accelerated remediation process. PNC agreed to pay approximately $70 million for distribution to potentially affected borrowers in the review population, and agreed to provide approximately $111 million in additional loss mitigation or other foreclosure prevention relief, which may be satisfied pursuant to the amended consent orders by a variety of borrower relief actions or by additional cash payments or resource commitments to borrower counseling or education. PNC expects residential mortgage foreclosure-related compliance expenses to decrease substantially in 2013 compared with 2012.

There have been, and continue to be, numerous other governmental, legislative and regulatory inquiries and investigations on this topic and other issues related to mortgage lending and servicing. These inquiries and investigations may result in significant additional actions, penalties or other remedies.

For additional information, including with respect to some of the governmental, legislative and regulatory inquiries and investigations, please see Risk Factors in Item 1A of this Report and Note 23 Legal Proceedings and Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report.

The mortgage industry, including PNC, has seen further changes in behavior and demand patterns of government-sponsored enterprises, FHLMC and FNMA, for loans sold into agency securitizations, primarily focused on loans originated prior to 2008. PNC recorded an additional pre-tax provision of $761 million in 2012 for residential mortgage repurchase obligations related to expected elevated levels of repurchase demands bringing the total reserve on our balance sheet for residential mortgage repurchase claims at December 31, 2012 to $614 million.

***Hurricane Sandy***

During the last week of October 2012, Hurricane Sandy caused widespread damage along the East Coast particularly in New Jersey, a key market area for us. The storm resulted in significant property damage to our customers, the closing or disruption of many businesses and damage to the community infrastructure. Despite the damage and disruption to some of its branches and facilities, PNC assisted its customers, clients and borrowers in the affected areas. PNC waived a number of checking account and loan fees, including late payment fees on business and consumer loans, which did not have a significant impact to PNC s financial statements. PNC also incurred expenses related to Hurricane Sandy the majority of which are related to damage to branches in the affected areas. In addition, PNC also experienced some credit-related expenses. These expenses did not have a significant impact to PNC s financial statements.

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***KEY FACTORS AFFECTING FINANCIAL PERFORMANCE***

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

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

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

- Further success in growing profitability through the acquisition and retention of customers,
- Continued development of the geographic markets related to our recent acquisitions, including full deployment of our product offerings into our Southeast markets,
- Revenue growth and our ability to provide innovative and valued products to our customers,
- Our ability to utilize technology to develop and deliver products and services to our customers,
- Our ability to manage and implement strategic business objectives within the changing regulatory environment,
- A sustained focus on expense management,
- Managing the non-strategic assets portfolio and impaired assets,
- Improving our overall asset quality,
- Continuing to maintain and grow our deposit base as a low-cost funding source,
- Prudent risk and capital management related to our efforts to manage risk in keeping with a moderate risk philosophy, and to meet evolving regulatory capital standards,
- Actions we take within the capital and other financial markets,
- The impact of legal and regulatory-related contingencies, and
- The appropriateness of reserves needed for critical estimates and related contingencies.

For additional information, please see Risk Factors in Item 1A of this Report and the Cautionary Statement Regarding Forward-Looking Information section in this Item 7.

***Table 1: Summary Financial Results***

| Year ended December 31 | 2012 | 2011 |
|---|---|---|
| Net income (millions) | $ 3,001 | $ 3,071 |
| Diluted earnings per common share from net income | $ 5.30 | $ 5.64 |
| Return from net income on: | | |
| Average common shareholders equity | 8.31% | 9.56% |
| Average assets | 1.02% | 1.16% |

***INCOME STATEMENT HIGHLIGHTS***

Our performance in 2012 included the following:

- Net income for 2012 of $3.0 billion decreased 2 percent compared to 2011. Revenue growth of 8 percent and a decline in the provision for credit losses were more than offset by a 16 percent increase in noninterest expense in 2012 compared with 2011. Further detail is included below and in the Consolidated Income Statement Review section of this Item 7.
- Net interest income of $9.6 billion for 2012 increased 11 percent compared with 2011 driven by the impact of the RBC Bank (USA) acquisition, organic loan growth and lower funding costs.
- Noninterest income of $5.9 billion for 2012 increased $.2 billion compared to 2011. The increase was primarily driven by higher residential mortgage loans sales revenue related to an increase in loan origination volume, gains on sales of Visa Class B common shares and higher corporate service fees, largely offset by higher provision for residential mortgage repurchase obligations.

The provision for credit losses decreased to $1.0 billion for 2012 compared to $1.2 billion for 2011. The decline in the comparison was driven by overall credit quality improvement.

Noninterest expense of $10.6 billion for 2012 increased $1.5 billion compared with 2011 primarily driven by operating expense for the RBC Bank (USA) acquisition, higher integration costs, increased noncash charges related to redemption of trust preferred securities and a charge for residential mortgage banking goodwill impairment, partially offset by the impact from higher residential mortgage foreclosure-related expenses in 2011.

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***CREDIT QUALITY HIGHLIGHTS***

- Overall credit quality improved during 2012.
- Nonperforming assets of $3.8 billion at December 31, 2012 decreased 9 percent compared to December 31, 2011. The decrease in nonperforming assets from December 31, 2011 was primarily attributable to decreases in commercial real estate and commercial nonperforming loans. This decrease was partially offset by the acquisition of RBC Bank (USA) and higher nonperforming home equity loans from a change in policy for home equity loans past due 90 days being placed on nonaccrual status, compared to a prior policy of past due 180 days. Additionally, pursuant to regulatory guidance issued in the third quarter of 2012, nonperforming consumer loans increased related to changes in treatment of certain loans classified as TDRs resulting from bankruptcy. Of these loans, approximately 78% were current on their payments as of December 31, 2012. Further detail is included in the Credit Risk Management portion of the Risk Management section of this Item 7.
- Accruing loans past due 90 days or more of $2.4 billion at December 31, 2012 decreased $.6 billion, or 21 percent, from December 31, 2011, primarily due to a decline in government insured delinquent residential real estate loans, a decline in delinquent home equity loans due to a change in policy for home equity loans past due 90 days being placed on nonaccrual status, compared to prior policy of past due 180 days, and a decrease in non government insured residential real estate loans pursuant to regulatory guidance issued in the third quarter of 2012 related to changes in treatment of certain loans classified as TDRs resulting from bankruptcy. Further detail is included in the Credit Risk Management portion of the Risk Management section of this Item 7.
- Net charge-offs of $1.3 billion for 2012 were down 21 percent compared to net charge-offs of $1.6 billion for 2011. The allowance for loan and lease losses was 2.17% of total loans and 124% of nonperforming loans at December 31, 2012, compared with 2.73% and 122% at December 31, 2011, respectively.

***BALANCE SHEET HIGHLIGHTS***

- Total loans increased by $27 billion, or 17 percent, to $186 billion at December 31, 2012 compared to $159 billion at December 31, 2011.
  - Total commercial lending increased by $20.6 billion, or 23 percent, from December 31, 2011, due to strong organic growth and the impact from the RBC Bank (USA) acquisition.
  - Total consumer lending increased $6.2 billion, or 9 percent, from December 31, 2011 primarily in home equity and automobile loans,
    including the impact from the RBC Bank (USA) acquisition.
- Total deposits were $213 billion at December 31, 2012 compared with $188 billion at December 31, 2011.
  - Transaction deposits increased to $177 billion at December 31, 2012 compared to $148 billion at December 31, 2011, including the impact from the RBC Bank (USA) acquisition as well as organic transaction deposit growth from increases in both consumer and commercial liquidity. Transaction deposits were 83% percent of total deposits at December 31, 2012, reflecting our strong customer focus and core strategy to grow checking relationships.
  - Retail certificates of deposit declined by $5.7 billion at December 31, 2012 from December 31, 2011 due to runoff of maturing accounts.
  - As of February 22, 2013, deposits have declined by approximately 2.7% from the December 31, 2012 level as a result of seasonal and normal business activity. Deposit fluctuations due to the Transaction Account Guarantee Program s expiration have not been significant. Management expects that in the current interest rate environment, additional deposit runoff will not be significant.
- PNC s balance sheet remained core funded with a loans to deposits ratio of 87 percent at December 31, 2012 and retained a strong bank holding company liquidity position.
- Trust preferred securities and hybrid capital securities redeemed in 2012 totaled $2.3 billion with a weighted average rate of 8.3 percent, effectively lowering funding costs.
- PNC issued approximately $2 billion of preferred stock in 2012 with a weighted average rate of 5.9 percent.
- PNC had strong capital levels at December 31, 2012 with a Tier 1 common capital ratio of 9.6 percent compared to 10.3 percent at December 31, 2011, which reflected a decrease of approximately 1.2 percentage points from the acquisition of RBC Bank (USA), partially offset by retention of earnings.
- PNC s estimated proforma Basel III Tier 1 common capital ratio was 7.5 percent at December 31, 2012 without benefit of phase-ins, based on current understanding of Basel III proposed rules, estimates of Basel II (with proposed modifications) risk-weighted assets, and application of Basel II.5 rules. PNC s goal is to be within a Basel III Tier 1 common capital ratio range of between 8.0 to 8.5 percent by year end 2013 without benefit of phase-ins. We believe we are positioned to reach this goal.
- In April 2012 the PNC board of directors raised the quarterly cash dividend on common stock to 40 cents

per share, an increase of 5 cents per share, or 14 percent. PNC purchased $190 million of common stock in 2012 under a $250 million authorization as part of its existing 25 million share repurchase program in open market or privately negotiated transactions.

Our Consolidated Income Statement Review section of this Item 7 describes in greater detail the various items that impacted our results for 2012 and 2011.

***Average Consolidated Balance Sheet Highlights***

Total assets were $305.1 billion at December 31, 2012 compared with $271.2 billion at December 31, 2011. The increase from year end 2011 was primarily due to the addition of assets from the RBC Bank (USA) acquisition and organic loan growth.

Various seasonal and other factors impact our period-end balances whereas average balances are generally more indicative of underlying business trends apart from the impact of acquisitions and divestitures. The Consolidated Balance Sheet Review section of this Item 7 provides information on changes in selected Consolidated Balance Sheet categories at December 31, 2012 compared with December 31, 2011.

Total average assets increased to $295.0 billion for 2012 compared with $265.3 billion for 2011, reflecting an increase of $24.2 billion in average interest-earning assets to $248.6 billion for 2012, compared with $224.3 billion in 2011. The increase in average interest-earning assets was primarily driven by an increase in average total loans, including those acquired from the RBC Bank (USA) acquisition.

Total loans at December 31, 2012 increased $26.8 billion to $185.9 billion compared to December 31, 2011. Average total loans increased by $24.6 billion to $176.6 billion for 2012 compared with 2011, primarily due to increases in average commercial loans of $17.2 billion and in average consumer loans of $5.1 billion. Loans added from the RBC Bank (USA) acquisition contributed to the increase. In addition, average commercial loans increased from organic loan growth primarily in corporate banking, real estate and asset-based lending and average consumer loans increased due to growth in indirect auto loans. Loans represented 71 percent of average interest-earning assets for 2012 compared to 68 percent for 2011.

Average investment securities increased $1.1 billion to $60.8 billion in 2012 compared with 2011. Total investment securities comprised 24 percent of average interest-earning assets for 2012 and 27 percent for 2011.

Average noninterest-earning assets totaled $46.5 billion in 2012 compared with $41.0 billion in 2011. The increase included the impact of higher adjustments for net unrealized gains on securities, which are included in noninterest-earning assets for average balance sheet purposes, the impact of the

RBC Bank (USA) acquisition, including goodwill, and an increase in equity investments.

Average total deposits increased by $18.5 billion to $201.6 billion in 2012 compared with 2011. This increase primarily resulted from an increase in average transaction deposits of $23.9 billion partially offset by a decrease of $7.4 billion in retail certificates of deposit attributable to runoff of maturing accounts. Growth in average noninterest-bearing deposits, average money market deposits and average interest-bearing demand deposits drove the increase in transaction deposits, which resulted from deposits added in the RBC Bank (USA) acquisition and organic growth. Average transaction deposits were $161.9 billion for 2012 compared with $138.0 billion for 2011. Total deposits at December 31, 2012 were $213.1 billion compared with $188.0 billion at December 31, 2011 and are further discussed within the Consolidated Balance Sheet Review section of this Item 7.

Average total deposits represented 68 percent of average total assets for 2012 and 69 percent for 2011.

Average borrowed funds increased to $41.8 billion for 2012 compared with $35.7 billion for 2011. An increase in commercial paper and net issuances of Federal Home Loan Bank (FHLB) borrowings during 2012 drove the increase compared with 2011. Total borrowed funds at December 31, 2012 were $40.9 billion compared with $36.7 billion at December 31, 2011 and are further discussed within the Consolidated Balance Sheet Review section of this Item 7. In addition, the Liquidity Risk Management portion of the Risk Management section of this Item 7 includes additional information regarding our sources and uses of borrowed funds.

***Business Segment Highlights***

Total business segment earnings were $3.4 billion for 2012 and $3.1 billion for 2011. Highlights of results for 2012 and 2011 are included below. Enhancements were made to the internal funds transfer pricing methodology during the second quarter of 2012. Retrospective application of our new funds transfer pricing methodology has been made to the prior period reportable business segment results and disclosures to create comparability to the current period presentation, which we believe is more meaningful to readers of our financial statements. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions are periodically updated. During the third quarter of 2012, PNC increased the amount of internally observed data used in estimating the key commercial lending assumptions of Probabilities of Default (PDs) and Losses Given Default (LGDs). The estimated impact as of the beginning of the third quarter 2012 was approximately an increase of $41 million and a decrease of $55 million to the provision for credit losses of Retail Banking and Corporate & Institutional Banking, respectively. Prior periods are not presented on a comparable basis as it is not practicable to do so.

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We refer you to Item 1 of this Report under the captions Business Overview and Review of Business Segments for an overview of our business segments and to the Business Segments Review section of this Item 7 for the Results Of Businesses Summary table and further analysis of business segment results for 2012 and 2011, including presentation differences from Note 26 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report.

We provide a reconciliation of total business segment earnings to PNC consolidated income from continuing operations before noncontrolling interests as reported according to accounting principles generally accepted in the United States of America (GAAP) in Note 26 Segment Reporting in our Notes To Consolidated Financial Statements of Item 8 of this Report.

### Retail Banking

Retail Banking earned $596 million in 2012 compared with $371 million in 2011. The increase in earnings resulted from organic growth in transaction deposit balances, gains on sales of Visa Class B common shares, lower rates paid on deposits, higher levels of customer-initiated transactions, a lower provision for credit losses, and the impact of the RBC Bank (USA) acquisition, partially offset by the regulatory impact of lower interchange fees on debit card transactions and higher additions to legal reserves.

### Corporate & Institutional Banking

Corporate & Institutional Banking earned $2.3 billion in 2012 compared with $1.9 billion in 2011. The increase in earnings was primarily due to higher revenue partially offset by higher noninterest expense and a provision for credit losses of zero in 2012 compared with a benefit of $124 million in 2011. We continued to focus on building client relationships including increasing cross sales and adding new clients where the risk-return profile was attractive.

### Asset Management Group

Asset Management Group earned $145 million in 2012 compared with $168 million in 2011. Assets under administration increased to $224 billion at December 31, 2012 from $210 billion at December 31, 2011 driven by stronger average equity markets. Revenue increased $44 million in the year over year comparison as strong sales and higher average equity markets increased noninterest income by 4% and higher average deposit balances increased net interest income by 6%. The revenue increase was offset by higher noninterest expense from strategic business investments and higher provision for credit losses.

### Residential Mortgage Banking

Residential Mortgage Banking reported a loss of $308 million in 2012 compared with earnings of $89 million in 2011. Earnings declined from the prior year primarily as a result of higher provision for residential mortgage repurchase obligations, higher noninterest expense, including goodwill impairment, and lower net hedging gains on mortgage servicing rights, partially offset by increased loan sales revenue driven by higher loan origination volume.

### BlackRock

Our BlackRock business segment earned $395 million in 2012 and $361 million in 2011. We hold an equity investment in BlackRock, which is a key component of our diversified revenue strategy. BlackRock is a publicly traded company, and additional information regarding its business is available in its filings with the SEC.

### Non-Strategic Assets Portfolio

This business segment consists primarily of non-strategic assets obtained through acquisitions of other companies. Non-Strategic Assets Portfolio had earnings of $237 million for 2012 compared with $200 million in 2011. The increase was primarily attributable to a lower provision for credit losses, partially offset by lower net interest income driven by declines in loan balances and purchase accounting accretion.

### Other

Other had a loss of $392 million in 2012 compared with a loss of $58 million in 2011. The increase in loss in the 2012 period was primarily due to higher integration costs and noncash charges related to redemption of trust preferred securities.

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# Consolidated Income Statement Review

Our Consolidated Income Statement is presented in Item 8 of this Report.

Net income for 2012 was $3.0 billion compared with $3.1 billion for 2011. Revenue growth of 8 percent and a decline in the provision for credit losses were more than offset by a 16 percent increase in noninterest expense in 2012 compared to 2011. Further detail is included in the Net Interest Income, Noninterest Income, Provision For Credit Losses and Noninterest Expense portions of this Consolidated Income Statement Review.

## *Net Interest Income*

***Table 2: Net Interest Income and Net Interest Margin***

| Year ended December 31<br>Dollars in millions | 2012 | 2011 |
|---|---|---|
| Net interest income | $ 9,640 | $ 8,700 |
| Net interest margin | 3.94% | 3.92% |

Changes in net interest income and margin result from the interaction of the volume and composition of interest-earning assets and related yields, interest-bearing liabilities and related rates paid, and noninterest-bearing sources of funding. See the Statistical Information (Unaudited) Average Consolidated Balance Sheet And Net Interest Analysis and Analysis Of Year-To-Year Changes In Net Interest Income in Item 8 of this Report and the discussion of purchase accounting accretion of purchased impaired loans in the Consolidated Balance Sheet Review in this Item 7 for additional information.

The increase in net interest income in 2012 compared with 2011 was primarily due to the impact of the RBC Bank (USA) acquisition, organic loan growth and lower funding costs. Purchase accounting accretion remained stable at $1.1 billion in both periods.

The net interest margin was 3.94% for 2012 and 3.92% for 2011. The increase in the comparison was primarily due to a decrease in the weighted-average rate accrued on total interest-bearing liabilities of 29 basis points, largely offset by a 21 basis point decrease on the yield on total interest-earning assets. The decrease in the rate on interest-bearing liabilities was primarily due to the runoff of maturing retail certificates of deposit and the redemption of additional trust preferred and hybrid capital securities during 2012, in addition to an increase in FHLB borrowings and commercial paper as lower-cost funding sources. The decrease in the yield on interest-earning assets was primarily due to lower rates on new loan volume and lower yields on new securities in the current low rate environment.

With respect to the first quarter of 2013, we expect net interest income to decline by two to three percent compared to fourth

quarter 2012 net interest income of $2.4 billion, due to a decrease in purchase accounting accretion of up to $50 to $60 million, including lower expected cash recoveries.

For the full year 2013, we expect net interest income to decrease compared with 2012, assuming an expected decline in purchase accounting accretion of approximately $400 million, while core net interest income is expected to increase in the year-over-year comparison. We believe our net interest margin will come under pressure in 2013, due to the expected decline in purchase accounting accretion and assuming that the current low rate environment continues.

## Noninterest Income

Noninterest income totaled $5.9 billion for 2012 and $5.6 billion for 2011. The overall increase in the comparison was primarily due to an increase in residential mortgage loan sales revenue driven by higher loan origination volume, gains on sales of Visa Class B common shares and higher corporate service fees, largely offset by higher provision for residential mortgage repurchase obligations.

Asset management revenue, including BlackRock, totaled $1.2 billion in 2012 compared with $1.1 billion in 2011. This increase was primarily due to higher earnings from our BlackRock investment. Discretionary assets under management increased to $112 billion at December 31, 2012 compared with $107 billion at December 31, 2011 driven by stronger average equity markets, positive net flows and strong sales performance.

For 2012, consumer services fees were $1.1 billion compared with $1.2 billion in 2011. The decline reflected the regulatory impact of lower interchange fees on debit card transactions partially offset by customer growth. As further discussed in the Retail Banking portion of the Business Segments Review section of this Item 7, the Dodd-Frank limits on interchange rates were effective October 1, 2011 and had a negative impact on revenue of approximately $314 million in 2012 and $75 million in 2011. This impact was partially offset by higher volumes of merchant, customer credit card and debit card transactions and the impact of the RBC Bank (USA) acquisition.

Corporate services revenue increased by $.3 billion, or 30 percent, to $1.2 billion in 2012 compared with $.9 billion in 2011 due to higher commercial mortgage servicing revenue and higher merger and acquisition advisory fees in 2012. The major components of corporate services revenue are treasury management revenue, corporate finance fees, including revenue from capital markets-related products and services, and commercial mortgage servicing revenue, including commercial mortgage banking activities. See the Product Revenue portion of this Consolidated Income Statement Review for further detail.

Residential mortgage revenue decreased to $284 million in 2012 from $713 million in 2011. This decrease of $429 million, or 60 percent, was largely due to a higher provision for residential mortgage repurchase obligations of $761 million in 2012 compared with $102 million in 2011, partially offset by an increase in loan sales revenue driven by higher loan origination volume.

The higher provision for residential mortgage repurchase obligations in 2012 reflected expected further elevated levels of repurchase demands primarily as a result of changes in behaviors and demand patterns of two government-sponsored enterprises, FHLMC and FNMA, for loans sold into agency securitizations. The recorded liability for residential mortgage indemnification and repurchase claims was $614 million at December 31, 2012. See the Recourse And Repurchase Obligations section of this Item 7 for more detail.

Service charges on deposits grew to $573 million in 2012 compared with $534 million in 2011. This increase reflected continued success in growing customers, including through the RBC Bank (USA) acquisition.

Net gains on sales of securities totaled $204 million for 2012 and $249 million for 2011. The net credit component of other-than-temporary impairment (OTTI) of securities recognized in earnings was $111 million in 2012 compared with $152 million for 2011.

Other noninterest income increased by $.4 billion, or 38 percent, to $1.5 billion for 2012 compared with $1.1 billion for 2011. This increase was primarily due to $267 million of gains on sales of approximately 9 million Visa Class B common shares during the third and fourth quarters of 2012, as well as higher revenue associated with private equity investments. We continue to hold approximately 14.4 million Visa Class B common shares with an estimated fair value of approximately $916 million as of December 31, 2012. Our recorded investment in these remaining shares was approximately $251 million at December 31, 2012.

Other noninterest income typically fluctuates from period to period depending on the nature and magnitude of transactions completed. Further details regarding our trading activities are included in the Market Risk Management Trading Risk portion of the Risk Management section of this Item 7. Further details regarding private and other equity investments are included in the Market Risk Management Equity And Other Investment Risk portion of the Risk Management section of this Item 7, and further details regarding gains or losses related to our equity investment in BlackRock are included in the Business Segments Review section of this Item 7.

For 2013, we currently expect both noninterest income and total revenue to increase compared with 2012.

### Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, capital markets-related products and services, and commercial mortgage banking activities for customers of all our business segments. A portion of the revenue and expense related to these products is reflected in the Corporate & Institutional Banking segment results and the remainder is reflected in the results of other businesses. The Other Information section in the Corporate & Institutional Banking table in the Business Segments Review section of this Item 7 includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue from these services follows.

Treasury management revenue, comprised of fees and net interest income from customer deposit balances, totaled $1.4 billion for 2012 and $1.3 billion for 2011. Higher deposit balances along with strong growth in commercial card, lockbox and traditional products, including DDA, wire and ACH, led to the favorable results.

Revenue from capital markets-related products and services totaled $710 million in 2012 compared with $622 million in 2011. The comparison reflects higher merger and acquisition advisory fees and strong customer driven capital markets activity.

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

Commercial mortgage banking activities resulted in revenue of $330 million in 2012 compared with $136 million in 2011. The increase in the comparison was mainly due to the impact of recoveries on commercial mortgage servicing rights in 2012 compared to impairments taken during 2011.

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### Provision For Credit Losses

The provision for credit losses totaled $1.0 billion for 2012, a decrease of $.2 billion, or 14 percent, compared with $1.2 billion for 2011. The decline in the comparison was driven by overall credit quality improvement.

We currently expect our provision for credit losses in the first quarter of 2013 to be between $200 and $300 million, as we expect the benefit of commercial loan reserve releases to be lower in 2013 compared to 2012.

The Credit Risk Management portion of the Risk Management section of this Item 7 includes additional information regarding factors impacting the provision for credit losses. See also Item 1A Risk Factors and the Cautionary Statement Regarding Forward-Looking Information section of Item 7 of this Report.

### Noninterest Expense

Noninterest expense was $10.6 billion for 2012 and $9.1 billion for 2011. Noninterest expense for 2012 included noncash charges of $295 million related to redemption of trust preferred securities, integration costs of $267 million, $225 million of residential mortgage foreclosure-related expenses, and a noncash charge of $45 million for residential mortgage banking goodwill impairment. Noninterest expense for 2011 included $324 million of residential mortgage foreclosure-related expenses, $198 million of noncash charges related to redemption of trust preferred securities and $42 million of integration costs. The increase in noninterest expense in 2012 compared with 2011 also reflected operating expense for the RBC Bank (USA) acquisition, higher personnel expense, higher settlements for other litigation and increased expenses for other real estate owned.

In the first quarter of 2013, we expect noninterest expense to decrease by at least $300 million compared to noninterest expense in fourth quarter 2012 of $2.8 billion. This expected decline is primarily due to our expectations for a significant reduction in residential mortgage foreclosure-related compliance expenses, which were $91 million in the fourth quarter and included the impact of a charge of approximately $70 million for the early 2013 amendment to our foreclosure consent orders, and for no anticipated noncash charges related to redemption of trust preferred securities and goodwill impairment, and integration costs, which were $70 million, $45 million and $35 million in the fourth quarter of 2012, respectively.

For full year 2013, we have increased our continuous improvement expense savings goal to $700 million, which represents approximately 7 percent of our noninterest expense in 2012 and reflects an expected decline in residential mortgage foreclosure-related compliance expenses. We expect that amount to be offset by investments in our businesses and infrastructure, including the full year impact of investing in the Southeast. However, we are not expecting to incur integration costs in 2013 and anticipate the charges for any noncash charges related to redemption of trust preferred securities to be approximately $60 million or less in 2013.

As a result, we currently expect total noninterest expense for 2013 to decline by mid-single digits on a percentage basis compared with 2012.

### Effective Income Tax Rate

The effective income tax rate was 23.9% in 2012 compared with 24.5% in 2011. The effective tax rate is generally lower than the statutory rate primarily due to tax credits PNC receives from our investments in low income housing partnerships and other tax exempt investments.

We expect our 2013 full year effective tax rate to be between 25 to 26 percent, reflecting expected higher pre-tax income.

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# Consolidated Balance Sheet Review

*Table 3: Summarized Balance Sheet Data*

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Assets | | |
| Loans | $ 185,856 | $ 159,014 |
| Investment securities | 61,406 | 60,634 |
| Cash and short-term investments | 12,763 | 9,992 |
| Loans held for sale | 3,693 | 2,936 |
| Goodwill and other intangible assets | 10,869 | 10,144 |
| Equity investments | 10,877 | 10,134 |
| Other, net | 19,643 | 18,351 |
| Total assets | $ 305,107 | $ 271,205 |
| Liabilities | | |
| Deposits | $ 213,142 | $ 187,966 |
| Borrowed funds | | |
| Commercial paper | 8,453 | 4,271 |
| Other | 32,454 | 32,433 |
| Other | 9,293 | 9,289 |
| Total liabilities | 263,342 | 233,959 |
| Total shareholders equity | 39,003 | 34,053 |
| Noncontrolling interests | 2,762 | 3,193 |
| Total equity | 41,765 | 37,246 |
| Total liabilities and equity | $ 305,107 | $ 271,205 |

The summarized balance sheet data above is based upon the Consolidated Balance Sheet in Item 8 of this Report.

The increase in total assets of $33.9 billion at December 31, 2012 compared with December 31, 2011 was primarily due to the addition of assets from the RBC Bank (USA) acquisition and organic loan growth. Total liabilities increased $29.4 billion at December 31, 2012 compared with December 31, 2011 primarily due to the addition of deposits from the RBC Bank (USA) acquisition, organic growth in transaction deposits, and higher commercial paper and Federal Home Loan Bank borrowings, partially offset by the maturity of retail certificates of deposit and lower bank notes and senior and subordinated debt.

An analysis of changes in selected balance sheet categories follows.

## Loans

A summary of the major categories of loans outstanding follows. Outstanding loan balances of $185.9 billion at December 31, 2012 and $159.0 billion at December 31, 2011 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums of $2.7 billion at December 31, 2012 and $2.3 billion at December 31, 2011, respectively. The balances include purchased impaired loans but do not include future accretable net interest (i.e., the difference between the undiscounted expected cash flows and the carrying value of the loan) on those loans.

Loans increased $26.9 billion as of December 31, 2012 compared with December 31, 2011. On March 2, 2012, our RBC Bank (USA) acquisition added $14.5 billion of loans, which included $6.3 billion of commercial, $2.7 billion of commercial real estate, $3.3 billion of consumer (including $3.0 billion of home equity loans and $.3 billion of credit card loans), $2.1 billion of residential real estate, and $.1 billion of equipment lease financing loans. Excluding acquisition activity, the increase in commercial loans was due to growth primarily in asset-based lending, real estate, healthcare, and public finance loans while the growth in consumer loans was primarily driven by organic growth in automobile loans and the acquisition of an indirect automobile loan portfolio in the third quarter, partially offset by lower education loans. In addition, excluding acquisition activity, residential real estate loans declined due to continued run-off.

Loans represented 61% of total assets at December 31, 2012 and 59% of total assets at December 31, 2011. Commercial lending represented 59% of the loan portfolio at December 31, 2012 and 56% at December 31, 2011. Consumer lending represented 41% of the loan portfolio at

December 31, 2012 and 44% at December 31, 2011.

Commercial real estate loans represented 6% of total assets at both December 31, 2012 and December 31, 2011.

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*Table 4: Details Of Loans*

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Commercial Lending | | |
| Commercial | | |
| Retail/wholesale trade | $ 13,801 | $ 11,539 |
| Manufacturing | 13,856 | 11,453 |
| Service providers | 12,095 | 9,717 |
| Real estate related (a) | 10,616 | 8,488 |
| Financial services | 9,026 | 6,646 |
| Health care | 7,267 | 5,068 |
| Other industries | 16,379 | 12,783 |
| Total commercial | 83,040 | 65,694 |
| Commercial real estate | | |
| Real estate projects (b) | 12,347 | 10,640 |
| Commercial mortgage | 6,308 | 5,564 |
| Total commercial real estate | 18,655 | 16,204 |
| Equipment lease financing | 7,247 | 6,416 |
| Total Commercial Lending (c) | 108,942 | 88,314 |
| Consumer Lending | | |
| Home equity | | |
| Lines of credit | 23,576 | 22,491 |
| Installment | 12,344 | 10,598 |
| Total home equity | 35,920 | 33,089 |
| Residential real estate | | |
| Residential mortgage | 14,430 | 13,885 |
| Residential construction | 810 | 584 |
| Total residential real estate | 15,240 | 14,469 |
| Credit card | 4,303 | 3,976 |
| Other consumer | | |
| Education | 8,238 | 9,582 |
| Automobile | 8,708 | 5,181 |
| Other | 4,505 | 4,403 |
| Total Consumer Lending | 76,914 | 70,700 |
| Total loans | $ 185,856 | $ 159,014 |

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

Total loans above include purchased impaired loans of $7.4 billion, or 4% of total loans, at December 31, 2012, and $6.7 billion, or 4% of total loans, at December 31, 2011.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $157.0 billion for 2012.

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

The Allowance for Loan and Lease Losses (ALLL) and the Allowance for Unfunded Loan Commitments and Letters of Credit are sensitive to changes in assumptions and judgments and are inherently subjective as they require material estimates, all of which may be susceptible to significant change, including, among others:

Probability of default,
Loss given default,
Exposure at date of default (EAD),

- Movement through delinquency stages,
- Amounts and timing of expected cash flows,
- Value of collateral, and
- Qualitative factors, such as changes in current economic conditions, that may not be reflected in historical results.

**Higher Risk Loans**

Our total ALLL of $4.0 billion at December 31, 2012 consisted of $1.8 billion and $2.2 billion established for the commercial lending and consumer lending categories, respectively. The ALLL included what we believe to be appropriate loss coverage on higher risk loans in the commercial and consumer portfolios. We do not consider government insured or guaranteed loans to be higher risk as defaults have historically been materially mitigated by payments of insurance or guarantee amounts for approved claims. Additional information regarding our higher risk loans is included in the Credit Risk Management portion of the Risk Management section of this Item 7 and in Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

**Purchase Accounting Accretion and Valuation of Purchased Impaired Loans**

Information related to purchase accounting accretion and valuation of purchased impaired loans for 2012 and 2011 follows. Additional information is provided in Note 6 Purchased Loans in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

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***Table 5: Accretion Purchased Impaired Loans***

| Year ended December 31<br>In millions | 2012 (a) | 2011 (b) |
|---|---|---|
| Impaired loans | | |
| Scheduled accretion | $ 671 | $ 666 |
| Reversal of contractual interest on impaired loans | (404) | (395) |
| Scheduled accretion net of contractual interest | 267 | 271 |
| Excess cash recoveries | 157 | 254 |
| Total impaired loans | $ 424 | $ 525 |

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

***Table 6: Accretable Net Interest Purchased Impaired Loans***

| In millions | 2012 | 2011 |
|---|---|---|
| January 1 | $ 2,109 | $ 2,185 |
| Addition of accretable yield due to RBC Bank (USA) acquisition on March 2, 2012 | 587 | |
| Scheduled accretion | (671) | (666) |
| Excess cash recoveries | (157) | (254) |
| Net reclassifications to accretable from non-accretable and other activity (a) | 298 | 844 |
| December 31 (b) | $ 2,166 | $ 2,109 |

(a) Over 85 percent of the net reclassifications were driven by the commercial portfolio. Over half of the commercial portfolio impact related to excess cash recoveries recognized during the period, with the remaining due to improvements of cash expected to be collected on both RBC Bank (USA) and National City loans in future periods. The remaining net reclassifications were due to future cash flow changes in the consumer portfolio.
(b) As of December 31, 2012 we estimate that the reversal of contractual interest on purchased impaired loans will total approximately $1.2 billion in future periods. This will offset the total net accretable interest in future interest income of $2.2 billion on purchased impaired loans.

***Table 7: Valuation of Purchased Impaired Loans***

| | December 31, 2012 (a) | | December 31, 2011 (b) | |
|---|---|---|---|---|
| Dollars in millions | Balance | Net Investment | Balance | Net Investment |
| Commercial and commercial real estate loans: | | | | |
| Unpaid principal balance | $ 1,680 | | $ 988 | |
| Purchased impaired mark | (431) | | (136) | |
| Recorded investment | 1,249 | | 852 | |
| Allowance for loan losses | (239) | | (229) | |
| Net investment | 1,010 | 60% | 623 | 63% |
| Consumer and residential mortgage loans: | | | | |
| Unpaid principal balance | 6,639 | | 6,533 | |
| Purchased impaired mark | (482) | | (718) | |
| Recorded investment | 6,157 | | 5,815 | |
| Allowance for loan losses | (858) | | (769) | |
| Net investment | 5,299 | 80% | 5,046 | 77% |
| Total purchased impaired loans: | | | | |
| Unpaid principal balance | 8,319 | | 7,521 | |
| Purchased impaired mark | (913) | | (854) | |
| Recorded investment | 7,406 | | 6,667 | |
| Allowance for loan losses | (1,097) | | (998) | |

| | | | | |
|---|---|---|---|---|
| Net investment | $ 6,309 | 76% | 5,669 | 75% |

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

The unpaid principal balance of purchased impaired loans increased to $8.3 billion at December 31, 2012 from $7.5 billion at December 31, 2011 due to the acquisition of RBC Bank (USA), partially offset by payments, disposals, and charge-offs of amounts determined to be uncollectible. The remaining purchased impaired mark at December 31, 2012 was $913 million, which was an increase from $854 million at December 31, 2011. The associated allowance for loan losses increased slightly by $.1 billion to $1.1 billion at December 31, 2012. The net investment of $6.3 billion at

December 31, 2012 increased 11% from $5.7 billion at December 31, 2011. At December 31, 2012, our largest individual purchased impaired loan had a recorded investment of $18.6 million.

We currently expect to collect total cash flows of $8.5 billion on purchased impaired loans, representing the $6.3 billion net investment at December 31, 2012 and the accretable net interest of $2.2 billion shown in the Accretable Net Interest-Purchased Impaired Loans table.

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### WEIGHTED AVERAGE LIFE OF THE PURCHASED IMPAIRED PORTFOLIOS

The table below provides the weighted average life (WAL) for each of the purchased impaired portfolios as of December 31, 2012.

***Table 8: Weighted Average Life of the Purchased Impaired Portfolios***

| | | December 31, 2012 |
|---|---|---|
| In millions | Recorded Investment | WAL (a) |
| Commercial | $ 308 | 2.1 years |
| Commercial real estate | 941 | 1.9 years |
| Consumer (b) | 2,621 | 4.1 years |
| Residential real estate | 3,536 | 4.5 years |
| Total | $ 7,406 | 3.9 years |

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

### PURCHASED IMPAIRED LOANS ACCRETABLE DIFFERENCE SENSITIVITY ANALYSIS

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

***Table 9: Accretable Difference Sensitivity Total Purchased Impaired Loans***

| In billions | December 31, 2012 | Declining Scenario (a) | Improving Scenario (b) |
|---|---|---|---|
| Expected Cash Flows | $ 8.5 | $ (.4) | $ .5 |
| Accretable Difference | 2.2 | (.1) | .3 |
| Allowance for Loan and Lease Losses | (1.1) | (.4) | .2 |

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

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

Net unfunded credit commitments are comprised of the following:

***Table 10: Net Unfunded Credit Commitments***

In millions

| | December 31 2012 | December 31 2011 |
|---|---|---|
| Commercial/commercial real estate (a) | $ 78,703 | $ 64,955 |
| Home equity lines of credit | 19,814 | 18,317 |
| Credit card | 17,381 | 16,216 |
| Other | 4,694 | 3,783 |
| Total | $ 120,592 | $ 103,271 |

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

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments reported above exclude syndications, assignments and participations, primarily to financial institutions, totaling $22.5 billion at December 31, 2012 and $20.2 billion at December 31, 2011.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $732 million at December 31, 2012 and $742 million at December 31, 2011 and are included in the preceding table primarily within the Commercial / commercial real estate category.

In addition to the credit commitments set forth in the table above, our net outstanding standby letters of credit totaled $11.5 billion at December 31, 2012 and $10.8 billion at December 31, 2011. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

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## Investment Securities

*Table 11: Details of Investment Securities*

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| In millions | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Total securities available for sale (a) | $ 49,447 | $ 51,052 | $ 48,609 | $ 48,568 |
| Total securities held to maturity | 10,354 | 10,860 | 12,066 | 12,450 |
| **Total securities** | $ 59,801 | $ 61,912 | $ 60,675 | $ 61,018 |

(a) Includes $367 million of both amortized cost and fair value of securities classified as corporate stocks and other at December 31, 2012. Comparably, at December 31, 2011, the amortized cost and fair value of corporate stocks and other was $368 million. The remainder of securities available for sale were debt securities.

The carrying amount of investment securities totaled $61.4 billion at December 31, 2012, which was made up of $51.0 billion of securities available for sale carried at fair value and $10.4 billion of securities held to maturity carried at amortized cost. Comparably, at December 31, 2011, the carrying value of investment securities totaled $60.6 billion of which $48.6 billion represented securities available for sale carried at fair value and $12.0 billion of securities held to maturity carried at amortized cost.

The increase in carrying amount between the periods primarily reflected an increase of $2.0 billion in available for sale asset-backed securities, which was primarily due to net purchase activity, and an increase of $.6 billion in available for sale non-agency residential mortgage-backed securities due to increases in fair value at December 31, 2012. These increases were partially offset by a $1.7 billion decrease in held to maturity debt securities due to principal payments. Investment securities represented 20% of total assets at December 31, 2012 and 22% at December 31, 2011.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. U.S. Treasury and government agencies, agency residential mortgage-backed and agency commercial mortgage-backed securities collectively represented 59% of the investment securities portfolio at December 31, 2012.

At December 31, 2012, the securities available for sale portfolio included a net unrealized gain of $1.6 billion, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2011 was a net unrealized loss of $41 million. The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa.

The improvement in the net unrealized gain as compared with a loss at December 31, 2011 was primarily due to improvement in the value of non-agency residential mortgage-backed securities, which had a decrease in net unrealized losses of $1.1 billion, and lower market interest rates. Net unrealized gains and losses in the securities available for sale portfolio are included in Shareholders equity as Accumulated other comprehensive income or loss from continuing operations, net of tax, on our Consolidated Balance Sheet.

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

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

The expected weighted-average life of investment securities (excluding corporate stocks and other) was 4.0 years at December 31, 2012 and 3.7 years at December 31, 2011.

We estimate that, at December 31, 2012, the effective duration of investment securities was 2.3 years for an immediate 50 basis points parallel increase in interest rates and 2.2 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2011 were 2.6 years and 2.4 years, respectively.

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:

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

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Agency | | Non-agency | | |
| Dollars in millions | Residential Mortgage-Backed Securities | Commercial Mortgage-Backed Securities | Residential Mortgage-Backed Securities | Commercial Mortgage-Backed Securities | Asset-Backed Securities (a) |
| **Fair Value Available for Sale** | $ 26,784 | $ 633 | $ 6,107 | $ 3,264 | $ 5,653 |
| **Fair Value Held to Maturity** | 4,582 | 1,374 | | 2,667 | 863 |
| **Total Fair Value** | $ 31,366 | $ 2,007 | $ 6,107 | $ 5,931 | $ 6,516 |
| % of Fair Value: | | | | | |
| By Vintage | | | | | |
| 2012 | 19% | 1% | | 7% | |
| 2011 | 27% | 48% | | 6% | 1% |
| 2010 | 25% | 11% | 1% | 4% | 4% |
| 2009 | 9% | 19% | | 2% | 1% |
| 2008 | 2% | 3% | | | 1% |
| 2007 | 2% | 2% | 25% | 11% | 2% |
| 2006 | 1% | 4% | 21% | 22% | 7% |
| 2005 and earlier | 6% | 12% | 52% | 47% | 6% |
| Not Available | 9% | | 1% | 1% | 78% |
| Total | 100% | 100% | 100% | 100% | 100% |
| | | | | | |
| **By Credit Rating (at December 31, 2012)** | | | | | |
| Agency | 100% | 100% | | | |
| AAA | | | 1% | 72% | 63% |
| AA | | | 1% | 8% | 26% |
| A | | | 1% | 13% | 1% |
| BBB | | | 5% | 3% | |
| BB | | | 11% | 1% | |
| B | | | 7% | 1% | 1% |
| Lower than B | | | 72% | | 9% |
| No rating | | | 2% | 2% | |
| Total | 100% | 100% | 100% | 100% | 100% |
| | | | | | |
| **By FICO Score (at origination)** | | | | | |
| >720 | | | 56% | | 2% |
| <720 and >660 | | | 31% | | 6% |
| <660 | | | | | 2% |
| No FICO score | | | 13% | | 90% |
| Total | | | 100% | | 100% |

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

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

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

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

For those debt securities where we do not intend to sell and believe we will not be required to sell the securities prior to expected recovery, we recognize the credit portion of OTTI charges in current earnings and the noncredit portion of OTTI is included in Accumulated other comprehensive income (loss). Also see our Consolidated Statement of Comprehensive Income in Item 8 of this Report.

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We recognized OTTI for 2012 and 2011 as follows:

***Table 13: Other-Than-Temporary Impairments***

| Year ended December 31<br>In millions | 2012 | 2011 |
|---|---|---|
| Credit portion of OTTI losses (a) | | |
| Non-agency residential mortgage-backed | $ (99) | $ (130) |
| Asset-backed | (11) | (21) |
| Other debt | (1) | (1) |
| Total credit portion of OTTI losses | (111) | (152) |
| Noncredit portion of OTTI losses (b) | 32 | (268) |
| Total OTTI losses | $ (79) | $ (420) |

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

(b) Included in Accumulated other comprehensive income (loss), net of tax, on our Consolidated Balance Sheet. Also see our Consolidated Statement of Comprehensive Income in Item 8 of this Report.

The following table summarizes net unrealized gains and losses recorded on non-agency residential and commercial mortgage-backed and other asset-backed securities, which represent our most significant categories of securities not backed by the US government or its agencies.

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

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| In millions | Residential Mortgage-Backed Securities | | Commercial Mortgage-Backed Securities | | Asset-Backed Securities (a) | |
| **Available for Sale Securities (Non-Agency)** | Fair Value | Net Unrealized Gain (Loss) | Fair Value | Net Unrealized Gain | Fair Value | Net Unrealized Gain (Loss) |
| Credit Rating Analysis | | | | | | |
| AAA | $ 36 | | $ 1,847 | $ 95 | $ 3,460 | $ 29 |
| Other Investment Grade (AA, A, BBB) | 383 | $ 35 | 1,191 | 100 | 1,554 | 12 |
| Total Investment Grade | 419 | 35 | 3,038 | 195 | 5,014 | 41 |
| BB | 683 | (59) | 56 | 5 | 5 | |
| B | 459 | (16) | 57 | 2 | 33 | |
| Lower than B | 4,421 | 39 | | | 575 | (40) |
| Total Sub-Investment Grade | 5,563 | (36) | 113 | 7 | 613 | (40) |
| Total No Rating | 125 | 6 | 113 | 7 | 23 | (15) |
| Total | $ 6,107 | $ 5 | $ 3,264 | $ 209 | $ 5,650 | $ (14) |
| OTTI Analysis | | | | | | |
| Investment Grade: | | | | | | |
| OTTI has been recognized | | | | | | |
| No OTTI recognized to date | $ 419 | $ 35 | $ 3,038 | $ 195 | $ 5,014 | $ 41 |
| Total Investment Grade | 419 | 35 | 3,038 | 195 | 5,014 | 41 |
| Sub-Investment Grade: | | | | | | |
| OTTI has been recognized | 3,690 | (150) | | | 580 | (37) |
| No OTTI recognized to date | 1,873 | 114 | 113 | 7 | 33 | (3) |
| Total Sub-Investment Grade | 5,563 | (36) | 113 | 7 | 613 | (40) |
| No Rating: | | | | | | |
| OTTI has been recognized | 81 | | | | 23 | (15) |
| No OTTI recognized to date | 44 | 6 | 113 | 7 | | |
| Total No Rating | 125 | 6 | 113 | 7 | 23 | (15) |
| Total | $ 6,107 | $ 5 | $ 3,264 | $ 209 | $ 5,650 | $ (14) |
| **Securities Held to Maturity (Non-Agency)** | | | | | | |
| Credit Rating Analysis | | | | | | |
| AAA | | | $ 2,444 | $ 72 | $ 629 | $ 3 |

| | | | | |
|---|---|---|---|---|
| Other Investment Grade (AA, A, BBB) | 223 | 13 | 220 | 2 |
| Total Investment Grade | 2,667 | 85 | 849 | 5 |
| BB | | | 13 | |
| B | | | 1 | |
| Lower than B | | | | |
| Total Sub-Investment Grade | | | 14 | |
| Total No Rating | | | | |
| Total | $ 2,667 | $ 85 | $ 863 | $ 5 |

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

RESIDENTIAL MORTGAGE-BACKED SECURITIES

At December 31, 2012, our residential mortgage-backed securities portfolio was comprised of $31.4 billion fair value of US government agency-backed securities and $6.1 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 2012, we recorded OTTI credit losses of $99 million on non-agency residential mortgage-backed securities. All of the losses were associated with securities rated below investment grade. As of December 31, 2012, the noncredit portion of impairment recorded in Accumulated other comprehensive income for non-agency residential mortgage-backed securities for which we have recorded an OTTI credit loss totaled $150 million and the related securities had a fair value of $3.7 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of December 31, 2012 totaled $1.9 billion, with unrealized net gains of $114 million.

COMMERCIAL MORTGAGE-BACKED SECURITIES

The fair value of the non-agency commercial mortgage-backed securities portfolio was $5.9 billion at December 31, 2012 and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. The agency commercial mortgage-backed securities portfolio was $2.0 billion fair value at December 31, 2012 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

There were no OTTI credit losses on commercial mortgage-backed securities during 2012.

ASSET-BACKED SECURITIES

The fair value of the asset-backed securities portfolio was $6.5 billion at December 31, 2012 and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including residential

mortgage loans, credit cards, automobile loans, and student loans. Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

We recorded OTTI credit losses of $11 million on asset-backed securities during 2012. All of the securities are collateralized by first lien and second lien residential mortgage loans and are rated below investment grade. As of December 31, 2012, the noncredit portion of impairment recorded in Accumulated other comprehensive income for asset-backed securities for which we have recorded an OTTI credit loss totaled $52 million and the related securities had a fair value of $603 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 December 31, 2012, the fair value was $47 million, with unrealized net losses of $3 million. The results of our security-level assessments indicate that we will recover the cost basis of these securities.

Note 8 Investment Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report provides additional information on OTTI losses and further detail regarding our process for assessing OTTI.

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

**LOANS HELD FOR SALE**

***Table 15: Loans Held For Sale***

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Commercial mortgages at fair value | $ 772 | $ 843 |
| Commercial mortgages at lower of cost or market | 620 | 451 |
| Total commercial mortgages | 1,392 | 1,294 |
| Residential mortgages at fair value | 2,096 | 1,415 |
| Residential mortgages at lower of cost or market | 124 | 107 |
| Total residential mortgages | 2,220 | 1,522 |
| Other | 81 | 120 |
| Total | $ 3,693 | $ 2,936 |

We stopped originating commercial mortgage loans held for sale designated at fair value in 2008 and continue pursuing opportunities to reduce these positions at appropriate prices. At December 31, 2012, the balance relating to these loans was $772 million, compared to $843 million at December 31, 2011. We sold $32 million in unpaid principal balances of these commercial mortgage loans held for sale carried at fair value in 2012 and sold $25 million in 2011.

We sold $2.2 billion of commercial mortgages held for sale carried at the lower of cost or market in 2012. The comparable amount in 2011 was $2.4 billion. The increase in these loans to $620 million at December 31, 2012, compared to $451 million at December 31, 2011, was due to an increase in loans awaiting sale to government agencies.

We recognized total net gains of $41 million in 2012 and $48 million in 2011 on the valuation and sale of commercial mortgage loans held for sale, net of hedges.

Residential mortgage loan origination volume was $15.2 billion in 2012 compared with $11.4 billion in 2011. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $13.8 billion of loans and recognized related gains of $747 million during 2012. The comparable amounts for 2011 were $11.9 billion and $384 million, respectively.

Interest income on loans held for sale was $168 million in 2012 and $193 million in 2011. These amounts are included in Other interest income on our Consolidated Income Statement.

Additional information regarding our loan sale and servicing activities is included in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in our Notes To Consolidated Financial Statements included in Item 8 of this Report.

### Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $10.9 billion at December 31, 2012 and $10.1 billion at December 31, 2011. During 2012, we recorded goodwill of $950 million and other intangible assets of $180 million associated with the RBC Bank (USA) acquisition. In the fourth quarter of 2012, we sold certain deposits and assets of the Smartstreet business unit, which was acquired by PNC as part of the RBC Bank (USA) acquisition, which resulted in a reduction of goodwill and core deposit intangibles by approximately $46 million and $13 million, respectively. Also in the fourth quarter of 2012, we recorded a $45 million noncash charge for goodwill impairment related to PNC s Residential Mortgage Banking business segment. See Note 2 Acquisition and Divestiture Activity and Note 10 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

### Funding and Capital Sources

***Table 16: Details Of Funding Sources***

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Deposits | | |
| Money market | $ 102,706 | $ 89,912 |
| Demand | 73,995 | 57,717 |
| Retail certificates of deposit | 23,837 | 29,518 |
| Savings | 10,350 | 8,705 |
| Time deposits in foreign offices and other time | 2,254 | 2,114 |
| Total deposits | 213,142 | 187,966 |
| Borrowed funds | | |
| Federal funds purchased and repurchase agreements | 3,327 | 2,984 |
| Federal Home Loan Bank borrowings | 9,437 | 6,967 |
| Bank notes and senior debt | 10,429 | 11,793 |
| Subordinated debt | 7,299 | 8,321 |
| Commercial paper | 8,453 | 4,271 |
| Other | 1,962 | 2,368 |
| Total borrowed funds | 40,907 | 36,704 |
| Total | $ 254,049 | $ 224,670 |

See the Capital and Liquidity Actions portion of the Executive Summary section of this Item 7 for additional information regarding our 2012 capital and liquidity activities and 2013 activities to date.

Total funding sources increased $29.4 billion at December 31, 2012 compared with December 31, 2011.

Total deposits increased $25.2 billion, or 13%, at December 31, 2012 compared with December 31, 2011. On March 2, 2012, our RBC Bank (USA) acquisition added $18.1 billion of deposits, including $6.9 billion of money market, $6.7 billion of demand, $4.1 billion of retail certificates of deposit, and $.4 billion of savings. Excluding acquisition activity, money market and demand deposits increased during 2012, partially offset by the maturity of retail certificates of deposit. Interest-bearing deposits represented 67% of total deposits at December 31, 2012 compared to 69% at December 31, 2011. Total borrowed funds increased $4.2 billion from December 31, 2011 to $40.9 billion at December 31, 2012, due to increases in Federal funds purchased and repurchase agreements, FHLB borrowings and commercial paper net issuances, partially offset by net repayments and maturities of bank notes and senior debt and a reduction in subordinated debt due to redemptions of trust preferred securities and hybrid capital securities.

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## CAPITAL

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

Total shareholders equity increased $5.0 billion, to $39.0 billion at December 31, 2012 compared with December 31, 2011, reflecting an increase in retained earnings of $2.0 billion and the issuance of $480 million of preferred stock in September and October 2012 and $1.5 billion in April 2012. This contributed to the increase in capital surplus preferred stock from $1.6 billion at December 31, 2011 to $3.6 billion at December 31, 2012. Accumulated other comprehensive income increased $.9 billion, to $.8 billion, at December 31, 2012 compared with a loss of $.1 billion at December 31, 2011 due to higher net unrealized gains on securities, partially offset by lower unrealized gains on cash flow hedge derivatives. Common shares outstanding were 528 million at December 31, 2012 and 527 million at December 31, 2011.

Our current common stock repurchase program permits us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital, and the potential impact on our credit ratings. Consistent with our capital plan submitted to the Federal Reserve in the first quarter of 2012, PNC purchased $190 million of common stock in 2012 under a $250 million authorization for 2012 as part of its existing 25 million share repurchase program in open market or privately negotiated transactions. During 2013, management does not expect to repurchase any common stock under this repurchase program. See Supervision and Regulation in Item 1 of this Report for further information concerning restrictions on dividends and stock repurchases, including the impact of the Federal Reserve s current supervisory assessment of capital adequacy program, which is also discussed in the Capital and Liquidity Actions portion of the Executive Summary section of this Item 7.

***Table 17: Risk-Based Capital***

| Dollars in millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Capital components | | |
| Shareholders equity | | |
| Common | $ 35,413 | $ 32,417 |
| Preferred | 3,590 | 1,636 |
| Trust preferred capital securities | 331 | 2,354 |
| Noncontrolling interests | 1,354 | 1,351 |
| Goodwill and other intangible assets | (9,798) | (9,027) |
| Eligible deferred income taxes on goodwill and other intangible assets | 354 | 431 |
| Pension, other postretirement benefit plan adjustments | 777 | 755 |
| Net unrealized securities (gains)/losses, after-tax | (1,052) | 41 |
| Net unrealized gains on cash flow hedge derivatives, after-tax | (578) | (717) |
| Other | (165) | (168) |
| Tier 1 risk-based capital | 30,226 | 29,073 |
| Subordinated debt | 4,735 | 4,571 |
| Eligible allowance for credit losses | 3,273 | 2,904 |
| Total risk-based capital | $ 38,234 | $ 36,548 |
| Tier 1 common capital | | |
| Tier 1 risk-based capital | $ 30,226 | $ 29,073 |
| Preferred equity | (3,590) | (1,636) |
| Trust preferred capital securities | (331) | (2,354) |
| Noncontrolling interests | (1,354) | (1,351) |
| Tier 1 common capital | $ 24,951 | $ 23,732 |
| Assets | | |
| Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets | $ 260,847 | $ 230,705 |
| Adjusted average total assets | 291,426 | 261,958 |
| Capital ratios | | |
| Tier 1 common | 9.6% | 10.3% |

| | | |
|---|---|---|
| Tier 1 risk-based | 11.6% | 12.6% |
| Total risk-based | 14.7% | 15.8% |
| Leverage | 10.4% | 11.1% |

Federal banking regulators have stated that they expect all bank holding companies to have a level and composition of Tier 1 capital well in excess of the 4% Basel I regulatory minimum, and they have required the largest US bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet credit needs of their customers through estimated stress scenarios. They have also stated their view that common equity should be the dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels, although a formal ratio for this metric is not provided for in current regulations. We seek to manage our capital consistent with these regulatory principles, and believe that our December 31, 2012 capital levels were aligned with them.

Dodd-Frank requires the Federal Reserve Board to establish capital requirements that would, among other things, eliminate the Tier 1 treatment of trust preferred securities following a phase-in period expected to begin in 2013. Accordingly, PNC has redeemed some of its trust preferred securities and will consider redeeming others on or after their first call date, based on such considerations as dividend rates, future capital requirements, capital market conditions and other factors. See the Capital and Liquidity Actions portion of the Executive Summary section of this Item 7 for additional information regarding our April 2012, May 2012, July 2012, and November 2012 redemptions of trust preferred securities and hybrid capital securities. See Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on trust preferred securities.

Our Tier 1 common capital ratio was 9.6% at December 31, 2012, compared with 10.3% at December 31, 2011. Our Tier 1 risk-based capital ratio decreased 100 basis points to 11.6% at December 31, 2012 from 12.6% at December 31, 2011. Our total risk-based capital ratio declined 110 basis points to 14.7% at December 31, 2012 from 15.8% at December 31, 2011. The decline in these ratios was primarily due to the RBC Bank (USA) acquisition, which resulted in higher goodwill and risk-weighted assets, partially offset by retention of earnings which more than offset organic asset growth. Our Tier 1 risk-based capital ratio reflected our 2012 capital actions of issuing approximately $2.0 billion of preferred stock and redeeming approximately $2.3 billion of trust preferred securities and hybrid capital securities. Basel I risk-weighted assets increased $30.1 billion from $230.7 billion at December 31, 2011 to $260.8 billion at December 31, 2012 due to the RBC Bank (USA) acquisition and organic loan growth for 2012.

At December 31, 2012, PNC Bank, N.A., our domestic bank subsidiary, was considered well capitalized based on U.S. regulatory capital ratio requirements under Basel I. To qualify as well-capitalized , regulators currently require banks to maintain capital ratios of at least 6% for Tier 1 risk-based, 10% for total risk-based, and 5% for leverage. See the Supervision and Regulation section of Item 1 and Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information. We believe PNC Bank, N.A. will continue to meet these requirements during 2013.

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

The access to and cost of funding for new business initiatives, the ability to undertake new business initiatives including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends or repurchase shares or other capital instruments, the level of deposit insurance costs, and the level and nature of regulatory oversight depend, in large 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 of this Report.

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# OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

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

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Item 7,
- Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements included in Item 8 of this Report,
- Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements included in Item 8 of this Report, and
- Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

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: (i) has the power to make decisions that most significantly affect the economic performance of the VIE; and (ii) 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 December 31, 2012 and December 31, 2011 is included in Note 3 in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

***Trust Preferred Securities and REIT Preferred Securities***

In connection with $402 million in principal amount of outstanding junior subordinated debentures associated with $390 million of trust preferred securities as of December 31, 2012 that were issued by various subsidiary statutory trusts, we are subject to certain restrictions, including restrictions on dividend payments. Generally, if (i) there is an event of default under the debentures, (ii) PNC elects to defer interest on the debentures, (iii) PNC exercises its right to defer payments on the related trust preferred securities issued by the statutory trusts, or (iv) there is a default under PNC s guarantee of such payment obligations, as specified in the applicable governing documents, then PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with PNC Preferred Funding Trust II and Trust III, as described in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report. See the Capital and Liquidity Actions portion of the Executive Summary section of this Item 7 for additional information regarding our redemptions of trust preferred securities and hybrid capital securities during 2012 and announced redemption of the REIT Preferred Securities issued by PNC Preferred Funding Trust III.

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# Fair Value Measurements

In addition to the following, see Note 9 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report for further information regarding fair value.

The following table summarizes the assets and liabilities measured at fair value at December 31, 2012 and December 31, 2011, respectively, and the portions of such assets and liabilities that are classified within Level 3 of the valuation hierarchy.

***Table 18: Fair Value Measurements Summary***

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| In millions | Total Fair Value | Level 3 | Total Fair Value | Level 3 |
| Total assets | $ 68,352 | $ 10,988 | $ 66,428 | $ 10,053 |
| Total assets at fair value as a percentage of consolidated assets | 22% | | 24% | |
| Level 3 assets as a percentage of total assets at fair value | | 16% | | 15% |
| Level 3 assets as a percentage of consolidated assets | | 4% | | 4% |
| Total liabilities | $ 7,356 | $ 376 | $ 8,625 | $ 308 |
| Total liabilities at fair value as a percentage of consolidated liabilities | 3% | | 4% | |
| Level 3 liabilities as a percentage of total liabilities at fair value | | 5% | | 4% |
| Level 3 liabilities as a percentage of consolidated liabilities | | <1% | | <1% |

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

An instrument s categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. PNC reviews and updates fair value hierarchy classifications quarterly. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification (transfer) of assets or liabilities between hierarchy levels. PNC s policy is to recognize transfers in and transfers out as of the end of the reporting period. During 2012, there were transfers of securities available for sale from Level 2 to Level 3 of $478 million consisting of mortgage-backed securities as a result of a ratings downgrade which reduced the observability of valuation inputs and certain state and municipal securities with valuation inputs that were determined to be unobservable. Level 2 to Level 3 transfers also included $127 million and $27 million for loans and residential mortgage loans held for sale, respectively, as a result of reduced market activity in the nonperforming residential mortgage sales market which reduced the observability of valuation inputs. Also during 2012, there was a transfer out of Level 3 securities available for sale of $40 million due to an instrument being reclassified to a loan and no longer being carried at fair value. During 2011, there were no material transfers of assets or liabilities between the hierarchy levels.

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## European Exposure

***Table 19: Summary of European Exposure***

***December 31, 2012***

| In millions | Direct Exposure Funded Loans | Leases | Securities | Total | Unfunded Other (a) | Total Direct Exposure | Total Indirect Exposure | Total Exposure |
|---|---|---|---|---|---|---|---|---|
| Greece, Ireland, Italy, Portugal and Spain (GIIPS) | $ 85 | $ 122 | | $ 207 | $ 3 | $ 210 | $ 31 | $ 241 |
| Belgium and France | | 73 | $ 30 | 103 | 35 | 138 | 1,083 | 1,221 |
| United Kingdom | 698 | 32 | | 730 | 449 | 1,179 | 525 | 1,704 |
| Europe - Other (b) | 113 | 529 | 168 | 810 | 63 | 873 | 838 | 1,711 |
| Total Europe (c) | $ 896 | $ 756 | $ 198 | $ 1,850 | $ 550 | $ 2,400 | $ 2,477 | $ 4,877 |

***December 31, 2011***

| In millions | Direct Exposure Funded Loans | Leases | Securities | Total | Unfunded Other (a) | Total Direct Exposure | Total Indirect Exposure | Total Exposure |
|---|---|---|---|---|---|---|---|---|
| Greece, Ireland, Italy, Portugal and Spain (GIIPS) | | $ 118 | | $ 118 | | $ 118 | $ 63 | $ 181 |
| Belgium, France, Turkey | $ 11 | 75 | | 86 | $ 68 | 154 | 935 | 1,089 |
| United Kingdom | 452 | 14 | | 466 | 381 | 847 | 529 | 1,376 |
| Europe - Other (b) | 100 | 475 | $ 357 | 932 | 36 | 968 | 803 | 1,771 |
| Total Europe (c) | $ 563 | $ 682 | $ 357 | $ 1,602 | $ 485 | $ 2,087 | $ 2,330 | $ 4,417 |

(a) Includes unfunded commitments, guarantees, standby letters of credit, and sold protection credit derivatives.
(b) Europe - Other primarily consists of Denmark, Germany, Netherlands, Sweden, and Switzerland.
(c) Included within Europe - Other is funded direct exposure of $168 million and $357 million consisting of sovereign debt securities at December 31, 2012 and 2011, respectively. There was no other direct or indirect exposure to European sovereigns as of December 31, 2012 and 2011.

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

Among the regions and nations that PNC monitors, we have identified seven countries for which we are more closely monitoring their economic and financial situation. The basis for the increased monitoring includes, but is not limited to, sovereign debt burden, near term financing risk, political instability, GDP trends, balance of payments, market confidence, banking system distress and/or holdings of stressed sovereign debt. The countries identified are: Greece, Ireland, Italy, Portugal, Spain (collectively GIIPS ), Belgium and France. At December 31, 2012, PNC s exposure to Turkey was de minimis.

