PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
May 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1435979**

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

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

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of May 2, 2012, there were 528,783,529 shares of the registrant s common stock ($5 par value) outstanding.

THE PNC FINANCIAL SERVICES GROUP, INC.

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

THE PNC FINANCIAL SERVICES GROUP, INC.

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

MD&A TABLE REFERENCE

Financial Review

Table 1: Consolidated Financial Highlights

The PNC Financial Services Group, Inc.

Dollars in millions, except per share data Unaudited	Three months ended March 31 **2012**	 2011
Financial Results (a)		
Revenue		
Net interest income	**$ 2,291**	$ 2,176
Noninterest income	**1,441**	1,455
Total revenue	**3,732**	3,631
Noninterest expense (b)	**2,455**	2,070
Pretax, pre-provision earnings (c)	**1,277**	1,561
Provision for credit losses	**185**	421
Income before income taxes and noncontrolling interests (pretax earnings)	**$ 1,092**	$ 1,140
Net income	**$ 811**	$ 832
Less:		
Net income (loss) attributable to noncontrolling interests	**6**	(5)
Preferred stock dividends and discount accretion	**39**	4
Net income attributable to common shareholders	**$ 766**	$ 833
Diluted earnings per common share	**$ 1.44**	$ 1.57
Cash dividends declared per common share (d)	**$ .35**	$ .10
Integration costs:		
Pretax	**$ 145**	$ 1
After-tax	**$ 94**	
Impact on diluted earnings per share	**$ .18**	
Performance Ratios		
Net interest margin (e)	**3.90%**	3.94%
Noninterest income to total revenue	**39**	40
Efficiency	**66**	57
Return on:		
Average common shareholders equity	**9.41**	11.12
Average assets	**1.16**	1.29

See page 57 for a glossary of certain terms used in this Report.

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

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

(b) Includes expenses of $38 million and $5 million ($24 million and $4 million after taxes, respectively) for the three months ended March 31, 2012 and March 31, 2011 for residential mortgage foreclosure-related expenses. The impact on diluted earnings per share was $.05, and $.01 for the three months ended March 31, 2012 and March 31, 2011.

(c) We believe that pretax, pre-provision earnings, a non-GAAP measure, is useful as a tool to help evaluate our earnings created by operating leverage.

(d) In April 2012, the PNC Board of Directors declared a quarterly cash dividend on common stock of 40 cents per share, an increase of 5 cents per share, or 14%, from the prior quarterly dividend of 35 cents per share. The increased dividend was paid on the next business day after May 5, 2012 to shareholders of record at the close of business on April 17, 2012.

(e) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended March 31, 2012 and March 31, 2011 were $31 million and $24 million, respectively.

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

Unaudited	**March 31 2012**	December 31 2011	March 31 2011
Balance Sheet Data (dollars in millions, except per share data)			
Assets	**$ 295,883**	$ 271,205	$ 259,378
Loans (b) (c)	**176,214**	159,014	149,387
Allowance for loan and lease losses (b)	**4,196**	4,347	4,759
Interest-earning deposits with banks (b)	**2,084**	1,169	1,359
Investment securities (b)	**64,554**	60,634	60,992
Loans held for sale (c)	**2,456**	2,936	2,980
Goodwill and other intangible assets	**11,188**	10,144	10,764
Equity investments (b) (d)	**10,352**	10,134	9,595
Noninterest-bearing deposits	**62,463**	59,048	48,707
Interest-bearing deposits	**143,664**	128,918	133,283
Total deposits	**206,127**	187,966	181,990
Transaction deposits	**164,575**	147,637	134,516
Borrowed funds (b)	**42,539**	36,704	34,996
Shareholders equity	**35,045**	34,053	31,132
Common shareholders equity	**33,408**	32,417	30,485
Accumulated other comprehensive income (loss)	**281**	(105)	(309)
Book value per common share	**63.26**	61.52	58.01
Common shares outstanding (millions)	**528**	527	526
Loans to deposits	**85%**	85%	82%
Client Assets (billions)			
Discretionary assets under management	**$ 112**	$ 107	$ 110
Nondiscretionary assets under administration	**107**	103	109
Total assets under administration	**219**	210	219
Brokerage account assets	**37**	34	35
Total client assets	**$ 256**	$ 244	$ 254
Capital Ratios			
Tier 1 common	**9.3%**	10.3%	10.3%
Tier 1 risk-based (e)	**11.4**	12.6	12.6
Total risk-based (e)	**14.4**	15.8	16.2
Leverage (e)	**10.5**	11.1	10.6
Common shareholders equity to assets	**11.3**	12.0	11.8
Asset Quality			
Nonperforming loans to total loans	**2.03%**	2.24%	2.88%
Nonperforming assets to total loans, OREO and foreclosed assets	**2.46**	2.60	3.29
Nonperforming assets to total assets	**1.47**	1.53	1.90
Net charge-offs to average loans (for the three months ended) (annualized)	**.81**	.83	1.44
Allowance for loan and lease losses to total loans	**2.38**	2.73	3.19
Allowance for loan and lease losses to nonperforming loans (f)	**117**	122	110
Accruing loans past due 90 days or more (g)	**$ 2,609**	$ 2,973	$ 2,645

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

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

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

(d) Amounts include our equity interest in BlackRock.

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

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

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

FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2011 Annual Report on Form 10-K as amended by Amendment No. 1 on Form 10-K/A (2011 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following sections as they appear in this Report and in our 2011 Form 10-K: the Risk Management section of the Financial Review portion of the respective report; Item 1A Risk Factors included in our 2011 Form 10-K; and the Legal Proceedings and Commitments and Guarantees Notes of the Notes to Consolidated Financial Statements included in the respective report. Also, see the Cautionary Statement Regarding Forward-Looking Information and Critical Accounting Estimates And Judgments sections in this Financial Review for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 18 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis.

EXECUTIVE SUMMARY

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

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

KEY STRATEGIC GOALS

We manage our company for the long term and seek to manage risk in keeping with a moderate risk philosophy. We emphasize maintaining strong capital and liquidity positions, investing in our markets and products, and embracing our corporate responsibility to the communities where we do business.

