

PNC FINANCIAL SERVICES GROUP INC
Form 10-Q
August 09, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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Pennsylvania
(State or other jurisdiction of

25-1435979
(I.R.S. Employer Identification No.)

incorporation or organization)

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

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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 No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 30, 2010, there were 525,399,769 shares of the registrant's common stock (\$5 par value) outstanding.

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THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
FINANCIAL RESULTS (a)				
Revenue				
Net interest income	\$ 2,435	\$ 2,193	\$ 4,814	\$ 4,513
Noninterest income	1,477	1,610	2,861	2,976
Total revenue	3,912	3,803	7,675	7,489
Noninterest expense	2,002	2,492	4,115	4,650
Pretax, pre-provision earnings (b)	\$ 1,910	\$ 1,311	\$ 3,560	\$ 2,839
Provision for credit losses	\$ 823	\$ 1,087	\$ 1,574	\$ 1,967
Income from continuing operations before noncontrolling interests	\$ 781	\$ 195	\$ 1,429	\$ 715
Income from discontinued operations, net of income taxes (c)	\$ 22	\$ 12	\$ 45	\$ 22
Net income	\$ 803	\$ 207	\$ 1,474	\$ 737
Net income attributable to common shareholders (d)	\$ 786	\$ 65	\$ 1,119	\$ 525
Diluted earnings per common share				
Continuing operations	\$ 1.43	\$.11	\$ 2.06	\$ 1.11
Discontinued operations (c)	.04	.03	.09	.05
Net income	\$ 1.47	\$.14	\$ 2.15	\$ 1.16
Cash dividends declared per common share	\$.10	\$.10	\$.20	\$.76
Total preferred dividends declared, including TARP	\$ 25	\$ 119	\$ 118	\$ 170
TARP Capital Purchase Program preferred dividends (d)		\$ 95	\$ 89	\$ 142
Impact of TARP Capital Purchase Program preferred dividends per diluted common share		\$.21	\$.17	\$.32
Redemption of TARP preferred stock discount accretion (d)			\$ 250	
PERFORMANCE RATIOS				
<u>From continuing operations</u>				
Noninterest income to total revenue	38%	42%	37%	40%
Efficiency	51	66	54	62
<u>From net income</u>				
Net interest margin (e)	4.35%	3.60%	4.29%	3.70%
Return on:				
Average common shareholders' equity	11.52	1.52	8.63	5.72
Average assets	1.22	.30	1.12	.53

See page 52 for a glossary of certain terms used in this Report.

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

- (a) The Executive Summary and Consolidated Income Statement Review portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.
- (b) We believe that pretax, pre-provision earnings, a non-GAAP measure, is useful as a tool to help evaluate our ability to provide for credit costs through operations.
- (c) Includes results of operations for PNC Global Investment Servicing Inc. (GIS) for all periods presented. We entered into a definitive agreement to sell GIS in February 2010, and closed the sale on July 1, 2010. See Sale of PNC Global Investment Servicing in the Executive Summary section of the Financial Review section of this Report and Note 2 Divestiture in the Notes To Consolidated Financial Statements of this Report for additional information.
- (d) We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of \$250 million in the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share.
- (e)

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Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from Federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of 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 GAAP in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended June 30, 2010 and June 30, 2009 were \$19 million and \$16 million, respectively. The taxable-equivalent adjustments to net interest income for the six months ended June 30, 2010 and June 30, 2009 were \$37 million and \$31 million, respectively.

Table of Contents**CONSOLIDATED FINANCIAL HIGHLIGHTS (CONTINUED) (a)**

Unaudited	June 30 2010	December 31 2009	June 30 2009
BALANCE SHEET DATA (dollars in millions, except per share data)			
Assets	\$ 261,695	\$ 269,863	\$ 279,754
Loans (b) (c)	154,342	157,543	165,009
Allowance for loan and lease losses (b)	5,336	5,072	4,569
Interest-earning deposits with banks (b)	5,028	4,488	10,190
Investment securities (b)	53,717	56,027	49,969
Loans held for sale (c)	2,756	2,539	4,662
Goodwill and other intangible assets	12,138	12,909	12,890
Equity investments (b)	10,159	10,254	8,168
Noninterest-bearing deposits	44,312	44,384	41,806
Interest-bearing deposits	134,487	142,538	148,633
Total deposits	178,799	186,922	190,439
Transaction deposits	125,712	126,244	120,324
Borrowed funds (b)	40,427	39,261	44,681
Shareholders' equity	28,377	29,942	27,294
Common shareholders' equity	27,725	22,011	19,363
Accumulated other comprehensive loss	442	1,962	3,101
Book value per common share	52.77	47.68	42.00
Common shares outstanding (millions)	525	462	461
Loans to deposits	86%	84%	87%
ASSETS UNDER ADMINISTRATION (billions)			
Discretionary assets under management	\$ 99	\$ 103	\$ 98
Nondiscretionary assets under administration	100	102	124
Total assets under administration	\$ 199	\$ 205	\$ 222
CAPITAL RATIOS			
Tier 1 risk-based (d) (e)	10.7%	11.4%	10.5%
Tier 1 common (e)	8.3	6.0	5.3
Total risk-based (d)	14.3	15.0	14.1
Leverage (d)	9.1	10.1	9.1
Common shareholders' equity to assets	10.6	8.2	6.9
ASSET QUALITY RATIOS			
Nonperforming loans to total loans	3.31%	3.60%	2.52%
Nonperforming assets to total loans and foreclosed and other assets	3.81	3.99	2.81
Nonperforming assets to total assets	2.26	2.34	1.66
Net charge-offs to average loans (for the three months ended) (annualized)	2.18	2.09	1.89
Allowance for loan and lease losses to total loans	3.46	3.22	2.77
Allowance for loan and lease losses to nonperforming loans (f)	104	89	110

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

(b) Amounts include consolidated variable interest entities. Some June 30, 2010 amounts include consolidated variable interest entities that we consolidated effective January 1, 2010 based on guidance in ASC 810, Consolidation. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information.

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

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

(e) Our Tier 1 risk-based capital ratio and our Tier 1 common capital ratio would have been 11.3% and 9.0%, respectively, at June 30, 2010 had they included the net impact of the July 1, 2010 sale of GIS. A reconciliation of these ratios reflecting the estimated impact of the sale of GIS to the ratios set forth in the table above is included in the Risk-Based Capital portion of the Financial Review section of this Report. We believe that the disclosure of these ratios reflecting the

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estimated impact of the sale of GIS provides additional meaningful information regarding the risk-based capital ratios at that date and the impact of this event on these ratios.

- (f) Nonperforming loans do not include purchased impaired loans or loans held for sale. Allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans.

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FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2009 Annual Report on Form 10-K (2009 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business and regulatory risks, see the Risk Management section in this Financial Review and Items 1A and 7 of our 2009 Form 10-K and Item 1A included in Part II of this Report. Also, see the Cautionary Statement Regarding Forward-Looking Information and Critical Accounting Estimates And Judgments sections in this Financial Review for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and those anticipated in the forward-looking statements included in this Report. See Note 19 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income from continuing operations before noncontrolling interests as reported on a generally accepted accounting principles (GAAP) basis.

EXECUTIVE SUMMARY

THE PNC FINANCIAL SERVICES GROUP, INC.

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

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

SALE OF PNC GLOBAL INVESTMENT SERVICING

On July 1, 2010, we sold PNC Global Investment Servicing Inc. (GIS), a leading provider of processing, technology and business intelligence services to asset managers, broker-dealers and financial advisors worldwide, for \$2.3 billion in cash pursuant to a definitive agreement entered into on February 2, 2010. The estimated after-tax gain of \$335 million related to this sale will be recognized in the third quarter of 2010. The sale is expected to add \$1.4 billion to regulatory capital and improve Tier 1 risk-based and Tier 1 common capital ratios by approximately 60 basis points and 70 basis points, respectively.

Results of operations of GIS are presented as income from discontinued operations, net of income taxes, on our Consolidated Income Statement for the periods presented in this Report. Once we entered into the sales agreement, GIS was no longer a reportable business segment.

Further information regarding the GIS sale is included in Note 2 Divestiture in our Notes To Consolidated Financial Statements in this Report.

NATIONAL CITY INTEGRATION COSTS

A summary of pretax merger and integration costs in connection with our December 31, 2008 acquisition of National City Corporation (National City) follows.

NATIONAL CITY INTEGRATION COSTS

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In millions	Second Quarter	First Six Months	Full Year
2010	\$ 100	\$ 213	\$ 343(a)
2009	\$ 125	\$ 177	\$ 421
2008			\$ 575(b)

(a) Estimated.

(b) Includes \$504 million conforming provision for credit losses.

The transaction is expected to result in the reduction of more than \$1.8 billion of combined company annualized noninterest expense through the elimination of operational and administrative redundancies. We have completed the customer and branch conversions to our technology platforms and continue to integrate the businesses and operations of National City with those of PNC.

KEY STRATEGIC GOALS

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

Our strategy to enhance shareholder value centers on driving pre-tax, pre-provision earnings in excess of credit costs by achieving growth in revenue from our balance sheet and diverse business mix that exceeds growth in expenses controlled through disciplined cost management. The primary drivers of revenue growth are the acquisition, expansion and retention of customer relationships. We strive to expand our customer base by offering convenient banking options and leading technology solutions, providing a broad range of fee-based and credit products and services, focusing on customer service, and through a significantly enhanced branding initiative. We may also grow revenue through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

We are focused on our strategies for quality growth. We are committed to re-establishing a moderate risk profile

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characterized by disciplined credit management and limited exposure to earnings volatility resulting from interest rate fluctuations and the shape of the interest rate yield curve. We made substantial progress in transitioning our balance sheet throughout 2009 and in the first six months of 2010, working to institute our moderate risk philosophy throughout our expanded franchise. Our actions have created a well-positioned balance sheet, strong bank level liquidity and investment flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

We also continue to be focused on building capital in the current environment characterized by economic and regulatory uncertainty. See the Funding and Capital Sources section of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this Financial Review.

RECENT MARKET AND INDUSTRY DEVELOPMENTS

The economic turmoil that began in the middle of 2007 and continued through most of 2008 has now settled into a slow economic recovery with, at this time, somewhat uncertain prospects. This has been accompanied by dramatic changes in the competitive landscape of the financial services industry and a wholesale reformation of the legislative and regulatory landscape with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which was signed into law by President Obama on July 21, 2010.

Dodd-Frank is extensive, complicated and comprehensive legislation that impacts practically all aspects of a banking organization. Dodd-Frank will negatively impact revenue and increase both the direct and indirect costs of doing business for PNC, as it includes provisions that could increase regulatory fees and deposit insurance assessments and impose heightened capital and prudential standards, while at the same time impacting the nature and costs of PNC's businesses, including consumer lending, private equity investment, derivatives transactions, interchange fees on debit card transactions, and asset securitizations.

Until such time as the regulatory agencies issue proposed and final regulations implementing the numerous provisions of Dodd-Frank, a process that will extend at least over the next 12 months and might last several years, PNC will not be able to fully assess the impact the legislation will have on its businesses. However, we believe that the expected changes will be manageable for PNC and will have a smaller impact on us than many Wall Street banks.

Items 1 and 7 of our 2009 Form 10-K include information regarding efforts over the past 18 months by the Federal government, including the US Congress, the US Department of the Treasury, the Federal Reserve, the FDIC, and the Securities and Exchange Commission, to stabilize and restore confidence in the financial services industry that have impacted and will likely continue to impact PNC and our

stakeholders. These efforts, which will continue to evolve, include the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, Dodd-Frank and other legislative, administrative and regulatory initiatives.

Developments during the first half of 2010 related to these matters are summarized below.

TARP Capital Purchase Program

We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of \$250 million in the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share. See Repurchase of Outstanding TARP Preferred Stock and Sale by US Treasury of TARP Warrant in Note 14 Total Equity And Other Comprehensive Income in the Notes To Consolidated Financial Statements in this Report for additional information.

FDIC Temporary Liquidity Guarantee Program

The FDIC's TLGP is designed to strengthen confidence and encourage liquidity in the banking system by:

- Guaranteeing newly issued senior unsecured debt of eligible institutions, including FDIC-insured banks and thrifts, as well as certain holding companies (TLGP-Debt Guarantee Program), and
- Providing full deposit insurance coverage for non-interest bearing transaction accounts in FDIC-insured institutions, regardless of the dollar amount (TLGP-Transaction Account Guarantee Program).

PNC did not issue any securities under the TLGP-Debt Guarantee Program during the first six months of 2010.

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From October 14, 2008 through December 31, 2009, PNC Bank, National Association (PNC Bank, N.A.) participated in the TLGP-Transaction Account Guarantee Program. Beginning January 1, 2010, PNC Bank, N.A. is no longer participating in this program, but Dodd-Frank extends the program for all banks for two years, beginning December 31, 2010.

Public-Private Investment Fund Programs (PPIFs)

PNC did not participate in these programs during the first six months of 2010.

Home Affordable Modification Program (HAMP)

PNC began participating in HAMP for GSE mortgages in May 2009 and for non-GSE mortgages in July 2009, and intends to begin participation in the Second Lien Program in August 2010. HAMP is scheduled to terminate as of December 31, 2012.

Table of Contents**Home Affordable Refinance Program (HARP)**

PNC began participating in HARP in May 2009. The program terminated as of June 10, 2010.

As noted above, Dodd-Frank and its implementation, as well as other statutory and regulatory initiatives that will be ongoing, will introduce numerous regulatory changes over the next several years. While we believe that we are well positioned to navigate through this process, we cannot predict the ultimate impact of these actions on PNC's business plans and strategies.

KEY FACTORS AFFECTING FINANCIAL PERFORMANCE

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

General economic conditions, including the speed and stamina of the moderate economic recovery that began last year 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 other 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 above, and
 The impact of market credit spreads on asset valuations.

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

Further success in the acquisition, growth and retention of customers,
 Completion of the integration of the National City acquisition,
 Continued development of the geographic markets related to our recent acquisitions, including full deployment of our product offerings,
 Revenue growth,
 A sustained focus on expense management, including achieving our cost savings targets associated with our National City integration, and creating positive pretax, pre-provision earnings,
 Managing the distressed assets portfolio and other impaired assets,
 Improving our overall asset quality and continuing to meet evolving regulatory capital standards,
 Continuing to maintain and grow our deposit base as a low-cost funding source,
 Prudent risk and capital management related to our efforts to re-establish our desired moderate risk profile, and
 Actions we take within the capital and other financial markets.

SUMMARY FINANCIAL RESULTS

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Net income, in millions	\$ 803	\$ 207	\$ 1,474	\$ 737
Diluted earnings per common share				
Continuing operations	\$ 1.43	\$.11	\$ 2.06	\$ 1.11
Discontinued operations	.04	.03	.09	.05
Net income	\$ 1.47	\$.14	\$ 2.15	\$ 1.16
Return from net income on:				
Average common shareholders' equity	11.52%	1.52%	8.63%	5.72%
Average assets	1.22%	.30%	1.12%	.53%

Income Statement Highlights

Strong earnings in the second quarter of 2010 were driven by higher revenue, lower expenses and stabilizing credit quality. Pretax, pre-provision earnings for the second quarter of 2010 were \$1.9 billion compared with \$1.3 billion for the second quarter of 2009.

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Total revenue increased to \$3.9 billion and was derived from well-diversified sources. Net interest income increased over the second quarter of 2009 due to lower funding costs while noninterest income decreased primarily due to lower residential mortgage revenues. Noninterest expense of \$2.0 billion declined compared with the second quarter of 2009 reflecting disciplined expense management, additional acquisition-related cost savings and the reversal of certain accrued liabilities.

Balance Sheet Highlights

We remain committed to responsible lending to support economic growth. Loans and commitments originated and renewed totaled approximately \$40 billion in the second quarter and \$72 billion for the first half of 2010. At June 30, 2010, loans totaled \$154 billion and decreased \$2.9 billion during the quarter primarily due to loan repayments, dispositions and net charge-offs that exceeded customer loan demand.

The average rate paid on deposits declined by 10 basis points to .71% in the second quarter of 2010 from .81% in the first quarter primarily due to repricing certificates of deposit and other time

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deposits which decreased \$3.1 billion or 6% during the second quarter. Total deposits declined by \$3.7 billion during the quarter to \$179 billion at June 30, 2010.

We remained core funded with a loan to deposit ratio of 86% at June 30, 2010 providing a strong bank liquidity position to support growth.

PNC's Tier 1 common capital ratio grew to 8.3% at June 30, 2010 and on a pro forma basis would have been an estimated 9.0% based on the sale of GIS on July 1, 2010. Further details regarding the pro forma impact of the sale of GIS are provided in the Risk-Based Capital portion of our Consolidated Balance Sheet Review section of this Financial Review.

Credit Quality Highlights

Credit quality showed signs of stabilization during the second quarter of 2010. Nonperforming assets declined by \$636 million in the quarter to \$5.9 billion as of June 30, 2010. Accruing loans past due improved during the quarter. The allowance for loan and lease losses was \$5.3 billion, or 3.46% of total loans and 104% of nonperforming loans, as of June 30, 2010. Net charge-offs to average loans of 2.18% compared favorably to industry ratios.

Sales of residential mortgage and brokered home equity loans from the distressed assets portfolio with unpaid principal balances of approximately \$2.0 billion at June 30, 2010 are expected to close in the third quarter of 2010. As a result, we recorded an additional provision for credit losses of \$109 million and net charge-offs of \$75 million in the second quarter of 2010.

Integration Highlights

We successfully completed the National City conversion of 16 million accounts, 6 million customers and 1,300 branches in nine states in one of the largest branch conversions in US banking history. PNC achieved acquisition cost savings of \$1.6 billion on an annualized basis in the second quarter of 2010, well ahead of the original target amount and schedule, and established a new goal of \$1.8 billion by the end of 2010.

Our Consolidated Income Statement and Consolidated Balance Sheet Review sections of this Financial Review describe in greater detail the various items that impacted our results for the second quarter and first half of 2010 and 2009.

AVERAGE CONSOLIDATED BALANCE SHEET HIGHLIGHTS

Various seasonal and other factors impact our period-end balances whereas average balances are generally more indicative of underlying business trends apart from the impact of acquisitions, divestitures or consolidations of variable interest entities.

The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at June 30, 2010 compared with December 31, 2009.

Total average assets were \$265.7 billion for the first six months of 2010 compared with \$280.9 billion for the first six months of 2009.

Average interest-earning assets were \$225.8 billion for the first half of 2010, compared with \$243.7 billion in the first half of 2009. A decrease of \$14.5 billion in loans was reflected in the decrease in average interest-earning assets.

Average noninterest-earning assets totaled \$40.0 billion in the first six months of 2010 compared with \$37.1 billion in the prior year period.

The decrease in average total loans reflected a decline in commercial loans of \$10.5 billion and commercial real estate loans of \$3.8 billion. Loans represented 69% of average interest-earning assets for the first six months of 2010 and 70% for the first six months of 2009.

Average securities available for sale increased \$2.4 billion, to \$49.0 billion, in the first half of 2010 compared with the first half of 2009. Average US Treasury and government agencies securities increased \$5.4 billion compared with the first six months of 2009 while average other debt securities increased \$1.4 billion in the comparison. These increases were partially offset by a decline of \$3.9 billion in average residential mortgage-backed securities compared with the prior year period.

Average securities held to maturity increased \$3.3 billion, to \$7.0 billion, in the first six months of 2010 compared with the first six months of 2009. The increase reflected purchases of asset-backed and non-agency commercial mortgage-backed securities, the transfer of securities from the available for sale portfolio, and the impact of the Market Street Funding LLC (Market Street) consolidation effective January 1, 2010.

Total investment securities comprised 25% of average interest-earning assets for the first six months of 2010 and 21% for the first six months of 2009.

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Average total deposits were \$182.7 billion for the first half of 2010 compared with \$192.5 billion for the first half of 2009. Average deposits declined from the prior year period primarily as a result of decreases in retail certificates of deposit and other time deposits, which were partially offset by increases in money market balances, demand and other noninterest-bearing deposits. Average total deposits represented 69% of average total assets for the first six months of both 2010 and 2009.

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Average transaction deposits were \$126.6 billion for the first six months of 2010 compared with \$116.8 billion for the first six months of 2009.

Average borrowed funds were \$41.7 billion for the first half of 2010 compared with \$47.0 billion for the first half of 2009. A \$7.4 billion decline in Federal Home Loan Bank borrowings drove the decline in the comparison, partially offset by higher average commercial paper borrowings that reflected the consolidation of Market Street.

LINE OF BUSINESS HIGHLIGHTS

We have six reportable business segments:

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

Total business segment earnings were \$1.294 billion for the first six months of 2010 and \$1.178 billion for the first six months of 2009. Highlights of results for the first six months and second quarter of 2010 and 2009 are included below. The Business Segments Review section of this Financial Review includes a Results of Business-Summary table and further analysis of our business segment results over the first six months of 2010 and 2009 including presentation differences from Note 19 Segment Reporting.

We provide a reconciliation of total business segment earnings to PNC consolidated income from continuing operations before noncontrolling interests as reported on a GAAP basis in Note 19 Segment Reporting.

Retail Banking

Retail Banking earned \$109 million for the first six months of 2010 compared with earnings of \$111 million for the same period a year ago. Earnings declined from the prior year due primarily to lower revenues as a result of lower interest credits assigned to deposits and a decline in fees which were partially offset by well-managed expenses. In addition, credit costs were up slightly from the prior year. Retail Banking continued to maintain its focus on growing customers and deposits, customer and employee satisfaction, investing in the business for future growth, as well as disciplined expense management during this period of market and economic uncertainty.

Retail Banking earned \$85 million in the second quarter of 2010 and \$61 million in the second quarter of 2009. The higher earnings for 2010 resulted from lower credit costs and well-managed expenses partially offset by lower interest credits assigned to deposits and a decline in fees.

Corporate & Institutional Banking

Corporate & Institutional Banking earned \$803 million in the first six months of 2010 compared with \$466 million in the first six months of 2009. Significantly higher earnings for the first half of 2010 reflected a lower provision for credit losses and lower noninterest expense which more than offset a decline in net interest income compared with the 2009 period.

Corporate & Institutional Banking earned \$443 million in the second quarter of 2010 compared with \$107 million in the second quarter of 2009. Earnings increased in the comparison primarily due to a lower provision for credit losses and higher net interest income in the second quarter of 2010, partially offset by a decline in noninterest income.

Asset Management Group

Asset Management Group earned \$68 million for the first half of 2010 compared with \$47 million for the same period in 2009. Assets under administration were \$199 billion at June 30, 2010. The first six months of 2010 reflected a lower provision for credit losses, lower expenses from disciplined expense management and higher noninterest income. These improvements were partially offset by a decrease in net interest income from lower yields on loans.

Earnings for Asset Management Group totaled \$29 million for the second quarter of 2010 compared with \$8 million for the second quarter of 2009. The increase in earnings from the prior year quarter reflected a lower provision for credit losses, lower expenses and growth in asset

management fees.

Residential Mortgage Banking

Residential Mortgage Banking earned \$174 million for the first half of 2010 compared with \$319 million in the first half of 2009. Earnings decreased from the six months of 2009 primarily due to reduced loan sales revenue and lower net hedging gains on mortgage servicing rights, partially offset by lower noninterest expense. Residential Mortgage Banking earned \$92 million in the second quarter of both 2010 and 2009.

BlackRock

Our BlackRock business segment earned \$154 million in the first half of 2010 and \$77 million in the first half of 2009. Second quarter 2010 business segment earnings from BlackRock were \$77 million compared with \$54 million in the second quarter of 2009. Improved capital market conditions and the benefits of BlackRock's December 2009 acquisition of Barclays Global Investors (BGI) contributed to higher earnings at BlackRock.

Distressed Assets Portfolio

The Distressed Assets Portfolio had a loss of \$14 million for the first six months of 2010, compared with earnings of \$158 million for the first six months of 2009. A \$280 million increase in the provision for credit losses drove the decrease in earnings in the comparison.

For the second quarter of 2010, Distressed Assets Portfolio had a loss of \$86 million compared with earnings of \$155

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million for the second quarter of 2009 as the provision for credit losses increased \$374 million.

Other

Other reported earnings of \$135 million for the first half of 2010 compared with a net loss of \$463 million for the first half of 2009. The net loss for the 2009 period included higher other-than-temporary impairment (OTTI) charges compared with the 2010 period, alternative investment writedowns, a \$133 million special FDIC assessment, and equity management losses.

Other reported earnings of \$141 million for the second quarter of 2010 compared with a net loss of \$282 million for the second quarter of 2009. The increase compared with the prior year quarter reflected the reversal of certain accrued liabilities, higher positive impact of net securities gains, lower OTTI charges on securities, higher results from private equity and alternative investments and lower integration costs. The net loss in the 2009 quarter also included the special FDIC assessment.

CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for the first six months of 2010 was \$1,474 million compared with \$737 million for the first six months of 2009. Net income for the second quarter of 2010 was \$803 million compared with \$207 million for the second quarter of 2009. Total revenue for the first six months of 2010 was \$7.7 billion compared with \$7.5 billion for the first six months of 2009. Total revenue for the second quarter of 2010 increased 3% to \$3.9 billion from \$3.8 billion for the second quarter of 2009. We expect total revenue for full year 2010 to be relatively consistent with the level for full year 2009 apart from the impact of the \$1.1 billion pretax gain we recognized in the fourth quarter of 2009 in connection with BlackRock's acquisition of BGI.

NET INTEREST INCOME AND NET INTEREST MARGIN

Dollars in millions	Three months ended		Six months ended	
	2010	2009	2010	2009
Net interest income	\$ 2,435	\$ 2,193	\$ 4,814	\$ 4,513
Net interest margin	4.35%	3.60%	4.29%	3.70%

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 - Average Consolidated Balance Sheet And Net Interest Analysis section of this Report for additional information.

The increase in net interest income for the first half of 2010 compared with the first half of 2009 primarily resulted from the impact of lower deposit and borrowing costs somewhat offset by lower revenue from our investment securities portfolio and lower loan volume. Our deposit strategy included the retention and repricing at lower rates of relationship-based certificates of deposit and the planned run off of maturing non-relationship certificates of deposit.

We have approximately \$14 billion of relationship-based certificates of deposit with an average rate of more than 2% that are scheduled to mature during the remainder of 2010. Assuming interest rates stay low, we believe that we will continue to reprice these deposits and lower our funding costs even further. This assumes our current expectations for interest rates and economic conditions - we include our current economic assumptions underlying our forward-looking statements in the Cautionary Statement Regarding Forward-Looking Information section of this Financial Review.

The net interest margin was 4.29% for the first six months of 2010 and 3.70% for the first six months of 2009. The following factors impacted the comparison:

A decrease in the rate accrued on interest-bearing liabilities of 71 basis points. The rate accrued on interest-bearing deposits, the largest component, decreased 59 basis points.

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The yield on loans, which represented the largest portion of our earning assets in the first six months of 2010, increased 7 basis points but was more than offset by the decline in yield on investment securities.

In addition, the impact of noninterest-bearing sources of funding decreased 11 basis points primarily due to the decline in interest rates.

The net interest margin was 4.35% for the second quarter of 2010 and 3.60% for the second quarter of 2009. The following factors impacted the comparison:

A decrease in the rate accrued on interest-bearing liabilities of 67 basis points. The rate accrued on interest-bearing deposits, the largest component, decreased 54 basis points.

A 19 basis point increase in the yield on interest-earning assets. The yield on loans increased 36 basis points and was partially offset by the net impact of changes in other interest-earning assets.

In addition, the impact of noninterest-bearing sources of funding decreased 11 basis points primarily due to the decline in interest rates.

We expect the yield on interest-earning assets to decline, which will put pressure on our net interest income and net interest margin in the second half of 2010. For the third quarter of 2010, we expect net interest income and net interest margin to be lower than the second quarter of 2010 due to lower purchase accounting accretion, continued soft loan demand and the low interest rate environment. See page 14 for

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a discussion of certain corrections reflected in second quarter 2010 results that impacted net interest income and net interest margin.

NONINTEREST INCOME***Summary***

Noninterest income totaled \$2.861 billion for the first six months of 2010, a decline of \$115 million or 4% compared with the first six months of 2009. A decrease in residential mortgage loan sales revenue and net hedging gains on mortgage servicing rights was the primary factor in the first half comparison, partially offset by higher other noninterest income and asset management fees along with lower OTTI charges. In addition, the 2009 period included gains of \$103 million related to our BlackRock LTIP shares adjustment in the first quarter of that year.

Noninterest income totaled \$1.477 billion for the second quarter of 2010, a decline of \$133 million or 8% compared with \$1.610 billion for the second quarter of 2009. The decline compared with the second quarter of 2009 was primarily due to lower residential mortgage loan sales revenue and customer-related trading income somewhat offset by improved results on private equity and alternative investments and lower OTTI charges.

Additional Analysis

Asset management revenue was \$502 million in the first six months of 2010 compared with \$397 million in the first six months of 2009. Asset management revenue was \$243 million in the second quarter of 2010 compared with \$208 million in the second quarter of 2009. These increases reflected higher equity earnings from our BlackRock investment, improved equity markets and client growth. Assets managed at June 30, 2010 totaled \$99 billion compared with \$98 billion at June 30, 2009.

For the first half of 2010, consumer services fees totaled \$611 million compared with \$645 million in the first half of 2009. Consumer services fees were \$315 million for the second quarter of 2010 compared with \$329 million for the second quarter of 2009. Lower consumer service fees for 2010 in both comparisons reflected lower brokerage fees and the impact of the consolidation of the securitized credit card portfolio, partially offset by higher volume-related transaction fees. As further discussed in the Retail Banking section of the Business Segments Review portion of this Financial Review, we expect that the Credit CARD Act of 2009 will negatively impact full year 2010 revenues by approximately \$65 million.

Corporate services revenue totaled \$529 million in the first six months of 2010 and \$509 million in the first six months of 2009. Corporate services revenue declined slightly in the second quarter of 2010, to \$261 million, compared with \$264 million for the second quarter of 2009. The increase in the six-month comparison was primarily due to higher commercial mortgage special servicing ancillary income

partially offset by higher impairment of mortgage servicing rights. Corporate services fees include the noninterest component of treasury management fees, which continued to be a strong contributor to revenue.

Residential mortgage revenue totaled \$326 million in the first half of 2010 compared with \$676 million in the first half of 2009. Second quarter 2010 residential mortgage revenue totaled \$179 million compared with \$245 million in the second quarter of 2009. The decline in both comparisons reflected reduced loan sales revenue given the strong loan origination refinance volume in the 2009 period and lower net hedging gains on mortgage servicing rights in the six month comparison.

Service charges on deposits totaled \$409 million for the first six months of 2010 and \$466 million for the first six months of 2009. Service charges on deposits totaled \$209 million for the second quarter of 2010 compared with \$242 million for the second quarter of 2009. The decrease in both instances was due to lower overdraft charges and required branch divestitures in the third quarter of 2009. As further discussed in the Retail Banking section of the Business Segments Review portion of this Financial Review, we expect that the new Regulation E rules related to overdraft charges will negatively impact our second half 2010 revenue by an estimated \$145 million.

Net gains on sales of securities totaled \$237 million for the first half of 2010 and \$238 million for the first half of 2009. Second quarter net gains on sales of securities were \$147 million in 2010 and \$182 million in 2009.

The net credit component of OTTI of securities recognized in earnings was a loss of \$210 million in the first six months of 2010, including \$94 million in the second quarter, compared with losses of \$304 million and \$155 million, respectively, for the same periods in 2009. We anticipate ongoing improvement in OTTI as the economy stabilizes and begins to recover.

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Other noninterest income totaled \$457 million for the first half of 2010 compared with \$349 million for the first half of 2009. The first six months of 2010 included net gains on private equity and alternative investments of \$140 million and trading income of \$78 million. Amounts for the first six months of 2009 included gains of \$103 million related to our equity investment in BlackRock, net losses on private equity and alternative investments of \$151 million and trading income of \$80 million.

Other noninterest income for the second quarter of 2010 totaled \$217 million compared with \$295 million for the second quarter of 2009. Lower customer trading income was a primary factor in the quarterly decline.

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

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

We believe that as the economy recovers, there are greater opportunities for growth in client-related fee-based income. We also expect that the conversions of National City branches to the PNC platform, completed in June 2010, will create more product cross-selling opportunities.

PRODUCT REVENUE

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management and capital markets-related products and services that are marketed by several businesses to commercial and retail customers.

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, totaled \$600 million for the first six months of 2010, an increase of \$40 million or 7% compared with the first six months of 2009. For the second quarter of 2010, treasury management revenue was \$302 million, an increase of \$18 million or 6% compared with the second quarter of 2009. This increase was primarily related to deposit growth and continued growth in legacy offerings such as purchasing cards and services provided to the Federal government and healthcare customers.

Revenue from capital markets-related products and services totaled \$292 million in the first half of 2010 compared with \$191 million in the first half of 2009, an increase of \$101 million or 53%. Higher gains on loan sales, underwriting, mergers and acquisition advisory fees, and syndications fees contributed to the improved results. Second quarter 2010 revenue was \$128 million compared with \$148 million for the second quarter of 2009, a decline of \$20 million or 14%. Second quarter 2010 results reflect increased adverse impact of counterparty credit risk on valuations of customer derivative positions. This was partially offset by increased mergers and acquisition advisory fees and syndications fees.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income from loan servicing and ancillary services), 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 \$162 million in the first six months of 2010, a decrease of \$71 million or 30% compared with the first six months of 2009. For the second quarter of 2010, revenue from

commercial mortgage banking activities totaled \$47 million, a decrease of \$92 million or 66% compared with the second quarter of 2009. These decreases were primarily due to valuations associated with commercial mortgage loans held for sale, net of hedges, higher impairment of mortgage servicing rights, and the sale during the second quarter 2010 of a duplicative agency servicing operation acquired with National City. These decreases were partially offset by higher special servicing revenue.

PROVISION FOR CREDIT LOSSES

The provision for credit losses totaled \$1.6 billion for the first six months of 2010 compared with \$2.0 billion for the first six months of 2009. For the second quarter of 2010, the provision for credit losses totaled \$823 million compared with \$1.1 billion for the second quarter of 2009. The lower provision in both comparisons reflected credit quality that showed further signs of stabilization during the second quarter of 2010.

Sales of residential mortgage and brokered home equity loans from the Distressed Assets Portfolio business segment with unpaid principal balances of approximately \$2.0 billion at June 30, 2010 are expected to close in the third quarter of 2010. As a result, PNC recorded an additional provision for credit losses of \$109 million and net charge-offs of \$75 million in the second quarter of 2010.

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

We believe that our provision for credit losses in the second half of 2010 may be lower than the first half of 2010. Future provision levels will depend primarily on the level of nonperforming loans, our related coverage ratios, the pace of economic recovery and the nature of regulatory reforms.