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Direct exposure primarily consists of loans, leases, securities, derivatives, letters of credit and unfunded contractual commitments with European entities. As of December 31, 2012, the $1.9 billion of funded direct exposure (.61% of PNC s total assets) primarily represented $645 million for cross-border leases in support of national infrastructure, which were supported by letters of credit and other collateral having trigger mechanisms that require replacement or collateral in the form of cash or United States Treasury or government securities, $600 million for United Kingdom foreign office loans and $168 million of securities issued by AAA-rated sovereigns. The comparable level of direct exposure outstanding at December 31, 2011 was $1.6 billion (.59% of PNC s total assets), which primarily included $625 million for cross-border leases in support of national infrastructure, $382 million for United Kingdom foreign office loans and $357 million of securities issued by AAA-rated sovereigns.

The $550 million of unfunded direct exposure as of December 31, 2012 was largely comprised of $449 million for unfunded contractual commitments primarily for United Kingdom local office commitments to PNC Business Credit corporate customers on a secured basis or activities supporting our domestic customers export activities through the confirmation of trade letters of credit. Comparably, the $485 million of unfunded direct exposure as of December 31, 2011 was largely comprised of $440 million for unfunded contractual commitments primarily for United Kingdom local office commitments to PNC Business Credit corporate customers on a secured basis.

We also track European financial exposures where our clients, primarily U.S. entities, appoint PNC as a letter of credit issuing bank and we elect to assume the joint probability of default risk. As of December 31, 2012 and December 31, 2011, PNC had $2.5 billion and $2.3 billion, respectively, of indirect exposure. For PNC to incur a loss in these indirect exposures, both the obligor and the financial counterparty participating bank would need to default. PNC assesses both the corporate customers and the participating banks for counterparty risk and where PNC has found that a

participating bank exposes PNC to unacceptable risk, PNC will reject the participating bank as an acceptable counterparty and will ask the corporate customer to find an acceptable participating bank.

Direct and indirect exposure to entities in the GIIPS countries totaled $241 million as of December 31, 2012, of which $122 million was direct exposure for cross-border leases within Portugal, $67 million represented direct exposure for loans outstanding within Ireland and $31 million represented indirect exposure for letters of credit with strong underlying obligors, primarily U.S. entities, with participating banks in Ireland, Italy and Spain. The comparable amounts as of December 31, 2011 were total direct and indirect exposure of $181 million, consisting of $118 million of direct exposure for cross-border leases within Portugal, indirect exposure of $48 million for letters of credit with strong underlying obligors, primarily U.S. entities, with participating banks in Ireland, Italy and Spain and $15 million for unfunded contractual commitments in Spain.

Direct and indirect exposure to entities in Belgium and France totaled $1.2 billion as of December 31, 2012. Direct exposure of $138 million primarily consisted of $69 million for cross-border leases within Belgium, $35 million for unfunded contractual commitments in France and $30 million of covered bonds issued by a financial institution in France. Indirect exposure was $1.1 billion for letters of credit with strong underlying obligors, primarily U.S. entities, with creditworthy participant banks in France and Belgium. The comparable amounts as of December 31, 2011 were total direct and indirect exposure of $1.1 billion as of December 31, 2011 of which there was $154 million of direct exposure primarily consisting of $75 million for cross-border leases within Belgium and $62 million for unfunded contractual commitments in France. In addition, direct exposure at December 31, 2011 included $11 million for 90% Overseas Private Investment Corporation ( OPIC ) guaranteed Turkish loans. Indirect exposure at December 31, 2011 was $935 million for letters of credit with strong underlying obligors and creditworthy participant banks in France and Belgium.

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## Business Segments Review

We have six reportable business segments:

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

Business segment results, including inter-segment revenues, and a description of each business are included in Note 26 Segment Reporting included in the Notes To Consolidated Financial Statements in Item 8 of this Report. Certain amounts included in this Item 7 differ from those amounts shown in Note 26 primarily due to the presentation in this Business Segments Review of business net interest revenue on a taxable-equivalent basis.

Results of individual businesses are presented based on our internal management reporting practices. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our individual businesses are not necessarily comparable with similar information for any other company. We periodically refine our internal methodologies as management reporting practices are enhanced. To the extent practicable, retrospective application of new methodologies is made to prior period reportable business segment results and disclosures to create comparability to the current period presentation to reflect any such refinements. Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis. We have aggregated the business results for certain similar operating segments for financial reporting purposes.

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

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

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

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

***Table 20: Results Of Businesses Summary***

*(Unaudited)*

| Year ended December 31 - in millions | Net Income (Loss) 2012 | Net Income (Loss) 2011 | Revenue 2012 | Revenue 2011 | Average Assets (a) 2012 | Average Assets (a) 2011 |
|---|---|---|---|---|---|---|
| Retail Banking | $ 596 | $ 371 | $ 6,328 | $ 5,579 | $ 72,573 | $ 66,448 |
| Corporate & Institutional Banking | 2,328 | 1,940 | 5,697 | 4,775 | 102,962 | 81,043 |
| Asset Management Group | 145 | 168 | 973 | 929 | 6,735 | 6,719 |
| Residential Mortgage Banking | (308) | 89 | 526 | 952 | 11,529 | 11,270 |
| BlackRock | 395 | 361 | 512 | 464 | 5,857 | 5,516 |
| Non-Strategic Assets Portfolio | 237 | 200 | 843 | 960 | 12,050 | 13,119 |
| Total business segments | 3,393 | 3,129 | 14,879 | 13,659 | 211,706 | 184,115 |
| Other (b) | (392) | (58) | 633 | 667 | 83,319 | 81,220 |
| Total | $ 3,001 | $ 3,071 | $ 15,512 | $ 14,326 | $ 295,025 | $ 265,335 |

(a) Period-end balances for BlackRock.

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

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## Retail Banking

*(Unaudited)*

***Table 21: Retail Banking Table***

| Year ended December 31<br>Dollars in millions, except as noted | 2012 | 2011 |
|---|---|---|
| **Income Statement** | | |
| Net interest income | $ 4,316 | $ 3,806 |
| Noninterest income | | |
| Service charges on deposits | 547 | 510 |
| Brokerage | 189 | 201 |
| Consumer services | 838 | 927 |
| Other | 438 | 135 |
| Total noninterest income | 2,012 | 1,773 |
| Total revenue | 6,328 | 5,579 |
| Provision for credit losses | 800 | 891 |
| Noninterest expense | 4,586 | 4,103 |
| Pretax earnings | 942 | 585 |
| Income taxes | 346 | 214 |
| Earnings | $ 596 | $ 371 |
| **Average Balance Sheet** | | |
| Loans | | |
| Consumer | | |
| Home equity | $ 28,321 | $ 25,972 |
| Indirect auto | 5,467 | 3,094 |
| Indirect other | 1,174 | 1,491 |
| Education | 8,878 | 9,103 |
| Credit cards | 4,063 | 3,738 |
| Other | 2,039 | 1,750 |
| Total consumer | 49,942 | 45,148 |
| Commercial and commercial real estate | 11,198 | 10,567 |
| Floor plan | 1,788 | 1,450 |
| Residential mortgage | 946 | 1,180 |
| Total loans | 63,874 | 58,345 |
| Goodwill and other intangible assets | 6,123 | 5,751 |
| Other assets | 2,576 | 2,352 |
| Total assets | $ 72,573 | $ 66,448 |
| Deposits | | |
| Noninterest-bearing demand | $ 20,179 | $ 18,183 |
| Interest-bearing demand | 28,007 | 22,196 |
| Money market | 46,578 | 41,002 |
| Total transaction deposits | 94,764 | 81,381 |
| Savings | 9,751 | 8,098 |
| Certificates of deposit | 25,715 | 33,006 |
| Total deposits | 130,230 | 122,485 |
| Other liabilities | 340 | 855 |
| Capital | 8,747 | 8,168 |
| Total liabilities and equity | $ 139,317 | $ 131,508 |

| Year ended December 31<br>Dollars in millions, except as noted | 2012 | 2011 |
|---|---|---|
| **Performance Ratios** | | |

| | | |
|---|---|---|
| Return on average capital | 7% | 5% |
| Return on average assets | .82 | .56 |
| Noninterest income to total revenue | 32 | 32 |
| Efficiency | 72 | 74 |
| **Other Information (a)** | | |
| Credit-related statistics: | | |
| Commercial nonperforming assets | $ 245 | $ 336 |
| Consumer nonperforming assets | 902 | 513 |
| Total nonperforming assets (b) | $ 1,147 | $ 849 |
| Purchased impaired loans (c) | $ 819 | $ 757 |
| Commercial lending net charge-offs | $ 119 | $ 219 |
| Credit card lending net charge-offs | 174 | 211 |
| Consumer lending (excluding credit card) net charge-offs | 521 | 427 |
| Total net charge-offs | $ 814 | $ 857 |
| Commercial lending net charge-off ratio | .92% | 1.82% |
| Credit card lending net charge-off ratio | 4.28% | 5.64% |
| Consumer lending (excluding credit card) net charge-off ratio | 1.11% | 1.00% |
| Total net charge-off ratio | 1.27% | 1.47% |
| Home equity portfolio credit statistics: (d) | | |
| % of first lien positions at origination | 42% | 39% |
| Weighted-average loan-to-value ratios (LTVs) (e) | 81% | 72% |
| Weighted-average updated FICO scores (f) | 742 | 743 |
| Net charge-off ratio | 1.22% | 1.09% |
| Loans 30 59 days past due | .52% | .58% |
| Loans 60 89 days past due | .33% | .38% |
| Loans 90 days past due (g) | 1.22% | 1.22% |
| Other statistics: | | |
| ATMs | 7,282 | 6,806 |
| Branches (h) | 2,881 | 2,511 |
| Customer-related statistics: (in thousands) | | |
| Retail Banking checking relationships | 6,475 | 5,761 |
| Retail online banking active customers | 4,227 | 3,519 |
| Retail online bill payment active customers | 1,236 | 1,105 |
| Brokerage statistics: | | |
| Financial consultants (i) | 636 | 686 |
| Full service brokerage offices | 41 | 38 |
| Brokerage account assets (billions) | $ 38 | $ 34 |

(a) Presented as of December 31, except for net charge-offs and net charge-off ratios, which are for the year ended.
(b) Includes nonperforming loans of $1.1 billion at December 31, 2012 and $.8 billion at December 31, 2011. In the first quarter of 2012, we adopted a policy stating that Home equity loans past due 90 days or more would be placed on nonaccrual status. The prior policy required that these loans be past due 180 days before being placed on nonaccrual status.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Lien position, LTV, FICO and delinquency statistics are based upon balances and other data that exclude the impact of accounting for acquired loans.
(e) Updated LTV is reported for December 31, 2012. For December 31, 2011, LTV is based upon data from loan origination. Original LTV excludes certain acquired portfolio loans where this data is not available.
(f) Represents FICO scores that are updated monthly for home equity lines and quarterly for the home equity installment loans.
(g) Includes non-accrual loans.
(h) Excludes satellite offices (e.g., drive-ups, electronic branches, and retirement centers) that provide limited products and/or services.
(i) Financial consultants provide services in full service brokerage offices and traditional bank branches.

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Retail Banking earned $596 million for 2012 compared with earnings of $371 million in 2011. The increase in earnings resulted from organic growth in transaction deposit balances, gains on sales of Visa Class B common shares, lower rates paid on deposits, higher levels of customer-initiated transactions, a lower provision for credit losses, and the impact of the RBC Bank (USA) acquisition, partially offset by the regulatory impact of lower interchange fees on debit card transactions and higher additions to legal reserves.

The results for 2012 include the impact of the retail business associated with the acquisition of RBC Bank (USA) and the credit card portfolio purchase from RBC Bank (Georgia), National Association in March 2012. Retail Banking added approximately $12.1 billion in deposits, $4.9 billion in loans, 460,000 checking relationships, over 400 branches, and over 400 ATMs through this acquisition. Retail Banking s footprint extends across 17 states and Washington, D.C., covering nearly half the US population and serving 5,733,000 consumers and 742,000 small businesses with 2,881 branches and 7,282 ATMs.

Retail Banking s core strategy is to grow consumer and small business checking households profitably by providing an experience that builds customer loyalty and creates opportunities to sell other products and services, including loans, savings accounts, investment products and money management services. Net checking relationships grew 714,000 in 2012, including 460,000 from the RBC Bank (USA) acquisition. Organic net checking relationships grew by 4% in 2012 from year end 2011. The growth reflects strong results and gains in all of our markets as well as strong customer retention in the overall network. Active online banking customers and active online bill payment customers increased by 20% and 12%, respectively, from year end 2011. The business is also focused on expanding the use of technology, using services such as online banking and mobile deposit taking to improve customer service convenience and lower our service delivery costs.

Total revenue for 2012 was $6.3 billion compared with $5.6 billion in 2011. Net interest income of $4.3 billion increased $510 million compared with 2011. The increase resulted from higher organic transaction deposit balances, lower rates paid on deposits, and the impact of the RBC Bank (USA) acquisition.

Noninterest income increased $239 million compared to 2011. The increase was driven by the $267 million gain on the sale of 9 million Visa Class B common shares. Noninterest income has been adversely affected by Dodd-Frank limits related to interchange rates that became effective in October 2011. The negative impact of these limits was approximately $314 million in 2012 and approximately $75 million in 2011. This impact has been partially offset by higher volumes of merchant, customer credit card and debit card transactions and the RBC Bank (USA) acquisition.

The provision for credit losses was $800 million in 2012 compared with $891 million in the prior year. Net charge-offs were $814 million for 2012 compared with $857 million for 2011. Improvements in credit quality over the prior year were evident in the small business and credit card portfolios. Pursuant to regulatory guidance issued in the third quarter of 2012, consumer charge-offs were taken in 2012 related to troubled debt restructurings resulting from bankruptcy. Such loans have been classified as troubled debt restructurings and have been measured at the fair value of the collateral less costs to sell.

Noninterest expense increased $483 million in 2012 compared to 2011. The increase was primarily attributable to the operating expenses associated with RBC Bank (USA) and higher additions to legal reserves.

Growing core checking deposits is key to Retail Banking s growth and to providing a source of low-cost funding to PNC. The deposit product strategy of Retail Banking is to remain disciplined on pricing, target specific products and markets for growth, and focus on the retention and growth of balances for relationship customers. In 2012, average total deposits of $130.2 billion increased $7.7 billion, or 6%, compared with 2011.

- Average transaction deposits grew $13.4 billion, or 16%, and average savings deposit balances grew $1.7 billion, or 20%, year over year as a result of organic deposit growth, continued customer preference for liquidity, and the RBC Bank (USA) acquisition. In 2012, average demand deposits increased $7.8 billion, or 19%, to $48.2 billion; average money market deposits increased $5.6 billion, or 14%, to $46.6 billion.
- Total average certificates of deposit decreased $7.3 billion, or 22%, compared to 2011. This decline was in support of our low-cost funding strategy and was due to the run-off of maturing accounts partially offset by the impact of the RBC Bank (USA) acquisition.

Retail Banking continues to focus primarily on a relationship-based lending strategy that targets specific customer sectors, including mass and mass affluent consumers, small businesses and auto dealerships. In 2012, average total loans were $63.9 billion, an increase of $5.5 billion, or 9%, of which $4.0 billion was attributable to the RBC Bank (USA) acquisition, primarily in the home equity portfolio.

- Average indirect auto loans increased $2.4 billion, or 77%, over 2011. The increase was due to the expansion of our indirect sales force and product introduction to acquired markets, as well as overall increases in auto sales. An indirect auto portfolio of $522 million was purchased in September 2012.

Average home equity loans increased $2.3 billion, or 9%, in 2012. The increase was due to the RBC Bank (USA) acquisition. The remainder of the portfolio

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showed a decline as loan demand was outpaced by paydowns, refinancing and charge-offs. Retail Banking s home equity loan portfolio is relationship based, with 97% of the portfolio attributable to borrowers in our primary geographic footprint.

Average commercial and commercial real estate loans increased $631 million, or 6%, over 2011. The increase was due to the acquisition of RBC Bank (USA). The remainder of the portfolio showed a decline as loan demand was outpaced by paydowns, refinancing and charge-offs.

Average auto dealer floor plan loans grew $338 million, or 23%, in 2012, primarily resulting from dealer line utilization and additional dealer relationships.

Average credit card balances increased $325 million, or 9%, over 2011 as a result of the portfolio purchase from RBC Bank (Georgia), National Association in March 2012 and organic customer growth.

Average education loans were down $225 million, or 2%, from 2011 as paydowns and charge-offs in the discontinued government guaranteed portfolio outpaced growth in the private portfolio.

Average indirect other and residential mortgages in this segment are primarily run-off portfolios and declined $317 million and $234 million, respectively, in 2012. The indirect other portfolio is comprised of marine, RV, and other indirect loan products.

Nonperforming assets increased $298 million to $1.1 billion due to a change in policy on home equity loans, implemented in the first quarter of 2012, which places these loans on nonaccrual status at 90 days past due (versus the prior policy of 180 days) as well as the implementation of regulatory guidance issued in the third quarter of 2012 related to troubled debt restructurings resulting from bankruptcy. These increases were partially offset by a decline in the level of commercial nonperforming assets.

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## CORPORATE & INSTITUTIONAL BANKING

*(Unaudited)*

***Table 22: Corporate & Institutional Banking Table***

| Year ended December 31<br>Dollars in millions, except as noted | 2012 | 2011 |
|---|---|---|
| **INCOME STATEMENT** | | |
| Net interest income | $ 4,099 | $ 3,538 |
| Noninterest income | | |
| Corporate service fees | 1,030 | 752 |
| Other | 568 | 485 |
| Noninterest income | 1,598 | 1,237 |
| Total revenue | 5,697 | 4,775 |
| Provision for credit losses (benefit) | | (124) |
| Noninterest expense | 2,028 | 1,832 |
| Pretax earnings | 3,669 | 3,067 |
| Income taxes | 1,341 | 1,127 |
| Earnings | $ 2,328 | $ 1,940 |
| **AVERAGE BALANCE SHEET** | | |
| Loans | | |
| Commercial | $ 48,444 | $ 35,764 |
| Commercial real estate | 15,768 | 13,938 |
| Commercial real estate related | 5,774 | 3,782 |
| Asset-based lending | 10,083 | 8,171 |
| Equipment lease financing | 5,997 | 5,506 |
| Total loans | 86,066 | 67,161 |
| Goodwill and other intangible assets | 3,656 | 3,405 |
| Loans held for sale | 1,222 | 1,257 |
| Other assets | 12,018 | 9,220 |
| Total assets | $ 102,962 | $ 81,043 |
| Deposits | | |
| Noninterest-bearing demand | $ 38,337 | $ 31,462 |
| Money market | 15,590 | 12,925 |
| Other | 6,108 | 5,651 |
| Total deposits | 60,035 | 50,038 |
| Other liabilities | 17,969 | 13,323 |
| Capital | 9,272 | 8,010 |
| Total liabilities and equity | $ 87,276 | $ 71,371 |

| Year ended December 31<br>Dollars in millions, except as noted | 2012 | 2011 |
|---|---|---|
| **PERFORMANCE RATIOS** | | |
| Return on average capital | 25% | 24% |
| Return on average assets | 2.26 | 2.39 |
| Noninterest income to total revenue | 28 | 26 |
| Efficiency | 36 | 38 |
| **COMMERCIAL MORTGAGE SERVICING PORTFOLIO** (in billions) | | |
| Beginning of period | $ 267 | $ 266 |
| Acquisitions/additions | 64 | 43 |
| Repayments/transfers | (49) | (42) |
| End of period | $ 282 | $ 267 |
| **OTHER INFORMATION** | | |

| | | |
|---|---|---|
| Consolidated revenue from: (a) | | |
| Treasury Management (b) | $ 1,380 | $ 1,266 |
| Capital Markets (c) | $ 710 | $ 622 |
| Commercial mortgage loans held for sale (d) | $ 104 | $ 113 |
| Commercial mortgage loan servicing income, net of amortization (e) | 195 | 180 |
| Commercial mortgage servicing rights recovery/(impairment), net of economic hedge | 31 | (157) |
| Total commercial mortgage banking activities | $ 330 | $ 136 |
| Total loans (f) | $ 93,721 | $ 73,417 |
| Credit-related statistics: | | |
| Nonperforming assets (f) (g) | $ 1,181 | $ 1,889 |
| Purchased impaired loans (f) (h) | $ 875 | $ 404 |
| Net charge-offs | $ 142 | $ 375 |
| Net carrying amount of commercial mortgage servicing rights (f) | $ 420 | $ 468 |

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

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

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

(d) Includes valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.

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

(f) As of December 31.

(g) Includes nonperforming loans of $ 1.0 billion at December 31, 2012 and $1.7 billion at December 31, 2011.

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

Corporate & Institutional Banking earned $2.3 billion in 2012, compared with $1.9 billion in 2011. The increase in earnings was primarily due to higher revenue partially offset by higher noninterest expense and a provision for credit losses of zero in 2012 compared with a benefit of $124 million in 2011. We continued to focus on building client relationships including increasing cross sales and adding new clients where the risk-return profile was attractive.

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

Highlights of Corporate & Institutional Banking s performance throughout 2012 include the following:

- Corporate & Institutional Banking continued to execute on strategic initiatives, including in the Southeast, by organically growing and deepening client relationships that meet our risk/return measures. Approximately 1,100 new primary Corporate Banking clients were added in 2012.
- Loan commitments increased 24% to $181 billion at December 31, 2012 compared to December 31, 2011, primarily due to the RBC Bank (USA) acquisition and growth in our Corporate Banking (Corporate Finance, Financial Services Advisory and Banking, Public Finance and Healthcare businesses), Real Estate and Business Credit (asset-based lending) businesses.
- Period-end loan balances have increased for the ninth consecutive quarter, including an increase of 4% at December 31, 2012 compared with September 30, 2012 and 22% compared with December 31, 2011.
- Our Treasury Management business, which ranks among the top providers in the country, continued to invest in markets, products and infrastructure as well as major initiatives such as healthcare.
- Cross sales of treasury management and capital markets-related products and services to customers in PNC s markets continued to be successful and were ahead of 2011.
- Midland Loan Services was the number one servicer of Fannie Mae and Freddie Mac multifamily and healthcare loans and was the second leading servicer of commercial and multifamily loans by volume as of June 30, 2012 according to Mortgage Bankers Association. Midland is the only U.S. commercial mortgage servicer to receive the highest primary, master and special servicer ratings from Fitch Ratings, Standard & Poor s and Morningstar.

Net interest income in 2012 was $4.1 billion, a 16% increase from 2011, reflecting higher average loans and deposits, partially offset by lower spreads on loans and deposits.

Corporate service fees were $1.0 billion in 2012, an increase of $278 million from 2011, primarily due to higher

commercial mortgage servicing revenue and merger and acquisition advisory fees. The major components of corporate service fees are treasury management, corporate finance fees and commercial mortgage servicing revenue.

Other noninterest income was $568 million in 2012 compared with $485 million in 2011. The increase of $83 million was primarily due to gains on asset sales and the impact of customer driven capital markets activity.

The provision for credit losses was zero in 2012 compared with a benefit of $124 million in 2011. The increase reflects higher loan and commitment levels offset by positive credit migration. Despite the increase, the overall credit quality remains strong. Net charge-offs were $142 million in 2012, which decreased $233 million, or 62%, compared with 2011. The decline was attributable primarily to the commercial real estate portfolio.

Nonperforming assets declined for the eleventh consecutive quarter, and at $1.2 billion, represented a 37% decrease from December 31, 2011.

Noninterest expense was $2.0 billion in 2012, an increase of $196 million from 2011. Higher compensation-related costs were driven by improved performance and higher staffing, including the impact of the RBC Bank (USA) acquisition.

Average loans were $86.1 billion in 2012 compared with $67.2 billion in 2011, an increase of 28%. Organically, average loans grew 20% in the comparison.

- The Corporate Banking business provides lending, treasury management, and capital markets-related products and services to mid-sized corporations, government and not-for-profit entities, and selectively to large corporations. Average loans for this business increased $11.0 billion, or 33%, in 2012 compared with 2011, primarily due to an increase in loan commitments from new customers. Organically, average loans for this business grew 22% in the comparison.
- PNC Real Estate provides commercial real estate and real estate-related lending and is one of the industry s top providers of both conventional and affordable multifamily financing. Average loans for this business increased $2.7 billion, or 17%, in 2012 compared

with 2011 due to increased originations.

PNC Business Credit is one of the top five asset-based lenders in the country with increasing market share according to the Commercial Finance Association. The loan portfolio is relatively high yielding, with moderate risk as the loans are mainly secured by short-term assets. Average loans increased $1.9 billion, or 23%, in 2012 compared with 2011 due to customers seeking stable lending sources, loan usage rates, and market share expansion.

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PNC Equipment Finance is the 4th largest bank-affiliated leasing company with over $11 billion in equipment finance assets.
Average deposits were $60.0 billion in 2012, an increase of $10.0 billion, or 20%, compared with 2011.

Deposit growth has been very strong, consistent with the industry-wide trend, as clients hold record levels of cash.
Deposit inflows into noninterest-bearing demand deposits continued as FDIC insurance has been an attraction for customers maintaining liquidity during this prolonged period of low interest rates.
The repeal of Regulation Q limitations on interest-bearing commercial demand deposit accounts became effective in the third quarter of 2011. Interest in this product has been muted due to the current rate environment.
As of February 22, 2013, commercial deposits have declined by $3.6 billion from the December 31, 2012 level as a result of seasonal and normal business activity. Deposit fluctuations due to the Transaction Account Guarantee Program s expiration have not been significant. Management expects that in the current interest rate environment, additional runoff of commercial deposits will not be significant.

The commercial mortgage servicing portfolio was $282 billion at December 31, 2012 compared with $267 billion at December 31, 2011. Servicing additions exceeded portfolio run-off.

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

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## Asset Management Group

*(Unaudited)*

***Table 23: Asset Management Group Table***

| Year ended December 31<br>Dollars in millions, except as noted | 2012 | 2011 |
|---|---|---|
| **Income Statement** | | |
| Net interest income | $ 297 | $ 280 |
| Noninterest income | 676 | 649 |
| Total revenue | 973 | 929 |
| Provision for credit losses (benefit) | 11 | (24) |
| Noninterest expense | 732 | 687 |
| Pretax earnings | 230 | 266 |
| Income taxes | 85 | 98 |
| Earnings | $ 145 | $ 168 |
| **Average Balance Sheet** | | |
| Loans | | |
| Consumer | $ 4,416 | $ 4,108 |
| Commercial and commercial real estate | 1,076 | 1,301 |
| Residential mortgage | 695 | 706 |
| Total loans | 6,187 | 6,115 |
| Goodwill and other intangible assets | 329 | 361 |
| Other assets | 219 | 243 |
| Total assets | $ 6,735 | $ 6,719 |
| Deposits | | |
| Noninterest-bearing demand | $ 1,462 | $ 1,209 |
| Interest-bearing demand | 2,746 | 2,361 |
| Money market | 3,553 | 3,589 |
| Total transaction deposits | 7,761 | 7,159 |
| CDs/IRAs/savings deposits | 491 | 632 |
| Total deposits | 8,252 | 7,791 |
| Other liabilities | 68 | 74 |
| Capital | 439 | 349 |
| Total liabilities and equity | $ 8,759 | $ 8,214 |
| **Performance Ratios** | | |
| Return on average capital | 33% | 48% |
| Return on average assets | 2.15 | 2.50 |
| Noninterest income to total revenue | 69 | 70 |
| Efficiency | 75 | 74 |

| Year ended December 31<br>Dollars in millions, except as noted | 2012 | 2011 |
|---|---|---|
| **Other Information** | | |
| Total nonperforming assets (a) (b) | $ 69 | $ 60 |
| Purchased impaired loans (a) (c) | $ 109 | $ 127 |
| Total net charge-offs | $ 6 | $ |
| **Assets Under Administration** (in billions) (a) (d) | | |
| Personal | $ 107 | $ 100 |
| Institutional | 117 | 110 |
| Total | $ 224 | $ 210 |
| *Asset Type* | | |

| | | |
|---|---|---|
| Equity | $ 120 | $ 111 |
| Fixed Income | 69 | 66 |
| Liquidity/Other | 35 | 33 |
| Total | $ 224 | $ 210 |
| Discretionary assets under management | | |
| Personal | $ 73 | $ 69 |
| Institutional | 39 | 38 |
| Total | $ 112 | $ 107 |
| *Asset Type* | | |
| Equity | $ 56 | $ 53 |
| Fixed Income | 39 | 38 |
| Liquidity/Other | 17 | 16 |
| Total | $ 112 | $ 107 |
| Nondiscretionary assets under administration | | |
| Personal | $ 34 | $ 31 |
| Institutional | 78 | 72 |
| Total | $ 112 | $ 103 |
| *Asset Type* | | |
| Equity | $ 64 | $ 58 |
| Fixed Income | 30 | 28 |
| Liquidity/Other | 18 | 17 |
| Total | $ 112 | $ 103 |

(a) As of December 31.
(b) Includes nonperforming loans of $65 million at December 31, 2012 and $56 million at December 31, 2011.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account assets.

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Asset Management Group earned $145 million in 2012 compared with $168 million in 2011. Revenue increased $44 million in the year over year comparison as strong sales and higher average equity markets increased noninterest income by 4% and higher average deposit balances increased net interest income by 6%. The revenue increase was offset by higher noninterest expense from strategic business investments and higher provision for credit losses. During 2012 the business continued to focus on client acquisition and asset and revenue growth.

The core growth strategies for the business continue to include: investing in higher growth geographies including the Southeast region, increasing internal referral sales and adding new front line sales staff throughout our footprint. For 2012, the business delivered strong sales production, grew high value clients and benefited from significant referrals from other PNC lines of business. Over time, the successful execution of these strategies and the accumulation of our strong sales performance are expected to create meaningful growth in assets under management and noninterest income. Highlights of Asset Management Group s performance during 2012 include the following:

- Assets under administration of $224 billion with positive net flows of $2.5 billion in discretionary assets under management after adjustments to total net flows for cyclical client activities,
- Strong sales production, up 32% over the prior year including a 37% increase in the acquisition of new primary clients,
- Significant referrals from other PNC lines of business, reflecting an increase of approximately 39% over 2011,
- Continuing levels of new business investment and focused hiring to drive growth, with over 360 external new hires, and
- PNC Wealth Insight® was awarded a 2012 CIO 100 Award by CIO Magazine. The online client reporting tool now enables clients to view their PNC Investments brokerage accounts and access all client information through a mobile application that supports a number of smartphone platforms.

Assets under administration increased to $224 billion at December 31, 2012 from $210 billion at December 31, 2011. Discretionary assets under management were $112 billion at December 31, 2012 compared with $107 billion at December 31, 2011. The increase in the comparisons was driven by stronger average equity markets, positive net flows, and strong sales performance.

Total revenue for 2012 was $973 million compared with $929 million for 2011. Noninterest income was $676 million for 2012, an increase of $27 million from the prior year attributable to stronger average equity markets, increased sales and new client acquisition. Net interest income was $297 million for 2012 compared with $280 million for 2011. The increase was primarily a result of growth in transaction deposit balances.

Provision for credit losses of $11 million in 2012 increased $35 million compared to a benefit of $24 million for 2011. Noninterest expense was $732 million in 2012, an increase of $45 million, or 7%, from the prior year. The increase was attributable to investments in the business including the Southeast region and higher compensation-related costs. Asset Management Group remains focused on disciplined expense management as it invests in these strategic growth opportunities.

Average deposits of $8.3 billion for 2012 increased $461 million, or 6%, over the prior year. Average transaction deposits grew 8% compared with 2011 and were partially offset by the strategic run-off of maturing certificates of deposit in the comparison.

Average loan balances of $6.2 billion increased $72 million, or 1%, from the prior year primarily due to increased consumer loan activity partially offset by decreases in commercial and commercial real estate loans.

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## Residential Mortgage Banking

*(Unaudited)*

***Table 24: Residential Mortgage Banking Table***

| Year ended December 31<br>Dollars in millions, except as noted | 2012 | 2011 |
|---|---|---|
| **Income Statement** | | |
| Net interest income | $ 209 | $ 201 |
| Noninterest income | | |
| Loan servicing revenue | | |
| Servicing fees | 205 | 226 |
| Net MSR hedging gains | 119 | 220 |
| Loan sales revenue | | |
| Provision for residential mortgage repurchase obligations | (761) | (102) |
| Loan sales revenue | 747 | 384 |
| Other | 7 | 23 |
| Total noninterest income | 317 | 751 |
| Total revenue | 526 | 952 |
| Provision for credit losses (benefit) | (5) | 5 |
| Noninterest expense (a) | 992 | 797 |
| Pretax earnings (loss) | (461) | 150 |
| Income taxes (benefit) | (153) | 61 |
| Earnings (loss) | $ (308) | $ 89 |
| **Average Balance Sheet** | | |
| Portfolio loans | $ 2,719 | $ 2,771 |
| Loans held for sale | 1,758 | 1,492 |
| Mortgage servicing rights (MSR) | 632 | 905 |
| Other assets | 6,420 | 6,102 |
| Total assets | $ 11,529 | $ 11,270 |
| Deposits | $ 2,560 | $ 1,675 |
| Borrowings and other liabilities | 4,086 | 3,877 |
| Capital | 1,329 | 731 |
| Total liabilities and equity | $ 7,975 | $ 6,283 |
| **Performance Ratios** | | |
| Return on average capital | (23)% | 12% |
| Return on average assets | (2.67) | 0.79 |
| Noninterest income to total revenue | 60 | 79 |
| Efficiency | 189 | 84 |

| Year ended December 31<br>Dollars in millions, except as noted | 2012 | 2011 |
|---|---|---|
| **Residential Mortgage Servicing Portfolio - Third-Party** (in billions) | | |
| Beginning of period | $ 118 | $ 125 |
| Acquisitions | 21 | 6 |
| Additions | 14 | 12 |
| Repayments/transfers | (34) | (25) |
| End of period | $ 119 | $ 118 |
| Servicing portfolio - third-party statistics: (b) | | |
| Fixed rate | 92% | 90% |
| Adjustable rate/balloon | 8% | 10% |
| Weighted-average interest rate | 4.94% | 5.38% |
| MSR capitalized value (in billions) | $ .7 | $ .7 |

| | | |
|---|---|---|
| MSR capitalization value (in basis points) | 54 | 54 |
| Weighted-average servicing fee (in basis points) | 28 | 29 |
| **Residential Mortgage Repurchase Reserve** | | |
| Beginning of period | $ 83 | $ 144 |
| Provision | 761 | 102 |
| RBC Bank (USA) acquisition | 26 | |
| Losses - loan repurchases and settlements | (256) | (163) |
| End of Period | $ 614 | $ 83 |
| **Other Information** | | |
| Loan origination volume (in billions) | $ 15.2 | $ 11.4 |
| Percentage of originations represented by: | | |
| Agency and government programs | 100% | 100% |
| Refinance volume | 77% | 76% |
| Total nonperforming assets (b) (c) | $ 134 | $ 76 |
| Purchased impaired loans (b) (d) | $ 38 | $ 112 |

(a) Includes a goodwill impairment charge of $45 million during the fourth quarter of 2012.
(b) As of December 31.
(c) Includes nonperforming loans of $90 million at December 31, 2012 and $31 million at December 31, 2011.
(d) Recorded investment of purchased impaired loans related to acquisitions.

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Residential Mortgage Banking reported a loss of $308 million in 2012 compared with earnings of $89 million in 2011. Earnings declined from the prior year primarily as a result of higher provision for residential mortgage repurchase obligations, higher noninterest expense, including goodwill impairment, and lower net hedging gains on mortgage servicing rights, partially offset by increased loan sales revenue driven by higher loan origination volume.

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

Residential Mortgage Banking overview:

- Total loan originations were $15.2 billion for 2012 compared with $11.4 billion in 2011. Loans continue to be originated primarily through direct channels under FNMA, FHLMC and FHA/VA agency guidelines. Refinancings were 77% of originations for 2012 and 76% in 2011. During 2012, 30% of loan originations were under the original or revised Home Affordable Refinance Program (HARP or HARP 2).
- Investors having purchased mortgage loans may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. At December 31, 2012, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $614 million compared with $83 million at December 31, 2011. See the Recourse And Repurchase Obligations section of this Item 7 and Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.
  - PNC has experienced and expects to experience further elevated levels of residential mortgage loan repurchase demands reflecting changes in behavior and demand patterns of two government-sponsored enterprises, FHLMC and FNMA, primarily related to loans sold in 2004 through 2008 into agency securitizations.
- Residential mortgage loans serviced for others totaled $119 billion at December 31, 2012 compared with $118 billion at December 31, 2011. Payoff volumes remained high, but new direct loan origination volume and servicing portfolio acquisitions offset the decline.
- Noninterest income was $317 million in 2012 compared with $751 million in 2011. The decrease resulted from current year additions to reserves of $761 million for residential mortgage loan repurchase obligations as compared to $102 million in 2011 and lower net hedging gains on mortgage servicing rights, partially offset by increased loan sales revenue driven by higher loan origination volume.
- Net interest income was $209 million in 2012 compared with $201 million in 2011.
- Noninterest expense was $992 million in 2012 compared with $797 million in 2011. The increase from the prior year was primarily driven by increased residential mortgage origination volumes, servicing costs, a goodwill impairment charge and higher additions to legal reserves. Included in noninterest expense in the fourth quarter of 2012 was an approximately $70 million charge resulting from an agreement to amend consent orders previously entered into by PNC with its banking regulators. The agreement ends the independent foreclosure review program under the consent orders and replaces it with an accelerated remediation process.
- The fair value of mortgage servicing rights was $.7 billion at both December 31, 2012 and December 31, 2011.

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## BlackRock

*(Unaudited)*

***Table 25: BlackRock Table***

Information related to our equity investment in BlackRock follows:

| Year ended December 31<br>Dollars in millions | 2012 | 2011 |
|---|---|---|
| Business segment earnings (a) | $ 395 | $ 361 |
| PNC s economic interest in BlackRock (b) | 22 % | 21% |

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

| In billions | Dec. 31<br>2012 | Dec. 31<br>2011 |
|---|---|---|
| Carrying value of PNC s investment in BlackRock (c) | $ 5.6 | $ 5.3 |
| Market value of PNC s investment in BlackRock (d) | 7.4 | 6.4 |

(c) PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $1.9 billion at December 31, 2012 and $1.7 billion at December 31, 2011. In May 2012, we exchanged 2 million shares of BlackRock Series B Preferred Stock for an equal number of shares of BlackRock common stock. The exchange transaction had no impact on the carrying value of our investment in BlackRock nor on our use of the equity method of accounting. Our voting interest in BlackRock common stock was approximately 21% at December 31, 2012.
(d) Does not include liquidity discount.

PNC accounts for its shares of BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock to partially fund BlackRock long-term incentive plan (LTIP) programs. The fair value amount of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 9 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report.

On September 29, 2011, PNC transferred 1.3 million shares of BlackRock Series C Preferred Stock to BlackRock to satisfy a portion of our LTIP obligation. Upon transfer, Other assets and Other liabilities on our Consolidated Balance Sheet were reduced by $172 million, representing the fair value of the shares transferred. On January 31, 2013, we transferred an additional 205,350 shares to BlackRock in connection with our obligation. The transfer reduced Other assets and Other liabilities on our Consolidated Balance Sheet by $33 million. After this transfer, we hold approximately 1.3 million shares of BlackRock Series C Preferred Stock which are available to fund our obligation in connection with the BlackRock LTIP programs. Additional information regarding our BlackRock LTIP shares obligation is included in Note 16 Stock Based Compensation Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report.

## Non-Strategic Assets Portfolio

*(Unaudited)*

***Table 26: Non-Strategic Assets Portfolio Table***

| Year ended December 31<br>Dollars in millions | 2012 | 2011 |
|---|---|---|
| **Income Statement** | | |
| Net interest income | $ 830 | $ 913 |

| | | |
|---|---|---|
| Noninterest income | 13 | 47 |
| Total revenue | 843 | 960 |
| Provision for credit losses | 181 | 366 |
| Noninterest expense | 287 | 275 |
| Pretax earnings | 375 | 319 |
| Income taxes | 138 | 119 |
| Earnings | $ 237 | $ 200 |
| **Average Balance Sheet** | | |
| Commercial Lending: | | |
| Commercial/Commercial real estate | $ 894 | $ 1,277 |
| Lease financing | 677 | 712 |
| Total commercial lending | 1,571 | 1,989 |
| Consumer Lending: | | |
| Home equity | 4,584 | 5,257 |
| Residential real estate | 6,259 | 6,161 |
| Total consumer lending | 10,843 | 11,418 |
| Total portfolio loans | 12,414 | 13,407 |
| Other assets (a) | (364) | (288) |
| Total assets | $ 12,050 | $ 13,119 |
| Deposits and other liabilities | $ 183 | $ 111 |
| Capital | 1,238 | 1,319 |
| Total liabilities and equity | $ 1,421 | $ 1,430 |
| **Performance Ratios** | | |
| Return on average capital | 19% | 15% |
| Return on average assets | 1.97 | 1.52 |
| Noninterest income to total revenue | 2 | 5 |
| Efficiency | 34 | 29 |
| **Other Information** | | |
| Nonperforming assets (b) (c) | $ 999 | $ 1,024 |
| Purchased impaired loans (b) (d) | $ 5,547 | $ 5,251 |
| Net charge-offs (e) | $ 299 | $ 370 |
| Net charge-off ratio (e) | 2.41% | 2.76% |
| **Loans (b)** | | |
| Commercial Lending | | |
| Commercial/Commercial real estate | $ 665 | $ 976 |
| Lease financing | 686 | 670 |
| Total commercial lending | 1,351 | 1,646 |
| Consumer Lending | | |
| Home equity | 4,237 | 4,930 |
| Residential real estate | 6,093 | 5,840 |
| Total consumer lending | 10,330 | 10,770 |
| Total loans | $ 11,681 | $ 12,416 |

(a) Other assets includes deferred taxes, ALLL and OREO. Other assets were negative in both periods due to the ALLL.
(b) As of December 31.
(c) Includes nonperforming loans of $.7 billion at both December 31, 2012 and December 31, 2011.
(d) Recorded investment of purchased impaired loans related to acquisitions. At December 31, 2012, this segment contained 75% of PNC s purchased impaired loans.
(e) For the year ended December 31.

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This business segment consists primarily of non-strategic assets obtained through acquisitions of other companies. Non-Strategic Assets Portfolio had earnings of $237 million in 2012 compared with $200 million in 2011. The increase was primarily attributable to a lower provision for credit losses, partially offset by lower net interest income driven by declines in loan balances and purchase accounting accretion.

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

Non-Strategic Assets Portfolio overview:

- Net interest income was $830 million in 2012 compared with $913 million 2011. The decrease was driven by lower purchase accounting accretion and loan balances.
- Noninterest income was $13 million in 2012 compared with $47 million 2011. The decline was driven mainly by larger valuation adjustments to liabilities for estimated repurchase losses on home equity loans sold.
- The provision for credit losses was $181 million in 2012 compared with $366 million in 2011. The decrease in the provision for credit losses reflected a declining loan portfolio and improvement in asset quality.
- Noninterest expense in 2012 was $287 million compared with $275 million in 2011. The increase was primarily due to higher other real estate owned expenses.
- Average portfolio loans declined to $12.4 billion in 2012 compared with $13.4 billion in 2011. The overall decline was driven by customer payment activity and portfolio management activities to reduce under-performing assets partially offset by the addition of loans from the RBC Bank (USA) acquisition.
- Nonperforming loans were $.7 billion as of December 31, 2012 and December 31, 2011. The consumer lending portfolio comprised 80% of nonperforming loans at December 31, 2012. Nonperforming consumer loans increased $83 million from December 31, 2011 as a result of a change in the nonaccrual policy for home equity loans requiring loans to be placed on nonaccrual at 90 days past due compared to the prior policy of 180 days. Also contributing to the increase was a change in the treatment of certain consumer loans classified as TDRs, pursuant to regulatory guidance issued in the third quarter of 2012. These TDRs resulted from bankruptcy where no formal reaffirmation was provided by the borrower thereby granting a concession upon discharge from personal liability.
- Net charge-offs were $299 million in 2012 and $370 million in 2011. Net charge-offs declined 17% on the consumer lending portfolio and 23% on the commercial lending portfolio.

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

- The Commercial Lending portfolio declined 18% to $1.35 billion at December 31, 2012 compared to December 31, 2011. Loans to residential developers declined 32% to $.7 billion while the lease financing portfolio remained relatively flat at $.7 billion. The leases are long-term with relatively low credit risk.
- The Consumer Lending portfolio declined $.4 billion, or 4%, when compared to the same period last year. Excluding $.9 billion of residential mortgage loans from the RBC Bank (USA) acquisition, the portfolio decreased 13%. The portfolio s credit quality has stabilized through actions taken by management. We have implemented various refinance programs, line management programs, and loss mitigation programs to mitigate risks within this portfolio while assisting borrowers to maintain homeownership when possible.
- When loans are sold, we may assume certain loan repurchase obligations to indemnify investors against losses or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. From 2005 to 2007, home equity loans were sold with such contractual provisions. At December 31, 2012, the liability for estimated losses on repurchase and indemnification claims for the Non-Strategic Assets Portfolio was $58 million compared to $47 million at December 31, 2011. See the Recourse And Repurchase Obligations section of this Item 7 and Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information.

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# Critical Accounting Estimates And Judgments

Our consolidated financial statements are prepared by applying certain accounting policies. Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report describes the most significant accounting policies that we use. Certain of these policies require us to make estimates or economic assumptions that may vary under different assumptions or conditions and such variations may significantly affect our reported results and financial position for the period or in future periods.

***Fair Value Measurements***

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

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

PNC applies ASC 820 Fair Value Measurements and Disclosures. This guidance defines fair value as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. This guidance requires a three level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable.

The following sections of this Report provide further information on this type of activity:

- Fair Value Measurements included within this Item 7, and
- Note 9 Fair Value included in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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

We maintain the ALLL and the Allowance For Unfunded Loan Commitments And Letters Of Credit at levels that we believe to be appropriate to absorb estimated probable credit

losses incurred in the loan portfolio and on these unfunded credit facilities as of the balance sheet date. Our determination of the allowances is based on periodic evaluations of the loan and lease portfolios and unfunded credit facilities and other relevant factors. This evaluation is inherently subjective as it requires material estimates, all of which may be susceptible to significant change, including, among others:

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

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans. We also allocate reserves to provide coverage for probable losses incurred in the portfolio at the balance sheet date based upon current market conditions, which may not be reflected in historical loss data. Commercial lending is the largest category of credits and is sensitive to changes in assumptions and judgments underlying the determination of the ALLL. We have allocated approximately $1.8 billion, or 44%, of the ALLL at December 31, 2012 to the commercial lending category. Consumer lending allocations are made based on historical loss experience adjusted for recent activity. Approximately $2.2 billion, or 56%, of the ALLL at December 31, 2012 have been allocated to these consumer lending categories.

During the third quarter of 2012, PNC increased the amount of internally observed data used in estimating the key commercial lending assumptions of PD and LGD.

To the extent actual outcomes differ from our estimates, additional provision for credit losses may be required that would reduce future earnings. See the following for additional information:

Allowances For Loan And Lease Losses And Unfunded Loan Commitments And Letters Of Credit in the Credit Risk Management section of this Item 7 (which includes an illustration of the estimated impact on the aggregate of the ALLL and allowance for unfunded loan commitments and letters of credit assuming we increased pool reserve loss rates for certain loan categories), and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements and Allocation Of Allowance For Loan And Lease Losses in the Statistical Information (Unaudited) section of Item 8 of this Report.

***Estimated Cash Flows On Purchased Impaired Loans***

ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly SOP 03-3) provides the GAAP guidance for accounting for certain loans. These loans have experienced a deterioration of credit quality from origination to acquisition for which it is probable that the investor will be unable to collect all contractually required payments receivable, including both principal and interest.

In our assessment of credit quality deterioration, we must make numerous assumptions, interpretations and judgments, using internal and third-party credit quality information to determine whether it is probable that we will be able to collect all contractually required payments. This point in time assessment is inherently subjective due to the nature of the available information and judgment involved.

Those loans that qualify under ASC 310-30 are recorded at fair value at acquisition, which involves estimating the expected cash flows to be received. Measurement of the fair value of the loan is based on the provisions of ASC 820. ASC 310-30 prohibits the carryover or establishment of an allowance for loan losses on the acquisition date.

Subsequent to the acquisition of the loan, we are required to continue to estimate cash flows expected to be collected over the life of the loan. The measurement of expected cash flows involves assumptions and judgments as to credit risk, interest rate risk, prepayment risk, default rates, loss severity, payment speeds and collateral values. All of these factors are inherently subjective and can result in significant changes in the cash flow estimates over the life of the loan. Such changes in expected cash flows could increase future earnings volatility due to increases or decreases in the accretable yield (i.e., the difference between the undiscounted expected cash flows and the recorded investment in the loan). The accretable yield is recognized as interest income on a constant effective yield method over the life of the loan. In addition, changes in

expected cash flows could result in the recognition of impairment through provision for credit losses if the decline in expected cash flows is attributable to a decline in credit quality.

***Goodwill***

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

As such, the value of goodwill is supported by earnings, which is driven by transaction volume and, for certain businesses, the market value of assets under administration or for which processing services are provided. Lower earnings resulting from a lack of growth or our inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could result in a current period charge to earnings. At least annually, in the fourth quarter, or more frequently if events occur or circumstances have changed significantly from the annual test date, management reviews the current operating environment and strategic direction of each reporting unit taking into consideration any events or changes in circumstances that may have an effect on the unit. For this review, inputs are generated and used in calculating the fair value of the reporting unit, which is compared to its carrying amount ( Step 1 of the goodwill impairment test) as further discussed below. The fair values of our reporting units are determined using a discounted cash flow valuation model with assumptions based upon market comparables. Additionally, we may also evaluate certain financial metrics that are indicative of fair value, including price to earnings ratios and recent acquisitions involving other financial institutions. A reporting unit is defined as an operating segment or one level below an operating segment. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit is not considered impaired. However, if the fair value of the reporting unit is less than its carrying amount, the reporting unit s goodwill would be evaluated for impairment. In this circumstance, the implied fair value of reporting unit goodwill would be compared to the carrying amount of that goodwill ( Step 2 of the goodwill impairment test). If the carrying amount of goodwill exceeds the implied fair value of goodwill, the difference is recognized as an impairment loss. The implied fair value of reporting unit goodwill is determined by assigning the fair value of a reporting unit to its assets and liabilities (including any unrecognized intangible assets) with the residual amount equal to the implied fair value of goodwill as if the reporting unit had been acquired in a business combination.

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

- Assigned reporting unit economic capital as determined by our internal management methodologies, inclusive of goodwill.
- A 6%, well capitalized , Tier 1 common ratio for the reporting unit.
- The capital levels for comparable companies (as reported in comparable company public financial statements), adjusted for differences in risk characteristics between the comparable companies and the reporting unit.

In determining a reporting unit s fair value and comparing it to its carrying value, we utilize the highest of these three amounts (the targeted equity ) in our discounted cash flow methodology. Under this methodology, we will infuse capital to achieve the targeted equity amount. As of October 1, 2012 (annual impairment testing date), there was no unallocated excess capital (difference between shareholders equity minus total economic capital assigned and increased by the incremental targeted equity capital infusion).

Except for the Residential Mortgage Banking reporting unit, which is discussed below, the estimated fair values of our reporting units exceeded their carrying values by at least 10% and are not considered to be at risk of not passing Step 1. By definition, assumptions utilized in estimating the fair value of a reporting unit are judgmental and inherently uncertain, but absent a significant change in economic conditions of a reporting unit, we would not expect the fair values of these reporting units to decrease below their respective carrying values.

During 2012, an interim period goodwill impairment test was performed for the Residential Mortgage Banking reporting unit as a result of additional provision recorded for residential mortgage repurchase obligations during the second quarter. Based on the results of the interim analysis, the fair value of the Residential Mortgage Banking reporting unit exceeded its carrying amount and no impairment was recorded. However, the results of Step 1 of the annual goodwill impairment test indicated that the Residential Mortgage Banking reporting unit s fair value using a discounted cash flow approach was less than its carrying value. Our residential mortgage banking business, similar to other residential mortgage banking businesses, is operating in an unsettled environment, which may result in higher operating costs, and has experienced increased uncertainties such as elevated indemnification and repurchase liabilities and foreclosure related issues. Additionally, the current level of refinance volumes is not expected to continue indefinitely given that interest rates have been low for a prolonged period of time. During the fourth quarter, we recorded additional provision for residential mortgage repurchase obligations of approximately $254

million principally driven by expected elevated levels of repurchase demands primarily as a result of further changes in behavior and demand patterns of government-sponsored enterprises, FHLMC and FNMA, for loans sold into agency securitizations, including the years 2004 and 2005. These risk characteristics were reflected in the Residential Mortgage Banking reporting unit s assigned economic capital utilized and discount rate assumption in the impairment test. We performed Step 2 of the goodwill impairment test and determined that Residential Mortgage Banking s goodwill was impaired. The most significant fair value adjustment assumption related to the provision for residential mortgage repurchase obligations as we believe a market participant would consider an incremental amount reasonably possible above the amount accrued. The impairment charge of $45 million was included in noninterest expense and did not affect our regulatory and capital ratios. The Residential Mortgage Banking reporting unit does not have any remaining goodwill as of December 31, 2012.

There were no impairment charges related to goodwill in 2011 or 2010.

See Note 10 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

***Lease Residuals***

We provide financing for various types of equipment, including aircraft, energy and power systems, and vehicles through a variety of lease arrangements. Direct financing leases are carried at the sum of lease payments and the estimated residual value of the leased property, less unearned income. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors. Residual values are derived from historical remarketing experience, secondary market contacts, and industry publications. To the extent not guaranteed or assumed by a third-party, we bear the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the estimated residual value, which could result in an impairment charge and reduce earnings in the future. Residual values are reviewed for impairment at least annually.

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***Revenue Recognition***

We earn net interest and noninterest income from various sources, including:

- Lending,
- Securities portfolio,
- Asset management,
- Customer deposits,
- Loan sales and servicing,
- Brokerage services,
- Sale of loans and securities,
- Certain private equity activities, and
- Securities and derivatives trading activities, including foreign exchange.

We also earn fees and commissions from issuing loan commitments, standby letters of credit and financial guarantees, selling various insurance products, providing treasury management services, providing merger and acquisition advisory and related services, and participating in certain capital markets transactions. Revenue earned on interest-earning assets, including the accretion of discounts recognized on acquired or purchased loans recorded at fair value, is recognized based on the constant effective yield of the financial instrument.

The timing and amount of revenue that we recognize in any period is dependent on estimates, judgments, assumptions, and interpretation of contractual terms. Changes in these factors can have a significant impact on revenue recognized in any period due to changes in products, market conditions or industry norms.

***Residential And Commercial Mortgage Servicing Rights***

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

Assumptions incorporated into the residential MSRs valuation model reflect management s best estimate of factors that a market participant would use in valuing the residential MSRs. Although sales of residential MSRs do occur, residential MSRs do not trade in an active market with readily observable prices so the precise terms and conditions of sales are not available. As a benchmark for the reasonableness of its residential MSRs fair value, PNC obtains opinions of value from independent parties ( brokers ). These brokers provided a range (+/- 10 bps) based upon their own discounted cash flow calculations of our portfolio that reflected conditions in the secondary market, and any recently executed servicing transactions. PNC compares its internally-developed

residential MSRs value to the ranges of values received from the brokers. If our residential MSRs fair value falls outside of the brokers ranges, management will assess whether a valuation adjustment is warranted. For 2012 and 2011, PNC s residential MSRs value has not fallen outside of the brokers ranges. We consider our residential MSRs value to represent a reasonable estimate of fair value.

Commercial MSRs are purchased or originated when loans are sold with servicing retained. Commercial MSRs do not trade in an active market with readily observable prices so the precise terms and conditions of sales are not available. Commercial MSRs are initially recorded at fair value and are subsequently accounted for at the lower of amortized cost or fair value. Commercial MSRs are periodically evaluated for impairment. For purposes of impairment, the commercial mortgage servicing rights are stratified based on asset type, which characterizes the predominant risk of the underlying financial asset. The fair value of commercial MSRs is estimated by using a discounted cash flow model incorporating inputs for assumptions as to constant prepayment rates, discount rates and other factors determined based on current market conditions and expectations.

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

The fair value of residential and commercial MSRs and significant inputs to the valuation models as of December 31, 2012 are shown in Note 10 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements in Item 8 of this Report. The expected and actual rates of mortgage loan prepayments are significant factors driving the fair value. Management uses a third-party model to estimate future residential loan prepayments and internal proprietary models to estimate future commercial loan prepayments. These models have been refined based on current market conditions. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied

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forward interest rates to estimate the future direction of mortgage and discount rates. The forward rates utilized are derived from the current yield curve for U.S. dollar interest rate swaps and are consistent with pricing of capital markets instruments. Changes in the shape and slope of the forward curve in future periods may result in volatility in the fair value estimate.

A sensitivity analysis of the hypothetical effect on the fair value of MSRs to adverse changes in key assumptions is presented in Note 10 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements in Item 8 of this Report. These sensitivities do not include the impact of the related hedging activities. Changes in fair value generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in mortgage interest rates, which drive changes in prepayment rate estimates, could result in changes in the interest rate spread), which could either magnify or counteract the sensitivities.

***Income Taxes***

In the normal course of business, we and our subsidiaries enter into transactions for which the tax treatment is unclear or subject to varying interpretations. In addition, filing requirements, methods of filing and the calculation of taxable income in various state and local jurisdictions are subject to differing interpretations.

We evaluate and assess the relative risks and merits of the tax treatment of transactions, filing positions, filing methods and taxable income calculations after considering statutes, regulations, judicial precedent, and other information, and maintain tax accruals consistent with our evaluation of these relative risks and merits. The result of our evaluation and assessment is by its nature an estimate. We and our subsidiaries are routinely subject to audit and challenges from taxing authorities. In the event we resolve a challenge for an amount different than amounts previously accrued, we will account for the difference in the period in which we resolve the matter.

***Proposed Accounting Standards***

The Financial Accounting Standards Board (FASB) issued several Exposure Drafts for comment during 2012 as well as the beginning of 2013.

In January 2013, the FASB issued Proposed Accounting Standards Update (ASU) *Transfers and Servicing (Topic 860): Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings*. This exposure draft would change the accounting for repurchase-to-maturity agreements ( repos-to-maturity ).

Under the existing guidance, repos-to-maturity may meet the criteria to be accounted for as sales, but the proposed guidance would require them to be accounted for as secured borrowings. It would also clarify the evaluation of whether financial assets that will be repurchased are substantially the same as those transferred. Additionally, the exposure draft proposes a change to the accounting for repurchases that are part of repurchase financings, such that the initial transfer and repurchase are evaluated as two separate transactions. The effective date has not yet been determined. We are evaluating the impact of this proposal on our financial statements.

In December 2012, the FASB issued Proposed ASU *Financial Instruments Credit Losses (Subtopic 825-15)*. The FASB has exposed a single-model approach which would apply to all financial instruments carried at amortized cost or at fair-value through other comprehensive income (replacing the current ASC 450, Contingencies, ASC 310-10, Receivables Overall, ASC 310-30, Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality and ASC 320, Investments Debt and Equity Securities approaches). This model would require reserves for all expected credit losses over the life of the instrument. Under the proposal, retrospective application with cumulative adjustment to retained earnings will be required and early adoption would not be permitted. The effective date has not yet been determined. We are evaluating the impact of this proposal on our financial statements.

In October 2012, the FASB issued Proposed ASU *Consolidation (Topic 810): Accounting for the Difference between the Fair Value of the Assets and the Fair Value of the Liabilities of a Consolidated Collateralized Financing Entity*. This exposure draft would define collateralized financing entity and require a reporting entity that consolidates a collateralized financing entity and measures the associated financial assets and financial liabilities at fair value, to measure that fair value consistently with how a market participant would price the reporting entity s net exposure. The reporting entity would allocate portfolio-level adjustments to the individual assets and liabilities on a reasonable and consistent basis. The exposure draft would require a modified retrospective approach to be applied at adoption for only those collateralized financing entities that exist at the date of adoption. Early adoption would be permitted. An effective date has not yet been determined. We are evaluating the impact of this proposal on our financial statements.

In October 2012, the FASB issued Proposed ASU *Foreign Currency Matters (Topic 830): Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.* This exposure draft would clarify the timing of release of Currency Translation Adjustments (CTA) from Accumulated Other Comprehensive Income (AOCI) upon deconsolidation or derecognition of a foreign entity, subsidiary or a group of assets within a foreign entity and in step acquisitions. Specifically, 1) Upon deconsolidation or derecognition of a foreign entity, CTA would be released; 2) Upon sale of a subsidiary or a group of assets within a foreign entity, CTA would not be released, unless it also represents the complete or substantially complete liquidation of the foreign entity in which it resides; and 3) In a step acquisition, the AOCI related to the previously held investment would be included in the calculation of gain or loss upon change in control. The proposed standard would be applied prospectively from the date of adoption with early adoption permitted. An effective date has not yet been determined. We are evaluating the impact of this proposal on our financial statements.

In July 2012, the FASB issued Proposed ASU *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements.* This exposure draft would require an entity to measure obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date per ASC 450-20, Contingencies Loss Contingencies. This exposure draft would also require an entity to disclose the nature and amount of the obligation as well as information about the risks that such obligations pose to an entity s future cash flows. If the primary role of a reporting entity in the joint and several liability arrangement is that of a guarantor, then it should account for the obligation under ASC 460, Guarantees. This guidance would be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements that exist at the beginning of an entity s fiscal year of adoption. The effective date has not yet been determined. The comment period ended September 20, 2012. We are evaluating the impact of this proposal on our financial statements.

***Recent Accounting Pronouncements***

See Note 1 Accounting Policies in the Notes To the Consolidated Financial Statements in Item 8 of this Report regarding the impact of new accounting pronouncements.

# STATUS OF QUALIFIED DEFINED BENEFIT PENSION PLAN

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are applied as a percentage of eligible compensation. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. Consistent with our investment strategy, plan assets are primarily invested in equity investments and fixed income instruments. Plan fiduciaries determine and review the plan s investment policy, which is described more fully in Note 15 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report.

We calculate the expense associated with the pension plan and the assumptions and methods that we use include a policy of reflecting trust assets at their fair market value. On an annual basis, we review the actuarial assumptions related to the pension plan. The primary assumptions used to measure pension obligations and costs are the discount rate, compensation increase and expected long-term return on assets. Among these, the compensation increase assumption does not significantly affect pension expense.

The discount rate used to measure pension obligations is determined by comparing the expected future benefits that will be paid under the plan with yields available on high quality corporate bonds of similar duration. The impact on pension expense of a 0.5% decrease in discount rate in the current environment is $21 million per year. In contrast, the sensitivity to the same change in discount rate in a higher interest rate environment is less significant.

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

To evaluate the continued reasonableness of our assumption, we examine a variety of viewpoints and data. Various studies have shown that portfolios comprised primarily of U.S. equity

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securities have historically returned approximately 10% annually over long periods of time, while U.S. debt securities have returned approximately 6% annually over long periods. Application of these historical returns to the plan s allocation ranges for equities and bonds produces a result between 7.25% and 8.75% and is one point of reference, among many other factors, that is taken into consideration. We also examine the plan s actual historical returns over various periods and consider the current economic environment. Recent experience is considered in our evaluation with appropriate consideration that, especially for short time periods, recent returns are not reliable indicators of future returns. While annual returns can vary significantly (actual returns for 2012, 2011, and 2010 were +15.29%, +.11%, and +14.87%, respectively), the selected assumption represents our estimated long-term average prospective returns.

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

Taking into consideration all of these factors, the expected long-term return on plan assets for determining net periodic pension cost for 2012 was 7.75%, the same as it was for 2011. After considering the views of both internal and external capital market advisors, particularly with regard to the effects of the recent economic environment on long-term prospective fixed income returns, we are reducing our expected long-term return on assets to 7.50% for determining pension cost for 2013.

Under current accounting rules, the difference between expected long-term returns and actual returns is accumulated and amortized to pension expense over future periods. Each one percentage point difference in actual return compared with our expected return causes expense in subsequent years to increase or decrease by up to $8 million as the impact is amortized into results of operations.

We currently estimate a pretax pension expense of $73 million in 2013 compared with pretax expense of $89 million in 2012. This year-over-year expected decrease reflects the impact of favorable returns on plan assets experienced in 2012 as well as the effects of the lower discount rate required to be used in 2013.

The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2013 estimated expense as a baseline.

***Table 27: Pension Expense - Sensitivity Analysis***

| Change in Assumption (a) | Estimated Increase to 2013 Pension Expense (In millions) |
|---|---|
| .5% decrease in discount rate | $ 21 |
| .5% decrease in expected long-term return on assets | $ 19 |
| .5% increase in compensation rate | $ 2 |

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

Our pension plan contribution requirements are not particularly sensitive to actuarial assumptions. Investment performance has the most impact on contribution requirements and will drive the amount of required contributions in future years. Also, current law, including the provisions of the Pension Protection Act of 2006, sets limits as to both minimum and maximum contributions to the plan. We do not expect to be required by law to make any contributions to the plan during 2013.