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

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

share of wallet. We may also grow revenue through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

We have made substantial progress in transitioning our balance sheet and managing our risks over the past several years. Our actions have resulted in a strong capital position, created a well-positioned balance sheet, reduced credit risk, and helped us to maintain strong liquidity and investment flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions. We remain committed to our moderate risk philosophy. We believe, however, that characterizing our view of our overall risk profile at a given time in a single word (as opposed to describing our efforts to seek to manage risk in keeping with our moderate risk philosophy) is not meaningful to investors and, as a result, we will no longer make such characterizations in our public disclosures. PNC faces a variety of risks that may impact different aspects of our risk profile from time to time, the extent of each varying depending on factors such as the current economic, political and regulatory environment, the impact of mergers and acquisition activity, and operational challenges. Many of these risks and our risk management strategies are described in more detail in our 2011 Form 10-K and elsewhere in this Report.

We expect to build capital via retained earnings while having opportunities to return capital to shareholders during 2012. See the 2012 Capital and Liquidity Actions section of this Executive Summary, the Funding and Capital Sources section of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 of our 2011 Form 10-K.

RBC Bank (USA) Acquisition

On March 2, 2012, we acquired 100% of the issued and outstanding common stock of RBC Bank (USA), the US retail banking subsidiary of Royal Bank of Canada. As part of the acquisition, PNC also purchased a credit card portfolio from RBC Bank (Georgia), National Association. PNC paid $3.6 billion in cash as the consideration for the acquisition of both RBC Bank (USA) and the credit card portfolio, subject to certain post-closing adjustments that are considered normal course of business. 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 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 2,900 branches across 17 states and the District of Columbia, ranking it fifth among U.S. banks in branches. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in this Report.

On April 20, 2012, PNC signed a purchase and assumption agreement with Union Bank, N.A. pursuant to which Union Bank will assume the deposits and acquire certain assets of the Smartstreet business unit, which was acquired by PNC as part of the RBC Bank (USA) acquisition. Smartstreet is a nationwide business focused on homeowner or community association managers and has approximately $1 billion of assets and deposits as of March 31, 2012. The transaction is expected to close in the fourth quarter of 2012 and is subject to certain closing conditions, including regulatory approval. Financial terms of the transaction have not been disclosed.

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 $210.5 million of deposits associated with these branches. 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. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in this Report.

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 $324.5 million of deposits associated with these branches. 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. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in this Report.

2012 Capital and Liquidity Actions

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

On April 5, 2012, consistent with our capital plan submitted to the Federal Reserve in 2012, our Board of Directors approved an increase to PNC s quarterly common stock dividend from $.35 per common share to $.40 per common share. For the second quarter of 2012, the increased dividend was payable to shareholders of record at the close of business on April 17, 2012 and the payment date was May 5, 2012. Additionally, also consistent with that capital plan, PNC plans to purchase up to $250 million of common stock under our existing 25 million share repurchase program in open market or privately negotiated transactions during the remainder of 2012. We did not repurchase any shares under PNC s existing common stock repurchase program in the first quarter of 2012. The discussion of capital within the Consolidated Balance Sheet Review section of this Financial Review includes additional information regarding our common stock repurchase program.

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

PNC and its subsidiaries to finance their activities, repayment of outstanding indebtedness, and repurchases and redemptions of issued and outstanding securities of PNC and its subsidiaries.

On April 10, 2012, we announced that May 25, 2012 will be the redemption date of $500 million of trust preferred securities issued by National City Capital Trust III with a current distribution rate of 6.625% and an original scheduled maturity date of May 25, 2047 and submitted a redemption notice to the trustee. The redemption price will be $25 per trust preferred security plus any accrued and unpaid distributions to the redemption date of May 25, 2012. In addition, on April 25, 2012 we redeemed $300 million of trust preferred securities issued by PNC Capital Trust D with a distribution rate of 6.125% and $6 million of trust preferred securities issued by Yardville Capital Trust III with a distribution rate of 10.18%. These redemptions together will result in a noncash charge for the unamortized discounts of approximately $130 million in the second quarter of 2012. We have an additional $1 billion of securities that are redeemable at par beginning in the latter half of 2012, and if we call those securities, we expect that the related noncash charges will be approximately $150 million.

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 granted the underwriters an option to purchase up to an additional 3 million depositary shares within 30 days after April 19, 2012 at the public offering price, less underwriting discounts and commissions, to cover overallotments, if any. We intend to use the net proceeds from the sale of the depositary shares for general corporate purposes, which may include repurchases and redemptions of issued and outstanding securities of PNC and its subsidiaries, including trust preferred securities.

Recent Market and Industry Developments

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

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

certain desirable business opportunities, place constraints on business activities we currently conduct, or have other adverse impacts on our operations or revenue.

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 a smaller impact on us than on our larger peers.

Included in these recent legislative and regulatory developments are evolving regulatory capital standards for financial institutions. Dodd-Frank requires the Federal Reserve Board to establish capital requirements that would, among other things, eliminate the Tier 1 treatment of trust preferred securities following a phase-in period expected to begin in 2013. Evolving standards also include the so-called Basel III initiatives that are part of the effort by international banking supervisors to improve the ability of the banking sector to absorb shocks in periods of financial and economic stress and changes by the federal banking agencies to reduce the use of credit ratings in the rules governing regulatory capital. The recent Basel III capital initiative, which has the support of US banking regulators, includes heightened capital requirements for major banking institutions in terms of both higher quality capital and higher regulatory capital ratios. The Basel III accord provides for the new Basel III capital standards to become effective under a phase-in period beginning January 1, 2013 and to be in full effect on January 1, 2019. Basel III capital standards require implementing regulations and standards by the U.S. banking regulators.

The Basel III initiatives also include new, quantitative 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 take effect on January 1, 2015, requires a banking organization to maintain a sufficient level of unencumbered, high-quality liquid assets that could be converted to cash to meet projected cash outflows during a 30-day severe stress scenario. The Net Stable Funding Ratio, which is scheduled to take effect on January 1, 2018, is designed to promote a stable maturity structure of assets and liabilities of banking organizations over a one-year time horizon. Accordingly, it measures the amount of longer-term, stable sources of funding available to support the portion of a banking organization s assets (both on- and off-balance sheet) that could not be readily converted to cash over a stress period lasting one year. Like the Basel III capital standards, the Basel III liquidity standards require implementing regulations by the U.S. banking regulators.