NONINTEREST EXPENSE

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Noninterest expense for the first six months of 2010 was \$4.1 billion compared with \$4.7 billion for the first six months of 2009, a decline of \$535 million or 12%. Noninterest expense totaled \$2.0 billion in the second quarter of 2010 compared with \$2.5 billion in the second quarter of 2009, a decrease of \$490 million or 20%. Lower noninterest expense in both comparisons was primarily due to the impact of higher cost savings related to the National City acquisition and the reversal of certain accrued liabilities in the second quarter of 2010, with \$73 million associated with a franchise tax settlement and \$47 million associated with an indemnification for certain Visa litigation. We expect noninterest expense to be higher in the third quarter of 2010 relative to the second quarter of 2010 due to the reversal of these accrued liabilities recorded in the second quarter of 2010. We also recorded a special FDIC assessment, intended to build the FDIC's Deposit Insurance Fund, of \$133 million in the second quarter of 2009.

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See National City Integration Costs in the Executive Summary section of this Financial Review for details of integration costs incurred, including through the first half of 2010 and 2009.

We achieved National City acquisition cost savings of \$1.6 billion on an annualized basis in the second quarter of 2010, higher and earlier than the original goal of \$1.2 billion, and established a new annualized acquisition cost savings goal of \$1.8 billion by the end of 2010.

EFFECTIVE TAX RATE

The effective tax rate was 28.0% for the first six months of 2010 compared with 18.0% for the first six months of 2009. For the second quarter of 2010, our effective tax rate was 28.2% compared with 12.9% for the second quarter of 2009. The effective tax rate was lower in 2009 primarily as a result of relatively equal levels of favorable permanent differences (tax exempt income, tax credits and dividend received deductions) on lower pretax income in 2009.

In July 2010, we received a favorable IRS letter ruling resolving a tax position taken on a previous return which will result in a tax benefit of approximately \$89 million. The impact of this ruling will be recognized in the third quarter of 2010 and is expected to result in a reduction of the full year effective tax rate from 28% as of June 30, 2010 to a range of 25% to 26%.

CONSOLIDATED BALANCE SHEET**REVIEW****SUMMARIZED BALANCE SHEET DATA**

	June 30 2010	Dec. 31 2009
In millions		
Assets		
Loans	\$ 154,342	\$ 157,543
Investment securities	53,717	56,027
Cash and short-term investments	11,677	13,290
Loans held for sale	2,756	2,539
Goodwill and other intangible assets	12,138	12,909
Equity investments	10,159	10,254
Other	16,906	17,301
Total assets	\$ 261,695	\$ 269,863
Liabilities		
Deposits	\$ 178,799	\$ 186,922
Borrowed funds	40,427	39,261
Other	11,479	11,113
Total liabilities	230,705	237,296
Total shareholders' equity	28,377	29,942
Noncontrolling interests	2,613	2,625
Total equity	30,990	32,567
Total liabilities and equity	\$ 261,695	\$ 269,863

The summarized balance sheet data above is based upon our Consolidated Balance Sheet in Part I, Item 1 of this Report.

The decline in total assets at June 30, 2010 compared with December 31, 2009 was primarily due to decreases in loans and investment securities as more fully discussed below.

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Total assets and liabilities at June 30, 2010 included \$5.3 billion and \$4.4 billion, respectively related to Market Street and a credit card securitization trust as more fully described in the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review and Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements of this Report.

An analysis of changes in selected balance sheet categories follows.

LOANS

A summary of the major categories of loans outstanding follows. Outstanding loan balances reflect unearned income, unamortized discount and premium, and purchase discounts and premiums totaling \$2.8 billion at June 30, 2010 and \$3.2 billion at December 31, 2009. The balances do not include accretable net interest on the purchased impaired loans.

Loans decreased \$3.2 billion, or 2%, as of June 30, 2010 compared with December 31, 2009. An increase in loans of \$3.5 billion from consolidating Market Street and the securitized credit card portfolio was more than offset by the impact of soft customer loan demand combined with loan repayments and payoffs in the distressed assets portfolio. However, we believe that the pace of loan demand contraction appears to be slowing in the third quarter of 2010.

Loans represented 59% of total assets at June 30, 2010 and 58% of total assets at December 31, 2009. Commercial lending represented 53% of the loan portfolio and consumer lending represented 47% at June 30, 2010.

Commercial real estate loans represented 8% of total assets at June 30, 2010 and 9% of total assets at December 31, 2009.

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	Dec. 31	
In millions	June 30 2010	2009
Commercial		
Retail/wholesale	\$ 9,576	\$ 9,515
Manufacturing	9,728	9,880
Other service providers	8,289	8,256
Real estate related (a)	7,269	7,403
Financial services	4,302	3,874
Health care	3,099	2,970
Other	11,969	12,920
Total commercial	54,232	54,818
Commercial real estate		
Real estate projects	13,914	15,582
Commercial mortgage	6,450	7,549
Total commercial real estate	20,364	23,131
Equipment lease financing	6,630	6,202
TOTAL COMMERCIAL LENDING (b)	81,226	84,151
Consumer		
Home equity		
Lines of credit	23,901	24,236
Installment	11,060	11,711
Education	8,867	7,468
Automobile	2,697	2,013
Credit card and other unsecured lines of credit	4,920	3,536
Other	3,834	4,618
Total consumer	55,279	53,582
Residential real estate		
Residential mortgage	16,618	18,190
Residential construction	1,219	1,620
Total residential real estate	17,837	19,810
TOTAL CONSUMER LENDING	73,116	73,392
Total loans	\$ 154,342	\$ 157,543

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

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

Total loans above include purchased impaired loans related to National City amounting to \$9.1 billion, or 6% of total loans, at June 30, 2010, and \$10.3 billion, or 7% of total loans, at December 31, 2009.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled \$72 billion for the first six months of 2010, including \$40 billion in the second quarter. Included in these amounts were originations for first mortgages of \$4.3 billion and \$2.3 billion, respectively.

Our loan portfolio continued to be diversified among numerous industries and types of businesses. The loans that we hold are also concentrated in, and diversified across, our principal geographic markets.

Commercial lending is the largest category and is the most sensitive to changes in assumptions and judgments underlying

the determination of the allowance for loan and lease losses. We have allocated \$3.2 billion, or 60%, of the total allowance for loan and lease losses at June 30, 2010 to these loans. We allocated \$2.1 billion, or 40%, of the total allowance at that date to consumer lending. This allocation also considers other relevant factors such as:

- Actual versus estimated losses,
- Regional and national economic conditions,

Business segment and portfolio concentrations,
Industry conditions,
The impact of government regulations, and
Risk of potential estimation or judgmental errors, including the accuracy of risk ratings.

Higher Risk Loans

Our loan portfolio contains higher risk loans that are more likely to result in credit losses. We established specific and pooled reserves on the total commercial lending category, including higher risk loans, of \$3.2 billion at June 30, 2010. This represented 60% of the total allowance for loan and lease losses of \$5.3 billion at that date. The remaining 40% of the allowance for loan and lease losses pertained to the total consumer lending category. This category of loans is more homogenous in nature and has certain characteristics that can be assessed at a total portfolio level in terms of loans representing higher risk. We do not consider government insured/government guaranteed loans to be higher risk as we do not believe these loans will result in a significant loss because of their structure. These loans are excluded from the following assessment of higher risk loans.

Our home equity lines of credit and installment loans outstanding totaled \$35.0 billion at June 30, 2010. In this portfolio, we consider the higher risk loans to be those with a recent FICO credit score of less than or equal to 660 and a loan-to-value ratio greater than 90%. Such loans totaled \$1.3 billion or approximately 4% of the total home equity line and installment loans at June 30, 2010. These higher risk loans were concentrated in our geographic footprint with 28% in Pennsylvania, 13% in Ohio, 11% in New Jersey, 7% in Illinois, 5% in Michigan, and 5% in Kentucky, with the remaining loans dispersed across several other states. Option ARM loans and negative amortization loans in this portfolio were not significant. Within the higher risk home equity portfolio, approximately 14% are in some stage of delinquency and 8% are in late stage (90+ days) delinquency status.

In our \$16.6 billion residential mortgage portfolio, loans with a recent FICO credit score of less than or equal to 660 and a loan-to-value ratio greater than 90% totaled \$.7 billion and comprised approximately 4% of this portfolio at June 30, 2010. Twenty-two percent of the higher risk loans are located in California, 13% in Florida, 10% in Illinois, 8% in Maryland, and 5% in New Jersey, with the remaining loans dispersed across several other states. Option ARM loans and negative amortization loans in this portfolio were not

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significant. Within the higher risk residential mortgage portfolio of \$.7 billion, approximately 41% are in some stage of delinquency and 31% are in 90+ days late stage delinquency status.

Within our home equity lines of credit, installment loans and residential mortgage portfolios, approximately 5% of the aggregate \$51.6 billion loan outstandings have loan-to-value ratios in excess of 100%. The impact of housing price depreciation is reflected in the allowance for loans and lease losses as a result of the consumer reserve methodology process. The consumer reserve process is sensitive to collateral values which in turn affect loan loss severity. While our consumer reserve methodology strives to reflect all significant risk factors, there is an element of uncertainty

associated with, but not limited to, potential imprecision in the estimation process due to the inherent time lag of obtaining information such as housing price depreciation. We provide additional reserves where appropriate to provide coverage for losses attributable to such risks.

We obtain updated property values annually for select residential mortgage loan portfolios. We are expanding this valuation process to update the property values on the majority of our real estate secured consumer loan portfolios.

Information related to purchased impaired loans, purchase accounting accretion and accretable net interest recognized during the first six months of 2010 in connection with our acquisition of National City follows.

Valuation of Purchased Impaired Loans

Dollars in billions	December 31, 2008		December 31, 2009		June 30, 2010	
	Balance	Net Investment	Balance	Net Investment	Balance	Net Investment
Commercial and commercial real estate loans:						
Unpaid principal balance	\$ 6.3		\$ 3.5		\$ 2.3	
Purchase impaired mark	(3.4)		(1.3)		(.7)	
Recorded investment	2.9		2.2		1.6	
Allowance for loan losses			(.2)		(.4)	
Net investment	2.9	46%	2.0	57%	1.2	52%
Consumer and residential mortgage loans:						
Unpaid principal balance	15.6		11.7		10.1	
Purchase impaired mark	(5.8)		(3.6)		(2.6)	
Recorded investment	9.8		8.1		7.5	
Allowance for loan losses			(.3)		(.5)	
Net investment	9.8	63%	7.8	67%	7.0	69%
Total purchased impaired loans:						
Unpaid principal balance	21.9		15.2		12.4	
Purchase impaired mark (a)	(9.2)		(4.9)		(3.3)	
Recorded investment	12.7		10.3		9.1	
Allowance for loan losses			(.5)		(.9)(b)	
Net investment	\$ 12.7	58%	\$ 9.8	64%	\$ 8.2	66%

(a) Comprised of \$5.5 billion of nonaccretable and \$3.7 billion of accretable at December 31, 2008, \$1.4 billion of nonaccretable and \$3.5 billion of accretable at December 31, 2009, and \$1.0 billion of nonaccretable and \$2.3 billion of accretable at June 30, 2010.

(b) While additional impairment reserves of \$.9 billion have been provided for further deterioration, incremental accretable interest of \$.4 billion has been reclassified since acquisition date on those purchased impaired loans with improving estimated cash flows.

The unpaid principal balance of purchased impaired loans declined from \$21.9 billion at December 31, 2008 to \$12.4 billion at June 30, 2010 due to amounts determined to be uncollectible, payoffs and disposals. The remaining purchased impaired mark at June 30, 2010 was \$3.3 billion and declined from \$9.2 billion at December 31, 2008 primarily due to amounts determined to be uncollectible. The net investment of \$12.7 billion at December 31, 2008 declined to \$8.2 billion at June 30, 2010 primarily due to payoffs, disposals and further impairment partially offset

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by accretion during 2009 and the

first six months of 2010. At June 30, 2010, our largest purchased impaired loan had a recorded investment of \$32 million.

We currently expect to collect total cash flows of \$11.4 billion on purchased impaired loans, representing the \$9.1 billion recorded investment at June 30, 2010 and the accretable net interest of \$2.3 billion shown in the Accretable Net Interest table that follows.

Table of Contents**Purchase Accounting Accretion**

In millions	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Non-impaired loans	\$ 111	\$ 168	\$ 223	\$ 490
Impaired loans	258	220	523	477
Reversal of contractual interest on impaired loans	(136)	(194)	(270)	(417)
Net impaired loans	122	26	253	60
Securities	13	41	24	72
Deposits	144	264	311	576
Borrowings (a)	(14)	(52)	(70)	(137)
Total	\$ 376	\$ 447	\$ 741	\$ 1,061

(a) Interest expense for the second quarter of 2010 included a \$29 million pretax adjustment related to the accretion of the purchase accounting adjustment for borrowings assumed in the National City acquisition. This correction should have been recorded in 2009. Management believes that the impact of this correction is not material to current or prior period consolidated financial statements.

Cash received in excess of recorded investment from sales or payoffs of impaired commercial loans (cash recoveries) totaled \$239 million for the first half of 2010, including \$164 million in the second quarter. We do not expect this level of cash recoveries to be sustainable on a quarterly basis. The second quarter of 2010 included a \$64 million pretax adjustment to net interest income to reflect additional interest on purchased impaired loans. This correction to net interest income should have been recorded in 2009. Management believes that the impact of this correction is not material to current or prior period consolidated financial statements.

Remaining Purchase Accounting Accretion

In billions	Dec. 31 2008	Dec. 31 2009	June 30 2010
Non-impaired loans	\$ 2.4	\$ 1.6	\$ 1.4
Impaired loans (a)	3.7	3.5	2.3
Total loans (gross)	6.1	5.1	3.7
Securities	.2	.1	.1
Deposits	2.1	1.0	.7
Borrowings	(1.5)	(1.2)	(1.2)
Total	\$ 6.9	\$ 5.0	\$ 3.3

(a) Adjustments include purchase accounting accretion, reclassifications from non-accretable to accretable net interest as a result of increases in estimated cash flows, and reductions in the accretable amount as a result of the identification of additional purchased impaired loans as of the National City acquisition close date of December 31, 2008.

Accretable Net Interest Purchased Impaired Loans

In billions	
January 1, 2010	\$ 3.5
Accretion (including cash recoveries)	(.8)
Net reclassifications from accretable to non-accretable	(.3)
Disposals	(.1)
June 30, 2010	\$ 2.3

In billions	
January 1, 2009	\$ 3.7
Accretion (including cash recoveries)	(1.9)
Adjustments resulting from changes in purchase price allocation	.3
Net reclassifications from non-accretable to accretable	.6

Disposals	(.4)
June 30, 2010	\$ 2.3

Net unfunded credit commitments are comprised of the following:

Net Unfunded Credit Commitments

In millions	June 30 2010	Dec. 31 2009
Commercial / commercial real estate (a)	\$ 56,854	\$ 60,143
Home equity lines of credit	19,973	20,367
Consumer credit card and other unsecured lines	17,833	18,800
Other	1,115	1,485
Total	\$ 95,775	\$ 100,795

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

Unfunded commitments are concentrated in our primary geographic markets. Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments are reported net of participations, assignments and syndications, primarily to financial institutions, totaling \$14.7 billion at June 30, 2010 and \$13.2 billion at December 31, 2009.

Unfunded credit commitments related to purchased customer receivables totaled \$2.7 billion at June 30, 2010. These receivables are included due to the consolidation of Market Street and are now a component of PNC's total unfunded credit commitments. These amounts are included in the preceding table within the Commercial / commercial real estate category.

In addition to credit commitments, our net outstanding standby letters of credit totaled \$9.9 billion at June 30, 2010 and \$10.0 billion at December 31, 2009. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled \$545 million at June 30, 2010 and \$6.2 billion at December 31, 2009 and are included in the preceding table primarily within the Commercial / commercial real estate category. Due to the consolidation of

Market Street, \$5.1 billion of unfunded liquidity facility commitments were no longer included in the amounts in the preceding table as of June 30, 2010.

Table of Contents**INVESTMENT SECURITIES****Details of Investment Securities**

In millions	Amortized Cost	Fair Value
June 30, 2010		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	\$ 7,849	\$ 8,093
Residential mortgage-backed		
Agency	19,985	20,579
Non-agency	8,993	7,635
Commercial mortgage-backed		
Agency	1,293	1,342
Non-agency	1,757	1,718
Asset-backed	1,785	1,526
State and municipal	1,333	1,334
Other debt	3,044	3,131
Corporate stocks and other	492	492
Total securities available for sale	\$ 46,531	\$ 45,850
SECURITIES HELD TO MATURITY		
Debt securities		
Commercial mortgage-backed (non-agency)	\$ 4,174	\$ 4,376
Asset-backed	3,684	3,762
Other debt	9	10
Total securities held to maturity	\$ 7,867	\$ 8,148
December 31, 2009		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	\$ 7,548	\$ 7,520
Residential mortgage-backed		
Agency	24,076	24,438
Non-agency	10,419	8,302
Commercial mortgage-backed		
Agency	1,299	1,297
Non-agency	4,028	3,848
Asset-backed	2,019	1,668
State and municipal	1,346	1,350
Other debt	1,984	2,015
Corporate stocks and other	360	360
Total securities available for sale	\$ 53,079	\$ 50,798
SECURITIES HELD TO MATURITY		
Debt securities		
Commercial mortgage-backed (non-agency)	\$ 2,030	\$ 2,225
Asset-backed	3,040	3,136
Other debt	159	160
Total securities held to maturity	\$ 5,229	\$ 5,521

The carrying amount of investment securities totaled \$53.7 billion at June 30, 2010 and \$56.0 billion at December 31, 2009. The decline in investment securities reflected a \$4.9 billion decline in securities available for sale partially offset by a \$2.6 billion increase in securities held to maturity. Investment securities represented 21% of total assets at both June 30, 2010 and December 31, 2009.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where

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appropriate, take steps intended to improve our overall positioning. Overall, we consider the portfolio to be well-diversified and high quality. US Treasury and government agencies, agency residential mortgage-backed securities and agency commercial mortgage-backed securities collectively represented 56% of the investment securities portfolio at June 30, 2010.

In March 2010, we transferred \$2.2 billion of available for sale commercial mortgage-backed non-agency securities to the held to maturity portfolio. The transfer involved high-quality securities where management's intent to hold changed. In reassessing the classification of these securities, management considered the potential for the fair value of the securities to be adversely impacted, even where there is no indication of credit impairment.

At June 30, 2010, the securities available for sale portfolio included a net unrealized loss of \$.7 billion, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2009 was a net unrealized loss of \$2.3 billion. 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 decline in the net unrealized loss from December 31, 2009 was primarily the result of lower market interest rates and improving liquidity and credit spreads on non-agency residential mortgage-backed and non-agency commercial mortgage-backed securities. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders' equity as accumulated other comprehensive income or loss from continuing operations, net of tax.

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

The expected weighted-average life of investment securities (excluding corporate stocks and other) was 4.1 years at June 30, 2010 and December 31, 2009.

We estimate that at June 30, 2010 the effective duration of investment securities was 2.7 years for an immediate 50 basis points parallel increase in interest rates and 2.3 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2009 were 2.9 years and 2.5 years, respectively.

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

Dollars in millions	June 30, 2010				
	Agency		Non-agency		Asset-Backed Securities
	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	
Fair Value Available for Sale	\$ 20,579	\$ 1,342	\$ 7,635	\$ 1,718	\$ 1,526
Fair Value Held to Maturity				4,376	3,762
Total Fair Value	\$ 20,579	\$ 1,342	\$ 7,635	\$ 6,094	\$ 5,288
% of Fair Value:					
By Vintage					
2010	18%	16%			7%
2009	29%	51%		3%	25%
2008	12%	3%			15%
2007	9%	4%	17%	17%	18%
2006	11%	9%	23%	32%	17%
2005 and earlier	21%	17%	60%	48%	18%
Total	100%	100%	100%	100%	100%
By Credit Rating					
Agency	100%	100%			
AAA			8%	88%	62%
AA			4%	4%	9%
A			5%	4%	6%
BBB			5%	3%	1%
BB			11%	1%	1%
B			19%		4%
Lower than B			48%		12%
No rating					5%
Total	100%	100%	100%	100%	100%
By FICO Score					
>720			58%		3%
<720 and >660			33%		11%
<660					8%
No FICO score	N/A	N/A	9%	N/A	78%
Total			100%		100%

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

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

We recognize the credit portion of OTTI charges in current earnings for those debt securities where there is no intent to

sell and it is not more likely than not that we would be required to sell the security prior to expected recovery. The remaining portion of OTTI charges is included in accumulated other comprehensive loss.

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We recognized OTTI for the first six months and second quarter of 2010 and 2009 as follows:

Other-Than-Temporary Impairments

In millions	Three months ended		Six months ended	
	2010	June 30 2009	2010	June 30 2009
Credit portion of OTTI losses (a)	\$ (94)	\$ (155)	\$ (210)	\$ (304)
Noncredit portion of OTTI losses (b)	(24)	(298)	(148)	(835)
Total OTTI losses	\$ (118)	\$ (453)	\$ (358)	\$ (1,139)

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

(b) Included in Accumulated other comprehensive loss on our Consolidated Balance Sheet.

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Included below is detail on the net unrealized losses and OTTI credit losses recorded on non-agency residential and commercial mortgage-backed and other asset-backed securities, which represent the portfolios that have generated the majority of the OTTI losses. A summary of all OTTI credit losses recognized for the first half of 2010 by investment type is included in Note 7 Investment Securities in the Notes To Consolidated Financial Statements of this Report.

In millions	June 30, 2010					
	Residential Mortgage-Backed Securities		Commercial Mortgage-Backed Securities		Asset-Backed Securities (a)	
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
AVAILABLE FOR SALE SECURITIES NON-AGENCY						
By Credit Rating						
AAA	\$ 594	\$ (27)	\$ 1,021	\$ 18	\$ 326	\$ (4)
Other Investment Grade (AA, A, BBB)	1,122	(91)	647	(48)	325	(7)
Total Investment Grade	1,716	(118)	1,668	(30)	651	(11)
BB	854	(187)	46	(11)	46	(11)
B	1,432	(308)	4	2	180	(40)
Lower than B	3,632	(745)			614	(174)
No Rating	1				31	(23)
Total Sub-Investment Grade	5,919	(1,240)	50	(9)	871	(248)
Total	\$ 7,635	\$ (1,358)	\$ 1,718	\$ (39)	\$ 1,522	\$ (259)
Investment Grade:						
OTTI has been recognized	\$ 117	\$ (4)				
No OTTI recognized to date	1,599	(114)	\$ 1,668	\$ (30)	\$ 651	\$ (11)
Total Investment Grade	\$ 1,716	\$ (118)	\$ 1,668	\$ (30)	\$ 651	\$ (11)
Sub-Investment Grade:						
OTTI has been recognized	\$ 3,115	\$ (854)	\$ 17	\$ (2)	\$ 635	\$ (199)
No OTTI recognized to date	2,804	(386)	33	(7)	236	(49)
Total Sub-Investment Grade	\$ 5,919	\$ (1,240)	\$ 50	\$ (9)	\$ 871	\$ (248)
SECURITIES HELD TO MATURITY NON-AGENCY						
By Credit Rating						
AAA			\$ 4,364	\$ 202	\$ 2,942	\$ 60
Other Investment Grade (AA, A, BBB)			12		523	9
Total Investment Grade			4,376	202	3,465	69
BB					29	1
B					3	
Lower than B						
No Rating					253	8
Total Sub-Investment Grade					285	9
Total			\$ 4,376	\$ 202	\$ 3,750	\$ 78

(a) Table excludes \$4 million and \$12 million of available for sale and held to maturity agency asset-backed securities, respectively.

Residential Mortgage-Backed Securities

At June 30, 2010, our residential mortgage-backed securities portfolio was comprised of \$20.6 billion fair value of US government agency-backed securities and \$7.6 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.

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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.

During the first half of 2010, we recorded OTTI credit losses of \$154 million on non-agency residential mortgage-backed securities, including \$81 million in the second quarter. As of June 30, 2010, \$150 million of the year-to-date credit losses related to securities rated below investment grade. As of June 30, 2010, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for non-agency residential mortgage-backed securities totaled \$858 million and the related securities had a fair value of \$3.2 billion.

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The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of June 30, 2010 totaled \$2.8 billion, with unrealized net losses of \$386 million. The results of our security-level assessments indicate that we will recover the entire cost basis of these securities. Note 7 Investment Securities in the Notes To Consolidated Financial Statements of this Report provides further detail regarding our process for assessing OTTI for these securities.

Commercial Mortgage-Backed Securities

The fair value of the non-agency commercial mortgage-backed securities portfolio was \$6.1 billion at June 30, 2010 and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. The agency commercial mortgage-backed securities portfolio was \$1.3 billion fair value at June 30, 2010 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

During the first six months of 2010, we recorded OTTI credit losses of \$3 million on commercial mortgage-backed securities, all in the second quarter. As of June 30, 2010, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for commercial mortgage-backed securities totaled \$2 million and the related securities had a fair value of \$17 million. All of the impaired securities were rated below investment grade. The remaining fair value for which OTTI was previously recorded approximates zero.

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was \$5.3 billion at June 30, 2010 and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including residential mortgage loans, credit cards, and automobile 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.

During the first six months of 2010, we recorded OTTI credit losses of \$53 million on asset-backed securities, including \$10 million in the second quarter. All of the securities were collateralized by first and second lien residential mortgage loans and were rated below investment grade. As of June 30, 2010, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for asset-backed securities totaled \$199 million and the related securities had a fair value of \$635 million.

For the sub-investment grade investment securities for which we have not recorded an OTTI loss through June 30, 2010, the remaining fair value was \$521 million, with unrealized net losses of \$40 million. The results of our security-level

assessments indicate that we will recover the entire cost basis

of these securities. Note 7 Investment Securities in the Notes To Consolidated Financial Statements of this Report provides further detail regarding our process for assessing OTTI for these securities.

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

LOANS HELD FOR SALE

	June 30	Dec. 31
In millions	2010	2009
Commercial mortgages at fair value	\$ 1,036	\$ 1,050
Commercial mortgages at lower of cost or market	203	251
Total commercial mortgages	1,239	1,301
Residential mortgages at fair value	1,220	1,012
Residential mortgages at lower of cost or market	116	
Total residential mortgages	1,336	1,012
Other	181	226

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Total \$ 2,756 \$ 2,539

We stopped originating certain commercial mortgage loans designated as held for sale during the first quarter of 2008 and intend to continue pursuing opportunities to reduce these positions at appropriate prices. We sold \$44 million of commercial mortgage loans held for sale carried at fair value in the first six months of 2010 and sold \$166 million in the first six months of 2009.

We recognized net losses of \$13 million in the first six months of 2010 on the valuation and sale of commercial mortgage loans held for sale, net of hedges, including \$22 million in the second quarter. Net gains of \$34 million on the valuation and sale of commercial mortgages loans held for sale, net of hedges, were recognized in the first six months of 2009, including \$35 million in the second quarter.

Residential mortgage loan origination volume was \$4.3 billion in the first half of 2010. Substantially all such loans were originated to agency or FHA standards. We sold \$4.2 billion of loans and recognized related gains of \$88 million during the first half of 2010, of which \$49 million occurred in the second quarter. The comparable amounts for the first half of 2009 were \$12.0 billion and \$326 million, respectively, including \$151 million in the second quarter.

Net interest income on residential mortgage loans held for sale was \$153 million for the first half of 2010, including \$73 million in the second quarter. Comparable amounts in 2009 were \$178 million and \$87 million, respectively.

Table of Contents**FUNDING AND CAPITAL SOURCES****Details Of Funding Sources**

In millions	June 30 2010	Dec. 31 2009
Deposits		
Money market	\$ 82,345	\$ 85,838
Demand	43,367	40,406
Retail certificates of deposit	42,717	48,622
Savings	7,074	6,401
Other time	837	1,088
Time deposits in foreign offices	2,459	4,567
Total deposits	178,799	186,922
Borrowed funds		
Federal funds purchased and repurchase agreements	3,690	3,998
Federal Home Loan Bank borrowings	8,119	10,761
Bank notes and senior debt	12,617	12,362
Subordinated debt	10,184	9,907
Other	5,817	2,233
Total borrowed funds	40,427	39,261
Total	\$ 219,226	\$ 226,183

Total funding sources decreased \$7.0 billion, or 3%, at June 30, 2010 compared with December 31, 2009.

Total deposits decreased \$8.1 billion at June 30, 2010 compared with December 31, 2009. Deposits decreased in the comparison due to the decline of retail certificates of deposit and lower time deposits in foreign offices.

Interest-bearing deposits represented 75% of total deposits at June 30, 2010 compared with 76% at December 31, 2009.

Total borrowed funds increased \$1.2 billion since December 31, 2009. Other borrowed funds increased \$3.6 billion in the comparison primarily due to an increase in commercial paper borrowings of \$2.6 billion with the consolidation of Market Street. This increase was partially offset by a decline of \$2.6 billion in Federal Home Loan Bank borrowings since December 31, 2009.

Capital

PNC increased common equity during the first half of 2010 as outlined below. We manage our capital position by making adjustments to our balance sheet size and composition, issuing debt, equity or hybrid instruments, executing treasury stock transactions, managing dividend policies and retaining earnings.

Total shareholders' equity decreased \$1.6 billion, to \$28.4 billion, at June 30, 2010 compared with December 31, 2009 primarily due to the following:

A decline of \$7.3 billion in capital surplus preferred stock in connection with our February 2010 redemption of the Series N (TARP) Preferred Stock as explained further in Note 14 Total Equity And Other Comprehensive Income in the Notes To Consolidated Financial Statements in this Report,

The first quarter 2010 issuance of 63.9 million shares of common stock in an underwritten offering at \$54 per share resulted in a \$3.4 billion increase in total shareholders' equity, and

A decline of \$1.5 billion in accumulated other comprehensive loss primarily as a result of decreases in net unrealized securities losses as more fully described in the Investment Securities portion of this Consolidated Balance Sheet Review.

Common shares outstanding were 525 million at June 30, 2010 and 462 million at December 31, 2009. Our first quarter 2010 common stock offering referred to above drove this increase.

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We expect to continue to increase our common equity as a proportion of total capital through growth in retained earnings and will consider other capital opportunities as appropriate. Since our acquisition of National City on December 31, 2008, we have increased total common shareholders equity by 59%.

Our current common stock repurchase program permits us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital, regulatory and contractual limitations, and the potential impact on our credit ratings. We did not purchase any shares during the first six months of 2010 under this program and, as described in our 2009 Form 10-K, were restricted from doing so under the TARP Capital Purchase Program prior to our February 2010 redemption of the Series N Preferred Stock.

Table of Contents**Risk-Based Capital**

	June 30 2010	Dec. 31 2009
Dollars in millions		
Capital components		
Shareholders' equity		
Common	\$ 27,725	\$ 21,967
Preferred	652	7,975
Trust preferred capital securities	3,011	2,996
Noncontrolling interests	1,449	1,611
Goodwill and other intangible assets	(10,450)	(10,652)
Eligible deferred income taxes on goodwill and other intangible assets	704	738
Pension, other postretirement benefit plan adjustments	406	542
Net unrealized securities losses, after-tax	501	1,575
Net unrealized losses (gains) on cash flow hedge derivatives, after-tax	(497)	(166)
Other	(216)	(63)
Tier 1 risk-based capital	23,285	26,523
Subordinated debt	5,148	5,356
Eligible allowance for credit losses	2,762	2,934
Total risk-based capital	\$ 31,195	\$ 34,813
Tier 1 common capital		
Tier 1 risk-based capital	\$ 23,285	\$ 26,523
Preferred equity	(652)	(7,975)
Trust preferred capital securities	(3,011)	(2,996)
Noncontrolling interests	(1,449)	(1,611)
Tier 1 common capital	\$ 18,173	\$ 13,941
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	\$ 218,141	\$ 232,257
Adjusted average total assets	255,533	263,103
Capital ratios		
Tier 1 risk-based	10.7%	11.4%
Tier 1 common	8.3	6.0
Total risk-based	14.3	15.0
Leverage	9.1	10.1

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% regulatory minimum, and they have required the largest US bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet credit needs of their customers through the economic downturn. They have also stated their view that common equity should be the dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels, although this metric is not provided for in the regulations. We seek to manage our capital consistent with these regulatory principles, and believe that our June 30, 2010 capital levels were aligned with them.

Dodd-Frank requires the Federal Reserve Board to establish capital requirements that would, among other things, eliminate

the Tier 1 treatment of trust preferred securities following a phase-in period expected to begin in 2013. Accordingly, PNC will evaluate its alternatives, including the potential for early redemption of some or all of its trust preferred securities, based on such considerations as it may consider relevant, including dividend rates, the specifics of the future capital requirements, capital market conditions and other factors.

PNC's Tier 1 risk-based capital ratio decreased by 70 basis points to 10.7% at June 30, 2010 from 11.4% at December 31, 2009 due to our redemption of the Series N Preferred Stock. See Note 14 Total Equity And Other Comprehensive Income in the Notes To Consolidated Financial Statements in this Report.

Our Tier 1 common capital ratio was 8.3% at June 30, 2010, an increase of 230 basis points compared with 6.0% at December 31, 2009. Our first half 2010 earnings and common stock offering were reflected in the higher Tier 1 common capital ratio.

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Our Tier 1 risk-based capital ratio and our Tier 1 common capital ratio would have been 11.3% and 9.0%, respectively, at June 30, 2010 had they included the net impact of the July 1, 2010 sale of GIS. A reconciliation of these ratios reflecting the estimated impact of the sale of GIS to the ratios set forth in the Risk-Based Capital table above follows:

Dollars in billions	Tier 1 risk-based	Tier 1 common
Ratios as reported	10.7%	8.3%
Capital as reported	\$ 23.3	\$ 18.2
Adjustment:		
Net impact of July 1, 2010 sale of GIS (a)	1.4	1.4
Capital pro forma	\$ 24.7	\$ 19.6
Ratios pro forma	11.3%	9.0%

(a) The estimated net impact of this sale was as follows:

Dollars in billions	
Sales price	\$ 2.3
Less:	
Book equity / intercompany debt	(1.7)
Pretax gain	.6
Income taxes	(.3)
After-tax gain	.3
Elimination of net intangible assets:	
Goodwill and other intangible assets	1.3
Eligible deferred income taxes on goodwill and other intangible assets	(.2)
Net intangible assets	1.1
Net impact of sale of GIS	\$ 1.4

We believe that the disclosure of these ratios reflecting the estimated impact of the sale of GIS provides additional meaningful information regarding the risk-based capital ratios at that date and the impact of this event on these ratios.

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At June 30, 2010, PNC Bank, N.A., our domestic bank subsidiary, was considered well capitalized based on US regulatory capital ratio requirements, which are indicated on page 2 of this Report. We believe PNC Bank, N.A. will continue to meet these requirements during the remainder of 2010.

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

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 Financial Review,

Note 3 Loan Sale and Servicing Activities and Variable Interest Entities, and

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

On January 1, 2010, we adopted ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This guidance removes the scope exception for qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity (VIE) and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. VIEs are assessed for consolidation under Topic 810 when we hold variable interests in these entities. PNC consolidates VIEs when we are deemed to be the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Effective January 1, 2010, we consolidated Market Street, a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments. We recorded consolidated assets of \$4.2 billion, consolidated liabilities of \$4.2 billion, and an after-tax cumulative effect adjustment to retained earnings of \$92 million upon adoption.