We maintain other defined benefit plans that have a less significant effect on financial results, including various nonqualified supplemental retirement plans for certain employees, which are described more fully in Note 15 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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## Recourse And Repurchase Obligations

As discussed in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Item 8 of this Report, PNC has sold commercial mortgage, residential mortgage and home equity loans directly or indirectly through securitization and loan sale transactions in which we have continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets.

### *Commercial Mortgage Loan Recourse Obligations*

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

Under these programs, we generally assume up to a one-third pari passu risk of loss on unpaid principal balances through a loss share arrangement. At December 31, 2012 and December 31, 2011, the unpaid principal balance outstanding of loans sold as a participant in these programs was $12.8 billion and $13.0 billion, respectively. The potential maximum exposure under the loss share arrangements was $3.9 billion at December 31, 2012 and $4.0 billion at December 31, 2011.

We maintain a reserve for estimated losses based on our exposure. The reserve for losses under these programs totaled $43 million and $47 million as of December 31, 2012 and December 31, 2011, respectively, and is included in Other liabilities on our Consolidated Balance Sheet. If payment is required under these programs, we would not have a contractual interest in the collateral underlying the mortgage loans on which losses occurred, although the value of the collateral is taken into account in determining our share of such losses. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment.

### *Residential Mortgage Repurchase Obligations*

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to situations where PNC is alleged to have breached certain origination covenants and representations and warranties made to purchasers of the loans in the respective purchase and sale agreements. Residential mortgage loans covered by these loan repurchase obligations include first and second-lien mortgage loans we have sold through Agency securitizations, Non-agency securitizations, and loan sale transactions. As

discussed in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Item 8 of this Report, Agency securitizations consist of mortgage loan sale transactions with FNMA, FHLMC, and the Government National Mortgage Association (GNMA) program, while Non-agency securitizations consist of mortgage loan sale transactions with private investors. Mortgage loan sale transactions that are not part of a securitization may involve FNMA, FHLMC or private investors. Our historical exposure and activity associated with Agency securitization repurchase obligations has primarily been related to transactions with FNMA and FHLMC, as indemnification and repurchase losses associated with Federal Housing Agency (FHA) and Department of Veterans Affairs (VA)-insured and uninsured loans pooled in GNMA securitizations historically have been minimal. Repurchase obligation activity associated with residential mortgages is reported in the Residential Mortgage Banking segment.

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

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

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

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

Origination and sale of residential mortgages is an ongoing business activity, and, accordingly, management continually assesses the need to recognize indemnification and repurchase liabilities pursuant to the associated investor sale agreements. We establish indemnification and repurchase liabilities for estimated losses on sold first and second-lien mortgages for which indemnification is expected to be provided or for loans that are expected to be repurchased. For the first and second-lien mortgage sold portfolio, we have established an indemnification and repurchase liability pursuant to investor sale agreements based on claims made, demand patterns observed to date and/or expected in the future, and our estimate of future claims on a loan by loan basis. To estimate the mortgage repurchase liability arising from breaches of representations and warranties, we consider the following factors: (i) borrower performance in our historically sold portfolio (both actual and estimated future defaults), (ii) the level of outstanding unresolved repurchase claims, (iii) estimated probable future repurchase claims, considering information about file requests, delinquent and liquidated loans, resolved and unresolved mortgage insurance rescission notices and our historical experience with claim rescissions, (iv) the potential ability to cure the defects identified in the repurchase claims ( rescission rate ), and (v) the estimated severity of loss upon repurchase of the loan or collateral, make-whole settlement, or indemnification.

See Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

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

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

| Dollars in millions | December 31 2012 | September 30 2012 | June 30 2012 | March 31 2012 | December 31 2011 |
|---|---|---|---|---|---|
| 2004 & Prior | $ 11 | $ 15 | $ 31 | $ 10 | $ 11 |
| 2005 | 8 | 10 | 19 | 12 | 13 |
| 2006 | 23 | 30 | 56 | 41 | 28 |
| 2007 | 45 | 137 | 182 | 100 | 90 |
| 2008 | 7 | 23 | 49 | 17 | 18 |
| 2008 & Prior | 94 | 215 | 337 | 180 | 160 |
| 2009 2012 | 38 | 52 | 42 | 33 | 29 |
| Total | $ 132 | $ 267 | $ 379 | $ 213 | $ 189 |
| FNMA, FHLMC, and GNMA % | 94% | 87% | 86% | 88% | 91% |

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

| Dollars in millions | December 31 2012 | September 30 2012 | June 30 2012 | March 31 2012 | December 31 2011 |
|---|---|---|---|---|---|
| FNMA, FHLMC, and GNMA Securitizations | $ 290 | $ 430 | $ 419 | $ 337 | $ 302 |
| Private Investors (a) | 47 | 82 | 83 | 69 | 73 |
| Total unresolved claims | $ 337 | $ 512 | $ 502 | $ 406 | $ 375 |
| FNMA, FHLMC, and GNMA % | 86% | 84% | 83% | 83% | 81% |

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

The table below details our indemnification and repurchase claim settlement activity during 2012 and 2011.

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

| Year ended December 31 In millions | 2012 Unpaid Principal Balance (a) | 2012 Losses Incurred (b) | 2012 Fair Value of Repurchased Loans (c) | 2011 Unpaid Principal Balance (a) | 2011 Losses Incurred (b) | 2011 Fair Value of Repurchased Loans (c) |
|---|---|---|---|---|---|---|
| **Residential mortgages (d):** | | | | | | |
| FNMA, FHLMC, and GNMA securitizations | $ 356 | $ 210 | $ 85 | $ 220 | $ 115 | $ 74 |
| Private investors (e) | 75 | 46 | 5 | 76 | 48 | 14 |
| **Total indemnification and repurchase settlements** | $ 431 | $ 256 | $ 90 | $ 296 | $ 163 | $ 88 |

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date. Excluded from these balances are amounts associated with pooled settlement payments as loans are typically not repurchased in these transactions.
(b) Represents both i) amounts paid for indemnification/settlement payments and ii) the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability.
(c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification/settlement payments are made to investors.
(d) Repurchase activity associated with insured loans, government-guaranteed loans, and loans repurchased through the exercise of our removal of account provision (ROAP) option are excluded from this table. Refer to Note 3 in the Notes To Consolidated Financial Statements in Item 8 of this Report for further discussion of ROAPs.
(e) Activity relates to loans sold through Non-agency securitizations and loan sale transactions.

During 2012 and 2011, unresolved and settled investor indemnification and repurchase claims were primarily related to one of the following alleged breaches in representations and warranties: (i) misrepresentation of income, assets or employment, (ii) property evaluation or status issues (e.g., appraisal, title, etc.), (iii) underwriting guideline violations, or (iv) mortgage insurance rescissions. During 2012, FNMA and FHLMC expanded their efforts to reduce their exposure to losses on purchased loans resulting in a dramatic increase in second and third quarter repurchase claims, primarily on the 2006-2008 vintages, but also other vintages. Included in this higher volume were repurchase claims made on loans in later stages of default than had previously been observed. For example, in the second quarter of 2012, we experienced repurchase claims on loans which had defaulted more than two years prior to the claim date, which was inconsistent with

historical activity. In addition, in December 2012, PNC discussed with FHLMC and FNMA their intentions to further expand their purchased loan review activities in 2013 with a focus on 2004 and 2005 vintages, as well as certain loan modifications and aged default loans not previously reviewed. Based on our discussions with both FNMA and FHLMC, we expect an increase in repurchase claims in 2013 and have increased the liability for estimated losses on indemnification and repurchase claims accordingly.

The ongoing elevated repurchase claim activity in 2012 contributed to the higher balance of unresolved claims for

residential mortgages in 2012, as well as the increase in residential mortgage indemnification and repurchase settlement activity in 2012. In response to the significant increase in claims in 2012 and expected increase in claims in 2013 due to changes in FNMA s and FHLMC s behavior, management revised its estimates of future claims resulting in significant increases to the indemnification and repurchase liability in both the second and fourth quarters of 2012.

At December 31, 2012 and December 31, 2011, the liability for estimated losses on indemnification and repurchase claims for residential mortgages totaled $614 million and $83 million, respectively. We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all residential mortgage loans sold and outstanding as of December 31, 2012 and December 31, 2011. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. See Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

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

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***Home Equity Repurchase Obligations***

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

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

We investigate every investor claim on a loan by loan basis to determine the existence of a legitimate claim, and that all other conditions for indemnification or repurchase have been met prior to settlement with that investor. Indemnifications for loss or loan repurchases typically occur when, after review of the claim, we agree insufficient evidence exists to dispute the investor s claim that a breach of a loan covenant and representation and warranty has occurred, such breach has not

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

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

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

***Table 31: Analysis of Home Equity Unresolved Asserted Indemnification and Repurchase Claims***

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| **Home equity loans/lines:** | | |
| Private investors (a) | $ 74 | $ 110 |

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

The table below details our home equity indemnification and repurchase claim settlement activity during 2012 and 2011.

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

| Year ended December 31 In millions | | 2012 | | | 2011 | |
|---|---|---|---|---|---|---|
| | Unpaid Principal Balance (a) | Losses Incurred (b) | Fair Value of Repurchased Loans (c) | Unpaid Principal Balance (a) | Losses Incurred (b) | Fair Value of Repurchased Loans (c) |
| **Home equity loans/lines:** | | | | | | |
| Private investors Repurchases (d) | $ 22 | $ 18 | $ 4 | $ 42 | $ 107 | $ 3 |

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date. Excluded from these balances are amounts associated with pooled settlement payments as loans are typically not repurchased in these transactions.
(b) Represents the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability. Amounts for 2011 include amounts for settlement payments.
(c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification/settlement payments are made to investors.
(d) Activity relates to brokered home equity loans/lines sold through loan sale transactions which occurred during 2005-2007.

During 2012 and 2011, unresolved and settled investor indemnification and repurchase claims were primarily related to one of the following alleged breaches in representations and warranties: (i) misrepresentation of income, assets or employment, (ii) property evaluation or status issues (e.g., appraisal, title, etc.), or (iii) underwriting guideline violations. The lower balance of unresolved indemnification and repurchase claims at December 31, 2012 is attributable to lower claims submissions and lower inventories of claims undergoing review due to the elevated settlement activity in 2011. The lower 2012 indemnification and repurchase settlement activity was also affected by the lower claim activity and the lower inventory of claims mentioned above as well as a higher rate of claim rescissions.

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

At December 31, 2012 and December 31, 2011, the liability for estimated losses on indemnification and repurchase claims for home equity loans/lines was $58 million and $47 million, respectively. We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all home equity loans/lines sold and outstanding as of December 31, 2012 and December 31, 2011. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. See Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

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

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# Risk Management

PNC encounters risk as part of the normal course of operating our business. Accordingly we design risk management processes to help manage these risks. This Risk Management section describes our risk management philosophy, appetite, culture, governance, risk identification, controls and monitoring and reporting. We also provide an analysis of our

key areas of risk: credit, operational, liquidity, market, and model. The discussion of market risk is further subdivided into interest rate, trading, and equity and other investment risk areas. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the Risk Management section of this Item 7.

We view Risk Management as a cohesive combination of the following risk elements:

***Risk Philosophy***

PNC s risk philosophy is to manage to an overall moderate level of risk to capture opportunities and optimize shareholder value. We dynamically set our strategies and make distinct risk taking decisions with consideration for the impact to our aggregate risk position. The following principles guide our risk taking activities:

1. Identify and Understand Risks and Returns
2. Make Balanced Risk Decisions
3. Continuously Monitor and Manage Risks

***Risk Appetite, Strategy and Optimization***

Risk appetite represents the organization s desired enterprise risk position. Reviewed periodically through the Risk Reporting process, the risk appetite serves as an operating guide for making balanced risk decisions that support our business strategies; it will adjust over time to reflect the current and anticipated economic environment, growth objectives, and our risk profile.

The risk appetite is not set or managed through a single determinant; rather, it is derived through a series of

quantitative and qualitative risk limits defined in policy and managed through the application of the enterprise risk management framework. The primary risk policies establish the enterprise level risk limits and collectively represent PNC s enterprise risk appetite. This serves as an operating guide for making balanced risk decisions that support our business strategies, including growth strategy and exit strategy, where appropriate.

***Risk Culture***

All employees are treated as risk managers, and they are responsible for understanding the overall risk philosophy and principles and how they apply within their areas. They are encouraged to collaborate across groups to identify and mitigate risks and elevate issues as required. PNC reinforces risk management responsibilities through a performance management system where employee performance goals include risk management objectives. Incentives for relevant employees incorporate risk management results through balanced measures of risk-adjusted performance.

Proactive communication, between groups and up to the Board of Directors, facilitates timely identification and resolution of issues. PNC s multi-level risk committee structure provides a formal channel to identify, decision, and report risk. Risk committees membership includes representatives from business and risk groups that are responsible for helping ensure risk issues are proactively identified, decisioned, and communicated appropriately within the enterprise risk management framework.

***Risk Organization and Governance***

PNC employs a comprehensive Risk Management governance structure to help ensure that risks are identified; balanced decisions are made that consider risk and return; and risks are adequately monitored and managed. Risk committees established within this governance structure provide oversight for risk management activities at the board, corporate, and business levels. We use our governance structure to assess the effectiveness of our Risk Management practices on an ongoing basis, based on how we manage our day-to-day business activities and on our development and execution of more specific strategies to mitigate risks. Specific responsibilities include:

***Board of Directors*** The Board oversees enterprise risk management. The Risk Committee of the Board of Directors evaluates PNC s risk appetite, management s assessment of the enterprise risk profile, and the enterprise-wide risk structure and processes established by management to identify, measure, monitor, and manage risk. The Audit Committee of the Board also has responsibility for select areas of risk (e.g., Financial Reporting, Ethics, ICFR).

***Corporate Committees*** At the management level, PNC has established several senior management-level committees to facilitate the review, evaluation, and management of risk. The management-level Executive Committee (EC) is the corporate committee that is responsible for developing enterprise-wide strategy and achieving PNC s strategic objectives. The EC evaluates risk management, in part, by monitoring risk reporting from the other corporate committees, which are the supporting committees for EC. The corporate committees are responsible for overseeing risk standards and strategies, recommending risk limits, policies, and metrics, monitoring risk exposures, reviewing risk profiles and key risk issues, and approving significant transactions and initiatives.

***Working Committees*** The working committees are generally subcommittees of the corporate committees and include risk management committees for each of PNC s major businesses or functions. Working committees are intended to define, design and develop the risk management framework at the business or function level. The working committees help to implement key enterprise-level activities within a business or function. These committees recommend risk management policies for the business or function that are consistent with the enterprise-wide risk management objectives and policies. The business level committees are also responsible for approving significant initiatives under a certain threshold.

***Working Groups*** Where appropriate, management will also form ad hoc groups (working groups) to address specific risk topics and report to a working committee or corporate committee. These working groups generally have a narrower scope and may be limited in their duration.

***Policies and Procedures*** PNC uses various risk management policies and procedures to provide direction and guidance to management and the Board of Directors. These policies and procedures are organized in a framework of different levels requiring review and approval at varying committees within the governance structure.

***Business Activities*** Our businesses strive to enhance risk management and internal control processes. Integrated and comprehensive processes are designed to adequately identify, measure, manage, monitor, and report risks which may significantly impact each business.

***Risk Identification and Quantification***

Risk identification takes place across a variety of different risk types throughout the organization. These risk types consist of, but are not limited to, Credit Risk, Market Risk, Operational Risk, Model Risk and Liquidity Risk. Risks are identified based on a balanced use of analytical tools and management judgment for both on- and off-balance sheet exposures. Our governance structure supports risk identification by facilitating that issues of the risk types, both existing and emerging, are assessed and mitigation strategies implemented. These risks are prioritized based on quantitative and qualitative analysis and assessed against the risk appetite.

Multiple tools and approaches are used to help identify and prioritize risks, including Key Risk Indicators (KRIs), Key Performance Indicators (KPIs), Risk Control and Self Assessments (RCSAs), scenario analysis, stress testing, and special investigations.

Risks are aggregated and assessed within and across risk functions or businesses. The aggregated risk information is reviewed and reported at an enterprise level for adherence to the risk appetite and tolerances as established through the policy framework and approved by the Board of Directors or by appropriate managing committees. This enterprise aggregation and reporting approach promotes the identification and appropriate escalation of material risks across the organization and supports an understanding of the cumulative impact of risk in relation to our risk appetite.

***Risk Control and Limits***

PNC uses a multi-tiered risk policy, procedure, and committee charter framework to provide direction and guidance for identifying, decisioning, and managing risk, including appropriate processes to escalate control parameter exceptions when applicable.

Risk limits, defined quantitatively and qualitatively, are established within policy across risk categories. When setting risk limits, PNC considers major risks, aligns with established risk appetite, balances risk-reward, leverages analytics, and adjusts limits timely in response to changes in external and internal environments.

Quantitative and qualitative operating guidelines support risk limits and serve as an early warning system for potential violations of the limits. These operating guidelines trigger mitigation strategies and management escalation protocols if limits are breached.

***Risk Monitoring and Reporting***

PNC uses similar tools to monitor and report risk as to perform Risk Identification. These tools include KRIs, KPIs, RCSAs, scenario analysis, stress testing, and special investigations.

The risk identification and quantification processes, the risk control and limits reviews, and the tools used for risk monitoring provide the basis for risk reporting. The objective of risk reporting is comprehensive risk aggregation and transparent communication of aggregated risks. Risk reports are produced at the line of business level, the functional level (credit, market, operational) and the enterprise level. The enterprise level report aggregates the risks identified in the functional and business reports. The enterprise level report is provided through the governance structure to the Board of Directors.

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***Credit Risk Management***

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

***Asset Quality Overview***

Overall asset quality trends in 2012 improved from December 31, 2011 and included the following:

- Nonperforming loans decreased $306 million, or 9%, to $3.3 billion as of December 31, 2012 compared with $3.6 billion as of December 31, 2011. This decrease was mainly attributable to decreases in commercial real estate and commercial nonperforming loans, which were partially offset by the acquisition of RBC Bank (USA) and higher nonperforming consumer loans. Pursuant to regulatory guidance issued in the third quarter of 2012, nonperforming consumer loans, primarily home equity and residential mortgage, increased $288 million in 2012 related to changes in treatment of certain loans classified as TDRs, net of charge-offs, resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability. Of these loans, approximately 78% were current on their payments at December 31, 2012. Additionally, nonperforming home equity loans increased due to a change in policy made in the first quarter of 2012 which places home equity loans on nonaccrual status when past due 90 days or more compared with 180 days under the prior policy.
- Overall loan delinquencies decreased $797 million, or 18%, from year-end 2011. The reduction was mainly due to a decline in government insured residential real estate loans in addition to a first quarter of 2012 policy change for home equity loans whereby loans are placed on nonaccrual status when past due 90 days compared to prior policy of placing loans on nonaccrual status when past due 180 days. In addition, consumer loan delinquencies, primarily residential real estate delinquencies, decreased pursuant to regulatory guidance issued in the third quarter of 2012 related to treatment of certain loans classified as TDRs resulting from bankruptcy as discussed above. These decreases were partially offset by an increase in commercial real estate delinquencies.
- Net charge-offs were $1.3 billion in 2012, down 21% from 2011 net charge-offs of $1.6 billion. Pursuant to regulatory guidance issued in the third quarter of 2012, additional consumer charge-offs of $128.1 million have been taken in 2012 related to changes in treatment of certain loans where borrowers have been discharged from personal liability under bankruptcy protection where no formal reaffirmation was provided by the borrower. Such loans have been classified as TDRs and have been measured at the fair value of the collateral less costs to sell.
- The provision for credit losses declined 14% to $1.0 billion for 2012 compared with $1.2 billion for 2011.
- The level of ALLL decreased 7% to $4.0 billion at December 31, 2012 from $4.3 billion at December 31, 2011.

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*NONPERFORMING ASSETS AND LOAN DELINQUENCIES*

***Nonperforming Assets, including OREO and Foreclosed Assets***

Nonperforming assets include nonaccrual loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming TDRs, OREO and foreclosed assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report. The major categories of nonperforming assets are presented in the table below.

Nonperforming assets decreased $362 million from December 31, 2011, to $3.8 billion at December 31, 2012, as discussed above. Nonperforming loans decreased $306 million to $3.3 billion and OREO and foreclosed assets decreased $56 million to $540 million. The ratio of nonperforming assets to total loans, OREO and foreclosed assets decreased to 2.04% at December 31, 2012 from 2.60% at December 31, 2011. The ratio of nonperforming loans to total loans declined to 1.75% at December 31, 2012, compared to 2.24% at December 31, 2011. Total nonperforming assets have declined $2.6 billion, or 41%, from their peak of $6.4 billion at March 31, 2010.

Management continues to evaluate nonaccrual and charge-off policies for second-lien consumer loans (residential mortgages and home equity loans and lines) pursuant to interagency supervisory guidance on practices for loans and lines of credit secured by junior liens on 1-4 family residential properties. This will result in future classification of performing second-lien consumer loans as nonperforming where the first-lien loan is 90 days or more past due. Pursuant to the guidance, the Company will adopt a policy in the first quarter of 2013, subsequent to operationalizing related procedures, to charge-

off a portion of certain second-lien consumer loans (residential mortgage and home equity lines of credit) where the first-lien loan is 90 days or more past due. Additionally, given these operational enhancements and pursuant to interagency supervisory guidance, the company will update certain additional nonaccrual and charge-off policies. We estimate adding approximately $350 million to $450 million to the nonaccrual consumer loan population in the first quarter of 2013. If these policies had been in effect as of December 31, 2012, there would have been an estimated cumulative charge-off of approximately $140 million. The credit loss policies for these loans are considered in our reserving process and the risk of loss associated with these loans was considered in the determination of our ALLL at December 31, 2012.

At December 31, 2012, TDRs included in nonperforming loans were $1.6 billion or 49% of total nonperforming loans compared to $1.1 billion or 32% of nonperforming loans as of December 31, 2011. Within consumer nonperforming loans, residential real estate TDRs comprise 64% of total residential real estate nonperforming loans at December 31, 2012, up from 51% at December 31, 2011. Home equity TDRs comprise 70% of home equity nonperforming loans at December 31, 2012, down from 77% at December 31, 2011. The level of TDRs in these portfolios is expected to result in elevated nonperforming loan levels because TDRs remain in nonperforming status until a borrower has made at least six consecutive months of payments under the modified terms or ultimate resolution occurs.

At December 31, 2012, our largest nonperforming asset was $38 million and in the Real Estate Rental and Leasing Industry. Our average nonperforming loans associated with commercial lending were under $1 million. Eight of our ten largest outstanding nonperforming assets are from the commercial lending portfolio and represent 11% and 4% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of December 31, 2012.

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*Table 33: Nonperforming Assets By Type*

| In millions | Dec. 31 2012 | Dec. 31 2011 |
|---|---|---|
| Nonperforming loans | | |
| Commercial lending | | |
| Commercial | | |
| Retail/wholesale trade | $ 61 | $ 109 |
| Manufacturing | 73 | 117 |
| Service providers | 124 | 147 |
| Real estate related (a) | 178 | 252 |
| Financial services | 9 | 36 |
| Health care | 25 | 29 |
| Other industries | 120 | 209 |
| Total commercial | 590 | 899 |
| Commercial real estate | | |
| Real estate projects | 654 | 1,051 |
| Commercial mortgage | 153 | 294 |
| Total commercial real estate | 807 | 1,345 |
| Equipment lease financing | 13 | 22 |
| Total commercial lending | 1,410 | 2,266 |
| Consumer lending (b) | | |
| Home equity (c) | 951 | 529 |
| Residential real estate | | |
| Residential mortgage (d) | 824 | 685 |
| Residential construction | 21 | 41 |
| Credit card | 5 | 8 |
| Other consumer | 43 | 31 |
| Total consumer lending (e) | 1,844 | 1,294 |
| Total nonperforming loans (f) | 3,254 | 3,560 |
| OREO and foreclosed assets | | |
| Other real estate owned (OREO) (g) | 507 | 561 |
| Foreclosed and other assets | 33 | 35 |
| Total OREO and foreclosed assets | 540 | 596 |
| Total nonperforming assets | $ 3,794 | $ 4,156 |
| Amount of commercial lending nonperforming loans contractually current as to remaining principal and interest | $ 342 | $ 632 |
| Percentage of total commercial lending nonperforming loans | 24% | 28% |
| Amount of TDRs included in nonperforming loans | $ 1,589 | $ 1,141 |
| Percentage of total nonperforming loans | 49% | 32% |
| Nonperforming loans to total loans | 1.75% | 2.24% |
| Nonperforming assets to total loans, OREO and foreclosed assets | 2.04 | 2.60 |
| Nonperforming assets to total assets | 1.24 | 1.53 |
| Allowance for loan and lease losses to total nonperforming loans (f) (h) | 124 | 122 |

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

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

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

(d) Nonperforming residential mortgage excludes loans of $69 million and $61 million accounted for under the fair value option as December 31, 2012 and December 31, 2011, respectively.

(e) Pursuant to regulatory guidance issued in the third quarter of 2012, nonperforming consumer loans, primarily home equity and residential mortgage, increased $288 million in 2012 related to changes in treatment of certain loans classified as TDRs, net of charge-offs, resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability. Charge-offs have been taken where the fair value less costs to sell the collateral was less than the recorded investment of the loan and were $128.1 million. Of these loans, approximately 78% were current on their payments at December 31, 2012.

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(f) Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.
(g) OREO excludes $380 million and $280 million at December 31, 2012 and December 31, 2011, respectively, related to residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).
(h) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. See Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

***Table 34: OREO and Foreclosed Assets***

| In millions | Dec. 31 2012 | Dec. 31 2011 |
|---|---|---|
| Other real estate owned (OREO): | | |
| Residential properties | $ 167 | $ 191 |
| Residential development properties | 135 | 183 |
| Commercial properties | 205 | 187 |
| Total OREO | 507 | 561 |
| Foreclosed and other assets | 33 | 35 |
| Total OREO and foreclosed assets | $ 540 | $ 596 |

Total OREO and foreclosed assets declined $56 million during 2012 from $596 million at December 31, 2011, to $540 million at December 31, 2012, which represents 14% of total nonperforming assets. The decrease is primarily due to increased sales activity and greater valuation losses offset in part by an increase from the acquisition of RBC Bank (USA). Of the $245 million added to OREO through the acquisition of RBC Bank (USA), $109 million remained at December 31, 2012. As of December 31, 2012 and December 31, 2011, 31% and 32%, respectively, of our OREO and foreclosed assets were comprised of 1-4 family residential properties. Excluded from OREO at December 31, 2012 and December 31, 2011, respectively, was $380 million and $280 million of residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

***Table 35: Change in Nonperforming Assets***

| In millions | 2012 | 2011 |
|---|---|---|
| January 1 | $ 4,156 | $ 5,123 |
| New nonperforming assets | 3,648 | 3,625 |
| Charge-offs and valuation adjustments | (1,218) | (1,220) |
| Principal activity, including paydowns and payoffs | (1,812) | (1,960) |
| Asset sales and transfers to loans held for sale | (610) | (613) |
| Returned to performing status | (370) | (799) |
| December 31 | $ 3,794 | $ 4,156 |

The table above represents nonperforming asset activity for 2012 and 2011. For 2012, nonperforming assets decreased $362 million from $4.2 billion at December 31, 2011 to $3.8 billion primarily due to decreases in commercial real estate and commercial nonperforming loans. These decreases were offset, in part, by higher nonperforming consumer loans. Pursuant to regulatory guidance issued in the third quarter of 2012, nonperforming consumer loans, primarily home equity and residential mortgage, increased $288 million in 2012

related to changes in treatment of certain loans classified as TDRs resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability. Of these loans, approximately 78% were current on their payments at December 31, 2012. Additionally, nonperforming home equity loans increased due to a change in policy made in the first quarter of 2012 which places home equity loans on nonaccrual status when past due 90 days or more compared with 180 days under the prior policy. Approximately 85% of total nonperforming loans are secured by collateral which is generally expected to reduce credit losses in the event of default. As of December 31, 2012, commercial nonperforming loans are carried at approximately 53% of unpaid principal balance, due to charge-offs recorded to date. Approximately 24% of commercial lending nonperforming loans are contractually current as to principal and interest. See Note 5 Asset Quality in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional nonperforming asset information.

Purchased impaired loans are considered performing, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans. The accretable yield represents the excess of the expected cash flows on the loans at the measurement date over the carrying value. Generally, decreases, other than interest rate decreases for variable rate notes, in the net present value of expected cash flows of individual commercial or pooled purchased impaired loans will result in an impairment charge to the provision for loan losses in the period in which the change is deemed probable. Generally, increases in the net present value of expected cash flows of purchased impaired loans will first result in a recovery of previously recorded allowance for loan losses, to the extent applicable, and then an increase to accretable yield for the remaining life of the purchased impaired loans. This accounting treatment for purchased impaired loans significantly reduces nonperforming loans and assets in the tables above. This treatment also results in a lower ratio of nonperforming loans to total loans and a higher ratio of ALLL to nonperforming loans. See Note 6 Purchased Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on these loans.

***Loan Delinquencies***

We regularly monitor the level of loan delinquencies and believe these levels may be a key indicator of loan portfolio asset quality. Measurement of delinquency status is based on the contractual terms of each loan. Loans for which payment is 30 days or more past due are considered delinquent. Loan

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delinquencies exclude loans held for sale and purchased impaired loans, but include government insured or guaranteed loans.

Total early stage loan delinquencies, or accruing loans past due 30 to 89 days, were $1.4 billion at December 31, 2012, a decrease of $175 million or 11% from December 31, 2011. The main driver of this decrease was due to consumer lending early stage delinquencies, mainly home equity, which were partly offset by an increase in commercial lending early stage delinquencies related to commercial and commercial real estate loans.

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

and/or restoration to current status, or are managed in homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines. These loans decreased $622 million, or 21%, from $3.0 billion at December 31, 2011, to $2.4 billion at December 31, 2012, mainly due to improvements in government insured delinquent residential real estate loans, decline in delinquent home equity loans due to the change in policy made in the first quarter of 2012, along with the decrease in non government insured residential real estate loans pursuant to regulatory guidance issued in the third quarter of 2012 related to changes in treatment of certain loans classified as TDRs resulting from bankruptcy. The following tables display the delinquency status of our loans at December 31, 2012 and December 31, 2011. Additional information regarding accruing loans past due is included in Note 5 Asset Quality in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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

| | Amount | | Percent of Total Outstandings | |
|---|---|---|---|---|
| Dollars in millions | Dec. 31 2012 | Dec. 31 2011 | Dec. 31 2012 | Dec. 31 2011 |
| Commercial | $ 115 | $ 122 | .14% | .19% |
| Commercial real estate | 100 | 96 | .54 | .59 |
| Equipment lease financing | 17 | 22 | .23 | .34 |
| Home equity | 117 | 173 | .33 | .52 |
| Residential real estate | | | | |
| Non government insured | 151 | 180 | .99 | 1.24 |
| Government insured | 127 | 122 | .83 | .84 |
| Credit card | 34 | 38 | .79 | .96 |
| Other consumer | | | | |
| Non government insured | 65 | 58 | .30 | .30 |
| Government insured | 193 | 207 | .90 | 1.08 |
| Total | $ 919 | $ 1,018 | .49 | .64 |

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

| | Amount | | Percent of Total Outstandings | |
|---|---|---|---|---|
| Dollars in millions | Dec. 31 2012 | Dec. 31 2011 | Dec. 31 2012 | Dec. 31 2011 |
| Commercial | $ 55 | $ 47 | .07% | .07% |
| Commercial real estate | 57 | 35 | .31 | .22 |
| Equipment lease financing | 1 | 5 | .01 | .08 |
| Home equity | 58 | 114 | .16 | .34 |
| Residential real estate | | | | |
| Non government insured | 49 | 72 | .32 | .50 |

| | | | | |
|---|---|---|---|---|
| Government insured | 97 | 104 | .64 | .72 |
| Credit card | 23 | 25 | .53 | .63 |
| Other consumer | | | | |
| Non government insured | 21 | 21 | .10 | .11 |
| Government insured | 110 | 124 | .51 | .65 |
| Total | $ 471 | $ 547 | .25 | .34 |

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

| | Amount | | Percentage of Total Outstandings | |
|---|---|---|---|---|
| Dollars in millions | Dec. 31 2012 | Dec. 31 2011 | Dec. 31 2012 | Dec. 31 2011 |
| Commercial | $ 42 | $ 49 | .05% | .07% |
| Commercial real estate | 15 | 6 | .08 | .04 |
| Equipment lease financing | 2 | | .03 | |
| Home equity (b) | | 221 | | .67 |
| Residential real estate | | | | |
| Non government insured | 46 | 152 | .30 | 1.05 |
| Government insured | 1,855 | 2,129 | 12.17 | 14.71 |
| Credit card | 36 | 48 | .84 | 1.21 |
| Other consumer | | | | |
| Non government insured | 18 | 23 | .08 | .12 |
| Government insured | 337 | 345 | 1.57 | 1.80 |
| Total | $ 2,351 | $ 2,973 | 1.26 | 1.87 |

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

On a regular basis our Special Asset Committee closely monitors loans, primarily commercial loans, that are not included in the nonperforming or accruing past due categories and for which we are uncertain about the borrower s ability to comply with existing repayment terms over the next six months. These loans totaled $242 million at December 31, 2012 and $438 million at December 31, 2011.

***Home Equity Loan Portfolio***

Our home equity loan portfolio totaled $35.9 billion as of December 31, 2012, or 19% of the total loan portfolio. Of that total, $23.6 billion, or 66%, was outstanding under primarily variable-rate home equity lines of credit and $12.3 billion, or 34%, consisted of closed-end home equity installment loans. Approximately 3% of the home equity portfolio was on nonperforming status as of December 31, 2012.

As of December 31, 2012, we are in an originated first lien position for approximately 37% of the total portfolio and, where originated as a second lien, we currently hold or service the first lien position for approximately an additional 2% of the portfolio. Historically, we have originated and sold first lien residential real estate mortgages which resulted in a low percentage of home equity loans where we hold the first lien mortgage position. The remaining 61% of the portfolio was secured by second liens where we do not hold the first lien position. For the majority of the home equity portfolio where we are in, hold or service the first lien position, the credit performance of this portion of the portfolio is superior to the portion of the portfolio where we hold the second lien position but do not hold the first lien.

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

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

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

In establishing our ALLL for non-impaired loans, we utilize a delinquency roll-rate methodology for pools of loans. In accordance with accounting principles, under this methodology, we establish our allowance based upon incurred losses and not lifetime expected losses. The roll-rate methodology estimates transition/roll of loan balances from one delinquency state (e.g., 30-59 days past due) to another delinquency state (e.g., 60-89 days past due), and ultimately charge-off. The roll through to charge-off is based on PNC s actual loss experience for each type of pool. Since a pool may

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consist of first and second liens, the charge-off amounts for the pool are proportionate to the composition of first and second liens in the pool. Our experience has been that the ratio of first to second lien loans has been consistent over time and is appropriately represented in our pools used for roll-rate calculations.

Generally, our variable-rate home equity lines of credit have either a seven or ten year draw period, followed by a 20 year amortization term. During the draw period, we have home equity lines of credit where borrowers pay interest only and home equity lines of credit where borrowers pay principal and interest. Based upon outstanding balances at December 31, 2012, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

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

| In millions | Interest Only Product | Principal and Interest Product |
|---|---|---|
| 2013 | $ 1,338 | $ 221 |
| 2014 | 2,048 | 475 |
| 2015 | 2,024 | 654 |
| 2016 | 1,571 | 504 |
| 2017 | 3,075 | 697 |
| 2018 and thereafter | 5,497 | 4,825 |
| Total (a) | $ 15,553 | $ 7,376 |

(a) Includes approximately $166 million, $208 million, $213 million, $61 million, $70 million and $526 million of home equity lines of credit with balloon payments with draw periods scheduled to end in 2013, 2014, 2015, 2016, 2017 and 2018 and thereafter, respectively.

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

Based upon outstanding balances, and excluding purchased impaired loans, at December 31, 2012, for home equity lines of credit for which the borrower can no longer draw (e.g., draw period has ended or borrowing privileges have been terminated), approximately 3.86% were 30-89 days past due and approximately 5.96% were greater than or equal to 90 days past due. Generally, when a borrower becomes 60 days past due, we terminate borrowing privileges, and those privileges are not subsequently reinstated. At that point, we continue our collection/recovery processes, which may include a loss mitigation loan modification resulting in a loan that is classified as a TDR.

See Note 5 Asset Quality in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

## Loan Modifications and Troubled Debt Restructurings

***Consumer Loan Modifications***

We modify loans under government and PNC-developed programs based upon our commitment to help eligible homeowners and borrowers avoid foreclosure, where appropriate. Initially, a borrower is evaluated for a modification under a government program. If a borrower does not qualify under a government program, the borrower is then evaluated under a PNC program. Our programs utilize both temporary and permanent modifications and typically reduce the interest rate, extend the term and/or defer principal. Temporary and permanent modifications under programs involving a change to loan terms are generally classified as TDRs. Further, certain payment plans and trial payment arrangements which do not include a contractual change to loan terms may be classified as TDRs. Additional detail on TDRs is discussed below as well as in Note 5 Asset Quality in the Notes To Consolidated Financial Statements in Item 8 of this Report.

A temporary modification, with a term between three and 60 months, involves a change in original loan terms for a period of time and reverts to a calculated exit rate for the remaining term of the loan as of a specific date. A permanent modification, with a term greater than 60 months, is a modification in which the terms of the original loan are changed. Permanent modifications primarily include the government-created Home Affordable Modification Program (HAMP) or PNC-developed HAMP-like modification programs.

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

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

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

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| Dollars in millions | Number of Accounts | Unpaid Principal Balance | Number of Accounts | Unpaid Principal Balance |
| **Home equity** | | | | |
| Temporary Modifications | 9,187 | $ 785 | 13,352 | $ 1,215 |
| Permanent Modifications | 7,457 | 535 | 1,533 | 92 |
| Total home equity | 16,644 | 1,320 | 14,885 | 1,307 |
| **Residential Mortgages** | | | | |
| Permanent Modifications | 9,151 | 1,676 | 7,473 | 1,342 |
| **Non-Prime Mortgages** | | | | |
| Permanent Modifications | 4,449 | 629 | 4,355 | 610 |
| **Residential Construction** | | | | |
| Permanent Modifications | 1,735 | 609 | 1,282 | 578 |
| Total Bank-Owned Consumer Real Estate Related Loan Modifications | 31,979 | $ 4,234 | 27,995 | $ 3,837 |

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

| December 31, 2012<br>Dollars in millions | Six Months<br>Number of Accounts Re-defaulted | Six Months<br>% of Vintage Re-defaulted | Nine Months<br>Number of Accounts Re-defaulted | Nine Months<br>% of Vintage Re-defaulted | Twelve Months<br>Number of Accounts Re-defaulted | Twelve Months<br>% of Vintage Re-defaulted | Fifteen Months<br>Number of Accounts Re-defaulted | Fifteen Months<br>% of Vintage Re-defaulted | Unpaid Principal Balance (c) |
|---|---|---|---|---|---|---|---|---|---|
| **Permanent Modifications** | | | | | | | | | |
| **Home Equity** | | | | | | | | | |
| Second Quarter 2012 | 36 | 2.0% | | | | | | | $ 2,340 |
| First Quarter 2012 | 24 | 2.2 | 42 | 3.8% | | | | | 2,519 |
| Fourth Quarter 2011 | 9 | 2.0 | 18 | 3.9 | 25 | 5.4% | | | 2,149 |
| Third Quarter 2011 | 23 | 4.0 | 31 | 5.4 | 37 | 6.5 | 49 | 8.6% | 3,514 |
| Second Quarter 2011 | 20 | 5.4 | 29 | 7.8 | 38 | 10.2 | 42 | 11.3 | 2,588 |
| **Residential Mortgages** | | | | | | | | | |
| Second Quarter 2012 | 192 | 18.7 | | | | | | | 32,842 |
| First Quarter 2012 | 181 | 17.7 | 238 | 23.2 | | | | | 38,753 |
| Fourth Quarter 2011 | 206 | 21.8 | 281 | 29.7 | 318 | 33.6 | | | 53,211 |
| Third Quarter 2011 | 260 | 21.6 | 350 | 29.1 | 442 | 36.7 | 471 | 39.1 | 75,420 |
| Second Quarter 2011 | 338 | 25.5 | 424 | 31.9 | 469 | 35.3 | 533 | 40.1 | 83,804 |
| **Non-Prime Mortgages** | | | | | | | | | |
| Second Quarter 2012 | 39 | 20.1 | | | | | | | 5,014 |
| First Quarter 2012 | 46 | 21.3 | 57 | 26.4 | | | | | 8,344 |
| Fourth Quarter 2011 | 38 | 14.7 | 59 | 22.9 | 81 | 31.4 | | | 11,390 |
| Third Quarter 2011 | 85 | 23.0 | 103 | 27.8 | 133 | 35.9 | 144 | 38.9 | 19,836 |
| Second Quarter 2011 | 105 | 17.8 | 143 | 24.2 | 163 | 27.6 | 189 | 32.0 | 28,585 |
| **Residential Construction** | | | | | | | | | |
| Second Quarter 2012 | 4 | 3.0 | | | | | | | |
| First Quarter 2012 | 2 | 1.6 | 5 | 3.9 | | | | | 1,522 |
| Fourth Quarter 2011 | 5 | 5.6 | 7 | 7.8 | 13 | 14.4 | | | 4,598 |
| Third Quarter 2011 | 2 | 1.8 | 2 | 1.8 | 6 | 5.5 | 14 | 12.7 | 2,644 |
| Second Quarter 2011 | 4 | 3.9 | 4 | 3.9 | 3 | 2.9 | 5 | 4.9 | 1,915 |
| **Temporary Modifications** | | | | | | | | | |
| **Home Equity** | | | | | | | | | |
| Second Quarter 2012 | 33 | 11.0% | | | | | | | $ 3,384 |
| First Quarter 2012 | 33 | 7.1 | 46 | 9.9% | | | | | 3,388 |
| Fourth Quarter 2011 | 26 | 5.2 | 39 | 7.8 | 53 | 10.6% | | | 4,688 |
| Third Quarter 2011 | 42 | 9.8 | 50 | 11.7 | 65 | 15.2 | 76 | 17.8% | 8,158 |
| Second Quarter 2011 | 63 | 10.7 | 92 | 15.6 | 113 | 19.2 | 135 | 22.9 | 14,077 |

(a) An account is considered in re-default if it is 60 days or more delinquent after modification. The data in this table represents loan modifications completed during the quarters ending June 30, 2011 through June 30, 2012 and represents a vintage look at all quarterly accounts and the number of those modified accounts (for each quarterly vintage) 60 days or more delinquent at six, nine, twelve, and fifteen months after modification. Account totals include active and inactive accounts that were delinquent when they achieved inactive status.

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

(c) Reflects December 31, 2012 unpaid principal balances of the re-defaulted accounts for the Second Quarter 2012 Vintage at Six Months, for the First Quarter 2012 Vintage at Nine Months, for the Fourth Quarter 2011 Vintage at Twelve Months, and for the Third and Second Quarter 2011 at Fifteen Months.

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

brought current. Due to the short term nature of the payment plan there is a minimal impact to the ALLL.

Under a HAMP trial payment period, we establish an alternate payment, generally at an amount less than the contractual payment amount, for the borrower during this short time period. This allows a borrower to demonstrate successful payment performance before permanently restructuring the loan into a HAMP modification. Subsequent to successful

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borrower performance under the trial payment period, we will capitalize the original contractual amount past due and restructure the loan s contractual terms, along with bringing the restructured account to current. As the borrower is often already delinquent at the time of participation in the HAMP trial payment period, there is not a significant increase in the ALLL. If the trial payment period is unsuccessful, the loan will be evaluated for further action based upon our existing policies.

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under PNC-developed programs, which in some cases may operate similarly to HAMP. These programs first require a reduction of the interest rate followed by an extension of term and, if appropriate, deferral of principal payments. As of December 31, 2012 and December 31, 2011, 4,188 accounts with a balance of $627 million and 2,701 accounts with a balance of $478 million, respectively, of residential real estate loans have been modified under HAMP and were still outstanding on our balance sheet.

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

***Commercial Loan Modifications and Payment Plans***

Modifications of terms for large commercial loans are based on individual facts and circumstances. Commercial loan modifications may involve reduction of the interest rate, extension of the term of the loan and/or forgiveness of principal. Modified large commercial loans are usually already nonperforming prior to modification. We evaluate these modifications for TDR classification based upon whether we granted a concession to a borrower experiencing financial difficulties. Additional detail on TDRs is discussed below as well as in Note 5 Asset Quality in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Beginning in 2010, we established certain commercial loan modification and payment programs for small business loans, Small Business Administration loans, and investment real estate loans. As of December 31, 2012 and December 31, 2011, $68 million and $81 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $24 million have been determined to be TDRs as of both December 31, 2012 and December 31, 2011.

***Troubled Debt Restructurings***

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs typically result from our loss mitigation activities and include rate reductions, principal forgiveness, postponement/reduction of scheduled amortization, extensions, and bankruptcy discharges from personal liability, which are intended to minimize economic loss and to avoid foreclosure or repossession of collateral. For the year ended December 31, 2012, $3.1 billion of loans held for sale, loans accounted for under the fair value option, pooled purchased impaired loans, as well as certain consumer government insured or guaranteed loans which were evaluated for TDR consideration, are not classified as TDRs. The comparable amount for the year ended December 31, 2011 was $2.7 billion.

***Table 42: Summary of Troubled Debt Restructurings***

| In millions | Dec. 31 2012 | Dec. 31 2011 |
|---|---|---|
| Consumer lending: | | |
| Real estate-related | $ 2,028 | $ 1,492 |
| Credit card (a) | 233 | 291 |
| Other consumer | 57 | 15 |
| Total consumer lending (b) | 2,318 | 1,798 |
| Total commercial lending | 541 | 405 |
| Total TDRs | $ 2,859 | $ 2,203 |
| Nonperforming | $ 1,589 | $ 1,141 |
| Accruing (c) | 1,037 | 771 |
| Credit card (a) | 233 | 291 |
| Total TDRs | $ 2,859 | $ 2,203 |

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

(b) Pursuant to regulatory guidance issued in the third quarter of 2012, additional troubled debt restructurings related to changes in treatment of certain loans of $366 million in 2012, net of charge-offs, resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability were added to the consumer lending population. The additional TDR population increased nonperforming loans by $288 million. Charge-offs have been taken where the fair value less costs to sell the collateral was less than the recorded investment of the loan and were $128.1 million. Of these nonperforming loans, approximately 78% were current on their payments at December 31, 2012.

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

Total TDRs increased $656 million or 30% during the year ended December 31, 2012 to $2.9 billion. Of this total, nonperforming TDRs totaled $1.6 billion, which represents approximately 49% of total nonperforming loans.

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TDRs that have returned to performing (accruing) status are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of consecutive performance under the restructured terms. These TDRs increased $.3 billion, or 35% during 2012 to $1.0 billion as of December 31, 2012. This increase reflects the further seasoning and performance of the TDRs. See Note 5 Asset Quality in the Notes to Consolidated Financial Statements in Item 8 of this Report for additional information.

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

We recorded $1.3 billion in net charge-offs for 2012, compared to $1.6 billion in 2011. Commercial lending net charge-offs fell from $712 million in 2011 to $359 million in 2012. Consumer lending net charge-offs increased slightly from $927 million in 2011 to $930 million in 2012.

***Table 43: Loan Charge-Offs And Recoveries***

| Year ended December 31<br>Dollars in millions | Charge-offs | Recoveries | Net Charge-offs | Percent of Average Loans |
|---|---|---|---|---|
| 2012 | | | | |
| Commercial | $ 474 | $ 300 | $ 174 | .23% |
| Commercial real estate | 314 | 115 | 199 | 1.10 |
| Equipment lease financing | 16 | 30 | (14) | (.21) |
| Home equity | 560 | 61 | 499 | 1.41 |
| Residential real estate | 110 | (1) | 111 | .72 |
| Credit card | 200 | 26 | 174 | 4.26 |
| Other consumer | 196 | 50 | 146 | .72 |
| Total | $ 1,870 | $ 581 | $ 1,289 | .73 |
| 2011 | | | | |
| Commercial | $ 700 | $ 332 | $ 368 | .62% |
| Commercial real estate | 464 | 105 | 359 | 2.14 |
| Equipment lease financing | 35 | 50 | (15) | (.24) |
| Home equity | 484 | 48 | 436 | 1.30 |
| Residential real estate | 153 | 11 | 142 | .95 |
| Credit card | 235 | 23 | 212 | 5.62 |
| Other consumer | 193 | 56 | 137 | .79 |
| Total | $ 2,264 | $ 625 | $ 1,639 | 1.08 |

Total net charge-offs are lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. See Note 6 Purchased Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on net charge-offs related to these loans.

We maintain an ALLL to absorb losses from the loan portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan portfolio. We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan portfolio as of the balance sheet date. The reserve calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions are periodically updated. During the

third quarter of 2012, PNC increased the amount of internally observed data used in estimating the key commercial lending assumptions of PD and LGD. See the Critical Accounting Estimates And Judgments section of this Item 7 for additional information.

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

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

Our commercial pool reserve methodology is sensitive to changes in key risk parameters such as PD and LGD; the results of these parameters are then applied to the loan balance to determine the amount of the reserve. In general, a given change in any of the major risk parameters will have a corresponding change in the pool reserve allocations for non-impaired commercial loans. To illustrate, if we increase the pool reserve LGD by 5% for all categories of non-impaired commercial loans at December 31, 2012, then the aggregate of the ALLL and allowance for unfunded loan commitments and letters of credit would increase by $74 million.

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

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

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

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

Purchased impaired loans are initially recorded at fair value and applicable accounting guidance prohibits the carry over or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At December 31, 2012, we had established reserves of $1.1 billion for purchased impaired loans. In addition, all loans (purchased impaired and non-impaired) acquired in the RBC Bank (USA) acquisition were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at acquisition. See Note 6 Purchased Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

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

We refer you to Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report for further information on key asset quality indicators that we use to evaluate our portfolio and establish the allowances.

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*Table 44: Allowance for Loan and Lease Losses*

| Dollars in millions | 2012 | 2011 |
|---|---|---|
| January 1 | $ 4,347 | $ 4,887 |
| Total net charge-offs | (1,289) | (1,639) |
| Provision for credit losses | 987 | 1,152 |
| Net change in allowance for unfunded loan commitments and letters of credit | (10) | (52) |
| Other | 1 | (1) |
| December 31 | $ 4,036 | $ 4,347 |
| Net charge-offs to average loans (for the year ended) | .73% | 1.08% |
| Allowance for loan and lease losses to total loans | 2.17 | 2.73 |
| Commercial lending net charge-offs | $ (359) | $ (712) |
| Consumer lending net charge-offs | (930) | (927) |
| Total net charge-offs | $ (1,289) | $ (1,639) |
| Net charge-offs to average loans (for the year ended) | | |
| Commercial lending | .35% | .86% |
| Consumer lending | 1.24 | 1.33 |

As further described in the Consolidated Income Statement Review section of this Item 7, the provision for credit losses totaled $1.0 billion for 2012 compared to $1.2 billion for 2011. For 2012, the provision for commercial lending credit losses declined by $39 million or 22% from 2011. Similarly, the provision for consumer lending credit losses decreased $126 million or 13% from 2011.

At December 31, 2012, total ALLL to total nonperforming loans was 124%. The comparable amount for December 31, 2011 was 122%. These ratios are 79% and 84%, respectively, when excluding the $1.5 billion and $1.4 billion, respectively, of allowance at December 31, 2012 and December 31, 2011 allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded consumer loans and lines of credit not secured by real estate as they are charged off after 120 to 180 days past due and not placed on nonperforming status. Additionally, we have excluded purchased impaired loans as they are considered performing regardless of their delinquency status as interest is accreted based on our estimate of expected cash flows and additional allowance is recorded when these cash flows are below recorded investment. See Table 33: Nonperforming Assets By Type within this Credit Risk Management section for additional information.

The ALLL balance increases or decreases across periods in relation to fluctuating risk factors, including asset quality trends, charge-offs and changes in aggregate portfolio balances. During 2012, improving asset quality trends, including, but not limited to, delinquency status, improving economic conditions, realization of previously estimated losses through charge-offs and overall portfolio growth, combined to result in reducing the estimated credit losses within the portfolio. As a result, the ALLL balance declined $311 million, or 7%, to $4.0 billion during the year ended December 31, 2012.

See Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 6 Purchased Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report regarding changes in the ALLL and in the allowance for unfunded loan commitments and letters of credit.

### Credit Default Swaps

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

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

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

CDSs are included in the Derivatives not designated as hedging instruments under GAAP section of Table 54: Financial Derivatives Summary in the Financial Derivatives section of this Risk Management discussion.

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***Operational Risk Management***

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human factors, or external events. This includes losses that may arise as a result of non-compliance with laws or regulations, failure to fulfill fiduciary responsibilities, as well as litigation or other legal actions. Operational risk may occur in any of our business activities and manifests itself in various ways, including but not limited to:

- Transaction processing errors,
- Unauthorized transactions and fraud by employees or third parties,
- Material disruption in business activities,
- System breaches and misuse of sensitive information,
- Regulatory or governmental actions, fines or penalties, and
- Significant legal expenses, judgments or settlements.

PNC s Operational Risk Management is inclusive of Technology Risk Management, Compliance, and Business Resiliency. Operational Risk Management focuses on balancing business needs, regulatory expectations and risk management priorities through an adaptive and proactive program that is designed to provide a strong governance model, sound and consistent risk management processes and transparent operational risk reporting across the enterprise.

The PNC Board determines the strategic approach to operational risk via establishment of the operational risk appetite and appropriate risk management structure. This includes establishment of risk metrics and limits and a reporting structure to identify, understand and manage operational risks.

Executive Management has responsibility for operational risk management. The executive management team is responsible for monitoring risk issues through management reporting and a governance structure of risk committees and sub-committees.

Within Risk Management, Operational Risk Management functions are responsible for developing and maintaining the policies, methodologies, tools, and technology utilized across the enterprise to identify, assess, monitor, and report operational risks, including compliance risk. A key function of Operational Risk Management is to help ensure business units alignment with the Operational Risk Management framework and to validate results and overall program effectiveness.

Business Unit management is responsible for the day-to-day management of operational risks inherent in the products, services, and activities for which they are responsible. Business Unit management is also responsible for adhering to PNC s enterprise-wide operational risk management policies

and procedures; including regularly identifying, measuring, and monitoring operational risks in their respective area, as well as capturing, analyzing and reporting operational loss events.

Management of operational risk is based upon a comprehensive framework designed to enable the company to determine the enterprise and individual business unit s operational risk profile in comparison to the established risk appetite and identify operational risks that may require further mitigation. This framework is established around a set of enterprise-wide policies and a system of internal controls that are designed to manage risk and to provide management with timely and accurate information about the operations of PNC. This framework employs a number of techniques to manage operational risk, including:

- Risk and Control Self-Assessments (RCSAs) are performed at least annually across PNC s businesses, processes, systems and products. RCSA methodology is a standard process for management to self assess operational risks, evaluate control effectiveness, and determine if risk exposure is within established tolerances,
- Scenario Analysis is leveraged to proactively evaluate operational loss events with the potential for severe business, financial, operational or regulatory impact on the company or a major business unit. This methodology leverages standard processes and tools to evaluate a wide range of business and operational risks encompassing both external and internal events relevant to the company. Based upon scenario analysis conclusions, management may implement additional controls or risk management activities to reduce exposure to an acceptable level,
- A Key Risk Indicator (KRI) framework allows management to assess actual operational risk results compared to expectations and thresholds, as well as proactively identify unexpected shifts in operational risk exposure or control effectiveness. Enterprise-level KRIs are designed to monitor exposure across the different inherent operational risk types, including compliance risk. Business-specific KRIs are established in support of the individual risk and control self assessments, and

Operational loss events across the enterprise are continuously captured and maintained in a central repository. This information is analyzed and used to help determine the root causes of these events and to identify trends that could indicate changes in the company s risk exposure or control effectiveness. PNC utilizes a number of sources to identify external loss events occurring across the financial services industry. These events are evaluated to determine whether PNC is exposed to similar events, and if so, whether appropriate controls are in place.

We continue to enhance our methodology to estimate capital requirements for Operational Risk using a proprietary version of an Advanced Measurement Approach (AMA). Under the AMA approach, the results of the program elements described above are key inputs directly incorporated into the capital calculation methodology.

Risk professionals from Operational Risk Management, Technology Risk Management, Business Resiliency, Compliance, and Legal work closely with business areas to evaluate risks and help ensure that appropriate controls are established prior to the introduction of new or enhanced products, services, and technologies. These risk professionals also consult with business areas in the design and implementation of mitigation strategies to address risks and issues identified through ongoing assessment and monitoring activities.

PNC s technology risk management program is aligned with the operational risk framework. Management of technology risk is embedded into the culture and decision making processes of PNC through an information and technology risk management framework designed to help ensure secure, sound, and compliant IT systems and infrastructure in support of business strategies and goals. PNC s Technology Risk Management (TRM) function supports enterprise management of technology risk by independently assessing technology and information security risks, and by serving in an oversight role by measuring, monitoring, and challenging enterprise technology capabilities.

Our business resiliency program manages the organization s capabilities to provide services in the case of an event that results in material disruption of business activities. Prioritization of investments in people, processes, technology and facilities is based on different types of events, business risk and criticality. A testing program validates our resiliency capabilities on an ongoing basis, and an integrated governance model is designed to help assure appropriate management reporting.

Enterprise Compliance is responsible for coordinating the compliance risk component of PNC s Operational Risk framework. Compliance issues are identified and tracked through enterprise-wide monitoring and tracking programs. Key compliance risk issues are escalated through a comprehensive risk reporting process at both a business and enterprise level and incorporated, as appropriate, into the development and assessment of the firm s operational risk profile. The Compliance, Conflicts & Ethics Policy Committee, chaired by the Chief Compliance Officer, provides oversight for compliance, conflicts and ethics programs and strategies across PNC. This committee also oversees the compliance processes related to fiduciary and investment risk. In order to help understand and where appropriate proactively address emerging regulatory issues, Enterprise Compliance communicates regularly with various

regulators with supervisory or regulatory responsibilities with respect to PNC, its subsidiaries or businesses and participates in forums focused on regulatory and compliance matters in the financial services industry.

PNC uses insurance where appropriate to help mitigate the effects of operational risk events. In 2012, PNC implemented a Network Security & Privacy Liability program to address associated risks. The purchase of insurance protects against accidental losses, which, in the aggregate, may affect personnel, financial objectives, or our ability to meet responsibilities to various stakeholder groups. While certain corporate risks are retained through a subsidiary, various insurers provide the balance of coverage. Uncertainty, related to insurer coverage determinations, may result in reduced benefit received from insurance mitigation. Oversight of insurance purchased is provided by Risk committees within the governance structure.

On a quarterly basis, an enterprise operational risk report is developed to report key operational risks to senior management and the Board of Directors. The report encompasses key operational risk management conclusions, including the overall operational risk level, risk management effectiveness and outlook, grounded in quantitative measures and qualitative factors. Key enterprise operational risks are also included in the enterprise risk report. In addition, operational risk is an integrated part of the quarterly business-specific risk reports.

***Model Risk Management***

PNC relies on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading and granting loans, measuring interest rate risks and other market risks, predicting losses, and assessing capital adequacy, as well as to estimate the value of financial instruments and balance sheet items. There are risks involved in the use of models as they have the potential to provide inaccurate output or results, could be used for purposes other than those for which they have been designed, or may be operated in an uncontrolled environment where unauthorized changes can take place and where other control risks exist. Model Risk Management is responsible for policies and procedures describing how model risk is evaluated and managed, and the application of the governance process to implement these practices throughout the enterprise. The Model Risk Management Committee, a subcommittee of the Enterprise Risk Management Committee, oversees all aspects of model risk, including PNC s compliance with regulatory requirements, and approves exceptions to policy when appropriate.

To better manage our business, our practices around the use of models, and to comply with regulatory guidance and requirements, we have in place policies and procedures that define our governance processes for assessing and controlling

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model risk. These processes focus on identifying, reporting, and remediating any problems with the soundness, accuracy, improper use, or operating environment of our models. We recognize that models must be monitored over time to ensure their continued accuracy and functioning, and our policies also address the type and frequency of monitoring that is appropriate according to the importance of each model.

There are a number of practices we undertake to identify and control model risk. A primary consideration is that models be well understood by those who use them as well as by other parties. Our policies require detailed written model documentation for significant models to assist in making their use transparent and understood by users, independent reviewers, and regulatory and auditing bodies. The documentation must include details on the data and methods used to develop each model, assumptions utilized within the model, and a description of model limitations and circumstances in which a model should not be relied upon.

Our modeling methods and data are reviewed by independent model reviewers not involved in the development of the model to identify possible errors or areas where the soundness of the model could be in question. Issues identified by the independent reviewer are tracked and reported using our existing governance structure until the issue has been fully remediated. It is important that models operate in a controlled environment where access to code or the ability to make changes is limited to those so authorized. Additionally, proper back-up and recovery mechanisms are needed for the ongoing functioning of models. Our use of independent model control reviewers aids in the evaluation of the existing control mechanisms to help ensure that controls are appropriate and are functioning properly.

***Liquidity Risk Management***

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

Spot and forward funding gap analyses are used to measure and monitor consolidated liquidity risk. Funding gaps represent the difference in projected sources of liquidity available to offset projected uses. We calculate funding gaps for the overnight, thirty-day, ninety-day, one hundred eighty-day and one-year time intervals. Management also monitors liquidity through a series of early warning indicators that may indicate a potential market, or PNC-specific, liquidity stress

event. Finally, management performs a set of liquidity stress tests and maintains a contingency funding plan to address a potential liquidity crisis. In the most severe liquidity stress simulation, we assume that PNC s liquidity position is under pressure, while the market in general is under systemic pressure. The simulation considers, among other things, the impact of restricted access to both secured and unsecured external sources of funding, accelerated run-off of customer deposits, valuation pressure on assets, and heavy demand to fund contingent obligations. Risk limits are established within our Liquidity Risk Policy. Management s Asset and Liability Committee regularly reviews compliance with the established limits.

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

***Bank Level Liquidity Uses***

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. At the bank level, primary contractual obligations include funding loan commitments, satisfying deposit withdrawal requests and maturities and debt service related to bank borrowings. As of December 31, 2012, there were approximately $17.2 billion of bank borrowings with contractual maturities of less than one year. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary. See the Bank Level Liquidity Sources section below.

***Bank Level Liquidity Sources***

Our largest source of bank liquidity on a consolidated basis is the deposit base that comes from our retail and commercial businesses. Total deposits increased to $213.1 billion at December 31, 2012 from $188.0 billion at December 31, 2011, primarily due to the RBC Bank (USA) acquisition. Liquid assets and unused borrowing capacity from a number of sources are also available to maintain our liquidity position. Borrowed funds come from a diverse mix of short and long-term funding sources.

At December 31, 2012, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning deposits with banks) totaling $7.5 billion and securities available for sale totaling $51.1 billion. Of our total liquid assets of $58.6 billion, we had $25.6 billion pledged as collateral for borrowings, trust, and other commitments. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and active balance sheet management, including securities purchases to manage duration.

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

PNC Bank, N.A. is authorized by its board to offer up to $20 billion in senior and subordinated unsecured debt obligations with maturities of more than nine months. Through December 31, 2012, PNC Bank, N.A. had issued $10.4 billion of debt under this program, including the following during 2012:

- $100 million of senior bank notes issued March 8, 2012 and due April 8, 2015. Interest is paid semi-annually at a fixed rate of 1.07%,
- $1.0 billion of senior extendible floating rate bank notes issued June 20, 2012 with an initial maturity date of July 20, 2013, subject to the holder s monthly option to extend, and a final maturity date of June 20, 2014. Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder,
- $900 million of senior extendible floating rate bank notes issued to an affiliate on June 27, 2012 with an initial maturity date of July 27, 2013, subject to the holder s monthly option to extend, and a final maturity date of April 27, 2014. Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points,
- $500 million of senior extendible floating rate bank notes issued to an affiliate on June 27, 2012 with an initial maturity date of July 27, 2013, subject to the holder s monthly option to extend, and a final maturity date of January 27, 2014. Interest is paid at the 3-month LIBOR rate, reset quarterly, plus a spread of 22.5 basis points, and
- $1.0 billion of subordinated notes issued October 22, 2012 and due November 1, 2022. Interest is paid semi-annually at a fixed rate of 2.70%.

See Capital and Liquidity Actions in the Executive Summary section of this Item 7 for additional information regarding our 2013 issuances under this program, which totaled $1.8 billion.

Total senior and subordinated debt increased to $7.6 billion at December 31, 2012 from $4.1 billion at December 31, 2011 due to issuances.

PNC Bank, N.A. is a member of the FHLB-Pittsburgh and as such has access to advances from FHLB-Pittsburgh secured generally by residential mortgage and other mortgage-related

loans. At December 31, 2012, our unused secured borrowing capacity was $10.5 billion with FHLB-Pittsburgh. Total FHLB borrowings increased to $9.4 billion at December 31, 2012 from $7.0 billion at December 31, 2011 due to $13.5 billion in new borrowings partially offset by $11.0 billion in maturities.