A number of reform provisions are likely to significantly impact the ways in which banks and bank holding companies, including PNC, do business. We provide additional information on a number of these provisions (including new regulatory agencies (such as the Consumer Financial Protection Bureau (CFPB)), consumer protection regulation, enhanced capital requirements, limitations on investment in and sponsorship of funds, risk retention by securitization participants, new regulation of derivatives, potential applicability of state consumer protection laws, and limitations on interchange fees) and some of their potential impacts on PNC in Item 1 Business Supervision and Regulation and Item 1A Risk Factors included in our 2011 Form 10-K.

RESIDENTIAL MORTGAGE MATTERS

Beginning in the third quarter of 2010, mortgage foreclosure documentation practices among US financial institutions received heightened attention by regulators and the media. PNC s US market share for residential servicing is approximately 1.4% according to the National Mortgage News. The vast majority of our servicing business is on behalf of other investors, principally the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA).

There have been, and continue to be, numerous 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 these other ongoing governmental, legislative and regulatory inquiries, please see Item 1A Risk Factors and Note 22 Legal Proceedings in Item 8 in our 2011 Form 10-K.

PNC S PARTICIPATION IN SELECT GOVERNMENT PROGRAMS

FDIC Temporary Liquidity Guarantee Program (TLGP) Transaction Account Guarantee Program

Part of the FDIC s Temporary Liquidity Guarantee Program involves providing full deposit insurance coverage for non-interest bearing transaction accounts in FDIC-insured institutions, regardless of the dollar amount (TLGP-Transaction Account Guarantee Program).

Beginning January 1, 2010, PNC Bank, N.A. ceased participating in the FDIC s TLGP-Transaction Account Guarantee Program. Dodd-Frank, however, extended for two years, beginning December 31, 2010, unlimited deposit insurance coverage for non-interest bearing transaction accounts held at all banks. Therefore, eligible accounts at PNC Bank, N.A. are again eligible for unlimited deposit insurance, through December 31, 2012. Coverage under this extension is in addition to, and separate from, the coverage available under the FDIC s general deposit insurance rules. We believe that

FDIC insurance has been an attraction for customers seeking to maintain liquidity during this prolonged period of low interest rates.

Home Affordable Modification Program (HAMP)

As part of its effort to stabilize the US housing market, in March 2009 the Obama Administration published detailed guidelines implementing HAMP, and authorized servicers to begin loan modifications under the program. PNC began participating in HAMP through its then subsidiary National City Bank in May 2009 and directly through PNC Bank, N.A. in July 2009, and entered into an agreement on October 1, 2010 to participate in the Second Lien Program. HAMP was scheduled to terminate as of December 31, 2012; however, the Administration has announced that the HAMP program deadline will be extended to December 31, 2013.

Home Affordable Refinance Program (HARP)

Another part of its efforts to stabilize the US housing market is the Obama Administration s Home Affordable Refinance Program (HARP), which provided a means for certain borrowers to refinance their mortgage loans. PNC began participating in HARP in May 2009. On October 24, 2011 the Obama Administration announced revisions to the program (HARP 2), increasing borrower eligibility and extending the program for another twelve months with a new termination date of December 31, 2013. During the fourth quarter of 2011, both FNMA and FHLMC announced their respective HARP 2 provisions and in December 2011 PNC began participating in HARP 2 with both entities. Under HARP 2 there is no limit on the borrower s loan-to-value (LTV) for fixed rate mortgages, which was a key change from the original program s 125% LTV limit. This change significantly increased the number of borrowers eligible for a refinance under the program. During the first quarter of 2012, nearly 30% of PNC s mortgage loan originations were original HARP or HARP 2 refinancing transactions.

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 the acquisition, growth and retention of customers,
- Continued development of the geographic markets related to our recent acquisitions, including full deployment of our product offerings, and integration of the acquired RBC Bank (USA) businesses into PNC,
- Revenue growth and our ability to provide innovative and valued products to our customers,
- Our ability to utilize technology to develop and deliver products and services to our customers,
- Our ability to manage and implement strategic business objectives within the changing regulatory environment,
- 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 operate in accordance with our moderate risk philosophy, and to meet evolving regulatory capital standards,
- Actions we take within the capital and other financial markets, and
- The impact of legal and regulatory-related contingencies.

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

INCOME STATEMENT HIGHLIGHTS

- Net income for the first quarter of 2012 of $811 million was down 3% compared to first quarter of 2011. Net income for the first quarter of 2012 included integration costs of $145 million, additions to legal reserves of $72 million, operating expenses of $40 million for the RBC Bank (USA) acquisition, and $38 million of residential mortgage foreclosure-related expenses. The impacts of these items were not significant to net income for the first quarter of 2011.
- Net interest income of $2.3 billion for the first quarter of 2012 increased 5 percent compared with the first quarter of 2011 driven by loans added through the RBC Bank (USA) acquisition, organic loan growth and lower funding costs. Net interest margin declined to 3.90% for the first quarter of 2012 compared to 3.94% for the first quarter of 2011, primarily as loan growth and lower funding costs were offset by lower yields on loans and securities.
- Noninterest income of $1.4 billion for the first quarter 2012 declined $14 million compared to first quarter 2011. Increases were reflected in higher residential mortgage revenue, higher asset management fees, and an increase in corporate service fees. These increases were offset by various declines in other income and by lower consumer service fees primarily reflecting the regulatory impact of lower interchange fees on debit card transactions.
- The provision for credit losses declined to $185 million for the first quarter of 2012 compared to $421 million for the first quarter of 2011 as overall credit quality improved.
- Noninterest expense of $2.5 billion for the first quarter of 2012 increased $385 million compared with the first quarter of 2011 primarily due to higher integration costs, additions to legal reserves, operating expense for the RBC Bank (USA) acquisition, and an increase in expense for residential mortgage foreclosure-related matters.