The following provides a summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements as of June 30, 2010 and December 31, 2009, respectively.

Consolidated VIEs Carrying Value (a)

June 30, 2010				Credit Risk	
In millions	Market Street	Credit Card Securitization Trust	Tax Credit Investments (b)	Transfer Transaction	Total
Assets					
Cash and due from banks			\$ 3		\$ 3
Interest-earning deposits with banks		\$ 463	4		467
Investment securities	\$ 571				571
Loans	2,036	2,165		\$ 470	4,671
Allowance for loan and lease losses		(210)		(6)	(216)
Equity investments			1,420		1,420
Other assets	299	9	503	10	821
Total assets	\$ 2,906	\$ 2,427	\$ 1,930	\$ 474	\$ 7,737
Liabilities					

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Other borrowed funds	\$ 2,616	\$ 1,512	\$ 134	\$ 4,262
Accrued expenses			92	92
Other liabilities	290		510	800
Total liabilities	\$ 2,906	\$ 1,512	\$ 736	\$ 5,154

(a) Amounts represent carrying value on PNC's Consolidated Balance Sheet.

(b) Amounts reported primarily represent LIHTC investments.

Table of Contents**Consolidated VIEs**

	Aggregate	Aggregate
In millions	Assets (a)	Liabilities (a)
June 30, 2010		
Market Street	\$ 3,468	\$ 3,477
Credit Card Securitization Trust	2,672	1,622
Tax Credit Investments (b)	1,954	804
Credit Risk Transfer Transaction	795	795

December 31, 2009

Tax Credit Investments (b)	\$ 1,933	\$ 808
Credit Risk Transfer Transaction	860	860

(a) Aggregate assets and aggregate liabilities differ from the consolidated carrying value of assets and liabilities due to elimination of intercompany assets and liabilities held by the consolidated VIE.

(b) Amounts reported primarily represent LIHTC investments.

Non-Consolidated VIEs

	Aggregate	Aggregate	PNC	Carrying	Carrying
In millions	Assets	Liabilities	Risk	Value of	Value of
			of Loss	Assets	Liabilities
June 30, 2010					
Tax Credit Investments (a)	\$ 3,583	\$ 1,873	\$ 830	\$ 830(c)	\$ 336(d)
Commercial Mortgage-Backed Securitizations (b)	79,238	79,238	2,080	2,080(e)	
Residential Mortgage-Backed Securitizations (b)	44,847	44,847	1,860	1,857(e)	3(d)
Collateralized Debt Obligations	23		2	2(c)	
Total	\$ 127,691	\$ 125,958	\$ 4,772	\$ 4,769	\$ 339

	Aggregate	Aggregate	PNC
In millions	Assets	Liabilities	Risk
			of Loss
December 31, 2009			
Market Street	\$ 3,698	\$ 3,718	\$ 6,155(f)
Tax Credit Investments (a)	1,786	1,156	743
Collateralized Debt Obligations	23		2
Total	\$ 5,507	\$ 4,874	\$ 6,900

(a) Amounts reported primarily represent LIHTC investments. Aggregate assets and aggregate liabilities represent estimated balances due to limited availability of financial information associated with certain acquired National City partnerships.

(b) Amounts reported reflect involvement with securitization SPEs where PNC transferred to and/or services loans for a SPE and we hold securities issued by that SPE. We also invest in other mortgage and asset-backed securities issued by third-party VIEs with which we have no continuing involvement. Further information on these securities is included in Note 7 Investment Securities and values disclosed represent our maximum exposure to loss for those securities holdings.

(c) Included in Equity investments on our Consolidated Balance Sheet.

(d) Included in Other liabilities on our Consolidated Balance Sheet.

(e) Included in Trading securities, Investment securities, Other intangible assets, and Other assets on our Consolidated Balance Sheet.

(f) PNC's risk of loss consisted of off-balance sheet liquidity commitments to Market Street of \$5.6 billion and other credit enhancements of \$.6 billion at December 31, 2009.

Market Street

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Market Street is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street's activities primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets or loans by issuing commercial paper and is supported by pool-specific credit enhancements, liquidity facilities and program-level credit enhancement. Generally, Market Street mitigates its potential interest rate risk by entering into agreements with its borrowers that reflect interest rates based upon its weighted average commercial paper cost of funds. During 2009 and the

first six months of 2010, Market Street met all of its funding needs through the issuance of commercial paper.

Market Street commercial paper outstanding was \$2.6 billion at June 30, 2010 and \$3.1 billion at December 31, 2009. The weighted average maturity of the commercial paper was 33 days at June 30, 2010 and 36 days at December 31, 2009.

During 2009, PNC Capital Markets, acting as a placement agent for Market Street, held a maximum daily position in Market Street commercial paper of \$135 million with an average balance of \$19 million. This compares with a maximum daily position and an average balance of zero for

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the first half of 2010. PNC Capital Markets owned no Market Street commercial paper at June 30, 2010 and December 31, 2009. PNC Bank, N.A. made no purchases of Market Street commercial paper during the first half of 2010.

PNC Bank, N.A. provides certain administrative services, the program-level credit enhancement and all of the liquidity facilities to Market Street in exchange for fees negotiated based on market rates. Through these arrangements, PNC has the power to direct the activities of the special purpose entity (SPE) that most significantly affect its economic performance and these arrangements expose PNC to expected losses or residual returns that are significant to Market Street.

The commercial paper obligations at June 30, 2010 and December 31, 2009 were supported by Market Street's assets. While PNC may be obligated to fund under the \$5.1 billion of liquidity facilities for events such as commercial paper market disruptions, borrower bankruptcies, collateral deficiencies or covenant violations, our credit risk under the liquidity facilities is secondary to the risk of first loss provided by the borrower such as by the over-collateralization of the assets or by another third party in the form of deal-specific credit enhancement. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of expected losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. In addition, PNC would be required to fund \$236 million of the liquidity facilities if the underlying assets are in default. Market Street creditors have no direct recourse to PNC.

PNC provides program-level credit enhancement to cover net losses in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities. PNC provides 100% of the enhancement in the form of a cash collateral account funded by a loan facility. This facility expires in March 2013. At June 30, 2010, \$567 million was outstanding on this facility. This amount was eliminated in PNC's Consolidated Balance Sheet as of June 30, 2010 due to the consolidation of Market Street. We are not required to nor have we provided additional financial support to the SPE.

Assets of Market Street (a)

In millions	Outstanding	Commitments	Weighted Average Remaining Maturity In Years
December 31, 2009			
Trade receivables	\$ 1,551	\$ 4,105	2.01
Automobile financing	480	480	4.20
Auto fleet leasing	412	543	.85
Collateralized loan obligations	126	150	.36
Residential mortgage	13	13	26.01
Other	534	567	1.65
Cash and miscellaneous receivables	582		
Total	\$ 3,698	\$ 5,858	2.06

(a) Market Street did not recognize an asset impairment charge or experience any material rating downgrades during 2009.

Market Street Commitments by Credit Rating (a)

	June 30, 2010	December 31, 2009
AAA/Aaa	17%	14%
AA/Aa	64	50
A/A	18	34
BBB/Baa	1	2
Total	100%	100%

(a)

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The majority of our facilities are not explicitly rated by the rating agencies. All facilities are structured to meet rating agency standards for applicable rating levels.

Credit Card Securitization Trust

We are the sponsor of several credit card securitizations facilitated through an SPE trust. This bankruptcy-remote SPE or VIE was established to purchase credit card receivables from the sponsor and to issue and sell asset-backed securities created by it to independent third-parties. The SPE was financed primarily through the sale of these asset-backed securities. These transactions were originally structured as a form of liquidity and to afford favorable capital treatment. At June 30, 2010, Series 2005-1, 2006-1, 2007-1, and 2008-3 issued by the SPE were outstanding. Series 2005-1 is scheduled to payoff in August 2010.

Our continuing involvement in these securitization transactions consists primarily of holding certain retained interests and acting as the primary servicer. For each securitization series, our retained interests held are in the form of a pro-rata undivided interest, or sellers' interest, in the transferred receivables, subordinated tranches of asset-backed securities, interest-only strips, discount receivables, and subordinated interests in accrued interest and fees in securitized receivables. We consolidated the SPE as of January 1, 2010 as we are deemed the primary beneficiary of the entity based upon our level of continuing involvement. Our role as primary servicer gives us the power to direct the activities of the SPE that most significantly affect its

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economic performance and our holding of retained interests gives us the obligation to absorb or receive expected losses or residual returns that are significant to the SPE. Accordingly, all retained interests held in the credit card SPE are eliminated in consolidation. The underlying assets of the consolidated SPE are restricted only for payment of the beneficial interest issued by the SPE. We are not required to nor have we provided additional financial support to the SPE. Additionally, creditors of the SPE have no direct recourse to PNC.

Tax Credit Investments

We make certain equity investments in various limited partnerships or limited liability companies (LLCs) that sponsor affordable housing projects utilizing the LIHTC pursuant to Sections 42 and 47 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing product offerings and to assist us in achieving goals associated with the Community Reinvestment Act. The primary activities of the investments include the identification, development and operation of multi-family housing that is leased to qualifying residential tenants. Generally, these types of investments are funded through a combination of debt and equity. We typically invest in these partnerships as a limited partner or non-managing member.

Also, we are a national syndicator of affordable housing equity (together with the investments described above, the LIHTC investments). In these syndication transactions, we create funds in which our subsidiaries are the general partner or managing member and sell limited partnership or non-managing member interests to third parties, and in some cases may also purchase a limited partnership or non-managing member interest in the fund and/or provide mezzanine financing to the fund. The purpose of this business is to generate income from the syndication of these funds, generate servicing fees by managing the funds, and earn tax credits to reduce our tax liability. General partner or managing member activities include selecting, evaluating, structuring, negotiating, and closing the fund investments in operating limited partnerships, as well as oversight of the ongoing operations of the fund portfolio.

Typically, the general partner or managing member will be the party that has the right to make decisions that will most significantly impact the economic performance of the entity. The primary sources of losses and benefits in LIHTC investments are the tax credits, tax benefits due to passive losses on the investments, and development and operating cash flows. We have consolidated LIHTC investments in which we are the general partner or managing member and have a limited partnership interest or non-managing member interest that could potentially absorb losses or receive benefits that are significant. The assets are primarily included in Equity investments and Other assets on our Consolidated Balance Sheet with the liabilities classified in Other liabilities and third party investors' interests included in the Equity

section as Noncontrolling interests. Neither creditors nor equity investors in the LIHTC investments have any recourse to our general credit. There are no terms or conditions that have required or could require us, as the primary beneficiary, to provide financial support. Also, we have not provided nor do we intend to provide financial or other support to the limited partnership or LLC that we are not contractually obligated to provide. The consolidated aggregate assets and liabilities of these LIHTC investments are provided in the Consolidated VIEs table and reflected in the Other business segment.

We also have LIHTC investments in which we are not the general partner and do not have the right to make decisions that will most significantly impact the economic performance of the entity. Accordingly, we are not the primary beneficiary of these investments and thus they are not consolidated. These investments are disclosed in the Non-Consolidated VIEs table. The table also reflects our maximum exposure to loss. Our maximum exposure to loss is equal to our legally binding equity commitments adjusted for recorded impairment and partnership results. We use the equity method to account for our investment in these entities with the investments reflected in Equity investments on our Consolidated Balance Sheet. In addition, we increase our recognized investments and recognize a liability for all legally binding unfunded equity commitments. These liabilities are reflected in Other liabilities on our Consolidated Balance Sheet.

Credit Risk Transfer Transaction

National City Bank (which merged into PNC Bank, N.A. in November 2009) sponsored an SPE and concurrently entered into a credit risk transfer agreement with an independent third party to mitigate credit losses on a pool of nonconforming residential mortgage loans originated by its former First Franklin business unit. The SPE or VIE was formed with a small equity contribution and was structured as a bankruptcy-remote entity so that its creditors have no recourse to the sponsor. In exchange for a perfected security interest in the cash flows of the nonconforming mortgage loans, the SPE issued asset-backed securities to the sponsor in the form of senior, mezzanine, and subordinated equity notes.

The credit risk transfer agreement associated with this transaction is no longer outstanding as a result of certain actions taken by us and the independent third-party in 2009. Refer to our 2009 Form 10-K for further details of these actions. We continue to hold all asset-backed securities issued by the SPE and are also the depositor in this transaction. As a result, we are deemed the primary beneficiary of the SPE. Our rights as depositor give us the power to direct the activities of the SPE that most significantly affect its economic performance and our holding of all asset-backed securities gives us the obligation to absorb or receive expected losses or residual returns that are significant to the SPE.

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Accordingly, this SPE is consolidated and all of the entity's assets, liabilities, and equity associated with the securities held by us

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are intercompany balances and are eliminated in consolidation. The underlying assets of the consolidated SPE are restricted only for payment of the asset-backed securities issued by the SPE. We are not required to nor have we provided additional financial support to the SPE.

Residential and Commercial Mortgage-Backed Securitizations

In connection with each Agency and Non-Agency securitization discussed in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements of this Report, we evaluate each SPE utilized in these transactions for consolidation. In performing these assessments, we evaluate our level of continuing involvement in these transactions as the magnitude of our involvement ultimately determines whether or not we hold a variable interest and/or are the primary beneficiary of the SPE. Factors we consider in our consolidation assessment include the significance of (1) our role as servicer, (2) our holdings of mortgage-backed securities issued by the securitization SPE, and (3) the rights of third-party variable interest holders.

Our first step in our assessment is to determine whether we hold a variable interest in the securitization SPE. We hold a variable interest in an Agency and Non-Agency securitization SPE through our holding of mortgage-backed securities issued by the SPE and/or our recourse obligations. Each SPE in which we hold a variable interest is evaluated to determine whether we are the primary beneficiary of the entity. For Agency securitization transactions, our contractual role as servicer does not give us the power to direct the activities that most significantly affect the economic performance of the SPEs. Thus, we are not the primary beneficiary of these entities. For Non-Agency securitization transactions, we would be the primary beneficiary to the extent our servicing activities give us the power to direct the activities that most significantly affect the economic performance of the SPE and we hold a more than insignificant variable interest in the entity. At June 30, 2010, our level of continuing involvement in Non-Agency securitization SPEs did not result in PNC being deemed the primary beneficiary of any of these entities. Details about the Agency and Non-Agency securitization SPEs where we hold a variable interest and are not the primary beneficiary are included in the table above. Our maximum exposure to loss as a result of our involvement with these SPEs is the carrying value of the mortgage-backed securities, servicing assets, servicing advances, and our liabilities associated with our recourse obligations. Creditors of the securitization SPEs have no recourse to PNC's assets or general credit.

Perpetual Trust Securities

We issue certain hybrid capital vehicles that qualify as capital for regulatory and rating agency purposes.

In February 2008, PNC Preferred Funding LLC (the LLC), one of our indirect subsidiaries, sold \$375 million of 8.700%

Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities of PNC Preferred Funding Trust III (Trust III) to third parties in a private placement. In connection with the private placement, Trust III acquired \$375 million of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Securities of the LLC (the LLC Preferred Securities). The sale was similar to the March 2007 private placement by the LLC of \$500 million of 6.113% Fixed-to-Floating Rate Non-Cumulative Exchangeable Trust Securities (the Trust II Securities) of PNC Preferred Funding Trust II (Trust II) in which Trust II acquired \$500 million of LLC Preferred Securities and to the December 2006 private placement by PNC REIT Corp. of \$500 million of 6.517% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities (the Trust I Securities) of PNC Preferred Funding Trust I (Trust I) in which Trust I acquired \$500 million of LLC Preferred Securities.

Each Trust III Security is automatically exchangeable into a share of Series J Non-Cumulative Perpetual Preferred Stock of PNC, each Trust II Security is automatically exchangeable into a share of Series I Non-Cumulative Perpetual Preferred Stock of PNC (Series I Preferred Stock), and each Trust I Security is automatically exchangeable into a share of Series F Non-Cumulative Perpetual Preferred Stock of PNC Bank, N.A. (PNC Bank Preferred Stock), in each case under certain conditions relating to the capitalization or the financial condition of PNC Bank, N.A. and upon the direction of the Office of the Comptroller of the Currency.

Our 2009 Form 10-K includes additional information regarding the Trust I and Trust II Securities, including descriptions of replacement capital covenants.

PNC has contractually committed to Trust II and Trust III that if full dividends are not paid in a dividend period on the Trust II Securities or the Trust III Securities, as applicable, or the LLC Preferred Securities held by Trust II or Trust III, as applicable, PNC will not declare or pay dividends with respect to, or redeem, purchase or acquire, any of its equity capital securities during the next succeeding dividend period, other than: (i) purchases, redemptions or other acquisitions of shares of capital stock of PNC in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or consultants, (ii) purchases of shares of common stock of PNC pursuant to a contractually binding requirement to buy stock existing prior to the commencement of the extension period, including under a contractually binding stock repurchase plan, (iii) any dividend in connection with the implementation of a shareholders' rights plan, or the redemption or repurchase of any rights under any such plan, (iv) as a result of an exchange or conversion of any class or series of PNC's capital

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stock for any other class or series of PNC's capital stock, (v) the purchase of fractional interests in shares of PNC capital stock pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged or (vi) any

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stock dividends paid by PNC where the dividend stock is the same stock as that on which the dividend is being paid.

PNC Bank, N.A. has contractually committed to Trust I that if full dividends are not paid in a dividend period on the Trust I Securities, LLC Preferred Securities or any other parity equity securities issued by the LLC, neither PNC Bank, N.A. nor its subsidiaries will declare or pay dividends or other distributions with respect to, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its equity capital securities during the next succeeding period (other than to holders of the LLC Preferred Securities and any parity equity securities issued by the LLC) except: (i) in the case of dividends payable to subsidiaries of PNC Bank, N.A., to PNC Bank, N.A. or another wholly-owned subsidiary of PNC Bank, N.A. or (ii) in the case of dividends payable to persons that are not subsidiaries of PNC Bank, N.A., to such persons only if, (A) in the case of a cash dividend, PNC has first irrevocably committed to contribute amounts at least equal to such cash dividend or (B) in the case of in-kind dividends payable by PNC REIT Corp., PNC has committed to purchase such in-kind dividend from the applicable PNC REIT Corp. holders in exchange for a cash payment representing the market value of such in-kind dividend, and PNC has committed to contribute such in-kind dividend to PNC Bank, N.A.

PNC Capital Trust E Trust Preferred Securities

In February 2008, PNC Capital Trust E issued \$450 million of 7.75% Trust Preferred Securities due March 15, 2068 (the Trust E Securities). PNC Capital Trust E's only assets are \$450 million of 7.75% Junior Subordinated Notes due March 15, 2068 and issued by PNC (the JSNs). The Trust E Securities are fully and unconditionally guaranteed by PNC. We may, at our option, redeem the JSNs at 100% of their principal amount on or after March 15, 2013.

In connection with the closing of the Trust E Securities sale, we agreed that, if we have given notice of our election to defer

interest payments on the JSNs or a related deferral period is continuing, then PNC would be subject during such period to restrictions on dividends and other provisions protecting the status of the JSN debenture holder similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described above. PNC Capital Trusts C and D have similar protective provisions with respect to \$500 million in principal amount of junior subordinated debentures. Also, in connection with the closing of the Trust E Securities sale, we entered into a replacement capital covenant as described more fully in our 2009 Form 10-K.

Acquired Entity Trust Preferred Securities

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

As more fully described in our 2009 Form 10-K, we are subject to replacement capital covenants with respect to four tranches of junior subordinated debentures inherited from National City as well as a replacement capital covenant with respect to our Series L Preferred Stock.

Table of Contents***FAIR VALUE MEASUREMENTS***

In addition to the following, see Note 8 Fair Value in the Notes To Consolidated Financial Statements under Part 1, Item 1 of this Report for further information regarding fair value. New GAAP was effective for PNC in January 2010 which requires additional disclosures regarding transfers in and out of Levels 1 and 2 and additional details of asset and liability categories.

At both June 30, 2010 and December 31, 2009, assets recorded at fair value represented 23% of total assets. Liabilities recorded at fair value represented 3% and 2% of total liabilities at June 30, 2010 and December 31, 2009, respectively.

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

In millions	June 30, 2010		December 31, 2009	
	Total Fair Value	Level 3	Total Fair Value	Level 3
Assets				
Securities available for sale	\$ 45,850	\$ 9,151	\$ 50,798	\$ 9,933
Financial derivatives	6,415	85	3,916	50
Residential mortgage loans held for sale	1,220		1,012	
Trading securities	882	73	2,124	89
Residential mortgage servicing rights	963	963	1,332	1,332
Commercial mortgage loans held for sale	1,036	1,036	1,050	1,050
Equity investments	1,268	1,268	1,188	1,188
Customer resale agreements	915		990	
Loans	110		107	
Other assets	727	305	716	509
Total assets	\$ 59,386	\$ 12,881	\$ 63,233	\$ 14,151
Level 3 assets as a percentage of Total Assets at Fair Value		22%		22%
Level 3 assets as a percentage of Consolidated Assets		5%		5%
Liabilities				
Financial derivatives	\$ 5,037	\$ 355	\$ 3,839	\$ 506
Trading securities sold short	939		1,344	
Other liabilities	2		6	
Total liabilities	\$ 5,978	\$ 355	\$ 5,189	\$ 506
Level 3 liabilities as a percentage of Total Liabilities at Fair Value		6%		10%
Level 3 liabilities as a percentage of Consolidated Liabilities		<1%		<1%

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

During the first six months of 2010, no material transfers of assets or liabilities between the hierarchy levels occurred.

Table of Contents***BUSINESS SEGMENTS REVIEW***

We have six reportable business segments:

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

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

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

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product maturities, duration and other factors. Capital is intended to cover unexpected losses and is assigned to the banking and servicing businesses using our risk-based economic capital model. We have assigned capital equal to 6% of funds to Retail Banking to reflect the capital required for well-capitalized domestic banks and to approximate market comparables for this business.

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

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

Period-end Employees

	June 30	Dec. 31	June 30
	2010	2009	2009
Full-time employees			
Retail Banking	21,380	21,416	22,102
Corporate & Institutional Banking	3,601	3,746	4,038
Asset Management Group	2,951	2,960	3,150
Residential Mortgage Banking	3,348	3,267	3,693
Distressed Assets Portfolio	179	175	131

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Other			
Operations & Technology	8,970	9,275	9,350
Staff Services and other (a)	9,061	8,922	8,898
Total Other	18,031	18,197	18,248
Total full-time employees	49,490	49,761	51,362
Retail Banking part-time employees	4,790	4,737	5,199
Other part-time employees	1,104	1,322	1,509
Total part-time employees	5,894	6,059	6,708
Total	55,384	55,820	58,070

(a) Includes employees of GIS totaling 4,528 at June 30, 2010; 4,450 at December 31, 2009; and 4,663 at June 30, 2009.

Employee data as reported by each business segment in the table above reflects staff directly employed by the respective businesses and excludes operations, technology and staff services employees reported in the Other segment. Total employees have decreased since June 30, 2009 primarily as a result of integration and conversion activities related to our National City acquisition.

Table of Contents**Results Of Businesses Summary***(Unaudited)*

Six months ended June 30 in millions	Earnings (Loss)		Revenue		Average Assets (a)	
	2010	2009	2010	2009	2010	2009
Retail Banking (b)	\$ 109	\$ 111	\$ 2,754	\$ 2,908	\$ 67,782	\$ 65,397
Corporate & Institutional Banking	803	466	2,467	2,573	78,227	89,005
Asset Management Group	68	47	448	476	7,094	7,442
Residential Mortgage Banking	174	319	489	860	8,834	7,909
BlackRock	154	77	198	93	6,125	4,383
Distressed Assets Portfolio	(14)	158	675	678	19,009	24,295
Total business segments	1,294	1,178	7,031	7,588	187,071	198,431
Other (b) (c) (d)	135	(463)	644	(99)	78,678	82,422
Results from continuing operations before noncontrolling interests (e)	\$ 1,429	\$ 715	\$ 7,675	\$ 7,489	\$ 265,749	\$ 280,853

(a) Period-end balances for BlackRock.

(b) Amounts for 2009 include the results of the 61 branches divested by early September 2009.

(c) For our segment reporting presentation in this Financial Review, Other for the first six months of 2010 and 2009 included \$213 million and \$177 million, respectively, of pretax integration costs primarily related to National City.

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

(e) Amounts are presented on a continuing operations basis and therefore exclude the earnings, revenue, and assets of GIS.

Table of Contents**RETAIL BANKING***(Unaudited)*

Six months ended June 30

Dollars in millions	2010 (a) (b)	2009
INCOME STATEMENT		
Net interest income	\$ 1,758	\$ 1,824
Noninterest income		
Service charges on deposits	399	457
Brokerage	108	123
Consumer services	431	435
Other	58	69
Total noninterest income	996	1,084
Total revenue	2,754	2,908
Provision for credit losses	619	608
Noninterest expense	1,969	2,118
Pretax earnings	166	182
Income taxes	57	71
Earnings	\$ 109	\$ 111
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	\$ 26,665	\$ 27,565
Indirect	3,959	4,080
Education	8,202	5,041
Credit cards	4,013	2,137
Other consumer	1,784	1,795
Total consumer	44,623	40,618
Commercial and commercial real estate	11,399	12,652
Floor plan	1,297	1,433
Residential mortgage	1,741	2,183
Total loans	59,060	56,886
Goodwill and other intangible assets	5,904	5,795
Other assets	2,818	2,716
Total assets	\$ 67,782	\$ 65,397
Deposits		
Noninterest-bearing demand	\$ 17,009	\$ 16,115
Interest-bearing demand	19,597	18,272
Money market	39,992	39,222
Total transaction deposits	76,598	73,609
Savings	6,780	6,565
Certificates of deposit	43,955	56,074
Total deposits	127,333	136,248
Other liabilities	1,672	60
Capital	8,261	8,584
Total liabilities and equity	\$ 137,266	\$ 144,892
PERFORMANCE RATIOS		
Return on average capital	3%	3%
Return on average assets	.32	.34
Noninterest income to total revenue	36	37
Efficiency	71	73
OTHER INFORMATION (C)		
Credit-related statistics:		
Commercial nonperforming assets	\$ 297	\$ 246
Consumer nonperforming assets	336	156
Total nonperforming assets (d)	\$ 633	\$ 402
Impaired loans (e)	\$ 974	\$ 1,266
Commercial lending net charge-offs	\$ 196	\$ 173
Credit card lending net charge-offs (on balance sheet)	185	99

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Consumer lending (excluding credit card) net charge-offs	228	181
Total net charge-offs	\$ 609	\$ 453
Commercial lending annualized net charge-off ratio	3.11%	2.48%
Credit card annualized net charge-off ratio (on balance sheet)	9.30%	9.34%
Consumer lending (excluding credit card) annualized net charge-off ratio	1.09%	.90%
Total annualized net charge-off ratio	2.08%	1.61%
Other statistics:		
ATMs	6,539	6,474
Branches (f)	2,458	2,607

At June 30

Dollars in millions, except as noted	2010 (a) (b)	2009
OTHER INFORMATION (CONTINUED) (c)		
Home equity portfolio credit statistics:		
% of first lien positions (g)	35%	35%
Weighted average loan-to-value ratios (g)	73%	74%
Weighted average FICO scores (h)	727	728
Annualized net charge-off ratio	.86%	.57%
Loans 30 - 89 days past due	.74%	.70%
Loans 90 days past due	.91%	.72%
Customer-related statistics (i):		
Retail Banking checking relationships	5,056,000	5,148,000
Retail online banking active customers	2,774,000	2,676,000
Retail online bill payment active customers	870,000	744,000
Brokerage statistics:		
Financial consultants (j)	711	658
Full service brokerage offices	41	42
Brokerage account assets (billions)	\$ 31	\$ 28

- (a) Information as of and for the six months ended June 30, 2010 reflects the impact of the required divestiture of 61 branches that was completed by early September 2009.
- (b) Information for 2010 reflects the impact of the consolidation in our financial statements for the securitized credit card portfolio of approximately \$1.6 billion of credit card loans as of January 1, 2010.
- (c) Presented as of June 30 except for net charge-offs and annualized net charge-off ratios, which are for the six months ended.
- (d) Includes nonperforming loans of \$612 million at June 30, 2010 and \$385 million at June 30, 2009.
- (e) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.
- (f) Excludes certain satellite branches that provide limited products and/or services.
- (g) Includes loans from acquired portfolios for which lien position and loan-to-value information is not available.
- (h) Represents the most recent FICO scores we have on file.
- (i) Amounts for 2009 and 2010 include the impact of National City prior to the completion of all application system conversions. Therefore, these amounts may be refined in the third quarter of 2010.
- (j) Financial consultants provide services in full service brokerage offices and PNC traditional branches.

Retail Banking earned \$109 million for the first six months of 2010 compared with earnings of \$111 million for the same period a year ago. Earnings declined from the prior year due primarily to lower revenues as a result of lower interest credits assigned to deposits and a decline in fees which were partially offset by well-managed expenses. In addition, credit costs were up slightly from the prior year. Retail Banking continued to maintain its focus on growing customers and deposits, customer and employee satisfaction, investing in the business for future growth, as well as disciplined expense management during this period of market and economic uncertainty.

Highlights of Retail Banking's performance for the first six months of 2010 include the following:

Information for the first six months of 2010 reflects the impact of the consolidation in our financial statements for the securitized credit card portfolio of approximately \$1.6 billion of credit card loans as of January 1, 2010. This consolidation impacted primarily the loan and borrowings categories on the balance sheet and nearly all major categories of our income statement.

PNC successfully completed the conversion of customers at over 1,300 branches across nine states from National

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City Bank to PNC, providing further growth opportunities throughout our expanded footprint.

Success in implementing Retail Banking's deposit strategy resulted in growth in average demand deposits of \$2.2 billion, or 6%, over the prior year. Excluding approximately \$1.0 billion of average demand deposits from year-to-date 2009 balances related to the 61 required branch divestitures completed in early September 2009, average demand deposits increased \$3.2 billion, or 10%, over the prior year.

Growth in demand deposits reflected the continued focus of Retail Banking on expanding and deepening customer relationships. Checking relationships grew by 14,000 from the beginning of 2010, better than expected considering the impact of branch conversion activities in many markets. Customer retention was stronger than expected and helped offset lower acquisition of new relationships in branch conversion markets. Markets not impacted by conversion activities had strong checking relationship results. Excluding the impact of the required branch divestitures in the third quarter of 2009, net new customer and business checking relationships grew 59,000 over the prior year.

Our investment in online banking capabilities continues to pay off. Active online bill payment and online banking customers grew by 12% and 1%, respectively, during the first half of 2010. Excluding the impact of the required branch divestitures, active online bill pay and active online banking customers have increased 19% and 6%, respectively since June 30, 2009.

For the second consecutive year, the Retail Bank was named a Gallup Great Workplace Award Winner, reflecting our brand attributes of ease, confidence and achievement. This recognition reflects our commitment to having an engaged workforce, as engagement delivers real bottom-line benefits.

At June 30, 2010, Retail Banking had 2,458 branches and an ATM network of 6,539 machines giving PNC one of the largest distribution networks among US banks. We continue to invest in the branch network. In the first six months of 2010, we opened 11 traditional and 13 in-store branches, and consolidated 79 branches. The decrease in branches was primarily driven by acquisition-related branch consolidations.

Total revenue for the first half of 2010 was \$2.754 billion compared with \$2.908 billion for the same period in 2009. Net interest income of \$1.758 billion declined \$66 million compared with the first half of 2009. Net interest income was negatively impacted by lower interest credits assigned to deposits, reflective of the rate environment, and benefited from the consolidation of the securitized credit card portfolio, higher demand deposits, and increased education loans.

Noninterest income declined \$88 million over the first six months of 2009. The decrease can be attributed to the negative impact of the consolidation of the securitized credit card

portfolio, a decrease in service charges on deposits related to lower overdraft charges, lower brokerage fees, and the impact of the required branch divestitures, but benefited as a result of higher transaction volume-related fees within consumer services.

In 2010, Retail Banking revenue will be negatively impacted in a more significant manner by: 1) the new rules set forth in Regulation E related to overdraft charges, 2) the Credit CARD Act of 2009, and 3) the education lending portions of the Health Care and Education Reconciliation Act of 2010 (HCERA).

Current estimates are that second half 2010 revenues will be negatively impacted by approximately \$145 million related to Regulation E and full year 2010 revenues will be negatively impacted by approximately \$65 million attributable to the Credit CARD Act. These estimates do not include any additional impact to revenue for other changes that may be made in 2010 responding to market conditions or other/additional regulatory requirements, or any offsetting impact of changes to products and/or pricing.

The education lending business will be adversely impacted by provisions of HCERA that went into effect on July 1, 2010. The law will essentially eliminate the Federal Family Education Loan Program (FFELP), the federally guaranteed portion of this business available to private lenders. For 2009, we originated \$2.6 billion of federally guaranteed loans under FFELP. We plan to continue to provide private education loans as another source of funding for students and families.

See additional information regarding Dodd-Frank in the Executive Summary section of this Financial Review. Over at least the next 12 months, as regulatory agencies issue proposed and final regulations and as the new Consumer Financial Protection Bureau is organized, we will continue to evaluate the impact of Dodd-Frank.

The provision for credit losses was \$619 million through June 30, 2010 compared with \$608 million over the same period in 2009. Net charge-offs were \$609 million for the first half of 2010 compared with \$453 million in the same period last year. The year-over-year increase in provision and net charge-offs is due to the deteriorating economy that occurred throughout 2009, as well as an increase of \$1.9 billion in average credit card loans primarily due to the consolidation of the \$1.6 billion of credit card loans as of January 1, 2010 as previously mentioned. Credit quality has shown signs of stabilization during the first half of 2010.

Noninterest expense for the first half of the year declined \$149 million from the same period last year. Expenses were well-managed as continued investments in distribution channels were more than offset by acquisition cost savings and the required branch divestitures.

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

In the first half of 2010, average total deposits decreased \$8.9 billion, or 7%, compared with 2009.

Average demand deposits increased \$2.2 billion, or 6%, over the first six months of 2009. The increase was primarily driven by customer growth and customer preferences for liquidity.

Average money market deposits increased \$770 million from the first half of 2009. The increase was primarily due to core money market growth as customers generally prefer more liquid deposits in a low rate environment.

In the first half of 2010, average certificates of deposit decreased \$12.1 billion from the same period last year. A continued decline in certificates of deposit is expected in 2010 due to the planned run off of higher rate certificates of deposit that were primarily obtained through the National City acquisition.

Currently, we plan to maintain our focus on a relationship-based lending strategy that targets specific customer sectors (mass consumers, homeowners, students, small businesses and auto dealerships) and our moderate risk lending approach. In the first half of 2010, average total loans were \$59.1 billion, an increase of \$2.2 billion, or 4%, over the same period last year.

Average education loans grew \$3.2 billion compared with the first half of 2009 due primarily to increases in federal loan volumes as a result of non-bank competitors exiting from the business, portfolio purchases in the fourth quarter of 2009, and the impact of our current strategy of holding education loans on the balance sheet. As previously disclosed in this section, the federally guaranteed portion of this business will be essentially eliminated on July 1, 2010 due to HCERA.