PNC Bank, N.A. has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of December 31, 2012, there was $2.4 billion outstanding under this program. Commercial paper on our Consolidated Balance Sheet also includes $6.1 billion of commercial paper issued by Market Street Funding LLC, a consolidated VIE.

PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland s (Federal Reserve Bank) discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by securities and commercial loans. At December 31, 2012, our unused secured borrowing capacity was $28.6 billion with the Federal Reserve Bank.

***Parent Company Liquidity Uses***

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. The parent company s contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. As of December 31, 2012, there were approximately $300 million of parent company borrowings with maturities of less than one year.

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

See Supervision and Regulation in Item 1 of this Report for information regarding the Federal Reserve s CCAR process, including its impact on our ability to take certain capital actions, including plans to pay or increase common stock dividends, reinstate or increase common stock repurchase programs, or redeem preferred stock or other regulatory capital instruments.

See Capital and Liquidity Actions in the Executive Summary section of this Item 7 for additional information regarding our 2012 and 2013 capital activities.

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*Parent Company Liquidity Sources*

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

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

The amount available for dividend payments by PNC Bank, N.A. to the parent company without prior regulatory approval was approximately $1.5 billion at December 31, 2012. There are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. See Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report for a further discussion of these limitations. Dividends may also be impacted by the bank s capital needs and by contractual restrictions. We provide additional information on certain contractual restrictions under the Trust Preferred Securities section of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Item 7 and in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of December 31, 2012, the parent company had approximately $3.4 billion in funds available from its cash and investments.

We can also generate liquidity for the parent company and PNC s non-bank subsidiaries through the issuance of debt securities and equity securities, including certain capital securities, in public or private markets and commercial paper. We have an effective shelf registration statement pursuant to which we can issue additional debt, equity and other capital instruments. Total senior and subordinated debt and hybrid capital instruments decreased to $11.5 billion at December 31, 2012 from $16.0 billion at December 31, 2011 primarily due to $4.0 billion in maturities and $2.3 billion in redemptions partially offset by $1.5 billion in new borrowings.

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

- $1.0 billion of senior notes issued March 8, 2012 and due March 8, 2022. Interest is paid semi-annually at a fixed rate of 3.30%. The offering resulted in gross proceeds to us, before offering related expenses, of $990 million,
- Sixty million depositary shares, each representing a 1/4,000$^{th}$ interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock,
- Series P, issued April 24, 2012, resulting in gross proceeds to us, before commissions and expenses, of $1.5 billion,
- Eighteen million depositary shares, each representing a 1/4,000$^{th}$ interest in a share of our 5.375% Non-Cumulative Perpetual Preferred Stock, Series Q, issued September 21, 2012, resulting in gross proceeds to us, before commissions and expenses, of $450 million. On October 9, 2012, pursuant to the underwriting agreement for this offering, we issued an additional 1.2 million depositary shares in satisfaction of an option granted to the underwriters in the agreement to cover over-allotments, resulting in additional gross proceeds of $30 million, and
- On November 9, 2012, PNC issued $500.1 million of its parent company Senior Notes due November 9, 2022 (the Senior Notes ), which were sold in a secondary public offering made in connection with the remarketing of PNC s Remarketable 8.729% Junior Subordinated Notes due 2043 (the Subordinated Notes ) owned by the National City Preferred Capital Trust I (the Trust ). In the remarketing, the Trust sold the Subordinated Notes and PNC exchanged with the purchasers of the Subordinated Notes the Senior Notes. The Senior Notes were then sold by the purchasers in the secondary public offering. The Senior Notes bore interest at 8.729% from and including June 10, 2012, to but excluding November 9, 2012, and thereafter bear interest at 2.854% per annum. The proceeds of the remarketing were used by the Trust to purchase $500.1 million of PNC s Non-Cumulative Perpetual Preferred Stock, Series M (the Preferred Stock ) on December 10, 2012. PNC redeemed all of the Preferred Stock from the Trust immediately upon its issuance, and the Trust in turn redeemed all $500.0 million outstanding of its 12% Fixed-to-Floating Rate Normal APEX and $.1 million Common Securities of the Trust. After the closing of these transactions, including the redemption of the Normal APEX, only the Senior Notes due November 9, 2022 remain outstanding.

The parent company, through its subsidiary PNC Funding Corp, has the ability to offer up to $3.0 billion of commercial paper to provide additional liquidity. As of December 31, 2012, there were no issuances outstanding under this program.

Note 19 Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report describes our February 2010 redemption of all 75,792 shares of our Fixed Rate Cumulative Perpetual Preferred Shares, Series N (Series N Preferred Stock) that had been issued on December 31, 2008 to the US Treasury under the Troubled Asset Relief Program (TARP) Capital Purchase Program, the acceleration of the accretion of the remaining issuance discount on the Series N Preferred Stock in the first quarter of 2010 (and a corresponding reduction in retained earnings of

$250 million

in the first quarter of 2010), and the exchange by the US Treasury of the TARP warrant issued to it on December 31, 2008 into warrants, each to purchase one share of PNC common stock at an exercise price of $67.33, sold by the US Treasury in a secondary public offering in May 2010. These common stock warrants will expire December 31, 2018.

***Status of Credit Ratings***

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

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

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

***Table 45: Credit Ratings as of December 31, 2012 for PNC and PNC Bank, N.A.***

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

***Commitments***

The following tables set forth contractual obligations and various other commitments as of December 31, 2012 representing required and potential cash outflows.

***Table 46: Contractual Obligations***

| | | Payment Due By Period | | | |
|---|---|---|---|---|---|
| December 31, 2012 in millions | Total | Less than one year | One to three years | Four to five years | After five years |
| Remaining contractual maturities of time deposits (a) | $ 26,091 | $ 18,155 | $ 4,223 | $ 1,598 | $ 2,115 |
| Borrowed funds (a) (b) | 40,907 | 21,647 | 6,501 | 5,005 | 7,754 |
| Minimum annual rentals on noncancellable leases | 2,790 | 397 | 668 | 472 | 1,253 |
| Nonqualified pension and postretirement benefits | 581 | 66 | 133 | 121 | 261 |
| Purchase obligations (c) | 683 | 395 | 201 | 56 | 31 |

| | | | | | |
|---|---|---|---|---|---|
| Total contractual cash obligations | $ 71,052 | $ 40,660 | $ 11,726 | $ 7,252 | $ 11,414 |

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

We had unrecognized tax benefits of $176 million at December 31, 2012. This liability for unrecognized tax benefits represents an estimate of tax positions that we have taken in our tax returns which ultimately may not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the contractual obligations table. See Note 21 Income Taxes in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Our contractual obligations totaled $72.0 billion at December 31, 2011. The decline in the comparison is primarily attributable to decreases in the remaining contractual maturities of time deposits, partially offset by increases in borrowed funds. See Funding and Capital Sources in the Consolidated Balance Sheet Review section of this Item 7 for additional information regarding our funding sources.

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***Table 47: Other Commitments (a)***

| December 31, 2012 in millions | Total Amounts Committed | Amount Of Commitment Expiration By Period: Less than one year | One to three years | Four to five years | After five years |
|---|---|---|---|---|---|
| Net unfunded credit commitments | $ 120,592 | $ 51,017 | $ 38,038 | $ 31,060 | $ 477 |
| Standby letters of credit (b) | 11,467 | 5,200 | 4,823 | 1,417 | 27 |
| Reinsurance agreements (c) | 5,846 | 2,835 | 66 | 33 | 2,912 |
| Other commitments (d) | 918 | 602 | 255 | 58 | 3 |
| Total commitments | $ 138,823 | $ 59,654 | $ 43,182 | $ 32,568 | $ 3,419 |

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of syndications, assignments and participations.
(b) Includes $7.5 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.
(c) Reinsurance agreements are with third-party insurers related to insurance sold to our customers. Balances represent estimates based on availability of financial information.
(d) Includes unfunded commitments related to private equity investments of $182 million and other investments of $3 million that are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $685 million and other direct equity investments of $48 million that are included in Other liabilities on our Consolidated Balance Sheet.

## ***Market Risk Management***

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

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

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

### ***Market Risk Management Interest Rate Risk***

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

Asset and Liability Management centrally manages interest rate risk as prescribed in our risk management policies, which are approved by management s Asset and Liability Committee and the Risk Committee of the Board.

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

***Table 48: Interest Sensitivity Analysis***

| | Fourth Quarter 2012 | Fourth Quarter 2011 |
|---|---|---|
| **Net Interest Income Sensitivity Simulation** | | |

| | | |
|---|---|---|
| Effect on net interest income in first year from gradual interest rate change over following 12 months of: | | |
| 100 basis point increase | 2.0% | 2.3% |
| 100 basis point decrease (a) | (1.3)% | (1.5)% |
| Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of: | | |
| 100 basis point increase | 6.8% | 7.1% |
| 100 basis point decrease (a) | (4.8)% | (4.4)% |
| **Duration of Equity Model (a)** | | |
| Base case duration of equity (in years): | (7.3) | (6.2) |
| **Key Period-End Interest Rates** | | |
| One-month LIBOR | .21% | .30% |
| Three-year swap | .50% | .82% |

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

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In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. The following Net Interest Income Sensitivity to Alternative Rate Scenarios (Fourth Quarter 2012) table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist s most likely rate forecast, (ii) implied market forward rates, and (iii) Yield Curve Slope Flattening (a 100 basis point yield curve slope flattening between 1-month and ten-year rates superimposed on current base rates) scenario.

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

| | PNC Economist | Market Forward | Slope Flattening |
|---|---|---|---|
| First year sensitivity | .03% | .50% | (1.03)% |
| Second year sensitivity | 1.44% | 2.12% | (3.92)% |

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

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

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

***Table 50: Alternate Interest Rate Scenarios: One Year Forward***

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

***Market Risk Management Trading Risk***

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

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

PNC began to include the daily mark-to-market impact from the CVA in determining the diversified VaR measure during the first quarter of 2012 due to enhancements in our models, and comparative periods are stated on a similar basis. During 2012, our 95% VaR ranged between $1.1 million and $5.3 million, averaging $3.2 million. During 2011, our 95% VaR ranged between $.7 million and $4.8 million, averaging $2.4 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. This assumes that market exposures remain constant throughout the day and that recent historical market variability is a good predictor of future variability. Our actual trading related activity includes customer revenue and intraday hedging which helps to reduce trading losses, and may reduce the number of instances of actual losses exceeding the prior day VaR measure. There were two such instances during both 2012 and 2011 under our diversified VaR measure. We use a 500 day look back period for backtesting and include customer related revenue.

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

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

Total trading revenue was as follows:

***Table 52: Trading Revenue***

| Year ended December 31<br>In millions | 2012 | 2011 |
|---|---|---|
| Net interest income | $ 38 | $ 43 |
| Noninterest income | 272 | 225 |
| Total trading revenue | $ 310 | $ 268 |
| Securities underwriting and trading (a) | $ 100 | $ 81 |
| Foreign exchange | 92 | 88 |
| Financial derivatives and other | 118 | 99 |
| Total trading revenue | $ 310 | $ 268 |

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

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

Trading revenue for 2012 increased $42 million compared with 2011 due to higher derivatives, foreign exchange and fixed income client sales, higher underwriting activity, improved client-related trading results and the reduced impact of counterparty credit risk on valuations of derivative positions.

***Market Risk Management Equity And Other***

***Investment Risk***

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

The primary risk measurement for equity and other investments is economic capital. Economic capital is a common measure of risk for credit, market and operational risk. It is an estimate of the potential value depreciation over a one year horizon commensurate with solvency expectations of an institution rated single-A by the credit rating agencies. Given the illiquid nature of many of these types of investments, it can be a challenge to determine their fair values. See Note 9 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

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

A summary of our equity investments follows:

***Table 53: Equity Investments Summary***

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| BlackRock | $ 5,614 | $ 5,291 |
| Tax credit investments | 2,965 | 2,646 |
| Private equity | 1,802 | 1,491 |
| Visa | 251 | 456 |
| Other | 245 | 250 |
| Total | $ 10,877 | $ 10,134 |

***BlackRock***

PNC owned approximately 36 million common stock equivalent shares of BlackRock equity at December 31, 2012, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Item 7 includes additional information about BlackRock.

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***Tax Credit Investments***

Included in our equity investments are tax credit investments which are accounted for under the equity method. These investments, as well as equity investments held by consolidated partnerships, totaled $3.0 billion at December 31, 2012 and $2.6 billion at December 31, 2011. These equity investment balances include unfunded commitments totaling $685 million and $420 million, respectively. These unfunded commitments are included in Other Liabilities on our Consolidated Balance Sheet.

Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Item 8 of this Report has further information on Tax Credit Investments.

***Private Equity***

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

Private equity investments carried at estimated fair value totaled $1.8 billion at December 31, 2012 and $1.5 billion at December 31, 2011. As of December 31, 2012, $1.2 billion was invested directly in a variety of companies and $.6 billion was invested indirectly through various private equity funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The noncontrolling interests of these funds totaled $266 million as of December 31, 2012. The indirect private equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee. See Item 1 Business Supervision and Regulation and Item 1A Risk Factors of this Report for discussion of potential impacts of the Volcker Rule provisions of Dodd-Frank on our holding interests in and sponsorship of private equity or hedge funds.

Our unfunded commitments related to private equity totaled $182 million at December 31, 2012 compared with $247 million at December 31, 2011.

***Visa***

In 2012, we sold 9 million of Visa Class B common shares and entered into swap agreements with the purchaser of the shares. See Note 9 Fair Value and Note 17 Financial Derivatives in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information. At December 31, 2012, our investment in Visa Class B common shares totaled approximately 14 million shares and was recorded at $251 million. Based on the December 31, 2012 closing price of $151.58 for the Visa Class A common shares, the fair value of our total investment was approximately $916 million at the current conversion rate which reflects adjustments in respect of all litigation funding by Visa to date. The Visa Class B common shares that we own are transferable only under limited circumstances (including

those applicable to the sales in 2012) until they can be converted into shares of the publicly traded class of stock, which cannot happen until the settlement of all of the specified litigation. It is expected that Visa will continue to adjust the conversion rate of Visa Class B common shares to Class A common shares in connection with any settlements of the specified litigation in excess of any amounts then in escrow for that purpose and will also reduce the conversion rate to the extent that it adds any funds to the escrow in the future.

Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report has further information on our Visa indemnification obligation.

***Other Investments***

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At December 31, 2012, other investments totaled $245 million compared with $250 million at December 31, 2011. We recognized net gains related to these investments of $55 million during 2012, compared with $1 million during 2011.

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

Our unfunded commitments related to other investments totaled $3 million at both December 31, 2012 and December 31, 2011.

***Impact of Inflation***

Our assets and liabilities are primarily financial in nature and typically have varying maturity dates. Accordingly, future changes in prices do not affect the obligations to pay or receive fixed and determinable amounts of money. However, during periods of inflation, there may be a subsequent impact affecting certain fixed costs or expenses, an erosion of consumer and customer purchasing power, and fluctuations in the need or demand for our products and services. Should significant levels of inflation occur, our business could potentially be impacted by, among other things, reducing our tolerance for extending credit or causing us to incur additional credit losses resulting from possible increased default rates.

***Financial Derivatives***

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

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Financial derivatives involve, to varying degrees, interest rate, market and credit risk. For interest rate swaps and total return swaps, options and futures contracts, only periodic cash payments and, with respect to options, premiums are exchanged. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments.

Further information on our financial derivatives is presented in Note 1 Accounting Policies and Note 17 Financial Derivatives in the Notes To Consolidated Financial

Statements in Item 8 of this Report, which is incorporated here by reference.

Not all elements of interest rate, market and credit risk are addressed through the use of financial or other derivatives, and such instruments may be ineffective for their intended purposes due to unanticipated market changes, among other reasons.

The following table summarizes the notional or contractual amounts and net fair value of financial derivatives at December 31, 2012 and December 31, 2011.

*Table 54: Financial Derivatives Summary*

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| In millions | Notional/ Contractual Amount | Net Fair Value (a) | Notional/ Contractual Amount | Net Fair Value (a) |
| **Derivatives designated as hedging instruments under GAAP** | | | | |
| Total derivatives designated as hedging instruments | $ 29,270 | $ 1,720 | $ 29,234 | $ 1,772 |
| **Derivatives not designated as hedging instruments under GAAP** | | | | |
| Total derivatives used for residential mortgage banking activities | $ 166,819 | $ 588 | $ 196,991 | $ 565 |
| Total derivatives used for commercial mortgage banking activities | 4,606 | (23) | 2,720 | (21) |
| Total derivatives used for customer-related activities | 163,848 | 30 | 158,095 | (132) |
| Total derivatives used for other risk management activities | 1,813 | (357) | 4,289 | (327) |
| Total derivatives not designated as hedging instruments | $ 337,086 | $ 238 | $ 362,095 | $ 85 |
| Total Derivatives | $ 366,356 | $ 1,958 | $ 391,329 | $ 1,857 |

(a) Represents the net fair value of assets and liabilities.

# 2011 Versus 2010

## Consolidated Income Statement Review

### *Summary Results*

Net income for 2011 was $3.1 billion, or $5.64 per diluted common share, compared with $3.4 billion, or $5.74 per diluted common share, for 2010. The decrease from 2010 was primarily due to an $850 million, or 6%, reduction in total revenue, a $492 million, or 6%, increase in noninterest expense and the impact of the $328 million after-tax gain on the sale of GIS recognized in 2010, partially offset by a $1.3 billion, or 54%, decrease in the provision for credit losses in 2011. In addition, 2010 net income attributable to common shareholders was also impacted by a noncash reduction of $250 million in connection with the redemption of TARP preferred stock.

### *Net Interest Income*

Net interest income was $8.7 billion for 2011 down from $9.2 billion in 2010. The net interest margin decreased to 3.92% in 2011 compared with 4.14% for 2010, primarily due to the impact of lower purchase accounting accretion, a decline in the rate on average loan balances and the low interest rate environment partially offset by lower funding costs.

***Noninterest Income***

Noninterest income was $5.6 billion for 2011 and $5.9 billion for 2010. Noninterest income for 2011 reflected higher asset management fees and other income, higher residential mortgage banking revenue, and lower net other-than-temporary impairments (OTTI), that were offset by a decrease in corporate service fees primarily due to a reduction in the value of commercial mortgage servicing rights, lower service charges on deposits from the impact of Regulation E rules pertaining to overdraft fees, a decrease in net gains on sales of securities and lower consumer services fees due, in part, to a decline in interchange fees on individual debit card transactions in the fourth quarter partially offset by higher transaction volumes throughout 2011.

Asset management revenue, including BlackRock, increased $34 million to $1.1 billion in 2011 compared to 2010. The increase was driven by strong sales performance by our Asset Management Group and somewhat higher equity earnings from our BlackRock investment. Discretionary assets under management at December 31, 2011 totaled $107 billion compared with $108 billion at December 31, 2010.

For 2011, consumer services fees totaled $1.2 billion compared with $1.3 billion in 2010. The decrease was due to lower interchange rates on debit card transactions, lower brokerage related revenue, and lower ATM related fees, partially offset by higher volumes of customer-initiated transactions including debit and credit cards. The Dodd-Frank limits on interchange rates were effective October 1, 2011 and had a negative impact on revenues of approximately $75 million in the fourth quarter of 2011.

Corporate services revenue totaled $.9 billion in 2011 and $1.1 billion in 2010. Lower values of commercial mortgage servicing rights, largely driven by lower interest rates and higher loan prepayment rates, and lower special servicing fees drove the decline.

Residential mortgage revenue totaled $713 million in 2011 compared with $699 million in 2010. Higher loan sales revenue drove the comparison, largely offset by lower net hedging gains on mortgage servicing rights and lower servicing fees. Loan sales revenue included the impact of a decrease in the provision for residential mortgage repurchase reserves, which decreased to $102 million in 2011 compared to $120 million in 2010.

Service charges on deposits totaled $534 million for 2011 and $705 million for 2010. The decline resulted primarily from the impact of Regulation E rules pertaining to overdraft fees.

Net gains on sales of securities totaled $249 million in 2011 and $426 million for 2010. The net credit component of OTTI of securities recognized in earnings was a loss of $152 million in 2011, compared with a loss of $325 million in 2010.

Gains on BlackRock related transactions included a fourth quarter 2010 pretax gain of $160 million from our sale of 7.5 million BlackRock common shares as part of a BlackRock secondary common stock offering.

Other noninterest income totaled $1.1 billion for 2011 compared with $.9 billion for 2010.

***Provision For Credit Losses***

The provision for credit losses declined to $1.2 billion in 2011 compared with $2.5 billion for 2010 as overall credit quality continued to improve due to slowly improving economic conditions and actions we took to reduce exposure levels during 2011.

***Noninterest Expense***

Noninterest expense was $9.1 billion for 2011 and $8.6 billion for 2010. Noninterest expense for 2011 included $324 million of residential mortgage foreclosure-related expenses primarily as a result of ongoing governmental matters, a noncash charge of $198 million for the unamortized discount related to redemption of trust preferred securities, and $42 million for integration costs. The comparable amounts for 2010 were $71 million, zero and $387 million, respectively.

***Effective Income Tax Rate***

Our effective income tax rate was 24.5% for 2011 and 25.5% for 2010. The low effective tax rates were primarily attributable to the impact of tax-exempt income and tax credits.

**CONSOLIDATED BALANCE SHEET REVIEW**

***Loans***

Loans increased $8.4 billion, or 6%, to $159.0 billion as of December 31, 2011 compared with December 31, 2010. Growth in commercial loans of $10.5 billion, auto loans of $2.2 billion, and education loans of $.4 billion was partially offset by declines of $1.7 billion in commercial real estate loans, $1.5 billion of residential real estate loans and $1.1 billion of home equity loans compared with December 31, 2010. Commercial loans increased due to a combination of new client acquisition and improved utilization. Auto loans increased due to the expansion of sales force and product introduction to acquired markets, as well as overall increases in auto sales. Education loans increased due to portfolio purchases in 2011. Commercial and residential real estate along with home equity loans declined due to loan demand being outpaced by paydowns, refinancing, and charge-offs.

Average total loans decreased $1.8 billion or 1%, to $152.0 billion, in 2011 compared with 2010 primarily as loan growth during the second half of 2011 was offset by loan decreases during the first half of 2011. The decrease in average total loans primarily reflected declines in commercial real estate of $3.7 billion and residential real estate of $2.8 billion, partially offset by a $5.1 billion increase in commercial loans. Commercial real estate loans declined due to loan sales, paydowns, and charge-offs. The decrease in residential real estate was impacted by portfolio management activities, paydowns and net charge-offs. Commercial loans increased due to a combination of new client acquisition and improved utilization. Loans represented 68% of average interest-earning assets for 2011 and for 2010.

The total loan balance above includes purchased impaired loans of $6.7 billion, or 4% of total loans, at December 31, 2011, and $7.8 billion, or 5% of total loans, at December 31, 2010.

Loans represented 59% of total assets at December 31, 2011 and 57% at December 31, 2010. Commercial lending represented 56% of the loan portfolio at December 31, 2011 and 53% at December 31, 2010. Consumer lending represented 44% at December 31, 2011 and 47% at December 31, 2010. Commercial real estate loans represented 6% of total assets at December 31, 2011 and 7% of total assets at December 31, 2010.

***Investment Securities***

The carrying amount of investment securities totaled $60.6 billion at December 31, 2011, a decrease of $3.6 billion, or 6%, from $64.3 billion at December 31, 2010. The decline resulted from principal payments and net sales activity related to US Treasury and government agency and non-agency residential mortgage-backed securities. Investment securities represented 22% of total assets at December 31, 2011 and 24% of total assets at December 31, 2010.

Average investment securities increased $1.7 billion, to $59.7 billion, in 2011 compared with 2010. Average securities held to maturity increased $2.3 billion, to $9.4 billion, in 2011 compared to 2010. This increase was partially offset by the decrease in average securities available for sale of $.6 billion, to $50.3 billion, in 2011 compared with 2010. The increase in average securities held to maturity was primarily a result of transfers totaling $6.3 billion from securities available for sale to securities held to maturity during the second and third quarters of 2011. The transfers were completed in order to reduce the impact of price volatility on accumulated other comprehensive income and certain capital measures, and considered potential changes to regulatory capital requirements under the proposed Basel III capital standards.

At December 31, 2011, the securities available for sale portfolio included a net unrealized loss of $41 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 expected weighted-average life of investment securities (excluding corporate stocks and other) was 3.7 years at December 31, 2011 and 4.7 years at December 31, 2010.

***Loans Held For Sale***

Loans held for sale totaled $2.9 billion at December 31, 2011 compared with $3.5 billion at December 31, 2010. We stopped originating commercial mortgage loans held for sale designated at fair value in 2008 and have pursued opportunities to reduce these positions at appropriate prices. At December 31, 2011, the balance relating to these loans was $843 million, compared to $877 million at December 31, 2010. We sold $25 million in unpaid principal balances of these commercial mortgage loans held for sale carried at fair value in 2011 and sold $241 million in 2010.

We sold $2.4 billion of commercial mortgages held for sale carried at the lower of cost or market to government agencies in 2011 compared to $2.1 billion in 2010. The increase in these loans to $451 million at December 31, 2011, compared to $330 million at December 31, 2010, was due to an increase in loans awaiting sales to government agencies.

Residential mortgage loan origination volume was $11.4 billion in 2011. Substantially all such loans were originated under agency or FHA standards. We sold $11.9 billion of loans and recognized related gains of $282 million during 2011. The comparable amounts for 2010 were $10.0 billion and $231 million, respectively.

***Asset Quality***

Overall credit quality continued to improve during 2011. Nonperforming assets declined $967 million, or 19%, to $4.2 billion as of December 31, 2011 from December 31, 2010. Accruing loans past due increased $12 million, or less than 1%, during 2011 to $4.5 billion at year end primarily attributable to government insured or guaranteed loans. Net charge-offs declined significantly to $1.6 billion at December 31, 2011, down 44% from 2010 net charge-offs of $2.9 billion.

The ALLL was $4.3 billion, or 2.73% of total loans and 122% of nonperforming loans, as of December 31, 2011.

At December 31, 2011, our largest nonperforming asset was $28 million in the Accommodation and Food Services Industry and our average nonperforming loan associated with commercial lending was under $1 million.

***Goodwill and Other Intangible Assets***

Goodwill and other intangible assets totaled $10.1 billion at December 31, 2011 and $10.8 billion at December, 31, 2010. Goodwill increased $.1 billion, to $8.3 billion, at December 31, 2011 compared with the December 31, 2010 balance primarily due to the BankAtlantic and Flagstar branch acquisitions and the correction of amounts for an acquisition affecting prior periods. The $.7 billion decline in other intangible assets from December 31, 2010 included $.2 billion and $.4 billion declines in commercial and residential mortgage servicing rights, respectively.

***Funding Sources***

Total funding sources were $224.7 billion at December 31, 2011 and $222.9 billion at December 31, 2010.

Total deposits increased $4.6 billion, or 2%, at December 31, 2011 compared with December 31, 2010 due to an increase in money market and demand deposits, partially offset by net redemptions of retail certificates of deposit.

Average total deposits were $183.0 billion for 2011 compared with $181.9 billion for 2010. Average deposits remained essentially flat from 2010 primarily as a result of decreases of $8.9 billion in average retail certificates of deposit and $.8 billion in average time deposits in foreign offices and other time, which were offset by increases of $6.6 billion in average noninterest-bearing deposits, $2.5 billion in average interest-bearing demand deposits and $1.2 billion in average savings deposits.

Total borrowed funds decreased $2.8 billion to $36.7 billion at December 31, 2011 compared to December 31, 2010. The decline from December 31, 2010 was primarily due to maturities of federal funds purchased and repurchase agreements, bank notes and senior debt, and subordinated debt partially offset by issuances of FHLB borrowings and senior notes.

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Average borrowed funds were $35.7 billion for 2011 compared with $40.2 billion for 2010. Maturities of FHLB borrowings drove the decline compared to 2010.

***Shareholders Equity***

Total shareholders equity increased $3.8 billion, to $34.1 billion, at December 31, 2011 compared with December 31, 2010 and included the impact of the following:

- An increase of $2.4 billion to retained earnings,
- The third quarter 2011 issuance of $1.0 billion of preferred stock which contributed to the increase in capital surplus preferred stock from $.6 billion at December 31, 2010 to $1.6 billion at December 31, 2011, and
- A $.3 billion decline in accumulated other comprehensive loss primarily due to net unrealized gains on securities and cash flow hedge derivatives, offset by an increase in accumulated other comprehensive losses related to the change in the funded status of our pension and other postretirement benefit plans.

***Risk-Based Capital***

Regulatory capital ratios at December 31, 2011 were 10.3% for Tier 1 common, 11.1% for leverage, 12.6% for Tier 1 risk-based and 15.8% for total risk-based capital. At December 31, 2010, the regulatory capital ratios were 9.8% for Tier 1 common, 10.2% for leverage, 12.1% for Tier 1 risk-based and 15.6% for total risk-based capital. The Tier 1 common capital ratio increased when compared with December 31, 2010 due to the retention of earnings partially offset by higher risk-weighted assets primarily from loan growth. The increase in Tier 1 risk-based capital ratio resulted from the issuance of preferred stock in July 2011 and retention of earnings somewhat offset by the redemption of trust preferred securities in November 2011 and higher risk-weighted assets.

## Glossary Of Terms

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

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

Annualized Adjusted to reflect a full year of activity.

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

Basis point One hundredth of a percentage point.

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

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

Charge-off Process of removing a loan or portion of a loan from our balance sheet because it is considered uncollectible. We also record a charge-off when a loan is transferred from portfolio holdings to held for sale by reducing the loan carrying amount to the fair value of the loan, if fair value is less than carrying amount.

Combined loan-to-value ratio (CLTV) This is the aggregate principal balance(s) of the mortgages on a property divided by its appraised value or purchase price.

Commercial mortgage banking activities Includes commercial mortgage servicing, originating commercial mortgages for sale and related hedging activities. Commercial mortgage banking activities revenue includes 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).

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

Core net interest income Total net interest income less purchase accounting accretion.

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

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

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

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

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

Economic capital Represents the amount of resources that a business or business segment should hold to guard against potentially large losses that could cause insolvency and is based on a measurement of economic risk. The economic capital measurement process involves converting a risk distribution to the capital that is required to support the risk, consistent with our target credit rating. As such, economic risk serves as a common currency of risk that allows us to compare different risks on a similar basis.

Effective duration A measurement, expressed in years, that, when multiplied by a change in interest rates, would approximate the percentage change in value of on- and off- balance sheet positions.

Efficiency Noninterest expense divided by total revenue.

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

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

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

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

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

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

Home price index (HPI) A broad measure of the movement of single-family house prices in the U.S.

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

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

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

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

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

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

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

Loss given default (LGD)    An estimate of loss, net of recovery based on collateral type, collateral value, loan exposure, or the guarantor(s) quality and guaranty type (full or partial). Each loan has its own LGD. The LGD risk rating measures the percentage of exposure of a specific credit obligation that we expect to lose if default occurs. LGD is net of recovery, through either liquidation of collateral or deficiency judgments rendered from foreclosure or bankruptcy proceedings.

Net interest margin    Annualized taxable-equivalent net interest income divided by average earning assets.

Nonaccretable difference    Contractually required payments receivable on a purchased impaired loan in excess of the cash flows expected to be collected.

Nondiscretionary assets under administration    Assets we hold for our customers/clients in a non-discretionary, custodial capacity. We do not include these assets on our Consolidated Balance Sheet.

Nonperforming assets    Nonperforming assets include nonperforming loans and OREO and foreclosed assets, but exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under fair value option and purchased impaired loans. We do not accrue interest income on assets classified as nonperforming.

Nonperforming loans    Loans for which we do not accrue interest income. Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, home equity, residential real estate, credit card and other consumer customers as well as TDRs which have not returned to performing status. Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans. Nonperforming loans exclude purchased impaired loans as we are currently accreting interest income over the expected life of the loans.

Notional amount    A number of currency units, shares, or other units specified in a derivative contract.

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

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

Other real estate owned (OREO) and foreclosed assets    Assets taken in settlement of troubled loans primarily through deed-in-lieu of foreclosure or foreclosure. Foreclosed assets include real and personal property, equity interests in corporations, partnerships, and limited liability companies.

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

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

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

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

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

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

Purchase accounting accretion  Accretion of the discounts and premiums on acquired assets and liabilities. The purchase accounting accretion is recognized in net interest income over the weighted-average life of the financial instruments using the constant effective yield method. Accretion for purchased impaired loans includes any cash recoveries received in excess of the recorded investment.

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

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

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

Residential development loans  Project-specific loans to commercial customers for the construction or development of residential real estate including land, single family homes, condominiums and other residential properties.

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

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

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

Return on average common shareholders  equity  Annualized net income attributable to common shareholders, divided by average common shareholders  equity.

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

Securitization  The process of legally transforming financial assets into securities.

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

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

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

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

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

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

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

Total equity   Total shareholders   equity plus noncontrolling interests.

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

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

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

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

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

Value-at-risk (VaR)   A statistically-based measure of risk that describes the amount of potential loss which may be incurred due to severe and adverse market movements. The measure is of the maximum loss which should not be exceeded on 95 out of 100 days for a 95% VaR.

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

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

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# Cautionary Statement Regarding Forward-Looking Information

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

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

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

- Our businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:
  - Changes in interest rates and valuations in debt, equity and other financial markets.
  - Disruptions in the liquidity and other functioning of U.S. and global financial markets.
  - The impact on financial markets and the economy of any changes in the credit ratings of U.S. Treasury obligations and other U.S. government-backed debt, as well as issues surrounding the level of U.S. and European government debt and concerns regarding the creditworthiness of certain sovereign governments, supranationals and financial institutions in Europe.
  - Actions by Federal Reserve, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.
  - Changes in customers , suppliers and other counterparties performance and creditworthiness.
  - Slowing or failure of the current moderate economic expansion.
  - Continued effects of aftermath of recessionary conditions and uneven spread of positive impacts of recovery on the economy and our counterparties, including adverse impacts on levels of unemployment, loan utilization rates, delinquencies, defaults and counterparty ability to meet credit and other obligations.
  - Changes in customer preferences and behavior, whether due to changing business and economic conditions, legislative and regulatory initiatives, or other factors.
- Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than we are currently expecting. These statements are based on our current view that the moderate economic expansion will persist and interest rates will remain very low in 2013, despite drags from Federal fiscal restraint and a European recession. These forward-looking statements also do not, unless otherwise indicated, take into account the impact of potential legal and regulatory contingencies.
- PNC s regulatory capital ratios in the future will depend on, among other things, the company s financial performance, the scope and terms of final capital regulations then in effect (particularly those implementing the Basel Capital Accords), and management actions affecting the composition of PNC s balance sheet. In addition, PNC s ability to determine, evaluate and forecast regulatory capital ratios, and to take actions (such as capital distributions) based on actual or forecasted capital ratios, will be dependent on the ongoing development, validation and regulatory approval of related models.
- Legal and regulatory developments could have an impact on our ability to operate our businesses, financial condition, results of operations, competitive position, reputation, or pursuit of attractive acquisition opportunities. Reputational impacts could affect matters such as business generation and retention, liquidity, funding, and ability to attract and retain management. These developments could include:
  - Changes resulting from legislative and regulatory reforms, including major reform of the regulatory oversight structure of the financial services industry and changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other industry aspects, and changes in accounting policies and principles. We will be impacted by extensive reforms provided for in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) and otherwise growing out of the recent financial crisis, the precise nature, extent and timing of which, and their impact on us, remains uncertain.
  - Changes to regulations governing bank capital and liquidity standards, including due to the Dodd-Frank Act and to Basel-related initiatives.
  - Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. In addition to matters relating to PNC s business and activities, such matters may include proceedings, claims, investigations, or inquiries relating to pre-acquisition business and activities of acquired companies, such as National City. These matters may result in

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monetary judgments or settlements or other remedies, including fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to PNC.
Results of the regulatory examination and supervision process, including our failure to satisfy requirements of agreements with governmental agencies.
Impact on business and operating results of any costs associated with obtaining rights in intellectual property claimed by others and of adequacy of our intellectual property protection in general.

Business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through effective use of third-party insurance, derivatives, and capital management techniques, and to meet evolving regulatory capital standards. In particular, our results currently depend on our ability to manage elevated levels of impaired assets.
Business and operating results also include impacts relating to our equity interest in BlackRock, Inc. and rely to a significant extent on information provided to us by BlackRock. Risks and uncertainties that could affect BlackRock are discussed in more detail by BlackRock in its SEC filings.
Our 2012 acquisition of RBC Bank (USA) presents us with risks and uncertainties related to the integration of the acquired businesses into PNC, including:

Anticipated benefits of the transaction, including cost savings and strategic gains, may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events.
Our ability to achieve anticipated results from this transaction is dependent also on the extent of credit losses in the acquired loan portfolios and the extent of deposit attrition, in part related to the state of economic and financial markets. Also, litigation and regulatory and other governmental investigations that may be filed or commenced relating to the pre-acquisition business and activities of RBC Bank (USA) could impact the timing or realization of anticipated benefits to PNC.
Integration of RBC Bank (USA) s business and operations into PNC may take longer than anticipated or be substantially more costly than anticipated or have unanticipated adverse results relating to RBC Bank (USA) s or PNC s existing businesses. PNC s ability to integrate RBC Bank (USA) successfully may be adversely affected by the fact that this transaction results in PNC entering several geographic markets where PNC did not previously have any meaningful retail presence.

In addition to the RBC Bank (USA) transaction, we grow our business in part by acquiring from time to time other financial services companies, financial services assets and related deposits and other liabilities. These other acquisitions often present risks and uncertainties analogous to those presented by the RBC Bank (USA) transaction. Acquisition risks include those presented by the nature of the business acquired as well as risks and uncertainties related to the acquisition transactions themselves, regulatory issues, and the integration of the acquired businesses into PNC after closing.
Competition can have an impact on customer acquisition, growth and retention and on credit spreads and product pricing, which can affect market share, deposits and revenues. Industry restructuring in the current environment could also impact our business and financial performance through changes in counterparty creditworthiness and performance and in the competitive and regulatory landscape. Our ability to anticipate and respond to technological changes can also impact our ability to respond to customer needs and meet competitive demands.
Business and operating results can also be affected by widespread natural and other disasters, dislocations, terrorist activities or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically.

We provide greater detail regarding these as well as other factors elsewhere in this Report, including in the Risk Factors and Risk Management sections and the Legal Proceedings and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements in this Report. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

## ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is set forth in the Risk Management section of Item 7 and in Note 1 Accounting Policies, Note 9 Fair Value, and Note 17 Financial Derivatives in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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## ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of The PNC Financial Services Group, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of changes in equity, and of cash flows present fairly, in all material respects, the financial position of The PNC Financial Services Group, Inc. and its subsidiaries at December 31, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and

evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania

February 28, 2013

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## CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

| | Year ended December 31 | | |
|---|---|---|---|
| In millions, except per share data | 2012 | 2011 | 2010 |
| ***Interest Income*** | | | |
| Loans | $ 8,284 | $ 7,595 | $ 8,276 |
| Investment securities | 2,035 | 2,161 | 2,389 |
| Other | 415 | 438 | 485 |
| Total interest income | 10,734 | 10,194 | 11,150 |
| Interest Expense | | | |
| Deposits | 386 | 668 | 963 |
| Borrowed funds | 708 | 826 | 957 |
| Total interest expense | 1,094 | 1,494 | 1,920 |
| Net interest income | 9,640 | 8,700 | 9,230 |
| ***Noninterest Income*** | | | |
| Asset management | 1,169 | 1,088 | 1,054 |
| Consumer services | 1,136 | 1,243 | 1,261 |
| Corporate services | 1,166 | 898 | 1,082 |
| Residential mortgage | 284 | 713 | 699 |
| Service charges on deposits | 573 | 534 | 705 |
| Net gains on sales of securities | 204 | 249 | 426 |
| Other-than-temporary impairments | (79) | (420) | (608) |
| Less: Noncredit portion of other-than-temporary impairments (a) | 32 | (268) | (283) |
| Net other-than-temporary impairments | (111) | (152) | (325) |
| Gains on BlackRock transactions | | | 160 |
| Other | 1,451 | 1,053 | 884 |
| Total noninterest income | 5,872 | 5,626 | 5,946 |
| Total revenue | 15,512 | 14,326 | 15,176 |
| ***Provision For Credit Losses*** | 987 | 1,152 | 2,502 |
| ***Noninterest Expense*** | | | |
| Personnel | 4,617 | 3,966 | 3,906 |
| Occupancy | 827 | 738 | 730 |
| Equipment | 735 | 661 | 668 |
| Marketing | 279 | 249 | 266 |
| Other | 4,124 | 3,491 | 3,043 |
| Total noninterest expense | 10,582 | 9,105 | 8,613 |
| Income from continuing operations before income taxes and noncontrolling interests | 3,943 | 4,069 | 4,061 |
| Income taxes | 942 | 998 | 1,037 |
| Income from continuing operations before noncontrolling interests | 3,001 | 3,071 | 3,024 |
| Income from discontinued operations (net of income taxes of zero, zero, and $338) | | | 373 |
| Net income | 3,001 | 3,071 | 3,397 |
| Less: Net income (loss) attributable to noncontrolling interests | (12) | 15 | (15) |
| Preferred stock dividends | 177 | 56 | 146 |
| Preferred stock discount accretion and redemptions | 4 | 2 | 255 |
| Net income attributable to common shareholders | $ 2,832 | $ 2,998 | $ 3,011 |
| ***Earnings Per Common Share*** | | | |
| **From continuing operations** | | | |
| Basic | $ 5.36 | $ 5.70 | $ 5.08 |
| Diluted | $ 5.30 | $ 5.64 | $ 5.02 |
| **From net income** | | | |
| Basic | $ 5.36 | $ 5.70 | $ 5.80 |
| Diluted | $ 5.30 | $ 5.64 | $ 5.74 |
| ***Average Common Shares Outstanding*** | | | |

| | | | |
|---|---|---|---|
| Basic | 526 | 524 | 517 |
| Diluted | 529 | 526 | 520 |

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

See accompanying Notes To Consolidated Financial Statements.

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

THE PNC FINANCIAL SERVICES GROUP, INC.

| | Year ended December 31 | | |
|---|---|---|---|
| In millions | 2012 | 2011 | 2010 |
| ***Net income*** | $ 3,001 | $ 3,071 | 3,397 |
| ***Other comprehensive income, before tax and net of reclassifications into Net income:*** | | | |
| Net unrealized gains on non-OTTI securities | 760 | 948 | 1,357 |
| Net unrealized gains (losses) on OTTI securities | 971 | (145) | 275 |
| Net unrealized gains (losses) on cash flow hedge derivatives | (220) | 307 | 561 |
| Pension and other postretirement benefit plan adjustments | (35) | (593) | 260 |
| Other | 10 | (4) | (20) |
| ***Other comprehensive income, before tax and net of reclassifications into Net income*** | 1,486 | 513 | 2,433 |
| Income tax expense related to items of other comprehensive income | (547) | (187) | (902) |
| ***Other comprehensive income, after tax and net of reclassifications into Net income (a)*** | 939 | 326 | 1,531 |
| ***Comprehensive income*** | 3,940 | 3,397 | 4,928 |
| Less: Comprehensive income (loss) attributable to noncontrolling interests | (12) | 15 | (15) |
| ***Comprehensive income attributable to PNC*** | $ 3,952 | $ 3,382 | 4,943 |

(a) Other comprehensive income for 2010 also includes the cumulative effect of adopting ASU 2009-17 on Accumulated other comprehensive income.
See accompanying Notes To Consolidated Financial Statements.

## CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

| In millions, except par value | December 31 2012 | December 31 2011 |
|---|---|---|
| ***Assets*** | | |
| Cash and due from banks (includes $4 and $7 for VIEs) (a) | $ 5,220 | $ 4,105 |
| Federal funds sold and resale agreements (includes $256 and $732 measured at fair value) (b) | 1,463 | 2,205 |
| Trading securities | 2,096 | 2,513 |
| Interest-earning deposits with banks (includes $6 and $325 for VIEs) (a) | 3,984 | 1,169 |
| Loans held for sale (includes $2,868 and $2,258 measured at fair value) (b) | 3,693 | 2,936 |
| Investment securities (includes $9 and $109 for VIEs) (a) | 61,406 | 60,634 |
| Loans (includes $7,781 and $6,096 for VIEs) (includes $244 and $104 measured at fair value) (a) (b) | 185,856 | 159,014 |
| Allowance for loan and lease losses (includes $(75) and $(91) for VIEs) (a) | (4,036) | (4,347) |
| Net loans | 181,820 | 154,667 |
| Goodwill | 9,072 | 8,285 |
| Other intangible assets | 1,797 | 1,859 |
| Equity investments (includes $1,429 and $1,643 for VIEs) (a) | 10,877 | 10,134 |
| Other (includes $1,281 and $1,205 for VIEs) (includes $319 and $210 measured at fair value) (a) (b) | 23,679 | 22,698 |
| Total assets | $ 305,107 | $ 271,205 |
| ***Liabilities*** | | |
| Deposits | | |
| Noninterest-bearing | $ 69,980 | $ 59,048 |
| Interest-bearing | 143,162 | 128,918 |
| Total deposits | 213,142 | 187,966 |
| Borrowed funds | | |
| Federal funds purchased and repurchase agreements | 3,327 | 2,984 |
| Federal Home Loan Bank borrowings | 9,437 | 6,967 |
| Bank notes and senior debt | 10,429 | 11,793 |
| Subordinated debt | 7,299 | 8,321 |
| Commercial paper (includes $6,045 and $4,271 for VIEs) (a) | 8,453 | 4,271 |
| Other (includes $257 and $505 for VIEs) (a) | 1,962 | 2,368 |
| Total borrowed funds | 40,907 | 36,704 |
| Allowance for unfunded loan commitments and letters of credit | 250 | 240 |
| Accrued expenses (includes $132 and $155 for VIEs) (a) | 4,449 | 4,175 |
| Other (includes $976 and $734 for VIEs) (a) | 4,594 | 4,874 |
| Total liabilities | 263,342 | 233,959 |
| ***Equity*** | | |
| Preferred stock (c) | | |
| Common stock ($5 par value, authorized 800 shares, issued 538 and 537 shares) | 2,690 | 2,683 |
| Capital surplus preferred stock | 3,590 | 1,637 |
| Capital surplus common stock and other | 12,193 | 12,072 |
| Retained earnings | 20,265 | 18,253 |
| Accumulated other comprehensive income (loss) | 834 | (105) |
| Common stock held in treasury at cost: 10 and 10 shares | (569) | (487) |
| Total shareholders equity | 39,003 | 34,053 |
| Noncontrolling interests | 2,762 | 3,193 |
| Total equity | 41,765 | 37,246 |
| Total liabilities and equity | $ 305,107 | $ 271,205 |

(a) Amounts represent the assets or liabilities of consolidated variable interest entities (VIEs).
(b) Amounts represent items for which the Corporation has elected the fair value option.
(c) Par value less than $.5 million at each date.
See accompanying Notes To Consolidated Financial Statements.

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## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

THE PNC FINANCIAL SERVICES GROUP, INC.

| | Shareholders Equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| In millions | Shares Outstanding Common Stock | Common Stock | Capital Surplus - Preferred Stock | Capital Surplus - Common Stock and Other | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Noncontrolling Interests | Total Equity |
| Balance at December 31, 2009 (a) | 462 | $ 2,354 | $ 7,974 | $ 8,945 | $ 13,144 | $ (1,962) | $ (513) | $ 2,625 | $ 32,567 |
| Cumulative effect of adopting ASU 2009-17 | | | | | (92) | (13) | | | (105) |
| Balance at January 1, 2010 | 462 | $ 2,354 | $ 7,974 | $ 8,945 | $ 13,052 | $ (1,975) | $ (513) | $ 2,625 | $ 32,462 |
| Net income (loss) | | | | | 3,412 | | | (15) | 3,397 |
| Other comprehensive income (loss), net of tax | | | | | | 1,544 | | | 1,544 |
| Cash dividends declared | | | | | | | | | |
| Common | | | | | (204) | | | | (204) |
| Preferred | | | | | (146) | | | | (146) |
| Redemption of preferred stock and noncontrolling interest Series N (TARP) | | | (7,579) | | | | | | (7,579) |
| Preferred stock discount accretion | | | 252 | | (252) | | | | |
| Other | | | | (1) | (3) | | | | (4) |
| Common stock activity (b) | 65 | 328 | | 3,113 | | | | | 3,441 |
| Treasury stock activity | (1) | | | (62) | | | (59) | | (121) |
| Other | | | | 62 | | | | (14) | 48 |
| Balance at December 31, 2010 (a) | 526 | $ 2,682 | $ 647 | $ 12,057 | $ 15,859 | $ (431) | $ (572) | $ 2,596 | $ 32,838 |
| Net income | | | | | 3,056 | | | 15 | 3,071 |
| Other comprehensive income (loss), net of tax | | | | | | 326 | | | 326 |
| Cash dividends declared | | | | | | | | | |
| Common | | | | | (604) | | | | (604) |
| Preferred | | | | | (56) | | | | (56) |
| Preferred stock discount accretion | | | 2 | | (2) | | | | |
| Common stock activity | 1 | 1 | | 10 | | | | | 11 |
| Treasury stock activity (c) | | | | (36) | | | 85 | | 49 |
| Preferred stock issuance Series O (d) | | | 988 | | | | | | 988 |
| Other | | | | 41 | | | | 582 | 623 |
| Balance at December 31, 2011 (a) | 527 | $ 2,683 | $ 1,637 | $ 12,072 | $ 18,253 | $ (105) | $ (487) | $ 3,193 | $ 37,246 |
| Net income | | | | | 3,013 | | | (12) | 3,001 |
| Other comprehensive income (loss), net of tax | | | | | | 939 | | | 939 |
| Cash dividends declared | | | | | | | | | |
| Common | | | | | (820) | | | | (820) |
| Preferred | | | | | (177) | | | | (177) |
| Preferred stock discount accretion | | | 4 | | (4) | | | | |
| Common stock activity | 1 | 7 | | 45 | | | | | 52 |
| Treasury stock activity (c) | | | | 51 | | | (82) | | (31) |
| Preferred stock issuance Series P (e) | | | 1,482 | | | | | | 1,482 |
| Preferred stock issuance Series Q (f) | | | 467 | | | | | | 467 |
| Other | | | | 25 | | | | (419) | (394) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2012 (a) (g) | 528 | $ 2,690 | $ 3,590 | $ 12,193 | $ 20,265 | $ 834 | $ (569) | $ 2,762 | $ 41,765 |

(a) The par value of our preferred stock outstanding was less than $.5 million at each date and, therefore, is excluded from this presentation.
(b) Includes 63.9 million common shares issuance, the net proceeds of which were used together with other available funds to redeem the Series N (TARP) Preferred Stock, for a $3.4 billion net increase in total equity.
(c) Net treasury stock activity totaled less than .5 million shares issued or redeemed.
(d) 10,000 Series O preferred shares with a $1 par value were issued on July 20, 2011.
(e) 15,000 Series P preferred shares with a $1 par value were issued on April 24, 2012.
(f) 4,500 Series Q preferred shares with a $1 par value were issued on September 21, 2012 and 300 shares were issued on October 9, 2012.
(g) 5,001 Series M preferred shares with a $1 par value were issued and redeemed on December 10, 2012.

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## CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

| | Year ended December 31 | | |
|---|---|---|---|
| In millions | 2012 | 2011 | 2010 |
| ***Operating Activities*** | | | |
| Net income | $ 3,001 | $ 3,071 | $ 3,397 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities | | | |
| Provision for credit losses | 987 | 1,152 | 2,502 |
| Depreciation and amortization | 1,159 | 1,140 | 1,059 |
| Deferred income taxes | 570 | 840 | 1,019 |
| Net gains on sales of securities | (204) | (249) | (426) |
| Net other-than-temporary impairments | 111 | 152 | 325 |
| Charge for goodwill impairment | 45 | | |
| Gains on sales of Visa Class B common shares | (267) | | |
| Mortgage servicing rights valuation adjustment | 284 | 726 | 434 |
| Gain on sale of PNC Global Investment Servicing | | | (639) |
| Gains on BlackRock transactions | | | (160) |
| Noncash charges on trust preferred securities redemptions | 295 | 198 | |
| Undistributed earnings of BlackRock | (302) | (262) | (291) |
| Net change in | | | |
| Trading securities and other short-term investments | 1,350 | 330 | 468 |
| Loans held for sale | (1,125) | 77 | (1,154) |
| Other assets | 1,928 | (4,142) | 753 |
| Accrued expenses and other liabilities | (697) | 3,330 | (1,571) |
| Other | (308) | (328) | (904) |
| Net cash provided (used) by operating activities | 6,827 | 6,035 | 4,812 |
| ***Investing Activities*** | | | |
| Sales | | | |
| Securities available for sale | 9,358 | 20,533 | 23,343 |
| BlackRock stock via secondary common stock offering | | | 1,198 |
| Loans | 1,611 | 1,770 | 1,868 |
| Repayments/maturities | | | |
| Securities available for sale | 9,195 | 6,074 | 7,730 |
| Securities held to maturity | 3,174 | 2,859 | 2,433 |
| Purchases | | | |
| Securities available for sale | (17,164) | (25,551) | (36,653) |
| Securities held to maturity | (1,479) | (1,607) | (1,296) |
| Loans | (1,796) | (2,401) | (4,275) |
| Net change in | | | |
| Federal funds sold and resale agreements | 732 | 1,487 | (1,313) |
| Interest-earning deposits with banks | (2,526) | 441 | 2,684 |
| Loans | (14,333) | (10,224) | 7,855 |
| Net cash received from (paid for) acquisition and divestiture activity | (4,130) | 430 | 2,202 |
| Purchases of corporate and bank owned life insurance | | (200) | (800) |
| Other (a) | 97 | (160) | 753 |
| Net cash provided (used) by investing activities | (17,261) | (6,549) | 5,729 |

(continued on following page)

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## CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

(continued from previous page)

| | Year ended December 31 | | |
|---|---|---|---|
| In millions | 2012 | 2011 | 2010 |
| ***Financing Activities*** | | | |
| Net change in | | | |
| Noninterest-bearing deposits | $ 7,149 | $ 8,909 | $ 5,872 |
| Interest-bearing deposits | 902 | (4,863) | (8,844) |
| Federal funds purchased and repurchase agreements | (2) | (1,151) | 152 |
| Federal Home Loan borrowings | (1,000) | 1,000 | (280) |
| Commercial paper | 4,762 | 227 | 1,929 |
| Other borrowed funds | (279) | (789) | (1,549) |
| Sales/issuances | | | |
| Federal Home Loan borrowings | 13,000 | 1,000 | |
| Bank notes and senior debt | 2,093 | 1,244 | 3,230 |
| Subordinated debt | 995 | | |
| Commercial paper | 16,480 | 9,565 | 4,424 |
| Other borrowed funds | 1,011 | 460 | 396 |
| Preferred stock | 2,449 | 988 | |
| Common and treasury stock | 158 | 72 | 3,486 |
| Repayments/maturities | | | |
| Federal Home Loan borrowings | (10,500) | (1,076) | (4,373) |
| Bank notes and senior debt | (4,037) | (2,612) | (2,808) |
| Subordinated debt | (1,769) | (1,942) | (257) |
| Commercial paper | (17,060) | (8,236) | (3,638) |
| Other borrowed funds | (1,090) | (741) | (1,039) |
| Preferred stock TARP | | | (7,579) |
| Redemption of noncontrolling interest and other preferred stock | (500) | | (100) |
| Acquisition of treasury stock | (216) | (73) | (204) |
| Preferred stock cash dividends paid | (177) | (56) | (146) |
| Common stock cash dividends paid | (820) | (604) | (204) |
| Net cash provided (used) by financing activities | 11,549 | 1,322 | (11,532) |
| ***Net Increase (Decrease) In Cash And Due From Banks*** | 1,115 | 808 | (991) |
| Cash and due from banks at beginning of period | 4,105 | 3,297 | 4,288 |
| Cash and due from banks at end of period | $ 5,220 | $ 4,105 | $ 3,297 |
| ***Supplemental Disclosures*** | | | |
| Interest paid | $ 1,208 | $ 1,517 | $ 1,871 |
| Income taxes paid | 39 | 842 | 752 |
| Income taxes refunded | 16 | 41 | 54 |
| ***Non-cash Investing and Financing Items*** | | | |
| Transfer from (to) loans to (from) loans held for sale, net | 665 | 926 | 890 |
| Transfer from loans to foreclosed assets | 1,042 | 822 | 1,218 |
| Exchange of junior subordinated debentures for senior notes | 500 | | |

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

See accompanying Notes To Consolidated Financial Statements.

# Notes To Consolidated Financial Statements

The PNC Financial Services Group, Inc.

***Business***

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

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

## Note 1 Accounting Policies

**Basis Of Financial Statement Presentation**

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

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform to the 2012 presentation. These reclassifications did not have a material impact on our consolidated financial condition or results of operations. We evaluate the materiality of identified errors in the financial statements using both an income statement and a balance sheet approach, based on relevant quantitative and qualitative factors. Net income includes certain adjustments to correct immaterial errors related to previously reported periods.

As described in Note 2 Acquisition and Divestiture Activity, on March 2, 2012, PNC acquired 100% of the issued and outstanding common stock of RBC Bank (USA), the US retail banking subsidiary of Royal Bank of Canada. As part of the acquisition, PNC also purchased a credit card portfolio from RBC Bank (Georgia), National Association. The transactions added approximately $18.1 billion of deposits and $14.5 billion of loans to PNC s Consolidated Balance Sheet. In addition, see discussion of the July 1, 2010 sale of PNC Global Investment Servicing Inc. The Consolidated Income Statement and related Notes To Consolidated Financial Statements reflect the global investment servicing business as discontinued operations for 2010.

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

***Use Of Estimates***

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

***Investment In BlackRock, Inc.***

We account for our investment in the common stock and Series B Preferred Stock of BlackRock (deemed to be in-substance common stock) under the equity method of accounting. In May 2012, we exchanged 2 million shares of Series B Preferred Stock of BlackRock for an equal number of shares of BlackRock common stock. The exchange transaction had no impact on the carrying value of our investment in BlackRock or our use of the equity method of accounting. The investment in BlackRock is reflected on our Consolidated Balance Sheet in Equity investments, while our equity in earnings of BlackRock is reported on our Consolidated Income Statement in Asset management revenue.

As described in Note 16 Stock Based Compensation Plans, we also hold shares of BlackRock Series C Preferred Stock pursuant to our obligation to partially fund a portion of certain BlackRock long-term incentive plan (LTIP) programs. Since these preferred shares are not deemed to be in substance common stock, we have elected to account for these preferred shares at fair value and the changes in fair value will offset the impact of marking-to-market the obligation to deliver these shares to BlackRock. Our investment in the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in Other assets. Our obligation to transfer these shares to BlackRock is classified as a derivative not designated as a hedging instrument under GAAP as disclosed in Note 17 Financial Derivatives.

In September 2011, we delivered approximately 1.3 million shares of the BlackRock Series C Preferred Stock to BlackRock in connection with our obligation.

On January 31, 2013, we transferred an additional 205,350 shares to BlackRock in connection with our obligation. After this transfer, we hold approximately 1.3 million shares of BlackRock Series C Preferred Stock which are available to fund our obligation in connection with the BlackRock LTIP programs.

*BUSINESS COMBINATIONS*

We record the net assets of companies that we acquire at their estimated fair value at the date of acquisition and we include the results of operations of the acquired companies on our Consolidated Income Statement from the date of acquisition. We recognize, as goodwill, the excess of the acquisition price over the estimated fair value of the net assets acquired.

*SPECIAL PURPOSE ENTITIES*

Special purpose entities (SPEs) are defined as legal entities structured for a particular purpose. We use special purpose entities in various legal forms to conduct normal business activities. We review the structure and activities of special purpose entities for possible consolidation under the applicable GAAP guidance.

A variable interest entity (VIE) is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets that either:

- Does not have equity investors with voting rights that can directly or indirectly make decisions about the entity s activities through those voting rights or similar rights, or
- Has equity investors that do not provide sufficient equity for the entity to finance its activities without additional subordinated financial support.

A VIE often holds financial assets, including loans or receivables, real estate or other property.

VIEs are assessed for consolidation under ASC 810 Consolidations when we hold a variable interest in these entities. We consolidate a VIE if we are its primary beneficiary. The primary beneficiary of a VIE is determined to be the party that meets both of the following criteria: (i) has the power to make decisions that most significantly affect the economic performance of the VIE; and (ii) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Upon consolidation of a VIE, we recognize all of the VIE s assets, liabilities and noncontrolling interests on our Consolidated Balance Sheet. See Note 3 Loan Sale and Servicing Activities and Variable Interest Entities for information about VIEs that we do not consolidate but in which we hold a significant variable interest.

On January 1, 2010, we adopted Accounting Standard Update (ASU) 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.* This guidance replaces previous guidance by requiring an enterprise to perform a qualitative analysis as opposed to a quantitative analysis to determine if it is the primary beneficiary of a VIE. The qualitative analysis considers the purpose and the design of the VIE as well as the risks that the VIE was designed to either create or pass through to variable interest holders. This guidance also

removed the former scope exception for qualifying special-purpose entities, contained new criteria for determining the primary beneficiary of a VIE, and increased the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. As a result of the adoption of ASU 2009-17, we consolidated Market Street Funding LLC (Market Street), a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments.

*REVENUE RECOGNITION*

We earn interest and noninterest income from various sources, including:

- Lending,
- Securities portfolio,
- Asset management,
- Customer deposits,
- Loan sales and servicing,
- Brokerage services,
- Sale of loans and securities,
- Certain private equity activities, and
- Securities and derivatives trading activities, including foreign exchange.

We earn fees and commissions from:

- Issuing loan commitments, standby letters of credit and financial guarantees,
- Selling various insurance products,

- Providing treasury management services,
- Providing merger and acquisition advisory and related services, and
- Participating in certain capital markets transactions.

Revenue earned on interest-earning assets including unearned income and the amortization/accretion of premiums or discounts recognized on acquired loans is recognized based on the constant effective yield of the financial instrument, or based on other applicable accounting guidance.

Asset management fees are generally based on a percentage of the fair value of the assets under management. The caption Asset management also includes our share of the earnings of BlackRock recognized under the equity method of accounting. This caption also includes any performance fees which are generally based on a percentage of the returns on such assets and are recorded as earned.

Service charges on deposit accounts are recognized when earned. Brokerage fees and gains and losses on the sale of securities and certain derivatives are recognized on a trade-date basis.

We record private equity income or loss based on changes in the valuation of the underlying investments or when we dispose of our interest.

We recognize gain/(loss) on changes in the fair value of certain financial instruments where we have elected the fair value option. These financial instruments include certain commercial and residential mortgage loans originated for sale, certain residential mortgage portfolio loans, resale agreements and our investment in BlackRock Series C preferred stock. We also recognize gain/(loss) on changes in the fair value of residential mortgage servicing rights (MSRs), which are measured at fair value.

We recognize revenue from servicing residential mortgages, commercial mortgages and other consumer loans as earned based on the specific contractual terms. These revenues, as well as impairment on servicing rights, are reported on the Consolidated Income Statement in the line items Residential mortgage, Corporate services and Consumer services. We recognize revenue from securities, derivatives and foreign exchange trading, as well as securities underwriting activities, as these transactions occur or as services are provided. We recognize gains from the sale of loans upon receipt of cash.

When appropriate, revenue is reported net of associated expenses in accordance with GAAP.

***Cash And Cash Equivalents***

Cash and due from banks are considered cash and cash equivalents for financial reporting purposes.

***Investments***

We hold interests in various types of investments. The accounting for these investments is dependent on a number of factors including, but not limited to, items such as:

- Ownership interest,
- Our plans for the investment, and
- The nature of the investment.

***Debt Securities***

Debt securities are recorded on a trade-date basis. We classify debt securities as held to maturity and carry them at amortized cost if we have the positive intent and ability to hold the securities to maturity. Debt securities that we purchase for short-term appreciation, trading purposes or those with non-bifurcated embedded derivatives are carried at fair value and classified as Trading securities on our Consolidated Balance Sheet. Realized and unrealized gains and losses on trading securities are included in Other noninterest income.

Debt securities not classified as held to maturity or trading are designated as securities available for sale and carried at fair value with unrealized gains and losses, net of income taxes, reflected in Accumulated other comprehensive income (loss).

On at least a quarterly basis, we review all debt securities that are in an unrealized loss position for other than temporary impairment (OTTI). An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, previous other-than-temporary impairments and

hedging gains and losses. After an investment security is determined to be impaired, we evaluate whether the decline in value is other-than-temporary. As part of this evaluation, we take into consideration whether we intend to sell the security or whether it is more likely than not that we will be required to sell the security before expected recovery of its amortized cost. We also consider whether or not we expect to receive all of the contractual cash flows from the investment based on factors that include, but are not limited to: the creditworthiness of the issuer and, in the case of securities collateralized by consumer and commercial loan assets, the historical and projected performance of the underlying collateral. In addition, we may also evaluate the business and financial outlook of the issuer, as well as broader industry and sector performance indicators. Declines in the fair value of available for sale debt securities that are deemed other-than-temporary and are attributable to credit deterioration are recognized on our Consolidated Income Statement in the period in which the determination is made. Declines in fair value which are deemed other-than-temporary and attributable to factors other than credit deterioration are recognized in Accumulated other comprehensive income (loss) on our Consolidated Balance Sheet.