CREDIT QUALITY HIGHLIGHTS

- Overall credit quality remained stable during the first quarter of 2012 compared with year end.
  - Nonperforming assets increased $205 million, or 5 percent, to $4.4 billion at March 31, 2012 compared with December 31, 2011. The increase was primarily attributable to other real estate owned added in the acquisition of RBC Bank (USA) and higher nonperforming home equity loans from a change in policy which places home equity loans on nonaccrual status when past due 90 days or more compared with 180 days under the prior policy. These increases were partially offset by a decline in nonperforming commercial real estate and commercial loans. Nonperforming assets to total assets were 1.47 percent at March 31, 2012 compared with 1.53 percent at December 31, 2011.
  - Accruing loans past due decreased by $275 million, or 6%, to $4.3 billion at March 31, 2012 from $4.5 billion at December 31, 2011. Accruing loans past due 90 days or more declined $364 million due to the change in policy for home equity loans and improvements in commercial loans and government insured

delinquent residential real estate loans. Accruing loans past due 30 to 59 days increased $119 million in the linked quarter comparison due to an increase in commercial, residential real estate and commercial real estate loans primarily related to the RBC Bank (USA) acquisition.

Net charge-offs declined to $333 million in the first quarter of 2012 compared with $533 million in the first quarter of 2011. Net charge-offs declined in the comparison with first quarter 2011 primarily due to lower commercial real estate, commercial and residential real estate loan net charge-offs. Net charge-offs for the first quarter of 2012 were .81 percent of average loans on an annualized basis compared with 1.44 percent for the first quarter of 2011.

Provision for credit losses declined to $185 million in the first quarter of 2012 compared with $421 million in the first quarter of 2011 driven by overall credit quality improvement and continued actions to reduce exposure levels.

The allowance for loan and lease losses (ALLL) was 2.38% of total loans and 117% of nonperforming loans as of March 31, 2012 compared with 2.73% and 122% as of December 31, 2011.

BALANCE SHEET HIGHLIGHTS

PNC continued to expand customer relationships and focus on quality growth.

Retail banking checking relationships increased 517,000 in the first quarter of 2012, including 460,000 from the RBC Bank (USA) acquisition.

Total loans increased by $17 billion to $176 billion at March 31, 2012 compared to December 31, 2011.

Loans of approximately $14.5 billion were added in the RBC Bank (USA) acquisition.

Commercial loans grew organically by approximately 5 percent, reflecting PNC s focus on long-term, broad-based client relationships. The growth was primarily in corporate banking, asset-based lending, and real estate finance.

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

Deposits of approximately $18.1 billion were added in the RBC Bank (USA) acquisition.

Transaction deposits also grew organically during the first quarter of 2012 and increased to $165 billion, or 80 percent of deposits, at March 31, 2012.

Higher rate retail certificates of deposit continued to decline.

PNC s balance sheet remained core funded with a loans to deposits ratio of 85 percent at March 31, 2012 and reflected a strong liquidity position.

PNC maintained strong capital levels with a Tier 1 common capital ratio of 9.3 percent at March 31, 2012 and 10.3 percent at December 31, 2011. The impact on the ratio of the acquisition of RBC Bank (USA) was a decrease of approximately 1.2 percentage points.

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 plans to purchase up to $250 million of common stock under its existing 25 million share repurchase program in open market or privately negotiated transactions during the remainder of 2012.

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

AVERAGE CONSOLIDATED BALANCE SHEET HIGHLIGHTS

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

Total average assets were $281.5 billion for the first three months of 2012 compared with $262.6 billion for the first three months of 2011. Average interest-earning assets were $237.7 billion for the first three months of 2012, compared with $224.1 billion in the first three months of 2011. In both comparisons, the increases were primarily driven by a $14.4 billion increase in average total loans. The overall increase in average loans reflected the impact of approximately $5 billion of average loans from the March 2, 2012 acquisition of RBC Bank (USA) and organic growth.

Average total loans increased $14.4 billion, to $164.6 billion for the first three months of 2012 compared with the first three months of 2011. The increase in average total loans primarily reflected an increase in commercial loans of $13.0 billion and in consumer loans of $2.7 billion, partially offset by a $.7 billion decrease in commercial real estate loans.

Loans represented 69% of average interest-earning assets for the first three months of 2012 and 67% of average interest-earning assets for the first three months of 2011.

Average investment securities decreased $.6 billion, to $61.6 billion in the first three months of 2012 compared with the first three months of 2011.

Total investment securities comprised 26% of average interest-earning assets for the first three months of 2012 and 28% for the first three months of 2011.

Average noninterest-earning assets totaled $43.8 billion in the first three months of 2012 compared with $38.5 billion in the first three months of 2011. The increase over the comparable period was driven by several individually insignificant items.

Average total deposits were $192.1 billion for the first three months of 2012 compared with $180.8 billion for the first three months of 2011. The increase in average total deposits reflected the impact of approximately $4.6 billion of average deposits from the March 2, 2012 acquisition of RBC Bank (USA). The period end increase of $11.3 billion resulted from increases in average noninterest-bearing deposits of $10.1 billion, average interest-bearing demand deposits of $5.3 billion and average money market deposits of $2.6 billion, offset by a decrease in retail certificates of deposit of $7.5 billion. The growth also reflects customer preferences for liquidity in this prolonged period of low interest rates. Total deposits at March 31, 2012 were $206.1 billion compared with $188.0 billion at December 31, 2011 and are further discussed within the Consolidated Balance Sheet Review section of this Report.

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

Average transaction deposits were $150.7 billion for the first three months of 2012 compared with $132.6 billion for the first three months of 2011. The continued execution of the retail deposit strategy and corporate and personal customer preference for liquidity, as well as the impact from the RBC Bank (USA) acquisition, contributed to the year-over-year increase in average balances.

Average borrowed funds were $40.2 billion for the first three months of 2012 compared with $38.4 billion for the first three months of 2011. Net issuances of Federal Home Loan Bank (FHLB) borrowings during the first quarter of 2012 and an increase in commercial paper issued drove the increase compared with the first three months of 2011. Total borrowed funds at March 31, 2012 were $42.5 billion compared with $36.7 billion at December 31, 2011 and are further discussed within the Consolidated Balance Sheet Review section of this Financial Review. The Liquidity Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding our sources and uses of borrowed funds.

