PNC FINANCIAL SERVICES GROUP, INC.
Form 10-K
March 01, 2013
Table of Contents

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.

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to 2012 Form 10-K

TABLE OF CONTENTS

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to 2012 Form 10-K (continued)

TABLE OF CONTENTS (Continued)

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to 2012 Form 10-K (continued)

MD&A TABLE REFERENCE

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to 2012 Form 10-K (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to 2012 Form 10-K (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE (Continued)

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to 2012 Form 10-K (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE (Continued)

Table of Contents

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

Table of Contents

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:

	Form 10-K page
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
Maturities And Weighted-Average Yield Of Securities	170 171
Loan Types	42 45, 145 and 240
Selected Loan Maturities And Interest Sensitivity	242
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
Time Deposits Of $100,000 Or More	191 and 242
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.

Table of Contents

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

Table of Contents

(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.

Table of Contents

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 31st 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

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

Table of Contents

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

Table of Contents

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.

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.

Table of Contents

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

Table of Contents

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

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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,

Table of Contents

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 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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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)

Table of Contents

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.

Table of Contents

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.

	Base Period	Assumes $100 investment at Close of Market on December 31, 2007 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.

Table of Contents

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.

Table of Contents

Dollars in millions, except as noted	At or for the year ended December 31 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.

Table of Contents

ITEM 7 MANAGEMENT S DISCUSSIONAND 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.

Table of Contents

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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

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.

Table of Contents

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 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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

Table 5: Accretion Purchased Impaired Loans

Year ended December 31 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.

Table of Contents

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.

INVESTMENT SECURITIES

Table 11: Details of Investment Securities

In millions	December 31, 2012 Amortized Cost	December 31, 2012 Fair Value	December 31, 2011 Amortized Cost	December 31, 2011 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:

Table of Contents

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.

Table of Contents

We recognized OTTI for 2012 and 2011 as follows:

Table 13: Other-Than-Temporary Impairments

Year ended December 31

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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

Table of Contents

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.

Table of Contents

Off-Balance Sheet Arrangements And Variable Interest Entities

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

Table of Contents

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.

Table of Contents

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.

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.

Table of Contents

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)

	Net Income (Loss)		Revenue		Average Assets (a)	
Year ended December 31 - in millions	2012	2011	2012	2011	2012	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.

Table of Contents

Retail Banking

(Unaudited)

Table 21: Retail Banking Table

Year ended December 31 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 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.

Table of Contents

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

Table of Contents

- 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.

Table of Contents

Corporate & Institutional Banking

(Unaudited)

Table 22: Corporate & Institutional Banking Table

Year ended December 31 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 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.

Table of Contents

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.

Table of Contents

Asset Management Group

(Unaudited)

Table 23: Asset Management Group Table

Year ended December 31 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 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.

Table of Contents

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.

Table of Contents

Residential Mortgage Banking

(Unaudited)

Table 24: Residential Mortgage Banking Table

Year ended December 31 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 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.

Table of Contents

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.

Table of Contents

BlackRock

(Unaudited)

Table 25: BlackRock Table

Information related to our equity investment in BlackRock follows:

Year ended December 31 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 2012	Dec. 31 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 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.

Table of Contents

This business segment consists primarily of non-strategic assets obtained through acquisitions of other companies. Non-Strategic Assets Portfolio had earnings of $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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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 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

Table of Contents

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.

Table of Contents

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.

Table of Contents

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%

Table of Contents

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

	2012			2011		
Year ended December 31 In millions	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
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.

Table of Contents

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.

Table of Contents

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 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)
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.

Table of Contents

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

Table of Contents

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.

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.

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.

Table of Contents

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.

Table of Contents

(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

Table of Contents

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)

Dollars in millions	Amount Dec. 31 2012	Dec. 31 2011	Percent of Total Outstandings 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)

Dollars in millions	Amount Dec. 31 2012	Dec. 31 2011	Percent of Total Outstandings 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 of Contents

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

Table of Contents

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 of Contents

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

Dollars in millions	December 31, 2012 Number of Accounts	December 31, 2012 Unpaid Principal Balance	December 31, 2011 Number of Accounts	December 31, 2011 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

Table of Contents

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

December 31, 2012	Six Months		Nine Months		Twelve Months		Fifteen Months		
Dollars in millions	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Unpaid Principal Balance (c)
Permanent Modifications									
Home Equity									
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 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.

Table of Contents

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 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			