Average credit card balances increased \$1.9 billion over the first half of 2009. The increase was primarily the result of the consolidation of the securitized credit card portfolio effective January 1, 2010.

Average home equity loans declined \$900 million over the same period of 2009. Consumer loan demand has slowed as a result of the current economic environment. The decline is driven by loan demand being outpaced by paydowns, refinancings, and charge-offs. Retail Banking's home equity loan portfolio is relationship based, with 96% of the portfolio attributable to borrowers in our primary geographic footprint. The nonperforming assets and charge-offs that we have experienced are within our expectations given current market conditions.

Average commercial and commercial real estate loans declined \$1.3 billion compared with the first half of 2009. The decline was primarily due to the required branch divestitures (approximately \$0.3 billion of decline on average) and loan demand being outpaced by refinancings, paydowns, and charge-offs.

Table of Contents**CORPORATE & INSTITUTIONAL BANKING***(Unaudited)*

Six months ended June 30

Dollars in millions except as noted	2010 (a)	2009
INCOME STATEMENT		
Net interest income	\$ 1,800	\$ 1,909
Noninterest income		
Corporate service fees	479	454
Other	188	210
Noninterest income	667	664
Total revenue	2,467	2,573
Provision for credit losses	333	936
Noninterest expense	866	897
Pretax earnings	1,268	740
Income taxes	465	274
Earnings	\$ 803	\$ 466
AVERAGE BALANCE SHEET		
Loans		
Commercial	\$ 33,477	\$ 40,264
Commercial real estate	17,482	19,564
Commercial real estate related	3,014	4,074
Asset-based lending	6,003	6,709
Equipment lease financing	5,290	5,467
Total loans	65,266	76,078
Goodwill and other intangible assets	3,727	3,444
Loans held for sale	1,409	1,804
Other assets	7,825	7,679
Total assets	\$ 78,227	\$ 89,005
Deposits		
Noninterest-bearing demand	\$ 22,997	\$ 17,924
Money market	12,317	8,736
Other	7,231	7,447
Total deposits	42,545	34,107
Other liabilities	10,833	9,862
Capital	7,774	7,753
Total liabilities and equity	\$ 61,152	\$ 51,722

Six months ended June 30

Dollars in millions except as noted	2010 (a)	2009
PERFORMANCE RATIOS		
Return on average capital	21%	12%
Return on average assets	2.07	1.06
Noninterest income to total revenue	27	26
Efficiency	35	35
COMMERCIAL MORTGAGE SERVICING PORTFOLIO (in billions)		
Beginning of period	\$ 287	\$ 270
Acquisitions/additions	15	16
Repayments/transfers	(37)	(17)
End of period	\$ 265	\$ 269
OTHER INFORMATION		

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Consolidated revenue from: (b)		
Treasury Management	\$ 600	\$ 560
Capital Markets	\$ 292	\$ 191
Commercial mortgage loans held		
for sale (c)	\$ 25	\$ 85
Commercial mortgage loan		
servicing (d)	137	148
Total commercial mortgage		
banking activities	\$ 162	\$ 233
Total loans (e)	\$ 63,910	\$ 71,077
Credit-related statistics:		
Nonperforming assets (e) (f)	\$ 3,103	\$ 2,317
Impaired loans (e) (g)	\$ 923	\$ 1,601
Net charge-offs	\$ 514	\$ 489
Net carrying amount of commercial mortgage servicing rights (e)	\$ 722	\$ 895

(a) Information as of six months ended June 30, 2010 reflects the impact of the consolidation in our financial statements of Market Street effective January 1, 2010. Includes \$1.5 billion of loans, net of eliminations, and \$2.7 billion of commercial paper borrowings included in Other liabilities.

(b) Represents consolidated PNC amounts.

(c) 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.

(d) Includes net interest income and noninterest income from loan servicing and ancillary services.

(e) As of period end.

(f) Includes nonperforming loans of \$3.0 billion at June 30, 2010 and \$2.2 billion at June 30, 2009.

(g) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.

Corporate & Institutional Banking earned \$803 million in the first six months of 2010 compared with \$466 million in the first six months of 2009. Significantly higher earnings for the first half of 2010 reflected a lower provision for credit losses and lower noninterest expense which more than offset a decline in net interest income compared with the 2009 period.

Highlights of Corporate & Institutional Banking performance over the first six months of 2010 include:

We closed during the second quarter on the sale of a duplicative agency servicing operation acquired with National City. Net interest income for the first six months of 2010 was \$1.8 billion, a decrease of \$109 million from

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2009, impacted by a decrease in average loans and lower interest credits assigned to deposits somewhat offset by improved loan spreads and an increase in average deposits.

Corporate service fees were \$479 million for the first six months of 2010, an increase of \$25 million over the same period a year ago, primarily due to increases in commercial mortgage special servicing ancillary income and merger and acquisition advisory fees, partially offset by higher impairment on mortgage servicing rights. The major components of corporate service fees are treasury management, corporate finance fees and commercial mortgage servicing revenue.

Our Treasury Management business, which is ranked in the top ten nationally, continues to invest in the healthcare initiative, which is designed to help provide our customers opportunities to reduce operating costs. Healthcare-related revenues in the first six months of 2010 increased 22% from the same period of last year.

Harris Williams is one of the nation's largest and most successful mergers and acquisitions advisory teams focused exclusively on the middle markets. Although this business continues to be affected by the difficult economic environment that has impacted acquisition activity, fees increased in the first six months of 2010 compared with the same period in 2009. Harris Williams recently established its first overseas operation in London.

Midland Loan Services is one of the leading third-party providers of loan servicing, asset management and technology solutions for the commercial real estate finance industry. Midland is the only company in the commercial real estate industry with the highest US primary, master and special servicer ratings from Fitch Ratings and Standard & Poor's and has achieved these highest ratings for 10 consecutive years.

The commercial mortgage servicing portfolio was \$265 billion at June 30, 2010 compared with \$269 billion at June 30, 2009. The decrease was driven by the second quarter 2010 sale of a duplicative agency servicing operation acquired with National City, partially offset by the continued growth in the agency and conventional servicing portfolios.

Other noninterest income was \$188 million for the first half of 2010, a decrease of \$22 million from the same period in 2009 primarily due to a decline in the value of commercial mortgage loans held for sale, net of hedges, partially offset by higher underwriting revenue. Provision for credit losses was \$333 million in the first six months of 2010 compared with \$936 million in the first six months of 2009. The decline compared with the prior year period was driven primarily by improvements in portfolio credit quality along with lower loan balances and commitment levels. Net charge-offs for the first six months of 2010 were \$514 million compared with \$489 million for the first six months of 2009. Net charge-offs continued to show signs of slowing in the middle market lending portfolio.

Noninterest expense was \$866 million for the first half of 2010, a decrease of \$31 million from the same period in 2009. The decline resulted in part from the second quarter 2010 sale of a duplicative agency servicing operation acquired with National City. In addition, the first half of 2009 included net losses on the disposition of repossessed assets and lease residual impairment charges.

Average loans were \$65.3 billion for the first six months of 2010 compared with \$76.1 billion in the first six months of 2009.

The first six months of 2010 included an increase in loans from the consolidation of Market Street. Excluding the impact of the Market Street consolidation, average loans decreased \$12.3 billion or 16% compared with the first six months of 2009. The decrease was due to client exits combined with continued soft utilization rates.

PNC Real Estate, with offices nationwide, is one of the industry's top providers of conventional and affordable multifamily financing. It specializes in providing access to federal agency loan programs and is a top Fannie Mae DUS, FHA/Ginnie Mae and Freddie Mac Program Plus lender. Commercial real estate loans declined due to reduced demand, paydowns and charge-offs.

PNC Business Credit is one of the top asset-based lenders in the country with offices nationwide and in Canada. Average loans in this customer set have been relatively stable since the third quarter of 2009.

PNC Equipment Finance is the 5th largest bank-affiliated leasing company with approximately \$8.4 billion in equipment finance assets, although average loans and leases have declined approximately 4% due to runoff of non-strategic portfolios. PNC Equipment Finance provides equipment financing solutions for our middle market customers, and select vendor relationship programs across the country.

Average deposits were \$42.5 billion for the first half of 2010, an increase of \$8.4 billion, or 25%, compared with the first half of 2009. During the first six months of 2010, customers continued to move balances from off-balance sheet sweep products to noninterest-bearing demand deposits and average deposits benefitted from deposit inflows from customers experiencing improving liquidity with limited investment options.

See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities on page 10.

Table of Contents**ASSET MANAGEMENT GROUP***(Unaudited)*

Six months ended June 30

Dollars in millions except as noted	2010	2009
INCOME STATEMENT		
Net interest income	\$ 130	\$ 171
Noninterest income	318	305
Total revenue	448	476
Provision for credit losses	23	63
Noninterest expense	317	337
Pretax earnings	108	76
Income taxes	40	29
Earnings	\$ 68	\$ 47
AVERAGE BALANCE SHEET		
Loans		
Consumer	\$ 3,999	\$ 3,894
Commercial and commercial real estate	1,501	1,737
Residential mortgage	939	1,133
Total loans	6,439	6,764
Goodwill and other intangible assets	409	397
Other assets	246	281
Total assets	\$ 7,094	\$ 7,442
Deposits		
Noninterest-bearing demand	\$ 1,249	\$ 1,124
Interest-bearing demand	1,717	1,553
Money market	3,239	3,273
Total transaction deposits	6,205	5,950
Certificates of deposit and other	793	1,188
Total deposits	6,998	7,138
Other liabilities	107	110
Capital	565	578
Total liabilities and equity	\$ 7,670	\$ 7,826
PERFORMANCE RATIOS		
Return on average capital	24%	16%
Return on average assets	1.93	1.27
Noninterest income to total revenue	71	64
Efficiency	71	71
OTHER INFORMATION		
Total nonperforming assets (a) (b)	\$ 114	\$ 108
Impaired loans (a) (c)	\$ 182	\$ 221
Total net charge-offs	\$ 20	\$ 32

ASSETS UNDER ADMINISTRATION*(in billions) (a) (d)*

Personal	\$ 92	\$ 88
Institutional	107	134
Total	\$ 199	\$ 222
<i>Asset Type</i>		
Equity	\$ 98	\$ 88
Fixed Income	64	57
Liquidity/Other	37	77
Total	\$ 199	\$ 222

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<u>Discretionary assets under management</u>		
Personal	\$ 65	\$ 62
Institutional	34	36
Total	\$ 99	\$ 98
<i>Asset Type</i>		
Equity	\$ 46	\$ 42
Fixed Income	36	32
Liquidity/Other	17	24
Total	\$ 99	\$ 98
<u>Nondiscretionary assets under administration</u>		
Personal	\$ 27	\$ 26
Institutional	73	98
Total	\$ 100	\$ 124
<i>Asset Type</i>		
Equity	\$ 52	\$ 46
Fixed Income	28	25
Liquidity/Other	20	53
Total	\$ 100	\$ 124

(a) As of June 30.

(b) Includes nonperforming loans of \$106 million at both June 30, 2010 and June 30, 2009.

(c) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.

(d) Excludes brokerage account assets.

Asset Management Group earned \$68 million for the first half of 2010 compared with \$47 million for the same period in 2009. Assets under administration were \$199 billion at June 30, 2010. The first six months of 2010 reflected a lower provision for credit losses, lower expenses from disciplined expense management and higher noninterest income. These improvements were partially offset by a decrease in net interest income from lower yields on loans.

Highlights of Asset Management Group's performance during the first six months of 2010 include the following:

- Successfully executed its National City trust system conversions,
- Outperformed sales and client acquisition goals,
- Exceeded expense management targets, and
- Credit performance showed signs of stabilization.

Assets under administration of \$199 billion at June 30, 2010 decreased \$23 billion compared with the balance at June 30, 2009. Discretionary assets under management of \$99 billion at June 30, 2010 increased \$1 billion compared with the balance at June 30, 2009 as year over year improvement in the equity markets was mitigated by integration impacts. Nondiscretionary assets under administration of \$100 billion declined \$24 billion from 2009 due to the strategic exit of noncore businesses.

Total revenue for the first half of 2010 was \$448 million, compared with \$476 million for the same period in 2009. Net interest income for the first half of 2010 decreased \$41 million compared with the first half of 2009, primarily due to a reduction in higher yield loans. Noninterest income of \$318 million for the first half of 2010 increased \$13 million compared with the first half of 2009 as the impacts of strong sales results and the improved equity markets were partially offset by the strategic exit of noncore businesses.

Provision for credit losses was \$23 million for the first six months of 2010 compared with \$63 million for the first six months of 2009. Net charge-offs were \$20 million for the first six months of 2010 and \$32 million for the first six months of 2009. Credit quality has shown signs of stabilization in the first six months of 2010.

Noninterest expense of \$317 million in the first half of 2010 decreased \$20 million or 6% from the same period in 2009. The decline is attributable to disciplined expense management including integration-related initiatives. The implementation of efficiency initiatives will continue through the remainder of 2010.

Average deposits for the first six months of 2010 decreased \$140 million, or 2%, from the comparable period last year as an 11% increase in demand deposits was more than offset by

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the strategic exit of higher rate certificates of deposit. This decline is expected to continue throughout the remainder of 2010. Average loan balances decreased \$325 million, or 5%, from the first six months of 2009 as commercial and residential mortgage declines more than offset growth in home equity loans.

RESIDENTIAL MORTGAGE BANKING

(Unaudited)

Six months ended June 30

Dollars in millions, except as noted	2010	2009
INCOME STATEMENT		
Net interest income	\$ 153	\$ 178
Noninterest income		
Loan servicing revenue		
Servicing fees	135	101
Net MSR hedging gains	112	260
Loan sales revenue	88	326
Other	1	(5)
Total noninterest income	336	682
Total revenue	489	860
Provision for (recoveries of) credit losses	(24)	(1)
Noninterest expense	230	349
Pretax earnings	283	512
Income taxes	109	193
Earnings	\$ 174	\$ 319
AVERAGE BALANCE SHEET		
Portfolio loans	\$ 2,679	\$ 1,633
Loans held for sale	1,062	2,730
Mortgage servicing rights (MSR)	1,173	1,254
Other assets	3,920	2,292
Total assets	\$ 8,834	\$ 7,909
Deposits	\$ 3,343	\$ 4,423
Borrowings and other liabilities	2,550	2,378
Capital	1,544	1,276
Total liabilities and equity	\$ 7,437	\$ 8,077
PERFORMANCE RATIOS		
Return on average capital	23%	50%
Return on average assets	3.97	8.13
Noninterest income to total revenue	69	79
Efficiency	47	41
OTHER INFORMATION		
Servicing portfolio for others (in billions) (a)	\$ 137	\$ 161
Fixed rate	89%	87%
Adjustable rate/balloon	11%	13%
Weighted average interest rate	5.74%	5.94%
MSR capitalized value (in billions)	\$ 1.0	\$ 1.5
MSR capitalization value (in basis points)	71	90
Weighted average servicing fee (in basis points)	30	30
Loan origination volume (in billions)	\$ 4.3	\$ 13.3
Percentage of originations represented by:		
Agency and government programs	99%	98%
Refinance volume	65%	79%
Total nonperforming assets (a) (b)	\$ 326	\$ 285
Impaired loans (a) (c)	\$ 168	\$ 531

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- (a) As of June 30.
- (b) Includes nonperforming loans of \$101 million at June 30, 2010 and \$120 million at June 30, 2009.
- (c) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.

Residential Mortgage Banking earned \$174 million for the first half of 2010 compared with \$319 million in the first half of 2009. Earnings decreased from the six months of 2009 primarily due to reduced loan sales revenue and lower net hedging gains on mortgage servicing rights, partially offset by lower noninterest expense.

Residential Mortgage Banking overview:

Total loan originations were \$4.3 billion for the first six months of 2010 compared with \$13.3 billion for the first six months of 2009. Lower mortgage rates in the first six months of 2009 resulted in high loan application and origination volumes. Even though mortgage interest rates fell considerably near the end of the second quarter of 2010, management does not expect to experience the same level of loan refinance origination volume as occurred in 2009. Loans continued to be primarily originated through direct channels under FNMA, FHLMC and FHA/VA agency guidelines.

Investors may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable representations. At June 30, 2010, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was \$159 million. See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.

Residential mortgage loans serviced for others totaled \$137 billion at June 30, 2010 compared with \$161 billion at June 30, 2009. Payoffs continued to outpace new direct loan origination volume during the first half of 2010. The decline from a year earlier also reflected the sale of a \$7.9 billion servicing portfolio in the fourth quarter of 2009.

Noninterest income was \$336 million in the first half of 2010 compared with \$682 million in the first half of 2009. The decline was due to reduced loan sales revenue reflective of strong loan origination refinance volume in the first half of 2009 and lower net hedging gains on mortgage servicing rights.

Net interest income was \$153 million for the first six months of 2010 compared with \$178 million for the first six months of 2009. The decrease resulted from lower escrow deposit balances and residential mortgage loans held for sale.

Noninterest expense declined to \$230 million in the first half of 2010 compared with \$349 million in the first half of 2009 as lower loan origination volume drove a reduction in expense.

The fair value of mortgage servicing rights was \$1.0 billion at June 30, 2010 compared with \$1.5 billion at June 30, 2009. The decline in fair value resulted from lower mortgage rates at June 30, 2010 and a reduced servicing portfolio balance.

Table of Contents**BLACKROCK**

Information related to our equity investment in BlackRock follows:

Six months ended June 30

Dollars in millions	2010	2009
Business segment earnings (a)	\$ 154	\$ 77
PNC's share of BlackRock earnings (b)	23%	31%

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

	June 30	December 31
In billions	2010	2009
Carrying value of PNC's investment in BlackRock (c)	\$ 5.8	\$ 5.8
Market value of PNC's investment in BlackRock (d)	6.2	10.1

(c) PNC accounts for its investment in BlackRock under the equity method of accounting.
(d) Does not include liquidity discount.

BLACKROCK/BARCLAYS GLOBAL INVESTORS TRANSACTION

As more fully described in Item 7 of our 2009 Form 10-K, on December 1, 2009, BlackRock acquired BGI from Barclays Bank PLC in exchange for approximately \$6.65 billion in cash and 37,566,771 shares of BlackRock common and participating preferred stock. In connection with the BGI transaction, BlackRock entered into a stock purchase agreement with PNC in which we purchased 3,556,188 shares of BlackRock Series D Preferred Stock at a price of \$140.60 per share, or \$500 million, to partially finance the transaction. On January 31, 2010, the Series D Preferred Stock was converted to Series B Preferred Stock.

BLACKROCK LTIP AND EXCHANGE AGREEMENTS

PNC's noninterest income for the first six months of 2009 included a pretax gain of \$98 million related to our BlackRock LTIP shares obligation. This gain represented the mark-to-market adjustment related to our remaining

BlackRock LTIP common shares obligation and resulted from the decrease in the market value of BlackRock common shares in that period.

Item 7 of our 2009 Form 10-K describes the Exchange Agreement that PNC entered into with BlackRock on December 26, 2008 and the Exchange Agreement that BlackRock entered into with Merrill Lynch on that same date and the resulting impact on PNC's equity ownership interest in BlackRock that was effective February 27, 2009. The PNC and Merrill Lynch Exchange Agreements restructured PNC's and Merrill Lynch's respective ownership of BlackRock common and preferred equity.

In connection with the PNC Exchange Agreement, PNC's obligation to deliver BlackRock common shares in connection with the BlackRock LTIP was replaced with an obligation to deliver shares of BlackRock's new Series C Preferred Stock. PNC acquired 2.9 million shares of Series C Preferred Stock from BlackRock in exchange for common shares on that same date. PNC accounts for its BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock. 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 8 Fair Value in the Notes To Consolidated Financial Statements of this Report.

PNC accounts for its remaining investment in BlackRock under the equity method of accounting. As a result of the Exchange Agreements, our percentage ownership of BlackRock common stock (approximately 34% at June 30, 2010) is higher than our overall share of BlackRock's equity and earnings. The transactions related to the Exchange Agreements do not affect our right to receive dividends declared by BlackRock.

Table of Contents***DISTRESSED ASSETS PORTFOLIO****(Unaudited)*

Six months ended June 30

Dollars in millions, except as noted	2010	2009
INCOME STATEMENT		
Net interest income	\$ 677	\$ 626
Noninterest income	(2)	52
Total revenue	675	678
Provision for credit losses	569	289
Noninterest expense	123	135
Pretax earnings (loss)	(17)	254
Income taxes (benefit)	(3)	96
Earnings (loss)	\$ (14)	\$ 158
AVERAGE BALANCE SHEET		
COMMERCIAL LENDING:		
Commercial	\$ 111	\$ 190
Commercial real estate (a)		
Real estate projects	2,343	3,428
Commercial mortgage	67	103
Lease financing	805	838
Total commercial lending	3,326	4,559
CONSUMER LENDING:		
Consumer (b):		
Home equity lines of credit	4,474	5,156
Home equity installment loans	1,964	2,301
Other consumer	23	13
Total consumer	6,461	7,470
Residential real estate:		
Residential mortgage	7,667	9,106
Residential construction	488	1,471
Total residential real estate	8,155	10,577
Total consumer lending	14,616	18,047
Total portfolio loans	17,942	22,606
Other assets	1,067	1,689
Total assets	\$ 19,009	\$ 24,295
Deposits	\$ 133	\$ 47
Other liabilities	66	108
Capital	1,434	1,595
Total liabilities and equity	\$ 1,633	\$ 1,750
PERFORMANCE RATIOS		
Return on average capital	(2)%	20%
Return on average assets	(.15)	1.31
OTHER INFORMATION		
Nonperforming assets (c) (d)	\$ 1,436	\$ 1,391
Impaired loans (c) (e)	\$ 6,867	\$ 8,670
Net charge-offs (f)	\$ 375	\$ 248
Annualized net charge-off ratio (f)	4.21%	2.21%
LOANS (c)		
COMMERCIAL LENDING		
Commercial / Commercial real estate (a)	\$ 2,278	\$ 3,591
Lease financing	757	798
Total commercial lending	3,035	4,389

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CONSUMER LENDING		
Consumer (b)	6,107	6,859
Residential real estate:		
Residential mortgage	7,666	9,094
Residential construction	465	907
Total consumer lending	14,238	16,860
Total loans	\$ 17,273	\$ 21,249

- (a) Primarily residential real estate development loans.
- (b) Primarily brokered home equity loans.
- (c) As of period end.
- (d) Includes nonperforming loans of \$1.0 billion at June 30, 2010 and \$1.2 billion at June 30, 2009.
- (e) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008. At June 30, 2010, this segment contained 76% of PNC's purchased impaired loans.
- (f) For the six months ended June 30.

This business segment consists primarily of assets acquired with National City. The Distressed Assets Portfolio had a loss of \$14 million for the first six months of 2010, compared with earnings of \$158 million for the first six months of 2009. A \$280 million increase in the provision for credit losses drove the decrease in earnings in the comparison.

Distressed Assets Portfolio overview:

Sales of residential mortgage loans and brokered home equity loans with unpaid principal balances of approximately \$2.0 billion and carrying value of \$1.0 billion at June 30, 2010 are expected to close in the third quarter of 2010.

Average loans declined to \$17.9 billion in the first half of 2010 compared with \$22.6 billion in the first half of 2009. The decline was impacted by portfolio management activities including loan sales and efforts to encourage customers to refinance or pay off loan balances. Net interest income was \$677 million for the first six months of 2010 compared with \$626 million for the first six months of 2009. The increase was driven by higher accretion on impaired loans due to improved cash collection results which more than offset the decline in average loans.

Noninterest income was a loss of \$2 million for the first half of 2010 compared with revenue of \$52 million for the first half of 2009 due to an increase in recourse reserves for brokered home equity loans previously sold. The 2009 results included asset disposition gains which were higher than those in the first half of 2010.

The provision for credit losses was \$569 million in the first half of 2010 compared with \$289 million in the first half of 2009. The provision for the first half of 2010 included \$109 million related to the third quarter sales of residential mortgage loans, along with additional provision for certain impaired consumer loans.

Noninterest expense for the first six months of 2010 of \$123 million declined \$12 million compared with the first six months of 2009 primarily due to lower other real estate owned related losses.

Nonperforming loans were \$1.0 billion at June 30, 2010 and \$1.2 billion at June 30, 2009. The consumer lending portfolio comprised 46% of the nonperforming loans at June 30, 2010 and was virtually flat this period, offset by a decline in commercial nonperforming loans.

Net charge-offs were \$375 million for the first half of 2010 and \$248 million for the first half of 2009. \$75 million of the increase related to the pending residential mortgage loan sale, expected to close in the third quarter

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of 2010. Additional consumer loan modifications in 2010 also contributed to the increase.

Certain loans in this business segment may require special servicing given current loan performance and market conditions. Consequently, the business activities of this segment are focused on maximizing the value of the portfolio assigned to it while mitigating risk. Business intent drives the inclusion of assets in this business segment. Not all impaired loans are included in this business segment, nor are all of the loans included in this business segment considered impaired.

The \$17.3 billion of loans held in this portfolio as of June 30, 2010 are stated inclusive of a fair value adjustment at acquisition for purchased impaired loans. Taking the adjustment and loan loss allowance into account, the net carrying basis of this loan portfolio is 79% of customer outstandings.

We have a team of asset managers actively deploying workout strategies on the commercial residential development portfolio. Actions taken on the portfolio included reducing unfunded loan exposure, encouraging the customer to pay off or refinance the loan, foreclosing on residential real estate development properties, and selling loans. Consequently, the level of exposure has declined and the credit quality has remained stable.

Brokered home equity loans include closed-end second liens and open-end home equity lines of credit. Our focus for managing these portfolios is to maximize the value of the portfolio while mitigating risk. We have implemented several modification programs to assist the loss mitigation teams that manage this risk, including educational programs directed at current but at risk borrowers. Additionally, we have initiated several voluntary and involuntary programs to reduce open exposure on home equity lines of credit.

Residential mortgages are primarily jumbo and ALT-A first lien mortgages originated for sale in the second half of 2007 for which firm commitments to lend had been extended but there was no market to sell the production. This portfolio also includes a subprime first and second lien portfolio and completed construction loans. Given the low level of mortgage rates relative to where these loans were originated, we have implemented several internal and external refinance programs to proactively work with the borrowers to explore refinance alternatives that would allow them to qualify for a conforming mortgage loan which would be originated and sold by the company or the third party originator.

The residential construction portfolio consists of active construction loans. Active construction loans typically finance development of single family homes, are usually interest only and remain available during the construction phases of the project until completion when they are fully funded. Completed construction loans are managed similar to residential mortgages. Properties are reviewed by a dedicated team to assess the appropriate strategy for optimizing the return on these assets while mitigating risk. To the extent we believe that completion of the construction on a particular project will maximize value, additional advances under the construction facility may be considered. The goal for these projects would be to move such project toward completion. Otherwise, the property is to be managed on an as is basis or returned to raw land for sale.

The fair value adjustments taken upon our acquisition of National City, along with the team assembled to provide specific focus on this business segment, put us in a good position to manage these assets. Additionally, our capital and liquidity position provide us flexibility to be prudent in terms of continuing to hold these assets or selling them to another investor to obtain the optimum return taking into account risk mitigation.

After loans are sold, investors may request PNC to indemnify them against losses or to repurchase loans that they believe do not comply with applicable representations. At June 30, 2010, the liability for estimated losses on repurchase and indemnification claims for the Distressed Assets Portfolio business segment was \$56 million. See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Note 1 Accounting Policies in Part II, Item 8 of our 2009 Form 10-K and in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report describe the most significant accounting policies that we use. Certain of these policies require us to make estimates and strategic or economic assumptions that may prove inaccurate or be subject to variations that may significantly affect our reported results and financial position for the period or in future periods.

We must use estimates, assumptions, and judgments when assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. This includes the initial measurement at fair value of the assets acquired and liabilities assumed in acquisitions qualifying as business combinations.

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.

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We discuss the following critical accounting policies and judgments under this same heading in Item 7 of our 2009 Form 10-K:

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

Residential Mortgage Servicing Rights In conjunction with the acquisition of National City, PNC acquired servicing rights for residential real estate loans. We have elected to measure these mortgage servicing rights (MSRs) at fair value. MSRs are established and valued using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and numerous other factors.

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

The fair value of residential MSRs and significant inputs to the valuation model as of June 30, 2010 are shown in the table below. The expected and actual rates of mortgage loan prepayments are the most significant factors driving the fair value. Management uses an internal proprietary model to estimate future loan prepayments. This model uses empirical data drawn from the historical performance of our managed portfolio, as adjusted for 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.

Dollars in millions	June 30, 2010
Fair value	\$ 963
Weighted-average life (in years)	3.17
Weighted-average constant prepayment rate	16.69%
Spread over forward interest rate swap rates	12.20%

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

Dollars in millions	June 30, 2010
<u>Prepayment rate:</u>	
Decline in fair value from 10% adverse change	\$ 36
Decline in fair value from 20% adverse change	\$ 68
<u>Spread over forward interest rate swap rates:</u>	
Decline in fair value from 10% adverse change	\$ 37
Decline in fair value from 20% adverse change	\$ 72

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Additional information regarding our Critical Accounting Estimates and Judgments is found elsewhere in this Financial Review and in the Notes To Consolidated Financial Statements in Part II, Item 8 of our 2009 Form 10-K and in Part I, Item 1 of this Report.

The FASB issued several Exposure Drafts for comment in May, June, and July 2010, including the Proposed Accounting Standards Update *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities – Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*. Under the proposal, most financial instruments (including loans and securities) would be measured at fair value with changes in fair value recognized in either net income or other comprehensive income. Additional aspects of this proposal include modifications for recognizing credit impairments, changes to hedge accounting requirements, and disclosures of both fair value and amortized cost information on the face of the financial statements. Additionally, the FASB issued Proposed Accounting Standards Update *Contingencies (Topic 450) Disclosure of Certain Loss Contingencies*. Under the proposal, additional disclosures would be required, including for remote loss contingencies with a potentially severe impact and a tabular reconciliation of accrued loss contingencies.

In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310), Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. This ASU requires additional disclosures related to an entity's

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allowance for credit losses and the credit quality of its financing receivables (e.g., loans). Certain disclosures will be effective December 31, 2010 and others beginning in the first quarter of 2011.

Also, see Note 1 Accounting Policies in the Notes To Consolidated Financial Statements of this Report regarding the impact of the adoption of new accounting guidance issued by the Financial Accounting Standards Board.

STATUS OF QUALIFIED DEFINED BENEFIT PENSION PLAN

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are derived from a cash balance formula based on compensation levels, age and length of service. 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 our 2009 Form 10-K.

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, including the discount rate, the rate of compensation increase and the expected return on plan assets. The discount rate and compensation increase assumptions do not significantly affect pension expense.

However, the expected long-term return on assets assumption does significantly affect pension expense. Our expected long-term return on plan assets for determining net periodic pension expense was 8.25% for 2009, 2008 and 2007. The expected return on plan assets is a long-term assumption established by considering historical and anticipated returns of the asset classes invested in by the pension plan and the allocation strategy currently in place among those classes. While this analysis gives appropriate consideration to recent asset performance and historical returns, the assumption represents a long-term prospective return. We review this assumption at each measurement date and adjust it if warranted.

For purposes of setting and reviewing this assumption, long term refers to the period over which the plan's projected benefit obligation will be disbursed. While year-to-year annual returns can vary significantly (rates of return for the reporting years of 2009, 2008, and 2007 were +20.61%, -32.91%, and +7.57% respectively), the assumption represents our estimate of long-term average prospective returns. Our selection process references certain historical data and the current environment, but primarily utilizes qualitative judgment regarding future return expectations. Recent annual returns may differ but, recognizing the volatility and unpredictability of investment

returns, 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 US equity securities have returned approximately 10% over long periods of time, while US debt securities have returned approximately 6% annually over long periods. Application of these historical returns to the plan's allocation of equities and bonds produces a result between 8% and 8.5% 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. 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, and in many cases low returns in recent time periods are followed by higher returns in future periods (and vice versa).

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 other observers. 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.

The expected long-term return on plan assets for determining net periodic pension cost for 2010 is 8.00%, down from 8.25% for 2009. During 2010, we decreased the midpoint of the plan's target allocation range for equities by approximately five percentage points. As a result of this change and taking into account all other factors described above, we changed the expected long-term return on plan assets to 8.00% for determining net periodic pension cost for 2010. 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 change by up to \$8 million as the impact is amortized into results of operations.

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The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2010 estimated expense as a baseline.

	Estimated Increase to 2010 Pension Expense
Change in Assumption (a)	(In millions)
.5% decrease in discount rate	\$ 10
.5% decrease in expected long-term return on assets	\$ 18
.5% increase in compensation rate	\$ 3

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

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We currently estimate a pretax pension expense of \$46 million in 2010 compared with pretax expense of \$117 million in 2009. This year-over-year expected reduction is primarily due to the amortization impact of the favorable 2009 investment returns as compared with the expected long-term return assumption.

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 permitted 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 for 2010.

We maintain other defined benefit plans that have a less significant effect on financial results, including various nonqualified supplemental retirement plans for certain employees.

RISK MANAGEMENT

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

The Risk Management section included in Item 7 of our 2009 Form 10-K includes a description of our risk management philosophy, principles, governance and various aspects of our corporate-level risk management program, and a 2009 overview of enterprise-wide risk. Additionally, our 2009 Form 10-K provides an analysis of the risk management processes for what we view as our primary areas of risk: credit, operational, liquidity and market, as well as a discussion of our use of financial derivatives as part of our overall asset and liability risk management process, and addresses historical performance in appropriate places within the Risk Management section of that report.

The following information updates our 2009 Form 10-K disclosures in the credit, liquidity, market, and financial derivatives areas.

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.

Nonperforming, Past Due And Potential Problem Assets

Credit quality showed further signs of stabilization during the second quarter of 2010 and delinquency measures improved compared with prior periods.

Nonperforming assets were \$5.9 billion at June 30, 2010, a decline of \$412 million compared with \$6.3 billion at December 31, 2009. Nonperforming loans decreased \$561 million since December 31, 2009 while foreclosed and other assets increased \$149 million.

Nonperforming assets at June 30, 2010 declined in the Corporate & Institutional Banking, Asset Management Group, Residential Mortgage Banking, and Distressed Assets Portfolio business segments compared with the balances at December 31, 2009 and increased 4% in the Retail Banking business segment as detailed within the Business Segments Review section of this Report.

Purchased impaired loans are excluded from nonperforming loans. Any decrease in the net present value of expected cash flows of individual commercial or pooled consumer purchased impaired loans would result in an impairment charge to the provision for loan losses in the period in which the change becomes probable. Any increase in the net present value of expected cash flows of purchased impaired loans would first result in a recovery of previously recorded allowance for loan losses and then an increase to accretible interest income for the remaining life of the impaired loans. See Note 6 Purchased Impaired Loans Related to National City in the Notes To Consolidated Financial Statements in this Report for additional information.