Business Segment Highlights

Total business segment earnings were $770 million for the first three months of 2012 and $639 million for the first three

months of 2011. Highlights of results for the first quarters of 2012 and 2011 are included below. The Business Segments Review section of this Financial Review includes a Results of Businesses-Summary table and further analysis of our business segment results over the first three months of 2012 and 2011 including presentation differences from Note 18 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

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

Retail Banking

Retail Banking earned $50 million in the first three months of 2012 compared with a loss of $18 million for the same period a year ago. Earnings increased from the prior year as a result of a lower provision for credit losses and improved net interest income partially offset by higher noninterest expense and a decline in noninterest income. Retail Banking continued to maintain its focus on growing core customers, selectively investing in the business for future growth, and disciplined expense management.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $470 million in the first three months of 2012 as compared with $432 million in the first three months of 2011. The increase in earnings was primarily due to higher net interest income resulting from higher average loans and deposits. We continued to focus on adding new clients, increasing cross sales and remaining committed to strong expense discipline.

Asset Management Group

Asset Management Group earned $28 million in the first three months of 2012 compared with $43 million in the first three months of 2011. Assets under administration were $219 billion at both March 31, 2012 and March 31, 2011. Earnings for the first quarter of 2012 reflected an increase in the provision for credit losses and an increase in noninterest expense partially offset by growth in net interest income and noninterest income. Noninterest expense increased due to continued investments in the business including additional headcount. The core growth strategies for the business include: increasing channel penetration; investing in higher growth geographies; and investing in differentiated client-facing technology.

Residential Mortgage Banking

Residential Mortgage Banking earned $61 million in the first three months of 2012 compared with $71 million in the first three months of 2011. Earnings declined from the prior year period primarily as a result of higher noninterest expense, partially offset by higher noninterest income and lower provision for credit losses.

BlackRock

Our BlackRock business segment earned $90 million in the first three months of 2012 and $86 million in the first three months of 2011. The higher business segment earnings from BlackRock for the first quarter of 2012 compared to the first quarter of 2011 was primarily due to PNC s higher equity earnings from BlackRock.

Non-Strategic Assets Portfolio

This business segment consists primarily of acquired non-strategic assets that fall outside of our core business strategy. Non-Strategic Assets Portfolio had earnings of $71 million for the first three months of 2012 compared with $25 million in the first three months of 2011. The increase was driven primarily by a lower provision for credit losses partially offset by a decline in revenue.

Other

Other reported earnings of $41 million for the three months of 2012 compared with earnings of $193 million for the first three months of 2011. The decrease in earnings from the first three months of 2011 primarily reflected the impact of integration costs incurred in the 2012 period.

Consolidated Income Statement Review

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

Net income for the first three months of 2012 was $811 million, down 3% compared with $832 million for the first three months of 2011. Net income for the first quarter of 2012 included integration costs of $145 million, additions to legal reserves of $72 million, operating expenses of $40 million for the RBC Bank (USA) acquisition and $38 million of residential mortgage foreclosure-related expenses. The impacts of these items were not significant to net income for the first quarter of 2011.

Table 2: Net Interest Income and Net Interest Margin

Three months ended March 31		
Dollars in millions	**2012**	2011
Net interest income	**$ 2,291**	$ 2,176
Net interest margin	**3.90%**	3.94%

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

Net interest income of $2.3 billion for the first quarter of 2012 increased 5 percent compared with the first quarter of 2011 driven by loans from the RBC Bank (USA) acquisition, organic loan growth and lower funding costs.

The net interest margin was 3.90% for the first three months of 2012 and 3.94% for the first three months of 2011. The following factors impacted the comparison:

- Average loans increased $14.4 billion, or 10 percent. Average commercial loans grew $13.0 billion, or 23 percent, and average consumer loans increased $2.7 billion, or 5 percent, partially offset by declines in average commercial real estate and residential real estate loans.
- A 26 basis point decrease in the yield on interest-earning assets. The yield on loans, the largest portion of our earning assets, decreased 31 basis points.
- These factors were partially offset by a weighted-average 25 basis point decline in the rate accrued on interest-bearing liabilities. The rate accrued on interest-bearing deposits, the largest component, decreased 24 basis points, and the rate on total borrowed funds decreased by 34 basis points.

We expect our net interest income for full year 2012 to increase in percentage terms by high single digits compared to full year 2011, assuming the economic outlook for the remainder of 2012 will be a continuation of the recent trends. Approximately $5 billion of higher-cost retail certificates of deposit are scheduled to mature during the second quarter of 2012 at a weighted-average rate of about 2.2%. We expect to retain about half of the maturing retail certificates of deposit, and we expect those to re-price on average to approximately 30 basis points. In addition, we see future benefits to our funding costs relating to calling certain trust preferred securities. We redeemed $306 million of trust preferred securities with an average rate of 6.2% in April 2012, and in April 2012 we announced that we are calling another $500 million with a current distribution rate of 6.6%. We expect to replace these securities with lower cost funding. We have an additional $1 billion of trust preferred securities at an average rate of almost 10% with par call dates later this year that potentially could be called.

Noninterest Income

Noninterest income totaled $1.4 billion for the first three months of 2012 and $1.5 billion for the first three months of 2011. Increases were reflected in higher residential mortgage revenue from higher loan sales revenue, higher asset management fees from improved equity markets, and an increase in corporate service fees from higher merger and acquisition advisory fees and commercial mortgage banking revenue. These increases were offset by a decline in other income including a decrease in revenue from private and other equity investments and lower gains on loan sales, and by lower consumer service fees reflecting the regulatory impact of lower interchange fees on debit card transactions.

Asset management revenue, including BlackRock, increased $21 million to $284 million in the first three months of 2012 compared with the first three months of 2011. This increase was driven primarily by higher equity earnings from our BlackRock investment. Discretionary assets under management at March 31, 2012 totaled $112 billion compared with $110 billion at March 31, 2011.

For the first three months of 2012, consumer services fees totaled $264 million compared with $311 million in the first three months of 2011. Lower consumer services fees for the first quarter 2012 reflected the regulatory impact of lower interchange fees on debit card transactions partially offset by higher volumes of customer-initiated transactions**.** As further discussed in the Retail Banking section of the Business Segments Review portion of this Financial Review, the Dodd-Frank limits on interchange rates were effective October 1, 2011 and had a negative impact on revenues of approximately $70 million in the first quarter of 2012. Based on 2012 projected transaction volumes, an additional incremental reduction of approximately $230 million in 2012 revenue is expected.