We include all interest on debt securities, including amortization of premiums and accretion of discounts on investment securities, in net interest income using the constant effective yield method. Effective yields reflect either the effective interest rate implicit in the security at the date of acquisition or the effective interest rate determined based on significantly improved cash flows subsequent to impairment. We compute gains and losses realized on the sale of available for sale debt securities on a specific security basis. These securities gains/(losses) are included in the caption Net gains on sales of securities on the Consolidated Income Statement.

In certain situations, management may elect to transfer certain debt securities from the securities available for sale to the held to maturity classification. In such cases, any unrealized gain or loss included in Accumulated other comprehensive income (loss) at the time of transfer is amortized over the remaining life of the security as a yield adjustment such that only the remaining initial discount/premium from the purchase date is recognized in income.

***Equity Securities and Partnership Interests***

We account for equity securities and equity investments other than BlackRock and private equity investments under one of the following methods:

Marketable equity securities are recorded on a trade-date basis and are accounted for based on the securities quoted market prices from a national securities exchange. Those purchased with the intention of recognizing short-term profits are classified as trading and included in trading securities on our Consolidated Balance Sheet. Both realized and unrealized gains and losses on trading securities are included in Noninterest income. Marketable equity securities not classified as trading are designated as securities available for sale with unrealized gains and losses, net of income taxes, reflected in Accumulated other comprehensive income (loss). Any unrealized losses that we have determined to be other-than-temporary on securities classified as available for sale are recognized in current period earnings.

For investments in limited partnerships, limited liability companies and other investments that are not required to be consolidated, we use either the equity method or the cost method of accounting. We use the equity method for general and limited partner ownership interests and limited liability companies in which we are considered to have significant influence over the operations of the investee and when the net asset value of our investment reflects our economic interest in the underlying investment. Under the equity method, we record our equity ownership share of net income or loss of the investee in Noninterest income. We use the cost method for all other investments. Under the cost method, there is no change to the cost basis unless there is an other-than-temporary decline in value or dividends are received. If the decline is determined to be other-than-temporary, we write down the cost basis of the investment to a new cost basis that represents realizable value. The amount of the write-down is accounted for as a loss included in Other noninterest income. Distributions received from the income of an investee on cost method investments are included in Noninterest income. Investments described above are included in the caption Equity investments on the Consolidated Balance Sheet.

***PRIVATE EQUITY INVESTMENTS***

We report private equity investments, which include direct investments in companies, affiliated partnership interests and indirect investments in private equity funds, at estimated fair value. These estimates are based on available information and may not necessarily represent amounts that we will ultimately realize through distribution, sale or liquidation of the investments. Fair value of publicly traded direct investments are determined using quoted market prices and are subject to various discount factors for legal or contractual sales restrictions, when appropriate. The valuation procedures applied to direct investments in private companies include techniques such as multiples of adjusted earnings of the entity, independent appraisals, anticipated financing and sale transactions with third parties, or the pricing used to value the entity in a recent financing transaction. We value affiliated partnership interests based on the underlying investments of the partnership using procedures consistent with those applied to direct investments. We value indirect investments in private equity funds based on net asset value as provided in the

financial statements that we receive from their managers. Due to the time lag in our receipt of the financial information and based on a review of investments and valuation techniques applied, adjustments to the manager-provided values are made when available recent portfolio company information or market information indicates significant changes in value from that provided by the manager of the fund. We include all private equity investments on the Consolidated Balance Sheet in the caption Equity investments. Changes in the fair value of private equity investments are recognized in noninterest income.

We consolidate affiliated partnerships when we are the general partner and have determined that we have control of the partnership or are the primary beneficiary if the entity is a VIE. The portion we do not own is reflected in the caption Noncontrolling interests on the Consolidated Balance Sheet.

***LOANS***

Loans are classified as held for investment when management has both the intent and ability to hold the loan for the foreseeable future, or until maturity or payoff. Management s intent and view of the foreseeable future may change based on changes in business strategies, the economic environment, market conditions and the availability of government programs.

Measurement of delinquency status is based on the contractual terms of each loan. Loans that are 30 days or more past due in terms of payment are considered delinquent.

Except as described below, loans held for investment are stated at the principal amounts outstanding, net of unearned income, unamortized deferred fees and costs on originated loans, and premiums or discounts on purchased loans. Interest on performing loans (excluding purchased impaired loans, which is further discussed below) is accrued based on the principal amount outstanding and recorded in interest income as earned using the constant effective yield method. Loan origination fees, direct loan origination costs, and loan premiums and discounts are deferred and accreted or amortized into net interest income, over periods not exceeding the contractual life of the loan.

When loans are redesignated from held for investment to held for sale, specific reserves and allocated pooled reserves included in the allowance for loan and lease losses (ALLL) are charged-off to reduce the basis of the loans to the lower of cost or estimated fair value less cost to sell.

In addition to originating loans, we also acquire loans through portfolio purchases or acquisitions of other financial services companies. For certain acquired loans that have experienced a deterioration of credit quality, we follow the guidance contained in ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality. Under this guidance, acquired purchased impaired loans are to be recorded at fair value without the carryover of any existing valuation allowances. Evidence of credit quality deterioration may include information and statistics regarding bankruptcy events, updated borrower credit scores, such as Fair Isaac Corporation scores (FICO), past due status, and updated loan-to-value (LTV) ratios. We review the loans acquired for evidence of credit quality deterioration and determine if it is probable that we will be unable to collect all contractual amounts due, including both principal and interest. When both conditions exist, we estimate the amount and timing of undiscounted expected cash flows at acquisition for each loan either individually or on a pool basis. We estimate the cash flows expected to be collected using internal models that incorporate management s best estimate of current key assumptions, such as default rates, loss severity and payment speeds. Collateral values are also incorporated into cash flow estimates. Late fees, which are contractual but not expected to be collected, are excluded from expected future cash flows.

The accretable yield is calculated based upon the difference between the undiscounted expected future cash flows of the loans and the recorded investment in the loans. This amount is accreted into income over the life of the loan or pool using the constant effective yield method. Subsequent decreases in expected cash flows that are attributable, at least in part, to credit quality are recognized as impairments through a charge to the provision for credit losses resulting in an increase in the ALLL. Subsequent increases in expected cash flows are recognized as a recovery of previously recorded ALLL or prospectively through an adjustment of the loan s or pool s yield over its remaining life.

The nonaccretable yield represents the difference between the expected undiscounted cash flows of the loans and the total contractual cash flows (including principal and future interest payments) at acquisition and throughout the remaining lives of the loans.

*LEASES*

We provide financing for various types of equipment including aircraft, energy and power systems and vehicles through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property, less unearned income. Leveraged leases, a form of financing lease, are carried net of nonrecourse debt. We recognize income over the term of the lease using the constant effective yield method. Lease residual values are reviewed for other-than-temporary impairment at least annually. Gains or losses on the sale of leased assets are included in Other noninterest income while valuation adjustments on lease residuals are included in Other noninterest expense.

*LOAN SALES, LOAN SECURITIZATIONS AND RETAINED INTERESTS*

We recognize the sale of loans or other financial assets when the transferred assets are legally isolated from our creditors and the appropriate accounting criteria are met. We have sold mortgage, credit card and other loans through securitization transactions. In a securitization, financial assets are transferred into trusts or to SPEs in transactions to effectively legally isolate the assets from PNC. Where the transferor is a depository institution, legal isolation is accomplished through compliance with specific rules and regulations of the relevant regulatory authorities. Where the transferor is not a depository institution, legal isolation is accomplished through utilization of a two-step securitization structure.

ASC Topic 860 Accounting For Transfers of Financial Assets requires a true sale legal analysis to address several relevant factors, such as the nature and level of recourse to the transferor, and the amount and nature of retained interests in the loans sold. The analytical conclusion as to a true sale is never absolute and unconditional, but contains qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law, or powers of the FDIC as a conservator or receiver. Once the legal isolation test has been met, other factors concerning the nature and extent of the transferor s control and the rights of the transferee over the transferred assets are taken into account in order to determine whether derecognition of assets is warranted.

In a securitization, the trust or SPE issues beneficial interests in the form of senior and subordinated securities backed or collateralized by the assets sold to the trust. The senior classes of the asset-backed securities typically receive investment grade credit ratings at the time of issuance. These ratings are generally achieved through the creation of lower-rated subordinated classes of asset-backed securities, as well as subordinated or residual interests. In certain cases, we may retain a portion or all of the securities issued, interest-only strips, one or more subordinated tranches, servicing rights and, in some cases, cash reserve accounts. Securitized loans are removed from the balance sheet and a net gain or loss is recognized in noninterest income at the time of initial sale. Gains or losses recognized on the sale of the loans depend on the fair value of the loans sold and the retained interests at the date of sale. We generally estimate the fair value of the retained interests based on the present value of future expected cash flows using assumptions as to discount rates, interest rates, prepayment speeds, credit losses and servicing costs, if applicable.

With the exception of loan sales to certain US government chartered entities, our loan sales and securitizations are generally structured without recourse to us except for representations and warranties and with no restrictions on the retained interests. We originate, sell and service mortgage

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loans under the Federal National Mortgage Association (FNMA) Delegated Underwriting and Servicing (DUS) program. Under the provisions of the DUS program, we participate in a loss-sharing arrangement with FNMA. We participated in a similar program with the Federal Home Loan Mortgage Corporation (FHLMC). When we are obligated for loss-sharing or recourse, our policy is to record such liabilities initially at fair value and subsequently reserve for estimated losses in accordance with guidance contained in applicable GAAP. Refer to Note 24 Commitments and Guarantees for more information about our obligations related to sales of loans under these programs.

On January 1, 2010, we adopted ASU 2009-16 *Transfers and Servicing (Topic 860): Accounting For Transfers of Financial Assets*. This guidance removed the concept of a qualifying special-purpose entity under previous GAAP. The guidance further clarified that an entity must consider all arrangements or agreements made contemporaneously with or in contemplation of a transfer even if not entered into at the time of the transfer when applying surrender of control conditions. Additionally, this guidance established conditions for accounting and reporting for transfer of a portion of a financial asset, modified the asset sale/derecognition criteria, and changed how retained interests are initially measured.

***Loans Held For Sale***

We designate loans as held for sale when we have the intent to sell them. We transfer loans to the Loans held for sale category at the lower of cost or estimated fair value less cost to sell. At the time of transfer, write-downs on the loans are recorded as charge-offs. We establish a new cost basis upon transfer. Any subsequent lower-of-cost-or-market adjustment is determined on an individual loan basis and is recognized as a valuation allowance with any charges included in Other noninterest income. Gains or losses on the sale of these loans are included in Other noninterest income when realized.

We have elected to account for certain commercial mortgage loans held for sale at fair value. The changes in the fair value of these loans are measured and recorded in Other noninterest income each period. See Note 9 Fair Value for additional information. Also, we elected to account for residential real estate loans held for sale, which were not purchased impaired loans, at fair value.

Interest income with respect to loans held for sale classified as performing is accrued based on the principal amount outstanding and the loan s contractual interest rate.

In certain circumstances, loans designated as held for sale may be transferred to held for investment based on a change in strategy. We transfer these loans at the lower of cost or estimated fair value; however, any loans held for sale and designated at fair value will remain at fair value for the life of the loan.

***Nonperforming Assets***

Nonperforming assets include nonaccrual loans and leases, including nonperforming troubled debt restructurings (TDRs) and other real estate owned and foreclosed assets.

Nonperforming loans are those loans that have deteriorated in credit quality to the extent that full collection of contractual principal and interest is not probable. When a loan is determined to be nonperforming (and as a result is impaired), the accrual of interest is ceased and the loan is classified as nonaccrual. The current year accrued and uncollected interest is reversed out of net interest income.

Additionally, any prior year accrued and uncollected interest is charged-off.

A loan acquired and accounted for under ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality is reported as an accruing loan and a performing asset due to the accretion of interest income.

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

- Deterioration in the financial position of the borrower resulting in the loan moving from accrual to cash basis accounting,
- The collection of principal or interest is 90 days or more past due unless the asset is well-secured and/or in the process of collection,
- Reasonable doubt exists as to the certainty of the borrower s future debt service ability, whether 90 days have passed or not,

- The borrower has filed or will likely file for bankruptcy,
- The bank advances additional funds to cover principal or interest,
- We are in the process of liquidating the assets of a commercial borrower, or
- We are pursuing remedies under a guarantee.

We charge-off commercial nonaccrual loans when we determine that a specific loan, or portion thereof, is uncollectible. This determination is based on the specific facts and circumstances of the individual loan. In making this determination, we consider the viability of the business or project as a going concern, the past due status when the asset is not well-secured, the expected cash flows to repay the loan, the value of the collateral, and the ability and willingness of any guarantors to perform.

Effective in the second quarter of 2011, the commercial nonaccrual policy was applied to certain small business credit card balances. This change resulted in loans being placed on nonaccrual status when they become 90 days or more past due. We continue to charge-off these loans at 180 days past due.

Additionally, in general, for smaller dollar commercial loans of $1 million or less, a partial or full charge-off will occur at 120 days past due for term loans and 180 days past due for revolvers.

Home equity installment loans, lines of credit, and residential real estate loans that are not well-secured and/or not in the process of collection are charged-off at 180 days past due to the estimated fair value of the collateral less costs to sell.

A consumer loan is considered well-secured when the collateral in the form of liens on (or pledges of) real or personal property, including marketable securities, has a realizable value sufficient to discharge the debt in full, including accrued interest. Starting in the first quarter of 2012, home equity installment loans and lines of credit, whether well-secured or not, are classified as nonaccrual at 90 days past due instead of the prior policy of nonaccrual classification at 180 days past due. Well-secured residential real estate loans are classified as nonaccrual at 180 days past due.

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

If payment is received while a loan is nonperforming, generally the payment is first applied to the recorded investment; once this principal obligation has been fulfilled, payments are applied to recover any charged-off amounts related to the impaired loan that might exist. Finally, if both principal and any charge-offs have been recovered, then the payment will be recorded as interest income.

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty. TDRs may include restructuring certain terms of loans, receipts of assets from debtors in partial satisfaction of loans, or a combination thereof.

In April 2011, the FASB issued ASU 2011-02 Receivables (Topic 310): *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The ASU clarifies when a loan restructuring constitutes a troubled debt restructuring (TDR). This ASU (i) eliminates the sole use of the borrowers effective interest rate test to determine if a concession has occurred on the part of the creditor, (ii) requires a restructuring with below market terms to be considered in determining classification as a TDR, (iii) specifies that a borrower not currently in default may still

be experiencing financial difficulty when payment default is probable in the foreseeable future, and (iv) specifies that a delay in payment should be considered along with all other factors in determining classification as a TDR. We identified as TDRs certain loans for which the allowance for credit losses had previously been measured under a general allowance for credit losses methodology. Upon identifying those loans as TDRs, we accounted for them as impaired under the guidance in ASC 310-10-35.

See Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional TDR information.

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

Foreclosed assets are comprised of any asset seized or property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Other real estate owned is comprised principally of commercial real estate and residential real estate properties obtained in partial or total satisfaction of loan obligations. After obtaining a foreclosure judgment, or in some jurisdictions the initiation of proceedings under a power of sale in the loan instruments, the property will be sold. When we are awarded title, we transfer the loan to foreclosed assets included in Other assets on our Consolidated Balance Sheet. Property obtained in satisfaction of a loan is initially recorded at estimated fair value less cost to sell. Based upon the estimated fair value less cost to sell, the recorded investment of the loan is adjusted and, typically, a charge-off or recovery is recognized to the Allowance for Loan and Lease Losses (ALLL). We estimate fair values primarily based on appraisals, or sales agreements with third parties. Anticipated recoveries and government guarantees are also considered in evaluating the potential impairment of loans at the date of transfer.

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

See Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

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*ALLOWANCE FOR LOAN AND LEASE LOSSES*

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

- Probability of default (PD),
- Loss given default (LGD),
- Outstanding balance of the loan,
- Movement through delinquency stages,
- Amounts and timing of expected future cash flows,
- Value of collateral, and
- Qualitative factors, such as changes in current economic conditions, that may not be reflected in historical results.

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

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

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans.

Nonperforming loans are considered impaired under ASC 310, Receivables and are evaluated for a specific reserve. Specific reserve allocations are determined as follows:

- For commercial nonperforming loans and TDRs greater than or equal to a defined dollar threshold, specific reserves are based on an analysis of the present value of the loan s expected future cash flows, the loan s observable market price or the fair value of the collateral.
- For commercial nonperforming loans and TDRs below the defined dollar threshold, the loans are aggregated for purposes of measuring specific reserve impairment using the applicable loan s LGD percentage multiplied by the balance of the loan.
- Consumer nonperforming loans are collectively reserved for unless classified as TDRs, for which specific reserves are based on an analysis of the present value of the loan s expected future cash flows.
- For purchased impaired loans, subsequent decreases to the net present value of expected cash flows will generally result in an impairment charge to the provision for credit losses, resulting in an increase to the ALLL.

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

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

See Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

*ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT*

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is appropriate to absorb estimated probable credit losses on these unfunded credit facilities as of the balance sheet date. We determine the allowance based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors, and, solely for commercial lending, the terms and expiration dates of the unfunded credit facilities. The reserve for unfunded loan commitments is estimated in a manner similar to the methodology used for determining reserves for funded exposures. The allowance for unfunded loan commitments and letters of credit is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the allowance for unfunded loan commitments and letters of credit are included in the provision for credit losses.

See Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

***Mortgage And Other Servicing Rights***

We provide servicing under various loan servicing contracts for commercial, residential and other consumer loans. These contracts are either purchased in the open market or retained as part of a loan securitization or loan sale. All newly acquired or originated servicing rights are initially measured at fair value. Fair value is based on the present value of the expected future cash flows, including assumptions as to:

- Deposit balances and interest rates for escrow and commercial reserve earnings,
- Discount rates,
- Stated note rates,
- Estimated prepayment speeds, and
- Estimated servicing costs.

For subsequent measurements of these assets, we have elected to utilize either the amortization method or fair value measurement based upon the asset class and our risk management strategy for managing these assets. For commercial mortgage loan servicing rights, we use the amortization method. This election was made based on the unique characteristics of the commercial mortgage loans underlying these servicing rights with regard to market inputs used in determining fair value and how we manage the risks inherent in the commercial mortgage servicing rights assets. Specific risk characteristics of commercial mortgages include loan type, currency or exchange rate, interest rates, expected cash flows and changes in the cost of servicing. We record these servicing assets as Other intangible assets and amortize them over their estimated lives based on estimated net servicing income. On a quarterly basis, we test the assets for impairment by categorizing the pools of assets underlying the servicing rights into various strata. If the estimated fair value of the assets is less than the carrying value, an impairment loss is recognized and a valuation reserve is established.

For servicing rights related to residential real estate loans, we apply the fair value method. This election was made to be consistent with our risk management strategy to hedge changes in the fair value of these assets. We manage this risk by hedging the fair value of this asset with derivatives and securities which are expected to increase in value when the value of the servicing right declines. The fair value of these servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors which are determined based on current market conditions.

Revenue from the various loan servicing contracts for commercial, residential and other consumer loans is reported on the Consolidated Income Statement in line items Corporate services, Residential mortgage and Consumer services.

***Fair Value Of Financial Instruments***

The fair value of financial instruments and the methods and assumptions used in estimating fair value amounts and financial assets and liabilities for which fair value was elected are detailed in Note 9 Fair Value.

***Goodwill And Other Intangible Assets***

We assess goodwill for impairment at least annually, in the fourth quarter, or when events or changes in circumstances indicate the assets might be impaired. Finite-lived intangible assets are amortized to expense using accelerated or straight-line methods over their respective estimated useful lives. We review finite-lived intangible assets for impairment when events or changes in circumstances indicate that the asset s carrying amount may not be recoverable from undiscounted future cash flows or that it may exceed its fair value.

***Depreciation And Amortization***

For financial reporting purposes, we depreciate premises and equipment, net of salvage value, principally using the straight-line method over their estimated useful lives.

We use estimated useful lives for furniture and equipment ranging from one to 10 years, and depreciate buildings over an estimated useful life of up to 40 years. We amortize leasehold improvements over their estimated useful lives of up to 15 years or the respective lease terms, whichever is shorter.

We purchase, as well as internally develop and customize, certain software to enhance or perform internal business functions. Software development costs incurred in the planning and post-development project stages are charged to Noninterest expense. Costs associated with designing software configuration and interfaces, installation, coding programs and testing systems are capitalized and amortized using the straight-line method over periods ranging from one to seven years.

***Repurchase And Resale Agreements***

Repurchase and resale agreements are treated as collateralized financing transactions and are carried at the amounts at which the securities will be subsequently reacquired or resold, including accrued interest, as specified in the respective agreements. Our policy is to take possession of securities purchased under agreements to resell. We monitor the market value of securities to be repurchased and resold and additional collateral may be obtained where considered appropriate to protect against credit exposure. We have elected to account for structured resale agreements at fair value.

***Other Comprehensive Income***

Other comprehensive income consists, on an after-tax basis, primarily of unrealized gains or losses, excluding OTTI attributable to credit deterioration, on investment securities classified as available for sale, unrealized gains or losses on derivatives designated as cash flow hedges, and changes in pension and other postretirement benefit plan liability adjustments. Details of each component are included in Note 20 Other Comprehensive Income.

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*TREASURY STOCK*

We record common stock purchased for treasury at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the first-in, first-out basis.

*DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES*

We use a variety of financial derivatives as part of our overall asset and liability risk management process to help manage interest rate, market and credit risk inherent in our business activities. Interest rate and total return swaps, swaptions, interest rate caps and floors and futures contracts are the primary instruments we use for interest rate risk management.

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. We manage these risks as part of our asset and liability management process and through credit policies and procedures. We seek to minimize counterparty credit risk by entering into transactions with only high-quality institutions, establishing credit limits, and generally requiring bilateral netting and collateral agreements.

We recognize all derivative instruments at fair value as either Other assets or Other liabilities on the Consolidated Balance Sheet and the related cash flows in the Operating Activities section of the Consolidated Statement Of Cash Flows. Adjustments for counterparty credit risk are included in the determination of fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as an accounting hedge, changes in fair value are recognized in Noninterest income.

We utilize a net presentation for derivative instruments on the Consolidated Balance Sheet taking into consideration the effects of legally enforceable master netting agreements. Cash collateral exchanged with counterparties is also netted against the applicable derivative exposures by offsetting obligations to return, or rights to reclaim, cash collateral against the fair values of the net derivatives being collateralized.

For those derivative instruments that are designated and qualify as accounting hedges, we designate the hedging instrument, based on the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of the net investment in a foreign operation.

We formally document the relationship between the hedging instruments and hedged items, as well as the risk management objective and strategy, before undertaking an accounting hedge. To qualify for hedge accounting, the derivatives and related hedged items must be designated as a hedge at inception of the hedge relationship. For accounting hedge relationships, we formally assess, both at the inception of the hedge and on an ongoing basis, if the derivatives are highly effective in offsetting designated changes in the fair value or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective, hedge accounting is discontinued.

For derivatives that are designated as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability attributable to a particular risk, such as changes in LIBOR), changes in the fair value of the hedging instrument are recognized in earnings and offset by also recognizing in earnings the changes in the fair value of the hedged item attributable to the hedged risk. To the extent the change in fair value of the derivative does not offset the change in fair value of the hedged item, the difference or ineffectiveness is reflected in the Consolidated Income Statement in the same financial statement category as the hedged item.

For derivatives designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows), the effective portions of the gain or loss on derivatives are reported as a component of Accumulated other comprehensive income (loss) and subsequently reclassified to interest income in the same period or periods during which the hedged transaction affects earnings. The change in fair value attributable to the ineffective portion of the hedging instrument is recognized immediately in Noninterest income.

For derivatives designated as a hedge of net investment in a foreign operation, the effective portions of the gain or loss on the derivatives are reported as a component of Accumulated other comprehensive income (loss). The change in fair value of any ineffectiveness of the hedging instrument is recognized immediately in Noninterest income.

We discontinue hedge accounting when it is determined that the derivative no longer qualifies as an effective hedge; the derivative expires or is sold, terminated or exercised; or the derivative is de-designated as a fair value or cash flow hedge or, for a cash flow hedge, it is no longer probable that the forecasted transaction will occur by the end of the originally specified time period. If we determine that the derivative no longer qualifies as a fair value or cash flow hedge and hedge accounting is discontinued, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings. For a discontinued fair value hedge, the previously hedged item is no longer adjusted for changes in fair value.

When hedge accounting is discontinued because it is no longer probable that a forecasted transaction will occur, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings, and the gains and losses in Accumulated other comprehensive income (loss) will be recognized immediately into earnings. When we discontinue hedge accounting because the hedging instrument is sold, terminated or no longer designated, the amount reported in Accumulated other comprehensive income (loss) up to the date of sale, termination or de-designation continues to be reported in Other comprehensive income or loss until the forecasted transaction affects earnings. We did not terminate any cash flow hedges in 2012, 2011 or 2010 due to a determination that a forecasted transaction was no longer probable of occurring.

We purchase or originate financial instruments that contain an embedded derivative. At the inception of the transaction, we assess if the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the host contract, whether the hybrid financial instrument is measured at fair value with changes in fair value reported in earnings, and whether a separate instrument with the same terms as the embedded derivative would be a derivative. If the embedded derivative does not meet all of these conditions, the embedded derivative is recorded separately from the host contract with changes in fair value recorded in earnings, unless we elect to account for the hybrid instrument at fair value.

We have elected on an instrument-by-instrument basis, fair value measurement for certain financial instruments with embedded derivatives.

We enter into commitments to originate residential and commercial mortgage loans for sale. We also enter into commitments to purchase or sell commercial and residential real estate loans. These commitments are accounted for as free-standing derivatives which are recorded at fair value in Other assets or Other liabilities on the Consolidated Balance Sheet. Any gain or loss from the change in fair value after the inception of the commitment is recognized in noninterest income.

***Income Taxes***

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that we expect will apply at the time when we believe the differences will reverse. The recognition of deferred tax assets requires an assessment to determine the realization of such assets. Realization refers to the incremental benefit achieved through the reduction in future taxes payable or refunds receivable from the deferred tax assets, assuming that the underlying deductible differences and carryforwards are the last items to enter into the determination of future taxable income. We establish a valuation allowance for tax assets when it is more likely than not that they will not be realized, based upon all available positive and negative evidence.

***Earnings Per Common Share***

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

Diluted earnings per common share is calculated under the more dilutive of either the treasury method or the two-class

method. For the diluted calculation, we increase the weighted-average number of shares of common stock outstanding by the assumed conversion of outstanding convertible preferred stock and debentures from the beginning of the year or date of issuance, if later, and the number of shares of common stock that would be issued assuming the exercise of stock options and warrants and the issuance of incentive shares using the treasury stock method. These adjustments to the weighted-average number of shares of common stock outstanding are made only when such adjustments will dilute earnings per common share. See Note 18 Earnings Per Share for additional information.

***Recent Accounting Pronouncements***

In October 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-06, *Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. This ASU impacts all entities that recognize an indemnification asset in purchase accounting for a government-assisted acquisition of a financial institution. The effective date of ASU 2012-06 was January 1, 2013. However, since we currently do not have any of these assets, this ASU did not have an effect on our results of operations or financial position.

In July 2012, the FASB issued ASU 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. This ASU simplifies the testing for indefinite lived intangible assets impairment by allowing an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite lived intangible asset is less than its carrying amount before proceeding to the quantitative impairment test. The effective date of this ASU was January 1, 2013. However, since we currently do not have any indefinite lived intangibles, this ASU did not have an effect on our results of operations or financial position.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities* and then amended the scope of ASU 2011-11 in January 2013 through the issuance of ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.* This guidance applies to all entities that have derivative instruments, repurchase agreements and reverse repurchase agreements, or securities lending agreements that are either (i) offset in accordance with either ASC 210-20-45 or ASC 815-10-45 or (ii) subject to an enforceable master netting arrangement or similar agreement, and requires an entity to disclose information about offsetting to enable users of its financial statements to understand the effect of those arrangements on its financial position. The disclosures are required for quarterly and annual reporting periods beginning on or after January 1, 2013, are to be applied retrospectively for all comparative periods presented, and will be provided in the first quarter 2013. We adopted ASU 2011-11 on January 1, 2013 for our derivatives that we offset in accordance with ASC 815-10-45 and for our repurchase/resale arrangements under enforceable master netting arrangements, which we do not currently offset on our Consolidated Balance Sheet. The new guidance did not change the accounting for these arrangements or require them to be offset and thus had no impact on our statement of financial position.

In December 2011, the FASB also finalized ASU 2011-10, *Property, Plant, and Equipment (Topic 360) Derecognition of in Substance Real Estate a Scope Clarification (a consensus of the FASB Emerging Issues Task Force)*. This ASU clarified that the guidance in ASC 360-20 applies to a parent that ceases to have a controlling financial interest (as described in ASC 810-10) in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt. The amendments within this update should be applied on a prospective basis and are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. We adopted ASU 2011-10 on January 1, 2013. There was no material impact to our results of operations or financial position upon adoption of ASU 2011-10 on January 1, 2013.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350) : Testing Goodwill for Impairment*. The ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity qualitatively determines the fair value of a reporting unit is greater than its carrying amount, it is not required to perform the Step 1 quantitative goodwill impairment test for the reporting unit. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We did not utilize this guidance in our 2012 annual goodwill impairment test. The adoption of this ASU did not have a financial impact since the method for determining the amount of impairment (Step 2) remained unchanged.

In June 2011, the FASB issued ASU 2011-05 *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This ASU required an entity to present each component of net income along with total net income, each component of other comprehensive income along with total other comprehensive income, and a total amount for comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both presentation options, the tax effect for each component must be presented in the statement in which other comprehensive income is presented or disclosed in the notes to the financial statements. This ASU did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In December 2011, the FASB issued ASU 2011-12,

*Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05*. This ASU deferred those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments pending further Board deliberation. We adopted ASU 2011-05 and ASU 2011-12 on January 1, 2012. Our 2012 financial statements and disclosures continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. See the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Note 20 Other Comprehensive Income for additional information. In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This ASU requires companies to present information about reclassification adjustments from accumulated other comprehensive income in a single note or on the face of the financial statements. Additionally, companies are to disclose by component reclassifications out of accumulated other comprehensive income and their effects on the respective line items on net income and other disclosures currently required under U.S. GAAP. ASU 2013-02 is effective for annual and interim reporting periods beginning after December 15, 2012 and we will present these disclosures in the first quarter of 2013.

In May 2011, the FASB issued ASU 2011-04 *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*. This ASU provides guidance to clarify the concept of highest and best use valuation premise, how a principal market is determined, and the application of the fair value measurement for instruments with offsetting market or counterparty credit risks. It also extends the prohibition on blockage factors to all fair value hierarchy levels. This ASU required additional disclosures for the following: (i) quantitative information about the significant unobservable inputs used in all Level 3 financial instruments, (ii) the valuation processes used by the reporting entity as well as a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs, (iii) a reporting entity s use of a nonfinancial asset in a way that differs from the asset s highest and best use if the fair value of the asset is reported, (iv) the categorization by level of the fair value hierarchy for items that are not measured at fair value in financial statements, and (v) any transfers between Level 1 and 2 and the reason for those transfers. The adoption of this new guidance did not have a material effect on our results of operations or financial position. We adopted ASU 2011-04 on January 1, 2012. See Note 9 Fair Value for additional information.

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In April 2011, the FASB issued ASU 2011-03 *Transfers and Servicing (Topic 860), Reconsideration of Effective Control for Repurchase Agreements*. This ASU removes from the assessment of effective control (i) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (ii) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control have not been changed by this ASU. The adoption of ASU 2011-03 on January 1, 2012 did not have a material effect on our results of operations or financial position.

## Note 2 Acquisition and Divestiture Activity

***RBC Bank (USA) Acquisition***

On March 2, 2012, PNC acquired 100% of the issued and outstanding common stock of RBC Bank (USA), the US retail banking subsidiary of Royal Bank of Canada. As part of the acquisition, PNC also purchased a credit card portfolio from RBC Bank (Georgia), National Association. PNC paid $3.6 billion in cash as consideration for the acquisition of both RBC Bank (USA) and the credit card portfolio. The transactions added approximately $18.1 billion of deposits and $14.5 billion of loans to PNC s Consolidated Balance Sheet.

RBC Bank (USA), based in Raleigh, North Carolina, operated more than 400 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The primary reasons for the acquisition of RBC were to enhance shareholder value, to improve PNC s competitive position in the financial services industry, and to further expand PNC s existing branch network in the states where it currently operates as well as expanding into new markets.

The RBC Bank (USA) transactions noted above were accounted for using the acquisition method of accounting and, as such, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair value on the acquisition date. All acquired loans were also recorded at fair value. No allowance for loan losses was carried over and no allowance was created at acquisition. In connection with the acquisition, the assets acquired, and the liabilities assumed, were recorded at fair value on the date of acquisition, as summarized in the following table:

***Table 55: RBC Bank (USA) Purchase Accounting (a) (b)***

| In millions | |
|---|---|
| **Purchase price as of March 2, 2012** | $ 3,599 |
| | |
| **Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value (c)** | |
| Cash due from banks | 305 |
| Trading assets, interest-earning deposits with banks, and other short-term investments | 1,493 |
| Loans held for sale | 97 |
| Investment securities | 2,349 |
| Net loans | 14,512 |
| Other intangible assets | 180 |
| Equity investments | 35 |
| Other assets | 3,383 |
| Deposits | (18,094) |
| Other borrowed funds | (1,321) |
| Other liabilities | (290) |
| Total fair value of identifiable net assets | 2,649 |
| **Goodwill** | $ 950 |

(a) The table above has been updated to reflect certain immaterial adjustments, including final purchase price settlement.
(b) These amounts include assets and deposits related to Smartstreet, which was sold effective October 26, 2012.
(c) These items are considered as non-cash activity for the Consolidated Statement of Cash Flows.

In many cases the determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature. The most significant of these determinations related to the fair valuation of acquired loans. See Note 6 Purchased Loans for further discussion of the accounting for purchased impaired and purchased non-impaired loans, including the determination of fair value for acquired loans.

The amount of goodwill recorded reflects the increased market share and related synergies that are expected to result from the acquisition, and represents the excess purchase price over the estimated fair value of the net assets acquired by PNC. The goodwill was assigned primarily to PNC s Retail Banking and Corporate & Institutional Banking segments, and is not deductible for income tax purposes. Other intangible assets acquired, as of March 2, 2012 consisted of the following:

***Table 56: RBC Bank (USA) Intangible Assets***

| | As of March 2, 2012 | | |
|---|---|---|---|
| Intangible Assets (in millions) | Fair Value | Weighted Life | Amortization Method |
| Residential mortgage servicing rights | $ 16 | 68 months | (a) |
| Core deposits | 164 | 144 months | Accelerated |
| Total | $ 180 | | |

(a) Intangible asset accounted for at fair value.

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See Note 10 Goodwill and Other Intangible Assets for further discussion of the accounting for goodwill and other intangible assets.

The estimated amount of RBC Bank (USA) revenue and net income (excluding integration costs) included in PNC s consolidated income statement for 2012 was $1.0 billion and $273 million, respectively. Upon closing and conversion of the RBC Bank (USA) transaction, subsequent to March 2, 2012, separate records for RBC Bank (USA) as a stand-alone business have not been maintained as the operations of RBC Bank (USA) have been fully integrated into PNC. RBC Bank (USA) revenue and earnings disclosed above reflect management s best estimate, based on information available at the reporting date.

The following table presents certain unaudited pro forma information for illustrative purposes only, for 2012 and 2011 as if RBC Bank (USA) had been acquired on January 1, 2011. The unaudited estimated pro forma information combines the historical results of RBC Bank (USA) with the Company s consolidated historical results and includes certain adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition taken place on January 1, 2011. In particular, no adjustments have been made to eliminate the impact of other-than-temporary impairment losses and losses recognized on the sale of securities that may not have been necessary had the investment securities been recorded at fair value as of January 1, 2011. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loan assets at fair value. Additionally, the pro forma financial information does not include the impact of possible business model changes and does not reflect pro forma adjustments to conform accounting policies between RBC Bank (USA) and PNC. Additionally, PNC expects to achieve further operating cost savings and other business synergies, including revenue growth, as a result of the acquisition that are not reflected in the pro forma amounts that follow. As a result, actual results will differ from the unaudited pro forma information presented.

***Table 57: RBC Bank (USA) and PNC Unaudited Pro Forma Results***

| | For the Year Ended December 31 | |
|---|---|---|
| In millions | 2012 | 2011 |
| Total revenues | $ 15,721 | $ 15,421 |
| Net income | 2,989 | 2,911 |

In connection with the RBC Bank (USA) acquisition and other prior acquisitions, PNC recognized $267 million of integration charges in 2012. PNC recognized $42 million of integration

charges in 2011 in connection with prior acquisitions. The integration charges are included in the table above.

***SALE OF SMARTSTREET***

Effective October 26, 2012, PNC divested certain deposits and assets of the Smartstreet business unit, which was acquired by PNC as part of the RBC Bank (USA) acquisition, to Union Bank, N.A. Smartstreet is a nationwide business focused on homeowner or community association managers and had approximately $1 billion of assets and deposits as of September 30, 2012. The gain on sale was immaterial and resulted in a reduction of goodwill and core deposit intangibles of $46 million and $13 million, respectively. Results from operations of Smartstreet from March 2, 2012 through October 26, 2012 are included in our Consolidated Income Statement.

***FLAGSTAR BRANCH ACQUISITION***

Effective December 9, 2011, PNC acquired 27 branches in the northern metropolitan Atlanta, Georgia area from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc. The fair value of the assets acquired totaled approximately $211.8 million, including $169.3 million in cash, $24.3 million in fixed assets and $18.2 million of goodwill and intangible assets. We also assumed approximately $210.5 million of deposits associated with these branches. No deposit premium was paid and no loans were acquired in the transaction. Our Consolidated Income Statement includes the impact of the branch activity subsequent to our December 9, 2011 acquisition.

***BANKATLANTIC BRANCH ACQUISITION***

Effective June 6, 2011, we acquired 19 branches in the greater Tampa, Florida area from BankAtlantic, a subsidiary of BankAtlantic Bancorp, Inc. The fair value of the assets acquired totaled $324.9 million, including $256.9 million in cash, $26.0 million in fixed assets and $42.0 million of goodwill and intangible assets. We also assumed approximately $324.5 million of deposits associated with these branches. A $39.0 million deposit premium was paid and no loans were acquired in the transaction. Our Consolidated Income Statement includes the impact of the branch activity subsequent to our June 6, 2011 acquisition.

***Sale of PNC Global Investment Servicing***

On July 1, 2010, we sold PNC Global Investment Servicing Inc. (GIS), a leading provider of processing, technology and business intelligence services to asset managers, broker-dealers and financial advisors worldwide, for $2.3 billion in cash pursuant to a definitive agreement entered into on February 2, 2010. This transaction resulted in a pretax gain of $639 million, net of transaction costs, in the third quarter of 2010. This gain and 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. As part of the sale agreement, PNC has agreed to provide certain transitional services on behalf of GIS until completion of related systems conversion activities.

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## NOTE 3 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES

### *LOAN SALE AND SERVICING ACTIVITIES*

We have transferred residential and commercial mortgage loans in securitization or sales transactions in which we have continuing involvement. These transfers have occurred through Agency securitization, Non-agency securitization, and loan sale transactions. Agency securitizations consist of securitization transactions with Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Government National Mortgage Association (GNMA) (collectively, the Agencies). FNMA and FHLMC generally securitize our transferred loans into mortgage-backed securities for sale into the secondary market through special purpose entities (SPEs) that they sponsor. We, as an authorized GNMA issuer/servicer, pool Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) insured loans into mortgage-backed securities for sale into the secondary market. In Non-agency securitizations, we have transferred loans into securitization SPEs. In other instances, third-party investors have also purchased our loans in loan sale transactions and in certain instances have subsequently sold these loans into securitization SPEs. Securitization SPEs utilized in the Agency and Non-agency securitization transactions are variable interest entities (VIEs).

Our continuing involvement in the FNMA, FHLMC, and GNMA securitizations, Non-agency securitizations, and loan sale transactions generally consists of servicing, repurchases of previously transferred loans under certain conditions and loss share arrangements, and, in limited circumstances, holding of mortgage-backed securities issued by the securitization SPEs.

Depending on the transaction, we may act as the master, primary, and/or special servicer to the securitization SPEs or third-party investors. Servicing responsibilities typically consist of collecting and remitting monthly borrower principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and, in certain instances, funding of servicing advances. Servicing advances, which are reimbursable, are recognized in Other assets at cost and are made for principal and interest and collateral protection.

We earn servicing and other ancillary fees for our role as servicer and, depending on the contractual terms of the servicing arrangement, we can be terminated as servicer with or without cause. At the consummation date of each type of loan transfer, we recognize a servicing asset at fair value. Servicing assets are recognized in Other intangible assets on our Consolidated Balance Sheet and when subsequently accounted for at fair value are classified within Level 3 of the fair value hierarchy. See Note 9 Fair Value and Note 10 Goodwill and Other Intangible Assets for further discussion of our residential and commercial servicing assets.

Certain loans transferred to the Agencies contain removal of account provisions (ROAPs). Under these ROAPs, we hold an option to repurchase at par individual delinquent loans that meet certain criteria. When we have the unilateral ability to repurchase a delinquent loan, effective control over the loan has been regained and we recognize an asset (in either Loans or Loans held for sale) and a corresponding liability (in Other borrowed funds) on the balance sheet regardless of our intent to repurchase the loan. At December 31, 2012 and December 31, 2011, the balance of our ROAP asset and liability totaled $190 million and $265 million, respectively.

The Agency and Non-agency mortgage-backed securities issued by the securitization SPEs that are purchased and held on our balance sheet are typically purchased in the secondary market. PNC does not retain any credit risk on its Agency mortgage-backed security positions as FNMA, FHLMC, and the US Government (for GNMA) guarantee losses of principal and interest. Substantially all of the Non-agency mortgage-backed securities acquired and held on our balance sheet are senior tranches in the securitization structure.

We also have involvement with certain Agency and Non-agency commercial securitization SPEs where we have not transferred commercial mortgage loans. These SPEs were sponsored by independent third-parties and the loans held by these entities were purchased exclusively from other third-parties. Generally, our involvement with these SPEs is as servicer with servicing activities consistent with those described above.

We recognize a liability for our loss exposure associated with contractual obligations to repurchase previously transferred loans due to breaches of representations and warranties and also for loss sharing arrangements (recourse obligations) with the Agencies. Other than providing temporary liquidity under servicing advances and our loss exposure associated with our repurchase and recourse obligations, we have not provided nor are we required to provide any type of credit support, guarantees, or commitments to the securitization SPEs or third-party investors in these transactions. See Note 24 Commitments and Guarantees for further discussion of our repurchase and recourse obligations.

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The following table provides information related to certain financial information associated with PNC s loan sale and servicing activities:

***Table 58: Certain Financial Information and Cash Flows Associated with Loan Sale and Servicing Activities***

| In millions | Residential Mortgages | Commercial Mortgages (a) | Home Equity Loans/Lines (b) |
|---|---|---|---|
| **FINANCIAL INFORMATION December 31, 2012** | | | |
| Servicing portfolio (c) | $ 119,262 | $ 153,193 | $ 5,353 |
| Carrying value of servicing assets (d) | 650 | 420 | |
| Servicing advances (e) | 582 | 505 | 5 |
| Repurchase and recourse obligations (f) | 614 | 43 | 58 |
| Carrying value of mortgage-backed securities held (g) | 5,445 | 1,533 | |
| **FINANCIAL INFORMATION December 31, 2011** | | | |
| Servicing portfolio (c) | $ 118,058 | $ 155,813 | $ 5,661 |
| Carrying value of servicing assets (d) | 647 | 468 | 1 |
| Servicing advances (e) | 563 | 510 | 8 |
| Repurchase and recourse obligations (f) | 83 | 47 | 47 |
| Carrying value of mortgage-backed securities held (g) | 4,654 | 1,839 | |

The following table provides information related to the cash flows associated with PNC s loan sale and servicing activities:

| In millions | Residential Mortgages | Commercial Mortgages (a) | Home Equity Loans/Lines (b) |
|---|---|---|---|
| **CASH FLOWS Year ended December 31, 2012** | | | |
| Sales of loans (h) | $ 13,783 | $ 2,172 | |
| Repurchases of previously transferred loans (i) | 1,500 | | $ 21 |
| Servicing fees (j) | 383 | 180 | 22 |
| Servicing advances recovered/(funded), net | (19) | 6 | 3 |
| Cash flows on mortgage-backed securities held (g) | 1,220 | 536 | |
| **CASH FLOWS Year ended December 31, 2011** | | | |
| Sales of loans (h) | $ 11,920 | $ 2,351 | |
| Repurchases of previously transferred loans (i) | 1,683 | | $ 42 |
| Servicing fees (j) | 355 | 179 | 22 |
| Servicing advances recovered/(funded), net | (30) | (95) | 12 |
| Cash flows on mortgage-backed securities held (g) | 586 | 419 | |

(a) Represents financial and cash flow information associated with both commercial mortgage loan transfer and servicing activities.
(b) These activities were part of an acquired brokered home equity lending business in which PNC is no longer engaged. See Note 24 Commitments and Guarantees for further information.
(c) For our continuing involvement with residential mortgage and home equity loan/line transfers, amount represents outstanding balance of loans transferred and serviced. For commercial mortgages, amount represents overall servicing portfolio in which loans have been transferred by us or third parties to VIEs.
(d) See Note 9 Fair Value and Note 10 Goodwill and Other Intangible Assets for further information.
(e) Pursuant to certain contractual servicing agreements, represents outstanding balance of funds advanced (i) to investors for monthly collections of borrower principal and interest, (ii) for borrower draws on unused home equity lines of credit, and (iii) for collateral protection associated with the underlying mortgage collateral.
(f) Represents liability for our loss exposure associated with loan repurchases for breaches of representations and warranties for our Residential Mortgage Banking and Non-Strategic Assets Portfolio segments, and our commercial mortgage loss share arrangements for our Corporate & Institutional Banking segment. See Note 24 Commitments and Guarantees for further information.
(g) Represents securities held where PNC transferred to and/or services loans for a securitization SPE and we hold securities issued by that SPE.
(h) There were no gains or losses recognized on the transaction date for sales of residential mortgage loans as these loans are recognized on the balance sheet at fair value. For transfers of commercial mortgage loans not recognized on the balance sheet at fair value, gains/losses recognized on sales of these loans were insignificant for the periods presented.
(i) Includes government insured or guaranteed loans repurchased through the exercise of our ROAP option and loans repurchased due to breaches of origination covenants or representations and warranties made to purchasers.
(j) Includes contractually specified servicing fees, late charges and ancillary fees.

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*VARIABLE INTEREST ENTITIES (VIEs)*

We are involved with various entities in the normal course of business that are deemed to be VIEs. We assess VIEs for consolidation based upon the accounting policies described in Note 1 Accounting Policies. The following provides a summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements as of December 31, 2012 and December 31, 2011.

***Table 59: Consolidated VIEs Carrying Value (a) (b)***

December 31, 2012

| In millions | Market Street | Credit Card Securitization Trust (c) | Tax Credit Investments | Total |
|---|---|---|---|---|
| Assets | | | | |
| Cash and due from banks | | | $ 4 | $ 4 |
| Interest-earning deposits with banks | | | 6 | 6 |
| Investment securities | $ 9 | | | 9 |
| Loans | 6,038 | $ 1,743 | | 7,781 |
| Allowance for loan and lease losses | | (75) | | (75) |
| Equity investments | | | 1,429 | 1,429 |
| Other assets | 536 | 31 | 714 | 1,281 |
| Total assets | $ 6,583 | $ 1,699 | $ 2,153 | $ 10,435 |
| Liabilities | | | | |
| Commercial paper | $ 6,045 | | | $ 6,045 |
| Other borrowed funds | | | $ 257 | 257 |
| Accrued expenses | | | 132 | 132 |
| Other liabilities | 529 | | 447 | 976 |
| Total liabilities | $ 6,574 | | $ 836 | $ 7,410 |

December 31, 2011

| In millions | Market Street | Credit Card Securitization Trust | Tax Credit Investments (b) | Total |
|---|---|---|---|---|
| Assets | | | | |
| Cash and due from banks | | | $ 7 | $ 7 |
| Interest-earning deposits with banks | | $ 317 | 8 | 325 |
| Investment securities | $ 109 | | | 109 |
| Loans | 4,163 | 1,933 | | 6,096 |
| Allowance for loan and lease losses | | (91) | | (91) |
| Equity investments | | | 1,643 | 1,643 |
| Other assets | 360 | 7 | 838 | 1,205 |
| Total assets | $ 4,632 | $ 2,166 | $ 2,496 | $ 9,294 |
| Liabilities | | | | |
| Commercial paper | $ 4,271 | | | $ 4,271 |
| Other borrowed funds | | $ 287 | $ 218 | 505 |
| Accrued expenses | | 50 | 105 | 155 |
| Other liabilities | 355 | | 379 | 734 |
| Total liabilities | $ 4,626 | $ 337 | $ 702 | $ 5,665 |

(a) Amounts represent carrying value on PNC s Consolidated Balance Sheet.
(b) Difference between total assets and total liabilities represents the equity portion of the VIE or intercompany assets and liabilities which are eliminated in consolidation.
(c) During the first quarter of 2012, the last securitization series issued by the SPE matured, resulting in the zero balance of liabilities at December 31, 2012.

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*Table 60: Assets and Liabilities of Consolidated VIEs (a)*

| In millions | Aggregate Assets | Aggregate Liabilities |
|---|---|---|
| December 31, 2012 | | |
| Market Street | $ 7,796 | $ 7,796 |
| Credit Card Securitization Trust | 1,782 | |
| Tax Credit Investments | 2,162 | 853 |
| December 31, 2011 | | |
| Market Street | $ 5,490 | $ 5,491 |
| Credit Card Securitization Trust | 2,175 | 494 |
| Tax Credit Investments | 2,503 | 723 |

(a) Amounts in this table differ from total assets and liabilities in the preceding Consolidated VIEs Carrying Value table due to the elimination of intercompany assets and liabilities in the preceding table.

*Table 61: Non-Consolidated VIEs*

| In millions | Aggregate Assets | Aggregate Liabilities | PNC Risk of Loss | Carrying Value of Assets | Carrying Value of Liabilities |
|---|---|---|---|---|---|
| December 31, 2012 | | | | | |
| Commercial Mortgage-Backed Securitizations (a) | $ 72,370 | $ 72,370 | $ 1,829 | $ 1,829(c) | |
| Residential Mortgage-Backed Securitizations (a) | 42,719 | 42,719 | 5,456 | 5,456(c) | $ 90(e) |
| Tax Credit Investments and Other (b) | 5,960 | 2,101 | 1,283 | 1,283(d) | 623(e) |
| Total | $ 121,049 | $ 117,190 | $ 8,568 | $ 8,568 | $ 713 |

| In millions | Aggregate Assets | Aggregate Liabilities | PNC Risk of Loss | Carrying Value of Assets | Carrying Value of Liabilities |
|---|---|---|---|---|---|
| December 31, 2011 | | | | | |
| Commercial Mortgage-Backed Securitizations (a) | $ 75,961 | $ 75,961 | $ 2,079 | $ 2,079(c) | |
| Residential Mortgage-Backed Securitizations (a) | 44,315 | 44,315 | 4,667 | 4,667(c) | $ 99(e) |
| Tax Credit Investments and Other (b) | 5,395 | 2,384 | 837 | 837(d) | 352(e) |
| Total | $ 125,671 | $ 122,660 | $ 7,583 | $ 7,583 | $ 451 |

(a) Amounts reflect involvement with securitization SPEs where PNC transferred to and/or services loans for a SPE and we hold securities issued by that SPE. Asset amounts equal outstanding liability amounts of the SPEs due to limited availability of SPE financial information. We also invest in other mortgage and asset-backed securities issued by third-party VIEs with which we have no continuing involvement. Further information on these securities is included in Note 8 Investment Securities and values disclosed represent our maximum exposure to loss for those securities holdings.

(b) Aggregate assets and aggregate liabilities are based on limited availability of financial information associated with certain acquired partnerships.

(c) Included in Trading securities, Investment securities, Other intangible assets, and Other assets on our Consolidated Balance Sheet.

(d) Included in Equity investments on our Consolidated Balance Sheet.

(e) Included in Other liabilities on our Consolidated Balance Sheet.

### *Market Street*

Market Street Funding LLC (Market Street), owned by an independent third-party, is a multi-seller asset-backed commercial paper conduit that primarily purchases assets or makes loans secured by interests in pools of receivables from US corporations. Market Street funds the purchases of assets or loans by issuing commercial paper. Market Street is supported by pool-specific credit enhancements, liquidity facilities, and a program-level credit enhancement. Generally, Market Street mitigates its potential interest rate risk by entering into agreements with its borrowers that reflect interest rates based upon its weighted-average commercial paper cost of funds. During 2011 and 2012, Market Street met all of its funding needs through the issuance of commercial paper.

PNC Bank, National Association, (PNC Bank, N.A.) provides certain administrative services, the program-level credit enhancement and liquidity facilities to Market Street in exchange for fees negotiated based on market rates. The program-level credit enhancement covers net losses in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities. Coverage is a cash collateral account funded by a loan facility. This facility expires in June 2017. At December 31, 2012, $1.2 billion was outstanding on this facility.

Although the commercial paper obligations at December 31, 2012 and December 31, 2011 were supported by Market Street s assets, PNC Bank, N.A. may be obligated to fund Market Street under the $11.9 billion of liquidity facilities for events such as commercial paper market disruptions, borrower bankruptcies, collateral deficiencies or covenant violations. Our credit risk under the liquidity facilities is secondary to the risk of first loss absorbed by Market Street borrowers through over-collateralization of assets and losses absorbed by deal-specific credit enhancement provided by a third party. The deal-specific credit enhancement is generally structured to cover a multiple of expected losses for the pool of assets and is sized to meet rating agency standards for comparably structured transactions.

Through the credit enhancement and liquidity facility arrangements, PNC Bank, N.A. has the power to direct the activities of Market Street that most significantly affect its economic performance and these arrangements expose PNC Bank, N.A. to expected losses or residual returns that are potentially significant to Market Street. Therefore, PNC Bank, N.A. consolidates Market Street. PNC Bank, N.A. is not required to nor have we provided additional financial support to Market Street, and Market Street creditors have no direct recourse to PNC Bank, N.A.

***Credit Card Securitization Trust***

We were the sponsor of several credit card securitizations facilitated through a trust. This bankruptcy-remote SPE was established to purchase credit card receivables from the sponsor and to issue and sell asset-backed securities created by it to independent third-parties. The SPE was financed primarily through the sale of these asset-backed securities. These transactions were originally structured to provide liquidity and to afford favorable capital treatment.

Our continuing involvement in these securitization transactions consisted primarily of holding certain retained interests and acting as the primary servicer. For each securitization series that was outstanding, our retained interests held were in the form of a pro-rata undivided interest, or sellers interest, in the transferred receivables, subordinated tranches of asset-backed securities, interest-only strips, discount receivables, and subordinated interests in accrued interest and fees in securitized receivables. We consolidated the SPE as we were deemed the primary beneficiary of the entity based upon our level of continuing involvement. Our role as primary servicer gave us the power to direct the activities of the SPE that most significantly affect its economic performance and our holding of retained interests gave us the obligation to absorb expected losses, or the ability to receive residual returns that could be potentially significant to the SPE. The underlying assets of the consolidated SPE were restricted only for payment of the beneficial interests issued by the SPE. We were not required to nor did we provide additional financial support to the SPE. Additionally, creditors of the SPE have no direct recourse to PNC.

During the first quarter of 2012, the last series issued by the SPE, Series 2007-1, matured. At December 31, 2012, the SPE continued to exist and we consolidated the entity as we

continued to be the primary beneficiary of the SPE through our holding of seller s interest and our role as the primary servicer.

***Tax Credit Investments***

We make certain equity investments in various tax credit limited partnerships or limited liability companies (LLCs). The purpose of these investments is to achieve a satisfactory return on capital and to assist us in achieving goals associated with the Community Reinvestment Act.

Also, we are a national syndicator of affordable housing equity. In these syndication transactions, we create funds in which our subsidiaries are the general partner or managing member and sell limited partnership or non-managing member interests to third parties. In some cases PNC may also purchase a limited partnership or non-managing member interest in the fund. The purpose of this business is to generate income from the syndication of these funds, generate servicing fees by managing the funds, and earn tax credits to reduce our tax liability. General partner or managing member activities include selecting, evaluating, structuring, negotiating, and closing the fund investments in operating limited partnerships or LLCs, as well as oversight of the ongoing operations of the fund portfolio.

Typically, the general partner or managing member will be the party that has the right to make decisions that will most significantly impact the economic performance of the entity. However, certain partnership or LLC agreements provide the limited partner or non-managing member the ability to remove the general partner or managing member without cause. This results in the limited partner or non-managing member being the party that has the right to make decisions that will most significantly impact the economic performance of the entity. The primary sources of losses and benefits for these investments are the tax credits, tax benefits due to passive losses on the investments, and development and operating cash flows. We have consolidated investments in which we are the general partner or managing member and have a limited partnership interest or non-managing member interest that provides us the power to direct the activities that most significantly impact the entity s performance and have a limited partnership interest or non-managing member interest that could absorb losses or receive benefits that could be potentially significant. The assets are primarily included in Equity investments and Other assets on our Consolidated Balance Sheet with the liabilities classified in Other borrowed funds, Accrued expenses, and Other liabilities and the third party investors interests included in the Equity section as Noncontrolling interests. Neither creditors nor equity investors in these investments have any recourse to our general credit. We have not provided financial or other support to the limited partnership or LLC that we are not contractually obligated to provide. The consolidated aggregate assets and liabilities of these investments are provided in the Consolidated VIEs table and reflected in the Other business segment.

For tax credit investments in which we do not have the right to make decisions that will most significantly impact the economic performance of the entity, we are not the primary beneficiary and thus they are not consolidated. These investments are disclosed in the Non-Consolidated VIEs table. The table also reflects our maximum exposure to loss. Our maximum exposure to loss is equal to our legally binding equity commitments adjusted for recorded impairment and partnership results. We use the equity method to account for our investment in these entities with the investments reflected in Equity investments on our Consolidated Balance Sheet. In addition, we increase our recognized investments and recognize a liability for all legally binding unfunded equity commitments. These liabilities are reflected in Other liabilities on our Consolidated Balance Sheet.

***Residential and Commercial Mortgage-Backed Securitizations***

In connection with each Agency and Non-agency securitization discussed above, we evaluate each SPE utilized in these transactions for consolidation. In performing these assessments, we evaluate our level of continuing involvement in these transactions as the nature of our involvement ultimately determines whether or not we hold a variable interest and/or are the primary beneficiary of the SPE. Factors we consider in our consolidation assessment include the significance of (i) our role as servicer, (ii) our holdings of mortgage-backed securities issued by the securitization SPE, and (iii) the rights of third-party variable interest holders.

The first step in our assessment is to determine whether we hold a variable interest in the securitization SPE. We hold variable interests in Agency and Non-agency securitization SPEs through our holding of mortgage-backed securities issued by the SPEs and/or our recourse obligations. Each SPE in which we hold a variable interest is evaluated to determine whether we are the primary beneficiary of the entity. For Agency securitization transactions, our contractual role as servicer does not give us the power to direct the activities that most significantly affect the economic performance of the SPEs. Thus, we are not the primary beneficiary of these entities. For Non-agency securitization transactions, we would be the primary beneficiary to the extent our servicing activities give us the power to direct the activities that most significantly affect the economic performance of the SPE and we hold a more than insignificant variable interest in the entity. At December 31, 2012, our level of continuing involvement in Non-agency securitization SPEs did not result in PNC being deemed the primary beneficiary of any of these entities. Details about the Agency and Non-agency securitization SPEs where we hold a variable interest and are not the primary beneficiary are included in the Non-Consolidated VIEs table. Our maximum exposure to loss as a result of our involvement with these SPEs is the carrying value of the mortgage-backed securities, servicing assets, servicing advances, and our liabilities associated with our recourse obligations. Creditors of the securitization SPEs have no recourse to PNC s assets or general credit.

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## NOTE 4 LOANS AND COMMITMENTS TO EXTEND CREDIT

Loans outstanding were as follows:

***Table 62: Loans Outstanding***

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Commercial lending | | |
| Commercial | $ 83,040 | $ 65,694 |
| Commercial real estate | 18,655 | 16,204 |
| Equipment lease financing | 7,247 | 6,416 |
| Total Commercial Lending | 108,942 | 88,314 |
| Consumer lending | | |
| Home equity | 35,920 | 33,089 |
| Residential real estate | 15,240 | 14,469 |
| Credit card | 4,303 | 3,976 |
| Other consumer | 21,451 | 19,166 |
| Total consumer lending | 76,914 | 70,700 |
| Total loans (a) (b) | $ 185,856 | $ 159,014 |

(a) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $2.7 billion and $2.3 billion at December 31, 2012 and December 31, 2011, respectively.
(b) Future accretable yield related to purchased impaired loans is not included in loans outstanding.

In the normal course of business, we originate or purchase loan products with contractual features, when concentrated, that may increase our exposure as a holder of those loan products. Possible product features that may create a concentration of credit risk would include a high original or updated LTV ratio, terms that may expose the borrower to future increases in repayments above increases in market interest rates, below-market interest rates and interest-only loans, among others. We also originate home equity loans and lines of credit that are concentrated in our primary geographic markets.

We originate interest-only loans to commercial borrowers. This is usually to match our borrowers asset conversion to cash expectations (i.e., working capital lines, revolvers). These products are standard in the financial services industry and are considered during the underwriting process to mitigate the increased risk that may result in borrowers not being able to make interest and principal payments when due. We do not believe that these product features create a concentration of credit risk.

At December 31, 2012, we pledged $23.2 billion of commercial loans to the Federal Reserve Bank and $37.3 billion of residential real estate and other loans to the Federal Home Loan Bank as collateral for the contingent ability to borrow, if necessary. The comparable amounts at December 31, 2011 were $21.8 billion and $27.7 billion, respectively.

***Table 63: Net Unfunded Credit Commitments***

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Commercial and commercial real estate | $ 78,703 | $ 64,955 |
| Home equity lines of credit | 19,814 | 18,317 |
| Credit card | 17,381 | 16,216 |
| Other | 4,694 | 3,783 |
| Total (a) | $ 120,592 | $ 103,271 |

(a) Excludes standby letters of credit. See Note 24 Commitments and Guarantees for additional information on standby letters of credit.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. At December 31, 2012, commercial commitments reported above exclude $22.5 billion of syndications, assignments and participations, primarily to financial institutions. The comparable amount at December 31, 2011 was $20.2 billion.

Commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer s credit quality deteriorates. Based on our historical experience, most commitments expire unfunded, and therefore cash requirements are substantially less than the total commitment.

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## NOTE 5 ASSET QUALITY

***Asset Quality***

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency rates may be a key indicator, among other considerations, of credit risk within the loan portfolios. The measurement of delinquency status is based on the contractual terms of each loan. Loans that are 30 days or more past due in terms of payment are considered delinquent. Loan delinquencies exclude loans held for sale and purchased impaired loans, but include government insured or guaranteed loans.

The trends in nonperforming assets represent another key indicator of the potential for future credit losses. Nonperforming assets include nonperforming loans, certain TDRs, and other real estate owned (OREO) and foreclosed assets, but exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans. See Note 6 Purchased Loans for further information.

See Note 1 Accounting Policies for additional delinquency, nonperforming, and charge-off information.

The following tables display the delinquency status of our loans and our nonperforming assets at December 31, 2012 and December 31, 2011, respectively.