Additionally, most consumer loans and lines of credit, not secured by residential real estate, are charged off after 120 to 180 days past due, are not placed on nonaccrual status, and are excluded from nonperforming loans. Nonperforming loans also do not include loans held for sale.

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The portion of the allowance for loan and lease losses allocated to commercial lending nonperforming loans was 28% at June 30, 2010 and 29% at December 31, 2009. Approximately 67% of these nonperforming loans are secured by collateral that is expected to reduce credit losses and require less reserves in the event of default.

Nonperforming assets were 3.81% of total loans and foreclosed and other assets at June 30, 2010 compared with 3.99% at December 31, 2009.

Table of Contents**Nonperforming Assets By Type**

	June 30	Dec. 31
In millions	2010 (a)	2009
Nonaccrual loans		
Commercial		
Retail/wholesale	\$ 242	\$ 231
Manufacturing	312	423
Real estate related (b)	405	419
Financial services	60	117
Health care	55	41
Other	619	575
Total commercial	1,693	1,806
Commercial real estate		
Real estate projects	1,661	1,754
Commercial mortgage	420	386
Total commercial real estate	2,081	2,140
Equipment lease financing	114	130
TOTAL COMMERCIAL LENDING	3,888	4,076
Consumer		
Home equity	405	356
Other	25	36
Total consumer	430	392
Residential real estate		
Residential mortgage	713	955
Residential construction	79	248
Total residential real estate	792	1,203
TOTAL CONSUMER LENDING	1,222	1,595
Total nonperforming loans	5,110	5,671
Foreclosed and other assets		
Commercial lending	293	266
Consumer lending	501	379
Total foreclosed and other assets	794	645
Total nonperforming assets	\$ 5,904	\$ 6,316

(a) Certain information as of June 30, 2010 that we reported on a preliminary basis in connection with our July 22, 2010 earnings release has been revised for inclusion in this table.

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

Change In Nonperforming Assets

In millions	2010	2009
January 1	\$ 6,316	\$ 2,181
Transferred from accrual	2,785	4,368
Charge-offs and valuation adjustments	(1,152)	(811)
Principal activity including payoffs	(574)	(512)
Asset sales and transfers to held for sale	(685)	(311)
Returned to performing-TDRs	(329)	
Returned to performing-Other	(457)	(259)
June 30	\$ 5,904	\$ 4,656

Total nonperforming loans and nonperforming assets in the tables above are significantly lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in lower ratios of nonperforming loans to total loans and allowance for loan and lease losses to nonperforming loans. We recorded purchased impaired loans at estimated fair value of \$12.7 billion at

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December 31, 2008, including an adjustment mark for life of loan credit losses. These 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 interest/yield represents the excess of the net present value of expected cash flows on the loans at the measurement date over the recorded investment. See Note 6 Purchased Impaired Loans Related to National City in the Notes To Consolidated Financial Statements in this Report for additional information on those loans.

At June 30, 2010, our largest nonperforming asset was approximately \$32 million and our average nonperforming loan associated with commercial lending was approximately \$1 million.

The amount of nonperforming loans that were current as to remaining principal and interest was \$1.3 billion at June 30, 2010 and \$1.7 billion at December 31, 2009.

We have a number of modification programs based upon our commitment to help eligible homeowners avoid foreclosure where appropriate. To date, we have provided approximately \$1.6 billion under the HARP and HAMP programs. The majority of our modifications that result in troubled debt restructurings (TDRs), as further discussed below, are due to a reduction of the interest rate under the original loan, either for the term of the modified loan or for a period of up to 24 months after which the interest rate reverts to that under the original loan. The impacts of these modifications are considered in our allowance for loan and lease losses when they become permanent.

Loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties where we do not receive adequate compensation are considered TDRs. TDRs typically result from our loss mitigation activities and could include rate reductions, principal forgiveness, forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. Total nonperforming loans included TDRs of \$500 million at June 30, 2010 and \$440 million at December 31, 2009. Purchased impaired loans are excluded from TDRs.

TDRs returned to performing (accrual) status totaled \$329 million at June 30, 2010 and are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of performance under the modified terms. TDRs previously returned to performing status and now classified as nonperforming as they are no longer current under the modified terms were de minimus.

In addition, credit cards and certain small business and consumer credit agreements whose terms have been modified totaled \$290 million at June 30, 2010 and are excluded from

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TDRs and nonperforming loans. Our policy is to exempt these loans from being placed on nonaccrual status as permitted by regulatory guidance as these loans are directly charged off in the period that they become 180 days past due.

Accruing Loans Past Due 30 To 89 Days (a) (b)

	Amount		Percent of Outstandings	
	June 30	Dec. 31	June 30	Dec. 31
Dollars in millions	2010	2009	2010	2009
Commercial	\$ 501	\$ 684	.93%	1.26%
Commercial real estate	535	666	2.81	3.10
Equipment lease financing	21	128	.32	2.06
Consumer	419	438	.81	.87
Residential real estate	392	472	2.92	3.12
Total (c)	\$ 1,868	\$ 2,388	1.29	1.62

Accruing Loans Past Due 90 Days Or More (a) (b)

	Amount		Percent of Outstandings	
	June 30	Dec. 31	June 30	Dec. 31
Dollars in millions	2010	2009	2010	2009
Commercial	\$ 110	\$ 188	.20%	.35%
Commercial real estate	83	150	.44	.70
Equipment lease financing	4	6	.06	.10
Consumer	225	226	.43	.45
Residential real estate	177	314	1.51	2.07
Total (d)	\$ 599	\$ 884	.42	.60

(a) Excludes loans that are government insured/guaranteed, primarily residential mortgages.

(b) Certain information as of June 30, 2010 that we reported on a preliminary basis in connection with our July 22, 2010 earnings release has been revised for inclusion in this table.

(c) Excludes impaired loans acquired from National City totaling \$.5 billion at June 30, 2010 and \$.8 billion at December 31, 2009. These loans are excluded as they were recorded at estimated fair value when acquired and are currently considered performing loans due to the accretion of interest in purchase accounting.

(d) Excludes impaired loans acquired from National City totaling \$2.1 billion at June 30, 2010 and \$2.7 billion at December 31, 2009. These loans are excluded as they were recorded at estimated fair value when acquired and are currently considered performing loans due to the accretion of interest in purchase accounting.

Loans that are not included in nonperforming or past due categories and which we are uncertain about the borrower's ability to comply with existing repayment terms over the next six months totaled \$1.3 billion at June 30, 2010 and \$811 million at December 31, 2009. The increase compared with December 31, 2009 was driven by exposures in commercial real estate arising from the challenges of attracting tenants as construction projects near completion, or the loss of tenants/lease rate concessions on completed projects.

Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit

We maintain an allowance for loan and lease losses to absorb losses from the loan portfolio. We determine the allowance

based on quarterly assessments of the estimated probable credit losses incurred in the loan portfolio. While we make allocations to specific loans and pools of loans, the total reserve is available for all loan and lease losses. There were no significant changes during the first six months of 2010 to the process and procedures we follow to determine our allowance of loan and lease losses.

As noted above, we establish an allowance for specific loans. Generally, the allowance is determined based upon the fair value of the collateral underlying the specific loan. The fair value of the collateral is based upon an appraisal or, if a recent appraisal is not available, the net book value of the asset from its most recent financial statements adjusted for loss given default collateral recovery rates.

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A portion of the allowance for loan and lease losses has been assigned to loan categories based on the relative specific, pool and purchased impaired loan allocation amounts to provide coverage for probable losses not covered in specific, pool and purchased impaired loan reserve methodologies related to qualitative and measurement factors. These factors include, but are not limited to, the following:

- industry concentrations and conditions,
- credit quality trends,
- recent loss experience in particular sectors of the portfolio,
- ability and depth of lending management,
- changes in risk selection and underwriting standards, and
- timing of available information.

At June 30, 2010, the portion of reserves for these factors was \$195 million.

We increased the allowance for loan and lease losses to \$5.3 billion at June 30, 2010 compared with \$5.1 billion at December 31, 2009. The increase was primarily due to consolidation of the securitized credit card portfolio. The allowance as a percent of nonperforming loans was 104% and as a percent of total loans was 3.46% at June 30, 2010. The comparable percentages at December 31, 2009 were 89% and 3.22%, respectively. Excluding the allowance for purchased impaired loans and consumer loans and lines of credit, not secured by residential real estate, of \$1.4 billion at June 30, 2010 and \$1.0 billion at December 31, 2009, respectively, the allowance as a percent of nonperforming loans was 77% at June 30, 2010 and 72% at December 31, 2009. The majority of the commercial portfolio is secured by collateral, including loans to asset-based lending customers that continue to show demonstrably lower loss given default. Further, the large high investment grade portion of the loan portfolio has performed well and has not been subject to significant deterioration. We continue to experience some pressure in the residential real estate and commercial real estate lending sectors consistent with the current slow and somewhat uncertain economic recovery.

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The allowance for loan and lease losses is significantly lower than it would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of allowance for loan and lease losses to total loans. Loan loss reserves on the purchased impaired loans were not carried over on the date of acquisition. In addition, these loans were recorded net of \$9.2 billion of fair value adjustments as of December 31, 2008. As a result, the ratio of allowance for loan and lease losses to total loans is lower than it would be otherwise. Since acquisition date, additional reserves of \$.9 billion have been provided for purchased impaired loans.

In addition to the allowance for loan and lease losses, we maintain an allowance for unfunded loan commitments and letters of credit. We report this allowance as a liability on our Consolidated Balance Sheet. We determine this amount using estimates of the probability of the ultimate funding and losses related to those credit exposures. This methodology is similar to the one we use for determining the adequacy of our allowance for loan and lease losses.

We refer you to Note 5 Asset Quality and Note 6 Purchased Impaired Loans Related to National City in the Notes To Consolidated Financial Statements in this Report regarding changes in the allowance for loan and lease losses and in the allowance for unfunded loan commitments and letters of credit.

We believe that our provision for credit losses in the second half of 2010 may be lower than the first half of 2010. Future provision levels will depend primarily on the level of nonperforming loans, our related coverage ratios, the pace of economic recovery and the nature of regulatory reforms.

Charge-Offs And Recoveries

Six months ended June 30	Charge-offs	Recoveries	Net Charge-offs	Percent
				of Average Loans
Dollars in millions				
2010				
Commercial	\$ 586	\$ 81	\$ 505	1.85%
Commercial real estate	387	105	282	2.62
Equipment lease financing	79	25	54	1.78
Consumer	525	57	468	1.71
Residential real estate	235	13	222	2.36
Total	\$ 1,812	\$ 281	\$ 1,531	1.97%
2009				
Commercial	\$ 573	\$ 52	\$ 521	1.61%
Commercial real estate	230	15	215	1.70
Equipment lease financing	73	10	63	2.02
Consumer	437	55	382	1.47
Residential real estate	80	35	45	.41
Total	\$ 1,393	\$ 167	\$ 1,226	1.44%

Total net charge-offs are significantly lower than they would have been otherwise due to the accounting treatment for

purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. Customer balances related to these impaired loans were reduced by the fair value adjustments of \$9.2 billion as of December 31, 2008. However, as a result of further credit deterioration on purchased impaired commercial loans, we recorded \$99 million of net charge-offs during the first six months of 2010. Net charge-offs were not recorded on purchased impaired consumer pools.

CREDIT DEFAULT SWAPS

From a credit risk management perspective, we buy and sell credit loss protection via the use of credit derivatives. When we buy loss protection by purchasing a credit default swap (CDS), we pay a fee to the seller, or CDS counterparty, in return for the right to receive a payment if a specified credit event occurs for a particular obligor or reference entity. We purchase CDSs to mitigate the risk of economic loss on a portion of our loan exposures.

We also sell loss protection to mitigate the net premium cost and the impact of fair value accounting on the CDS in cases where we buy protection to hedge the loan portfolio. These activities represent additional risk positions rather than hedges of risk.

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

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

Liquidity Risk Management

Liquidity risk is the risk of potential loss if we were unable to meet our funding requirements at a reasonable cost. We manage liquidity risk at the bank and parent company to help ensure that we can obtain cost-effective funding to meet current and future obligations under both normal business as usual and stressful circumstances.

Our largest source of liquidity on a consolidated basis is the deposit base that comes from our retail and corporate banking businesses. Other borrowed funds come from a diverse mix of short and long-term funding sources. Liquid assets and unused borrowing capacity from a number of sources are also available to maintain our liquidity position.

Liquid assets consist of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning

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deposits with banks) and securities available for sale. At June 30, 2010, our liquid assets totaled \$54.0 billion, with \$25.2 billion pledged as collateral for borrowings, trust, and other commitments.

Bank Level Liquidity

Spot and forward funding gap analyses are the primary metrics used to measure and monitor bank liquidity risk. Funding gaps represent the difference in projected sources of liquidity available to offset projected uses. We calculate funding gaps for the overnight, thirty day, ninety day, one-hundred eighty day and one year time intervals. Risk limits are established within the Liquidity Risk policy. Compliance is regularly reviewed by management's Asset and Liability Committee.

PNC Bank, N.A. can borrow from the Federal Reserve Bank of Cleveland's (Federal Reserve Bank) discount window to meet short-term liquidity requirements. These borrowings are secured by securities and commercial loans. PNC Bank, N.A. is also a member of the Federal Home Loan Bank (FHLB)-Pittsburgh and as such has access to advances from FHLB-Pittsburgh secured generally by residential mortgage and other mortgage-related loans. At June 30, 2010, our unused secured borrowing capacity was \$23.4 billion with the Federal Reserve Bank and \$7.5 billion with FHLB-Pittsburgh.

Total FHLB borrowings were \$8.1 billion at June 30, 2010 compared with \$10.8 billion at December 31, 2009.

We can also obtain funding through traditional forms of borrowing, including Federal funds purchased, repurchase agreements, and short and long-term debt issuances. PNC Bank, N.A. has the ability to offer up to \$20 billion in senior and subordinated unsecured debt obligations with maturities of more than nine months. Through June 30, 2010, PNC Bank, N.A. had issued \$6.9 billion of debt under this program.

PNC Bank, N.A. also has the ability to offer up to \$3.0 billion of its commercial paper. As of June 30, 2010, there were no issuances outstanding under this program.

As of June 30, 2010, there were approximately \$6.5 billion of bank borrowings with maturities of less than one year.

Parent Company Liquidity

Our parent company's routine funding needs consist primarily of dividends to PNC shareholders, share repurchases, debt service, the funding of non-bank affiliates, and acquisitions.

Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet these requirements over the succeeding 24-month period. Risk limits for parent company liquidity are established within the Enterprise Capital Management Policy. Compliance is reviewed by the Board of Directors' Joint Risk Committee.

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

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

Also, there are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. See Note 23 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of our 2009 Form 10-K for a further discussion of these limitations. Dividends may also be impacted by the bank's capital needs and by contractual restrictions. We provide additional information on certain contractual restrictions under the Perpetual Trust Securities, PNC Capital Trust E Trust Preferred Securities, and Acquired Entity Trust Preferred Securities sections of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review. The amount available for dividend payments to the parent company by PNC Bank, N.A. without prior regulatory approval was approximately \$1.4 billion at June 30, 2010.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and short-term investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of June 30, 2010, the parent

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company had approximately \$1.8 billion in funds available from its cash and short-term investments.

We can also generate liquidity for the parent company and PNC's non-bank subsidiaries through the issuance of securities in public or private markets.

Note 19 Equity in our 2009 Form 10-K describes our December 31, 2008 issuance of 75,792 shares of our Fixed Rate Cumulative Perpetual Preferred Shares, Series N (Series N Preferred Stock), related issuance discount and the warrant to purchase common shares to the US Treasury under the TARP Capital Purchase Program.

As approved by the Federal Reserve Board, US Treasury and our other banking regulators, on February 10, 2010, we redeemed all 75,792 shares of our Series N Preferred Stock held by the US Treasury totaling \$7.6 billion. We used the net proceeds from the first quarter 2010 common stock and senior notes offerings described in Note 28 Subsequent Events in our 2009 Form 10-K and other funds to redeem the Series N Preferred Stock.

In connection with the redemption of the Series N Preferred Stock, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a

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corresponding reduction in retained earnings of \$250 million during the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share.

Dividends of \$89 million were paid on February 10, 2010 when the Series N Preferred Stock was redeemed. PNC paid total dividends of \$421 million to the US Treasury while the Series N preferred shares were outstanding.

After exchanging its TARP Warrant for 16,885,192 warrants, each to purchase one share of PNC common stock, the US Treasury sold the warrants in a secondary public offering. The sale closed on May 5, 2010.

On May 19, 2010, PNC Funding Corp issued \$500 million of senior notes due May 2014. Interest will be paid semiannually at a fixed rate of 3.000%.

PNC Bank, N.A., through its subsidiary PNC Funding Corp, has the ability to offer up to \$3.0 billion of commercial paper to provide the parent company with additional liquidity. As of June 30, 2010, there were no issuances outstanding under this program.

We have effective shelf registration statements pursuant to which we can issue additional debt and equity securities, including certain hybrid capital instruments. As of June 30, 2010, there were approximately \$2.7 billion of parent company borrowings with maturities of less than one year.

Status of Credit Ratings

The cost and availability of short- and long-term funding, as well as collateral requirements for certain derivative instruments, is influenced by debt ratings. In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current legislative and regulatory environment, including implied government support. In addition, rating agencies themselves have been subject to scrutiny arising from the financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in Dodd-Frank. Potential changes in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above, could impact our liquidity and financial condition. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect liquidity and financial condition.

Credit ratings as of June 30, 2010 for PNC and PNC Bank, N.A. follow:

	Moody's	Standard & Poor's	Fitch
The PNC Financial Services Group, Inc.			
Senior debt	A3	A	A+
Subordinated debt	Baa1	A-	A
Preferred stock	Baa3	BBB	A
PNC Bank, N.A.			
Subordinated debt	A2	A	A
Long-term deposits	A1	A+	AA-
Short-term deposits	P-1	A-1	F1+
Commitments			

The following tables set forth contractual obligations and various other commitments as of June 30, 2010 representing required and potential cash outflows.

Contractual Obligations

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June 30, 2010 in millions	Total
Remaining contractual maturities of time deposits	\$ 46,013
Borrowed funds	40,427
Minimum annual rentals on noncancellable leases	2,571
Nonqualified pension and postretirement benefits	539
Purchase obligations (a)	557
Total contractual cash obligations	\$ 90,107

(a) Includes purchase obligations for goods and services covered by noncancellable contracts and contracts including cancellation fees.

At June 30, 2010, the liability for uncertain tax positions, excluding associated interest and penalties, was \$215 million. This liability represents an estimate of tax positions that we have taken in our tax returns which may ultimately not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the contractual obligations table. See Note 15 Income Taxes in the Notes To Consolidated Financial Statements of this Report for additional information.

Other Commitments (a)

June 30, 2010 in millions	Total Amounts Committed
Net unfunded credit commitments	\$ 95,775
Standby letters of credit (b)	9,930
Reinsurance agreements (c)	4,080
Other commitments (d)	825
Total commitments	\$ 110,610

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of participations, assignments and syndications.

(b) Includes \$6.4 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.

(c) Reinsurance agreements are with third-party insurers related to insurance sold to our customers.

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- (d) Includes unfunded commitments related to private equity investments of \$406 million and other investments of \$23 million which are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of \$375 million and other direct equity investments of \$21 million which are included in Other liabilities on our Consolidated Balance Sheet.

MARKET RISK MANAGEMENT OVERVIEW

Market risk is the risk of a loss in earnings or economic value due to adverse movements in market factors such as interest rates, credit spreads, foreign exchange rates, and equity prices.

MARKET RISK MANAGEMENT INTEREST RATE RISK

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

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

Sensitivity results and market interest rate benchmarks for the second quarters of 2010 and 2009 follow:

Interest Sensitivity Analysis

	Second Quarter 2010	Second Quarter 2009
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	1.1%	.9%
100 basis point decrease (a)	(1.6)%	(1.6)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	.7%	1.6%
100 basis point decrease (a)	(5.4)%	(5.1)%
Duration of Equity Model (a)		
Base case duration of equity (in years):	(3.0)	(1.9)
Key Period-End Interest Rates		
One-month LIBOR	.35%	.31%
Three-year swap	1.33%	2.14%

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

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. The following Net Interest Income Sensitivity to Alternative Rate Scenarios table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist's most likely rate forecast, (ii) implied market forward rates, and (iii) a Two-Ten Slope decrease (a 200 basis point decrease between two-year and ten-year rates superimposed on current base rates) scenario.

Net Interest Income Sensitivity to Alternative Rate Scenarios (Second Quarter 2010)

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	PNC Economist	Market Forward	Two-Ten Slope
First year sensitivity	1.9%	.9%	.5%
Second year sensitivity	(.4)%	1.5%	(1.2)%

All changes in forecasted net interest income are relative to results in a base rate scenario where current market rates are assumed to remain unchanged over the forecast horizon. When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business, and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in the above table. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates. The graph below presents the yield curves for the base rate scenario and each of the alternate scenarios one year forward.

The second quarter 2010 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

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Our trading activities are primarily customer-driven trading in fixed income securities, equities, derivatives, and foreign exchange contracts. They also include the underwriting of fixed income and equity securities. Proprietary trading positions were essentially eliminated by the second quarter of 2010.

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in trading activities. The Risk Committee of the Board establishes an enterprise-wide VaR limit on our trading activities.

During the first six months of 2010, our VaR ranged between \$4.1 million and \$8.8 million, averaging \$6.9 million. During the first six months of 2009, our VaR ranged between \$5.8 million and \$9.1 million, averaging \$6.9 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. Under typical market conditions, we would expect an average of two to three instances a year in which actual losses exceeded the prior day VaR measure at the enterprise-wide level. There were no such instances during the first half of either 2010 or 2009.

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

Trading Revenue

Six months ended June 30

In millions	2010	2009
Net interest income	\$ 33	\$ 32
Noninterest income	78	80
Total trading revenue	\$ 111	\$ 112
Securities underwriting and trading (a)	\$53	\$39
Foreign exchange	45	41
Financial derivatives	13	32
Total trading revenue (b)	\$ 111	\$ 112

Three months ended June 30

In millions	2010	2009
Net interest income	\$ 17	\$ 13
Noninterest income	20	91
Total trading revenue	\$ 37	\$ 104
Securities underwriting and trading (a)	\$13	\$28
Foreign exchange	23	21
Financial derivatives	1	55
Total trading revenue (b)	\$ 37	\$ 104

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

(b) Product trading revenue includes related hedged activity.

Trading revenue excludes the impact of economic hedging activities, which relate primarily to residential mortgage servicing rights, and residential and held-for-sale commercial real estate loans.

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Trading revenue for second quarter of 2010 decreased \$67 million compared with the second quarter of 2009 primarily due to the increased impact of counterparty credit risk on valuations of customer derivative positions and, to a lesser extent, reduced customer-driven trading results.

MARKET RISK MANAGEMENT EQUITY AND OTHER

INVESTMENT RISK

Equity investment risk is the risk of potential losses associated with investing in both private and public equity markets.

BlackRock

PNC owns approximately 44 million common stock equivalent shares of BlackRock equity, accounted for under the equity method. Our investment in BlackRock was \$5.8 billion at June 30, 2010 and the market value of our investment in BlackRock was \$6.2 billion at that date (not including liquidity discount). The primary risk measurement, similar to other equity investments, is economic capital. Further information about BlackRock is included in the Business Segments Review section of this Financial Review.

Tax Credit Investments

Included in our equity investments are tax credit investments which are mostly accounted for under the equity method. These investments, as well as equity investments held by consolidated partnerships, totaled \$2.3 billion at June 30, 2010 and \$2.5 billion at December 31, 2009.

Table of Contents**Private Equity**

The private equity portfolio is an illiquid portfolio comprised of equity and mezzanine investments that vary by industry, stage and type of investment. Private equity investments carried at estimated fair value totaled \$1.3 billion at June 30, 2010 and \$1.2 billion at December 31, 2009. As of June 30, 2010, \$650 million was invested directly in a variety of companies and \$607 million was invested indirectly through various private equity funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The noncontrolling interests of these funds totaled \$193 million as of June 30, 2010. The indirect private equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee.

Our unfunded commitments related to private equity totaled \$406 million at June 30, 2010 compared with \$453 million at December 31, 2009.

Visa

At June 30, 2010, our investment in Visa Class B common shares totaled approximately 23 million shares. In May 2010, Visa funded \$500 million to their litigation escrow account and reduced the conversion ratio of Visa B to A shares. We consequently recognized our estimated \$47 million share of the \$500 million as a reduction of our indemnification liability and a reduction of noninterest expense. Considering the adjustment to the conversion ratio, these shares would convert to approximately 12.9 million of publicly traded Visa Class A common shares. As of June 30, 2010, we had recognized \$456 million of our Visa ownership, which we acquired with National City, on our Consolidated Balance Sheet. Based on the June 30, 2010 closing price of \$70.75 for the Visa shares, the market value of our investment was \$915 million. The Visa Class B common shares we own generally will not be transferable, except under limited circumstances, until they can be converted into shares of the publicly traded class of stock, which cannot happen until the later of three years after the IPO or settlement of all of the specified litigation. It is expected that Visa will continue to adjust the conversion ratio of Visa Class B to Class A shares in connection with settlements in excess of any amounts then in escrow for that purpose and will also reduce the conversion ratio to the extent that it adds any funds to the escrow in the future.

Note 18 Commitments and Guarantees in our Notes To Consolidated Financial Statements of this Report and Note 25 Commitments and Guarantees in our Notes To Consolidated Financial Statements under Item 8 of our 2009 Form 10-K have further information on our Visa indemnification obligation.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment

strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At June 30, 2010, other investments totaled \$314 million compared with \$368 million at December 31, 2009. We recognized net gains related to these investments of \$26 million during the first six months of 2010, including \$8 million during the second quarter. We recognized net losses related to these investments of \$79 million during the first six months of 2009, including \$8 million during the second quarter. Given the nature of these investments, if market conditions affecting their valuation were to worsen, we could incur future losses.

Our unfunded commitments related to other investments totaled \$23 million at June 30, 2010 and \$66 million at December 31, 2009.

A summary of our equity investments follows:

In millions	June 30 2010	Dec. 31 2009
BlackRock	\$ 5,815	\$ 5,736
Tax credit investments	2,317	2,510
Private equity	1,257	1,184
Visa	456	456
Other	314	368
Total	\$ 10,159	\$ 10,254

FINANCIAL DERIVATIVES

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We use a variety of financial derivatives as part of the overall asset and liability risk management process to help manage interest rate, market and credit risk inherent in our business activities. Substantially all such instruments are used to manage risk related to changes in interest rates. Interest rate and total return swaps, interest rate caps and floors, swaptions, options, forwards and futures contracts are the primary instruments we use for interest rate risk management.

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. For interest rate swaps and total return swaps, options and futures contracts, only periodic cash payments and, with respect to options, premiums are exchanged. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments. Further information on our financial derivatives is presented in Note 1 Accounting Policies in our Notes To Consolidated Financial Statements under Item 8 of our 2009 Form 10-K and in Note 12 Financial Derivatives in the Notes To Consolidated Financial Statements in this Report, which is incorporated here by reference.

Not all elements of interest rate, market and credit risk are addressed through the use of financial or other derivatives, and such instruments may be ineffective for their intended purposes due to unanticipated market changes, among other reasons.

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The following table provides the notional or contractual amounts and estimated net fair value of financial derivatives at June 30, 2010 and December 31, 2009.

Financial Derivatives

	June 30, 2010		December 31, 2009	
	Notional/ Contractual Amount	Estimated Net Fair Value	Notional/ Contractual Amount	Estimated Net Fair Value
In millions				
Derivatives designated as hedging instrument under GAAP				
Interest rate contracts (a)				
Asset rate conversion				
Receive fixed swaps	\$ 16,214	\$ 396	\$ 13,055	\$ (64)
Pay fixed swaps	436	(29)		
Forward purchase commitments	4,265	134	350	1
Liability rate conversion				
Receive fixed swaps	11,520	1,010	13,048	707
Total interest rate risk management	32,435	1,511	26,453	644
Total derivatives designated as hedging instruments (b)	\$ 32,435	\$ 1,511	\$ 26,453	\$ 644
Derivatives not designated as hedging instruments under GAAP				
<u>Derivatives used for residential mortgage banking activities:</u>				
Interest rate contracts				
Swaps	\$ 56,320	\$ 127	\$ 38,596	\$ (152)
Caps/floors Purchased	1,700	82	5,200	50
Futures	62,953		41,609	
Future options	84,600	46	18,580	28
Swaptions	12,430	(17)	24,145	(22)
Commitments related to residential mortgage assets	9,536	26	9,565	6
Total residential mortgage banking activities	\$ 227,539	\$ 264	\$ 137,695	\$ (90)
<u>Derivatives used for commercial mortgage banking activities:</u>				
Interest rate contracts				
Swaps (c)	\$ 1,894	\$ (65)	\$ 1,948	\$ (15)
Commitments related to commercial mortgage assets (c)	1,330	(8)	1,733	8
Credit contracts				
Credit default swaps	285	20	460	52
Total commercial mortgage banking activities	\$ 3,509	\$ (53)	\$ 4,141	\$ 45
<u>Derivatives used for customer-related activities:</u>				
Interest rate contracts				
Swaps (c)	\$ 91,150	\$ (123)	\$ 91,090	\$ (54)
Caps/floors				
Sold	2,908	(10)	3,457	(15)
Purchased	2,041	8	2,115	14
Swaptions	2,080	45	1,996	11
Futures	1,838		2,271	
Foreign exchange contracts	7,774	19	8,002	14
Equity contracts	333	1	351	
Credit contracts				
Risk participation agreements	2,840	1	2,819	1
Total customer-related	\$ 110,964	\$ (59)	\$ 112,101	\$ (29)
<u>Derivatives used for other risk management activities:</u>				
Interest rate contracts				
Swaps (c)	\$ 479	\$ (1)	\$ 4,667	\$ 3
Caps/floors Sold				
Swaptions			720	(9)
Futures	284		145	
Future options				
Commitments related to residential mortgage assets	510	3	50	
Foreign exchange contracts	37	4	41	1
Credit contracts				
Credit default swaps	882	7	1,128	(2)

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Other contracts (d)	209	(298)	211	(486)
Total other risk management	\$ 2,401	\$ (285)	\$ 6,962	\$ (493)
Total derivatives not designated as hedging instruments	\$ 344,413	\$ (133)	\$ 260,899	\$ (567)
Total Gross Derivatives	\$ 376,848	\$ 1,378	\$ 287,352	\$ 77

- (a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 57% were based on 1-month LIBOR and 43% on 3-month LIBOR at June 30, 2010 compared with 57% and 43%, respectively, at December 31, 2009.
- (b) Fair value amount includes net accrued interest receivable of \$156 million at June 30, 2010 and \$162 million at December 31, 2009.
- (c) The increases in the negative fair values from December 31, 2009 to June 30, 2010 for interest rate contracts, foreign exchange, equity contracts and other contracts were due to the changes in fair values of the existing contracts along with new contracts entered into during 2010 and contracts terminated.
- (d) Includes PNC's obligation to fund a portion of certain BlackRock LTIP programs.

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INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of June 30, 2010, we performed an evaluation under the supervision and with the participation of our management, including the Chairman and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended) were effective as of June 30, 2010, and that there has been no change in PNC's internal control over financial reporting that occurred during the second quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

GLOSSARY OF TERMS

Accretable net interest (Accretable yield) The excess of cash flows expected to be collected on a purchased impaired loan over the carrying value of the loan. The accretable net interest is recognized into interest income over the remaining life of the loan using the constant effective yield method.

Adjusted average total assets Primarily comprised of total average quarterly (or annual) assets plus (less) unrealized losses (gains) on investment securities, less goodwill and certain other intangible assets (net of eligible deferred taxes).

Annualized Adjusted to reflect a full year of activity.

Assets under management Assets over which we have sole or shared investment authority for our customers/clients. We do not include these assets on our Consolidated Balance Sheet.

Basis point One hundredth of a percentage point.

Cash recoveries Cash recoveries used in the context of purchased impaired loans represent cash payments from customers that exceeded the recorded investment of the designated impaired loan.

Charge-off Process of removing a loan or portion of a loan from our balance sheet because it is considered uncollectible. We also record a charge-off when a loan is transferred to held for sale by reducing the loan carrying amount to the fair value of the loan, if fair value is less than carrying amount.

Client-related noninterest income Total noninterest income included on our Consolidated Income Statement less amounts

for net gains (losses) on sales of securities, net other-than-temporary impairments, and other noninterest income.

Common shareholders' equity to total assets Common shareholders' equity divided by total assets. Common shareholders' equity equals total shareholders' equity less the liquidation value of preferred stock.

Credit derivatives Contractual agreements, primarily credit default swaps, that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

Credit spread The difference in yield between debt issues of similar maturity. The excess of yield attributable to credit spread is often used as a measure of relative creditworthiness, with a reduction in the credit spread reflecting an improvement in the borrower's perceived creditworthiness.

Derivatives Financial contracts whose value is derived from publicly traded securities, interest rates, currency exchange rates or market indices. Derivatives cover a wide assortment of financial contracts, including but not limited to forward contracts, futures, options and swaps.

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Duration of equity An estimate of the rate sensitivity of our economic value of equity. A negative duration of equity is associated with asset sensitivity (*i.e.*, positioned for rising interest rates), while a positive value implies liability sensitivity (*i.e.*, positioned for declining interest rates). For example, if the duration of equity is +1.5 years, the economic value of equity declines by 1.5% for each 100 basis point increase in interest rates.

Earning assets Assets that generate income, which include: Federal funds sold; resale agreements; trading securities; interest-earning deposits with banks; loans held for sale; loans; investment securities; and certain other assets.

Economic capital Represents the amount of resources that a business segment should hold to guard against potentially large losses that could cause insolvency. It is based on a measurement of economic risk, as opposed to risk as defined by regulatory bodies. The economic capital measurement process involves converting a risk distribution to the capital that is required to support the risk, consistent with our target credit rating. As such, economic risk serves as a common currency of risk that allows us to compare different risks on a similar basis.

Effective duration A measurement, expressed in years, that, when multiplied by a change in interest rates, would

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approximate the percentage change in value of on- and off- balance sheet positions.

Efficiency Noninterest expense divided by the sum of net interest income (GAAP basis) and noninterest income.

Fair value The price that would be received to sell an asset or the price that would be paid to transfer a liability on the measurement date using the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants.

Foreign exchange contracts Contracts that provide for the future receipt and delivery of foreign currency at previously agreed-upon terms.

Funds transfer pricing A management accounting methodology designed to recognize the net interest income effects of sources and uses of funds provided by the assets and liabilities of a business segment. We assign these balances LIBOR-based funding rates at origination that represent the interest cost for us to raise/invest funds with similar maturity and repricing structures.

Futures and forward contracts Contracts in which the buyer agrees to purchase and the seller agrees to deliver a specific financial instrument at a predetermined price or yield. May be settled either in cash or by delivery of the underlying financial instrument.

GAAP Accounting principles generally accepted in the United States of America.