Corporate services revenue totaled $232 million in the first three months of 2012 and $217 million in the first three months of 2011. Higher merger and acquisition advisory fees and commercial mortgage banking revenue led to the increase in corporate service fees in the first quarter of 2012.

Residential mortgage revenue totaled $230 million in the first three months of 2012 and $195 million in the first three months of 2011, driven by higher loans sales revenue, higher net hedging gains on mortgage servicing rights and higher servicing fees.

Service charges on deposits totaled $127 million for the first three months of 2012 and $123 million for the first three months of 2011. The slight increase in service charges on deposits during the first quarter 2012 related to the impact of the RBC Bank (USA) acquisition during the quarter.

Net gains on sales of securities totaled $57 million for the first three months of 2012 and $37 million for the first three months of 2011. The net credit component of OTTI of securities recognized in earnings was a loss of $38 million in the first three months of 2012 compared with a loss of $34 million in the first three months of 2011.

Other noninterest income totaled $285 million for the first three months of 2012 compared with $343 million for the first three months of 2011, largely related to a decrease in revenue from private and other equity investments and lower gains on loan sales.

Other noninterest income typically fluctuates from period to period depending on the nature and magnitude of transactions completed. Further details regarding our trading activities are

included in the Market Risk Management Trading Risk portion of the Risk Management section of this Financial Review, further details regarding private and other equity investments are included in the Market Risk Management-Equity And Other Investment Risk section, and further details regarding gains or losses related to our equity investment in BlackRock are included in the Business Segments Review section.

The growth in our diverse revenue streams is an important component of driving positive operating leverage and should enable us to achieve a solid performance in an environment that will continue to be affected by regulatory reform headwinds and implementation challenges. Looking to full year 2012, we see further opportunities for growth as a result of our larger franchise, our ability to cross-sell our products and services to existing clients and our excellent progress in adding new clients. We expect noninterest income to increase in percentage terms by the mid-single digits despite further regulatory impacts on debit card interchange fees, assuming the economic outlook for 2012 will be a continuation of the 2011 environment.

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 in all business segments. A portion of the revenue and expense related to these products is reflected in the Corporate & Institutional Banking segment results and the remainder is reflected in the results of other businesses. The Other Information section in the Corporate & Institutional Banking table in the Business Segments Review section of this Financial Review includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue from these services follows.

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, totaled $311 million for the first three months of 2012 and $301 million for the first three months of 2011. Higher deposit related balances along with strong commercial card growth led to favorable results.

Revenue from capital markets-related products and services totaled $156 million in the first three months of 2012 compared with $139 million in the first three months of 2011. The increase was primarily due to revenue from higher derivatives and foreign exchange sales and higher merger and acquisition advisory fees which more than offset a lower level of loan sale 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), 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 $43 million in the first three months of 2012 compared with $41 million in the first three months of 2011. Higher revenue from commercial mortgage servicing was partially offset by lower revenue from loan originations.

Provision For Credit Losses

The provision for credit losses totaled $185 million for the first three months of 2012 compared with $421 million for the first three months of 2011. The decline in the comparison was driven by overall credit quality improvement and continuation of actions to reduce exposure levels.

We expect our provision for credit losses for full year 2012 to improve relative to full year 2011 assuming the economic outlook for the full year 2012 will be a continuation of the 2011 environment and excluding legal and regulatory-related contingencies to the extent that the nature of the resolution of such contingencies causes us to recognize additional provision.

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

Noninterest Expense

Noninterest expense was $2.5 billion for the first three months of 2012 and $2.1 billion for the first three months of 2011. First quarter 2012 expense included integration costs of $145 million, additions to legal reserves of $72 million, operating expense for the RBC Bank (USA) acquisition of $40 million and $38 million of residential mortgage foreclosure-related expenses.

We expect that total noninterest expense for full year 2012 will increase in percentage terms by mid-to-high single-digits compared to full year 2011. This expectation is based primarily due to increases in mortgage expenses as a result of higher volumes in the low rate environment and mortgage foreclosure-related matters. This guidance excludes legal and regulatory-related contingencies, charges for trust preferred securities redemptions and integration expenses for both years.

Effective Income Tax Rate

The effective income tax rate was 25.7% in the first three months of 2012 compared with 27.0% in the first three months of 2011. The lower rate in the first quarter of 2012 was primarily attributable to the impact of higher tax-exempt income and tax credits partially offset by higher levels of pretax income.

Consolidated Balance Sheet Review

Table 3: Summarized Balance Sheet Data

In millions	Mar. 31 2012	Dec. 31 2011
Assets		
Loans	**$ 176,214**	$ 159,014
Investment securities	**64,554**	60,634
Cash and short-term investments	**10,256**	9,992
Loans held for sale	**2,456**	2,936
Goodwill and other intangible assets	**11,188**	10,144
Equity investments	**10,352**	10,134
Other, net	**20,863**	18,351
Total assets	**$ 295,883**	$ 271,205
Liabilities		
Deposits	**$ 206,127**	$ 187,966
Borrowed funds	**42,539**	36,704
Other	**8,981**	9,289
Total liabilities	**257,647**	233,959
Total shareholders equity	**35,045**	34,053
Noncontrolling interests	**3,191**	3,193
Total equity	**38,236**	37,246
Total liabilities and equity	**$ 295,883**	$ 271,205

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

The increase in total assets of $24.7 billion at March 31, 2012 compared with December 31, 2011 was primarily due to the addition of assets from the RBC Bank (USA) acquisition, loan growth and higher investment securities.

An analysis of changes in selected balance sheet categories follows.

Loans

A summary of the major categories of loans outstanding follows. Outstanding loan balances of $176.2 billion at March 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 $3.3 billion at March 31, 2012 and $2.3 billion at December 31, 2011, respectively. The balances do not include future accretable net interest (i.e., the difference between the undiscounted expected cash flows and the carrying value of the loan) on the purchased impaired loans.

Loans increased $17.2 billion as of March 31, 2012 compared with December 31, 2011. On March 2, 2012, our RBC Bank (USA) acquisition added $14.5 billion of loans, which included $6.4 billion of commercial, $2.5 billion of commercial real estate, $3.4 billion of consumer (including $3.0 billion of home equity loans and $.3 billion of credit card loans), $2.1 billion of residential real estate, and $.1 billion of equipment lease financing loans. Excluding acquisition

activity, the growth in commercial loans was due to organic growth in the portfolio while the decline in consumer and residential real estate loans was due to loan demand being outpaced by paydowns, refinancing, and charge-offs.