***Table 64: Age Analysis of Past Due Accruing Loans (a)***

| | | Accruing | | | | | | |
|---|---|---|---|---|---|---|---|---|
| In millions | Current or Less Than 30 Days Past Due | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days Or More Past Due | Total Past Due (b) | Nonperforming Loans | Purchased Impaired | Total Loans |
| December 31, 2012 | | | | | | | | |
| Commercial | $ 81,930 | $ 115 | $ 55 | $ 42 | $ 212 | $ 590 | $ 308 | $ 83,040 |
| Commercial real estate | 16,735 | 100 | 57 | 15 | 172 | 807 | 941 | 18,655 |
| Equipment lease financing | 7,214 | 17 | 1 | 2 | 20 | 13 | | 7,247 |
| Home equity (c) | 32,174 | 117 | 58 | | 175 | 951 | 2,620 | 35,920 |
| Residential real estate (d) | 8,534 | 278 | 146 | 1,901 | 2,325 | 845 | 3,536 | 15,240 |
| Credit card | 4,205 | 34 | 23 | 36 | 93 | 5 | | 4,303 |
| Other consumer (e) | 20,663 | 258 | 131 | 355 | 744 | 43 | 1 | 21,451 |
| Total | $ 171,455 | $ 919 | $ 471 | $ 2,351 | $ 3,741 | $ 3,254 | $ 7,406 | $ 185,856 |
| Percentage of total loans | 92.26% | .49% | .25% | 1.26% | 2.00% | 1.75% | 3.99% | 100.00% |
| December 31, 2011 | | | | | | | | |
| Commercial | $ 64,437 | $ 122 | $ 47 | $ 49 | $ 218 | $ 899 | $ 140 | $ 65,694 |
| Commercial real estate | 14,010 | 96 | 35 | 6 | 137 | 1,345 | 712 | 16,204 |
| Equipment lease financing | 6,367 | 22 | 5 | | 27 | 22 | | 6,416 |
| Home equity (c) | 29,288 | 173 | 114 | 221 | 508 | 529 | 2,764 | 33,089 |
| Residential real estate (d) | 7,935 | 302 | 176 | 2,281 | 2,759 | 726 | 3,049 | 14,469 |
| Credit card | 3,857 | 38 | 25 | 48 | 111 | 8 | | 3,976 |
| Other consumer (e) | 18,355 | 265 | 145 | 368 | 778 | 31 | 2 | 19,166 |
| Total | $ 144,249 | $ 1,018 | $ 547 | $ 2,973 | $ 4,538 | $ 3,560 | $ 6,667 | $ 159,014 |
| Percentage of total loans | 90.72% | .64% | .34% | 1.87% | 2.85% | 2.24% | 4.19% | 100.00% |

(a) Amounts in table represent recorded investment.
(b) Past due loan amounts exclude purchased impaired loans, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans. Also excluded are loans held for sale and loans accounted for under the fair value option.
(c) In the first quarter of 2012, we adopted a policy stating that Home equity loans past due 90 days or more would be placed on nonaccrual status. Prior policy required that these loans be past due 180 days before being placed on nonaccrual status.
(d) Past due loan amounts at December 31, 2012 include government insured or guaranteed residential real estate mortgages, totaling $.1 billion for 30 to 59 days past due, $.1 billion for 60 to 89 days past due and $1.9 billion for 90 days or more past due. Past due loan amounts at December 31, 2011 include government insured or guaranteed residential real estate mortgages totaling $.1 billion for 30 to 59 days past due, $.1 billion for 60 to 89 days past due and $2.1 billion for 90 days or more past due.

(e) Past due loan amounts at December 31, 2012 include government insured or guaranteed other consumer loans totaling $.2 billion for 30 to 59 days past due, $.1 billion for 60 to 89 days past due and $.3 billion for 90 days or more past due. Past due loan amounts at December 31, 2011 include government insured or guaranteed other consumer loans totaling $.2 billion for 30 to 59 days past due, $.1 billion for 60 to 89 days past due and $.3 billion for 90 days or more past due.

***Table 65: Nonperforming Assets***

| Dollars in millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Nonperforming loans | | |
| Commercial lending | | |
| Commercial | $ 590 | $ 899 |
| Commercial real estate | 807 | 1,345 |
| Equipment lease financing | 13 | 22 |
| Total commercial lending | 1,410 | 2,266 |
| Consumer lending (a) | | |
| Home equity (b) | 951 | 529 |
| Residential real estate (c) | 845 | 726 |
| Credit card | 5 | 8 |
| Other consumer | 43 | 31 |
| Total consumer lending (d) | 1,844 | 1,294 |
| Total nonperforming loans (e) | 3,254 | 3,560 |
| OREO and foreclosed assets | | |
| Other real estate owned (OREO) (f) | 507 | 561 |
| Foreclosed and other assets | 33 | 35 |
| Total OREO and foreclosed assets | 540 | 596 |
| Total nonperforming assets | $ 3,794 | $ 4,156 |
| Nonperforming loans to total loans | 1.75% | 2.24% |
| Nonperforming assets to total loans, OREO and foreclosed assets | 2.04 | 2.60 |
| Nonperforming assets to total assets | 1.24 | 1.53 |
| Interest on nonperforming loans | | |
| Computed on original terms | $ 212 | $ 278 |
| Recognized prior to nonperforming status | 30 | 47 |

(a) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.
(b) In the first quarter of 2012, we adopted a policy stating that Home equity loans past due 90 days or more would be placed on nonaccrual status. Prior policy required that these loans be past due 180 days before being placed on nonaccrual status.
(c) Nonperforming residential real estate excludes loans of $69 million and $61 million accounted for under the fair value option as of December 31, 2012 and December 31, 2011, respectively.
(d) Pursuant to regulatory guidance issued in the third quarter of 2012, nonperforming consumer loans, primarily home equity and residential mortgage, increased $288 million in 2012 related to changes in treatment of certain loans classified as TDRs, net of charge-offs, resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability. Charge-offs have been taken where the fair value less costs to sell the collateral was less than the recorded investment of the loan and were $128.1 million. Of these loans, approximately 78% were current on their payments at December 31, 2012.
(e) Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.
(f) OREO excludes $380 million and $280 million at December 31, 2012 and December 31, 2011, respectively, related to residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA).

Nonperforming loans also include loans whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. In accordance with applicable accounting guidance, these loans are considered TDRs. See Note 1 Accounting Policies and the TDR section of this Note 5 for additional information. For the year ended December 31, 2012, $3.1 billion of loans held for sale, loans accounted for under the fair value option, pooled purchased impaired loans, as well as certain consumer government insured or guaranteed loans which were evaluated for TDR consideration, are not classified as TDRs. The comparable amount for the year ended December 31, 2011 was $2.7 billion.

Total nonperforming loans in the Nonperforming Assets table above include TDRs of $1.6 billion at December 31, 2012 and $1.1 billion at December 31, 2011. TDRs returned to performing (accruing) status totaled $1.0 billion and $.8 billion at December 31, 2012 and December 31, 2011, respectively, and are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of consecutive performance under the restructured terms. At December 31, 2012 and December 31, 2011, remaining commitments to lend additional funds to debtors in a commercial or consumer TDR were immaterial.

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***Additional Asset Quality Indicators***

We have two overall portfolio segments Commercial Lending and Consumer Lending. Each of these two segments is comprised of one or more loan classes. Classes are characterized by similarities in initial measurement, risk attributes and the manner in which we monitor and assess credit risk. The commercial segment is comprised of the commercial, commercial real estate, equipment lease financing, and commercial purchased impaired loan classes. The consumer segment is comprised of the home equity, residential real estate, credit card, other consumer, and consumer purchased impaired loan classes. Asset quality indicators for each of these loan classes are discussed in more detail below.

***COMMERCIAL LENDING ASSET CLASSES***

***Commercial Loan Class***

For commercial loans, we monitor the performance of the borrower in a disciplined and regular manner based upon the level of credit risk inherent in the loan. To evaluate the level of credit risk, we assign internal risk ratings reflecting the borrower s PD and LGD. This two-dimensional credit risk rating methodology provides risk granularity in the monitoring process on an ongoing basis. These ratings are reviewed and updated on a risk-adjusted basis, generally at least once per year. Additionally, on an annual basis, we update PD rates related to each rating grade based upon internal historical data, augmented by market data. For small balance homogenous pools of commercial loans, mortgages and leases, we apply statistical modeling to assist in determining the probability of default within these pools. Further, on a periodic basis, we update our LGD estimates associated with each rating grade based on historical data. The combination of the PD and LGD ratings assigned to a commercial loan, capturing both the expectations of default and loss severity in event of default, reflects the relative estimated likelihood of loss for that loan at the reporting date. In general, loans with better PD and LGD have a lower likelihood of loss. Conversely, loans with worse PD and LGD have a higher likelihood of loss. The loss amount also considers exposure at date of default (EAD), which we also periodically update based on historical data.

Based upon the amount of exposure and our risk ratings, we follow a formal schedule of written periodic review. On a quarterly basis, we conduct formal reviews of a market or business unit s loan portfolio, focusing on those loans which we perceive to be of higher risk, based upon PDs and LGDs, or weakening credit quality. If circumstances warrant, it is our practice to review any customer obligation and its level of credit risk more frequently. We attempt to proactively manage our loans by using various procedures that are customized to the risk of a given loan, including ongoing outreach, contact, and assessment of obligor financial conditions, collateral inspection and appraisal.

***Commercial Real Estate Loan Class***

We manage credit risk associated with our commercial real estate projects and commercial mortgage activities similar to commercial loans by analyzing PD and LGD. Additionally, risks connected with commercial real estate projects and commercial mortgage activities tend to be correlated to the loan structure and collateral location, project progress and business environment. As a result, these attributes are also monitored and utilized in assessing credit risk.

As with the commercial class, a formal schedule of periodic review is performed to also assess market/geographic risk and business unit/industry risk. Often as a result of these overviews, more in-depth reviews and increased scrutiny are placed on areas of higher risk, including adverse changes in risk ratings, deteriorating operating trends, and/or areas that concern management. The goal of these reviews is to assess risk and take actions to mitigate our exposure to such risks.

***Equipment Lease Financing Loan Class***

We manage credit risk associated with our equipment lease financing class similar to commercial loans by analyzing PD and LGD.

Based upon the dollar amount of the lease and of the level of credit risk, we follow a formal schedule of periodic review. Generally, this occurs on a quarterly basis, although we have established practices to review such credit risk more frequently, if circumstances warrant. Our review process entails analysis of the following factors: equipment value/residual value, exposure levels, jurisdiction risk, industry risk, and guarantor requirements.

***Commercial Purchased Impaired Loans Class***

The credit impacts of purchased impaired loans are primarily determined through the estimation of expected cash flows. Commercial cash flow estimates are influenced by a number of credit related items, which include but are not limited to: estimated collateral values, receipt of additional collateral, secondary trading prices, circumstances of possible and/or ongoing liquidation, capital availability, business operations and payment patterns.

We attempt to proactively manage these factors by using various procedures that are customized to the risk of a given loan. These procedures include a review by our Special Asset Committee (SAC), ongoing outreach, contact, and assessment of obligor financial conditions, collateral inspection and appraisal.

See Note 6 Purchased Loans for additional information.

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*Table 66: Commercial Lending Asset Quality Indicators (a)*

| | | Criticized Commercial Loans | | | |
|---|---|---|---|---|---|
| In millions | Pass Rated (b) | Special Mention (c) | Substandard (d) | Doubtful (e) | Total Loans |
| **December 31, 2012** | | | | | |
| Commercial | $ 78,048 | $ 1,939 | $ 2,600 | $ 145 | $ 82,732 |
| Commercial real estate | 14,898 | 804 | 1,802 | 210 | 17,714 |
| Equipment lease financing | 7,062 | 68 | 112 | 5 | 7,247 |
| Purchased impaired loans | 49 | 60 | 852 | 288 | 1,249 |
| Total commercial lending (f) | $ 100,057 | $ 2,871 | $ 5,366 | $ 648 | $ 108,942 |
| December 31, 2011 | | | | | |
| Commercial | $ 60,649 | $ 1,831 | $ 2,817 | $ 257 | $ 65,554 |
| Commercial real estate | 11,478 | 791 | 2,823 | 400 | 15,492 |
| Equipment lease financing | 6,210 | 48 | 153 | 5 | 6,416 |
| Purchased impaired loans | 107 | 35 | 542 | 168 | 852 |
| Total commercial lending (f) | $ 78,444 | $ 2,705 | $ 6,335 | $ 830 | $ 88,314 |

(a) Based upon PDs and LGDs.
(b) Pass Rated loans include loans not classified as Special Mention , Substandard , or Doubtful .
(c) Special Mention rated loans have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects at some future date. These loans do not expose us to sufficient risk to warrant a more adverse classification at this time.
(d) Substandard rated loans have a well-defined weakness or weaknesses that jeopardize the collection or liquidation of debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.
(e) Doubtful rated loans possess all the inherent weaknesses of a Substandard rated loan with the additional characteristics that the weakness makes collection or liquidation in full improbable due to existing facts, conditions, and values.
(f) Loans are included above based on their contractual terms as Pass , Special Mention , Substandard or Doubtful .

*CONSUMER LENDING ASSET CLASSES*

***Home Equity and Residential Real Estate Loan Classes***

We use several credit quality indicators, including delinquency information, nonperforming loan information, updated credit scores, originated and updated LTV ratios, and geography, to monitor and manage credit risk within the home equity and residential real estate loan classes. We evaluate mortgage loan performance by source originators and loan servicers. A summary of asset quality indicators follows:

Delinquency/Delinquency Rates: We monitor trending of delinquency/delinquency rates for home equity and residential real estate loans. See the Asset Quality section of this Note 5 for additional information.

Nonperforming Loans: We monitor trending of nonperforming loans for home equity and residential real estate loans. See the Asset Quality section of this Note 5 for additional information.

Credit Scores: We use a national third-party provider to update FICO credit scores for home equity loans and lines of credit and residential real estate loans on at least a quarterly basis. The updated scores are incorporated into a series of credit management reports, which are utilized to monitor the risk in the loan classes.

LTV (inclusive of combined loan-to-value (CLTV) ratios for second lien positions): At least semi-annually, we update the property values of real estate collateral and calculate an updated LTV ratio. For open-end credit lines secured by real estate in regions experiencing significant declines in property values, more frequent valuations may occur. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.

Historically, we used, and we continue to use, a combination of original LTV and updated LTV for internal risk management reporting and risk management purposes (e.g., line management, loss mitigation strategies). In addition to the fact that estimated property values by their nature are estimates, given certain data limitations it is important to note that updated LTVs may be based upon management s assumptions (e.g., if an updated LTV is not provided by the third-party service provider, home price index (HPI) changes will be incorporated in arriving at management s estimate of updated LTV).

Geography: Geographic concentrations are monitored to evaluate and manage exposures. Loan purchase programs are sensitive to, and focused within, certain regions to manage geographic exposures and associated risks.

A combination of updated FICO scores, originated and updated LTV ratios and geographic location assigned to home equity loans and lines of credit and residential real estate loans are used to monitor the risk in the loan classes. Loans with higher FICO scores and lower LTVs tend to have a lower level of risk. Conversely, loans with lower FICO scores, higher LTVs, and in certain geographic locations tend to have a higher level of risk.

In the following table, we provide information on home equity and residential real estate outstanding balances and recorded investment. See Note 4 Loans and Commitments to Extend Credit for additional information.

***Table 67: Home Equity and Residential Real Estate Balances***

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Home equity and residential real estate loans - excluding purchased impaired loans (a) | $ 44,700 | $ 41,014 |
| Home equity and residential real estate loans - purchased impaired loans (a) | 6,639 | 6,533 |
| Government insured or guaranteed residential real estate mortgages (a) | 2,231 | 2,884 |
| Purchase accounting, deferred fees and other accounting adjustments | (2,410) | (2,873) |
| Total home equity and residential real estate loans (b) | $ 51,160 | $ 47,558 |

(a) Represents outstanding balance.
(b) Represents recorded investment.

***Table 68: Consumer Real Estate Secured Asset Quality Indicators Excluding Purchased Impaired Loans (a) (b)***

| | Home Equity | | Residential Real Estate | |
|---|---|---|---|---|
| December 31, 2012 - in millions | 1st Liens | 2nd Liens | | Total |
| Current estimated LTV ratios (c) (d) | | | | |
| Greater than or equal to 125% and updated FICO scores: | | | | |
| Greater than 660 | $ 600 | $ 3,293 | $ 856 | $ 4,749 |
| Less than or equal to 660 (e) (f) | 86 | 756 | 210 | 1,052 |
| Missing FICO | 16 | 14 | 16 | 46 |
| Greater than or equal to 100% to less than 125% and updated FICO scores: | | | | |
| Greater than 660 | 907 | 2,960 | 1,108 | 4,975 |
| Less than or equal to 660 (e) (f) | 139 | 541 | 250 | 930 |
| Missing FICO | 25 | 13 | 16 | 54 |
| Greater than or equal to 90% to less than 100% and updated FICO scores: | | | | |
| Greater than 660 | 901 | 1,614 | 796 | 3,311 |
| Less than or equal to 660 | 117 | 230 | 164 | 511 |
| Missing FICO | 47 | 33 | 21 | 101 |
| Less than 90% and updated FICO scores: | | | | |
| Greater than 660 | 8,472 | 9,883 | 4,744 | 23,099 |
| Less than or equal to 660 | 980 | 1,492 | 925 | 3,397 |
| Missing FICO | 987 | 225 | 517 | 1,729 |
| Missing LTV and updated FICO scores: | | | | |
| Greater than 660 | | 1 | | 1 |

| | | | | |
|---|---|---|---|---|
| Less than or equal to 660 | | 7 | 1 | 8 |
| Missing FICO | | | 737 | 737 |
| Total home equity and residential real estate loans | $ 13,277 | $ 21,062 | $ 10,361 | $ 44,700 |

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| December 31, 2011 - in millions | Home Equity (g) 1st Liens | Home Equity (g) 2nd Liens | Residential Real Estate | Total |
|---|---|---|---|---|
| Current estimated LTV ratios (c) (d) | | | | |
| Greater than or equal to 125% and updated FICO scores: | | | | |
| Greater than 660 | $ 481 | $ 3,222 | $ 1,845 | $ 5,548 |
| Less than or equal to 660 (e) (f) | 78 | 747 | 463 | 1,288 |
| Missing FICO | 1 | 9 | 289 | 299 |
| Greater than or equal to 100% to less than 125% and updated FICO scores: | | | | |
| Greater than 660 | 706 | 2,940 | 1,336 | 4,982 |
| Less than or equal to 660 (e) (f) | 127 | 582 | 349 | 1,058 |
| Missing FICO | 1 | 5 | 53 | 59 |
| Greater than or equal to 90% to less than 100% and updated FICO scores: | | | | |
| Greater than 660 | 660 | 1,587 | 760 | 3,007 |
| Less than or equal to 660 | 98 | 255 | 200 | 553 |
| Missing FICO | 8 | 15 | 12 | 35 |
| Less than 90% and updated FICO scores: | | | | |
| Greater than 660 | 6,588 | 9,747 | 3,152 | 19,487 |
| Less than or equal to 660 | 821 | 1,405 | 799 | 3,025 |
| Missing FICO | 679 | 218 | 32 | 929 |
| Missing LTV and updated FICO scores: | | | | |
| Greater than 660 | | 11 | | 11 |
| Less than or equal to 660 | | 2 | | 2 |
| Missing FICO | | | 731 | 731 |
| Total home equity and residential real estate loans | $ 10,248 | $ 20,745 | $ 10,021 | $ 41,014 |

(a) Excludes purchased impaired loans of approximately $6.6 billion and $6.5 billion in outstanding balances, certain government insured or guaranteed residential real estate mortgages of approximately $2.2 billion and $2.9 billion, and loans held for sale at December 31, 2012 and December 31, 2011, respectively. See the Consumer Real Estate Secured Asset Quality Indicators Purchased Impaired Loans table that follows for additional information on purchased impaired loans.

(b) Amounts shown represent outstanding balance.

(c) Based upon updated LTV (inclusive of CLTV for second lien positions).

(d) Updated LTV (inclusive of CLTV for second lien positions) are estimated using modeled property values. These ratios are updated semi-annually. The related estimates and inputs are based upon an approach that uses a combination of third-party automated valuation models (AVMs), HPI indices, property location, internal and external balance information, origination data and management assumptions. In cases where we are in an originated second lien position, we generally utilize origination balances provided by a third-party which do not include an amortization assumption when calculating updated LTV. Accordingly, the results of these calculations do not represent actual appraised loan level collateral or updated LTV based upon a current first lien balance, and as such, are necessarily imprecise and subject to change as we enhance our methodology.

(e) Higher risk loans are defined as loans with both an updated FICO score of less than or equal to 660 and an updated LTV greater than or equal to 100%.

(f) The following states have the highest percentage of higher risk loans at December 31, 2012: New Jersey 14%, Illinois 12%, Pennsylvania 10%, Ohio 10%, Florida 9%, California 9%, and Maryland 5%. The remainder of the states have lower than 5% of the high risk loans individually, and collectively they represent approximately 31% of the higher risk loans. At December 31, 2011, the states with the highest percentage of higher risk loans were as follows: Pennsylvania 13%, New Jersey 13%, Illinois 10%, Ohio 9%, Florida 8%, California 8%, Maryland 5%, and Michigan 5%. The remainder of the states had lower than 3% of the high risk loans individually, and collectively they represented approximately 29% of the higher risk loans.

(g) In the second quarter of 2012, we made changes to the assumptions used to determine home equity first and second lien positions. This resulted in an increase in Home equity 2nd liens of $2.4 billion and a corresponding decrease in Home equity 1st liens as of December 31, 2011.

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***Table 69: Consumer Real Estate Secured Asset Quality Indicators Purchased Impaired Loans (a)***

| | Home Equity (b) (c) | | Residential Real Estate (b) (c) | |
|---|---|---|---|---|
| December 31, 2012 - in millions | 1st Liens | 2nd Liens | | Total |
| Current estimated LTV ratios (d) (e) | | | | |
| Greater than or equal to 125% and updated FICO scores: | | | | |
| Greater than 660 | $ 16 | $ 736 | $ 477 | $ 1,229 |
| Less than or equal to 660 | 15 | 384 | 308 | 707 |
| Missing FICO | | 21 | 11 | 32 |
| Greater than or equal to 100% to less than 125% and updated FICO scores: | | | | |
| Greater than 660 | 21 | 442 | 461 | 924 |
| Less than or equal to 660 | 17 | 210 | 307 | 534 |
| Missing FICO | | 13 | 13 | 26 |
| Greater than or equal to 90% to less than 100% and updated FICO scores: | | | | |
| Greater than 660 | 10 | 119 | 217 | 346 |
| Less than or equal to 660 | 12 | 66 | 196 | 274 |
| Missing FICO | | 3 | 6 | 9 |
| Less than 90% and updated FICO scores: | | | | |
| Greater than 660 | 53 | 387 | 733 | 1,173 |
| Less than or equal to 660 | 96 | 321 | 843 | 1,260 |
| Missing FICO | 1 | 18 | 32 | 51 |
| Missing LTV and updated FICO scores: | | | | |
| Missing FICO | 20 | 7 | 47 | 74 |
| Total home equity and residential real estate loans | $ 261 | $ 2,727 | $ 3,651 | $ 6,639 |

| December 31, 2011 - in millions | Home Equity (b) (c) (f) 1st Liens | 2nd Liens | Residential Real Estate (b) (c) | Total |
|---|---|---|---|---|
| Current estimated LTV ratios (d) (e) | | | | |
| Greater than or equal to 125% and updated FICO scores: | | | | |
| Greater than 660 | $ 15 | $ 833 | $ 361 | $ 1,209 |
| Less than or equal to 660 | 15 | 513 | 681 | 1,209 |
| Missing FICO | | 23 | 38 | 61 |
| Greater than or equal to 100% to less than 125% and updated FICO scores: | | | | |
| Greater than 660 | 17 | 509 | 229 | 755 |
| Less than or equal to 660 | 16 | 286 | 375 | 677 |
| Missing FICO | | 19 | 7 | 26 |
| Greater than or equal to 90% to less than 100% and updated FICO scores: | | | | |
| Greater than 660 | 10 | 127 | 116 | 253 |
| Less than or equal to 660 | 11 | 79 | 208 | 298 |
| Missing FICO | | 5 | 4 | 9 |
| Less than 90% and updated FICO scores: | | | | |
| Greater than 660 | 46 | 423 | 404 | 873 |
| Less than or equal to 660 | 72 | 366 | 679 | 1,117 |
| Missing FICO | 1 | 17 | 22 | 40 |
| Missing LTV and updated FICO scores: | | | | |
| Greater than 660 | | | 1 | 1 |
| Less than or equal to 660 | | 1 | 1 | 2 |
| Missing FICO | | 1 | 2 | 3 |
| Total home equity and residential real estate loans | $ 203 | $ 3,202 | $ 3,128 | $ 6,533 |

(a) Amounts shown represent outstanding balance. See Note 6 Purchased Loans for additional information.

(b) For the estimate of cash flows utilized in our purchased impaired loan accounting, other assumptions and estimates are made, including amortization of first lien balances, pre-payment rates, etc., which are not reflected in this table.

(c) The following states have the highest percentage of loans at December 31, 2012: California 21%, Florida 14%, Illinois 11%, Ohio 7%, Michigan 5%, North Carolina 5% and Georgia at 5%, respectively. The remainder of the states have lower than a 4% concentration of purchased impaired loans individually, and collectively they represent approximately 32% of the purchased impaired portfolio. At December 31, 2011, the states with the highest percentage of loans were as follows: California 22%, Florida 13%, Illinois 12%, Ohio 9%, Michigan 5% and New York 4%. The remainder of the states have lower than a 4% concentration of purchased impaired loans individually, and collectively they represent approximately 35% of the purchased impaired portfolio.

(d) Based upon updated LTV (inclusive of CLTV for second lien positions).

(e) Updated LTV (inclusive of CLTV for second lien positions) are estimated using modeled property values. These ratios are updated semi-annually. The related estimates and inputs are based upon an approach that uses a combination of third-party AVMs, HPI indices, property location, internal and external balance information, origination data and management assumptions. In cases where we are in an originated second lien position, we generally utilize origination balances provided by a third-party which do not include an amortization assumption when calculating updated LTV. Accordingly, the results of these calculations do not represent actual appraised loan level collateral or updated LTV based upon a current first lien balance, and as such, are necessarily imprecise and subject to change as we enhance our methodology.

(f) In the second quarter of 2012, we made changes to the assumptions used to determine lien position. This resulted in a decrease in Home equity 1st liens of $65 million and a corresponding increase in Home equity 2nd liens as of December 31, 2011.

***Credit Card and Other Consumer Loan Classes***

We monitor a variety of asset quality information in the management of the credit card and other consumer loan classes. Other consumer loan classes include education, automobile, and other secured and unsecured lines and loans. Along with the trending of delinquencies and losses for each class, FICO credit score updates are obtained on a monthly basis for credit cards, and at least quarterly for other consumer loans, as well as a variety of credit bureau attributes. Loans with high FICO scores tend to have a lower likelihood of loss. Conversely, loans with low FICO scores tend to have a higher likelihood of loss.

***Consumer Purchased Impaired Loans Class***

Estimates of the expected cash flows primarily determine the credit impacts of consumer purchased impaired loans. Consumer cash flow estimates are influenced by a number of credit related items, which include, but are not limited to: estimated real estate values, payment patterns, updated FICO scores, the current economic environment, updated LTV ratios and the date of origination. These key factors are monitored to help ensure that concentrations of risk are mitigated and cash flows are maximized.

See Note 6 Purchased Loans for additional information.

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*Table 70: Credit Card and Other Consumer Loan Classes Asset Quality Indicators*

| | Credit Card (a) | | Other Consumer (b) | |
|---|---|---|---|---|
| Dollars in millions | Amount | % of Total Loans Using FICO Credit Metric | Amount | % of Total Loans Using FICO Credit Metric |
| **December 31, 2012** | | | | |
| FICO score greater than 719 | $ 2,247 | 52% | $ 7,006 | 60% |
| 650 to 719 | 1,169 | 27 | 2,896 | 25 |
| 620 to 649 | 188 | 5 | 459 | 4 |
| Less than 620 | 271 | 6 | 602 | 5 |
| No FICO score available or required (c) | 428 | 10 | 741 | 6 |
| Total loans using FICO credit metric | 4,303 | 100% | 11,704 | 100% |
| Consumer loans using other internal credit metrics (b) | | | 9,747 | |
| Total loan balance | $ 4,303 | | $ 21,451 | |
| Weighted-average updated FICO score (d) | | 726 | | 739 |
| December 31, 2011 | | | | |
| FICO score greater than 719 | $ 2,016 | 51% | $ 5,556 | 61% |
| 650 to 719 | 1,100 | 28 | 2,125 | 23 |
| 620 to 649 | 184 | 5 | 370 | 4 |
| Less than 620 | 284 | 7 | 548 | 6 |
| No FICO score available or required (c) | 392 | 9 | 574 | 6 |
| Total loans using FICO credit metric | 3,976 | 100% | 9,173 | 100% |
| Consumer loans using other internal credit metrics (b) | | | 9,993 | |
| Total loan balance | $ 3,976 | | $ 19,166 | |
| Weighted-average updated FICO score (d) | | 723 | | 739 |

(a) At December 31, 2012, we had $36 million of credit card loans that are higher risk (i.e., loans with both updated FICO scores less than 660 and in late stage (90+ days) delinquency status). The majority of the December 31, 2012 balance related to higher risk credit card loans is geographically distributed throughout the following areas: Ohio 18%, Pennsylvania 14%, Michigan 12%, Illinois 8%, Indiana 6%, Florida 6%, New Jersey 5%, Kentucky 4%, and North Carolina 4%. All other states, none of which comprise more than 3%, make up the remainder of the balance. At December 31, 2011, we had $49 million of credit card loans that are higher risk. The majority of the December 31, 2011 balance related to higher risk credit card loans is geographically distributed throughout the following areas: Ohio 20%, Michigan 14%, Pennsylvania 13%, Illinois 7%, Indiana 7%, Florida 6% and Kentucky 5%. All other states, none of which comprise more than 4%, make up the remainder of the balance.

(b) Other consumer loans for which updated FICO scores are used as an asset quality indicator include nongovernment guaranteed or insured education loans, automobile loans and other secured and unsecured lines and loans. Other consumer loans (or leases) for which other internal credit metrics are used as an asset quality indicator include primarily government guaranteed or insured education loans, as well as consumer loans to high net worth individuals and pools of auto loans (and leases) financed for PNC clients via securitization facilities. Other internal credit metrics may include delinquency status, geography, loan to value, asset concentrations, loss coverage multiples, net loss rates or other factors as well as servicer quality reviews associated with the securitizations or other factors.

(c) Credit card loans and other consumer loans with no FICO score available or required refers to new accounts issued to borrowers with limited credit history, accounts for which we cannot obtain an updated FICO (e.g., recent profile changes), cards issued with a business name, and/or cards secured by collateral. Management proactively assesses the risk and size of this loan portfolio and, when necessary, takes actions to mitigate the credit risk.

(d) Weighted-average updated FICO score excludes accounts with no FICO score available or required.

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***Troubled Debt Restructurings (TDRs)***

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs typically result from our loss mitigation activities and include rate reductions, principal forgiveness, postponement/reduction of scheduled amortization, extensions, and bankruptcy discharges where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability, which are intended to minimize economic loss and to avoid foreclosure or repossession of collateral. In those situations where principal is forgiven, the amount of such principal forgiveness is immediately charged off.

Some TDRs may not ultimately result in the full collection of principal and interest, as restructured, and result in potential incremental losses. These potential incremental losses have been factored into our overall ALLL estimate. The level of any subsequent defaults will likely be affected by future economic conditions. Once a loan becomes a TDR, it will continue to be reported as a TDR until it is ultimately repaid in full, the collateral is foreclosed upon, or it is fully charged off. We held specific reserves in the ALLL of $587 million and $580 million at December 31, 2012 and December 31, 2011, respectively, for the total TDR portfolio.

***Table 71: Summary of Troubled Debt Restructurings***

| In millions | Dec. 31 2012 | Dec. 31 2011 |
|---|---|---|
| Total consumer lending (a) | $ 2,318 | $ 1,798 |
| Total commercial lending | 541 | 405 |
| Total TDRs | $ 2,859 | $ 2,203 |
| Nonperforming | $ 1,589 | $ 1,141 |
| Accruing (b) | 1,037 | 771 |
| Credit card (c) | 233 | 291 |
| Total TDRs | $ 2,859 | $ 2,203 |

(a) Pursuant to regulatory guidance issued in the third quarter of 2012, additional troubled debt restructurings related to changes in treatment of certain loans of $366 million in 2012, net of charge-offs, resulting from bankruptcy where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability were added to the consumer lending population. The additional TDR population increased nonperforming loans by $288 million. Charge-offs have been taken where the fair value less costs to sell the collateral was less than the recorded investment of the loan and were $128.1 million. Of these nonperforming loans, approximately 78% were current on their payments at December 31, 2012.

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

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

The following table quantifies the number of loans that were classified as TDRs as well as the change in the recorded investments as a result of the TDR classification during the years ended December 31, 2012 and 2011. Additionally, the table provides information about the types of TDR concessions. The Principal Forgiveness TDR category includes principal forgiveness and accrued interest forgiveness. These types of TDRs result in a write down of the recorded investment and a charge-off if such action has not already taken place. The Rate Reduction TDR category includes reduced interest rate and interest deferral. The TDRs within this category would result in reductions to future interest income. The Other TDR category primarily includes postponement/reduction of scheduled amortization, as well as contractual extensions.

In some cases, there have been multiple concessions granted on one loan. When there have been multiple concessions granted, the principal forgiveness TDR was prioritized for purposes of determining the inclusion in the table below. For example, if there is principal forgiveness in conjunction with lower interest rate and postponement of amortization, the type of concession will be reported as Principal Forgiveness. Second in priority would be rate reduction. For example, if there is an interest rate reduction in conjunction with postponement of amortization, the type of concession will be reported as a Rate Reduction.

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***Table 72: Financial Impact and TDRs by Concession Type (a)***

| During the year ended December 31, 2012 | | | Post-TDR Recorded Investment (c) | | | |
|---|---|---|---|---|---|---|
| Dollars in millions | Number of Loans | Pre-TDR Recorded Investment (b) | Principal Forgiveness | Rate Reduction | Other | Total |
| Commercial lending | | | | | | |
| Commercial | 212 | $ 355 | $ 13 | $ 90 | $ 198 | $ 301 |
| Commercial real estate | 67 | 201 | 23 | 43 | 118 | 184 |
| Equipment lease financing | 10 | 24 | 2 | 2 | 12 | 16 |
| Total commercial lending | 289 | 580 | 38 | 135 | 328 | 501 |
| Consumer lending | | | | | | |
| Home equity | 4,813 | 313 | | 200 | 110 | 310 |
| Residential real estate | 754 | 147 | | 60 | 83 | 143 |
| Credit card | 13,306 | 93 | | 90 | | 90 |
| Other consumer | 835 | 20 | | 2 | 19 | 21 |
| Total consumer lending | 19,708 | 573 | | 352 | 212 | 564 |
| Total TDRs | 19,997 | $ 1,153 | $ 38 | $ 487 | $ 540 | $ 1,065 |
| During the year ended December 31, 2011 (e) | | | | | | |
| Dollars in millions | | | | | | |
| Commercial lending | | | | | | |
| Commercial | 599 | $ 129 | $ 19 | $ 33 | $ 60 | $ 112 |
| Commercial real estate | 78 | 286 | 83 | 123 | 54 | 260 |
| Equipment lease financing (d) | 2 | 1 | | | | |
| Total commercial lending | 679 | 416 | 102 | 156 | 114 | 372 |
| Consumer lending | | | | | | |
| Home equity | 4,013 | 321 | | 281 | 39 | 320 |
| Residential real estate | 1,590 | 376 | | 236 | 115 | 351 |
| Credit card | 11,761 | 87 | | 84 | | 84 |
| Other consumer | 472 | 13 | | 1 | 12 | 13 |
| Total consumer lending | 17,836 | 797 | | 602 | 166 | 768 |
| Total TDRs | 18,515 | $ 1,213 | $ 102 | $ 758 | $ 280 | $ 1,140 |

(a) Impact of partial charge-offs at TDR date are included in this table.
(b) Represents the recorded investment of the loans as of the quarter end prior to the TDR designation, and excludes immaterial amounts of accrued interest receivable.
(c) Represents the recorded investment of the TDRs as of the quarter end the TDR occurs, and excludes immaterial amounts of accrued interest receivable.
(d) During 2011, the Post-TDR amounts for the Equipment lease financing loan class total less than $1 million.
(e) Includes loans modified during 2011 that were determined to be TDRs under the requirements of ASU 2011-02, which was adopted on July 1, 2011 and prospectively applied to all modifications entered into on and after January 1, 2011.

TDRs may result in charge-offs and interest income not being recognized. At or around the time of modification, there was $22 million in recorded investment of commercial TDRs, $10 million in recorded investment of commercial real estate TDRs and $5 million of equipment lease financing TDRs charged off during 2012. Comparable amounts for 2011 were $26 million, $15 million and zero respectively. For residential real estate TDRs, there was $7 million of recorded investment charged off during 2012, related to modifications in which principal was partially deferred and deemed uncollectible. The comparable amount for 2011 was $17 million. Charge-offs around the time of modification related to home equity, credit card, and other consumer TDR portfolios were immaterial for both periods.

A financial effect of rate reduction TDRs is that interest income is not recognized. Interest income not recognized that otherwise would have been earned in the year ended

December 31, 2012 and 2011 related to both commercial TDRs and consumer TDRs was not material.

Pursuant to regulatory guidance issued in the third quarter of 2012, management compiled TDR information related to changes in treatment of certain loans where a borrower has been discharged from personal liability in bankruptcy and has not formally reaffirmed its loan obligation to PNC. This information has been reflected in period end balance disclosures for the year ended December 31, 2012. Because of the timing of the compilation of the TDR information and the fact that it covers several periods, $366 million of TDRs, net of $128.1 million of charge-offs, related to this new regulatory guidance, has not been reflected as part of 2012 activity included in Table 72: Financial Impact and TDRs by Concession Type and Table 73: TDRs which have Subsequently Defaulted.

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After a loan is determined to be a TDR, we continue to track its performance under its most recent restructured terms. In the following table, we consider a TDR to have subsequently defaulted when it becomes 60 days past due after the most recent date the loan was restructured. The following table

presents the recorded investment of loans that were classified as TDRs or were subsequently modified during each 12-month period prior to the reporting periods preceding January 1, 2012 and January 1, 2011, respectively, in the table below and subsequently defaulted during these reporting periods.

***Table 73: TDRs which have Subsequently Defaulted***

During the year ended December 31, 2012

| Dollars in millions | Number of Contracts | Recorded Investment |
|---|---|---|
| Commercial lending | | |
| Commercial | 108 | $ 57 |
| Commercial real estate | 41 | 68 |
| Equipment lease financing | 6 | 12 |
| Total commercial lending | 155 | 137 |
| Consumer lending | | |
| Home equity | 542 | 50 |
| Residential real estate | 482 | 70 |
| Credit card | 4,551 | 32 |
| Other consumer | 118 | 4 |
| Total consumer lending | 5,693 | 156 |
| Total TDRs | 5,848 | $ 293 |

During the year ended December 31, 2011 (a)

| Dollars in millions | Number of Contracts | Recorded Investment |
|---|---|---|
| Commercial lending | | |
| Commercial | 37 | $ 57 |
| Commercial real estate | 41 | 136 |
| Total commercial lending (b) | 78 | 193 |
| Consumer lending | | |
| Home equity | 1,166 | 90 |
| Residential real estate | 421 | 93 |
| Credit card | 5,012 | 33 |
| Other consumer | 47 | 1 |
| Total consumer lending | 6,646 | 217 |
| Total TDRs | 6,724 | $ 410 |

(a) Includes loans modified during 2011 that were determined to be TDRs under the requirements of ASU 2011-02, which was adopted on July 1, 2011 and prospectively applied to all modifications entered into on and after January 1, 2011.
(b) During the year ended December 31, 2011, there were no loans classified as TDRs in the Equipment lease financing loan class that have subsequently defaulted.

The impact to the ALLL for commercial lending TDRs is the effect of moving to the specific reserve methodology from the quantitative reserve methodology for those loans that were not already put on nonaccrual status. There is an impact to the ALLL as a result of the concession made, which generally results in the expectation of fewer future cash flows. The decline in expected cash flows, consideration of collateral value, and/or the application of a present value discount rate, when compared to the recorded investment, results in a charge-off or increased ALLL. As

TDRs are individually evaluated under the specific reserve methodology, which builds in expectations of future performance, subsequent defaults do not generally have a significant additional impact to the ALLL.

For consumer lending TDRs, the ALLL is calculated using a discounted cash flow model, which leverages subsequent default, prepayment, and severity rate assumptions based on historically observed data. Similar to the commercial lending specific reserve methodology, the reduced expected cash flows resulting from the concessions granted impact the consumer lending ALLL. The decline in expected cash flows, consideration of collateral value, and/or the application of a present value discount rate, when compared to the recorded investment, results in a charge-off or increased ALLL.

*IMPAIRED LOANS*

Impaired loans include commercial nonperforming loans and consumer and commercial TDRs, regardless of nonperforming status. Excluded from impaired loans are nonperforming leases, loans held for sale, smaller balance homogeneous type loans and purchased impaired loans. See Note 6 Purchased Loans for additional information. Nonperforming equipment lease financing loans of $12 million and $22 million at December 31, 2012 and December 31, 2011, respectively, are

excluded from impaired loans pursuant to authoritative lease accounting guidance. We did not recognize interest income on nonperforming impaired loans while they were in impaired loan status during 2012 and 2011. The following table provides further detail on impaired loans individually evaluated for impairment and the associated ALLL. Certain commercial impaired loans do not have a related ALLL as the valuation of these impaired loans exceeded the recorded investment.

***Table 74: Impaired Loans***

| In millions | Unpaid Principal Balance | Recorded Investment (a) | Associated Allowance (b) | Average Recorded Investment (a) |
|---|---|---|---|---|
| **December 31, 2012** | | | | |
| Impaired loans with an associated allowance | | | | |
| Commercial | $ 824 | $ 523 | $ 150 | $ 653 |
| Commercial real estate | 851 | 594 | 143 | 778 |
| Home equity (c) | 1,239 | 1,134 | 328 | 891 |
| Residential real estate (c) | 1,094 | 894 | 168 | 777 |
| Credit card (c) | 204 | 204 | 48 | 227 |
| Other consumer (c) | 104 | 86 | 3 | 63 |
| Total impaired loans with an associated allowance | $ 4,316 | $ 3,435 | $ 840 | $ 3,389 |
| Impaired loans without an associated allowance | | | | |
| Commercial | $ 362 | $ 126 | | $ 157 |
| Commercial real estate | 562 | 355 | | 400 |
| Total impaired loans without an associated allowance | $ 924 | $ 481 | | $ 557 |
| Total impaired loans | $ 5,240 | $ 3,916 | $ 840 | $ 3,946 |
| December 31, 2011 | | | | |
| Impaired loans with an associated allowance | | | | |
| Commercial | $ 1,125 | $ 785 | $ 241 | $ 979 |
| Commercial real estate | 1,452 | 1,043 | 318 | 1,247 |
| Home equity | 774 | 762 | 292 | 702 |
| Residential real estate | 853 | 730 | 193 | 609 |
| Credit card | 258 | 258 | 53 | 281 |
| Other consumer | 48 | 48 | 3 | 39 |
| Total impaired loans with an associated allowance | $ 4,510 | $ 3,626 | $ 1,100 | $ 3,857 |
| Impaired loans without an associated allowance | | | | |
| Commercial | $ 347 | $ 125 | | $ 104 |
| Commercial real estate | 592 | 342 | | 413 |
| Total impaired loans without an associated allowance | $ 939 | $ 467 | | $ 517 |
| Total impaired loans | $ 5,449 | $ 4,093 | $ 1,100 | $ 4,374 |

(a) Recorded investment in a loan includes the unpaid principal balance plus accrued interest and net accounting adjustments, less any charge-offs. Recorded investment does not include any associated valuation allowance. Average recorded investment is for the years ended December 31, 2012 and December 31, 2011.

(b) Associated allowance amounts include $587 million and $580 million for TDRs at December 31, 2012 and December 31, 2011, respectively.

(c) Pursuant to regulatory guidance issued in the third quarter of 2012, the impact of TDRs where no formal reaffirmation was provided by the borrower and therefore a concession has been granted based upon discharge from personal liability in bankruptcy is included in the table. A portion of these loans have been written down to collateral value.

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## NOTE 6 PURCHASED LOANS

### *PURCHASED IMPAIRED LOANS*

Purchased impaired loans are accounted for under ASC 310-30, which addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. Several factors were considered when evaluating whether a loan was considered a purchased impaired loan, including the delinquency status of the loan, updated borrower credit status, geographic information, and updated loan-to-values (LTV). GAAP allows purchasers to aggregate purchased impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Purchased impaired loans with homogeneous consumer, residential real estate and smaller balance commercial loans with common risk characteristics are aggregated into pools where appropriate. Commercial loans with a total commitment greater than a defined threshold are accounted for individually. The excess of cash flows

expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized as interest income over the remaining life of the loan using the constant effective yield method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Subsequent changes in the expected cash flows of individual or pooled purchased impaired loans from the date of acquisition will either impact the accretable yield or result in an impairment charge to provision for credit losses in the period in which the changes become probable. Decreases to the net present value of expected cash flows will generally result in an impairment charge recorded as a provision for credit losses, resulting in an increase to the allowance for loan and lease losses, and a reclassification from accretable yield to nonaccretable difference. Prepayments and interest rate decreases for variable rate notes are treated as a reduction of cash flows expected to be collected and a reduction of projections of contractual cash flows such that the nonaccretable difference is not affected. Thus, for decreases in cash flows expected to be collected resulting from prepayments and interest rate decreases for variable rate notes, the effect will be to reduce the yield prospectively.

The following table provides purchased impaired loans at December 31, 2012 and December 31, 2011:

***Table 75: Purchased Impaired Loans Balances***

| | December 31, 2012 (a) | | December 31, 2011 (b) | |
|---|---|---|---|---|
| In millions | Recorded Investment | Outstanding Balance | Recorded Investment | Outstanding Balance |
| Commercial Lending | | | | |
| Commercial | $ 308 | $ 524 | $ 140 | $ 245 |
| Commercial real estate | 941 | 1,156 | 712 | 743 |
| Total Commercial Lending | 1,249 | 1,680 | 852 | 988 |
| Consumer Lending | | | | |
| Consumer | 2,621 | 2,988 | 2,766 | 3,405 |
| Residential real estate | 3,536 | 3,651 | 3,049 | 3,128 |
| Total Consumer Lending | 6,157 | 6,639 | 5,815 | 6,533 |
| Total | $ 7,406 | $ 8,319 | $ 6,667 | $ 7,521 |

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

As of December 31, 2011, the allowance for loan and lease losses related to purchased impaired loans was $998 million. During 2012, $173 million of provision and $74 million of charge-offs were recorded on purchased impaired loans. At December 31, 2012, the allowance for loan and lease losses was $1.1 billion on $6.0 billion of purchased impaired loans while the remaining $1.4 billion of purchased impaired loans required no allowance as the net present value of expected cash flows equaled or exceeded the recorded investment. If any allowance for loan losses is recognized on a purchased impaired pool, which is accounted for as a single asset, the

entire balance of that pool would be disclosed as requiring an allowance. Subsequent increases in the net present value of cash flows will result in a recovery of any previously recorded allowance for loan and lease losses, to the extent applicable, and/or a reclassification from non-accretable difference to accretable yield, which will be recognized prospectively. Disposals of loans, which may include sales of loans or foreclosures, result in removal of the loan from the purchased impaired loan portfolio. The cash flow re-estimation process is completed quarterly to evaluate the appropriateness of the allowance associated with the purchased impaired loans.

Activity for the accretable yield for 2012 follows:

***Table 76: Purchased Impaired Loans Accretable Yield (a)***

| In millions | 2012 |
|---|---|
| January 1 | $ 2,109 |
| Addition of accretable yield due to RBC Bank (USA) acquisition on March 2, 2012 | 587 |
| Accretion (including excess cash recoveries) | (828) |
| Net reclassifications to accretable from non-accretable (b) | 327 |
| Disposals | (29) |
| December 31 | $ 2,166 |

(a) The table above has been updated to reflect certain immaterial adjustments.
(b) Over eighty-five percent of the net reclassifications were driven by the commercial portfolio. Over half of the commercial portfolio impact related to excess cash recoveries recognized during the period, with the remaining due to improvements of cash expected to be collected on both RBC Bank (USA) and National City loans in future periods. The remaining net reclassifications were due to future cash flow changes in the consumer portfolio.

***RBC Bank (USA) Acquisition***

Loans acquired as part of the RBC Bank (USA) acquisition on March 2, 2012 had an outstanding balance of $16.7 billion. At purchase, acquired loans were recorded at fair value. No separate valuation allowance was carried over and no allowance was created at acquisition. Fair values were determined by discounting both principal and interest cash flows expected to be collected using a market discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Cash flows expected to be collected as of the acquisition date were estimated using internal models and third party data that incorporate management s best estimate of key assumptions, such as default rates, loss severity, prepayment speeds, and timing of disposition upon default. In addition, each loan was reviewed to determine if it should be classified as a purchased impaired loan accounted for under ASC 310-30. Loans with evidence of credit quality deterioration since origination and for which it was probable at purchase that PNC will be unable to collect all contractually required payments were considered purchased impaired. Several factors were considered when evaluating whether a loan was considered a purchased impaired loan, including the delinquency status of the loan, updated borrower credit status, geographic information, and updated loan-to-values (LTV). In accordance with ASC 310-30, excluded from the purchased impaired loans were leases, revolving credit arrangements and loans held for sale.

As of March 2, 2012, loans were classified as purchased impaired or purchased non-impaired and had a fair value of $2.0 billion and $12.5 billion, respectively, and an outstanding balance of $3.0 billion and $13.7 billion, respectively.

***Table 77: RBC Bank (USA) Acquisition Purchased Loans Balances (a)***

| As of March 2, 2012 | Purchased Impaired Loans | | Other Purchased Loans | |
|---|---|---|---|---|
| In millions | Fair Value | Outstanding Balance | Fair Value | Outstanding Balance |
| Commercial Lending | | | | |
| Commercial | $ 330 | $ 564 | $ 5,954 | $ 6,298 |
| Commercial real estate | 597 | 1,018 | 2,101 | 2,340 |
| Equipment lease financing | | | 86 | 92 |
| Total Commercial Lending | 927 | 1,582 | 8,141 | 8,730 |
| Consumer Lending | | | | |
| Home equity | 175 | 215 | 2,827 | 3,346 |
| Residential real estate | 896 | 1,214 | 1,168 | 1,202 |
| Credit card and other consumer | | | 376 | 385 |

| | | | | |
|---|---|---|---|---|
| Total Consumer Lending | 1,071 | 1,429 | 4,371 | 4,933 |
| Total | $ 1,998 | $ 3,011 | $ 12,512 | $ 13,663 |

(a) The table above has been updated to reflect certain immaterial adjustments and reclassifications between commercial and commercial real estate.

The table below details the contractually required payments, non-accretable difference, accretable yield, and fair value for purchased impaired loans acquired in the RBC Bank (USA) acquisition as of March 2, 2012.

***Table 78: Purchased Impaired Loans RBC Bank (USA) Acquisition(a)***

| In millions | March 2, 2012 |
|---|---|
| Contractually required payments including interest | $ 3,769 |
| Less: Nonaccretable difference | 1,184 |
| Cash flows expected to be collected | 2,585 |
| Less: Accretable yield | 587 |
| Fair value of loans acquired | $ 1,998 |

(a) The table above has been updated to reflect certain immaterial adjustments.

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***RBC Bank (USA) Purchased Non-Impaired Loans***

Other purchased loans acquired in the RBC Bank (USA) acquisition were recorded at fair value as provided in the table below. The difference between the acquisition date fair value and the outstanding balance represents the fair value adjustment for a loan and includes both credit and interest rate considerations. Fair values were determined by discounting both principal and interest cash flows expected to be collected using a market discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Fair value adjustments may be discounts (or premiums) to a loan s cost basis and are accreted (or amortized) to net interest income (or expense) over the loan s remaining life in accordance with ASC 310-20. Fair value adjustments for revolving loans are accreted (or amortized) using a straight line method. Term loans are accreted (or amortized) using the constant effective yield method.

***Table 79: Purchased Non-Impaired Loans Fair Value (a)***

| As of March 2, 2012<br>In millions | Commercial | Commercial Real Estate | Equipment Lease Finance | Home Equity | Residential Real Estate | Credit Card and Other Consumer | Total |
|---|---|---|---|---|---|---|---|
| Outstanding Balance | $ 6,298 | $ 2,340 | $ 92 | $ 3,346 | $ 1,202 | $ 385 | $ 13,663 |
| Less: Fair value adjustment | 344 | 239 | 6 | 519 | 34 | 9 | 1,151 |
| Fair value of loans acquired | $ 5,954 | $ 2,101 | $ 86 | $ 2,827 | $ 1,168 | $ 376 | $ 12,512 |

(a) The table above has been updated to reflect certain immaterial adjustments.

The table below details contractually required payments, cash flows not expected to be collected and cash flows expected to be collected on other purchased loans acquired in connection with the RBC Bank (USA) transaction.

***Table 80: Purchased Non-Impaired Loans Cash Flows(a)***

| As of March 2, 2012<br>In millions | Commercial | Commercial Real Estate | Equipment Lease Finance | Home Equity | Residential Real Estate | Credit Card and Other Consumer | Total |
|---|---|---|---|---|---|---|---|
| Contractually required repayments including interest (b) | $ 6,857 | $ 2,473 | $ 101 | $ 5,003 | $ 1,869 | $ 414 | $ 16,717 |
| Less: Contractual cash flows not expected to be collected | 102 | 129 | 6 | 1,501 | 538 | 189 | 2,465 |
| Cash flows expected to be collected | $ 6,755 | $ 2,344 | $ 95 | $ 3,502 | $ 1,331 | $ 225 | $ 14,252 |

(a) The table above has been updated to reflect certain immaterial adjustments.
(b) Denotes required payments based on a loan s contractual schedule assuming no loss or prepayment.

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## NOTE 7 ALLOWANCES FOR LOAN AND LEASE LOSSES AND UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

We maintain the ALLL and the Allowance for Unfunded Loan Commitments and Letters of Credit at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the portfolios as of the balance sheet date. We use the two main portfolio segments Commercial Lending and Consumer Lending and we develop and document the ALLL under separate methodologies for each of these segments as further discussed and presented below.

### *ALLOWANCE FOR LOAN AND LEASE LOSSES COMPONENTS*

For all loans, except purchased impaired loans, the ALLL is the sum of three components: (i) asset specific/individual impaired reserves, (ii) quantitative (formulaic or pooled) reserves, and (iii) qualitative (judgmental) reserves. See Note 6 Purchased Loans for additional ALLL information. The reserve calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions are periodically updated. During the third quarter of 2012, PNC increased the amount of internally observed data used in estimating the key commercial lending assumptions of PD and LGD.

### *ASSET SPECIFIC/INDIVIDUAL COMPONENT*

Commercial nonperforming loans and all TDRs are considered impaired and are evaluated for a specific reserve. See Note 1 Accounting Policies for additional information.

### *COMMERCIAL LENDING QUANTITATIVE COMPONENT*

The estimates of the quantitative component of ALLL for incurred losses within the commercial lending portfolio segment are determined through statistical loss modeling utilizing PD, LGD, and outstanding balance of the loan. Based upon loan risk ratings we assign PDs and LGDs. Each of these statistical parameters is determined based on internal historical data and market data. PD is influenced by such factors as liquidity, industry, obligor financial structure, access to capital, and cash flow. LGD is influenced by collateral type, original and/or updated LTV, and guarantees by related parties.

### *CONSUMER LENDING QUANTITATIVE COMPONENT*

Quantitative estimates within the consumer lending portfolio segment are calculated using a roll-rate model based on statistical relationships, calculated from historical data that estimate the movement of loan outstandings through the various stages of delinquency and ultimately charge-off.

### *Qualitative Component*

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

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

### *ALLOWANCE FOR RBC BANK (USA) PURCHASED*

### *NON-IMPAIRED LOANS*

ALLL for RBC Bank (USA) purchased non-impaired loans is determined based upon the methodologies described above compared to the remaining acquisition date fair value discount that has yet to be accreted into interest income. After making the comparison, an ALLL is recorded for the amount greater than the discount, or no ALLL is recorded if the discount is greater.

***Allowance for Purchased Impaired Loans***

ALLL for purchased impaired loans is determined in accordance with ASC 310-30 by comparing the net present value of the cash flows expected to be collected to the Recorded Investment for a given loan (or pool of loans). In cases where the net present value of expected cash flows is lower than Recorded Investment, ALLL is established. Cash flows expected to be collected represent management s best estimate of the cash flows expected over the life of a loan (or pool of loans). For large balance commercial loans, cash flows are separately estimated and compared to the Recorded Investment at the loan level. For smaller balance pooled loans, cash flows are estimated using cash flow models and compared at the risk pool level, which was defined at acquisition based on risk characteristics of the loan. Our cash flow models use loan data including, but not limited to, delinquency status of the loan, updated borrower FICO credit scores, geographic information, historical loss experience, and updated LTVs, as well as estimates for unemployment rates, home prices and other economic factors to determine estimated cash flows.

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***Table 81: Rollforward of Allowance for Loan and Lease Losses and Associated Loan Data***

| In millions | Commercial Lending | Consumer Lending | Total |
|---|---|---|---|
| **December 31, 2012** | | | |
| Allowance for Loan and Lease Losses | | | |
| January 1 | $ 1,995 | $ 2,352 | $ 4,347 |
| Charge-offs | (804) | (1,066) | (1,870) |
| Recoveries | 445 | 136 | 581 |
| Net charge-offs | (359) | (930) | (1,289) |
| Provision for credit losses | 138 | 849 | 987 |
| Net change in allowance for unfunded loan commitments and letters of credit | (1) | (9) | (10) |
| Other | 1 | | 1 |
| December 31 | $ 1,774 | $ 2,262 | $ 4,036 |
| TDRs individually evaluated for impairment | $ 40 | $ 547 | $ 587 |
| Other loans individually evaluated for impairment | 253 | | 253 |
| Loans collectively evaluated for impairment | 1,242 | 857 | 2,099 |
| Purchased impaired loans | 239 | 858 | 1,097 |
| December 31 | $ 1,774 | $ 2,262 | $ 4,036 |
| Loan Portfolio | | | |
| TDRs individually evaluated for impairment | $ 541 | $ 2,318 | $ 2,859 |
| Other loans individually evaluated for impairment | 1,057 | | 1,057 |
| Loans collectively evaluated for impairment | 106,095 | 68,439 | 174,534 |
| Purchased impaired loans | 1,249 | 6,157 | 7,406 |
| December 31 | $ 108,942 | $ 76,914 | $ 185,856 |
| Portfolio Segment ALLL as a percentage of total ALLL | 44% | 56% | 100% |
| Ratio of the allowance for loan and lease losses to total loans | 1.63% | 2.94% | 2.17% |
| December 31, 2011 | | | |
| Allowance for Loan and Lease Losses | | | |
| January 1 | $ 2,567 | $ 2,320 | $ 4,887 |
| Charge-offs | (1,199) | (1,065) | (2,264) |
| Recoveries | 487 | 138 | 625 |
| Net charge-offs | (712) | (927) | (1,639) |
| Provision for credit losses | 177 | 975 | 1,152 |
| Net change in allowance for unfunded loan commitments and letters of credit | (36) | (16) | (52) |
| Other | (1) | | (1) |
| December 31 | $ 1,995 | $ 2,352 | $ 4,347 |
| TDRs individually evaluated for impairment | $ 39 | $ 541 | $ 580 |
| Other loans individually evaluated for impairment | 520 | | 520 |
| Loans collectively evaluated for impairment | 1,207 | 1,042 | 2,249 |
| Purchased impaired loans | 229 | 769 | 998 |
| December 31 | $ 1,995 | $ 2,352 | $ 4,347 |
| Loan Portfolio | | | |
| TDRs individually evaluated for impairment | $ 405 | $ 1,798 | $ 2,203 |
| Other loans individually evaluated for impairment | 1,890 | | 1,890 |
| Loans collectively evaluated for impairment | 85,167 | 63,087 | 148,254 |
| Purchased impaired loans | 852 | 5,815 | 6,667 |
| December 31 | $ 88,314 | $ 70,700 | $ 159,014 |
| Portfolio segment ALLL as a percentage of total ALLL | 46% | 54% | 100% |
| Ratio of the allowance for loan and lease losses to total loans | 2.26% | 3.33% | 2.73% |

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***Table 81: Rollforward of Allowance for Loan and Lease Losses and Associated Loan Data***

(continued from previous page)

| In millions | Commercial Lending | Consumer Lending | Total |
|---|---|---|---|
| December 31, 2010 | | | |
| Allowance for Loan and Lease Losses | | | |
| January 1 | $ 3,345 | $ 1,727 | $ 5,072 |
| Charge-offs | (2,017) | (1,475) | (3,492) |
| Recoveries | 427 | 129 | 556 |
| Net charge-offs | (1,590) | (1,346) | (2,936) |
| Provision for credit losses | 704 | 1,798 | 2,502 |
| Adoption of ASU 2009-17, *Consolidations* | | 141 | 141 |
| Net change in allowance for unfunded loan commitments and letters of credit | 108 | | 108 |
| December 31 | $ 2,567 | $ 2,320 | $ 4,887 |
| TDRs individually evaluated for impairment | $ 24 | $ 485 | $ 509 |
| Other loans individually evaluated for impairment | 835 | | 835 |
| Loans collectively evaluated for impairment | 1,419 | 1,227 | 2,646 |
| Purchased impaired loans | 289 | 608 | 897 |
| December 31 | $ 2,567 | $ 2,320 | $ 4,887 |
| Loan Portfolio | | | |
| TDRs individually evaluated for impairment | $ 200 | $ 1,422 | $ 1,622 |
| Other loans individually evaluated for impairment | 2,888 | | 2,888 |
| Loans collectively evaluated for impairment | 75,014 | 63,291 | 138,305 |
| Purchased impaired loans | 1,402 | 6,378 | 7,780 |
| December 31 | $ 79,504 | $ 71,091 | $ 150,595 |
| Portfolio segment ALLL as a percentage of total ALLL | 53% | 47% | 100% |
| Ratio of the allowance for loan and lease losses to total loans | 3.23% | 3.26% | 3.25% |

Net interest income less the provision for credit losses was $8.7 billion for 2012 compared with $7.5 billion for 2011 and $6.7 billion for 2010.

***Allowance for Unfunded Loan Commitments and Letters of Credit***

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is appropriate to absorb estimated probable credit losses on these unfunded credit facilities as of the balance sheet date. See Note 1 Accounting Policies for additional information.

***Table 82: Rollforward of Allowance for Unfunded Loan Commitments and Letters of Credit***

| In millions | 2012 | 2011 | 2010 |
|---|---|---|---|
| January 1 | $ 240 | $ 188 | $ 296 |
| Net change in allowance for unfunded loan commitments and letters of credit | 10 | 52 | (108) |
| December 31 | $ 250 | $ 240 | $ 188 |

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## NOTE 8 INVESTMENT SECURITIES

*Table 83: Investment Securities Summary*

| In millions | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| December 31, 2012 | | | | |
| **SECURITIES AVAILABLE FOR SALE** | | | | |
| Debt securities | | | | |
| US Treasury and government agencies | $ 2,868 | $ 245 | | $ 3,113 |
| Residential mortgage-backed | | | | |
| Agency | 25,844 | 952 | $ (12) | 26,784 |
| Non-agency | 6,102 | 314 | (309) | 6,107 |
| Commercial mortgage-backed | | | | |
| Agency | 602 | 31 | | 633 |
| Non-agency | 3,055 | 210 | (1) | 3,264 |
| Asset-backed | 5,667 | 65 | (79) | 5,653 |
| State and municipal | 2,197 | 111 | (21) | 2,287 |
| Other debt | 2,745 | 103 | (4) | 2,844 |
| Total debt securities | 49,080 | 2,031 | (426) | 50,685 |
| Corporate stocks and other | 367 | | | 367 |
| Total securities available for sale | $ 49,447 | $ 2,031 | $ (426) | $ 51,052 |
| **SECURITIES HELD TO MATURITY** | | | | |
| Debt securities | | | | |
| US Treasury and government agencies | $ 230 | $ 47 | | $ 277 |
| Residential mortgage-backed (agency) | 4,380 | 202 | | 4,582 |
| Commercial mortgage-backed | | | | |
| Agency | 1,287 | 87 | | 1,374 |
| Non-agency | 2,582 | 85 | | 2,667 |
| Asset-backed | 858 | 5 | | 863 |
| State and municipal | 664 | 61 | | 725 |
| Other debt | 353 | 19 | | 372 |
| Total securities held to maturity | $ 10,354 | $ 506 | | $ 10,860 |
| December 31, 2011 | | | | |
| **SECURITIES AVAILABLE FOR SALE** | | | | |
| Debt securities | | | | |
| US Treasury and government agencies | $ 3,369 | $ 348 | | $ 3,717 |
| Residential mortgage-backed | | | | |
| Agency | 26,081 | 772 | $ (61) | 26,792 |
| Non-agency | 6,673 | 152 | (1,268) | 5,557 |
| Commercial mortgage-backed | | | | |
| Agency | 1,101 | 39 | | 1,140 |
| Non-agency | 2,693 | 80 | (17) | 2,756 |
| Asset-backed | 3,854 | 31 | (216) | 3,669 |
| State and municipal | 1,779 | 75 | (47) | 1,807 |
| Other debt | 2,691 | 83 | (12) | 2,762 |
| Total debt securities | 48,241 | 1,580 | (1,621) | 48,200 |
| Corporate stocks and other | 368 | | | 368 |
| Total securities available for sale | $ 48,609 | $ 1,580 | $ (1,621) | $ 48,568 |
| **SECURITIES HELD TO MATURITY** | | | | |
| Debt securities | | | | |
| US Treasury and government agencies | $ 221 | $ 40 | | $ 261 |
| Residential mortgage-backed (agency) | 4,761 | 131 | $ (1) | 4,891 |
| Commercial mortgage-backed | | | | |

| | | | | |
|---|---|---|---|---|
| Agency | 1,332 | 50 | | 1,382 |
| Non-agency | 3,467 | 108 | (2) | 3,573 |
| Asset-backed | 1,251 | 14 | (3) | 1,262 |
| State and municipal | 671 | 31 | | 702 |
| Other debt | 363 | 16 | | 379 |
| Total securities held to maturity | $ 12,066 | $ 390 | $ (6) | $ 12,450 |

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| In millions | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| December 31, 2010 | | | | |
| **SECURITIES AVAILABLE FOR SALE** | | | | |
| Debt securities | | | | |
| US Treasury and government agencies | $ 5,575 | $ 157 | $ (22) | $ 5,710 |
| Residential mortgage-backed | | | | |
| Agency | 31,697 | 443 | (420) | 31,720 |
| Non-agency | 8,193 | 230 | (1,190) | 7,233 |
| Commercial mortgage-backed | | | | |
| Agency | 1,763 | 40 | (6) | 1,797 |
| Non-agency | 1,794 | 73 | (11) | 1,856 |
| Asset-backed | 2,780 | 40 | (238) | 2,582 |
| State and municipal | 1,999 | 30 | (72) | 1,957 |
| Other debt | 3,992 | 102 | (17) | 4,077 |
| Total debt securities | 57,793 | 1,115 | (1,976) | 56,932 |
| Corporate stocks and other | 378 | | | 378 |
| Total securities available for sale | $ 58,171 | $ 1,115 | $ (1,976) | $ 57,310 |
| **SECURITIES HELD TO MATURITY** | | | | |
| Debt securities | | | | |
| Commercial mortgage-backed (non-agency) | $ 4,316 | $ 178 | $ (4) | $ 4,490 |
| Asset-backed | 2,626 | 51 | (1) | 2,676 |
| Other debt | 10 | 1 | | 11 |
| Total securities held to maturity | $ 6,952 | $ 230 | $ (5) | $ 7,177 |

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders equity as accumulated other comprehensive income or loss, net of tax, unless credit-related. Securities held to maturity are carried at amortized cost. At December 31, 2012, accumulated other comprehensive income included pretax gains of $89 million from derivatives used to hedge the purchase of investment securities classified as held to maturity. The gains will be accreted into interest income as an adjustment of yield on the securities.

During 2011, we transferred securities with a fair value of $6.3 billion from available for sale to held to maturity. The securities were reclassified at fair value at the time of transfer and represented a non-cash transaction. Accumulated other comprehensive income included net pretax unrealized gains of $183 million on the securities at transfer, which are being accreted over the remaining life of the related securities as an adjustment of yield in a manner consistent with the amortization of the net premium on the same transferred securities, resulting in no impact on net income. The transfers were completed in order to reduce the impact of price volatility on accumulated other comprehensive income and

certain capital measures, and considered potential changes to regulatory capital requirements under the proposed Basel III capital standards.

The gross unrealized loss on debt securities held to maturity was less than $1 million at December 31, 2012 and $6 million at December 31, 2011, with $73 million and $522 million of positions in a continuous loss position for less than 12 months at December 31, 2012 and December 31, 2011, respectively. The fair value on debt securities held to maturity that were in a continuous loss position for 12 months or more was $56 million and $85 million at December 31, 2012 and December 31, 2011, respectively.

The following table presents gross unrealized loss and fair value of securities available for sale at December 31, 2012 and December 31, 2011. The securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more based on the point in time the fair value declined below the amortized cost basis. The table includes debt securities where a portion of other-than-temporary impairment (OTTI) has been recognized in accumulated other comprehensive income (loss).

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*Table 84: Gross Unrealized Loss and Fair Value of Securities Available for Sale*

| In millions | Unrealized loss position less than 12 months | | Unrealized loss position 12 months or more | | Total | |
|---|---|---|---|---|---|---|
| | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value |
| **December 31, 2012** | | | | | | |
| Debt securities | | | | | | |
| Residential mortgage-backed | | | | | | |
| Agency | $ (9) | $ 1,128 | $ (3) | $ 121 | $ (12) | $ 1,249 |
| Non-agency | (3) | 219 | (306) | 3,185 | (309) | 3,404 |
| Commercial mortgage-backed | | | | | | |
| Agency | | | | | | |
| Non-agency | (1) | 60 | | | (1) | 60 |
| Asset-backed | (1) | 370 | (78) | 625 | (79) | 995 |
| State and municipal | (2) | 240 | (19) | 518 | (21) | 758 |
| Other debt | (2) | 61 | (2) | 15 | (4) | 76 |
| Total | $ (18) | $ 2,078 | $ (408) | $ 4,464 | $ (426) | $ 6,542 |
| December 31, 2011 | | | | | | |
| Debt securities | | | | | | |
| Residential mortgage-backed | | | | | | |
| Agency | $ (24) | $ 2,165 | $ (37) | $ 408 | $ (61) | $ 2,573 |
| Non-agency | (26) | 273 | (1,242) | 4,378 | (1,268) | 4,651 |
| Commercial mortgage-backed | | | | | | |
| Non-agency | (17) | 483 | | | (17) | 483 |
| Asset-backed | (13) | 1,355 | (203) | 764 | (216) | 2,119 |
| State and municipal | (6) | 512 | (41) | 318 | (47) | 830 |
| Other debt | (5) | 240 | (7) | 289 | (12) | 529 |
| Total | $ (91) | $ 5,028 | $ (1,530) | $ 6,157 | $ (1,621) | $ 11,185 |

***Evaluating Investment Securities for Other-than-Temporary Impairments***

For the securities in the preceding table, as of December 31, 2012 we do not intend to sell and believe we will not be required to sell the securities prior to recovery of the amortized cost basis.

On at least a quarterly basis, we conduct a comprehensive security-level assessment on all securities in an unrealized loss position to determine if OTTI exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. An OTTI loss must be recognized for a debt security in an unrealized loss position if

we intend to sell the security or it is more likely than not we will be required to sell the security prior to recovery of its amortized cost basis. In this situation, the amount of loss recognized in income is equal to the difference between the fair value and the amortized cost basis of the security. Even if we do not expect to sell the security, we must evaluate the expected cash flows to be received to determine if we believe a credit loss has occurred. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in income. The portion of the unrealized loss relating to other factors, such as liquidity conditions in the market or changes in market interest rates, is recorded in accumulated other comprehensive income (loss).

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The security-level assessment is performed on each security, regardless of the classification of the security as available for sale or held to maturity. Our assessment considers the security structure, recent security collateral performance metrics if applicable, 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. 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.

For debt securities, a critical component of the evaluation for OTTI is the identification of credit-impaired securities, where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. The paragraphs below describe our process for identifying credit impairment for our most significant categories of securities not backed by the US government or its agencies.

***Non-Agency Residential Mortgage-Backed Securities and Asset-Backed Securities Collateralized by First-Lien and Second-Lien Non-Agency Residential Mortgage Loans***

Potential credit losses on these securities are evaluated on a security by security basis. Collateral performance assumptions are developed for each security after reviewing collateral composition and collateral performance statistics. This includes analyzing recent delinquency roll rates, loss severities, voluntary prepayments, and various other collateral and performance metrics. This information is then combined with general expectations on the housing market, employment, and other economic factors to develop estimates of future performance.

Security level assumptions for prepayments, loan defaults, and loss given default are applied to every security using a third-party cash flow model. The third-party cash flow model then generates projected cash flows according to the structure of each security. Based on the results of the cash flow analysis, we determine whether we will recover the amortized cost basis of our security.

The following table provides detail on the significant assumptions used to determine credit impairment for non-agency residential mortgage-backed and asset-backed securities collateralized by first-lien and second-lien non-agency residential mortgage loans.

***Table 85: Credit Impairment Assessment Assumptions Non-Agency Residential Mortgage-Backed and Asset-Backed Securities (a)***

| December 31, 2012 | Range | Weighted-average (b) |
|---|---|---|
| Long-term prepayment rate (annual CPR) | | |
| Prime | 7 - 20% | 14% |
| Alt-A | 5 - 12 | 6 |
| Option ARM | 3 - 6 | 3 |
| Remaining collateral expected to default | | |
| Prime | 0 - 51% | 19% |
| Alt-A | 2 - 61 | 33 |
| Option ARM | 19 - 73 | 52 |
| Loss severity | | |
| Prime | 25 - 72% | 46% |
| Alt-A | 30 - 85 | 60 |
| Option ARM | 40 - 70 | 60 |

(a) Collateralized by first and second-lien non-agency residential mortgage loans.
(b) Calculated by weighting the relevant assumption for each individual security by the current outstanding cost basis of the security.

***Non-Agency Commercial Mortgage-Backed Securities***

Credit losses on these securities are measured using property-level cash flow projections and forward-looking property valuations. Cash flows are projected using a detailed analysis of net operating income (NOI) by property type which, in turn, is based on the analysis of NOI performance over the past several business cycles combined with PNC s economic outlook for the current cycle. Loss severities are based on property price projections, which are calculated using capitalization rate projections. The capitalization rate projections are based on a combination of historical capitalization rates and expected capitalization rates implied by current market activity, our outlook and relevant independent industry research, analysis and forecasts. Securities exhibiting weaker performance within the model are subject to further analysis. This analysis is performed at the loan level, and includes assessing local market conditions, reserves, occupancy, rent rolls and master/special servicer details.

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During 2012 and 2011, the OTTI credit losses recognized in noninterest income related to estimated credit losses on securities that we do not expect to sell were as follows:

***Table 86: Summary of OTTI Credit Losses Recognized in Earnings***

| Year ended December 31<br>In millions | 2012 | 2011 |
|---|---|---|
| Available for sale securities: | | |
| Non-agency residential mortgage-backed | $ (99) | $ (130) |
| Asset-backed | (11) | (21) |
| Other debt | (1) | (1) |
| Total | $ (111) | $ (152) |

***Table 87: Summary of OTTI Noncredit (Losses) Recoveries Included in Accumulated Other Comprehensive Income (Loss)***

| In millions | 2012 | 2011 |
|---|---|---|
| Total | $ 32 | $ (268) |

The following table presents a rollforward of the cumulative OTTI credit losses recognized in earnings for all debt securities for which a portion of an OTTI loss was recognized in accumulated other comprehensive income (loss):

***Table 88: Rollforward of Cumulative OTTI Credit Losses Recognized in Earnings***

| In millions | Non-agency residential mortgage-backed | Non-agency commercial mortgage-backed | Asset-backed | Other debt | Total |
|---|---|---|---|---|---|
| December 31, 2010 | $ (709) | $ (11) | $ (223) | $ (12) | $ (955) |
| Loss where impairment was not previously recognized | (18) | | (3) | (1) | (22) |
| Additional loss where credit impairment was previously recognized | (112) | | (18) | | (130) |
| Reduction due to credit impaired securities sold | 11 | 5 | | | 16 |
| December 31, 2011 | (828) | (6) | (244) | (13) | (1,091) |
| Loss where impairment was not previously recognized | (9) | | | (1) | (10) |
| Additional loss where credit impairment was previously recognized | (90) | | (11) | | (101) |
| Reduction due to credit impaired securities sold | 1 | | | | 1 |
| December 31, 2012 | $ (926) | $ (6) | $ (255) | $ (14) | $ (1,201) |

Information relating to gross realized securities gains and losses from the sales of securities is set forth in the following table.

***Table 89: Gains (Losses) on Sales of Securities Available for Sale***

| In millions | Proceeds | Gross Gains | Gross Losses | Net Gains | Tax Expense |
|---|---|---|---|---|---|
| For the year ended December 31 | | | | | |
| 2012 | $ 9,441 | $ 214 | $ (10) | $ 204 | $ 71 |
| 2011 | 21,039 | 406 | (157) | 249 | 87 |
| 2010 | 23,783 | 490 | (64) | 426 | 149 |

The following table presents, by remaining contractual maturity, the amortized cost, fair value and weighted-average yield of debt securities at December 31, 2012.

***Table 90: Contractual Maturity of Debt Securities***

| December 31, 2012<br>Dollars in millions | 1 Year or Less | After 1 Year through 5 Years | After 5 Years through 10 Years | After 10 Years | Total |
|---|---|---|---|---|---|
| **Securities Available for Sale** | | | | | |
| US Treasury and government agencies | $ 2 | $ 1,096 | $ 1,321 | $ 449 | $ 2,868 |
| Residential mortgage-backed | | | | | |
| Agency | | 22 | 488 | 25,334 | 25,844 |
| Non-agency | | 2 | 17 | 6,083 | 6,102 |
| Commercial mortgage-backed | | | | | |
| Agency | 1 | 550 | 51 | | 602 |
| Non-agency | | 174 | 106 | 2,775 | 3,055 |
| Asset-backed | | 1,063 | 1,511 | 3,093 | 5,667 |
| State and municipal | 24 | 51 | 447 | 1,675 | 2,197 |
| Other debt | 390 | 1,389 | 575 | 391 | 2,745 |
| Total debt securities available for sale | $ 417 | $ 4,347 | $ 4,516 | $ 39,800 | $ 49,080 |
| Fair value | $ 420 | $ 4,490 | $ 4,729 | $ 41,046 | $ 50,685 |
| Weighted-average yield, GAAP basis | 2.83% | 2.57% | 2.44% | 3.37% | 3.21% |
| **Securities Held to Maturity** | | | | | |
| US Treasury and government agencies | | | | $ 230 | $ 230 |
| Residential mortgage-backed (agency) | | | | 4,380 | 4,380 |
| Commercial mortgage-backed | | | | | |
| Agency | | $ 318 | $ 964 | 5 | 1,287 |
| Non-agency | $ 1 | 53 | | 2,528 | 2,582 |
| Asset-backed | | 124 | 64 | 670 | 858 |
| State and municipal | 25 | 25 | 279 | 335 | 664 |
| Other debt | | 1 | 352 | | 353 |
| Total debt securities held to maturity | $ 26 | $ 521 | $ 1,659 | $ 8,148 | $ 10,354 |
| Fair value | $ 26 | $ 538 | $ 1,777 | $ 8,519 | $ 10,860 |
| Weighted-average yield, GAAP basis | 1.73% | 3.39% | 3.44% | 4.03% | 3.90% |

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Based on current interest rates and expected prepayment speeds, the weighted-average expected maturity of mortgage and other asset-backed debt securities were as follows as of December 31, 2012:

***Table 91: Weighted-Average Expected Maturity of Mortgage and Other Asset-Backed Debt Securities***

| | December 31 2012 |
|---|---|
| Agency residential mortgage-backed securities | 3.3 years |
| Non-agency residential mortgage-backed securities | 5.4 years |
| Agency commercial mortgage-backed securities | 4.7 years |
| Non-agency commercial mortgage-backed securities | 2.6 years |
| Asset-backed securities | 4.1 years |

Weighted-average yields are based on historical cost with effective yields weighted for the contractual maturity of each security. At December 31, 2012, there were no securities of a single issuer, other than FNMA and FHLMC, which exceeded 10% of total shareholders equity.

The following table presents the fair value of securities that have been either pledged to or accepted from others to collateralize outstanding borrowings.

***Table 92: Fair Value of Securities Pledged and Accepted as Collateral***

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Pledged to others | $ 25,648 | $ 20,109 |
| Accepted from others: | | |
| Permitted by contract or custom to sell or repledge | 1,015 | 1,796 |
| Permitted amount repledged to others | 685 | 892 |

The securities pledged to others include positions held in our portfolio of investment securities, trading securities, and securities accepted as collateral from others that we are permitted by contract or custom to sell or repledge, and were used to secure public and trust deposits, repurchase agreements, and for other purposes. The securities accepted from others that we are permitted by contract or custom to sell or repledge are a component of Federal funds sold and resale agreements on our Consolidated Balance Sheet.

## NOTE 9 FAIR VALUE

### *FAIR VALUE MEASUREMENT*

Fair value is defined in GAAP as the price that would be received to sell an asset or the price that would be paid to transfer a liability on the measurement date. The standard focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP establishes a fair value reporting hierarchy to maximize the use of observable inputs when measuring fair value and defines the three levels of inputs as noted below.

Level 1

Fair value is determined using a quoted price in an active market for identical assets or liabilities. Level 1 assets and liabilities may include debt securities, equity securities and listed derivative contracts that are traded in an active exchange market and certain US Treasury securities that are actively traded in over-the-counter markets.

Level 2

Fair value is estimated using inputs other than quoted prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly. Level 2 assets and liabilities may include debt securities, equity securities and listed derivative contracts with quoted prices that are traded in markets that are not active, and certain debt and equity securities and over-the-counter derivative contracts whose fair value is determined using a pricing model without significant unobservable inputs. This category generally includes US government agency debt securities, agency residential and commercial mortgage-backed debt securities, asset-backed debt securities, corporate debt securities, residential mortgage loans held for sale, corporate trading loans and derivative contracts.

Level 3

Fair value is estimated using unobservable inputs that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities may include financial instruments whose value is determined using pricing services, pricing models with internally developed assumptions, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain available for sale and trading securities, commercial mortgage loans held for sale, certain residential mortgage loans and loans held for sale, private equity investments, residential mortgage servicing rights, BlackRock Series C Preferred Stock and certain financial derivative contracts. The available for sale and trading securities within Level 3 include non-agency residential mortgage-backed securities, auction rate securities, certain private-issuer asset-backed securities and corporate debt securities. Assets which have been adjusted due to impairment are accounted for at fair value on a nonrecurring basis and consist primarily of certain nonaccrual loans, loans held for sale, commercial mortgage servicing rights, equity investments and other assets.

We characterize active markets as those where transaction volumes are sufficient to provide objective pricing information, with reasonably narrow bid/ask spreads and where dealer quotes received do not vary widely and are based on current information. Inactive markets are typically characterized by low transaction volumes, price quotations that vary substantially among market participants or are not based on current information, wide bid/ask spreads, a significant increase in implied liquidity risk premiums, yields, or performance indicators for observed transactions or quoted prices compared to historical periods, a significant decline or absence of a market for new issuance, or any combination of the above factors. We also consider nonperformance risks including credit risk as part of our valuation methodology for all assets and liabilities measured at fair value.

Any models used to determine fair values or to validate dealer quotes based on the descriptions below are subject to review and independent testing as part of our model validation and internal control testing processes. Our Model Risk Management Committee reviews significant models on at least an annual basis. In addition, we have teams, independent of the traders, which verify marks and assumptions used for valuations at each period end.

Assets and liabilities measured at fair value, by their nature, result in a higher degree of financial statement volatility. Assets and liabilities classified within Level 3 inherently require the use of various assumptions, estimates and judgments when measuring their fair value. As observable market activity is commonly not available to use when estimating the fair value of Level 3 assets and liabilities, we must estimate fair value using various modeling techniques. These techniques include the use of a variety of inputs/assumptions including credit quality, liquidity, interest rates or other relevant inputs across the entire population of our Level 3 assets and liabilities. Changes in the significant underlying factors or assumptions (either an increase or a decrease) in any of these areas underlying our estimates may result in a significant increase/decrease in the Level 3 fair value measurement of a particular asset and/or liability from period to period.

*FINANCIAL INSTRUMENTS ACCOUNTED FOR AT FAIR VALUE ON A RECURRING BASIS*

***Securities Available for Sale and Trading Securities***

Securities accounted for at fair value include both the available for sale and trading portfolios. We primarily use prices obtained from pricing services, dealer quotes, or recent trades to determine the fair value of securities. As of December 31, 2012, 84% of the positions in these portfolios were priced by using pricing services provided by third-party vendors. The third-party vendors use a variety of methods when pricing securities that incorporate relevant market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. One of the vendor s prices are set with reference to market activity for highly liquid assets such as U.S. Treasury and agency securities and agency residential mortgage-backed securities, and matrix pricing for other asset classes, such as commercial mortgage and other asset-backed securities. Another vendor primarily uses discounted cash flow pricing models considering adjustments for spreads and prepayments for the instruments we value using this service, such as non-agency residential mortgage-backed securities, agency adjustable rate mortgage securities, agency collateralized mortgage obligations (CMOs), commercial mortgage-backed securities and municipal bonds. The vendors we use provide pricing services on a global basis and have quality management processes in place to monitor the integrity of the valuation inputs and the prices provided to users, including procedures to consider and incorporate information received from pricing service users who may challenge a price. We monitor and validate the reliability of vendor pricing on an ongoing basis through pricing methodology reviews, by performing detailed reviews of the assumptions and inputs used by the vendor to price individual securities, and through price validation testing. Price validation testing is performed independent of the risk-taking function and involves corroborating the prices received from third-party vendors with prices from another third-party source, by reviewing valuations of comparable instruments, by comparison to internal valuations, or by reference to recent sales of similar securities. Securities not priced by one of our pricing vendors may be valued using a dealer quote. Dealer quotes received are typically non-binding. Securities priced using a dealer quote are subject to corroboration either with another dealer quote, by comparison to similar securities priced by either a third-party vendor or another dealer, or through internal valuation in order to validate that the quote is representative of the market. Security prices are also validated through actual cash settlement upon sale of a security.

A cross-functional team comprised of representatives from Asset & Liability Management, Finance, and Market Risk Management oversees the governance of the processes and methodologies used to estimate the fair value of securities and the price validation testing that is performed. This management team reviews pricing sources and trends and the results of validation testing.

Securities are classified within the fair value hierarchy after giving consideration to the activity level in the market for the security type and the observability of the inputs used to determine the fair value. When a quoted price in an active market exists for the identical security, this price is used to determine fair value and the security is classified within Level 1 of the hierarchy. Level 1 securities include certain U.S. Treasury securities and exchange traded equities. When a quoted price in an active market for the identical security is not available, fair value is estimated using either an alternative market approach, such as a recent trade or matrix pricing, or an income approach, such as a discounted cash flow pricing model. If the inputs to the valuation are based primarily on market observable information, then the security is classified within Level 2 of the hierarchy. Level 2 securities include agency debt securities, agency residential mortgage-backed securities, agency and non-agency commercial mortgage-backed securities, asset-backed securities collateralized by non-mortgage-related consumer loans, municipal securities, and other debt securities. Level 2 securities are predominantly priced by third parties, either a pricing vendor or dealer.

In certain cases where there is limited activity or less transparency around the inputs to the valuation, securities are classified within Level 3 of the hierarchy. Securities classified as Level 3 consist primarily of non-agency residential mortgage-backed and asset-backed securities collateralized by first- and second-lien residential mortgage loans. Fair value for these securities is primarily estimated using pricing obtained from third-party vendors. In some cases, fair value is estimated using a dealer quote, by reference to prices of securities of a similar vintage and collateral type or by reference to recent sales of similar securities. Market activity for these security types is limited with little price transparency. As a result, these securities are generally valued by the third-party vendor using a discounted cash flow approach that incorporates observable market activity where available. Significant inputs to the valuation include prepayment projections and credit loss assumptions (default rate and loss severity) and discount rates that are deemed representative of current market conditions. The discount rates used incorporate a spread over the benchmark curve that takes into consideration liquidity risk and potential credit risk not already included in the credit loss assumptions. Significant increases (decreases) in any of those assumptions in isolation would result in a significantly lower (higher) fair value measurement. Prepayment estimates generally increase when market interest rates decline and decrease when market interest rates rise. Credit loss estimates are driven by the ability of borrowers to pay their loans and housing market prices and are impacted by changes in overall macroeconomic conditions, typically increasing when economic conditions worsen and decreasing when conditions improve. An increase in the estimated prepayment rate typically results in a decrease in estimated credit losses and vice versa. Discount rates typically increase when market interest rates increase and/or credit and liquidity risks increase and decrease when market

interest rates decline and/or credit and liquidity conditions improve. Price validation procedures are performed and the results are reviewed for these Level 3 securities by a cross-functional Asset & Liability Management, Finance, and Market Risk Management team. Specific price validation procedures performed for these securities include comparing current prices to historical pricing trends by collateral type and vintage, comparing prices by product type to indicative pricing grids published by market makers, and by obtaining corroborating prices from another third-party source.

Certain infrequently traded debt securities within the State and municipal and Other debt securities available-for-sale and Trading securities categories are also classified in Level 3. The significant unobservable inputs used to estimate the fair value of these securities include an estimate of expected credit losses and a discount for liquidity risk. These inputs are incorporated into the fair value measurement by either increasing the spread over the benchmark curve or by applying a credit and liquidity discount to the par value of the security. Significant increases (decreases) in credit and/or liquidity risk could result in a significantly lower (higher) fair value estimate.

***Financial Derivatives***

Exchange-traded derivatives are valued using quoted market prices and are classified as Level 1. However, the majority of derivatives that we enter into are executed over-the-counter and are valued using internal models. These derivatives are primarily classified as Level 2 as the readily observable market inputs to these models are validated to external sources. The external sources for these inputs include industry pricing services, or are corroborated through recent trades, dealer quotes, yield curves, implied volatility or other market-related data. Level 2 financial derivatives are primarily estimated using a combination of Eurodollar future prices and observable benchmark interest rate swaps to construct projected discounted cash flows. Financial derivatives that are priced using significant management judgment or assumptions are classified as Level 3.

Fair value information for Level 3 financial derivatives is presented separately for interest rate contracts and other contracts. Interest rate contracts include residential and commercial mortgage interest rate lock commitments and certain interest rate options. Other contracts include risk participation agreements, certain equity options and other types of contracts.

Significant unobservable inputs for residential mortgage loan commitments include the probability of funding and embedded servicing. The probability of funding for residential mortgage loan commitments represents the expected proportion of loan commitments in the pipeline that will fund. Additionally, embedded in the market price of the underlying loan is a value for retaining servicing of the loan once it is sold. Significant increases (decreases) in the fair value of a

residential mortgage loan commitment asset (liability) result when the probability of funding increases (decreases) and when the embedded servicing value increases (decreases).

The fair value of commercial mortgage loan commitment assets and liabilities as of December 31, 2012 are included in the Insignificant Level 3 assets, net of liabilities line item in Table 95: Fair Value Measurement Recurring Quantitative Information in this Note 9. Significant unobservable inputs for commercial mortgage loan commitments include spread over the benchmark U.S. Treasury interest rate and the embedded servicing value. The spread over the benchmark curve reflects management assumptions regarding credit and liquidity risks. Embedded servicing value reflects the estimated value for retaining the right to service the underlying loan once it is sold. Significant increases (decreases) in the fair value of commercial mortgage loan commitments result when the spread over the benchmark curve decreases (increases) or the embedded servicing value increases (decreases).

The fair value of interest rate option assets and liabilities as of December 31, 2012 are included in the Insignificant Level 3 assets, net of liabilities line item in Table 95: Fair Value Measurement Recurring Quantitative Information in this Note 9. The significant unobservable input used in the fair value measurement of the interest rate options is expected interest rate volatility. Significant increases (decreases) in interest rate volatility would result in a significantly higher (lower) fair value measurement.

The fair value of risk participation agreement assets and liabilities as of December 31, 2012 are included in the Insignificant Level 3 assets, net of liabilities line item in Table 95: Fair Value Measurement Recurring Quantitative Information in this Note 9. The significant unobservable inputs used in the fair value measurement of risk participation agreements are probability of default and loss severity. Significant increases (decreases) in probability of default and loss severity would result in a significantly higher (lower) fair value measurement.

Significant unobservable inputs for the other contracts for derivative liabilities include credit and liquidity discount and spread over the benchmark curve that are deemed representative of current market conditions. Significant increases (decreases) in these assumptions would result in significantly lower (higher) fair value measurement.

In connection with the sales of certain Visa Class B common shares in 2012, we entered into swap agreements with the purchaser of the shares to account for future changes in the value of the Class B common shares resulting from changes in the settlement of certain specified litigation and its effect on the conversion rate of Class B common shares into Visa Class A common shares and to make payments calculated by reference to the market price of the Class A common shares. At December 31, 2012, the estimated fair values of the swap

liabilities are classified as Level 3 instruments and included in Table 95: Fair Value Measurement Recurring Quantitative Information in this Note 9. The fair values of the swap agreements are determined using a discounted cash flow methodology. The significant unobservable inputs to the valuations are estimated changes in the conversion rate of the Class B shares into Class A shares and the estimated future price of the Class A shares. A decrease in the conversion rate will have a negative impact on the fair value of the swaps and vice versa. Independent of changes in the conversion rate, an increase in the future Class A share price will have a negative impact on the fair value of the swaps and vice versa, through its impact on periodic payments due to the counterparty until the maturity dates of the swaps.

The fair values of our derivatives are adjusted for nonperformance risk through the calculation of our Credit Valuation Adjustment (CVA). Our CVA is computed using new loan pricing and considers externally available bond spreads, in conjunction with internal historical recovery observations.

***Residential Mortgage Loans Held for Sale***

We account for certain residential mortgage loans originated for sale at fair value on a recurring basis. We have elected to account for certain RBC Bank (USA) residential mortgage loans held for sale at fair value. The election of the fair value option aligns the accounting for the residential mortgages with the related hedges. Additionally, with the exception of repurchased FHA insured loans which are accounted for at amortized cost, we have elected to account for loans repurchased due to breaches of representations and warranties at fair value.

Residential mortgage loans are valued based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. These loans are regularly traded in active markets and observable pricing information is available from market participants. The prices are adjusted as necessary to include the embedded servicing value in the loans and to take into consideration the specific characteristics of certain loans that are priced based on the pricing of similar loans. These adjustments represent unobservable inputs to the valuation but are not considered significant given the relative insensitivity of the value to changes in these inputs to the fair value of the loans. Accordingly, the majority of residential mortgage loans held for sale are classified as Level 2. This category also includes repurchased and temporarily unsalable residential mortgage loans. These loans are repurchased due to a breach of representations and warranties in the loan sales agreement and typically occur after the loan is in default. The temporarily unsalable loans have an origination defect that makes them currently unable to be sold into the performing loan sales market. Because transaction details regarding sales of this type of loan are often unavailable, unobservable bid information from brokers and investors is heavily relied upon. Accordingly, based on the significance of unobservable inputs, these loans are classified as Level 3.

***Residential Mortgage Servicing Rights***

Residential mortgage servicing rights (MSRs) are carried at fair value on a recurring basis. Assumptions incorporated into the residential MSRs valuation model reflect management s best estimate of factors that a market participant would use in valuing the residential MSRs. Although sales of residential MSRs do occur, residential MSRs do not trade in an active, open market with readily observable prices so the precise terms and conditions of sales are not available. As a benchmark for the reasonableness of its residential MSRs fair value, PNC obtained opinions of value from independent parties ( brokers ). These brokers provided a range (+/- 10 bps) based upon their own discounted cash flow calculations of our portfolio that reflect conditions in the secondary market and any recently executed servicing transactions. PNC compares its internally-developed residential MSRs value to the ranges of values received from the brokers. If our residential MSRs fair value falls outside of the brokers ranges, management will assess whether a valuation adjustment is warranted. For the periods presented, PNC s residential MSRs value did not fall outside of the brokers ranges. We consider our residential MSRs value to represent a reasonable estimate of fair value. Due to the nature of the valuation inputs, residential MSRs are classified as Level 3.

The significant unobservable inputs used in the fair value measurement of residential MSRs are constant prepayment rates and spread over the benchmark curve. Significant increases (decreases) in prepayment rates and spread over the benchmark curve would result in lower (higher) fair market value of residential MSRs.

***Commercial Mortgage Loans Held for Sale***

We account for certain commercial mortgage loans classified as held for sale at fair value. The election of the fair value option aligns the accounting for the commercial mortgages with the related hedges.

We determine the fair value of commercial mortgage loans held for sale by using a discounted cash flow model. Fair value is determined using sale valuation assumptions that management believes a market participant would use in pricing the loans. When available, valuation assumptions include observable inputs based on the benchmark LIBOR interest rate swap curve and whole loan sales. The significant unobservable input is management s assumption of the spread applied to the benchmark rate. The spread over the benchmark curve includes management s assumptions of the impact of credit and liquidity risk. Significant increases (decreases) in the spread applied to the benchmark would result in a significantly lower (higher) asset value. The wide range of the spread over the benchmark curve is due to the varying risk and underlying property characteristics within our portfolio. Based on the significance of unobservable inputs, we classified this portfolio as Level 3.

***Equity Investments***

The valuation of direct and indirect private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such investments. The carrying values of direct and affiliated partnership interests reflect the expected exit price and are based on various techniques including multiples of adjusted earnings of the entity, independent appraisals, anticipated financing and sale transactions with third parties, or the pricing used to value the entity in a recent financing transaction. A multiple of adjusted earnings calculation is the valuation technique utilized most frequently and the multiple of earnings is the primary and most significant unobservable input used in such calculation. The multiple of earnings is utilized in conjunction with portfolio company financial results and our ownership interest in portfolio company securities to determine PNC s interest in the enterprise value of the portfolio company. Significant decreases (increases) in the multiple of earnings could result in a significantly lower (higher) fair value measurement. The magnitude of the change in fair value is dependent on the significance of the change in the multiple of earnings and the significance of portfolio company adjusted earnings. Valuation inputs or analysis are supported by portfolio company or market documentation. Due to the size, private and unique nature of each portfolio company, lack of liquidity and the long-term nature of investments, relevant benchmarking is not always feasible. A valuation committee reviews the portfolio company valuations on a quarterly basis and oversight is provided by senior management of the business.

We value indirect investments in private equity funds based on net asset value as provided in the financial statements that we receive from their managers. Due to the time lag in our receipt of the financial information and based on a review of investments and valuation techniques applied, adjustments to the manager-provided value are made when available recent portfolio company information or market information indicates a significant change in value from that provided by the manager of the fund. These investments are classified as Level 3.

***Customer Resale Agreements***

We have elected to account for structured resale agreements, which are economically hedged using free-standing financial derivatives, at fair value. The fair value for structured resale agreements is determined using a model that includes observable market data such as interest rates as inputs. Readily observable market inputs to this model can be validated to external sources, including yield curves, implied volatility or other market-related data. These instruments are classified as Level 2.

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***Loans***

Loans accounted for at fair value consist primarily of residential mortgage loans. These loans are generally valued similarly to residential mortgage loans held for sale and are classified as Level 2. However, similar to residential mortgage loans held for sale, if these loans are repurchased and unsalable, they are classified as Level 3. This category also includes repurchased brokered home equity loans. These loans are repurchased due to a breach of representations or warranties in the loan sales agreements and occur typically after the loan is in default. The fair value price is based on bids and market observations of transactions of similar vintage. Because transaction details regarding the credit and underwriting quality are often unavailable, unobservable bid information from brokers and investors is heavily relied upon. Accordingly, based on the significance of unobservable inputs, these loans are classified as Level 3. The fair value of these loans as of December 31, 2012 is included in the Insignificant Level 3 assets, net of liabilities line item in Table 95: Fair Value Measurement Recurring Quantitative Information in this Note 9. A significant input to the valuation includes a credit and liquidity discount that is deemed representative of current market conditions. Significant increases (decreases) in this assumption would result in a significantly lower (higher) fair value measurement.

***BlackRock Series C Preferred Stock***

We have elected to account for the shares of BlackRock Series C Preferred Stock received in a stock exchange with BlackRock at fair value. In September 2011, we delivered approximately 1.3 million shares of BlackRock Series C Preferred Stock pursuant to our obligation to partially fund a portion of certain BlackRock LTIP programs. On January 31, 2013, we transferred an additional 205,350 shares to BlackRock in connection with our obligation. After this transfer, we hold approximately 1.3 million shares of BlackRock Series C Preferred Stock which are available to fund our obligation in connection with the BlackRock LTIP programs. The Series C Preferred Stock economically hedges the BlackRock LTIP liability that is accounted for as a derivative. The fair value of the Series C Preferred Stock is

determined using a third-party modeling approach, which includes both observable and unobservable inputs. This approach considers expectations of a default/liquidation event and the use of liquidity discounts based on our inability to sell the security at a fair, open market price in a timely manner. Although dividends are equal to common shares and other preferred series, significant transfer restrictions exist on our Series C shares for any purpose other than to satisfy the LTIP obligation. Due to the significance of unobservable inputs, this security is classified as Level 3. Significant increases (decreases) in the liquidity discount would result in a significantly lower (higher) asset value for the BlackRock Series C and vice versa for the BlackRock LTIP liability.

***Other Assets and Liabilities***

We have entered into a prepaid forward contract with a financial institution to mitigate the risk on a portion of the Company s deferred compensation, supplemental incentive savings plan liabilities and certain stock based compensation awards that are based on the Company s stock price and are subject to market risk. The prepaid forward contract is initially valued at the transaction price and is subsequently valued by reference to the market price of the Company s stock and is recorded in either Other Assets or Other Liabilities at fair value. In addition, deferred compensation and supplemental incentive savings plan participants may also invest based on fixed income and equity-based funds. The Company utilizes a Rabbi Trust to hedge the returns by purchasing the same funds on which the participant returns are based. The Rabbi Trust balances are recorded in Other Assets at fair value using the quoted market price. These assets are primarily being classified in Levels 1 and 2. The other asset category also includes FHLB interests and the retained interests related to the Small Business Administration (SBA) securitizations which are classified as Level 3. All Level 3 other assets are included in the Insignificant Level 3 assets, net of liabilities line item in Table 95: Fair Value Measurement Recurring Quantitative Information in this Note 9.

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Assets and liabilities measured at fair value on a recurring basis, including instruments for which PNC has elected the fair value option, follow.

***Table 93: Fair Value Measurements Summary***

| | December 31, 2012 | | | | December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| In millions | Level 1 | Level 2 | Level 3 | Total Fair Value | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Assets | | | | | | | | |
| Securities available for sale | | | | | | | | |
| US Treasury and government agencies | $ 2,269 | $ 844 | | $ 3,113 | $ 1,659 | $ 2,058 | | $ 3,717 |
| Residential mortgage-backed | | | | | | | | |
| Agency | | 26,784 | | 26,784 | | 26,792 | | 26,792 |
| Non-agency | | | $ 6,107 | 6,107 | | | $ 5,557 | 5,557 |
| Commercial mortgage-backed | | | | | | | | |
| Agency | | 633 | | 633 | | 1,140 | | 1,140 |
| Non-agency | | 3,264 | | 3,264 | | 2,756 | | 2,756 |
| Asset-backed | | 4,945 | 708 | 5,653 | | 2,882 | 787 | 3,669 |
| State and municipal | | 1,948 | 339 | 2,287 | | 1,471 | 336 | 1,807 |
| Other debt | | 2,796 | 48 | 2,844 | | 2,713 | 49 | 2,762 |
| Total debt securities | 2,269 | 41,214 | 7,202 | 50,685 | 1,659 | 39,812 | 6,729 | 48,200 |
| Corporate stocks and other | 351 | 16 | | 367 | 368 | | | 368 |
| Total securities available for sale | 2,620 | 41,230 | 7,202 | 51,052 | 2,027 | 39,812 | 6,729 | 48,568 |
| Financial derivatives (a) (b) | | | | | | | | |
| Interest rate contracts | 5 | 8,326 | 101 | 8,432 | | 9,150 | 60 | 9,210 |
| Other contracts | | 131 | 5 | 136 | | 246 | 7 | 253 |
| Total financial derivatives | 5 | 8,457 | 106 | 8,568 | | 9,396 | 67 | 9,463 |
| Residential mortgage loans held for sale (c) | | 2,069 | 27 | 2,096 | | 1,415 | | 1,415 |
| Trading securities (d) | | | | | | | | |
| Debt (e) (f) | 1,062 | 951 | 32 | 2,045 | 1,058 | 1,371 | 39 | 2,468 |
| Equity | 42 | 9 | | 51 | 42 | 3 | | 45 |
| Total trading securities | 1,104 | 960 | 32 | 2,096 | 1,100 | 1,374 | 39 | 2,513 |
| Trading loans | | 76 | | 76 | | | | |
| Residential mortgage servicing rights (g) | | | 650 | 650 | | | 647 | 647 |
| Commercial mortgage loans held for sale (c) | | | 772 | 772 | | | 843 | 843 |
| Equity investments | | | | | | | | |
| Direct investments | | | 1,171 | 1,171 | | | 856 | 856 |
| Indirect investments (h) | | | 642 | 642 | | | 648 | 648 |
| Total equity investments | | | 1,813 | 1,813 | | | 1,504 | 1,504 |
| Customer resale agreements (i) | | 256 | | 256 | | 732 | | 732 |
| Loans (j) | | 110 | 134 | 244 | | 99 | 5 | 104 |
| Other assets | | | | | | | | |
| BlackRock Series C Preferred Stock (k) | | | 243 | 243 | | | 210 | 210 |
| Other | 283 | 194 | 9 | 486 | 280 | 140 | 9 | 429 |
| Total other assets | 283 | 194 | 252 | 729 | 280 | 140 | 219 | 639 |
| Total assets | $ 4,012 | $ 53,352 | $ 10,988 | $ 68,352 | $ 3,407 | $ 52,968 | $ 10,053 | $ 66,428 |
| Liabilities | | | | | | | | |
| Financial derivatives (b) (l) | | | | | | | | |
| Interest rate contracts | $ 1 | $ 6,105 | $ 12 | $ 6,118 | | $ 7,065 | $ 6 | $ 7,071 |
| BlackRock LTIP | | | 243 | 243 | | | 210 | 210 |
| Other contracts | | 128 | 121 | 249 | | 233 | 92 | 325 |
| Total financial derivatives | 1 | 6,233 | 376 | 6,610 | | 7,298 | 308 | 7,606 |
| Trading securities sold short (m) | | | | | | | | |
| Debt | 731 | 10 | | 741 | $ 997 | 19 | | 1,016 |
| Total trading securities sold short | 731 | 10 | | 741 | 997 | 19 | | 1,016 |
| Other liabilities | | 5 | | 5 | | 3 | | 3 |
| Total liabilities | $ 732 | $ 6,248 | $ 376 | $ 7,356 | $ 997 | $ 7,320 | $ 308 | $ 8,625 |

(a) Included in Other assets on our Consolidated Balance Sheet.

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(b) Amounts at December 31, 2012 and December 31, 2011 are presented gross and are not reduced by the impact of legally enforceable master netting agreements that allow PNC to net positive and negative positions and cash collateral held or placed with the same counterparty. At December 31, 2012 and December 31, 2011, respectively, the net asset amounts were $2.4 billion and $2.4 billion and the net liability amounts were $.6 billion and $.7 billion.
(c) Included in Loans held for sale on our Consolidated Balance Sheet. PNC has elected the fair value option for certain commercial and residential mortgage loans held for sale.
(d) Fair value includes net unrealized gains of $59 million at December 31, 2012 compared with net unrealized gains of $102 million at December 31, 2011.
(e) Approximately 25% of these securities are residential mortgage-backed securities and 52% are US Treasury and government agencies securities at December 31, 2012. Comparable amounts at December 31, 2011 were 57% and 34%, respectively.
(f) At December 31, 2011, $1.1 billion of residential mortgage-backed agency securities with embedded derivatives were carried in Trading securities. At December 31, 2012, the balance was zero.
(g) Included in Other intangible assets on our Consolidated Balance Sheet.
(h) The indirect equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee, which we expect to occur over the next twelve years. The amount of unfunded contractual commitments related to indirect equity investments was $145 million and related to direct equity investments was $37 million as of December 31, 2012, respectively.
(i) Included in Federal funds sold and resale agreements on our Consolidated Balance Sheet. PNC has elected the fair value option for these items.
(j) Included in Loans on our Consolidated Balance Sheet.
(k) PNC has elected the fair value option for these shares.
(l) Included in Other liabilities on our Consolidated Balance Sheet.
(m) Included in Other borrowed funds on our Consolidated Balance Sheet.

Reconciliations of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for 2012 and 2011 follow.

***Table 94: Reconciliation of Level 3 Assets and Liabilities***

***Year Ended December 31, 2012***

| | | Total realized / unrealized gains or losses for the period (a) | | | | | | | | | Unrealized gains (losses) on assets and liabilities held on |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Level 3 Instruments Only<br>In millions | Fair Value Dec. 31, 2011 | Included in Earnings | Included in Other comprehensive income | Purchases | Sales | Issuances | Settlements | Transfers into Level 3 (b) | Transfers out of Level 3 (b) | Fair Value Dec. 31, 2012 | Consolidated Balance Sheet at Dec. 31, 2012 (c) |
| Assets | | | | | | | | | | | |
| Securities available for sale | | | | | | | | | | | |
| Residential mortgage- backed non-agency | $ 5,557 | $ 76 | $ 1,178 | $ 49 | $ (164) | | $ (1,047) | $ 458 | | $ 6,107 | $ (99) |
| Commercial mortgage-backed non-agency | | 1 | | | | | (1) | | | | |
| Asset-backed | 787 | (7) | 142 | | (87) | | (127) | | | 708 | (11) |
| State and municipal | 336 | | 21 | 6 | | | (4) | 20 | $ (40) | 339 | |
| Other debt | 49 | (1) | 1 | 16 | (17) | | | | | 48 | (1) |
| Total securities available for sale | 6,729 | 69 | 1,342 | 71 | (268) | | (1,179) | 478 | (40) | 7,202 | (111) |
| Financial derivatives | 67 | 433 | | 5 | | | (400) | 3 | (2) | 106 | 364 |
| Residential mortgage loans held for sale | | | | | | | | 27 | | 27 | |
| Trading securities Debt | 39 | 7 | | | | | (14) | | | 32 | 3 |
| Residential mortgage servicing rights | 647 | (138) | | 191 | | $ 117 | (167) | | | 650 | (123) |
| Commercial mortgage loans held for sale | 843 | (5) | | | (26) | | (40) | | | 772 | (8) |
| Equity investments | | | | | | | | | | | |
| Direct investments | 856 | 91 | | 399 | (175) | | | | | 1,171 | 71 |
| Indirect investments | 648 | 102 | | 63 | (171) | | | | | 642 | 94 |
| Total equity investments | 1,504 | 193 | | 462 | (346) | | | | | 1,813 | 165 |
| Loans | 5 | | | 3 | | | (1) | 127 | | 134 | |
| Other assets | | | | | | | | | | | |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BlackRock Series C Preferred Stock | 210 | 33 | | | | | | | | 243 | 33 |
| Other | 9 | | | | | | | | | 9 | |
| Total other assets | 219 | 33 | | | | | | | | 252 | 33 |
| Total assets | $ 10,053 | $ 592(e) | $ 1,342 | $ 732 | $ (640) | $ 117 | $ (1,801) | $ 635 | $ (42) | $ 10,988 | $ 323(f) |
| Total liabilities (d) | $ 308 | $ 134(e) | | | $ 3 | | $ (68) | $ 1 | $ (2) | $ 376 | $ 69(f) |

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***Year Ended December 31, 2011***

| Level 3 Instruments Only<br>In millions | Fair Value Dec. 31, 2010 | Total realized / unrealized gains or losses for the period (a)<br>Included in Earnings | Included in Other comprehensive income | Purchases | Sales | Issuances | Settlements | Transfers out of Level 3 (b) | Fair Value Dec. 31, 2011 | Unrealized gains (losses) on assets and liabilities held on Consolidated Balance Sheet at Dec. 31, 2011 (c) |
|---|---|---|---|---|---|---|---|---|---|---|
| Assets | | | | | | | | | | |
| Securities available for sale | | | | | | | | | | |
| Residential mortgage-backed non-agency | $ 7,233 | $ (80) | $ (157) | $ 45 | $ (280) | | $ (1,204) | | $ 5,557 | $ (130) |
| Asset-backed | 1,045 | (11) | 21 | 48 | | | (316) | | 787 | (21) |
| State and municipal | 228 | | 10 | 121 | | | (23) | | 336 | |
| Other debt | 73 | (2) | 3 | 3 | (3) | | 1 | $ (26) | 49 | (1) |
| Corporate stocks and other | 4 | | | | | | (4) | | | |
| Total securities available for sale | 8,583 | (93) | (123) | 217 | (283) | | (1,546) | (26) | 6,729 | (152) |
| Financial derivatives | 77 | 263 | | 5 | | | (278) | | 67 | 188 |
| Trading securities Debt | 69 | 4 | | | | | (29) | (5) | 39 | (5) |
| Residential mortgage servicing rights | 1,033 | (406) | | 65 | | $ 118 | (163) | | 647 | (383) |
| Commercial mortgage loans held for sale | 877 | 3 | | | (13) | | (24) | | 843 | (4) |
| Equity investments | | | | | | | | | | |
| Direct investments | 749 | 87 | | 176 | (156) | | | | 856 | 58 |
| Indirect investments | 635 | 89 | | 66 | (142) | | | | 648 | 91 |
| Total equity investments | 1,384 | 176 | | 242 | (298) | | | | 1,504 | 149 |
| Loans | 2 | | | 4 | | | (1) | | 5 | |
| Other assets | | | | | | | | | | |
| BlackRock Series C | | | | | | | | | | |
| Preferred Stock | 396 | (14) | | | | | (172) | | 210 | (14) |
| Other | 11 | | | 1 | (2) | | (1) | | 9 | |
| Total other assets | 407 | (14) | | 1 | (2) | | (173) | | 219 | (14) |
| Total assets | $ 12,432 | $ (67)(e) | $ (123) | $ 534 | $ (596) | $ 118 | $ (2,214) | $ (31) | $ 10,053 | $ (221)(f) |
| Total liabilities (d) | $ 460 | $ 7(e) | | | $ 10 | | $ (169) | | $ 308 | $ (17)(f) |

(a) Losses for assets are bracketed while losses for liabilities are not.
(b) PNC s policy is to recognize transfers in and transfers out as of the end of the reporting period.
(c) The amount of the total gains or losses for the period included in earnings that is attributable to the change in unrealized gains or losses related to those assets and liabilities held at the end of the reporting period.
(d) Financial derivatives, which includes $43 million related to swaps entered into in connection with sales of certain Visa Class B common shares which were included in earnings in 2012.
(e) Net gains (realized and unrealized) included in earnings relating to Level 3 assets and liabilities were $458 million for 2012 compared with net losses (realized and unrealized) of $74 million for 2011. These amounts also included amortization and accretion of $189 million for 2012 compared with $109 million for 2011. The amortization and accretion amounts were included in Interest income on the Consolidated Income Statement, and the remaining net gains/(losses) (realized and unrealized) were included in Noninterest income on the Consolidated Income Statement.
(f) Net unrealized gains relating to those assets and liabilities held at the end of the reporting period were $254 million for 2012, compared with net unrealized losses of $204 million for 2011. These amounts were included in Noninterest income on the Consolidated Income Statement.

An instrument s categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. PNC reviews and updates fair value hierarchy classifications quarterly. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification (transfer) of assets or liabilities between hierarchy levels. PNC s policy is to recognize transfers in and transfers out as of the end of the reporting period. During 2012, there were transfers of securities available for sale from Level 2 to Level 3 of $478 million consisting of mortgage-backed securities as a result of a ratings downgrade which reduced the observability of

valuation inputs and certain state and municipal securities with valuation inputs that were determined to be unobservable. Level 2 to Level 3 transfers also included $127 million and $27 million for loans and residential mortgage loans held for sale, respectively, as a result of reduced market activity in the nonperforming residential mortgage sales market which reduced the observability of valuation inputs. Also during 2012, there was a transfer out of Level 3 securities available for sale of $40 million due to an instrument being reclassified to a loan and no longer being carried at fair value. During 2011, there were no material transfers of assets or liabilities between the hierarchy levels.

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Quantitative information about the significant unobservable inputs within Level 3 recurring assets and liabilities follows.

***Table 95: Fair Value Measurement Recurring Quantitative Information***

| **Level 3 Instruments Only**<br>Dollars in millions | Fair Value Dec. 31 2012 | Valuation Techniques | Unobservable Inputs | Range (Weighted Average) | |
|---|---|---|---|---|---|
| Residential mortgage-backed non-agency | $ 6,107 | Priced by a third-party vendor using a discounted cash flow pricing model (a) | Constant prepayment rate (CPR) | 1.0%-30.0% (5.0%) | (a) |
| | | | Constant default rate (CDR) | 0.0%-24.0% (7.0%) | (a) |
| | | | Loss Severity | 10.0%-95.0% (52.0%) | (a) |
| | | | Spread over the benchmark curve (b) | 315bps weighted average | (a) |
| Asset-backed | 708 | Priced by a third-party vendor using a discounted cash flow pricing model (a) | Constant prepayment rate (CPR) | 1.0%-11.0% (3.0%) | (a) |
| | | | Constant default rate (CDR) | 1.0%-25.0% (9.0%) | (a) |
| | | | Loss Severity | 10.0%-100.0% (70.0%) | (a) |
| | | | Spread over the benchmark curve (b) | 511bps weighted average | (a) |
| State and municipal | 130 | Discounted cash flow | Spread over the benchmark curve (b) | 100bps-280bps (119bps) | |
| | 209 | Consensus pricing (c) | Credit and Liquidity discount | 0.0%-30.0% (8.0%) | |
| Other debt | 48 | Consensus pricing (c) | Credit and Liquidity discount | 7.0%-95.0% (86.0%) | |
| Residential mortgage loan commitments | 85 | Discounted cash flow | Probability of funding | 8.5%-99.0% (71.1%) | |
| | | | Embedded servicing value | .5%-1.2% (.9%) | |
| Trading securities Debt | 32 | Consensus pricing (c) | Credit and Liquidity discount | 8.0%-20.0% (12.0%) | |
| Residential mortgage loans held for sale | 27 | Consensus pricing (c) | Cumulative default rate | 2.6%-100.0% (76.1%) | |
| | | | Loss Severity | 0.0%-92.7% (55.8%) | |
| | | | Gross discount rate | 14.0%-15.3% (14.9%) | |
| Residential mortgage servicing rights | 650 | Discounted cash flow | Constant prepayment rate (CPR) | 3.9%-57.3% (18.8%) | |
| | | | Spread over the benchmark curve (b) | 939bps-1,929bps (1,115bps) | |
| Commercial mortgage loans held for sale | 772 | Discounted cash flow | Spread over the benchmark curve (b) | 485bps-4,155bps (999bps) | |
| Equity investments Direct investments | 1,171 | Multiple of adjusted earnings | Multiple of earnings | 4.5-10.0 (7.1) | |
| Equity investments Indirect (d) | 642 | Net asset value | Net asset value | | |
| Loans | 127 | Consensus pricing (c) | Cumulative default rate | 2.6%-100.0% (76.3%) | |
| | | | Loss Severity | 0.0%-99.4% (61.1%) | |
| | | | Gross discount rate | 12.0%-12.5% (12.2%) | |
| BlackRock Series C Preferred Stock | 243 | Consensus pricing (c) | Liquidity discount | 22.5% | |
| BlackRock LTIP | (243) | Consensus pricing (c) | Liquidity discount | 22.5% | |
| Other derivative contracts | (72) | Discounted cash flow | Credit and Liquidity discount | 37.0%-99.0% (46.0%) | |
| | | | Spread over the benchmark curve (b) | 79bps | |

| | | | | |
|---|---|---|---|---|
| Swaps related to sales of certain Visa Class B common shares | (43) | Discounted cash flow | Estimated conversion factor of Class B shares into Class A shares | 41.5% |
| | | | Estimated growth rate of Visa Class A share price | 12.6% |
| Insignificant Level 3 assets, net of liabilities (e) | 19 | | | |
| Total Level 3 assets, net of liabilities (f) | $ 10,612 | | | |

(a) Level 3 residential mortgage-backed non-agency and asset-backed securities with fair values as of December 31, 2012 totaling $5,363 million and $677 million, respectively, were priced by a third-party vendor using a discounted cash flow pricing model, that incorporates consensus pricing, where available. The significant unobservable inputs for these securities were provided by the third-party vendor and are disclosed in the table. Our procedures to validate the prices provided by the third-party vendor related to these securities are discussed further in the Fair Value Measurement section of this Note 9. Certain Level 3 residential mortgage-backed non-agency and asset-backed securities with fair value as of December 31, 2012 of $744 million and $31 million, respectively, were valued using a pricing source, such as a dealer quote or comparable security price, for which the significant unobservable inputs used to determine the price were not reasonably available.

(b) The assumed yield spread over the benchmark curve for each instrument is generally intended to incorporate non-interest-rate risks such as credit and liquidity risks.

(c) Consensus pricing refers to fair value estimates that are generally internally developed using information such as dealer quotes or other third-party provided valuations or comparable asset prices.

(d) The range on these indirect equity investments has not been disclosed since these investments are recorded at their net asset redemption values.

(e) Represents the aggregate amount of Level 3 assets and liabilities measured at fair value on a recurring basis that are individually and in the aggregate insignificant. The amount includes loans and certain financial derivative assets and liabilities and other assets.

(f) Consists of total Level 3 assets of $10,988 million and total Level 3 liabilities of $376 million.

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*OTHER FINANCIAL ASSETS ACCOUNTED FOR AT FAIR VALUE ON A NONRECURRING BASIS*

We may be required to measure certain other financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower-of-cost-or-fair value accounting or write-downs of individual assets due to impairment and are included in Table 96: Fair Value Measurements Nonrecurring and Table 97: Fair Value Measurements Nonrecurring Quantitative Information.

***Nonaccrual Loans***

The amounts below for nonaccrual loans represent the fair value of those loans which have been adjusted due to impairment. The impairment is primarily based on the appraised value of the collateral or LGD percentage. The LGD percentage is used to determine the weighted average loss severity of the nonaccrual loans.

As part of the appraisal process, persons ordering or reviewing appraisals are independent of the asset manager. Appraisals must be provided by licensed or certified appraisers and conform to the Uniform Standards of Professional Appraisal Practice. For loans secured by commercial properties where the underlying collateral is in excess of $250,000, appraisals are obtained at least annually. In certain instances (e.g., physical changes in the property), a more recent appraisal is obtained. Additionally, borrower ordered appraisals are not permitted, and PNC ordered appraisals are regularly reviewed. For loans secured by commercial properties where the underlying collateral is $250,000 and less, there is no requirement to obtain an appraisal. In instances where an appraisal is not obtained, the collateral value is determined consistent with external third-party appraisal standards by an internal person independent of the asset manager. PNC has a real estate valuation services group whose sole function is to manage the real estate appraisal solicitation and evaluation process for commercial loans. All third-party appraisals are reviewed by this group, including consideration of comments/questions on the appraisal by the reviewer, customer relationship manager, credit officer, and underwriter. Upon resolving these comments/questions through discussions with the third-party appraiser, adjustments to the initial appraisal may occur and be incorporated into the final issued appraisal report.

If an appraisal is outdated due to changed project or market conditions, or if the net book value is utilized, management uses an LGD percentage which represents the exposure PNC expects to lose in the event a borrower defaults on an obligation. Accordingly, LGD, which represents the loss severity, is a function of collateral recovery rates and loan-to-value. Those rates are established based upon actual PNC loss experience and external market data. In instances where we have agreed to sell the property to a third party, the fair value is based on the contractual sales price adjusted for costs to sell. In these instances, the most significant unobservable input is the appraised value or the sales price. The estimated

costs to sell are incremental direct costs to transact a sale such as broker commissions, legal, closing costs and title transfer fees. The costs must be essential to the sale and would not have been incurred if the decision to sell had not been made. The costs to sell are based on costs associated with our actual sales of commercial and residential OREO and foreclosed assets, which are assessed annually.

***Loans Held for Sale***

The amounts below for loans held for sale include the carrying value of commercial mortgage loans which are intended to be sold with servicing retained. The fair value of the commercial mortgage loans is determined using discounted cash flows. Significant observable market data includes the applicable benchmark U.S. Treasury interest rates. These instruments are classified within Level 3. Significant unobservable inputs include a spread over the benchmark curve and the embedded servicing value. Significant increases (decreases) to the spread over the benchmark curve would result in a significantly lower (higher) carrying value of the assets. Significant increases (decreases) in the embedded servicing value would result in significantly higher (lower) carrying value.

Loans held for sale also includes syndicated commercial loan inventory. The fair value of the syndicated commercial loan inventory is primarily determined based on prices provided by a third-party vendor. The third-party vendor prices are based upon dealer quotes. These instruments are classified within Level 2. There were no loans held for sale categorized as Level 2 at December 31, 2012.

***Equity Investments***

The amounts below for equity investments represent the carrying value of Low Income Housing Tax Credit (LIHTC) investments held for sale calculated using a discounted cash flow model. The significant unobservable input is management s estimate of required market rate of return. The market rate of return is based on comparison to recent LIHTC sales in the market. Significant increases (decreases) in this input would result in a significantly lower (higher) carrying value of the investments.

***Commercial Mortgage Servicing Rights***

Commercial MSRs are periodically evaluated for impairment and the amounts below reflect an impairment of two strata at December 31, 2012 and three strata at December 31, 2011, respectively. For purposes of impairment, the commercial MSRs are stratified based on asset type, which characterizes the predominant risk of the underlying financial asset. The fair value of commercial MSRs is estimated by using a discounted cash flow model incorporating unobservable inputs for assumptions as to constant prepayment rates, discount rates and other factors. Significant increases (decreases) in constant prepayment rates and discount rates would result in significantly lower (higher) commercial MSR value determined based on current market conditions and expectations.

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***OREO and Foreclosed Assets***

The amounts below for OREO and foreclosed assets represent the carrying value of OREO and foreclosed assets for which valuation adjustments were recorded subsequent to the transfer to OREO and foreclosed assets. Valuation adjustments are based on the fair value less cost to sell of the property. Fair value is based on appraised value or sales price.

The appraisal process for OREO and foreclosed properties is the same as described above for nonaccrual loans. In instances where we have agreed to sell the property to a third party, the fair value is based on the contractual sale price adjusted for costs to sell. The significant unobservable inputs for OREO and foreclosed assets are the appraised value or the sales price. The estimated costs to sell are incremental direct costs to transact a sale such as broker commissions, legal, closing costs and title transfer fees. The costs must be essential to the sale and would not have been incurred if the decision to sell had not been made. The costs to sell are based on costs associated with our actual sales of commercial and residential OREO and foreclosed assets, which are assessed annually.

***Long-Lived Assets Held for Sale***

The amounts below for Long-lived assets held for sale represent the carrying value of the asset for which valuation adjustments were recorded during the current year and subsequent to the transfer to Long-lived assets held for sale. Valuation adjustments are based on the fair value of the property less an estimated cost to sell. Fair value is determined either by a recent appraisal, recent sales offer or changes in market or property conditions. Appraisals are provided by licensed or certified appraisers. Where we have agreed to sell the property to a third party, the fair value is based on the contractual sale price. The significant unobservable inputs for Long-lived assets held for sale are the appraised value, the sales price or the changes in market or property conditions. Changes in market or property conditions are subjectively determined by management through observation of the physical condition of the property along with the condition of properties in the surrounding market place. The availability and recent sales of similar properties is also considered. The range of fair values can vary significantly as this category often includes smaller properties such as offsite ATM locations and smaller rural branches up to large commercial buildings, operation centers or urban branches.

***Table 96: Fair Value Measurements Nonrecurring (a)***

| | Fair Value | |
|---|---|---|
| In millions | December 31 2012 | December 31 2011 |
| **Assets** | | |
| Nonaccrual loans | $ 158 | $ 253 |
| Loans held for sale | 315 | 130 |
| Equity investments | 12 | 1 |
| Commercial mortgage servicing rights | 191 | 457 |
| OREO and foreclosed assets | 207 | 223 |
| Long-lived assets held for sale | 24 | 17 |
| Total assets | $ 907 | $ 1,081 |

| Year ended December 31 | Gains (Losses) | | |
|---|---|---|---|
| In millions | 2012 | 2011 | 2010 |
| **Assets** | | | |
| Nonaccrual loans | $ (68) | $ (49) | $ 81 |
| Loans held for sale | (4) | (2) | (93) |
| Equity investments | | (2) | (3) |
| Commercial mortgage servicing rights | (5) | (157) | (40) |
| OREO and foreclosed assets | (73) | (71) | (103) |
| Long-lived assets held for sale | (20) | (5) | (30) |
| Total assets | $ (170) | $ (286) | $ (188) |

(a) All Level 3 as of December 31, 2012.

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Quantitative information about the significant unobservable inputs within Level 3 nonrecurring assets follows.

***Table 97: Fair Value Measurements Nonrecurring Quantitative Information***

| Level 3 Instruments Only<br>Dollars in millions | | Fair Value December 31, 2012 | Valuation Techniques | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|---|
| Assets | | | | | |
| Nonaccrual loans (a) | $ | 90 | Fair value of collateral | Loss severity | 4.6% - 97.2% (58.1%) |
| Loans held for sale | | 315 | Discounted cash flow | Spread over the benchmark curve (b) | 40bps - 233bps (86bps) |
| | | | | Embedded servicing value | .8% - 2.6% (2.0%) |
| Equity investments | | 12 | Discounted cash flow | Market rate of return | 4.6% - 6.5% (5.4%) |
| Commercial mortgage servicing rights | | 191 | Discounted cash flow | Constant prepayment rate (CPR) | 7.1% - 20.1% (7.8%) |
| | | | | Discount rate | 5.6% - 7.8% (7.7%) |
| Other (c) | | 299 | Fair value of property or collateral | Appraised value/sales price | Not meaningful |
| Total Assets | $ | 907 | | | |

(a) The fair value of nonaccrual loans included in this line item is determined based on internal loss rates. The fair value of nonaccrual loans where the fair value is determined based on the appraised value or sales price is included within Other, below.

(b) The assumed yield spread over benchmark curve for each instrument is generally intended to incorporate non-interest-rate risks such as credit and liquidity risks.

(c) Other includes nonaccrual loans of $68 million, OREO and foreclosed assets of $207 million and Long-lived assets held for sale of $24 million as of December 31, 2012. The fair value of these assets is determined based on appraised value or sales price, the range of which is not meaningful to disclose.

### *Financial Assets Accounted For Under Fair Value Option*

Refer to the Fair Value Measurement section of this Note 9 regarding the fair value of commercial mortgage loans held for sale, residential mortgage loans held for sale, certain portfolio loans, customer resale agreements, and BlackRock Series C Preferred Stock.

***Commercial Mortgage Loans Held for Sale***

Interest income on these loans is recorded as earned and reported on the Consolidated Income Statement in Other interest income. The impact on earnings of offsetting economic hedges is not reflected in these amounts. Changes in fair value due to instrument-specific credit risk for both 2012 and 2011 were not material.

***Residential Mortgage Loans Held for Sale and in Portfolio***

Interest income on these loans is recorded as earned and reported on the Consolidated Income Statement in Other interest income. Throughout 2012 and 2011, certain residential mortgage loans for which we elected the fair value option were subsequently reclassified to portfolio loans. Changes in fair value due to instrument-specific credit risk for 2012 and 2011 were not material.

***Customer Resale Agreements***

Interest income on structured resale agreements is reported on the Consolidated Income Statement in Other interest income. Changes in fair value due to instrument-specific credit risk for 2012 and 2011 were not material.

***Residential Mortgage-Backed Agency Securities with Embedded Derivatives***

Interest income on securities is reported on the Consolidated Income Statement in Interest income.

The changes in fair value included in Noninterest income for items for which we elected the fair value option follow.

***Table 98: Fair Value Option    Changes in Fair Value (a)***

| Year ended December 31 | Gains (Losses) | | |
|---|---|---|---|
| In millions | 2012 | 2011 | 2010 |
| Assets | | | |
| Customer resale agreements | $ (10) | $ (12) | $ 1 |
| Residential mortgage-backed agency securities with embedded derivatives (b) | 13 | 24 | |
| Trading loans | 2 | | |
| Commercial mortgage loans held for sale | (5) | 3 | 16 |
| Residential mortgage loans held for sale | (180) | 172 | 280 |
| Residential mortgage loans    portfolio | (36) | (17) | |
| BlackRock Series C Preferred Stock | 33 | (14) | (86) |

(a) The impact on earnings of offsetting hedged items or hedging instruments is not reflected in these amounts.

(b) These residential mortgage-backed agency securities with embedded derivatives were carried as Trading securities.

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Fair values and aggregate unpaid principal balances of items for which we elected the fair value option follow.

***Table 99: Fair Value Option    Fair Value and Principal Balances***

| In millions | Fair Value | Aggregate Unpaid Principal Balance | Difference |
|---|---|---|---|
| December 31, 2012 | | | |
| Customer resale agreements | $ 256 | $ 237 | $ 19 |
| Trading loans | 76 | 76 | |
| Residential mortgage loans held for sale | | | |
| Performing loans | 2,072 | 1,971 | 101 |
| Accruing loans 90 days or more past due | 8 | 14 | (6) |
| Nonaccrual loans | 16 | 36 | (20) |
| Total | 2,096 | 2,021 | 75 |
| Commercial mortgage loans held for sale (a) | | | |
| Performing loans | 766 | 889 | (123) |
| Nonaccrual loans | 6 | 12 | (6) |
| Total | 772 | 901 | (129) |
| Residential mortgage loans    portfolio | | | |
| Performing loans | 58 | 116 | (58) |
| Accruing loans 90 days or more past due (b) | 116 | 141 | (25) |
| Nonaccrual loans | 70 | 207 | (137) |
| Total | $ 244 | $ 464 | $ (220) |
| December 31, 2011 | | | |
| Customer resale agreements | $ 732 | $ 686 | $ 46 |
| Residential mortgage-backed agency securities with embedded derivatives (c) | 1,058 | 864 | 194 |
| Residential mortgage loans held for sale | | | |
| Performing loans | 1,407 | 1,347 | 60 |
| Accruing loans 90 days or more past due | 7 | 13 | (6) |
| Nonaccrual loans | 1 | 3 | (2) |
| Total | 1,415 | 1,363 | 52 |
| Commercial mortgage loans held for sale (a) | | | |
| Performing loans | 829 | 962 | (133) |
| Nonaccrual loans | 14 | 27 | (13) |
| Total | 843 | 989 | (146) |
| Residential mortgage loans    portfolio | | | |
| Performing loans | 32 | 55 | (23) |
| Accruing loans 90 days or more past due (b) | 10 | 14 | (4) |
| Nonaccrual loans | 62 | 176 | (114) |
| Total | $ 104 | $ 245 | $ (141) |

(a) There were no accruing loans 90 days or more past due within this category at December 31, 2012 or December 31, 2011.
(b) The majority of these loans are government insured loans, which positively impacts the fair value.
(c) These residential mortgage-backed agency securities with embedded derivatives were carried as Trading securities.

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*Table 100: Additional Fair Value Information Related to Financial Instruments*

| | December 31, 2012 | | | | | December 31, 2011 | |
|---|---|---|---|---|---|---|---|
| | Carrying | Fair Value | | | | Carrying | |
| In millions | Amount | Total | Level 1 | Level 2 | Level 3 | Amount | Fair Value |
| **Assets** | | | | | | | |
| Cash and due from banks | $ 5,220 | $ 5,220 | $ 5,220 | | | $ 4,105 | $ 4,105 |
| Short-term assets | 6,495 | 6,495 | | $ 6,495 | | 4,462 | 4,462 |
| Trading securities | 2,096 | 2,096 | 1,104 | 960 | $ 32 | 2,513 | 2,513 |
| Investment securities | 61,406 | 61,912 | 2,897 | 51,789 | 7,226 | 60,634 | 61,018 |
| Trading loans | 76 | 76 | | 76 | | | |
| Loans held for sale | 3,693 | 3,697 | | 2,069 | 1,628 | 2,936 | 2,939 |
| Net loans (excludes leases) | 174,575 | 177,215 | | 110 | 177,105 | 148,254 | 151,167 |
| Other assets | 4,265 | 4,265 | 283 | 1,917 | 2,065 | 4,019 | 4,019 |
| Mortgage servicing rights | 1,070 | 1,077 | | | 1,077 | 1,115 | 1,118 |
| Financial derivatives | | | | | | | |
| Designated as hedging instruments under GAAP | 1,872 | 1,872 | | 1,872 | | 1,888 | 1,888 |
| Not designated as hedging instruments under GAAP | 6,696 | 6,696 | 5 | 6,585 | 106 | 7,575 | 7,575 |
| Total Assets | $ 267,464 | $ 270,621 | $ 9,509 | $ 71,873 | $ 189,239 | $ 237,501 | $ 240,804 |
| **Liabilities** | | | | | | | |
| Demand, savings and money market deposits | $ 187,051 | $ 187,051 | | $ 187,051 | | $ 156,335 | $ 156,335 |
| Time deposits | 26,091 | 26,347 | | 26,347 | | 31,632 | 31,882 |
| Borrowed funds | 40,907 | 42,329 | $ 731 | 40,505 | $ 1,093 | 36,966 | 39,064 |
| Financial derivatives | | | | | | | |
| Designated as hedging instruments under GAAP | 152 | 152 | | 152 | | 116 | 116 |
| Not designated as hedging instruments under GAAP | 6,458 | 6,458 | 1 | 6,081 | 376 | 7,490 | 7,490 |
| Unfunded loan commitments and letters of credit | 231 | 231 | | | 231 | 223 | 223 |
| Total Liabilities | $ 260,890 | $ 262,568 | $ 732 | $ 260,136 | $ 1,700 | $ 232,762 | $ 235,110 |

The aggregate fair values in the table above do not represent the total market value of PNC s assets and liabilities as the table excludes the following:

real and personal property,
lease financing,
loan customer relationships,
deposit customer intangibles,
retail branch networks,
fee-based businesses, such as asset management and brokerage, and
trademarks and brand names.

We used the following methods and assumptions to estimate fair value amounts for financial instruments.

***General***

For short-term financial instruments realizable in three months or less, the carrying amount reported on our Consolidated Balance Sheet approximates fair value. Unless otherwise stated, the rates used in discounted cash flow analyses are based on market yield curves.

***Cash and due from banks***

The carrying amounts reported on our Consolidated Balance Sheet for cash and due from banks approximate fair values. For purposes of this disclosure only, cash and due from banks includes the following:

due from banks, and

- interest-earning deposits with banks.

Cash and due from banks are classified as Level 1.

***Short-Term Assets***

The carrying amounts reported on our Consolidated Balance Sheet for short-term investments approximate fair values primarily due to their short-term nature. For purposes of this disclosure only, short-term assets include the following:

- federal funds sold and resale agreements,
- cash collateral,
- customers acceptances, and
- accrued interest receivable.

Short-term assets are classified as Level 2.

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***Securities***

Securities include both the investment securities (comprised of available for sale and held to maturity securities) and trading securities portfolios. We primarily use prices obtained from pricing services, dealer quotes or recent trades to determine the fair value of securities. As of December 31, 2012, 86% of the positions in these portfolios were priced by pricing services provided by third-party vendors. The third-party vendors use a variety of methods when pricing securities that incorporate relevant market data to arrive at an estimate of what a buyer in the marketplace would pay for a security under current market conditions. One of the vendor s prices is set with reference to market activity for highly liquid assets, such as U.S. Treasury and agency securities and agency mortgage-backed securities, and matrix pricing for other asset classes, such as commercial mortgage and other asset-backed securities. Another vendor primarily uses pricing models considering adjustments for ratings, spreads, matrix pricing and prepayments for the instruments we value using this service, such as non-agency residential mortgage-backed securities, agency adjustable rate mortgage securities, agency CMOs, commercial mortgage-backed securities, and municipal bonds. Management uses various methods and techniques to validate prices obtained from pricing services and dealers, including reference to another third-party source, by reviewing valuations of comparable instruments, or by comparison to internal valuations.

***Net Loans And Loans Held For Sale***

Fair values are estimated based on the discounted value of expected net cash flows incorporating assumptions about prepayment rates, net credit losses and servicing fees. For purchased impaired loans, fair value is assumed to equal PNC s carrying value, which represents the present value of expected future principal and interest cash flows, as adjusted for any ALLL recorded for these loans. See Note 6 Purchased Loans for additional information. For revolving home equity loans and commercial credit lines, this fair value does not include any amount for new loans or the related fees that will be generated from the existing customer relationships. Nonaccrual loans are valued at their estimated recovery value. Also refer to the Fair Value Measurement and Fair Value Option sections of this Note 9 regarding the fair value of commercial and residential mortgage loans held for sale. Loans are presented net of the ALLL and do not include future accretable discounts related to purchased impaired loans.

***Other Assets***

Other assets as shown in the preceding table includes the following:

- FHLB and FRB stock,
- equity investments carried at cost and fair value, and
- BlackRock Series C Preferred Stock.

Investments accounted for under the equity method, including our investment in BlackRock, are not included in the preceding Table 100: Additional Fair Value Information Related to Financial Instruments.

Refer to the Fair Value Measurement section of this Note 9 regarding the fair value of equity investments.

The aggregate carrying value of our investments that are carried at cost and FHLB and FRB stock was $1.7 billion at December 31, 2012 and was $1.9 billion at December 31, 2011, which approximates fair value at each date.

***Mortgage Servicing Assets***

Fair value is based on the present value of the estimated future cash flows, incorporating assumptions as to prepayment rates, discount rates, default rates, escrow balances, interest rates, cost to service and other factors.

The key valuation assumptions for commercial and residential mortgage loan servicing assets at December 31, 2012 and December 31, 2011 are included in Note 10 Goodwill and Other Intangible Assets.

***Customer Resale Agreements***

Refer to the Fair Value Measurement section of this Note 9 regarding the fair value of customer resale agreements.

***Deposits***

The carrying amounts of noninterest-bearing and interest-bearing demand, interest-bearing money market and savings deposits approximate fair values. For time deposits, which include foreign deposits, fair values are estimated based on the discounted value of expected net cash flows assuming current interest rates. All deposits are classified as Level 2.

***Borrowed Funds***

The carrying amounts of Federal funds purchased, commercial paper, repurchase agreements, trading securities sold short, cash collateral, other short-term borrowings, acceptances outstanding and accrued interest payable are considered to be their fair value because of their short-term nature. For all other borrowed funds, fair values are estimated using either prices obtained from third-party vendors or an internally developed discounted cash flow approach taking into consideration our current incremental borrowing rates for similar instruments.

***Unfunded Loan Commitments And Letters of Credit***

The fair value of unfunded loan commitments and letters of credit is determined from a market participant s view including the impact of changes in interest rates, credit and other factors. Because our obligation on substantially all unfunded loan commitments and letters of credit varies with changes in interest rates, these instruments are subject to little fluctuation in fair value due to changes in interest rates. We establish a liability on these facilities related to the creditworthiness of our counterparty. These instruments are classified as Level 3.

***Financial Derivatives***

Refer to the Fair Value Measurement section of this Note 9 regarding the fair value of financial derivatives.

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## NOTE 10 GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in goodwill by business segment during 2012 and 2011 follow:

***Table 101: Changes in Goodwill by Business Segment (a)***

| In millions | Retail Banking | Corporate & Institutional Banking | Asset Management Group | Residential Mortgage Banking | Other (b) | Total |
|---|---|---|---|---|---|---|
| December 31, 2010 | $ 5,302 | $ 2,728 | $ 62 | $ 43 | $ 14 | $ 8,149 |
| BankAtlantic branch acquisition | 35 | 6 | | | | 41 |
| Flagstar branch acquisition | 17 | | | | | 17 |
| Other (c) | 40 | 29 | 7 | | 2 | 78 |
| December 31, 2011 | $ 5,394 | $ 2,763 | $ 69 | $ 43 | $ 16 | $ 8,285 |
| RBC Bank (USA) acquisition | 429 | 473 | | 2 | 46 | 950 |
| SmartStreet divestiture | | | | | (46) | (46) |
| Residential Mortgage Banking impairment charge | | | | (45) | | (45) |
| Other (c) | (29) | (22) | (5) | | (16) | (72) |
| December 31, 2012 | $ 5,794 | $ 3,214 | $ 64 | $ | $ | $ 9,072 |

(a) The Non-Strategic Assets Portfolio business segment does not have any goodwill allocated to it.
(b) Includes goodwill related to BlackRock.
(c) Primarily related to correction of amounts for an acquisition affecting prior periods.

Changes in goodwill and other intangible assets during 2012 follow:

***Table 102: Summary of Changes in Goodwill and Other Intangible Assets***

| In millions | Goodwill | Customer-Related | Servicing Rights |
|---|---|---|---|
| December 31, 2011 | $ 8,285 | $ 742 | $ 1,117 |
| Additions/adjustments: | | | |
| RBC Bank (USA) acquisition | 950 | 164 | 16 |
| SmartStreet divestiture | (46) | (13) | |
| Residential Mortgage Banking impairment charge | (45) | | |
| Other (a) | (72) | | |
| Change in valuation allowance | | | 21 |
| Amortization | | (167) | (143) |
| Mortgage and other loan servicing rights | | | 60 |
| December 31, 2012 | $ 9,072 | $ 726 | $ 1,071 |

(a) Primarily related to correction of amounts for an acquisition affecting prior periods.

Assets and liabilities of acquired entities are recorded at estimated fair value as of the acquisition date.

We conduct a goodwill impairment test on our reporting units at least annually, in the fourth quarter, or more frequently if events occur or circumstances have changed significantly from the annual test date. The fair value of our reporting units is determined by using discounted cash flow and, when applicable, market comparability methodologies.

Our residential mortgage banking business, similar to other residential mortgage banking businesses, is operating in an unsettled environment, which has and may continue to result in higher operating costs, and has experienced increased uncertainties such as elevated indemnification and repurchase liabilities and foreclosure related issues. Additionally, the current level of refinance volumes is not expected to continue indefinitely given that interest rates have been low for a prolonged period of time. Step 1 of the annual goodwill impairment test indicated that the fair value of the Residential Mortgage Banking reporting unit using a discounted cash flow approach was less than its carrying value. Step 2 of the impairment test was performed and indicated that the implied fair value of goodwill was less than its carrying value. An impairment charge of $45 million was recorded which wrote down the entire balance of goodwill in the Residential Mortgage Banking reporting unit. The Residential Mortgage Banking reporting unit does not have any remaining goodwill as of December 31, 2012.

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The gross carrying amount, accumulated amortization and net carrying amount of other intangible assets by major category consisted of the following:

***Table 103: Other Intangible Assets***

| In millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Customer-related and other intangibles | | |
| Gross carrying amount | $ 1,676 | $ 1,525 |
| Accumulated amortization | (950) | (783) |
| Net carrying amount | $ 726 | $ 742 |
| Mortgage and other loan servicing rights | | |
| Gross carrying amount | $ 2,071 | $ 2,009 |
| Valuation allowance | (176) | (197) |
| Accumulated amortization | (824) | (695) |
| Net carrying amount | $ 1,071 | $ 1,117 |
| Total | $ 1,797 | $ 1,859 |

Our other intangible assets have finite lives and are amortized primarily on a straight-line basis. Core deposit intangibles are amortized on an accelerated basis.

For customer-related and other intangibles, the estimated remaining useful lives range from 1 year to 11 years, with a weighted-average remaining useful life of 8 years.

Amortization expense on existing intangible assets follows:

***Table 104: Amortization Expense on Existing Intangible Assets***

| In millions | |
|---|---|
| 2010 | $ 304 |
| 2011 | 324 |
| 2012 | 310 |
| 2013 | 243 |
| 2014 | 206 |
| 2015 | 180 |
| 2016 | 156 |
| 2017 | 132 |

Changes in commercial mortgage servicing rights (MSRs) follow:

***Table 105: Commercial Mortgage Servicing Rights***

| In millions | 2012 | 2011 | 2010 |
|---|---|---|---|
| **Commercial Mortgage Servicing Rights Net Carrying Amount** | | | |
| January 1 | $ 468 | $ 665 | $ 921 |
| Additions (a) | 73 | 120 | 83 |
| Sale of servicing rights (b) | | | (192) |
| Change in valuation allowance | 21 | (157) | (40) |
| Amortization expense (c) | (142) | (160) | (107) |
| December 31 | $ 420 | $ 468 | $ 665 |

| **Commercial Mortgage Servicing Rights Valuation Allowance** | | | |
|---|---|---|---|
| January 1 | $ (197) | $ (40) | |
| Provision | (46) | (166) | $ (110) |
| Recoveries | 43 | 9 | 70 |
| Other (c) | 24 | | |
| December 31 | $ (176) | $ (197) | $ (40) |

(a) Additions for 2012 included $45 million from loans sold with servicing retained and $28 million from purchases of servicing rights from third parties. Comparable amounts were $55 million and $65 million for 2011 and $45 million and $38 million for 2010.

(b) Reflects the sale of a duplicative agency servicing operation in 2010.

(c) Includes a direct write-down of servicing rights for $24 million recognized in the first quarter of 2012 primarily due to market-driven changes in interest rates.

We recognize as an other intangible asset the right to service mortgage loans for others. Commercial MSRs are purchased or originated when loans are sold with servicing retained. Commercial MSRs are initially recorded at fair value. These rights are subsequently accounted for at the lower of amortized cost or fair value, and are substantially amortized in proportion to and over the period of estimated net servicing income of 5 to 10 years.

Commercial MSRs are periodically evaluated for impairment. For purposes of impairment, the commercial MSRs are stratified based on asset type, which characterizes the predominant risk of the underlying financial asset. If the carrying amount of any individual stratum exceeds its fair value, a valuation reserve is established with a corresponding charge to Corporate services on our Consolidated Income Statement.

The fair value of commercial MSRs is estimated by using a discounted cash flow model incorporating inputs for assumptions as to constant prepayment rates, discount rates and other factors determined based on current market conditions and expectations.

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Changes in the residential MSRs follow:

***Table 106: Residential Mortgage Servicing Rights***

| In millions | 2012 | 2011 | 2010 |
|---|---|---|---|
| January 1 | $ 647 | $ 1,033 | $ 1,332 |
| Additions: | | | |
| From loans sold with servicing retained | 117 | 118 | 95 |
| RBC Bank (USA) acquisition | 16 | | |
| Purchases | 175 | 65 | |
| Changes in fair value due to: | | | |
| Time and payoffs (a) | (167) | (163) | (185) |
| Other (b) | (138) | (406) | (209) |
| December 31 | $ 650 | $ 647 | $ 1,033 |
| Unpaid principal balance of loans serviced for others at December 31 | $ 119,262 | $ 118,058 | $ 125,806 |

(a) Represents decrease in MSR value due to passage of time, including the impact from both regularly scheduled loan principal payments and loans that were paid down or paid off during the period.

(b) Represents MSR value changes resulting primarily from market-driven changes in interest rates, as well as changes in assumptions such as prepayments and servicing costs.

We recognize mortgage servicing right assets on residential real estate loans when we retain the obligation to service these loans upon sale and the servicing fee is more than adequate compensation or upon purchase of servicing rights from third parties. MSRs are subject to declines in value principally from actual or expected prepayment of the underlying loans and also defaults. We manage this risk by economically hedging the fair value of MSRs with securities and derivative instruments which are expected to increase (or decrease) in value when the value of MSRs declines (or increases).

The fair value of residential MSRs is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors which are determined based on current market conditions.

The fair value of commercial and residential MSRs and significant inputs to the valuation models as of December 31, 2012 and December 31, 2011 are shown in the tables below. The expected and actual rates of mortgage loan prepayments are significant factors driving the fair value. Management uses internal proprietary models to estimate future commercial

mortgage loan prepayments and a third party model to estimate future residential mortgage loan prepayments. These models have been refined based on current market conditions and management judgment. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied forward interest rates to estimate the future direction of mortgage and discount rates. The forward rates utilized are derived from the current yield curve for U.S. dollar interest rate swaps and are consistent with pricing of capital markets instruments. Changes in the shape and slope of the forward curve in future periods may result in volatility in the fair value estimate.

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

The following tables set forth the fair value of commercial and residential MSRs and the sensitivity analysis of the hypothetical effect on the fair value of MSRs to immediate adverse changes of 10% and 20% in those assumptions:

***Table 107: Commercial Mortgage Loan Servicing Assets Key Valuation Assumptions***

| Dollars in millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Fair Value | $ 427 | $ 471 |
| Weighted-average life (years) | 5.4 | 5.9 |
| Weighted-average constant prepayment rate | 7.63% | 5.08% |
| Decline in fair value from 10% adverse change | $ 8 | $ 6 |
| Decline in fair value from 20% adverse change | $ 16 | $ 11 |
| Effective discount rate | 7.70% | 7.92% |
| Decline in fair value from 10% adverse change | $ 12 | $ 9 |
| Decline in fair value from 20% adverse change | $ 23 | $ 18 |

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***Table 108: Residential Mortgage Loan Servicing Assets Key Valuation Assumptions***

| Dollars in millions | December 31 2012 | December 31 2011 |
|---|---|---|
| Fair value | $ 650 | $ 647 |
| Weighted-average life (years) | 4.3 | 3.6 |
| Weighted-average constant prepayment rate | 18.78% | 22.10% |
| Decline in fair value from 10% adverse change | $ 45 | $ 44 |
| Decline in fair value from 20% adverse change | $ 85 | $ 84 |
| Weighted-average option adjusted spread | 11.15% | 11.77% |
| Decline in fair value from 10% adverse change | $ 26 | $ 25 |
| Decline in fair value from 20% adverse change | $ 49 | $ 48 |

Fees from mortgage and other loan servicing comprised of contractually specified servicing fees, including late fees and ancillary fees, follows:

***Table 109: Fees from Mortgage and Other Loan Servicing***

| In millions | 2012 | 2011 | 2010 |
|---|---|---|---|
| Fees from mortgage and other loan servicing | $ 557 | $ 641 | $ 692 |

We also generate servicing fees from fee-based activities provided to others for which we do not have an associated servicing asset.

Fees from commercial MSRs, residential MSRs and other loan servicing are reported on our Consolidated Income Statement in the line items Corporate services, Residential mortgage, and Consumer services, respectively.

## NOTE 11 PREMISES, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Premises, equipment and leasehold improvements, stated at cost less accumulated depreciation and amortization, were as follows:

***Table 110: Premises, Equipment and Leasehold Improvements***

| December 31 - in millions | 2012 | 2011 |
|---|---|---|
| Land | $ 782 | $ 690 |
| Buildings | 2,218 | 1,955 |
| Equipment | 4,590 | 3,894 |
| Leasehold improvements | 747 | 651 |
| Total | 8,337 | 7,190 |
| Accumulated depreciation and amortization | (2,909) | (2,546) |
| Net book value | $ 5,428 | $ 4,644 |

Depreciation expense on premises, equipment and leasehold improvements and amortization expense, primarily for capitalized internally developed software, was as follows:

***Table 111: Depreciation and Amortization Expense***

| Year ended December 31<br>in millions | 2012 | 2011 | 2010 |
|---|---|---|---|
| Continuing operations: | | | |
| Depreciation | $ 521 | $ 474 | $ 455 |

| | | | |
|---|---|---|---|
| Amortization | 19 | 22 | 45 |
| Discontinued operations: | | | |
| Depreciation | | | 12 |
| Amortization | | | 11 |

We lease certain facilities and equipment under agreements expiring at various dates through the year 2081. We account for these as operating leases. Rental expense on such leases was as follows:

***Table 112: Lease Rental Expense***

| Year ended December 31<br>in millions | 2012 | 2011 | 2010 |
|---|---|---|---|
| Continuing operations: | $ 405 | $ 357 | $ 379 |
| Discontinued operations: | | | 10 |

Required minimum annual rentals that we owe on noncancelable leases having initial or remaining terms in excess of one year totaled $2.8 billion at December 31, 2012. Future minimum annual rentals are as follows:

2013: $397 million,
2014: $362 million,
2015: $306 million,
2016: $252 million,
2017: $220 million, and
2018 and thereafter: $1.3 billion.

## NOTE 12 TIME DEPOSITS

The aggregate amount of time deposits with a denomination of $100,000 or more was $9.3 billion at December 31, 2012 and $11.2 billion at December 31, 2011.

Total time deposits of $26.1 billion at December 31, 2012 have future contractual maturities, including related purchase accounting adjustments, as follows:

2013: $18.2 billion,
2014: $2.8 billion,
2015: $1.4 billion,
2016: $1.2 billion,
2017: $.4 billion, and
2018 and thereafter: $2.1 billion.

## NOTE 13 BORROWED FUNDS

Total borrowed funds of $40.9 billion at December 31, 2012 have contractually scheduled repayments, including related purchase accounting adjustments, as follows:

2013: $21.6 billion,
2014: $3.6 billion,
2015: $2.9 billion,
2016: $1.9 billion,
2017: $3.1 billion, and
2018 and thereafter: $7.8 billion.

Included in the following table are balances of long-term bank notes along with senior and subordinated notes and the related contractual rates and maturity dates at December 31, 2012.

***Table 113: Bank Notes, Senior Debt and Subordinated Debt***

December 31, 2012

| Dollars in millions | | Carrying Value | Stated Rate | Maturity |
|---|---|---|---|---|
| Bank notes | $ | 1,574 | zero-4.66% | 2013-2043 |
| Senior debt | | 8,855 | .51%-6.70% | 2014-2022 |
| Bank notes and senior debt | $ | 10,429 | | |
| Subordinated debt | | | | |
| Junior | $ | 343 | .88%-7.00% | 2028-2037 |
| Other | | 6,956 | .66%-8.11% | 2013-2022 |
| Subordinated debt | $ | 7,299 | | |

Included in outstandings for the senior and subordinated notes in the table above are basis adjustments of $505 million and $579 million, respectively, related to fair value accounting hedges as of December 31, 2012.

The $343 million of junior subordinated debt included in the above table represents the carrying value of debt redeemable prior to maturity. This carrying value and related net discounts of $59 million comprise the $402 million principal amount of junior subordinated debentures that are discussed in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities.

Included in borrowed funds are FHLB borrowings of $9.4 billion at December 31, 2012, which are collateralized by a blanket lien on residential mortgage and other real estate-related loans. FHLB advances of $5.0 billion have scheduled maturities of less than one year. The remainder of the FHLB borrowings have balances that will mature from 2013 2030, with interest rates ranging from zero to 7.33%.

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## Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities

At December 31, 2012, PNC had $402 million in principal amount of outstanding junior subordinated debentures associated with $390 million of trust preferred securities that were issued by various subsidiary statutory trusts. These trust preferred securities represented non-voting preferred beneficial interests in the assets of the following Trusts:

***Table 114: Capital Securities of Subsidiary Trusts***

| Trust | Date Formed | Description of Capital Securities | Redeemable |
| --- | --- | --- | --- |
| PNC Capital Trust C | June 1998 | $200 million due June 1, 2028, bearing interest at a floating rate per annum equal to 3-month LIBOR plus 57 basis points. The rate in effect at December 31, 2012 was ..881%. | On or after June 1, 2008 at par. |
| Fidelity Capital Trust II | December 2003 | $22 million due January 23, 2034 bearing an interest rate of 3-month LIBOR plus 285 basis points. The rate in effect at December 31, 2012 was 3.163%. | On or after January 23, 2009 at par. |
| Yardville Capital Trust VI | June 2004 | $15 million due July 23, 2034, bearing an interest rate equal to 3-month LIBOR plus 270 basis points. The rate in effect at December 31, 2012 was 3.017%. | On or after July 23, 2009 at par. |
| Fidelity Capital Trust III | October 2004 | $30 million due November 23, 2034 bearing an interest rate of 3-month LIBOR plus 197 basis points. The rate in effect at December 31, 2012 was 2.282%. | On or after November 23, 2009 at par. |
| Sterling Financial Statutory Trust III | December 2004 | $15 million due December 15, 2034 at a fixed rate of 6%. The fixed rate remained in effect until December 15, 2009 at which time the securities began paying a floating rate of 3-month LIBOR plus 189 basis points. The rate in effect at December 31, 2012 was 2.198%. | On or after December 15, 2009 at par. |
| Sterling Financial Statutory Trust IV | February 2005 | $15 million due March 15, 2035 at a fixed rate of 6.19%. The fixed rate remained in effect until March 15, 2010 at which time the securities began paying a floating rate of 3-month LIBOR plus 187 basis points. The rate in effect at December 31, 2012 was 2.178%. | On or after March 15, 2010 at par. |
| MAF Bancorp Capital Trust I | April 2005 | $30 million due June 15, 2035 bearing an interest rate of 3-month LIBOR plus 175 basis points. The rate in effect at December 31, 2012 was 2.058%. | On or after June 15, 2010 at par. |
| MAF Bancorp Capital Trust II | August 2005 | $35 million due September 15, 2035 bearing an interest rate of 3-month LIBOR plus 140 basis points. The rate in effect at December 31, 2012 was 1.708%. | On or after September 15, 2010 at par. |

| | | | |
|---|---|---|---|
| James Monroe Statutory Trust III | September 2005 | $8 million due December 15, 2035 at a fixed rate of 6.253%. The fixed rate remained in effect until September 15, 2010 at which time the securities began paying a floating rate of LIBOR plus 155 basis points. The rate in effect at December 31, 2012 was 1.858%. | On or after December 15, 2010 at par. |
| Sterling Financial Statutory Trust V | March 2007 | $20 million due March 15, 2037 at a fixed rate of 7%. The fixed rate remained in effect until June 15, 2007 at which time the securities began paying a floating rate of 3-month LIBOR plus 165 basis points. The rate in effect at December 31, 2012 was 1.958%. | March 15, 2012 at par. |

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All of these Trusts are wholly owned finance subsidiaries of PNC. In the event of certain changes or amendments to regulatory requirements or federal tax rules, the capital securities are redeemable in whole. In accordance with GAAP, the financial statements of the Trusts are not included in PNC s consolidated financial statements.

At December 31, 2012, PNC s junior subordinated debt with a carrying value of $343 million represented debentures purchased and held as assets by the Trusts and redeemable prior to maturity.

The obligations of the respective parent of each Trust, when taken collectively, are the equivalent of a full and unconditional guarantee of the obligations of such Trust under the terms of the Capital Securities. Such guarantee is subordinate in right of payment in the same manner as other junior subordinated debt. There are certain restrictions on PNC s overall ability to obtain funds from its subsidiaries. For additional disclosure on these funding restrictions, including

an explanation of dividend and intercompany loan limitations, see Note 22 Regulatory Matters. PNC is also subject to restrictions on dividends and other provisions potentially imposed under the Exchange Agreements with PNC Preferred Funding Trust II and Trust III as described in the following Perpetual Trust Securities section and to other provisions similar to or in some ways more restrictive than those potentially imposed under those agreements. In April 2012, we redeemed all of the underlying capital securities of PNC Capital Trust D and Yardville Capital Trust III. The capital securities redeemed totaled $306 million. In May 2012, we redeemed all of the underlying capital securities of National City Capital Trust III, totaling $500 million. In July 2012, we redeemed all of the underlying capital securities of PNC Capital Trust E and National City Trust IV. The capital securities redeemed totaled $968 million. In December 2012, we redeemed all of the underlying capital securities of National City Preferred Capital Trust I. The capital securities totaled $500 million.

***Table 115: Perpetual Trust Securities Summary***

We have issued certain hybrid capital vehicles that currently qualify as capital for regulatory purposes.

| **Date** | **Entity (a)** | **Private Placement (b)** | **Rate** | **Trust Issuing Notes (c)** |
|---|---|---|---|---|
| February 2008 | PNC Preferred Funding LLC | $375 million | 8.700% | PNC Preferred Funding Trust III (d) |
| March 2007 | PNC Preferred Funding LLC | $500 million | 6.113% | PNC Preferred Funding Trust II (e) |
| December 2006 | PNC Preferred Funding LLC | $500 million | 6.517% | PNC Preferred Funding Trust I (f) |

(a) PNC REIT Corp. owns 100% of the LLC s common voting securities. As a result, the LLC is an indirect subsidiary of PNC and is consolidated on PNC s Consolidated Balance Sheet.
(b) Fixed-to-Floating Rate Non-cumulative Exchangeable Perpetual Trust Securities.
(c) The trusts investments in the LLC s preferred securities are characterized as a noncontrolling interest on our Consolidated Balance Sheet. This noncontrolling interest totaled approximately $1.3 billion at December 31, 2012.
(d) Automatically exchangeable into a share of Series J Non-Cumulative Perpetual Preferred Stock of PNC (Series J Preferred Stock).
(e) Automatically exchangeable into a share of Series I Non-Cumulative Perpetual Preferred Stock of PNC (Series I Preferred Stock).
(f) Automatically exchangeable into a share of Series F Non-Cumulative Perpetual Preferred Stock of PNC Bank, N.A. (PNC Bank Preferred Stock).

These Trust Securities are automatically exchangeable as set forth above under certain conditions relating to the capitalization or the financial condition of PNC Bank, N.A. and upon the direction of the Office of the Comptroller of the Currency.

See Note 27 Subsequent Events for additional discussion of our February 2013 announcement of our March 2013 redemption of REIT Preferred Securities issued by PNC Preferred Funding Trust III.

***Table 116: Summary of Replacement Capital Covenants of Perpetual Trust Securities***

| Replacement Capital Covenant (a) | Trust | Description of Capital Covenants |
|---|---|---|
| Trust I RCC | PNC Preferred Funding Trust I | Neither we nor our subsidiaries (other than PNC Bank, N.A. and its subsidiaries) would purchase the Trust Securities, the LLC Preferred Securities or the PNC Bank Preferred Stock unless such repurchases or redemptions are made from proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the Trust I RCC. |
| Trust II RCC | PNC Preferred Funding Trust II | Until March 29, 2017, neither we nor our subsidiaries would purchase or redeem the Trust II Securities, the LLC Preferred Securities or the Series I Preferred Stock unless such repurchases or redemptions are made from proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the Trust II RCC. |

(a) As of December 31, 2012, each of the Trust I RCC and the Trust II RCC are for the benefit of holders of our $200 million of Floating Rate Junior Subordinated Notes issued in June 1998.

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*Table 117: Summary of Contractual Commitments of Perpetual Trust Securities*

| Trust | Description of Restrictions on Dividend Payments (c) |
| --- | --- |
| PNC Preferred Funding Trust I (a) | If full dividends are not paid in a dividend period, neither PNC Bank, N.A. nor its subsidiaries will declare or pay dividends or other distributions with respect to, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its equity capital securities during the next succeeding period (other than to holders of the LLC Preferred Securities and any parity equity securities issued by the LLC). (d) |
| PNC Preferred Funding Trust II (b) | If full dividends are not paid in a dividend period, PNC will not declare or pay dividends with respect to, or redeem, purchase or acquire, any of its equity capital securities during the next succeeding dividend period. (e) |
| PNC Preferred Funding Trust III (b) | If full dividends are not paid in a dividend period, PNC will not declare or pay dividends with respect to, or redeem, purchase or acquire, any of its equity capital securities during the next succeeding dividend period. (e) |

(a) Contractual commitments made by PNC Bank, N.A.
(b) Contractual commitments made by PNC.
(c) Applies to the applicable Trust Securities and the LLC Preferred Securities.
(d) Except: (i) in the case of dividends payable to subsidiaries of PNC Bank, N.A., to PNC Bank, N.A. or another wholly-owned subsidiary of PNC Bank, N.A. or (ii) in the case of dividends payable to persons that are not subsidiaries of PNC Bank, N.A., to such persons only if, (A) in the case of a cash dividend, (PNC has first irrevocably committed to contribute amounts at least equal to such cash dividend or (B) in the case of in-kind dividends payable by PNC REIT Corp., PNC has committed to purchase such in-kind dividend from the applicable PNC REIT Corp. holders in exchange for a cash payment representing the market value of such in-kind dividend, and PNC has committed to contribute such in-kind dividend to PNC Bank, N.A.
(e) Except for: (i) purchases, redemptions or other acquisitions of shares of capital stock of PNC in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or consultants, (ii) purchases of shares of common stock of PNC pursuant to a contractually binding requirement to buy stock existing prior to the commencement of the extension period, including under a contractually binding stock repurchase plan, (iii) any dividend in connection with the implementation of a shareholders rights plan, or the redemption or repurchase of any rights under any such plan, (iv) as a result of any exchange or conversion of any class or series of PNC s capital stock for any other class or series of PNC s capital stock, (v) the purchase of fractional interests in shares of PNC capital stock pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged or (vi) any stock dividends paid by PNC where the dividend stock is the same stock as that on which the dividend is being paid.

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## NOTE 15 EMPLOYEE BENEFIT PLANS

### *PENSION AND POSTRETIREMENT PLANS*

We have a noncontributory, qualified defined benefit pension plan covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are a percentage of eligible compensation. Earnings credit percentages for plan participants on December 31, 2009 are frozen at their level earned to that point. Earnings credits for all employees who become participants on or after January 1, 2010 are a flat 3% of eligible compensation. Participants at December 31, 2009 earn interest based on 30-year Treasury securities with a minimum rate, while new participants on or after January 1, 2010 are not subject to the minimum rate. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants.

We also maintain nonqualified supplemental retirement plans for certain employees and provide certain health care and life insurance benefits for qualifying retired employees (postretirement benefits) through various plans. The nonqualified pension and postretirement benefit plans are unfunded. The Company reserves the right to terminate plans or make plan changes at any time.

PNC acquired RBC Bank (USA) during the first quarter of 2012. RBC Bank (USA) employees began to participate in PNC s pension and 401(k) plans upon meeting the plan s eligibility requirements. Some grandfathered employees will also be eligible for PNC s postretirement medical benefits.

We use a measurement date of December 31 for plan assets and benefit obligations. A reconciliation of the changes in the projected benefit obligation for qualified pension, nonqualified pension and postretirement benefit plans as well as the change in plan assets for the qualified pension plan follows.

***Table 118: Reconciliation of Changes in Projected Benefit Obligation and Change in Plan Assets***

| | Qualified Pension | | Nonqualified Pension | | Postretirement Benefits | |
|---|---|---|---|---|---|---|
| December 31 (Measurement Date) in millions | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Accumulated benefit obligation at end of year | $ 4,432 | $ 4,095 | $ 357 | $ 289 | | |
| Projected benefit obligation at beginning of year | $ 4,188 | $ 3,803 | $ 297 | $ 290 | $ 397 | $ 393 |
| National City acquisition | | | | | (1) | 2 |
| RBC Bank (USA) acquisition | | | 52 | | 13 | |
| Service cost | 101 | 94 | 4 | 4 | 5 | 5 |
| Interest cost | 191 | 196 | 14 | 13 | 16 | 19 |
| Actuarial (gains)/losses and changes in assumptions | 358 | 304 | 28 | 15 | (18) | (1) |
| Participant contributions | | | | | 13 | 13 |
| Federal Medicare subsidy on benefits paid | | | | | 2 | 2 |
| Early Retirement Reinsurance Program payments received | | | | | 1 | 1 |
| Benefits paid | (326) | (209) | (33) | (25) | (34) | (37) |
| Projected benefit obligation at end of year | $ 4,512 | $ 4,188 | $ 362 | $ 297 | $ 394 | $ 397 |
| Fair value of plan assets at beginning of year | $ 3,805 | $ 3,991 | | | | |
| Actual return on plan assets | 530 | 23 | | | | |
| Employer contribution | | | $ 33 | $ 25 | $ 19 | $ 22 |
| Participant contributions | | | | | 13 | 13 |
| Federal Medicare subsidy on benefits paid | | | | | 2 | 2 |
| Benefits paid | (326) | (209) | (33) | (25) | (34) | (37) |
| Fair value of plan assets at end of year | $ 4,009 | $ 3,805 | | | | |
| Funded status | $ (503) | $ (383) | $ (362) | $ (297) | $ (394) | $ (397) |
| Amounts recognized on the consolidated balance sheet | | | | | | |
| Current liability | | | (36) | (30) | (28) | (34) |
| Noncurrent liability | (503) | (383) | (326) | (267) | (366) | (363) |
| Liabilities recognized on the consolidated balance sheet | $ (503) | $ (383) | $ (362) | $ (297) | $ (394) | $ (397) |
| Amounts recognized in accumulated other comprehensive income consist of: | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Prior service cost (credit) | $ (31) | $ (39) | $ 1 | $ 2 | $ (9) | $ (11) |
| Net actuarial loss | 1,110 | 1,087 | 93 | 71 | 37 | 54 |
| Amount recognized in AOCI | $ 1,079 | $ 1,048 | $ 94 | $ 73 | $ 28 | $ 43 |

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At December 31, 2012, the fair value of the qualified pension plan assets was less than both the accumulated benefit obligation and the projected benefit obligation. The nonqualified pension plan is unfunded. Contributions from PNC and, in the case of postretirement benefit plans, participant contributions cover all benefits paid under the nonqualified pension plan and postretirement benefit plans. The postretirement plan provides benefits to certain retirees that are at least actuarially equivalent to those provided by Medicare Part D and accordingly, we receive a federal subsidy as shown in the table.

In March 2010, the Patient Protection and Affordable Care Act (PPACA) was enacted. Key aspects of the PPACA which are reflected in our financials include the excise tax on high-cost health plans beginning in 2018 and fees for the Transitional Reinsurance Program and the Patient-Centered Outcomes Fund. These provisions did not have a significant effect on our postretirement medical liability or cost. The Early Retiree Reinsurance Program (ERRP) was established by the PPACA. Congress appropriated funding of $5 billion for this temporary ERRP to provide financial assistance to employers, unions, and state and local governments to help them maintain coverage for early retirees age 55 and older who are not yet eligible for Medicare, including their spouses, surviving spouses, and dependents. PNC submitted an application for reimbursement from the ERRP in 2012 for the 2010 and 2011 plan years. In 2012, PNC received reimbursement of $.9 million related to the 2011 plan year and received reimbursement of $.6 million related to the 2010 plan year.

***PNC Pension Plan Assets***

Assets related to our qualified pension plan (the Plan) are held in trust (the Trust). Effective July 1, 2011, the trustee is The Bank of New York Mellon; prior to that date, the trustee was PNC Bank, National Association, (PNC Bank, N.A). The Trust is exempt from tax pursuant to section 501(a) of the Internal Revenue Code (the Code). The Plan is qualified under section 401(a) of the Code. Plan assets consist primarily of listed domestic and international equity securities, U.S. government and agency securities, corporate debt securities, and real estate investments. Plan assets as of December 31, 2011 included $11 million of PNC common stock. The Plan held no PNC common stock as of December 31, 2012.

The PNC Financial Services Group, Inc. Administrative Committee (the Administrative Committee) adopted the Pension Plan Investment Policy Statement, including target allocations and allowable ranges, on August 13, 2008. On February 25, 2010, the Administrative Committee amended the investment policy to include a dynamic asset allocation approach and also updated target allocation ranges for certain asset categories. On March 1, 2011, the Administrative Committee amended the investment policy to update the target allocation ranges for certain asset categories.

The long-term investment strategy for pension plan assets is to:

- Meet present and future benefit obligations to all participants and beneficiaries,
- Cover reasonable expenses incurred to provide such benefits, including expenses incurred in the administration of the Trust and the Plan,
- Provide sufficient liquidity to meet benefit and expense payment requirements on a timely basis, and
- Provide a total return that, over the long term, maximizes the ratio of trust assets to liabilities by maximizing investment return, at an appropriate level of risk.

Under the dynamic asset allocation strategy, scenarios are outlined in which the Administrative Committee has the ability to make short to intermediate term asset allocation shifts based on factors such as the Plan s funded status, the Administrative Committee s view of return on equities relative to long term expectations, the Administrative Committee s view on the direction of interest rates and credit spreads, and other relevant financial or economic factors which would be expected to impact the ability of the Trust to meet its obligation to beneficiaries. Accordingly, the allowable asset allocation ranges have been updated to incorporate the flexibility required by the dynamic allocation policy.

The Plan s specific investment objective is to meet or exceed the investment policy benchmark over the long term. The investment policy benchmark compares actual performance to a weighted market index, and measures the contribution of active investment management and policy implementation. This investment objective is expected to be achieved over the long term (one or more market cycles) and is measured over rolling five-year periods. Total return calculations are time-weighted and are net of investment-related fees and expenses.

The asset strategy allocations for the Trust at the end of 2012 and 2011, and the target allocation range at the end of 2012, by asset category, are as follows.

***Table 119: Asset Strategy Allocations***

| PNC Pension Plan | Target Allocation Range | Percentage of Plan Assets by Strategy at December 31 2012 | 2011 |
|---|---|---|---|
| Asset Category | | | |
| Domestic Equity | 20 - 40% | 34% | 41% |
| International Equity | 10 - 25% | 22% | 21% |
| Private Equity | 0 - 10% | 3% | 3% |
| Total Equity | 40 - 70% | 59% | 65% |
| Domestic Fixed Income | 20 - 40% | 21% | 20% |
| High Yield Fixed Income | 0 - 15% | 14% | 12% |
| Total Fixed Income | 20 - 55% | 35% | 32% |
| Real estate | 0 - 10% | 5% | 3% |
| Other | 0 - 5% | 1% | 0% |
| Total | | 100% | 100% |

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The asset category represents the allocation of Plan assets in accordance with the investment objective of each of the Plan s investment managers. Certain domestic equity investment managers utilize derivatives and fixed income securities as described in their Investment Management Agreements to achieve their investment objective under the Investment Policy Statement. Other investment managers may invest in eligible securities outside of their assigned asset category to meet their investment objectives. The actual percentage of the fair value of total Plan assets held as of December 31, 2012 for equity securities, fixed income securities, real estate and all other assets are 59%, 33%, 5%, and 3%, respectively.

We believe that, over the long term, asset allocation is the single greatest determinant of risk. Asset allocation will deviate from the target percentages due to market movement, cash flows, investment manager performance and implementation of shifts under the dynamic allocation policy. Material deviations from the asset allocation targets can alter the expected return and risk of the Trust. On the other hand, frequent rebalancing to the asset allocation targets may result in significant transaction costs, which can impair the Trust s ability to meet its investment objective. Accordingly, the Trust portfolio is periodically rebalanced to maintain asset allocation within the target ranges described above.

In addition to being diversified across asset classes, the Trust is diversified within each asset class. Secondary diversification provides a reasonable basis for the expectation that no single security or class of securities will have a disproportionate impact on the total risk and return of the Trust.

The Administrative Committee selects investment managers for the Trust based on the contributions that their respective investment styles and processes are expected to make to the investment performance of the overall portfolio. The managers Investment Objectives and Guidelines, which are a part of each manager s Investment Management Agreement, document performance expectations and each manager s role in the portfolio. The Administrative Committee uses the Investment Objectives and Guidelines to establish, guide, control and measure the strategy and performance for each manager.

The purpose of investment manager guidelines is to:

- Establish the investment objective and performance standards for each manager,
- Provide the manager with the capability to evaluate the risks of all financial instruments or other assets in which the manager s account is invested, and
- Prevent the manager from exposing its account to excessive levels of risk, undesired or inappropriate risk, or disproportionate concentration of risk.

The guidelines also indicate which investments and strategies the manager is permitted to use to achieve its performance objectives, and which investments and strategies it is prohibited from using.

Where public market investment strategies may include the use of derivatives and/or currency management, language is incorporated in the managers guidelines to define allowable and prohibited transactions and/or strategies. Derivatives are typically employed by investment managers to modify risk/return characteristics of their portfolio(s), implement asset allocation changes in a cost-effective manner, or reduce transaction costs. Under the managers investment guidelines, derivatives may not be used solely for speculation or leverage. Derivatives are to be used only in circumstances where they offer the most efficient economic means of improving the risk/reward profile of the portfolio.

BlackRock receives compensation for providing investment management services. The Asset Management Group business segment also receives compensation for payor-related services, and received compensation for providing trustee/custodian services prior to July 1, 2011. Compensation for such services is paid by PNC and was not significant for 2012, 2011 or 2010. Non-affiliate service providers for the Trust are compensated from plan assets.

*FAIR VALUE MEASUREMENTS*

As further described in Note 9 Fair Value, GAAP establishes the framework for measuring fair value, including a hierarchy used to classify the inputs used in measuring fair value.

A description of the valuation methodologies used for assets measured at fair value follows. There have been no significant changes in the valuation methodologies used at December 31, 2012 compared with those in place at December 31, 2011:

- Money market and mutual funds are valued at the net asset value of the shares held by the pension plan at year end.
- U.S. government and agency securities, corporate debt, common stock and preferred stock are valued at the closing price reported on the active market on which the individual securities are traded. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Such securities are

generally classified within level 2 of the valuation hierarchy but may be a level 3 depending on the level of liquidity and activity in the market for the security.

The collective trust fund investments are valued based upon the units of such collective trust fund held by the plan at year end multiplied by the respective unit value. The unit value of the collective trust fund is based upon significant observable inputs, although it is not based upon quoted marked prices in an active market. The underlying investments of the collective trust funds consist primarily of equity securities, debt obligations, short-term investments, and other marketable securities. Due to the nature of these securities, there are no unfunded commitments or redemption restrictions.

Limited partnerships are valued by investment managers based on recent financial information used to estimate fair value. Other investments held by the pension plan include derivative financial instruments and real estate, which are recorded at estimated fair value as determined by third-party appraisals and pricing models, and group annuity contracts, which are measured at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

These methods may result in fair value calculations that may not be indicative of net realizable values or future fair values. Furthermore, while the pension plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan s assets at fair value as of December 31, 2012 and 2011.

***Table 120: Pension Plan Assets Fair Value Hierarchy***

| In millions | December 31 2012 Fair Value | Fair Value Measurements Using: Quoted Prices in Active Markets For Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Cash | $ 1 | $ 1 | | |
| Money market funds | 92 | 90 | $ 2 | |
| US government and agency securities | 449 | 184 | 265 | |
| Corporate debt (a) | 875 | | 853 | $ 22 |
| Common stock | 984 | 982 | 2 | |
| Preferred stock | 15 | | 15 | |
| Mutual funds | 20 | 4 | 16 | |
| Interest in Collective Funds (b) | 1,415 | | 1,327 | 88 |
| Limited partnerships | 128 | 1 | | 127 |
| Other | 30 | 2 | 28 | |
| Total | $ 4,009 | $ 1,264 | $ 2,508 | $ 237 |

| In millions | December 31 2011 Fair Value | Fair Value Measurements Using: Quoted Prices in Active Markets For Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Cash | $ 2 | $ 2 | | |
| Money market funds | 137 | 135 | $ 2 | |
| US government and agency securities | 395 | 114 | 281 | |
| Corporate debt (a) | 799 | | 722 | $ 77 |
| Common stock | 933 | 933 | | |
| Preferred Stock | 13 | 9 | 2 | 2 |

| | | | | |
|---|---|---|---|---|
| Mutual funds | 37 | | 37 | |
| Interest in Collective Funds (b) | 1,314 | | 937 | 377 |
| Limited partnerships | 130 | | | 130 |
| Other | 45 | 2 | 16 | 27 |
| Total | $ 3,805 | $ 1,195 | $ 1,997 | $ 613 |

(a) Corporate debt includes $115 million and $106 million of non-agency mortgage-backed securities as of December 31, 2012 and 2011, respectively.

(b) The benefit plans own commingled funds that invest in equity and fixed income securities. The commingled funds that invest in equity securities seek to mirror the performance of the S&P 500 Index, Russell 3000 Index, Morgan Stanley Capital International ACWI X US Index, and the Dow Jones U.S. Select Real Estate Securities Index. The commingled fund that holds fixed income securities invests in domestic investment grade securities and seeks to mimic the performance of the Barclays Aggregate Bond Index.

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During 2012 there were transfers of corporate and preferred stocks from Level 1 to Level 2 and transfers of mutual funds from Level 2 to Level 1. These transfers were not material and have been reflected as if they were transfers between levels.

The following summarizes changes in the fair value of the pension plan s Level 3 assets during 2012 and 2011.

***Table 121: Rollforward of Pension Plan Level 3 Assets***

| In millions | Interest in Collective Funds | Corporate Debt | Limited Partnerships | Other | Preferred Stock |
|---|---|---|---|---|---|
| January 1, 2012 | $ 377 | $ 77 | $ 130 | $ 27 | $ 2 |
| Net realized gain/(loss) on sale of investments | 5 | (28) | 2 | | |
| Net unrealized gain/(loss) on assets held at end of year | (3) | 20 | (13) | | |
| Purchases | 89 | 30 | 30 | | |
| Sales | (12) | (65) | (22) | | (2) |
| Transfers into Level 3 | | 2 | | | |
| Transfers from Level 3 | (368) | (14) | | (27) | |
| December 31, 2012 | $ 88 | $ 22 | $ 127 | $ | $ |

| In millions | Interest in Collective Funds | Corporate Debt | Limited Partnerships | Other | Preferred Stock |
|---|---|---|---|---|---|
| January 1, 2011 | $ 370 | $ 353 | $ 75 | $ 31 | |
| Net realized gain/(loss) on sale of investments | (1) | (9) | (6) | 3 | |
| Net unrealized gain/(loss) on assets held at end of year | (19) | (12) | 55 | (4) | $ (1) |
| Purchases | 27 | 29 | 16 | 4 | 3 |
| Sales | | (184) | (10) | (7) | |
| Transfers into Level 3 | | 30 | | | |
| Transfers from Level 3 | | (130) | | | |
| December 31, 2011 | $ 377 | $ 77 | $ 130 | $ 27 | $ 2 |

The transfers of Interest in Collective Funds from Level 3 into Level 2 during 2012 resulted from changes in significant observable inputs as to the level of trading activity in these funds. The transfers of Corporate Debt and Other investments into and from Level 3 were due to changes in significant observable inputs during 2012.

The following table provides information regarding our estimated future cash flows related to our various plans.

***Table 122: Estimated Cash Flows***

| | | | Postretirement Benefits | |
|---|---|---|---|---|
| In millions | Qualified Pension | Nonqualified Pension | Gross PNC Benefit Payments | Reduction in PNC Benefit Payments Due to Medicare Part D Subsidy |

| | | | | |
|---|---|---|---|---|
| Estimated 2013 employer contributions | | $ 36 | $ 29 | $ 1 |
| Estimated future benefit payments | | | | |
| 2013 | $ 263 | $ 36 | $ 29 | $ 1 |
| 2014 | 277 | 35 | 34 | 1 |
| 2015 | 284 | 32 | 30 | 1 |
| 2016 | 290 | 30 | 30 | 1 |
| 2017 | 303 | 29 | 30 | 1 |
| 2018 2022 | 1,598 | 121 | 137 | 3 |

The qualified pension plan contributions are deposited into the Trust, and the qualified pension plan benefit payments are paid from the Trust. Although the Plan is underfunded as of December 31, 2012, PNC s required qualified pension contribution for 2013 is expected to be zero based on the funding calculations under the Pension Protection Act of 2006. For the other plans, total contributions and the benefit payments are the same and represent expected benefit amounts, which are paid from general assets. Postretirement benefits are net of participant contributions.

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The components of net periodic benefit cost/(income) and other amounts recognized in Other comprehensive income (OCI) were as follows.

***Table 123: Components of Net Periodic Benefit Cost***

| | Qualified Pension Plan | | | Nonqualified Pension Plan | | | Postretirement Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended December 31 in millions | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
| Net periodic cost consists of: | | | | | | | | | |
| Service cost | $ 101 | $ 94 | $ 102 | $ 4 | $ 4 | $ 3 | $ 5 | $ 7 | $ 5 |
| Interest cost | 191 | 196 | 203 | 14 | 13 | 14 | 16 | 19 | 20 |
| Expected return on plan assets | (284) | (298) | (285) | | | | | | |
| Amortization of prior service cost/(credit) | (8) | (8) | (8) | | | | (3) | (3) | (3) |
| Amortization of actuarial (gain)/loss | 89 | 19 | 34 | 6 | 5 | 3 | (1) | | |
| Net periodic cost (benefit) | 89 | 3 | 46 | 24 | 22 | 20 | 17 | 23 | 22 |
| Other changes in plan assets and benefit obligations recognized in Other comprehensive income: | | | | | | | | | |
| Amortization of prior service (cost)/credit | 8 | 8 | 8 | | | | 3 | 3 | 3 |
| Current year actuarial loss/(gain) | 112 | 579 | (99) | 27 | 15 | 11 | (18) | (1) | 21 |
| Amortization of actuarial gain/(loss) | (89) | (19) | (34) | (6) | (5) | (3) | | (1) | |
| Total recognized in OCI | 31 | 568 | (125) | 21 | 10 | 8 | (15) | 1 | 24 |
| Total recognized in net periodic cost and OCI | $ 120 | $ 571 | $ (79) | $ 45 | $ 32 | $ 28 | $ 2 | $ 24 | $ 46 |

The weighted-average assumptions used (as of the beginning of each year) to determine the net periodic costs shown above were as follows.

***Table 124: Net Periodic Costs Assumptions***

| | Net Periodic Cost Determination | | |
|---|---|---|---|
| Year ended December 31 | 2012 | 2011 | 2010 |
| Discount rate | | | |
| Qualified pension | 4.60% | 5.20% | 5.75% |
| Nonqualified pension | 4.20 | 4.80 | 5.15 |
| Postretirement benefits | 4.40 | 5.00 | 5.40 |
| Rate of compensation increase (average) | 4.00 | 4.00 | 4.00 |
| Assumed health care cost trend rate | | | |
| Initial trend | 8.00 | 8.00 | 8.50 |
| Ultimate trend | 5.00 | 5.00 | 5.00 |
| Year ultimate reached | 2019 | 2019 | 2014 |
| Expected long-term return on plan assets | 7.75 | 7.75 | 8.00 |

The weighted-average assumptions used (as of the end of each year) to determine year end obligations for pension and postretirement benefits were as follows.

***Table 125: Other Pension Assumptions***

| | At December 31 | |
|---|---|---|
| Year ended December 31 | 2012 | 2011 |
| Discount rate | | |
| Qualified pension | 3.80% | 4.60% |

| | | |
|---|---|---|
| Nonqualified pension | 3.45 | 4.20 |
| Postretirement benefits | 3.60 | 4.40 |
| Rate of compensation increase (average) | 4.00 | 4.00 |
| Assumed health care cost trend rate | | |
| Initial trend | 8.00 | 8.00 |
| Ultimate trend | 5.00 | 5.00 |
| Year ultimate reached | 2019 | 2019 |

The discount rates are determined independently for each plan by comparing the expected future benefits that will be paid under each plan with yields available on high quality corporate bonds of similar duration. For this analysis, 10% of bonds with the highest yields and 40% with the lowest yields were removed from the bond universe.

The expected return on plan assets is a long-term assumption established by considering historical and anticipated returns of the asset classes invested in by the pension plan and the allocation strategy currently in place among those classes. We review this assumption at each measurement date and adjust it if warranted. This assumption will be changed from 7.75% to 7.50% for determining 2013 net periodic cost.

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The health care cost trend rate assumptions shown in the preceding tables relate only to the postretirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects.

***Table 126: Effect of One Percent Change in Assumed Health Care Cost***

| Year ended December 31, 2012<br>In millions | Increase | Decrease |
|---|---|---|
| Effect on total service and interest cost | $ 1 | $ (1) |
| Effect on year end benefit obligation | $ 11 | $ (11) |

Unamortized actuarial gains and losses and prior service costs and credits are recognized in AOCI each December 31, with amortization of these amounts through net periodic benefit cost. The estimated amounts that will be amortized in 2013 are as follows.

***Table 127: Estimated Amortization of Unamortized Actuarial Gains and Losses 2013***

| Year ended December 31<br>In millions | 2013 Estimate<br>Qualified Pension | <br>Nonqualified Pension | <br>Postretirement Benefits |
|---|---|---|---|
| Prior service (credit) | $ (8) | | $ (3) |
| Net actuarial loss | 86 | $ 8 | |
| Total | $ 78 | $ 8 | $ (3) |

***Defined Contribution Plans***

We have a qualified defined contribution plan that covers all eligible PNC employees. Effective January 1, 2010, the employer matching contribution under the PNC Incentive Savings Plan was reduced from a maximum of 6% to 4% of a participant s eligible compensation. Certain changes to the plan s eligibility and vesting requirements also became effective January 1, 2010. Employees hired prior to January 1, 2010 became 100% vested immediately, while employees hired on or after January 1, 2010 become vested 100% after three years of service. Employee benefits expense related to defined contribution plans was $111 million in 2012, $105 million in 2011 and $90 million in 2010. We measure employee benefits expense as the fair value of the shares and cash contributed to the plan by PNC.

Under the PNC Incentive Savings Plan, employee contributions up to 4% of eligible compensation as defined by the plan are matched 100%, subject to Code limitations. PNC will contribute a minimum matching contribution of $2,000 to employees who contribute at least 4% of eligible compensation every pay period during the year. This amount is prorated for certain employees, including part-time employees and those who are eligible for the company match for less than a full year. Additionally, for participants who meet the annual deferral limit or the annual compensation limit before the end of a calendar year, PNC makes a true-up matching contribution to ensure that such participants receive the full company match available. Effective January 1, 2012, in the case of both the minimum and true-up matching contributions, eligible employees must remain employed on the last day of the applicable plan year in order to receive the contribution. Minimum matching contributions made with respect to the 2011 and 2012 plan years are immediately 100% vested. The plan is a 401(k) Plan and includes a stock ownership (ESOP) feature. Employee contributions are invested in a number of mutual fund investment options available under the plan at the direction of the employee. Although employees were also historically permitted to direct the investment of their contributions into the PNC common stock fund, this fund was frozen to future investments of such contributions effective January 1, 2010. All shares of PNC common stock held by the plan are part of the ESOP. Effective January 1, 2011, employer matching contributions were made in cash.

We also maintain a nonqualified supplemental savings plan for certain employees, known as The PNC Financial Services Group, Inc. Supplemental Incentive Savings Plan. Effective January 1, 2012, the Supplemental Incentive Savings Plan was frozen to new participants and for any deferrals of amounts earned on or after such date. It was replaced by a new plan called The PNC Financial Services Group, Inc. Deferred Compensation and Incentive Plan (DCIP).

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## NOTE 16 STOCK BASED COMPENSATION PLANS

We have long-term incentive award plans (Incentive Plans) that provide for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, incentive shares/performance units, restricted stock, restricted share units, other share-based awards and dollar-denominated awards to executives and, other than incentive stock options, to non-employee directors. Certain Incentive Plan awards may be paid in stock, cash or a combination of stock and cash. We typically grant a substantial portion of our stock-based compensation awards during the first quarter of the year. As of December 31, 2012, no stock appreciation rights were outstanding. Total compensation expense recognized related to all share-based payment arrangements during 2012, 2011 and 2010 was approximately $101 million, $103 million and $107 million, respectively.

### *NONQUALIFIED STOCK OPTIONS*

Options are granted at exercise prices not less than the market value of common stock on the grant date. Generally, options become exercisable in installments after the grant date. No option may be exercisable after 10 years from its grant date. Payment of the option exercise price may be in cash or by surrendering shares of common stock at market value on the exercise date. The exercise price may be paid in previously owned shares.

### *OPTION PRICING ASSUMPTIONS*

For purposes of computing stock option expense, we estimated the fair value of stock options primarily by using the Black-Scholes option-pricing model. Option pricing models require the use of numerous assumptions, many of which are subjective.

We used the following assumptions in the option pricing models to determine 2012, 2011 and 2010 option expense:

- The risk-free interest rate is based on the US Treasury yield curve,
- The dividend yield typically represents average yields over the previous three-year period, however starting with the grants made after the first quarter of 2009, we used a yield indicative of our current dividend rate,
- Volatility is measured using the fluctuation in month-end closing stock prices over a period which corresponds with the average expected option life, but in no case less than a five-year period, and
- The expected life assumption represents the period of time that options granted are expected to be outstanding and is based on a weighted-average of historical option activity.

***Table 128: Option Pricing Assumptions***

| Weighted-average for the year ended December 31 | 2012 |
| --- | --- |