Interest rate floors and caps Interest rate protection instruments that involve payment from the protection seller to the protection buyer of an interest differential, which represents the difference between a short-term rate (e.g., three-month LIBOR) and an agreed-upon rate (the strike rate) applied to a notional principal amount.

Interest rate swap contracts Contracts that are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Interest rate swap contracts are exchanges of interest rate payments, such as fixed-rate payments for floating-rate payments, based on notional principal amounts.

Intrinsic value The amount by which the fair value of an underlying stock exceeds the exercise price of an option on that stock.

Investment securities Collectively, securities available for sale and securities held to maturity.

Leverage ratio Tier 1 risk-based capital divided by adjusted average total assets.

LIBOR Acronym for London InterBank Offered Rate. LIBOR is the average interest rate charged when banks in the London wholesale money market (or interbank market) borrow unsecured funds from each other. LIBOR rates are used as a benchmark for interest rates on a global basis.

Net interest income from loans and deposits A management accounting assessment, using funds transfer pricing methodology, of the net interest contribution from loans and deposits.

Net interest margin Annualized taxable-equivalent net interest income divided by average earning assets.

Nonaccretable difference Contractually required payments receivable on a purchased impaired loan in excess of the cash flows expected to be collected.

Nondiscretionary assets under administration Assets we hold for our customers/clients in a non-discretionary, custodial capacity. We do not include these assets on our Consolidated Balance Sheet.

Noninterest income to total revenue Noninterest income divided by the sum of net interest income (GAAP basis) and noninterest income.

Nonperforming assets Nonperforming assets include nonaccrual loans, troubled debt restructured loans, foreclosed assets and other assets. We do not accrue interest income on assets classified as nonperforming.

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Nonperforming loans Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, consumer, and residential mortgage customers and construction customers as well as troubled debt restructured loans. Nonperforming loans do not include loans held for sale or foreclosed and other assets. We do not accrue interest income on loans classified as nonperforming. Nonperforming loans do not include purchased impaired loans as we are currently accreting interest income over the expected life of the loans.

Notional amount A number of currency units, shares, or other units specified in a derivatives contract.

Operating leverage The period to period dollar or percentage change in total revenue (GAAP basis) less the dollar or percentage change in noninterest expense. A positive variance indicates that revenue growth exceeded expense growth (*i.e.*, positive operating leverage) while a negative variance implies expense growth exceeded revenue growth (*i.e.*, negative operating leverage).

Options Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or

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sell the associated financial instrument at a set price during a specified period or at a specified date in the future.

Other-than-temporary impairment (OTTI) When the fair value of a security is less than its amortized cost basis, an assessment is performed to determine whether the impairment is other-than-temporary. If we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment is considered to have occurred. In such cases, an other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. Further, if we do not expect to recover the entire amortized cost of the security, an other-than-temporary impairment is considered to have occurred. However for debt securities, if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before its recovery, the other-than-temporary loss is separated into (a) the amount representing the credit loss, and (b) the amount related to all other factors. The other-than-temporary impairment related to credit losses is recognized in earnings while the amount related to all other factors is recognized in other comprehensive income, net of tax.

Pretax, pre-provision earnings Total revenue less noninterest expense.

Purchase accounting accretion Accretion of the discounts and premiums on acquired assets and liabilities. The purchase accounting accretion is recognized in net interest income over the weighted average life of the financial instruments using the constant effective yield method.

Purchased impaired loans Acquired loans determined to be credit impaired under FASB ASC 310-30 (AICPA SOP 03-3). Loans are determined to be impaired if there is evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected.

Recorded investment The initial investment of a purchased impaired loan plus interest accretion and less any cash payments and writedowns to date. The recorded investment excludes any valuation allowance which is included in our allowance for loan and lease losses.

Recovery Cash proceeds received on a loan that we had previously charged off. We credit the amount received to the allowance for loan and lease losses.

Residential development loans Project-specific loans to commercial customers for the construction or development of residential real estate including land, single family homes, condominiums and other residential properties. This would

exclude loans to commercial customers where proceeds are for general corporate purposes whether or not such facilities are secured.

Residential mortgage servicing rights hedge gains / (losses), net We have elected to measure acquired or originated residential mortgage servicing rights (MSRs) at fair value under GAAP. We employ a risk management strategy designed to protect the economic value of MSRs from changes in interest rates. This strategy utilizes securities and a portfolio of derivative instruments to hedge changes in the fair value of MSRs arising from changes in interest rates. These financial instruments are expected to have changes in fair value which are negatively correlated to the change in fair value of the MSR portfolio. Net MSR hedge gains/ (losses) represent the change in the fair value of MSRs, exclusive of changes due to time decay and payoffs, combined with the change in the fair value of the associated derivative instruments.

Return on average assets Annualized net income divided by average assets.

Return on average capital Annualized net income divided by average capital.

Return on average common shareholders' equity Annualized net income less preferred stock dividends, including preferred stock discount accretion, divided by average common shareholders' equity.

Risk-weighted assets Computed by the assignment of specific risk-weights (as defined by the Board of Governors of the Federal Reserve System) to assets and off-balance sheet instruments.

Securitization The process of legally transforming financial assets into securities.

Servicing rights An intangible asset or liability created by an obligation to service assets for others. Typical servicing rights include the right to receive a fee for collecting and forwarding payments on loans and related taxes and insurance premiums held in escrow.

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Swaptions Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to enter into an interest rate swap agreement during a specified period or at a specified date in the future.

Taxable-equivalent interest The interest income earned on certain assets is completely or partially exempt from Federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of yields and margins for all interest-earning assets, we use interest income on a taxable-equivalent basis in calculating average yields and net interest margins by increasing the interest income earned on tax-exempt assets to

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make it fully equivalent to interest income earned on other taxable investments. This adjustment is not permitted under GAAP on the Consolidated Income Statement.

Tier 1 common capital Tier 1 risk-based capital, less preferred equity, less trust preferred capital securities, and less noncontrolling interests.

Tier 1 common capital ratio Tier 1 common capital divided by period-end risk-weighted assets.

Tier 1 risk-based capital Total shareholders' equity, plus trust preferred capital securities, plus certain noncontrolling interests that are held by others; less goodwill and certain other intangible assets (net of eligible deferred taxes relating to taxable and nontaxable combinations), less equity investments in nonfinancial companies less ineligible servicing assets and less net unrealized holding losses on available for sale equity securities. Net unrealized holding gains on available for sale equity securities, net unrealized holding gains (losses) on available for sale debt securities and net unrealized holding gains (losses) on cash flow hedge derivatives are excluded from total shareholders' equity for Tier 1 risk-based capital purposes.

Tier 1 risk-based capital ratio Tier 1 risk-based capital divided by period-end risk-weighted assets.

Total equity Total shareholders' equity plus noncontrolling interests.

Total return swap A non-traditional swap where one party agrees to pay the other the total return of a defined underlying asset (e.g., a loan), usually in return for receiving a stream of LIBOR-based cash flows. The total returns of the asset, including interest and any default shortfall, are passed through to the counterparty. The counterparty is therefore assuming the credit and economic risk of the underlying asset.

Total risk-based capital Tier 1 risk-based capital plus qualifying subordinated debt and trust preferred securities, other noncontrolling interest not qualified as Tier 1, eligible gains on available for sale equity securities and the allowance for loan and lease losses, subject to certain limitations.

Total risk-based capital ratio Total risk-based capital divided by period-end risk-weighted assets.

Transaction deposits The sum of interest-bearing money market deposits, interest-bearing demand deposits, and noninterest-bearing deposits.

Troubled debt restructuring A restructuring of a loan whereby the lender for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that the lender would not otherwise consider or for which the lender would not be adequately compensated.

Value-at-risk (VaR) A statistically-based measure of risk which describes the amount of potential loss which may be incurred due to severe and adverse market movements. The measure is of the maximum loss which should not be exceeded on 99 out of 100 days.

Watchlist A list of criticized loans, credit exposure or other assets compiled for internal monitoring purposes. We define criticized exposure for this purpose as exposure with an internal risk rating of other assets especially mentioned, substandard, doubtful or loss.

Yield curve A graph showing the relationship between the yields on financial instruments or market indices of the same credit quality with different maturities. For example, a normal or positive yield curve exists when long-term bonds have higher yields than short-term bonds. A flat yield curve exists when yields are the same for short-term and long-term bonds. A steep yield curve exists when yields on long-term bonds are significantly higher than on short-term bonds. An inverted or negative yield curve exists when short-term bonds have higher yields than long-term bonds.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

We make statements in this Report, and we may from time to time make other statements, regarding our outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality and/or other matters regarding or affecting PNC that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as believe, plan, expect, anticipate, intend, outlook, estimate, forecast, will, should, project, goal and other similar

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Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made. We do not assume any duty and do not undertake to update our forward-looking statements. Actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements, and future results could differ materially from our historical performance. Our forward-looking statements are subject to the following principal risks and uncertainties. We provide greater detail regarding some of these factors in our 2009 Form 10-K and elsewhere in this Report, including in the Risk Factors and Risk Management sections of those reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

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Our businesses and financial results are affected by business and economic conditions, both generally and specifically in the principal markets in which we operate. In particular, our businesses and financial results may be impacted by:

- Changes in interest rates and valuations in the debt, equity and other financial markets.
- Disruptions in the liquidity and other functioning of financial markets, including such disruptions in the markets for real estate and other assets commonly securing financial products.
- Actions by the Federal Reserve and other government agencies, including those that impact money supply and market interest rates.
- Changes in our customers', suppliers' and other counterparties' performance in general and their creditworthiness in particular.
- A slowing or failure of the moderate economic recovery that began last year.
- Continued effects of the aftermath of recessionary conditions and the uneven spread of the positive impacts of the recovery on the economy in general and our customers in particular, including adverse impact on loan utilization rates as well as delinquencies, defaults and customer ability to meet credit obligations.
- Changes in levels of unemployment.
- Changes in customer preferences and behavior, whether as a result of changing business and economic conditions, climate-related physical changes or legislative and regulatory initiatives, or other factors.

A continuation of turbulence in significant portions of the US and global financial markets, particularly if it worsens, could impact our performance, both directly by affecting our revenues and the value of our assets and liabilities and indirectly by affecting our counterparties and the economy generally.

We will be impacted by the extensive reforms enacted in the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further, as much of that Act will require the adoption of implementing regulations by a number of different regulatory bodies, the precise nature, extent and timing of many of these reforms and the impact on us is still uncertain.

Financial industry restructuring in the current environment could also impact our business and financial performance as a result of changes in the creditworthiness and performance of our counterparties and by changes in the competitive and regulatory landscape. Our results depend on our ability to manage current elevated levels of impaired assets.

Given current economic and financial market conditions, our forward-looking financial statements are subject to the risk that these conditions will be substantially different than we are currently expecting. These statements are based on our current expectations that interest rates will remain low in the second half of 2010 and our view that the moderate economic recovery that began last year will continue throughout the rest of 2010.

Legal and regulatory developments could have an impact on our ability to operate our businesses or our financial condition or results of operations or our competitive position or reputation. Reputational impacts, in turn, could affect matters such as business generation and retention, our ability to attract and retain management, liquidity, and funding. These legal and regulatory developments could include:

- Changes resulting from legislative and regulatory responses to the current economic and financial industry environment.
- Other legislative and regulatory reforms, including broad-based restructuring of financial industry regulation as well as changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other aspects of the financial institution industry.
- Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. In addition to matters relating to PNC's business and activities, such matters may also include proceedings, claims, investigations, or inquiries relating to pre-acquisition business and activities of acquired companies such as National City.
- The results of the regulatory examination and supervision process, including our failure to satisfy the requirements of agreements with governmental agencies.
- Changes in accounting policies and principles.
- Changes resulting from legislative and regulatory initiatives relating to climate change that have or may have a negative impact on our customers' demand for or use of our products and services in general and their creditworthiness in particular.
- Changes to regulations governing bank capital, including as a result of the so-called Basel 3 initiatives.

Our business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through the effective use of third-party insurance, derivatives, and capital management techniques, and by our ability to meet evolving regulatory capital standards.

The adequacy of our intellectual property protection, and the extent of any costs associated with obtaining rights in intellectual property claimed by others, can impact our business and operating results.

Our ability to anticipate and respond to technological changes can have an impact on our ability to respond to customer needs and to meet competitive demands.

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Our ability to implement our business initiatives and strategies could affect our financial performance over the next several years. Our expansion with our National City acquisition in geographic markets and into business operations in areas in which we did not have significant experience or presence prior to 2009 presents greater risks and uncertainties than were present for us in other recent acquisitions.

Competition can have an impact on customer acquisition, growth and retention, as well as on our credit spreads and product pricing, which can affect market share, deposits and revenues.

Our business and operating results can also be affected by widespread disasters, terrorist activities or international hostilities, either as a result of the impact on the economy and capital and other financial markets generally or on us or on our customers, suppliers or other counterparties specifically.

Also, risks and uncertainties that could affect the results anticipated in forward-looking statements or from historical performance relating to our equity interest in BlackRock, Inc. are discussed in more detail in BlackRock's filings with the SEC, including in the Risk Factors sections of BlackRock's reports. BlackRock's SEC filings are accessible on the SEC's website and on or through BlackRock's website at www.blackrock.com. This material is referenced for informational purposes only and should not be deemed to constitute a part of this Report.

We grow our business in part by acquiring from time to time other financial services companies. Acquisitions present us with risks in addition to those presented by the nature of the business acquired. These include risks and uncertainties related both to the acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing.

Acquisitions may be substantially more expensive to complete (including unanticipated costs incurred in connection with the integration of the acquired company) and the anticipated benefits (including anticipated cost savings and strategic gains) may be significantly harder or take longer to achieve than expected. Acquisitions may involve our entry into new businesses or new geographic or other markets, and these situations also present risks resulting from our inexperience in those new areas.

As a regulated financial institution, our pursuit of attractive acquisition opportunities could be negatively impacted due to regulatory delays or other regulatory issues. Regulatory and/or legal issues relating to the pre-acquisition operations of an acquired business may cause reputational harm to PNC following the acquisition and integration of the acquired business into ours and may result in additional future costs or regulatory limitations arising as a result of those issues.

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THE PNC FINANCIAL SERVICES GROUP, INC.

<i>In millions, except per share data</i> <i>Unaudited</i>	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Interest Income				
Loans	\$ 2,158	\$ 2,203	\$ 4,318	\$ 4,668
Investment securities	572	672	1,195	1,361
Other	143	125	265	230
Total interest income	2,873	3,000	5,778	6,259
Interest Expense				
Deposits	244	474	525	1,020
Borrowed funds	194	333	439	726
Total interest expense	438	807	964	1,746
Net interest income	2,435	2,193	4,814	4,513
Noninterest Income				
Asset management	243	208	502	397
Consumer services	315	329	611	645
Corporate services	261	264	529	509
Residential mortgage	179	245	326	676
Service charges on deposits	209	242	409	466
Net gains on sales of securities	147	182	237	238
Other-than-temporary impairments	(118)	(453)	(358)	(1,139)
Less: Noncredit portion of other-than-temporary impairments (a)	(24)	(298)	(148)	(835)
Net other-than-temporary impairments	(94)	(155)	(210)	(304)
Other	217	295	457	349
Total noninterest income	1,477	1,610	2,861	2,976
Total revenue	3,912	3,803	7,675	7,489
Provision For Credit Losses	823	1,087	1,574	1,967
Noninterest Expense				
Personnel	959	1,086	1,915	2,082
Occupancy	172	182	359	361
Equipment	168	174	340	352
Marketing	65	59	115	116
Other	638	991	1,386	1,739
Total noninterest expense	2,002	2,492	4,115	4,650
Income from continuing operations before income taxes and noncontrolling interests	1,087	224	1,986	872
Income taxes	306	29	557	157
Income from continuing operations before noncontrolling interests	781	195	1,429	715
Income from discontinued operations (net of income taxes of \$13, \$6, \$27, and \$11)	22	12	45	22
Net income	803	207	1,474	737
Less: Net income (loss) attributable to noncontrolling interests	(9)	9	(14)	13
Preferred stock dividends	25	119	118	170
Preferred stock discount accretion	1	14	251	29
Net income attributable to common shareholders	\$ 786	\$ 65	\$ 1,119	\$ 525
Basic Earnings Per Common Share				
Continuing operations	\$ 1.45	\$.11	\$ 2.09	\$ 1.12
Discontinued operations	.04	.03	.09	.05
Net income	\$ 1.49	\$.14	\$ 2.18	\$ 1.17
Diluted Earnings Per Common Share				
Continuing operations	\$ 1.43	\$.11	\$ 2.06	\$ 1.11
Discontinued operations	.04	.03	.09	.05
Net income	\$ 1.47	\$.14	\$ 2.15	\$ 1.16

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Average Common Shares Outstanding

Basic	524	451	511	447
Diluted	527	453	514	448

(a) Included in accumulated other comprehensive loss.
See accompanying Notes To Consolidated Financial Statements.

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THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except par value

<i>Unaudited</i>	June 30	December 31
	2010	2009
Assets		
Cash and due from banks (June 30, 2010 includes \$3 for VIEs) (a)	\$ 3,558	\$ 4,288
Federal funds sold and resale agreements (includes \$915 and \$990 measured at fair value) (b)	2,209	2,390
Trading securities	882	2,124
Interest-earning deposits with banks (June 30, 2010 includes \$467 for VIEs) (a)	5,028	4,488
Loans held for sale (includes \$2,256 and \$2,062 measured at fair value) (b)	2,756	2,539
Investment securities (June 30, 2010 includes \$571 for VIEs) (a)	53,717	56,027
Loans (June 30, 2010 includes \$4,671 for VIEs) (includes \$109 and \$88 measured at fair value) (a) (b)	154,342	157,543
Allowance for loan and lease losses (June 30, 2010 includes \$(216) for VIEs) (a)	(5,336)	(5,072)
Net loans	149,006	152,471
Goodwill	9,410	9,505
Other intangible assets	2,728	3,404
Equity investments (June 30, 2010 includes \$1,420 for VIEs) (a)	10,159	10,254
Other (June 30, 2010 includes \$821 for VIEs) (includes \$298 and \$486 measured at fair value) (a) (b)	22,242	22,373
Total assets	\$ 261,695	\$ 269,863
Liabilities		
Deposits		
Noninterest-bearing	\$ 44,312	\$ 44,384
Interest-bearing	134,487	142,538
Total deposits	178,799	186,922
Borrowed funds		
Federal funds purchased and repurchase agreements	3,690	3,998
Federal Home Loan Bank borrowings	8,119	10,761
Bank notes and senior debt	12,617	12,362
Subordinated debt	10,184	9,907
Other (June 30, 2010 includes \$4,262 for VIEs) (a)	5,817	2,233
Total borrowed funds	40,427	39,261
Allowance for unfunded loan commitments and letters of credit	218	296
Accrued expenses (June 30, 2010 includes \$92 for VIEs) (a)	2,757	3,590
Other (June 30, 2010 includes \$800 for VIEs) (a)	8,504	7,227
Total liabilities	230,705	237,296
Equity		
Preferred stock (c)		
Common stock \$5 par value		
Authorized 800 shares, issued 535 and 471 shares	2,678	2,354
Capital surplus preferred stock	646	7,974
Capital surplus common stock and other	11,979	8,945
Retained earnings	14,073	13,144
Accumulated other comprehensive loss	(442)	(1,962)
Common stock held in treasury at cost: 10 and 9 shares	(557)	(513)
Total shareholders equity	28,377	29,942
Noncontrolling interests	2,613	2,625
Total equity	30,990	32,567
Total liabilities and equity	\$ 261,695	\$ 269,863

(a) Amounts represent the assets or liabilities of consolidated variable interest entities (VIEs).

(b) Amounts represent items for which the Corporation has elected the fair value option.

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(c) Par value less than \$.5 million at each date.
See accompanying Notes To Consolidated Financial Statements.

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THE PNC FINANCIAL SERVICES GROUP, INC.

<i>In millions</i>	Six months ended June 30	
<i>Unaudited</i>	2010	2009
<i>Operating Activities</i>		
Net income	\$ 1,474	\$ 737
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	1,574	1,967
Depreciation and amortization	442	505
Deferred income taxes	571	188
Net gains on sales of securities	(237)	(238)
Net other-than-temporary impairments	210	304
Net gains related to BlackRock LTIP shares adjustment		(103)
Undistributed earnings of BlackRock	(115)	(43)
Excess tax benefits from share-based payment arrangements	(1)	
Net change in		
Trading securities and other short-term investments	1,214	192
Loans held for sale	(330)	(664)
Other assets	(528)	3,671
Accrued expenses and other liabilities	(406)	(5,097)
Other	400	(69)
Net cash provided by operating activities	4,268	1,350
<i>Investing Activities</i>		
Sales		
Securities available for sale	14,123	8,060
Loans	926	170
Repayments/maturities		
Securities available for sale	3,904	3,629
Securities held to maturity	880	131
Purchases		
Securities available for sale	(13,111)	(15,615)
Securities held to maturity	(693)	(764)
Loans	(2,930)	(137)
Net change in		
Federal funds sold and resale agreements	189	17
Interest-earning deposits with banks	(549)	4,560
Loans	5,788	7,698
Net cash received from acquisition and divestiture activity	156	
Other (a)	593	(35)
Net cash provided by investing activities	9,276	7,714
<i>Financing Activities</i>		
Net change in		
Noninterest-bearing deposits	623	4,658
Interest-bearing deposits	(7,441)	(7,083)
Federal funds purchased and repurchase agreements	(305)	(1,253)
Federal Home Loan Bank short-term borrowings	(280)	
Other short-term borrowed funds	(60)	(1,848)
Sales/issuances		
Federal Home Loan Bank long-term borrowings		1,500
Bank notes and senior debt	2,528	1,960
Other long-term borrowed funds	2,219	90
Supervisory Capital Assessment Program common stock		624
Common and treasury stock	3,441	121

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Repayments/maturities		
Federal Home Loan Bank long-term borrowings	(2,313)	(4,836)
Bank notes and senior debt	(2,462)	(2,449)
Subordinated debt	28	(558)
Other long-term borrowed funds	(2,342)	(74)
Preferred stock TARP	(7,579)	
Excess tax benefits from share-based payment arrangements	1	
Acquisition of treasury stock	(116)	(82)
Preferred stock cash dividends paid	(118)	(170)
Common stock cash dividends paid	(98)	(338)
Net cash used by financing activities	(14,274)	(9,738)
Net Decrease In Cash And Due From Banks	(730)	(674)
Cash and due from banks at beginning of period	4,288	4,471
Cash and due from banks at end of period	\$ 3,558	\$ 3,797
Supplemental Disclosures		
Interest paid	\$ 921	\$ 1,816
Income taxes paid	339	50
Income taxes refunded	4	22
Non-cash Items		
Transfer from (to) loans to (from) loans held for sale, net	514	(195)
Transfer from loans to foreclosed assets	670	437

(a) Includes the impact of the consolidation of variable interest entities as of January 1, 2010.
See accompanying Notes To Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

THE PNC FINANCIAL SERVICES GROUP, INC.

Business

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

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

NOTE 1 ACCOUNTING POLICIES

BASIS OF FINANCIAL STATEMENT PRESENTATION

Our consolidated financial statements include the accounts of the parent company and its subsidiaries, most of which are wholly owned, and certain partnership interests and variable interest entities.

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform with the 2010 presentation. These reclassifications did not have a material impact on our consolidated financial condition or results of operations.

The second quarter of 2010 included a \$105 million pretax adjustment primarily related to the recognition of \$64 million of additional interest income on purchased impaired loans, a \$29 million reduction of interest expense related to the accretion of the purchase accounting adjustment for borrowings assumed in the National City acquisition, and another miscellaneous item. This correction should have been recorded in 2009. Management believes that the impact of this correction is not material to any prior period, the current period, or the estimated 2010 full year consolidated financial statements.

See Note 2 Divestiture regarding our July 1, 2010 sale of PNC Global Investment Servicing Inc. The Consolidated Income Statement for all periods presented and related Notes To Consolidated Financial Statements reflect the global investment servicing business as discontinued operations.

In our opinion, the unaudited interim consolidated financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2009 Annual Report on Form 10-K (2009 Form 10-K). Reference is made to Note 1 Accounting Policies in the 2009 Form 10-K for a detailed description of significant accounting policies. There have been no significant changes to these policies in the first six months of 2010 other than as disclosed herein. These interim consolidated financial statements serve to update the 2009 Form 10-K and may not include all information and notes necessary to constitute a complete set of financial statements.

We have considered the impact on these consolidated financial statements of events occurring subsequent to June 30, 2010.

USE OF ESTIMATES

We prepare the consolidated financial statements using financial information available at the time, which requires us to make estimates and assumptions that affect the amounts reported. Our most significant estimates pertain to our allowance for loan and lease losses, impaired loans,

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fair value measurements, including security valuations and residential mortgage servicing rights, and revenue recognition. Actual results may differ from the estimates and the differences may be material to the consolidated financial statements.

INVESTMENT IN BLACKROCK, INC.

We account for our investment in the common stock, Series B and Series D Preferred Stocks of BlackRock (both deemed to be in substance common stock) under the equity method of accounting. On January 31, 2010, the Series D Preferred Stock was converted to Series B Preferred Stock. The investment in BlackRock is reflected on our Consolidated Balance Sheet in the caption Equity investments, while our equity in earnings of BlackRock is reported on our Consolidated Income Statement in the caption Asset management.

On February 27, 2009, PNC's obligation to deliver BlackRock common shares in connection with BlackRock's long-term incentive plan programs was replaced with an obligation to deliver shares of BlackRock's new Series C Preferred Stock. The 2.9 million shares of Series C Preferred Stock were acquired from BlackRock in exchange for common shares on that same date. Since these preferred shares were not deemed to be in substance common stock, we elected to account for these preferred shares at fair value and the changes in fair value will offset the impact of marking-to-market the obligation to deliver these shares to BlackRock. Our investment in the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets.

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As noted above, we mark-to-market our obligation to transfer BlackRock shares related to certain BlackRock long-term incentive plan (LTIP) programs. This obligation is classified as a derivative not designated as a hedging instrument under GAAP as disclosed in Note 12 Financial Derivatives.

EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated using the two-class method to determine income attributable to common stockholders. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities under the two-class method. Income attributable to common stockholders is then divided by the weighted-average common shares outstanding for the period.

Diluted earnings per common share is calculated under the more dilutive of either the treasury method or the two-class method. For the diluted calculation, we increase the weighted-average number of shares of common stock outstanding by the assumed conversion of outstanding convertible preferred stock and debentures from the beginning of the year or date of issuance, if later, and the number of shares of common stock that would be issued assuming the exercise of stock options and warrants and the issuance of incentive shares using the treasury stock method. These adjustments to the weighted-average number of shares of common stock outstanding are made only when such adjustments will dilute earnings per common share. See Note 13 Earnings Per Share for additional information.

RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2010, we adopted ASU 2009-16 Transfers and Servicing (Topic 860) Accounting For Transfers of Financial Assets which is a codification of guidance issued in June 2009. This guidance removes the concept of a qualifying special-purpose entity. The guidance also establishes conditions for accounting and reporting of a transfer of a portion of a financial asset, modifies the asset sale/derecognition criteria, and changes how retained interests are initially measured.

On January 1, 2010, we adopted ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities which is a codification of guidance issued in June 2009. This guidance removes the scope exception for qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity (VIE) and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. VIEs are assessed for consolidation under Topic 810 when we hold variable interests in these entities. PNC consolidates VIEs when we are deemed to be the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that meets both of the following

criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Effective January 1, 2010, we consolidated Market Street Funding LLC (Market Street), a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments. We recorded consolidated assets of \$4.2 billion, consolidated liabilities of \$4.2 billion, and an after-tax cumulative effect adjustment to retained earnings of \$92 million upon adoption (see Note 3 Loan Sale and Servicing Activities and Variable Interest Entities).

In January 2010, the FASB issued ASU 2010-6, Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures About Fair Value Measurements. This guidance requires new disclosures as follows: 1) transfers in and out of Levels 1 and 2 and the reasons for the transfers, 2) additional breakout of asset and liability categories and 3) purchases, sales, issuances and settlements to be reported separately in the Level 3 rollforward. This guidance was effective for PNC for first quarter 2010 reporting with the exception of item 3 which is effective beginning with first quarter 2011 reporting.

In April 2010, the FASB issued ASU 2010-18, Receivables (Topic 310), Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset. This ASU amends the accounting guidance related to loans that are accounted for within a pool under ASC 310-30. The new guidance clarifies that modifications of such loans do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. The amended guidance continues to require that an entity consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. No additional disclosures are required as a result of this ASU. ASU 2010-18 is effective for modifications of loans accounted for within pools under ASC 310-30 occurring in the first interim or annual period ending on or after July 15, 2010 with early adoption permitted. PNC accounts for loans within pools consistent with the guidance in this ASU.

NOTE 2 DIVESTITURE

SALE OF PNC GLOBAL INVESTMENT SERVICING

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On July 1, 2010, we sold PNC Global Investment Servicing Inc. (GIS), a leading provider of processing, technology and business intelligence services to asset managers, broker-dealers and financial advisors worldwide, for \$2.3 billion in cash pursuant to a definitive agreement entered into on February 2, 2010.

Results of operations of GIS are presented as Income from discontinued operations, net of income taxes, on our Consolidated Income Statement for all periods presented.

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Asset and liabilities of GIS at June 30, 2010 and December 31, 2009 follow.

Investment in Discontinued Operations

In millions	June 30, 2010	December 31, 2009
Interest-earning deposits with banks	\$ 185	\$ 255
Goodwill	1,233	1,243
Other intangible assets	49	51
Other	348	359
Total assets	\$ 1,815	\$ 1,908
Interest-bearing deposits	\$ 103	\$ 93
Accrued expenses	225	266
Other	851	1,009
Total liabilities	\$ 1,179	\$ 1,368
Net assets	\$ 636	\$ 540

NOTE 3 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES**LOAN SALE AND SERVICING ACTIVITIES**

We have transferred residential and commercial mortgage loans in securitization or sales transactions in which we have continuing involvement. These transfers have occurred through Agency securitization, Non-Agency securitization, and whole-loan sale transactions. In Agency securitizations, Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC) (collectively the Agencies) securitize our transferred loans into mortgage-backed securities for sale into the secondary market through Special Purpose Entities (SPEs) they sponsor. In Non-Agency securitizations, we have transferred loans into securitization SPEs. In other instances third-party investors have purchased (in whole-loan sale transactions) and subsequently sold our loans into securitization SPEs. Third-party investors have also purchased our loans in whole-loan sale transactions. Securitization SPEs, which are legal entities that are utilized in the Agency and Non-Agency securitization transactions, are VIEs.

Our continuing involvement in the Agency securitizations, Non-Agency securitizations, and whole-loan sale transactions generally consists of servicing, limited repurchases of previously transferred loans and loss share arrangements, and, in limited circumstances, holding of mortgage-backed securities issued by the securitization SPEs.

Depending on the transaction, we may act as the master, primary, and/or special servicer to the securitization SPEs or third-party investors. Servicing responsibilities typically consist of collecting and remitting monthly borrower principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and, in certain instances, funding of servicing advances. Servicing advances, which are reimbursable, are recognized in Other

assets at cost and are made for principal and interest and collateral protection. With respect to Agency securitizations, the Agencies are responsible for working out defaulted loans.

We earn servicing and other ancillary fees for our role as servicer and depending on the contractual terms of the servicing arrangement, we can be terminated as servicer with or without cause. At the consummation date of each type of loan transfer, we recognize a servicing asset at fair value. Servicing assets are recognized in Other intangible assets on our Consolidated Balance Sheet and are classified within Level 3 of the fair value hierarchy. See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further discussion of our residential and commercial servicing assets.

Certain loans transferred to the Agencies contain removal of account provisions (ROAPs). Under these ROAPs, we hold an option to repurchase at par individual delinquent loans that meet certain criteria. When we have the unilateral ability to repurchase a delinquent loan, effective control over the loan has been regained and we recognize the loan and a corresponding liability on the balance sheet regardless of our intent to repurchase the loan. At June 30, 2010 and December 31, 2009, the balance of our ROAP asset and liability totaled \$315 million and \$577 million, respectively.

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We generally do not retain mortgage-backed securities issued by the Agency and Non-Agency securitization SPEs at the inception of the securitization transactions. Rather, our limited holdings of these securities occur through subsequent purchases in the secondary market. PNC does not retain any credit risk on its Agency mortgage-backed security positions as FNMA, FHLMC, and the U.S. Government (for GNMA) guarantee losses of principal and interest on the underlying mortgage loans. We generally hold a senior class of Non-Agency mortgage-backed securities.

We also have involvement with certain Agency and Non-Agency commercial securitization SPEs where we have not transferred commercial mortgage loans. These SPEs were sponsored by independent third-parties and the loans held by these entities were purchased exclusively from other third-parties. Generally, our involvement with these SPEs is as servicer with servicing activities consistent to those described above. In certain instances, we can be terminated as servicer in these commercial securitization structures without cause by the controlling class of mortgage-backed security holders of the SPE.

RECOURSE RESERVES

We recognize a liability for our loss exposure associated with contractual obligations to repurchase previously transferred loans due to breaches of representations and warranties and also for loss sharing arrangements with the Agencies. Inherent in all of our loan transfers are certain representation and warranties we make to cover defects that may have occurred

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during the underwriting and origination of the loans. We typically repurchase loans only when representation and warranty defects are identified and go uncured. At June 30, 2010, this repurchase liability totaled \$159 million and was related to residential mortgage loan transfers. We generally do not recognize a representation and warranty liability for commercial mortgage loan transfers as our historical repurchase activity has been minimal.

We also recognize a liability for certain commercial mortgage loan loss sharing arrangements for loan transfers to the Agencies. Our liability and total exposure to loss under these loss sharing arrangements was \$39 million and \$4.0 billion,

respectively, at June 30, 2010. Our representation and warranty and loss share liabilities (collectively recourse obligations) are recognized in Other liabilities on our Consolidated Balance Sheet and are evaluated quarterly based upon loss methodologies that utilize assumptions such as historical and projected repurchase activity, loss severity, and estimated defaults. Other than providing temporary liquidity under servicing advances and our loss exposure associated with our recourse obligations, we have not provided nor are we required to provide any type of credit support, guarantees, or commitments to the securitization SPEs or third-party investors in these transactions.