Loans represented 60% of total assets at March 31, 2012 and 59% of total assets at December 31, 2011. Commercial lending represented 57% of the loan portfolio at March 31, 2012 and 56% at December 31, 2011. Consumer lending represented 43% at March 31, 2012 and 44% at December 31, 2011.

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

Table 4: Details Of Loans

In millions	**Mar. 31 2012**	Dec. 31 2011
Commercial Lending		
Commercial		
Retail/wholesale trade	**$ 12,983**	$ 11,539
Manufacturing	**12,684**	11,453
Service providers	**11,215**	9,717
Real estate related (a)	**10,091**	8,488
Financial services	**8,273**	6,646
Health care	**5,695**	5,068
Other industries	**14,574**	12,783
Total commercial	**75,515**	65,694
Commercial real estate		
Real estate projects	**12,589**	10,640
Commercial mortgage	**5,945**	5,564
Total commercial real estate	**18,534**	16,204
Equipment lease financing	**6,594**	6,416
TOTAL COMMERCIAL LENDING	**100,643**	88,314
Consumer Lending		
Home equity		
Lines of credit	**24,668**	22,491
Installment	**11,076**	10,598
Total home equity	**35,744**	33,089
Residential real estate		
Residential mortgage	**15,287**	13,885
Residential construction	**925**	584
Total residential real estate	**16,212**	14,469
Credit card	**4,089**	3,976
Other consumer		
Education	**9,246**	9,582
Automobile	**5,794**	5,181
Other	**4,486**	4,403
Total other consumer	**19,526**	19,166
TOTAL CONSUMER LENDING	**75,571**	70,700
Total loans (b)	**$ 176,214**	$ 159,014

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

Total loans above include purchased impaired loans of $8.4 billion, or 5% of total loans, at March 31, 2012, and $6.7 billion, or 4% of total loans, at December 31, 2011. The increase is related to the addition of purchased impaired loans from the RBC (USA) acquisition.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $35 billion for the first three months of 2012.

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

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

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

Higher Risk Loans

Our loan portfolio includes certain loans deemed to be higher risk and therefore more likely to result in credit losses. As of March 31, 2012, we established specific and pooled reserves on the total commercial lending category of $1.9 billion. This commercial lending reserve included what we believe to be appropriate loss coverage on the higher risk commercial loans in the total commercial portfolio. The commercial lending reserve represented 46% of the total ALLL of $4.2 billion at that date. The remaining 54% of ALLL pertained to the total consumer lending category, including loans with certain attributes that we would consider to be higher risk. We do not consider government insured or guaranteed loans to be higher risk as defaults are materially mitigated by payments of insurance or guarantee amounts for approved claims. Additional information regarding our higher risk loans is included in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in this Report.

Purchase Accounting, Accretion and Valuation for Purchased Impaired Loans

Table 5: RBC Acquired Loan Portfolio on March 2, 2012

	Purchased Impaired			Other Purchased Loans (a)		
		Outstanding			Outstanding	
In millions	Fair Value	Balance	Net Investment	Fair Value	Balance (b)	Net Investment
Commercial	$ 446	$ 746	60%	$ 6,002	$ 6,328	95%
Commercial Real Estate	481	836	58	2,067	2,310	89
Equipment Lease Financing				86	92	93
Consumer	151	215	70	3,203	3,731	86
Residential Real Estate	896	1,214	74	1,168	1,202	97
Total	$ 1,974	$ 3,011	66%	$ 12,526	$ 13,663	92%

(a) Other purchased loans includes revolving loans that are excluded from the purchased impaired loans.

(b) The difference between total outstanding balance and total fair value will be accreted into net interest income on a constant effective yield over the life of the loans unless future credit events cause the loans to be on nonaccrual.

Information related to purchase accounting, accretion and valuation for purchased impaired loans for the first three months of 2012 and 2011 follows.

Table 6: Accretion Purchased Impaired Loans

Three months ended March 31

In millions	**2012 (a)**	2011 (b)
Impaired loans		
Scheduled accretion	**$ 158**	$ 160
Reversal of contractual interest on impaired loans	**(97)**	(106)
Scheduled accretion net of contractual interest	**61**	54
Excess cash recoveries	**40**	81
Total impaired loans	**$ 101**	$ 135

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

Table 7: Accretable Net Interest Purchased Impaired Loans

In billions	**2012**	2011
January 1	**$ 2.1**	$ 2.2
Addition due to RBC acquisition on March 2, 2012	**.6**	
Accretion	**(.2)**	(.2)
Excess cash recoveries		(.1)
Net reclassifications to accretable from non-accretable and other activity		.3
March 31 (a)	**$ 2.5**	$ 2.2

(a) As of March 31, 2012, we estimate that the reversal of contractual interest on purchased impaired loans will total approximately $1.5 billion in future periods, of which $250 million was associated with loans purchased in the RBC acquisition. This will offset the total net accretable interest in future interest income of $2.5 billion on purchased impaired loans.

Table 8: Valuation of Purchased Impaired Loans

	March 31, 2012 (a)		December 31, 2011 (b)	
Dollars in billions	Balance	Net Investment	Balance	Net Investment
Commercial and commercial real estate loans:				
Unpaid principal balance	**$ 2.4**		$ 1.0	
Purchased impaired mark	**(.7)**		(.1)	
Recorded investment	**1.7**		.9	
Allowance for loan losses	**(.2)**		(.2)	
Net investment	**1.5**	63%	.7	70%
Consumer and residential mortgage loans:				
Unpaid principal balance	**7.7**		6.5	
Purchased impaired mark	**(1.0)**		(.7)	
Recorded investment	**6.7**		5.8	
Allowance for loan losses	**(.8)**		(.8)	
Net investment	**5.9**	77%	5.0	77%
Total purchased impaired loans:				
Unpaid principal balance	**10.1**		7.5	
Purchased impaired mark	**(1.7)**		(.8)	
Recorded investment	**8.4**		6.7	
Allowance for loan losses	**(1.0)**		(1.0)	
Net investment	**$ 7.4**	**73%**	$ 5.7	76%

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

The unpaid principal balance of purchased impaired loans increased from $7.5 billion at December 31, 2011 to $10.1 billion at March 31, 2012 due to the acquisition of RBC Bank (USA) and related credit card portfolio, partially offset by payments, disposals, and charge-offs of amounts determined to be uncollectible. The remaining purchased impaired mark at March 31, 2012 was $1.7 billion, which was an increase from $0.8 billion at December 31, 2011. The associated allowance for loan losses remained flat at March 31, 2012. The net investment of $5.7 billion at December 31, 2011 also increased 30% to $7.4 billion at March 31, 2012. At March 31, 2012, our largest individual purchased impaired loan had a recorded investment of $21.8 million.

We currently expect to collect total cash flows of $9.9 billion on purchased impaired loans, representing the $7.4 billion net investment at March 31, 2012 and the accretable net interest of $2.5 billion shown in the Accretable Net Interest-Purchased Impaired Loans table. These represent the net future cash flows on purchased impaired loans, as contractual interest will be reversed.

Net Unfunded Credit Commitments

Net unfunded credit commitments are comprised of the following:

Table 9: Net Unfunded Credit Commitments

In millions	March 31 2012	December 31 2011
Commercial/commercial real estate (a)	**$ 69,941**	$ 64,955
Home equity lines of credit	**20,751**	18,317
Credit card	**17,610**	16,216
Other	**4,152**	3,783
Total	**$ 112,454**	$ 103,271

(a) Less than 4% 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 $20.9 billion at March 31, 2012 and $20.2 billion at December 31, 2011.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $903 million at March 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 $10.9 billion at March 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.

Investment Securities

Table 10: Details of Investment Securities

In millions	Amortized Cost	Fair Value
March 31, 2012		
Securities Available for Sale		
Debt securities		
US Treasury and government agencies	**$ 2,567**	**$ 2,842**
Residential mortgage-backed		
Agency	**28,493**	**29,298**
Non-agency	**6,791**	**6,121**
Commercial mortgage-backed		
Agency	**865**	**899**
Non-agency	**2,805**	**2,943**
Asset-backed	**5,417**	**5,283**
State and municipal	**1,899**	**1,936**
Other debt	**3,647**	**3,738**
Corporate stocks and other	**298**	**298**
Total securities available for sale	**$ 52,782**	**$ 53,358**
Securities Held to Maturity		
Debt securities		
US Treasury and government agencies	**$ 224**	**$ 246**
Residential mortgage-backed (agency)	**4,450**	**4,590**
Commercial mortgage-backed		
Agency	**1,301**	**1,357**
Non-agency	**3,223**	**3,334**
Asset-backed	**967**	**977**
State and municipal	**671**	**704**
Other debt	**360**	**373**
Total securities held to maturity	**$ 11,196**	**$ 11,581**
December 31, 2011		
Securities Available for Sale		
Debt securities		
US Treasury and government agencies	$ 3,369	$ 3,717
Residential mortgage-backed		
Agency	26,081	26,792
Non-agency	6,673	5,557
Commercial mortgage-backed		
Agency	1,101	1,140
Non-agency	2,693	2,756
Asset-backed	3,854	3,669
State and municipal	1,779	1,807
Other debt	2,691	2,762
Corporate stocks and other	368	368
Total securities available for sale	$ 48,609	$ 48,568
Securities Held to Maturity		
Debt securities		
US Treasury and government agencies	$ 221	$ 261
Residential mortgage-backed (agency)	4,761	4,891
Commercial mortgage-backed		
Agency	1,332	1,382
Non-agency	3,467	3,573
Asset-backed	1,251	1,262
State and municipal	671	702
Other debt	363	379
Total securities held to maturity	$ 12,066	$ 12,450

The carrying amount of investment securities totaled $64.6 billion at March 31, 2012, an increase of $3.9 billion, or 6%, from $60.6 billion at December 31, 2011. The increase reflected higher agency residential mortgage-backed securities from net purchase activity and asset-backed and other debt securities added in the RBC Bank (USA) acquisition. Investment securities represented 22% of total assets at both March 31, 2012 and December 31, 2011.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. US Treasury and government agencies, agency residential mortgage-backed and agency commercial mortgage-backed securities collectively represented 60% of the investment securities portfolio at March 31, 2012.

At March 31, 2012, the securities available for sale portfolio included a net unrealized gain of $576 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2011 was a net unrealized loss of $41 million. The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa.

The improvement in the net unrealized gain as compared with a loss at December 31, 2011 was primarily due to the effect of higher valuations of non-agency residential mortgage-backed securities. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders equity as accumulated other comprehensive income or loss from continuing operations, net of tax.

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

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

We estimate that, at March 31, 2012, the effective duration of investment securities was 2.7 years for an immediate 50 basis points parallel increase in interest rates and 2.5 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 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:

Table 11: Vintage, Current Credit Rating, and FICO Score for Asset-Backed Securities

	March 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
Fair Value Available for Sale	**$ 29,298**	**$ 899**	**$ 6,121**	**$ 2,943**	**$ 5,283**
Fair Value Held to Maturity	**4,590**	**1,357**		**3,334**	**977**
Total Fair Value	**$ 33,888**	**$ 2,256**	**$ 6,121**	**$ 6,277**	**$ 6,260**
<u>% of Fair Value:</u>					
By Vintage					
2012	**7%**			**1%**	
2011	**31%**	**43%**		**5%**	
2010	**30%**	**19%**		**4%**	**4%**
2009	**11%**	**20%**		**3%**	**5%**
2008	**3%**	**2%**			**2%**
2007	**3%**	**1%**	**24%**	**9%**	**5%**
2006	**2%**	**4%**	**22%**	**24%**	**6%**
2005 and earlier	**8%**	**11%**	**53%**	**52%**	**7%**
Not Available	**5%**		**1%**	**2%**	**71%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By Credit Rating (at March 31, 2012)					
Agency	**100%**	**100%**			
AAA			**1%**	**77%**	**57%**
AA			**1%**	**6%**	**30%**
A			**3%**	**10%**	**1%**
BBB			**5%**	**4%**	
BB			**12%**	**1%**	
B			**6%**		