Certain Financial Information and Cash Flows Associated with Loan Sale and Servicing Activities

In millions	June 30, 2010		December 31, 2009	
	Residential Mortgages	Commercial Mortgages (a)	Residential Mortgages	Commercial Mortgages (a)
FINANCIAL INFORMATION				
Servicing portfolio (b)	\$ 137,399	\$ 167,380	\$ 146,050	\$ 185,167
Carrying value of servicing assets (c)	963	722	1,332	921
Servicing advances	539	381	599	383
Servicing deposits	2,373	3,568	3,118	3,774
Recourse liability (d)	159	39	229	71
Carrying value of mortgage-backed securities held (e)	1,836	1,907	2,011	1,905

In millions	Three Months Ended		Six Months Ended	
	June 30, 2010		June 30, 2010	
	Residential Mortgages	Commercial Mortgages (a)	Residential Mortgages	Commercial Mortgages (a)
CASH FLOWS				
Sales of loans (f)	\$ 2,296	\$ 636	\$ 4,226	\$ 978
Repurchases of previously transferred loans	465		1,206	
Contractual servicing fees received	107	71	216	126
Servicing advances recovered, net	174	57	60	2
Cash flows on mortgage-backed securities held (e)	148	167	290	204

- (a) Represents financial and cash flow information associated with both commercial mortgage loan transfer and servicing activities.
- (b) For our continuing involvement with residential mortgage loan transfers, amount represents outstanding balance of loans transferred and serviced. For commercial mortgages, amount represents the portion of the overall servicing portfolio in which loans have been transferred by us or third parties to VIEs. It does not include loans serviced by us that were originated by third parties and have not been transferred to a VIE.
- (c) See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further information.
- (d) Represents liability for our loss exposure associated with loan repurchases for breaches of representations and warranties and our commercial mortgage loss share arrangements for our Residential Mortgage Banking and Corporate & Institutional Banking business segments, respectively. See Note 18 Commitments and Guarantees for further information.
- (e) Represents securities held where PNC transferred and/or serviced loans to a securitization SPE and we hold securities issued by that SPE.
- (f) There were no gains or losses recognized on the transaction date for sales of residential mortgage and certain commercial mortgage loans as these loans are recognized on the balance sheet at fair value. For transfers of commercial loans not recognized on the balance sheet at fair value, gains/losses recognized on sales of these loans were insignificant for the three months and six months ended June 30, 2010.

VARIABLE INTEREST ENTITIES (VIEs)

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We are involved with various entities in the normal course of business that are deemed to be VIEs. We assess VIEs for consolidation based upon the accounting policies described in Note 1 and effective January 1, 2010, we consolidated Market Street, a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments as a result of adopting ASU 2009-17 Consolidations (Topic 810).

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The following provides a summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements as of June 30, 2010 and December 31, 2009, respectively.

Consolidated VIEs Carrying Value (a)**June 30, 2010**

In millions	Market Street	Credit Card Securitization Trust	Tax Credit Investments (b)	Credit Risk Transfer Transaction	Total
Assets					
Cash and due from banks			\$ 3		\$ 3
Interest-earning deposits with banks		\$ 463	4		467
Investment securities	\$ 571				571
Loans	2,036	2,165		\$ 470	4,671
Allowance for loan and lease losses		(210)		(6)	(216)
Equity investments			1,420		1,420
Other assets	299	9	503	10	821
Total assets	\$ 2,906	\$ 2,427	\$ 1,930	\$ 474	\$ 7,737
Liabilities					
Other borrowed funds	\$ 2,616	\$ 1,512	\$ 134		\$ 4,262
Accrued expenses			92		92
Other liabilities	290		510		800
Total liabilities	\$ 2,906	\$ 1,512	\$ 736		\$ 5,154

(a) Amounts represent carrying value on PNC's Consolidated Balance Sheet.

(b) Amounts reported primarily represent LIHTC investments.

Consolidated VIEs

In millions	Aggregate Assets (a)	Aggregate Liabilities (a)
June 30, 2010		
Market Street	\$ 3,468	\$ 3,477
Credit Card Securitization Trust	2,672	1,622
Tax Credit Investments (b)	1,954	804
Credit Risk Transfer Transaction	795	795

December 31, 2009

Tax Credit Investments (b)	\$ 1,933	\$ 808
Credit Risk Transfer Transaction	860	860

(a) Aggregate assets and aggregate liabilities differ from the consolidated carrying value of assets and liabilities due to elimination of intercompany assets and liabilities held by the consolidated VIE.

(b) Amounts reported primarily represent LIHTC investments.

Non-Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss	Carrying Value of Assets	Carrying Value of Liabilities
June 30, 2010					
Tax Credit Investments (a)	\$ 3,583	\$ 1,873	\$ 830	\$ 830(c)	\$ 336(d)
Commercial Mortgage-Backed Securitizations (b)	79,238	79,238	2,080	2,080(e)	
Residential Mortgage-Backed Securitizations (b)	44,847	44,847	1,860	1,857(e)	3(d)
Collateralized Debt Obligations	23		2	2(c)	

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Total \$ 127,691 \$ 125,958 \$ 4,772 \$ 4,769 \$ 339

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk
			of Loss
December 31, 2009			
Market Street	\$ 3,698	\$ 3,718	\$ 6,155(f)
Tax Credit Investments (a)	1,786	1,156	743
Collateralized Debt Obligations	23		2
Total	\$ 5,507	\$ 4,874	\$ 6,900

- (a) Amounts reported primarily represent LIHTC investments. Aggregate assets and aggregate liabilities represent estimated balances due to limited availability of financial information associated with certain acquired National City partnerships.
- (b) Amounts reported reflect involvement with securitization SPEs where PNC transferred to and/or services loans for a SPE and we hold securities issued by that SPE. We also invest in other mortgage and asset-backed securities issued by third-party VIEs with which we have no continuing involvement. Further information on these securities is included in Note 7 Investment Securities and values disclosed represent our maximum exposure to loss for those securities holdings.

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- (c) Included in Equity investments on our Consolidated Balance Sheet.
- (d) Included in Other liabilities on our Consolidated Balance Sheet.
- (e) Included in Trading securities, Investment securities, Other intangible assets, and Other assets on our Consolidated Balance Sheet.
- (f) PNC's risk of loss consisted of off-balance sheet liquidity commitments to Market Street of \$5.6 billion and other credit enhancements of \$.6 billion at December 31, 2009.

MARKET STREET

Market Street is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street's activities primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets or loans by issuing commercial paper and is supported by pool-specific credit enhancements, liquidity facilities and program-level credit enhancement. Generally, Market Street mitigates its potential interest rate risk by entering into agreements with its borrowers that reflect interest rates based upon its weighted average commercial paper cost of funds. During 2009 and the first six months of 2010, Market Street met all of its funding needs through the issuance of commercial paper.

PNC Bank, N.A. provides certain administrative services, the program-level credit enhancement and all of the liquidity facilities to Market Street in exchange for fees negotiated based on market rates. Through these arrangements, PNC has the power to direct the activities of the special purpose entity (SPE) that most significantly affect its economic performance and these arrangements expose PNC to expected losses or residual returns that are significant to Market Street.

The commercial paper obligations at June 30, 2010 and December 31, 2009 were supported by Market Street's assets. While PNC may be obligated to fund under the \$5.1 billion of liquidity facilities for events such as commercial paper market disruptions, borrower bankruptcies, collateral deficiencies or covenant violations, our credit risk under the liquidity facilities is secondary to the risk of first loss provided by the borrower such as by the over-collateralization of the assets or by another third party in the form of deal-specific credit enhancement. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of expected losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. In addition, PNC would be required to fund \$236 million of the liquidity facilities if the underlying assets are in default. Market Street creditors have no direct recourse to PNC.

PNC provides program-level credit enhancement to cover net losses in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities. PNC provides 100% of the enhancement in the form of a cash collateral account funded by a loan facility. This facility expires in March 2013.

At June 30, 2010, \$567 million was outstanding on this facility. This amount was eliminated in PNC's Consolidated Balance Sheet as of June 30, 2010 due to the consolidation of Market Street. We are not required to nor have we provided additional financial support to the SPE.

CREDIT CARD SECURITIZATION TRUST

We are the sponsor of several credit card securitizations facilitated through an SPE trust. This bankruptcy-remote SPE or VIE was established to purchase credit card receivables from the sponsor and to issue and sell asset-backed securities created by it to independent third-parties. The SPE was financed primarily through the sale of these asset-backed securities. These transactions were originally structured as a form of liquidity and to afford favorable capital treatment. At June 30, 2010, Series 2005-1, 2006-1, 2007-1, and 2008-3 issued by the SPE were outstanding.

Our continuing involvement in these securitization transactions consists primarily of holding certain retained interests and acting as the primary servicer. For each securitization series, our retained interests held are in the form of a pro-rata undivided interest, or sellers' interest, in the transferred receivables, subordinated tranches of asset-backed securities, interest-only strips, discount receivables, and subordinated interests in accrued interest and fees in securitized receivables. We consolidated the SPE as of January 1, 2010 as we are deemed the primary beneficiary of the entity based upon our level of continuing involvement. Our role as primary servicer gives us the power to direct the activities of the SPE that most significantly affect its economic performance and our holding of retained interests gives us the obligation to absorb or receive expected losses or residual returns that are significant to the SPE. Accordingly, all retained interests held in the credit card SPE are eliminated in consolidation. The underlying assets of the consolidated SPE are restricted only for payment of the beneficial interest issued by the SPE. We are not required to nor have we provided additional financial support to the SPE. Additionally, creditors of the SPE have no direct recourse to PNC.

TAX CREDIT INVESTMENTS

We make certain equity investments in various limited partnerships or limited liability companies (LLCs) that sponsor affordable housing projects utilizing the LIHTC pursuant to Sections 42 and 47 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing product offerings and to assist us in achieving goals

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associated with the Community Reinvestment Act. The primary activities of the investments include the identification, development and operation of multi-family housing that is leased to qualifying residential tenants. Generally, these types of investments are funded through a combination of debt and equity. We typically invest in these partnerships as a limited partner or non-managing member.

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Also, we are a national syndicator of affordable housing equity (together with the investments described above, the LIHTC investments). In these syndication transactions, we create funds in which our subsidiaries are the general partner or managing member and sell limited partnership or non-managing member interests to third parties, and in some cases may also purchase a limited partnership or non-managing member interest in the fund and/or provide mezzanine financing to the fund. The purpose of this business is to generate income from the syndication of these funds, generate servicing fees by managing the funds, and earn tax credits to reduce our tax liability. General partner or managing member activities include selecting, evaluating, structuring, negotiating, and closing the fund investments in operating limited partnerships, as well as oversight of the ongoing operations of the fund portfolio.

Typically, the general partner or managing member will be the party that has the right to make decisions that will most significantly impact the economic performance of the entity. The primary sources of losses and benefits in LIHTC investments are the tax credits, tax benefits due to passive losses on the investments, and development and operating cash flows. We have consolidated LIHTC investments in which we are the general partner or managing member and have a limited partnership interest or non-managing member interest that could potentially absorb losses or receive benefits that are significant. The assets are primarily included in Equity investments and Other assets on our Consolidated Balance Sheet with the liabilities classified in Other liabilities and third party investors' interests included in the Equity section as Noncontrolling interests. Neither creditors nor equity investors in the LIHTC investments have any recourse to our general credit. There are no terms or conditions that have required or could require us, as the primary beneficiary, to provide financial support. Also, we have not provided nor do we intend to provide financial or other support to the limited partnership or LLC that we are not contractually obligated to provide. The consolidated aggregate assets and liabilities of these LIHTC investments are provided in the Consolidated VIEs table and reflected in the Other business segment.

We also have LIHTC investments in which we are not the general partner and do not have the right to make decisions that will most significantly impact the economic performance of the entity. Accordingly, we are not the primary beneficiary of these investments and thus they are not consolidated. These investments are disclosed in the Non-Consolidated VIEs table. The table also reflects our maximum exposure to loss. Our maximum exposure to loss is equal to our legally binding equity commitments adjusted for recorded impairment and partnership results. We use the equity method to account for our investment in these entities with the investments reflected in Equity investments on our Consolidated Balance Sheet. In addition, we increase our recognized investments and recognize a liability for all legally binding unfunded equity

commitments. These liabilities are reflected in Other liabilities on our Consolidated Balance Sheet.

CREDIT RISK TRANSFER TRANSACTION

National City Bank (which merged into PNC Bank, N.A. in November 2009) sponsored an SPE and concurrently entered into a credit risk transfer agreement with an independent third party to mitigate credit losses on a pool of nonconforming residential mortgage loans originated by its former First Franklin business unit. The SPE or VIE was formed with a small equity contribution and was structured as a bankruptcy-remote entity so that its creditors have no recourse to the sponsor. In exchange for a perfected security interest in the cash flows of the nonconforming mortgage loans, the SPE issued asset-backed securities to the sponsor in the form of senior, mezzanine, and subordinated equity notes.

The credit risk transfer agreement associated with this transaction is no longer outstanding as a result of certain actions taken by us and the independent third-party in 2009. Refer to our 2009 Form 10-K for further details of these actions. We continue to hold all asset-backed securities issued by the SPE and are also the depositor in this transaction. As a result, we are deemed the primary beneficiary of the SPE. Our rights as depositor give us the power to direct the activities of the SPE that most significantly affect its economic performance and our holding of all asset-backed securities gives us the obligation to absorb or receive expected losses or residual returns that are significant to the SPE. Accordingly, this SPE is consolidated and all of the entity's assets, liabilities, and equity associated with the securities held by us are intercompany balances and are eliminated in consolidation. The underlying assets of the consolidated SPE are restricted only for payment of the asset-backed securities issued by the SPE. We are not required to nor have we provided additional financial support to the SPE.

RESIDENTIAL AND COMMERCIAL MORTGAGE-BACKED SECURITIZATIONS

In connection with each Agency and Non-Agency securitization discussed above, we evaluate each SPE utilized in these transactions for consolidation. In performing these assessments, we evaluate our level of continuing involvement in these transactions as the magnitude of our involvement ultimately determines whether or not we hold a variable interest and/or are the primary beneficiary of the SPE. Factors we consider in our consolidation assessment include the significance of (1) our role as servicer, (2) our holdings of mortgage-backed securities issued by the securitization SPE, and (3) the rights of third-party variable interest holders.

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Our first step in our assessment is to determine whether we hold a variable interest in the securitization SPE. We hold a variable interest in an Agency and Non-Agency securitization SPE through our holding of mortgage-backed securities issued by the SPE and/or our recourse obligations. Each SPE in which we hold a variable interest is evaluated to determine

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whether we are the primary beneficiary of the entity. For Agency securitization transactions, our contractual role as servicer does not give us the power to direct the activities that most significantly affect the economic performance of the SPEs. Thus, we are not the primary beneficiary of these entities. For Non-Agency securitization transactions, we would be the primary beneficiary to the extent our servicing activities give us the power to direct the activities that most significantly affect the economic performance of the SPE and we hold a more than insignificant variable interest in the entity. At June 30, 2010, our level of continuing involvement in Non-Agency securitization SPEs did not result in PNC being deemed the primary beneficiary of any of these entities. Details about the Agency and Non-Agency securitization SPEs where we hold a variable interest and are not the primary beneficiary are included in the table above. Our maximum exposure to loss as a result of our involvement with these SPEs is the carrying value of the mortgage-backed securities, servicing assets, servicing advances, and our liabilities associated with our recourse obligations. Creditors of the securitization SPEs have no recourse to PNC's assets or general credit.

NOTE 4 LOANS AND COMMITMENTS TO EXTEND CREDIT

Loans outstanding were as follows:

In millions	June 30 2010	December 31 2009
Commercial	\$ 54,232	\$ 54,818
Commercial real estate	20,364	23,131
Consumer	55,279	53,582
Residential real estate	17,837	19,810
Equipment lease financing	6,630	6,202
Total loans (a)	\$ 154,342	\$ 157,543

(a) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling \$2.8 billion and \$3.2 billion at June 30, 2010 and December 31, 2009, respectively.

Future accretable discounts related to purchased impaired loans are not included in loans outstanding.

At June 30, 2010, we pledged \$14.7 billion of loans to the Federal Reserve Bank and \$27.0 billion of loans to the Federal Home Loan Bank as collateral for the contingent ability to borrow, if necessary. The comparable amounts at December 31, 2009 were \$18.8 billion and \$32.6 billion, respectively.

Certain loans are accounted for at fair value with changes in the fair value reported in current period earnings. The fair value of these loans was \$110 million, or less than 1% of the total loan portfolio, at June 30, 2010.

Net Unfunded Credit Commitments

In millions	June 30 2010	December 31 2009
Commercial and commercial real estate (a) (b)	\$ 56,854	\$ 60,143
Home equity lines of credit	19,973	20,367
Consumer credit card line and other unsecured lines	17,833	18,800
Other	1,115	1,485
Total	\$ 95,775	\$ 100,795

(a) Amount related to purchased customer receivables totaled \$2.7 billion at June 30, 2010 due to the January 1, 2010 consolidation of Market Street.

(b) Amount related to Market Street totaled \$5.6 billion at December 31, 2009. This amount was eliminated as of June 30, 2010 due to the consolidation of Market Street.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. At June 30, 2010 commercial commitments are reported net of \$14.7 billion of participations, assignments and syndications, primarily to financial institutions. The comparable amount at December 31, 2009 was \$13.2 billion.

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Commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer's credit quality deteriorates. Based on our historical experience, most commitments expire unfunded, and therefore cash requirements are substantially less than the total commitment. Consumer home equity lines of credit accounted for 53% of consumer unfunded credit commitments at June 30, 2010.

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The following amounts exclude purchased impaired loans acquired in connection with the December 31, 2008 National City acquisition. See Note 6 Purchased Impaired Loans Related to National City for further information.

Nonperforming Assets

Dollars in millions	June 30, 2010	December 31, 2009
Nonaccrual loans		
Commercial	\$ 1,693	\$ 1,806
Commercial real estate	2,081	2,140
Equipment lease financing	114	130
TOTAL COMMERCIAL LENDING	3,888	4,076
Consumer		
Home equity	405	356
Other	25	36
Total consumer	430	392
Residential real estate		
Residential mortgage	713	955
Residential construction	79	248
Total residential real estate	792	1,203
TOTAL CONSUMER LENDING	1,222	1,595
Total nonaccrual/nonperforming loans	5,110	5,671
Foreclosed and other assets		
Commercial lending	293	266
Consumer lending	501	379
Total foreclosed and other assets	794	645
Total nonperforming assets	\$ 5,904	\$ 6,316
Nonperforming loans to total loans	3.31%	3.60%
Nonperforming assets to total loans and foreclosed and other assets	3.81	3.99
Nonperforming assets to total assets	2.26	2.34

Loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties where we do not receive adequate compensation are considered troubled debt restructurings (TDRs). TDRs typically result from our loss mitigation activities and could include rate reductions, principal forgiveness, forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. Total nonperforming loans in the table above include TDRs of \$500 million at June 30, 2010 and \$440 million at December 31, 2009.

TDRs returned to performing (accrual) status totaled \$329 million at June 30, 2010 and are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of performance under the modified terms.

In addition, credit cards and certain small business and consumer credit agreements whose terms have been modified totaled \$290 million at June 30, 2010 and are excluded from

TDRs and nonperforming loans. Our policy is to exempt these loans from being placed on nonaccrual status as permitted by regulatory guidance as these loans are directly charged off in the period that they become 180 days past due.

Net interest income less the provision for credit losses was \$3.2 billion for the first six months of 2010 compared with \$2.5 billion for the first six months of 2009. Comparable amounts for the second quarter of 2010 and the second quarter of 2009 were \$1.6 billion and \$1.1 billion, respectively.

Rollforward of Allowance for Loan and**Lease Losses**

In millions	2010	2009
January 1	\$ 5,072	\$ 3,917
Charge-offs	(1,812)	(1,393)
Recoveries	281	167
Net charge-offs	(1,531)	(1,226)
Provision for credit losses	1,574	1,967
Acquired allowance (a)		(114)
Adoption of ASU 2009-17, <i>Consolidations</i>	141	
Other	2	
Net change in allowance for unfunded loan commitments and letters of credit	78	25
June 30	\$ 5,336	\$ 4,569

(a) Reflects adjustments to the National City allowance acquired December 31, 2008 due to additional impairment of loans effective at that date.

Rollforward of Allowance for Unfunded Loan

Commitments and Letters of Credit

In millions	2010	2009
January 1	\$ 296	\$ 344
Net change in allowance for unfunded loan commitments and letters of credit	(78)	(25)
June 30	\$ 218	\$ 319

Originated Impaired Loans exclude leases and smaller homogeneous type loans as well as purchased impaired loans related to our acquisition of National City, but include acquired loans that are impaired subsequent to acquisition. We did not recognize any interest income on Originated Impaired Loans while they were impaired in the first six months of 2010 or 2009. The following table provides further detail on Originated Impaired Loans individually evaluated for reserves and the associated allowance for loan losses:

Originated Impaired Loans (a)

In millions	June 30 2010	Dec. 31 2009
Impaired loans with an associated reserve	\$ 3,902	\$ 3,475
Impaired loans without an associated reserve	334	471
Total impaired loans	\$ 4,236	\$ 3,946
Specific allowance for credit losses	\$ 1,146	\$ 1,148
Average impaired loan balance (b)	\$ 4,304	\$ 2,909

(a) Purchased impaired loans related to our acquisition of National City are excluded from this table and are disclosed in Note 6 Purchased Impaired Loans Related to National City.

(b) Six-month average for 2010 and full-year average for 2009.

Table of Contents**NOTE 6 PURCHASED IMPAIRED LOANS RELATED TO NATIONAL CITY**

As further described in Note 6 of the 2009 Form 10-K, at December 31, 2008, we identified certain loans related to the National City acquisition, for which there was evidence of credit quality deterioration since origination and it was probable that we would be unable to collect all contractually required principal and interest payments. GAAP requires these loans to be recorded at fair value at acquisition date and prohibits the carrying over or the creation of valuation allowances in the initial accounting for such loans acquired in a transfer.

Purchased Impaired Loans

In millions	June 30, 2010		December 31, 2009	
	Recorded Investment	Outstanding Balance	Recorded Investment	Outstanding Balance
Commercial (a)	\$ 391	\$ 599	\$ 558	\$ 1,016
Commercial real estate (a)	1,295	1,807	1,694	2,705
Consumer	3,277	4,635	3,457	5,097
Residential real estate	4,245	5,440	4,663	6,620
Total	\$ 9,208	\$ 12,481	\$ 10,372	\$ 15,438

(a) Includes purchased impaired loans held for sale. The recorded investment and outstanding balance of these loans was \$81 million and \$87 million, respectively, at June 30, 2010. Comparable balances at December 31, 2009 were \$85 million and \$200 million. The reduction in the outstanding balance at June 30, 2010 reflected loan sales and payoffs during 2010.

During the first six months of 2010, the amount of purchased impaired loans decreased by a net \$1.2 billion as a result of payments and other exit activities partially offset by accretion of purchase accounting discount.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan using the constant effective yield method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Changes in the expected cash flows of individual commercial or pooled consumer purchased impaired loans from the date of

acquisition will either impact the accretable yield or result in an impairment charge to the provision for credit losses in the period in which the changes become probable. Prepayments are treated as a reduction of cash flows expected to be collected and a reduction of projections of contractual cash flows such that the nonaccretable difference is not affected. Thus, for decreases in the net present value of cash flows expected to be collected resulting from prepayments, the effect will be to reduce the yield prospectively. Subsequent decreases to the net present value of expected cash flows will generally result in an impairment charge to the provision for credit losses, resulting in an increase to the allowance for loan and lease losses, and a reclassification from accretable yield to nonaccretable difference. During the first six months of 2010, \$402 million of provision and \$99 million of charge-offs were recorded on impaired loans. As of June 30, 2010, decreases in the net present value of expected cash flows of purchased impaired loans resulted in an allowance for loan and lease losses of \$859 million on \$7.1 billion of the impaired loans while the remaining \$2.1 billion of impaired loans required no allowance as net present value of expected cash flows improved or remained the same. Subsequent increases in the net present value of cash flows will result in a recovery of any previously recorded allowance for loan and lease losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield. Disposals of loans, which may include sales of loans or foreclosures, result in removal of the loan from the purchased impaired loan portfolio at its carrying amount.

Activity for the accretable yield for the first six months of 2010 follows.

Accretable Yield

In millions	2010
January 1	\$ 3,502
Accretion (including cash recoveries)	(762)
Net reclassifications from accretable to non-accretable	(276)
Disposals	(143)
June 30	\$ 2,321

Table of Contents**NOTE 7 INVESTMENT SECURITIES****Investment Securities Summary**

In millions	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2010				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
US Treasury and government agencies	\$ 7,849	\$ 245	\$ (1)	\$ 8,093
Residential mortgage-backed				
Agency	19,985	644	(50)	20,579
Non-agency	8,993	229	(1,587)	7,635
Commercial mortgage-backed				
Agency	1,293	49		1,342
Non-agency	1,757	37	(76)	1,718
Asset-backed	1,785	28	(287)	1,526
State and municipal	1,333	59	(58)	1,334
Other debt	3,044	90	(3)	3,131
Total debt securities	46,039	1,381	(2,062)	45,358
Corporate stocks and other	492			492
Total securities available for sale	\$ 46,531	\$ 1,381	\$ (2,062)	\$ 45,850
SECURITIES HELD TO MATURITY				
Debt securities				
Commercial mortgage-backed (non-agency)	\$ 4,174	\$ 203	\$ (1)	\$ 4,376
Asset-backed	3,684	93	(15)	3,762
Other debt	9	1		10
Total securities held to maturity	\$ 7,867	\$ 297	\$ (16)	\$ 8,148
December 31, 2009				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
US Treasury and government agencies	\$ 7,548	\$ 20	\$ (48)	\$ 7,520
Residential mortgage-backed				
Agency	24,076	439	(77)	24,438
Non-agency	10,419	236	(2,353)	8,302
Commercial mortgage-backed				
Agency	1,299	10	(12)	1,297
Non-agency	4,028	42	(222)	3,848
Asset-backed	2,019	30	(381)	1,668
State and municipal	1,346	58	(54)	1,350
Other debt	1,984	38	(7)	2,015
Total debt securities	52,719	873	(3,154)	50,438
Corporate stocks and other	360			360
Total securities available for sale	\$ 53,079	\$ 873	\$ (3,154)	\$ 50,798
SECURITIES HELD TO MATURITY				
Debt securities				
Commercial mortgage-backed (non-agency)	\$ 2,030	\$ 195		\$ 2,225
Asset-backed	3,040	109	(13)	3,136
Other debt	159	1		160
Total securities held to maturity	\$ 5,229	\$ 305	\$ (13)	\$ 5,521

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The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders' equity as accumulated other comprehensive income or loss, net of tax, unless credit-related.

In March 2010, we transferred \$2.2 billion of available for sale commercial mortgage-backed non-agency securities to the held to maturity portfolio. The reclassification was made at fair value at the date of transfer. Net pretax unrealized gains in accumulated other comprehensive loss totaled \$92 million at the transfer date and will be accreted over the remaining life of the related securities as an adjustment of yield in a manner consistent with the amortization of premium on the same transferred securities, resulting in no impact on net income.

The following table presents gross unrealized loss and fair value of securities available for sale at June 30, 2010 and December 31, 2009. The securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more based on the point in time the fair value declined below the amortized cost basis. The table includes debt securities where a portion of OTTI has been recognized in accumulated other comprehensive loss. The gross unrealized loss on debt securities held to maturity was \$16 million at June 30, 2010 and \$13 million at December 31, 2009 with the majority of positions in a continuous loss position for less than 12 months.

Gross Unrealized Loss and Fair Value of Securities Available for Sale

In millions	Unrealized loss position less than 12 months		Unrealized loss position 12 months or more		Total	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
June 30, 2010						
Securities available for sale						
Debt securities						
US Treasury and government agencies			\$ (1)	\$ 52	\$ (1)	\$ 52
Residential mortgage-backed						
Agency	\$ (34)	\$ 2,117	(16)	261	(50)	2,378
Non-agency	(6)	43	(1,581)	6,385	(1,587)	6,428
Commercial mortgage-backed						
Non-agency	(17)	238	(59)	412	(76)	650
Asset-backed	(6)	191	(281)	798	(287)	989
State and municipal	(1)	87	(57)	268	(58)	355
Other debt			(3)	12	(3)	12
Total	\$ (64)	\$ 2,676	\$ (1,998)	\$ 8,188	\$ (2,062)	\$ 10,864
December 31, 2009						
Securities available for sale						
Debt securities						
US Treasury and government agencies	\$ (48)	\$ 4,015			\$ (48)	\$ 4,015
Residential mortgage-backed						
Agency	(76)	6,960	\$ (1)	\$ 56	(77)	7,016
Non-agency	(7)	79	(2,346)	7,223	(2,353)	7,302
Commercial mortgage-backed						
Agency	(12)	779			(12)	779
Non-agency	(3)	380	(219)	1,353	(222)	1,733
Asset-backed	(1)	142	(380)	1,153	(381)	1,295
State and municipal	(1)	49	(53)	285	(54)	334
Other debt	(3)	299	(4)	18	(7)	317
Total	\$ (151)	\$ 12,703	\$ (3,003)	\$ 10,088	\$ (3,154)	\$ 22,791

Evaluating Investments for Other-than-Temporary Impairments

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For the securities in the above table, as of June 30, 2010 we do not intend to sell and have determined it is not more likely than not we will be required to sell the security prior to recovery of the amortized cost basis.

On at least a quarterly basis, we conduct a comprehensive security-level assessment on all securities in an unrealized loss

position to determine if OTTI exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. An OTTI loss must be recognized for a debt security in an unrealized loss position if we intend to sell the security or it is more likely than not we will be required to sell the security prior to recovery of its amortized cost basis. In this situation, the amount of loss recognized in income is equal to the difference between the fair value and the amortized cost basis of the security. Even if

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we do not expect to sell the security, we must evaluate the expected cash flows to be received to determine if we believe a credit loss has occurred. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in income. The portion of the unrealized loss relating to other factors, such as liquidity conditions in the market or changes in market interest rates, is recorded in accumulated other comprehensive loss.

Equity securities are also evaluated to determine whether the unrealized loss is expected to be recoverable based on whether evidence exists to support a realizable value equal to or greater than the amortized cost basis. If it is probable that we will not recover the amortized cost basis, taking into consideration the estimated recovery period and our ability to hold the equity security until recovery, OTTI is recognized in earnings equal to the difference between the fair value and the amortized cost basis of the security.

The security-level assessment is performed on each security, regardless of the classification of the security as available for sale or held to maturity. Our assessment considers the security structure, recent security collateral performance metrics if applicable, external credit ratings, failure of the issuer to make scheduled interest or principal payments, our judgment and expectations of future performance, and relevant independent industry research, analysis and forecasts. We also consider the severity of the impairment and the length of time 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 Balance Sheet Risk Management. The senior management team considers the results of the assessments, as well as other factors, in determining whether the impairment is other-than-temporary.

For debt securities, a critical component of the evaluation for OTTI is the identification of credit-impaired securities, where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. The paragraphs below describe our process for identifying credit impairment for our most significant categories of securities not backed by the US government or its agencies.

Non-Agency Residential Mortgage-Backed Securities and Asset-Backed Securities Collateralized by First-Lien and Second-Lien Residential Mortgage Loans

To measure credit losses for these securities, we compile relevant collateral details and performance statistics on a security-by-security basis. The securities are then processed

through a series of pre-established filters based upon ratings, collateral performance, projected losses, market prices and judgment to identify bonds that have the potential to be credit impaired.

Securities not passing all of the filters are subjected to further analysis. Cash flows are projected for the underlying collateral and are applied to the securities according to the deal structure using a third-party default model. Collateral cash flows are estimated using assumptions for prepayment rates, future defaults, and loss severity rates. The assumptions are security specific and are based on collateral characteristics, historical performance, and future expected performance. Based on the results of the cash flow analysis, we determine whether we will recover the amortized cost basis of our security.

Credit Impairment Assessment Assumptions Non-Agency Residential Mortgage-Backed and Asset-Backed Securities (a)

June 30, 2010	Range	Weighted-average (b)
Long-term prepayment rate		
(annual CPR)		
Prime	7-15%	12%
Alt-A	7-15	9
Remaining collateral expected to default		
Prime	0-100%	19%
Alt-A	3-82	44
Loss severity		
Prime	15-68%	42%
Alt-A	25-74	57

(a) Collateralized by first and second-lien residential mortgage loans.

(b) Calculated by weighting the relevant assumption for each individual security by the current outstanding cost basis of the security.

Non-Agency Commercial Mortgage-Backed Securities

Credit losses on these securities are measured using property-level cash flow projections and forward-looking property valuations. Cash flows are projected using a detailed analysis of net operating income (NOI) by property type which, in turn, is based on the analysis of NOI performance over the past several business cycles combined with PNC's economic outlook for the current cycle. Loss severities are based on property price projections, which are calculated using capitalization rate projections. The capitalization rate projections are based on a combination of historical capitalization rates and expected capitalization rates implied by current market activity, our outlook and relevant independent industry research, analysis and forecast. Securities exhibiting weaker performance within the model are subject to further analysis. This analysis is performed at the loan level, and includes assessing local market conditions, reserves, occupancy, rent rolls and master/special servicer details.

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During the second quarter and first six months of 2010 and 2009, the OTTI credit losses recognized in noninterest income related to estimated credit losses on securities that we do not expect to sell were as follows:

Summary of OTTI Credit Losses Recognized in Earnings

In millions	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Available for sale securities:				
Non-agency residential mortgage-backed	\$ (81)	\$ (131)	\$ (154)	\$ (248)
Commercial mortgage-backed	(3)	(1)	(3)	(6)
Asset-backed	(10)	(23)	(53)	(42)
Other debt				(4)
Marketable equity securities				(4)
Total	\$ (94)	\$ (155)	\$ (210)	\$ (304)

Summary of OTTI Noncredit Losses Included in Accumulated Other Comprehensive Loss

In millions	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Total	\$ (24)	\$ (298)	\$ (148)	\$ (835)

The following table presents a rollforward of the cumulative OTTI credit losses recognized in earnings for all debt securities for which a portion of an OTTI loss was recognized in accumulated other comprehensive loss:

Rollforward of Cumulative OTTI Credit Losses Recognized in Earnings

In millions	Non-agency residential mortgage-backed	Commercial mortgage-backed	Asset-backed	Other debt	Total
	For the three months ended June 30, 2010				
March 31, 2010	\$ (540)	\$ (6)	\$ (188)	\$ (12)	\$ (746)
Loss where impairment was not previously recognized	(14)	(3)	(6)		(23)
Additional loss where credit impairment was previously recognized	(67)		(4)		(71)
June 30, 2010	\$ (621)	\$ (9)	\$ (198)	\$ (12)	\$ (840)

In millions	Non-agency residential mortgage-backed	Commercial mortgage-backed	Asset-backed	Other debt	Total
	For the three months ended June 30, 2009				
March 31, 2009	\$ (153)	\$ (5)	\$ (52)	\$ (4)	\$ (214)
Loss where impairment was not previously recognized	(37)	(1)	(16)		(54)
Additional loss where credit impairment was previously recognized	(94)		(7)		(101)
June 30, 2009	\$ (284)	\$ (6)	\$ (75)	\$ (4)	\$ (369)

In millions	Non-agency residential mortgage-backed	Commercial mortgage-backed	Asset-backed	Other debt	Total
	For the six months ended June 30, 2010				

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December 31, 2009	\$ (479)	\$ (6)	\$ (145)	\$ (12)	\$ (642)
Loss where impairment was not previously recognized	(26)	(3)	(11)		(40)
Additional loss where credit impairment was previously recognized	(128)		(42)		(170)
Reduction due to credit impaired securities sold	12				12
June 30, 2010	\$ (621)	\$ (9)	\$ (198)	\$ (12)	\$ (840)

In millions	Non-agency residential mortgage-backed	Commercial mortgage-backed	Asset-backed	Other debt	Total
<u>For the six months ended June 30, 2009 (a)</u>					
December 31, 2008	\$ (35)		\$ (34)		\$ (69)
Loss where impairment was not previously recognized	(155)	\$ (6)	(34)	\$ (4)	(199)
Additional loss where credit impairment was previously recognized	(94)		(7)		(101)
June 30, 2009	\$ (284)	\$ (6)	\$ (75)	\$ (4)	\$ (369)

(a) Excludes OTTI credit losses related to equity securities totaling \$4 million.

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Information relating to gross realized securities gains and losses from the sales of securities is set forth in the following table.

Gains (Losses) on Sales of Securities Available for Sale

Six months ended June 30	Proceeds	Gross Gains	Gross Losses	Net Gains	Tax Expense
In millions					
2010	\$ 14,164	\$ 297	\$ 60	\$ 237	\$ 83
2009	7,993	241	3	238	83

The following table presents, by remaining contractual maturity, the amortized cost, fair value and weighted-average yield of debt securities at June 30, 2010.

Contractual Maturity of Debt Securities

June 30, 2010	1 Year or Less	After 1 Year through 5 Years	After 5 Years through 10 Years	After 10 Years	Total
Dollars in millions					
SECURITIES AVAILABLE FOR SALE					
US Treasury and government agencies	\$ 31	\$ 3,535	\$ 3,831	\$ 452	\$ 7,849
Residential mortgage-backed					
Agency		26	1,019	18,940	19,985
Non-agency			44	8,949	8,993
Commercial mortgage-backed					
Agency		221	1,048	24	1,293
Non-agency		59		1,698	1,757
Asset-backed		146	296	1,343	1,785
State and municipal	41	175	170	947	1,333
Other debt	6	2,565	274	199	3,044
Total debt securities available for sale	\$ 78	\$ 6,727	\$ 6,682	\$ 32,552	\$ 46,039
Fair value	\$ 80	\$ 6,877	\$ 6,943	\$ 31,458	\$ 45,358
Weighted-average yield, GAAP basis	3.35%	2.81%	3.52%	4.52%	4.12%
SECURITIES HELD TO MATURITY					
Commercial mortgage-backed (non-agency)		\$ 218	\$ 71	\$ 3,885	\$ 4,174
Asset-backed	\$ 100	2,756	459	369	3,684
Other debt		1	6	2	9
Total debt securities held to maturity	\$ 100	\$ 2,975	\$ 536	\$ 4,256	\$ 7,867
Fair value	\$ 100	\$ 3,075	\$ 550	\$ 4,423	\$ 8,148
Weighted-average yield, GAAP basis	2.20%	2.94%	1.73%	4.93%	3.92%

Based on current interest rates and expected prepayment speeds, the weighted-average expected maturity of mortgage and other asset-backed debt securities were as follows as of June 30, 2010:

Weighted-Average Expected Maturity of Mortgage and Other Asset-Backed Debt Securities

Agency mortgage-backed securities	June 30, 2010 4.0 years
Non-agency mortgage-backed securities	5.7 years
Agency Commercial mortgage-backed securities	6.1 years

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Non-agency Commercial mortgage-backed securities	3.5 years
Asset-backed securities	2.8 years

Weighted-average yields are based on historical cost with effective yields weighted for the contractual maturity of each security.

The following table presents the fair value of securities that have been either pledged to or accepted from others to collateralize outstanding borrowings.

Fair Value of Securities Pledged and Accepted as Collateral

In millions	June 30, 2010	December 31, 2009
Pledged to others	\$ 25,223	\$ 23,368
Accepted from others:		
Permitted by contract or custom to sell or repledge	2,068	2,357
Permitted amount repledged to others	914	1,283

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The securities pledged to others include positions held in our portfolio of investment securities, trading securities, and securities accepted as collateral from others that we are permitted by contract or custom to sell or repledge, and were used to secure public and trust deposits, repurchase agreements, and for other purposes. The securities accepted from others that we are permitted by contract or custom to sell or repledge are a component of Federal funds sold and resale agreements on our Consolidated Balance Sheet.

NOTE 8 FAIR VALUE**Fair Value Measurement**

Fair value is defined in GAAP as the price that would be received to sell an asset or the price paid to transfer a liability on the measurement date. The standard focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants. GAAP establishes a fair value reporting hierarchy to maximize the use of observable inputs when measuring fair value and defines the three levels of inputs as noted below.

Level 1

Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities may include debt securities, equity securities and listed derivative contracts that are traded in an active exchange market and certain US government agency securities that are actively traded in over-the-counter markets.

Level 2

Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability. Level 2 assets and liabilities may include debt securities, equity securities and listed derivative contracts with quoted prices that are traded in markets that are not active, and certain debt and equity securities and over-the-counter derivative contracts whose fair value is determined using a pricing model without significant unobservable inputs. This category generally includes agency residential and commercial mortgage-backed debt securities, asset-backed securities, corporate debt securities, residential mortgage loans held for sale, and derivative contracts.

Level 3

Unobservable inputs that are supported by minimal or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities may include financial instruments whose value is determined using pricing models with internally developed assumptions, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain available for sale and trading securities, commercial mortgage loans held for sale, private equity investments, residential mortgage servicing rights, BlackRock Series C Preferred Stock and certain

financial derivative contracts. The available for sale and trading securities within Level 3 include non-agency residential mortgage-backed securities, auction rate securities, certain private-issuer asset-backed securities and corporate debt securities. Nonrecurring items, primarily certain nonaccrual and other loans held for sale, commercial mortgage servicing rights, equity investments and other assets are also included in this category.

We characterize active markets as those where transaction volumes are sufficient to provide objective pricing information, with reasonably narrow bid/ask spreads and where dealer quotes received do not vary widely and are based on current information. Inactive markets are typically characterized by low transaction volumes, price quotations which vary substantially among market participants or are not based on current information, wide bid/ask spreads, a significant increase in implied liquidity risk premiums, yields, or performance indicators for observed transactions or quoted prices compared to historical periods, a significant decline or absence of a market for new issuance, or any combination of the above factors. We also consider nonperformance risks including credit risk as part of our valuation methodology for all assets and liabilities measured at fair value.

Any models used to determine fair values or to validate dealer quotes based on the descriptions below are subject to review and independent testing as part of our model validation and internal control testing processes. Our Model Validation Committee tests significant models on at

least an annual basis. In addition, we have teams, independent of the traders, verify marks and assumptions used for valuations at each period end.

Securities Available for Sale and Trading Securities

Securities measured at fair value include both the available for sale and trading portfolios. We use prices obtained from pricing services, dealer quotes or recent trades to determine the fair value of securities. For 55% of our positions, we use prices obtained from pricing services provided by the Barclay's Capital Index and Interactive Data Corp. (IDC). For 16% of our positions, we use prices obtained from the pricing services as the primary input into the valuation process. Barclay's Capital Index prices are set with reference to market activity for highly liquid assets such as agency mortgage-backed securities, and matrix pricing for other assets, such as CMBS and asset-backed securities. IDC primarily uses pricing models considering adjustments for ratings, spreads, matrix pricing and prepayments for the instruments we value using this service, such as non-agency residential mortgage-backed

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securities, agency adjustable rate mortgage securities, agency CMOs and municipal bonds. Dealer quotes received are typically non-binding and corroborated with other dealer or market quotes, by reviewing valuations of comparable instruments, or by comparison to internal valuations. In circumstances where relevant market prices are limited or unavailable, valuations may require significant management judgments or adjustments to determine fair value. In these cases, the securities are classified as Level 3.

The valuation techniques used for securities classified as Level 3 include using a discounted cash flow approach or, in certain instances, identifying a proxy security, market transaction or index. For certain security types, primarily non-agency residential securities, the fair value methodology incorporates values obtained from a discounted cash flow model. The modeling process incorporates assumptions management believes willing market participants would use to value the security under current market conditions. The assumptions used include prepayment projections, credit loss assumptions, and discount rates, which include a risk premium due to liquidity and uncertainty that are based on both observable and unobservable inputs. We use the discounted cash flow analysis, in conjunction with other relevant pricing information obtained from either pricing services or broker quotes to establish the fair value that management believes is representative under current market conditions. For purposes of determining fair value at June 30, 2010, the relevant pricing service information was the predominant input.

In the proxy approach, the proxy selected generally has similar credit, tenor, duration, pricing and structuring attributes to the PNC position. The price, market spread, or yield on the proxy is then used to calculate an indicative market price for the security. Depending on the nature of the PNC position and its attributes relative to the proxy, management may make additional adjustments to account for market conditions, liquidity, and nonperformance risk, based on various inputs including recent trades of similar securities, single dealer quotes, and/or other observable and unobservable inputs.

Financial Derivatives

Exchange-traded derivatives are valued using quoted market prices and are classified as Level 1. However, the majority of derivatives that we enter into are executed over-the-counter and are valued using internal techniques. Readily observable market inputs to these models can be validated to external sources, including industry pricing services, or corroborated through recent trades, dealer quotes, yield curves, implied volatility or other market-related data. Certain derivatives, such as total rate of return swaps, are corroborated to the CMBX index. These derivatives are classified as Level 2. Derivatives priced using significant management judgment or assumptions are classified as Level 3.

The fair values of our derivatives are adjusted for nonperformance risk including credit risk as appropriate. Our

nonperformance risk adjustment is computed using new loan pricing and considers externally available bond spreads, in conjunction with internal historical recovery observations. The credit risk adjustment is not currently material to the overall derivatives valuation.

Residential Mortgage Loans Held for Sale

We have elected to account for certain residential mortgage loans originated for sale on a recurring basis at fair value. At December 31, 2009, all residential mortgage loans held for sale were at fair value. Residential mortgage loans are valued based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. These loans are regularly traded in active markets and observable pricing information is available from market participants. The prices are adjusted as necessary to include the embedded servicing value in the loans and to take into consideration the specific characteristics of certain loans that are priced based on the pricing of similar loans. These adjustments represent unobservable inputs to the valuation but are not considered significant to the fair value of the loans. Accordingly, residential mortgage loans held for sale are classified as Level 2.

Residential Mortgage Servicing Rights

Residential mortgage servicing rights (MSRs) are carried at fair value on a recurring basis. Currently, these residential MSRs do not trade in an active open market with readily observable prices. Although sales of servicing assets do occur, the precise terms and conditions typically would not be available. Accordingly, management determines the fair value of its residential MSRs using a discounted cash flow model incorporating assumptions about loan prepayment rates, discount rates, servicing costs, and other economic factors. As part of the pricing process, management compares its fair value estimates to third-party valuations on a quarterly basis to assess the reasonableness of the fair values calculated by its internal valuation models. Due to the nature of the valuation inputs, residential MSRs are classified as Level 3.

Commercial Mortgage Loans Held for Sale

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We account for certain commercial mortgage loans classified as held for sale at fair value. The election of the fair value option aligns the accounting for the commercial mortgages with the related hedges. At origination, these loans were intended for securitization.

Due to inactivity in the CMBS securitization market in 2010 and 2009, we determine the fair value of commercial mortgage loans held for sale by using a whole loan methodology. Fair value is determined using assumptions that management believes a market participant would use in pricing the loans. When available, valuation assumptions included observable inputs based on whole loan sales. Adjustments are made to these assumptions to account for situations when uncertainties exist, including market

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conditions and liquidity. Credit risk is included as part of our valuation process for these loans by considering expected rates of return for market participants for similar loans in the marketplace. Based on the significance of unobservable inputs, we classified this portfolio as Level 3.

Equity Investments

The valuation of direct and indirect private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such investments. The carrying values of direct and affiliated partnership interests reflect the expected exit price and are based on various techniques including publicly traded price, multiples of adjusted earnings of the entity, independent appraisals, anticipated financing and sale transactions with third parties, or the pricing used to value the entity in a recent financing transaction. We value indirect investments in private equity funds based on net asset value as provided in the financial statements that we receive from their managers. Due to the time lag in our receipt of the financial information and based on a review of investments and valuation techniques applied, adjustments to the manager-provided value are made when available recent portfolio company information or market information indicates a significant change in value from that provided by the manager of the fund. These investments are classified as Level 3.

Customer Resale Agreements

We have elected to account for structured resale agreements, which are economically hedged using free-standing financial derivatives, at fair value. The fair value for structured resale agreements is determined using a model which includes observable market data such as interest rates as inputs. Readily observable market inputs to this model can be validated to external sources, including yield curves, implied volatility or other market-related data. These instruments are classified as Level 2.

BlackRock Series C Preferred Stock

We have elected to account for the 2.9 million shares of the BlackRock Series C Preferred Stock received in a stock exchange with BlackRock at fair value. The Series C Preferred Stock economically hedges the BlackRock LTIP liability that is accounted for as a derivative. The fair value of the Series C Preferred Stock is determined using a third-party modeling approach, which includes both observable and unobservable inputs. This approach considers expectations of a default/liquidation event and the use of liquidity discounts based on our inability to sell the security at a fair, open market price in a timely manner. Although dividends are equal to common shares and other preferred series, significant transfer restrictions exist on our Series C shares for any purpose other than to satisfy the LTIP obligation. Due to the significance of unobservable inputs, this security is classified as Level 3.

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Assets and liabilities measured at fair value on a recurring basis, including instruments for which PNC has elected the fair value option, follow.

Fair Value Measurements Summary

In millions	June 30, 2010			Total Fair Value	December 31, 2009			Total Fair Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Assets								
Securities available for sale								
US Treasury and government agencies	\$ 7,540	\$ 553		\$ 8,093	\$ 7,026	\$ 494		\$ 7,520
Residential mortgage-backed								
Agency		20,579		20,579		24,433	\$ 5	24,438
Non-Agency			\$ 7,635	7,635			8,302	8,302
Commercial mortgage-backed								
Agency		1,342		1,342		1,297		1,297
Non-Agency		1,718		1,718		3,842	6	3,848
Asset-backed		376	1,150	1,526		414	1,254	1,668
State and municipal		1,097	237	1,334		1,084	266	1,350
Other debt		3,049	82	3,131		1,962	53	2,015
Total debt securities	7,540	28,714	9,104	45,358	7,026	33,526	9,886	50,438
Corporate stocks and other	276	169	47	492	230	83	47	360
Total securities available for sale	7,816	28,883	9,151	45,850	7,256	33,609	9,933	50,798
Financial derivatives (a) (b)								
Interest rate contracts	62	6,064	80	6,206	25	3,630	47	3,702
Other contracts		204	5	209	2	209	3	214
Total financial derivatives	62	6,268	85	6,415	27	3,839	50	3,916
Residential mortgage loans held for sale (c)		1,220		1,220		1,012		1,012
Trading securities (d)								
Debt (e)	447	320	73	840	1,690	299	89	2,078
Equity	42			42	46			46
Total trading securities	489	320	73	882	1,736	299	89	2,124
Residential mortgage servicing rights (f)			963	963			1,332	1,332
Commercial mortgage loans held for sale (c)			1,036	1,036			1,050	1,050
Equity investments								
Direct investments			650	650			595	595
Indirect investments (g)			618	618			593	593
Total equity investments			1,268	1,268			1,188	1,188
Customer resale agreements (h)		915		915		990		990
Loans (i)		110		110		107		107
Other assets								
BlackRock Series C Preferred Stock (j)			298	298			486	486
Other		422	7	429		207	23	230
Total other assets		422	305	727		207	509	716
Total assets	\$ 8,367	\$ 38,138	\$ 12,881	\$ 59,386	\$ 9,019	\$ 40,063	\$ 14,151	\$ 63,233
Liabilities								
Financial derivatives (b) (k)								
Interest rate contracts	\$ 16	\$ 4,515	\$ 51	\$ 4,582	\$ 2	\$ 3,185	\$ 18	\$ 3,205
BlackRock LTIP			298	298			486	486
Other contracts		151	6	157		146	2	148
Total financial derivatives	16	4,666	355	5,037	2	3,331	506	3,839
Trading securities sold short (l)								
Debt (e)	939			939	1,288	42		1,330
Equity					14			14
Total trading securities sold short	939			939	1,302	42		1,344
Other liabilities		2		2		6		6

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Total liabilities	\$ 955	\$ 4,668	\$ 355	\$ 5,978	\$ 1,304	\$ 3,379	\$ 506	\$ 5,189
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(a) Included in Other assets on our Consolidated Balance Sheet.

(b) Amounts at June 30, 2010 and December 31, 2009 are presented gross and are not reduced by the impact of legally enforceable master netting agreements that allow PNC to net positive and negative positions and cash collateral held or placed with the same counterparty. At June 30, 2010 and December 31, 2009, respectively, the net asset amounts were \$3.163 billion and \$2.047 billion and the net liability amounts were \$2.078 billion and \$1.733 billion.

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- (c) Included in Loans held for sale on our Consolidated Balance Sheet. PNC has elected the fair value option for certain commercial and residential mortgage loans held for sale.
- (d) Fair value includes net unrealized gains of \$4 million at June 30, 2010 and \$9 million at December 31, 2009.
- (e) Comprised primarily of US Treasury and government agencies securities.
- (f) Included in Other intangible assets on our Consolidated Balance Sheet.
- (g) The indirect equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee.
- (h) Included in Federal funds sold and resale agreements on our Consolidated Balance Sheet. PNC has elected the fair value option for these items.
- (i) Included in Loans on our Consolidated Balance Sheet. PNC has elected the fair value option for residential mortgage loans originated for sale. Certain of these loans have been subsequently reclassified into portfolio loans.
- (j) PNC has elected the fair value option for these shares.
- (k) Included in Other liabilities on our Consolidated Balance Sheet.
- (l) Included in Other borrowed funds on our Consolidated Balance Sheet.

Reconciliations of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the three months and six months ended June 30, 2010 and 2009 follow.

Three Months Ended June 30, 2010

Level 3 Instruments Only	March 31, 2010		Included in comprehensive income		Purchases, issuances, and settlements, net	Transfers into Level 3 (b)	Transfers out of Level 3 (b)	June 30, 2010	
	In millions	earnings (*)	earnings (*)	income				assets and liabilities held at June 30, 2010	unrealized gains or losses
Assets									
Securities available for sale									
Residential mortgage-backed non-agency	\$ 7,710	\$ (81)	\$ 57	\$ (49)		\$ (2)	\$ 7,635	\$ (81)	
Commercial mortgage-backed non-agency	3					(3)			
Asset-backed	1,187	(10)	19	(46)			1,150	(10)	
State and municipal	272	5	(11)	(29)			237		
Other debt	83		1	(2)			82		
Corporate stocks and other	47						47		
Total securities available for sale	9,302	(86)	66	(126)		(5)	9,151	(91)	
Financial derivatives	86	6		(7)			85	58	
Trading securities Debt	77	1		(5)			73		
Residential mortgage servicing rights	1,271	(288)		(20)			963	(291)	
Commercial mortgage loans held for sale	1,041	13		(18)			1,036	14	
Equity investments									
Direct investments	602	63		(15)			650	58	
Indirect investments	606	24		(12)			618	22	
Total equity investments	1,208	87		(27)			1,268	80	
Other assets									
BlackRock Series C Preferred Stock	452	(154)					298		
Other	9		(1)	(1)			7		
Total other assets	461	(154)	(1)	(1)			305		
Total assets	\$ 13,446	\$ (421)	\$ 65	\$ (204)		\$ (5)	\$ 12,881	\$ (230)	
Total liabilities (c)	\$ 494	\$ (159)			\$ 19	\$ 1	\$ 355	\$ 50	

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Level 3 Instruments Only	March 31, 2009	Total realized / unrealized gains or losses (a)		Purchases, issuances, and settlements, net	Transfers into Level 3, net (b)	June 30, 2009	(*) Attributable to unrealized gains or losses related to assets and liabilities held at June 30, 2009
		Included in earnings (*)	Included in other comprehensive income				
In millions							
Assets							
Securities available for sale							
Residential mortgage-backed agency	\$ 6		\$ (1)			\$ 5	
Residential mortgage-backed non-agency	9,281	\$ (131)	103	\$ (239)		9,014	\$ (131)
Commercial mortgage-backed non-agency	3,428	(1)	274	(43)		3,658	(1)
Asset-backed	1,319	(23)	(79)	(5)		1,212	(23)
State and municipal	291		1	(16)		276	
Other debt	51			2		53	
Corporate stocks and other	53		(3)			50	
Total securities available for sale	14,429	(155)	295	(301)		14,268	(155)
Financial derivatives	175	(52)		1	\$ 1	125	(50)
Trading securities							
Debt	87	3		12	(5)	97	3
Equity	25	3		3	(2)	29	1
Total trading securities	112	6		15	(7)	126	4
Residential mortgage servicing rights	1,052	417		(10)		1,459	408
Commercial mortgage loans held for sale	1,245	(20)		(46)		1,179	(19)
Equity investments	1,135	(14)		40	(1)	1,160	(6)
Other assets							
BlackRock Series C Preferred Stock	272	95				367	95
Other	38	2	(1)	(1)		38	2
Total other assets	310	97	(1)	(1)		405	97
Total assets	\$ 18,458	\$ 279	\$ 294	\$ (302)	\$ (7)	\$ 18,722	\$ 279
Total liabilities (c)	\$ 312	\$ 94	\$ 7	\$ 1		\$ 414	\$ 94

(a) Losses for assets are bracketed while losses for liabilities are not.

(b) PNC's policy is to recognize transfers in and transfers out as of the end of the reporting period.

(c) Financial derivatives.

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Six Months Ended June 30, 2010

Level 3 Instruments Only	December 31, 2009	Total realized / unrealized gains or losses (a)		Purchases, issuances, and settlements, net	Transfers into Level 3 (b)	Transfers out of Level 3 (b)	June 30, 2010	(*) Attributable to unrealized gains or losses related to assets and liabilities held at June 30, 2010
		Included in earnings (*)	Included in other comprehensive income					
In millions								
Assets								
Securities available for sale								
Residential mortgage-backed agency	\$ 5			\$ (5)				
Residential mortgage-backed non-agency	8,302	\$(182)	\$ (20)	(463)		\$ (2)	\$ 7,635	\$(154)
Commercial mortgage-backed non-agency	6				\$ 2	(8)		
Asset-backed	1,254	(53)	32	(83)			1,150	(53)
State and municipal	266	5	(17)	(18)	1		237	
Other debt	53		4	(4)	29		82	
Corporate stocks and other	47		(1)	1			47	
Total securities available for sale	9,933	(230)	(2)	(572)	32	(10)	9,151	(207)
Financial derivatives	50	42		(7)			85	76
Trading securities Debt	89	(3)		(13)			73	(4)
Residential mortgage servicing rights	1,332	(323)		(46)			963	(324)
Commercial mortgage loans held for sale	1,050	22		(36)			1,036	20
Equity investments								
Direct investments	595	88		(33)			650	73
Indirect investments	593	41		(16)			618	33
Total equity investments	1,188	129		(49)			1,268	106
Other assets								
BlackRock Series C Preferred Stock	486	(184)		(4)			298	
Other	23		(4)	(12)			7	
Total other assets	509	(184)	(4)	(16)			305	
Total assets	\$ 14,151	\$(547)	\$ (6)	\$ (739)	\$ 32	\$ (10)	\$ 12,881	\$(333)
Total liabilities (c)	\$ 506	\$(173)		\$ 21	\$ 1		\$ 355	\$ 48

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Six Months Ended June 30, 2009

Level 3 Instruments Only	Dec. 31, 2008	National City Acquisition	Balance, January 1, 2009	Included in earnings (*)	Total realized / unrealized gains or losses (a)			Transfers into Level 3, net (b)	June 30, 2009	(*) Attributable to unrealized gains or losses related to assets and liabilities held at June 30, 2009
					Included in other comprehensive income	Purchases, issuances, and net				
In millions										
Assets										
Securities available for sale										
Residential mortgage-backed agency		\$ 7	\$ 7		\$ (2)			\$ 5		
Residential mortgage-backed non-agency	\$ 3,304	899	4,203	\$ (248)	583	\$ (214)	\$ 4,690	9,014	\$ (248)	
Commercial mortgage-backed non-agency	337		337	(6)	325	(44)	3,046	3,658	(6)	
Asset-backed	833	59	892	(42)	(92)	(12)	466	1,212	(42)	
State and municipal	271	50	321		3	(22)	(26)	276		
Other debt	34	48	82	(3)	(3)	(23)		53	(3)	
Corporate stocks and other	58		58		(6)	(2)		50		
Total securities available for sale	4,837	1,063	5,900	(299)	808	(317)	8,176	14,268	(299)	
Financial derivatives										
Trading securities	125	35	160	110		(149)	4	125	9	
Debt	56	26	82	(2)		22	(5)	97	2	
Equity	17	6	23	1		3	2	29	(2)	
Total trading securities	73	32	105	(1)		25	(3)	126		
Residential mortgage servicing rights	6	1,019	1,025	419		15		1,459	403	
Commercial mortgage loans held for sale	1,400	1	1,401	(78)		(144)		1,179	(72)	
Equity investments	571	610	1,181	(79)		59	(1)	1,160	(74)	
Other assets										
BlackRock Series C Preferred Stock				156		211		367	156	
Other		40	40	11	(12)	(1)		38	11	
Total other assets		40	40	167	(12)	210		405	167	
Total assets	\$ 7,012	\$ 2,800	\$ 9,812	\$ 239	\$ 796	\$ (301)	\$ 8,176	\$ 18,722	\$ 134	
Total liabilities (c)	\$ 22	\$ 16	\$ 38	\$ 155	\$ 1	\$ 220		\$ 414	\$ 158	

(a) Losses for assets are bracketed while losses for liabilities are not.

(b) PNC's policy is to recognize transfers in and transfers out as of the end of the reporting period.

(c) Financial derivatives.

Net losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities were \$374 million for the first six months of 2010 compared with net gains of \$84 million for the first six months of 2009. The net losses (realized and unrealized) for the second quarter of 2010 were \$262 million compared with net gains of \$185 million for the second quarter of 2009. These amounts included net unrealized losses of \$381 million and \$280 million, respectively, for the 2010 periods. The comparable amounts for the 2009 periods were net unrealized losses of \$24 million and net unrealized gains of \$185 million, respectively. These amounts were included in noninterest income on the Consolidated Income Statement.

During the first six months of 2010, no material transfers of assets or liabilities between the hierarchy levels occurred.

During the first six months of 2009, securities transferred into Level 3 from Level 2 exceeded securities transferred out by \$8.2 billion. These primarily related to non-agency residential

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and commercial mortgage-backed securities where management determined that the volume and level of market activity for these assets had significantly decreased. Other Level 3 assets include commercial mortgage loans held for sale, certain equity securities, auction rate securities, corporate debt securities, certain private-issuer asset-backed securities, private equity investments, certain derivative instruments, residential mortgage servicing rights and other assets.

Interest income earned from trading securities totaled \$25 million in both the first six months of 2010 and 2009. For the second quarter of 2010 and 2009, interest income related to trading securities totaled \$11 million and \$15 million, respectively. These amounts are included in other interest income on the Consolidated Income Statement.

Nonrecurring Fair Value Changes

We may be required to measure certain other financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of

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lower-of-cost-or-fair value accounting or write-downs of individual assets due to impairment. The amounts below for nonaccrual loans represent the carrying value of loans for which adjustments are primarily based on the appraised value of collateral or the net book value of the asset from its most recent financial statements if no appraisal is available. If the net book value is utilized, LGD collateral recovery rates are employed, by collateral type, in calculating disposition costs to arrive at an adjusted fair value. If an appraisal is outdated due to changed project or market conditions, values based on the LGD recovery rates are used pending receipt of an updated appraisal. The amounts below for loans held for sale represent the carrying value of loans for which adjustments are primarily based on the appraised value of collateral or based on an observable market price, which often results in significant management assumptions

and input with respect to the determination of fair value. The fair value determination of the equity investment resulting in an impairment loss included below was based on observable market data for other comparable entities as adjusted for internal assumptions and unobservable inputs. The amounts below for commercial mortgage servicing rights reflect an impairment of one stratum at June 30, 2010 while no strata were impaired at December 31, 2009 and June 30, 2009. The fair value of commercial mortgage servicing rights is estimated by using an internal valuation model. The model calculates the present value of estimated future net servicing cash flows considering estimates of servicing revenue and costs, discount rates and prepayment speeds. Annually, this model is subject to an internal review process to validate controls and model results.

Fair Value Measurements Nonrecurring (a)

In millions	Fair Value		Gains (Losses)		Gains (Losses)	
	June 30	December 31	Three months ended	Three months ended	Six months ended	Six months ended
	2010	2009	June 30	June 30	June 30	June 30
Assets						
Nonaccrual loans	\$ 922	\$ 939	\$ 26	\$ (181)		\$ (249)
Loans held for sale	178	168	(78)	3	\$ (78)	(2)
Equity investments (b)	7	154		(12)		(55)
Commercial mortgage servicing rights (c)	195		(14)		(18)	
Other intangible assets	1	1				
Foreclosed and other assets	201	108	(35)	(24)	(58)	(40)
Long-lived assets held for sale	19	30	(4)	(1)	(13)	(1)
Total assets	\$ 1,523	\$ 1,400	\$ (105)	\$ (215)	\$ (167)	\$ (347)

(a) All Level 3 except \$2 million and \$5 million in loans held for sale which were Level 2 at June 30, 2010 and December 31, 2009, respectively.

(b) Includes LIHTC and other equity investments.

(c) One stratum at fair value at June 30, 2010 and no strata at fair value at December 31, 2009. During the first half of 2009, we recorded a \$35 million recovery of previous impairment on commercial mortgage servicing rights. Refer to Note 9 Goodwill and Other Intangible Assets for additional information.

Fair Value Option

Refer to the Fair Value Measurement section of this Note 8 regarding the fair value of commercial mortgage loans held for sale, residential mortgage loans held for sale, customer resale agreements, and BlackRock Series C Preferred Stock.

Commercial Mortgage Loans Held for Sale

Interest income on these loans is recorded as earned and reported on the Consolidated Income Statement in other interest income. The impact on earnings of offsetting economic hedges is not reflected in these amounts. Changes in fair value due to instrument-specific credit risk for both the second quarter and first six months of 2010 and the second quarter and first six months of 2009 were not material. The changes in fair value of these loans were partially offset by changes in the fair value of the related financial derivatives that economically hedged these loans.

Residential Mortgage Loans Held for Sale

Throughout 2010 and 2009, certain residential mortgage loans for which we elected the fair value option were subsequently reclassified to portfolio loans. Changes in fair value due to instrument-specific credit risk for the second quarter and first six months of 2010 and the second quarter and first six months of 2009 were not material.

Customer Resale Agreements

Interest income on structured resale agreements is reported on the Consolidated Income Statement in other interest income. Changes in fair value due to instrument-specific credit risk for both the second quarter and first six months of 2010 and the second quarter and first six months of 2009 were not material.

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The changes in fair value included in noninterest income for items for which we elected the fair value option follow.

Fair Value Option Changes in Fair Value (a)

In millions	Gains (Losses)		Gains (Losses)	
	Three months ended		Six months ended	
	June 30 2010	June 30 2009	June 30 2010	June 30 2009
Assets				
Customer resale agreements	\$ 7	\$ (18)	\$ 8	\$ (25)
Commercial mortgage loans held for sale	13	(20)	22	(78)
Residential mortgage loans held for sale	94	129	140	248
Residential mortgage loans portfolio	1	(1)	3	(4)
BlackRock Series C Preferred Stock	(154)	95	(184)	156

(a) The impact on earnings of offsetting hedged items or hedging instruments is not reflected in these amounts.

Fair values and aggregate unpaid principal balances of items for which we elected the fair value option follow.

Fair Value Option Fair Value and Principal Balances

In millions	Fair Value	Aggregate Unpaid Principal Balance	Difference
June 30, 2010			
Customer resale agreements	\$ 915	\$ 845	\$ 70
Residential mortgage loans held for sale			
Performing loans	1,199	1,176	23
Loans 90 days or more past due	20	28	(8)
Nonaccrual loans	1	5	(4)
Total	1,220	1,209	11
Commercial mortgage loans held for sale (a)			
Performing loans	1,010	1,192	(182)
Nonaccrual loans	26	40	(14)
Total	1,036	1,232	(196)
Residential mortgage loans portfolio			
Performing loans	35	37	(2)
Loans 90 days or more past due	56	57	(1)
Nonaccrual loans	18	31	(13)
Total	\$ 109	\$ 125	\$ (16)
December 31, 2009			
Customer resale agreements	\$ 990	\$ 925	\$ 65
Residential mortgage loans held for sale			
Performing loans	971	977	(6)
Loans 90 days or more past due	40	50	(10)
Nonaccrual loans	1	9	(8)
Total	1,012	1,036	(24)
Commercial mortgage loans held for sale (a)			
Performing loans	1,023	1,235	(212)
Nonaccrual loans	27	41	(14)
Total	1,050	1,276	(226)
Residential mortgage loans portfolio			
Performing loans	25	27	(2)
Loans 90 days or more past due	51	54	(3)

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Nonaccrual loans		12		23	(11)
Total	\$	88	\$	104	\$ (16)

(a) There were no loans 90 days or more past due within this category at June 30, 2010 or December 31, 2009.

Table of Contents**ADDITIONAL FAIR VALUE INFORMATION RELATED TO FINANCIAL INSTRUMENTS**

In millions	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and short-term assets	\$ 12,132	\$ 12,132	\$ 12,248	\$ 12,248
Trading securities	882	882	2,124	2,124
Investment securities	53,717	53,998	56,027	56,319
Loans held for sale	2,756	2,746	2,539	2,597
Net loans (excludes leases)	142,377	142,785	146,270	145,014
Other assets	4,445	4,445	4,883	4,883
Mortgage and other loan servicing rights	1,685	1,703	2,253	2,352
Financial derivatives				
Designated as hedging instruments under GAAP	1,540	1,540	739	739
Not designated as hedging instruments under GAAP	4,875	4,875	3,177	3,177
Liabilities				
Demand, savings and money market deposits	132,786	132,786	132,645	132,645
Time deposits	46,013	45,676	54,277	54,534
Borrowed funds	40,777	39,848	39,621	39,977
Financial derivatives				
Designated as hedging instruments under GAAP	29	29	95	95
Not designated as hedging instruments under GAAP	5,008	5,008	3,744	3,744
Unfunded loan commitments and letters of credit	207	207	290	290

The aggregate fair values in the table above do not represent the total market value of PNC's assets and liabilities as the table excludes the following:

- real and personal property,
- lease financing,
- loan customer relationships,
- deposit customer intangibles,
- retail branch networks,
- fee-based businesses, such as asset management and brokerage, and
- trademarks and brand names.

We used the following methods and assumptions to estimate fair value amounts for financial instruments.

GENERAL

For short-term financial instruments realizable in three months or less, the carrying amount reported on our Consolidated Balance Sheet approximates fair value. Unless otherwise stated, the rates used in discounted cash flow analyses are based on market yield curves.

CASH AND SHORT-TERM ASSETS

The carrying amounts reported on our Consolidated Balance Sheet for cash and short-term investments approximate fair values primarily due to their short-term nature. For purposes of this disclosure only, short-term assets include the following: