PNC FINANCIAL SERVICES GROUP INC
Form 10-K
March 11, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

Commission file number 001-09718

THE PNC FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

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

One PNC Plaza

249 Fifth Avenue

Pittsburgh, Pennsylvania 15222-2707

(Address of principal executive offices, including zip code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $5.00	New York Stock Exchange
$1.60 Cumulative Convertible Preferred Stock-Series C, par value $1.00	New York Stock Exchange
$1.80 Cumulative Convertible Preferred Stock-Series D, par value $1.00	New York Stock Exchange
Depositary Shares Each Representing 1/4000 Interest in a Share of 9.875% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series L, par value $1.00	New York Stock Exchange
12.000% Fixed-to-Floating Rate Normal Automatic Preferred Enhanced Capital Securities (issued by National City Capital Trust I)	New York Stock Exchange
6.625% Trust Preferred Securities (issued by National City Capital Trust II)	New York Stock Exchange
6.625% Trust Preferred Securities (issued by National City Capital Trust III)	New York Stock Exchange
8.000% Trust Preferred Securities (issued by National City Capital Trust IV)	New York Stock Exchange

6.125% Capital Securities (issued by PNC Capital Trust D)	New York Stock Exchange
7 3/4% Trust Preferred Securities (issued by PNC Capital Trust E)	New York Stock Exchange

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant s outstanding voting common stock held by nonaffiliates on June 30, 2009, determined using the per share closing price on that date on the New York Stock Exchange of $38.81, was approximately $17.8 billion. There is no non-voting common equity of the registrant outstanding.

Number of shares of registrant s common stock outstanding at February 26, 2010: 517,408,663

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of The PNC Financial Services Group, Inc. to be filed pursuant to Regulation 14A for the 2010 annual meeting of shareholders (Proxy Statement) are incorporated by reference into Part III of this Form 10-K.

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PART I

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

ITEM 1 BUSINESS

BUSINESS OVERVIEW Headquartered in Pittsburgh, Pennsylvania, we are one of the largest diversified financial services companies in the United States. We have businesses engaged in retail banking, corporate and institutional banking, asset management, residential mortgage banking and global investment servicing, providing many of our products and services nationally and others in our primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Maryland, Illinois, Indiana, Kentucky, Florida, Missouri, Virginia, Delaware, Washington, D.C., and Wisconsin. We also provide certain investment servicing internationally. At December 31, 2009, our consolidated total assets, deposits and shareholders equity were $269.9 billion, $186.9 billion and $29.9 billion, respectively.

As described further below and elsewhere in this Report, on December 31, 2008, PNC acquired National City Corporation (National City). Our consolidated financial statements for 2009 reflect the impact of National City.

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

Acquisition Of National City Corporation

On December 31, 2008, we acquired National City for approximately $6.1 billion. The total consideration included approximately $5.6 billion of PNC common stock, $150 million of preferred stock, and cash of $379 million paid to warrant holders by National City.

Following the closing, PNC received $7.6 billion from the US Department of the Treasury (US Treasury) under the Emergency Economic Stabilization Act of 2008 (EESA) in exchange for the issuance of preferred stock and a warrant. These proceeds were used to enhance National City Bank s regulatory capital position to well-capitalized in order to continue serving the credit and deposit needs of existing and new customers. On a consolidated basis, these proceeds resulted in further improvement to our capital and liquidity positions. See Repurchase of Outstanding TARP Preferred Stock below for additional information.

National City, based in Cleveland, Ohio, was one of the nation s largest financial services companies. In connection with obtaining regulatory approvals for the acquisition, PNC agreed to divest 61 of National City Bank s branches in Western Pennsylvania. This divestiture, which included $4.1 billion of deposits and $.8 billion of loans, was completed during the third quarter of 2009.

Additional information regarding our acquisition of National City can be found in Item 7 and Item 8 of this Report.

REPURCHASE OF OUTSTANDING TARP PREFERRED STOCK

See Note 19 Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report regarding our December 31, 2008, issuance of $7.6 billion of Fixed Rate Cumulative Perpetual Preferred Shares, Series N (Series N Preferred Stock), and the related warrant to the US Treasury under the US Treasury s Troubled Asset Relief Program (TARP) Capital Purchase Program.

As approved by the Federal Reserve Board, the US Treasury and our other banking regulators, on February 10, 2010, we redeemed all 75,792 shares of our Series N Preferred Stock totaling $7.6 billion held by the US Treasury. We used the net proceeds from our February 2010 common stock and senior notes offerings and other funds to redeem the Series N Preferred Stock. We did not exercise our right to seek to repurchase the related warrant at the time we redeemed the Series N Preferred Stock.

Note 28 Subsequent Events in Item 8 of this Report has additional information regarding the redemption of the Series N Preferred Stock and the February 2010 common stock and senior notes offerings.

PENDING SALE OF PNC GLOBAL INVESTMENT SERVICING

On February 2, 2010, we entered into a definitive agreement to sell 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. Upon completion of the sale, we expect to report an after-tax gain of approximately $455 million.

We currently anticipate closing the transaction in the third quarter of 2010. Completion of the transaction is subject to regulatory approvals and certain other closing conditions. If the sale of GIS has not been completed by November 1, 2010, we will be required, on or before that date, to raise $700 million in additional Tier 1 common capital. We would do this either through the sale of assets approved by the Federal Reserve Board and/or through the issuance of additional common stock. See Item 1A Risk Factors for further information.

In addition to National City and GIS, we include information on other significant acquisitions and divestitures in Note 2 Acquisitions and Divestitures in Item 8 of this Report and here by reference.

REVIEW OF LINES OF BUSINESS In the first quarter of 2009, we made changes to our business organization structure and management reporting in conjunction with the National City acquisition. In addition to the following information relating to our lines of business, we incorporate information under the captions Line of Business Highlights, Product Revenue, and

Business Segments Review in Item 7 of this Report here by reference. Also, we include financial and other information by business in Note 27 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report here by reference.

Assets, revenue and earnings attributable to foreign activities were not material in the periods presented. Business segment results for periods prior to 2009 have been reclassified to reflect current methodologies and current business and management structure and to present those periods on the same basis but do not include the impact of National City, which we acquired on December 31, 2008. As a result of its pending sale, GIS is no longer a reportable business segment.

Retail Banking provides deposit, lending, brokerage, trust, investment management, and cash management services to consumer and small business customers within our primary geographic markets. Our customers are serviced through our branch network, call centers and the internet. The branch network is located primarily in Pennsylvania, Ohio, New Jersey, Michigan, Maryland, Illinois, Indiana, Kentucky, Florida, Missouri, Virginia, Delaware, Washington, DC and Wisconsin.

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

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

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

Asset Management Group includes personal wealth management for high net worth and ultra high net worth clients and institutional asset management. Wealth management products and services include financial planning, customized investment management, private banking, tailored credit solutions and trust management and administration for individuals and their families. Institutional asset management provides investment management, custody, and retirement planning services. The institutional clients include corporations, foundations and unions and charitable endowments located primarily in our geographic footprint. This segment includes the asset management businesses acquired through the National City acquisition and the legacy PNC wealth management business previously included in the Retail Banking segment.

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

Residential Mortgage Banking directly originates primarily first lien residential mortgage loans on a nationwide basis with a significant presence within our retail banking footprint and also originates loans through joint venture partners. Mortgage loans represent loans collateralized by one-to-four-family residential real estate and are made to borrowers in good credit standing. These loans are typically underwritten to government agency and/or third party standards, and sold, servicing retained, to primary mortgage market conduits Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Federal Home Loan Banks and third-party investors, or are securitized and issued under the Government National Mortgage Association (Ginnie Mae) program. The mortgage servicing operation performs all functions related to servicing first mortgage loans for various investors. Certain loans originated through our joint ventures are serviced by a joint venture partner. In November 2009, we reduced our joint venture relationship related to our legacy PNC business and rebranded the former National City Mortgage as PNC Mortgage.

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

BlackRock is the largest publicly traded investment management firm in the world. BlackRock manages assets on behalf of institutional and individual investors worldwide through a variety of equity, fixed income, multi-asset class, alternative and cash management separate accounts and funds. In addition, BlackRock provides market risk management, financial markets advisory and enterprise investment system services globally to a broad base of clients.

At December 31, 2009, our share of BlackRock s earnings was approximately 23%. Our investment in BlackRock is a strategic asset of PNC and a key component of our diversified earnings stream. The ability of BlackRock to grow assets under management is the key driver of increases in its revenue, earnings and, ultimately, shareholder value. BlackRock s strategies for growth in assets under management include a focus on achieving client investment performance objectives in a manner consistent with their risk preferences and delivering excellent client service. The business dedicates significant resources to attracting and retaining talented professionals and to the ongoing enhancement of its investment technology and operating capabilities to deliver on this strategy.

Distressed Assets Portfolio includes commercial residential development loans, cross-border leases, consumer brokered home equity loans, retail mortgages, non-prime mortgages, and residential construction loans. These loans require special servicing and management oversight given current market conditions. The majority of these loans are from acquisitions, primarily National City. Total loans were $18.5 billion at December 31, 2009.

The business activities of this segment are focused on maximizing the value of the assets 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 fair value marks taken upon our acquisition of National City, the team we have in place and targeted asset resolution strategies help us to manage these assets. Additionally, our capital and liquidity positions provide us flexibility in a challenging environment to optimize returns on this portfolio for our shareholders.

SUBSIDIARIES Our corporate legal structure at December 31, 2009 consisted of one domestic subsidiary bank, including its subsidiaries, and approximately 153 active non-bank subsidiaries. Our bank subsidiary is PNC Bank, National Association (PNC Bank, N.A.), headquartered in Pittsburgh, Pennsylvania.

We merged the charter of PNC Bank Delaware into PNC Bank, N.A. in August 2009 and merged the charter of National City Bank into PNC Bank, N.A. in November 2009. Our non-bank subsidiary, GIS, has a banking license in Ireland and a branch in Luxembourg, which allow GIS to provide depositary services as part of its business. For additional information on our subsidiaries, see Exhibit 21 to this Report.

STATISTICAL DISCLOSURE BY BANK HOLDING COMPANIES The following statistical information is included on the indicated pages of this Report and is incorporated herein by reference:

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SUPERVISION AND REGULATION

OVERVIEW

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

We are subject to numerous governmental regulations, some of which are highlighted below. You should also read Note 23 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, included here by reference, for additional information regarding our regulatory matters. Applicable laws and regulations restrict permissible activities and investments and require compliance with

protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, among other things. They also restrict our ability to repurchase stock or to receive dividends from bank subsidiaries and impose capital adequacy requirements. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions.

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

We are also subject to regulation by the Securities and Exchange Commission (SEC) by virtue of our status as a public company and due to the nature of some of our businesses.

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

Due to the current economic environment and issues facing the financial services industry, we anticipate new legislative and regulatory initiatives over the next several years, including many focused specifically on banking and other financial services in which we are engaged. These initiatives will be in addition to the actions already taken by Congress and the regulators, including EESA, the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Credit CARD Act of 2009 (Credit CARD Act), and the Secure and Fair Enforcement for Mortgage Licensing Act (the SAFE Act), as well as changes to the regulations implementing the Real Estate Settlement Procedures Act, the Federal Truth in Lending Act, and the Electronic Fund Transfer Act. Developments to date, as well as those that come in the future, have had and are likely to continue to have an impact on the conduct of our business. The more detailed description of the significant regulations to which we are subject that follows is based on the current regulatory environment and is subject to potentially material change.

On May 7, 2009, the Board of Governors of the Federal Reserve System announced the results of the stress tests conducted by banking regulators under the Supervisory Capital Assessment Program with respect to the 19 largest bank holding companies. As a result of this test, the Federal Reserve concluded that PNC was well capitalized but that, in order to provide a greater cushion against the risk that economic conditions over the next two years are worse than currently anticipated, PNC needed to augment the composition of its capital by increasing the common shareholders equity component of Tier 1 capital. In May 2009 we raised $624 million in new common equity at market prices through the issuance of 15 million shares of common stock. In connection with the Supervisory Capital Assessment Program, we submitted a capital plan which was accepted by the Federal Reserve.

In light of the economic uncertainties and the actions taken by Congress, the US Department of the Treasury and other regulatory agencies to address the credit crisis, there is an increased focus by regulators on lending activities by banks and the relationship between those activities and governmental efforts to improve this situation. Also at least in part driven by the current economic and financial situation, there is an increased focus on fair lending and other issues related to the mortgage industry. Ongoing mortgage-related regulatory reforms include measures aimed at limiting mortgage foreclosures.

There has been a heightened focus recently on consumer protection issues generally, including those related to the protection of confidential customer information and fees assessed on deposits and credit card accounts.

Among other areas that have been receiving a high level of regulatory focus over the last several years has been compliance with anti-money laundering rules and regulations.

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

There are numerous rules governing the regulation of financial services institutions and their holding companies. Accord-

ingly, the following discussion is general in nature and does not purport to be complete or to describe all of the laws and regulations that apply to us.

BANK REGULATION

As a bank holding company and a financial holding company, we are subject to supervision and regular inspection by the Federal Reserve. PNC Bank, N.A. and its subsidiaries are subject to supervision and examination by applicable federal banking agencies, principally the OCC.

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

Parent Company Liquidity and Dividends. The principal source of our liquidity at the parent company level is dividends from PNC Bank, N.A. PNC Bank, N.A. is subject to various federal restrictions on its ability to pay dividends to PNC Bancorp, Inc., its direct parent. PNC Bank N.A. is also subject to federal laws limiting extensions of credit to its parent holding company and non-bank affiliates as discussed in Note 23 Regulatory Matters included in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference. Further information on bank level liquidity and parent company liquidity and on certain contractual restrictions is also available in the Liquidity Risk Management section and in 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 VIEs section of Item 7 of this Report.

Under Federal Reserve policy, a bank holding company is expected to serve as a source of financial strength to its subsidiary bank and to commit resources to support such bank. Consistent with the source of strength policy for subsidiary banks, the Federal Reserve has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the corporation s capital needs, asset quality and overall financial condition.

Additional Powers Under the GLB Act. The GLB Act permits a qualifying bank holding company to become a financial holding company and thereby to affiliate with financial companies engaging in a broader range of activities than would otherwise be permitted for a bank holding company. Permitted affiliates include securities underwriters and dealers, insurance companies and companies engaged in other activities that are determined by the Federal Reserve, in consultation with the Secretary of the Treasury, to be financial in nature or incidental thereto or are determined by the Federal Reserve unilaterally to be complementary to financial activities. We became a financial holding company as of March 13, 2000.

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

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

In addition, the GLB Act permits national banks, such as PNC Bank, N.A., to engage in expanded activities through the formation of a financial subsidiary. In order to qualify to establish or acquire a financial subsidiary, PNC Bank, N.A. must be well capitalized and well managed and may not have a less than satisfactory Community Reinvestment Act (CRA) rating. A national bank that is one of the largest 50 insured banks in the United States, such as PNC Bank, N.A., must also have issued debt (which, for this purpose, may include the uninsured portion of a national bank s long-term certificates of deposit) with certain minimum ratings. PNC Bank, N.A. has filed a financial subsidiary certification with the OCC and currently engages in insurance agency activities through financial subsidiaries. PNC Bank, N.A. may also generally engage through a financial subsidiary in any activity that is financial in nature or incidental to a financial activity. Certain activities, however, are impermissible for a financial subsidiary of a national bank, including insurance under-writing, insurance investments, real estate investment or development, and merchant banking.

Other Federal Reserve and OCC Regulation. The federal banking agencies possess broad powers to take corrective action as deemed appropriate for an insured depository institution and its holding company. The extent of these powers depends upon whether the institution in question is considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. Generally, the smaller an institution s capital base in relation to its risk-weighted assets, the greater the scope and severity of the agencies powers, ultimately permitting the agencies to appoint a receiver for the institution. Business activities may also be influenced by an institution s capital classification. For instance, only a well capitalized depository institution may accept

brokered deposits without prior regulatory approval and an adequately capitalized depository institution may accept brokered deposits only with prior regulatory approval. At December 31, 2009, PNC Bank, N.A. exceeded the required ratios for classification as well capitalized. For additional discussion of capital adequacy requirements, we refer you to Funding and Capital Sources in the Consolidated Balance Sheet Review section of Item 7 of this Report and to Note 23 Regulatory Matters included in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Laws and regulations limit the scope of our permitted activities and investments. In addition to the activities that would be permitted to be conducted by a financial subsidiary, national banks (such as PNC Bank, N.A.) and their operating subsidiaries may engage in any activities that are determined by the OCC to be part of or incidental to the business of banking.

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

The Federal Reserve s prior approval is required whenever we propose to acquire all or substantially all of the assets of any bank or thrift, to acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank or thrift, or to merge or consolidate with any other bank holding company or thrift holding company. When reviewing bank acquisition applications for approval, the Federal Reserve considers, among other things, each subsidiary bank s record in meeting the credit needs of the communities it serves in accordance with the CRA. Our ability to grow through acquisitions could be limited by these approval requirements.

At December 31, 2009, PNC Bank, N.A. was rated outstanding with respect to CRA.

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

SECURITIES AND RELATED REGULATION

The SEC, together with either the OCC or the Federal Reserve, regulates our registered broker-dealer subsidiaries. These subsidiaries are also subject to rules and regulations promulgated by the Financial Industry Regulatory Authority (FINRA), among others.

Several of our subsidiaries are registered with the SEC as investment advisers and provide services both directly to clients and to PNC affiliates and related entities, including registered investment companies. Our investment advisor subsidiaries are subject to the requirements of the Investment Advisers Act of 1940, as amended, and the SEC s regulations thereunder. The principal purpose of the regulations applicable to investment advisers is the protection of clients and the securities markets, rather than the protection of creditors and shareholders of investment advisors. The regulations applicable to investment advisers cover all aspects of the investment advisory business, including limitations on the ability of investment advisers to charge performance-based or non-refundable fees to clients; record-keeping; operational, marketing and reporting requirements; disclosure requirements; limitations on principal transactions between an adviser or its affiliates and advisory clients; as well as general anti-fraud prohibitions. These investment advisory subsidiaries also may be subject to state securities laws and regulations.

In addition, our investment advisory subsidiaries that are investment advisors to registered investment companies and other managed accounts are subject to the requirements of the Investment Company Act of 1940, as amended, and the SEC s regulations thereunder, including PNC Capital Advisors, LLC, a wholly-owned subsidiary of PNC Bank, N.A. and registered investment advisor. GIS is subject to regulation by the SEC as a service provider to registered investment companies.

Over the past several years, the SEC and other governmental agencies have been investigating the mutual fund and hedge fund industries, including PNC Capital Advisors, LLC, GIS and other industry participants. The SEC has proposed various rules, and legislation has been introduced in Congress, intended to reform the regulation of these industries. The effect of regulatory reform has, and is likely to continue to, increase the extent of regulation of the mutual fund and hedge fund industries and impose additional compliance obligations and costs on our subsidiaries involved with those industries.

Under provisions of the federal securities laws applicable to broker-dealers, investment advisers and registered investment companies and their service providers, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in fines, restitution, a limitation on permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations can also affect a public company in its timing

and ability to expeditiously issue new securities into the capital markets. In addition, certain changes in the activities of a broker-dealer require approval from FINRA, and FINRA takes into account a variety of considerations in acting upon applications for such approval, including internal controls, capital, management experience and quality, prior enforcement and disciplinary history and supervisory concerns.

Our securities businesses with operations outside the United States, including BlackRock and GIS, are also subject to regulation by appropriate authorities in the foreign jurisdictions in which they do business.

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

COMPETITION

We are subject to intense competition from various financial institutions and from non-bank entities that engage in similar activities without being subject to bank regulatory supervision and restrictions.

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

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

- Other commercial banks,
- Savings banks,
- Savings and loan associations,
- Credit unions,

- Treasury management service companies,
- Insurance companies, and
- Issuers of commercial paper and other securities, including mutual funds.

Our various non-bank businesses engaged in investment banking and private equity activities compete with the following:

- Commercial banks,
- Investment banking firms,
- Merchant banks,

Insurance companies,
Private equity firms, and
Other investment vehicles.

In providing asset management services, our businesses compete with the following:

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

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

EMPLOYEES Employees totaled 55,820 at December 31, 2009. This total includes 49,761 full-time and 6,059 part-time employees. This total also includes 4,450 GIS employees.

SEC REPORTS AND CORPORATE GOVERNANCE INFORMATION

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

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

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

We also make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge on or through our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. PNC s corporate internet address is www.pnc.com and you can find this information at www.pnc.com/secfilings. Shareholders and bondholders may also obtain copies of these filings without charge by contacting Shareholder Services at 800-982-7652 or via the online contact form at www.computershare.com/contactus for copies without

exhibits, or by contacting Shareholder Relations at 800-843-2206 or via e-mail at investor.relations@pnc.com for copies of exhibits. The interactive data file (XBRL) exhibit is only available electronically.

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

Shareholders who would like to request printed copies of the PNC Code of Business Conduct and Ethics or our Corporate Governance Guidelines or the charters of our Board s Audit, Nominating and Governance, or Personnel and Compensation Committees (all of which are posted on the PNC corporate website) may do so by sending their requests to George P. Long, III, Corporate Secretary, at corporate headquarters at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707. Copies will be provided without charge to shareholders.

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

INTERNET INFORMATION

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

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

ITEM 1A RISK FACTORS

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

There are risks that are known to exist at the outset of a transaction. For example, every loan transaction presents credit risk (the risk that the borrower may not perform in accordance with contractual terms) and interest rate risk (a potential loss in earnings or economic value due to adverse movement in market interest rates or credit spreads), with the nature and extent of these risks principally depending on the identity of the borrower and overall economic conditions. These risks are inherent in every loan transaction; if we wish to make loans, we must manage these risks through the terms and structure of the loans and through management of our deposits and other funding sources.

Risk management is an important part of our business model. The success of our business is dependent on our ability to identify, understand and manage the risks presented by our business activities so that we can balance appropriately revenue generation and profitability with these inherent risks. Our shareholders have been well served by our focus on maintaining a moderate risk profile. At December 31, 2008 with an economy then in severe recession and with our then recent acquisition of National City, our Consolidated Balance Sheet did not reflect that desired risk profile. However, by December 31, 2009 we had made significant progress in bringing our risk issues back into alignment and in transitioning our balance sheet to reflect our business model. We remain committed to returning to a moderate risk profile 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 discuss our principal risk management processes and, in appropriate places, related historical performance in the Risk Management section included in Item 7 of this Report.

The following are the key risk factors that affect us. In general, each of these risk factors presents the risk of a material impact on our results of operations or financial condition, in addition to other possible consequences described below. These risk factors and other risks are also discussed further in other parts of this Report.

Risks related to current economic conditions

The failure or slowing of the current modest economic recovery from recessionary conditions, or further turmoil or volatility in the financial markets, would likely have an adverse effect on our business, financial position and results of operations.

The economy in the United States and globally began to recover from severe recessionary conditions near mid-year 2009 and is currently in the midst of a modest economic recovery. The sustainability of the modest recovery is dependent on a number of factors that are not within our control, such as a return to private sector job growth, strengthening of housing sales and construction, continuation of the economic recovery globally, and the timing of the exit from government credit easing policies. We continue to face risks resulting from the aftermath of the severe recession generally and the modest pace of the current recovery. A slowing or failure of the economic recovery could bring a return to some or all of the adverse effects of the earlier recessionary conditions.

Since the middle of 2007 and with a heightened level of activity in 2008 and 2009, there has been disruption and turmoil in financial markets around the world. Throughout much of the United States there were dramatic declines in the housing market, with falling home prices and increasing foreclosures, and deepening recessionary conditions in the economy led to increased unemployment and underemployment and to reduced earnings, or in some cases losses, for businesses across many industries, with reduced investments in growth.

This overall environment resulted in significant stress for the financial services industry, and led to distress in credit markets, reduced liquidity for many types of securities, and concerns regarding the financial strength and adequacy of the capitalization of financial institutions. Some financial institutions around the world have failed, some have needed significant additional capital, and others have been forced to seek acquisition partners.

Reflecting concern about the stability of the financial markets generally and the strength of counterparties, as well as concern about their own capital and liquidity positions, many lenders and institutional investors reduced or ceased providing funding to borrowers. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets exacerbated the state of economic distress and hampered, and to some extent continues to hamper, efforts to bring about and sustain an economic recovery.

The United States and other governments have taken unprecedented steps to stabilize and restore confidence in the financial system, including making significant investments in financial institutions and guaranteeing or otherwise supporting troubled assets held by financial institutions.

The US federal government has continued in its efforts to provide economic stimulus and financial market stability and to enhance the liquidity and solvency of financial institutions and markets, as well as to protect consumers and investors from financial abuse. These efforts, which will continue to evolve and which have impacted and will likely continue to impact PNC and its stakeholders, include EESA, the Recovery Act, and the Credit

CARD Act, among other legislative, administrative and regulatory initiatives, and also include changes in or additions to the statutes or regulations related to these and other programs.

These economic conditions have had an adverse effect on our business and financial performance. While the economy is currently in a modest recovery, we expect these conditions to continue to have an ongoing negative impact on us. A slowing or failure of the economic recovery would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial institutions industry.

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

- We have seen and expect to face further increased regulation of our industry, including as a result of the EESA, the Recovery Act, the Credit CARD Act, and other current or future initiatives intended to provide economic stimulus, financial market stability and enhanced regulation of financial services companies and to enhance the liquidity and solvency of financial institutions and markets. Compliance with such regulation may increase our costs, reduce our revenue, and limit our ability to pursue business opportunities.
- Investors may have less confidence in the equity markets in general and in financial services industry stocks in particular, which could place downward pressure on PNC s stock price and resulting market valuation.
- Economic and market developments may further affect consumer and business confidence levels and may cause declines in credit usage and adverse changes in payment patterns, causing increases in delinquencies and default rates.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors.
- The process we use to estimate losses incurred in our credit exposure requires difficult, subjective, and complex judgments, including the review of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans, which may no longer be capable of accurate estimation, which may, in turn, impact the reliability of the process.
- We could suffer decreases in customer desire to do business with us, whether as a result of a decreased demand for loans or other financial products and services or decreased deposits or other investments in accounts with PNC.
- Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions. Governmental support provided to financial institutions could alter the competitive landscape.
- Increased regulation of compensation at financial services companies as part of government efforts to reform the industry may hinder our ability to attract and retain well-qualified individuals in key positions.
- We may be required to pay significantly higher Federal Deposit Insurance Corporation premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. Higher premiums may also result from FDIC proposals regarding risk-based premiums.
- Investors in mortgage loans that we sell are more likely to seek indemnification against losses on loans or otherwise seek to have us share in such losses or to request us to repurchase loans that the investors do not believe comply with applicable representations.
- We may be subject to additional fees and taxes as the government seeks to recover some of the costs of its recovery efforts, in particular from the financial services industry.

Some of these risks and others are discussed in more detail below.

The failure or slowing of the current modest recovery from recessionary conditions, as well as the lingering effects of the recession, would likely adversely affect our lending businesses and the value of the loans and debt securities we hold.

Given the high percentage of our assets represented directly or indirectly by loans, and the importance of lending to our overall business, the aftermath of recessionary conditions is likely to continue to have a negative impact on our business and our results of operations as the positive effects of economic recovery are likely to be slow and uneven in spreading to our customers. This could adversely impact loan utilization rates as well as delinquencies, defaults and customer ability to meet obligations under the loans.

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

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

Although many of our businesses are national and some are international in scope, our retail banking business is concentrated within our retail branch network footprint, located primarily in Pennsylvania, Ohio, New Jersey, Michigan, Maryland, Illinois, Indiana, Kentucky, Florida, Missouri, Virginia, Delaware, Washington, D.C., and Wisconsin. Thus, we are particularly vulnerable to adverse changes in economic conditions in these states or the Mid-Atlantic and Midwest regions more generally.

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

As most of our assets and liabilities are financial in nature, we tend to be particularly sensitive to the performance of the financial markets. Since the middle of 2007 and with a heightened level of activity during 2008 and 2009, there has been unprecedented turmoil, volatility and illiquidity in worldwide financial markets, accompanied by uncertain prospects for sustaining the modest economic recovery that began mid-year 2009. In addition, there have been dramatic changes in the competitive landscape of the financial services industry during this time. This turmoil and volatility has been a contributory factor to overall economic conditions, leading to some of the risks discussed above, including impairing the ability of borrowers and other counterparties to meet obligations to us. Financial market volatility also can have some of the following adverse effects on PNC and our business and financial performance:

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

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

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

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

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

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

nature or timing of future changes in monetary, tax and other policies or the effect that they may have on our activities and financial results.

The soundness of other financial institutions could adversely affect us.

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

Risks resulting from 2008-2010 transactions

Our acquisition of National City presents substantial risks and uncertainties, which could limit our ability to realize the anticipated benefits from this transaction.

On December 31, 2008, we acquired National City through a merger in which PNC continued as the surviving entity. We provide additional information about this acquisition in Note 2 Acquisitions and Divestitures included in the Notes To Consolidated Financial Statements in Item 8 of this Report.

This acquisition presents us with a number of risks and uncertainties related both to the acquisition itself and to the integration of the acquired businesses into PNC. These risks and uncertainties include the following risks to PNC:

- Like PNC, National City was a large financial institution with retail and other banking operations in numerous markets in which PNC had little or no experience. National City also had major operations in areas in which PNC did not have a significant presence, including residential mortgage lending, residential mortgage servicing, credit card lending and equipment leasing. Prior to completion of the merger, PNC and National City operated as separate independent entities, and National City operated under its own systems and procedures, operating models and controls. As a result of these factors as well as the relative size of the acquisition, there are significant integration-related risks, which are greater than in other recent acquisitions by PNC.
- Prior to our acquisition, National City s results were impacted negatively by a significant amount of asset impairments. Our results following the acquisition depend on our ability to manage these assets, which require special servicing and management oversight, including disposition if appropriate. As the integration process continues, we may identify other issues with respect to National City s asset valuation or accounting procedures that may lead to further impairments or write-downs.
- National City s pre-acquisition financial performance and resulting stock price performance and other pre-acquisition activities have led to legal proceedings and other claims and governmental investigations and more may be made or commenced in the future. As a result of this acquisition, we now bear the risks associated with legal proceedings and other claims and governmental investigations relating to National City s business and activities before the acquisition, the full extent of the potential adverse impact of which cannot currently be predicted with reasonable certainty. See Note 24 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Our failure to complete the sale of GIS by November 1, 2010 would result in a requirement that we sell other assets or raise additional common equity.

As part of the regulatory approval for the redemption of the Series N Preferred Stock issued to the US Treasury, we will be required to raise additional Tier 1 common capital through the sale of assets approved by the Federal Reserve Board or through the issuance of additional common stock if the sale of GIS has not been completed by November 1, 2010. We will need to raise this additional Tier 1 common capital by November 1 in the amount of $700 million.

Risks related to the ordinary course of PNC s business

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

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

In all, the principal bases for competition are pricing (including the interest rates charged on loans or paid on interest-bearing deposits), product structure, the range of products and services offered, and the quality of customer service (including convenience and responsiveness to customer needs and concerns). The ability to access and use technology is an increasingly important competitive factor in the financial services industry. Technology is important not only with respect to delivery of financial services but also in processing information. Each of our businesses consistently must make significant technological investments to remain competitive.

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

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

Acquisitions of other financial services companies in general present risks to PNC in addition to those presented by the nature of the business acquired. We describe some of the integration risks presented by our acquisition of National City above. Many of these risks are common to some extent in acquisition transactions.

In general, 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. In some cases, acquisitions involve our entry into new businesses or new geographic or other markets, and these situations also present risks resulting from our inexperience in these 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.

The performance of our asset management businesses may be adversely affected by the relative performance of our products compared with alternative investments as well as by overall economic and market conditions.

Asset management revenue is primarily based on a percentage of the value of assets under management and, in some cases, performance fees, in most cases expressed as a percentage of the returns realized on assets under management, and thus is impacted by general changes in capital markets valuations as

well as by customer preferences and needs. In addition, investment performance is an important factor influencing the level of assets under management. Poor investment performance could impair revenue and growth as existing clients might withdraw funds in favor of better performing products. Also, performance fees could be lower or nonexistent. Additionally, the ability to attract funds from existing and new clients might diminish. Overall economic conditions may limit the amount that customers are able or willing to invest.

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

The performance of our fund servicing business may be adversely affected by changes in investor preferences, or changes in existing or potential fund servicing clients or alternative providers.

Fund servicing fees are primarily derived from the market value of the assets and the number of shareholder accounts that we administer for our clients. The performance of our fund processing business is thus partially dependent on the underlying performance of its fund clients and, in particular, their ability to attract and retain customers. Changes in interest rates or a sustained weakness, weakening or volatility in the debt and equity markets could (in addition to affecting directly the value of assets administered as discussed above) influence an investor s decision to invest or maintain an investment in a particular mutual fund or other pooled investment product. Other factors beyond our control may impact the ability of our fund clients to attract or retain customers or customer funds, including changes in preferences as to certain investment styles. Further, to the extent that our fund clients businesses are adversely affected by ongoing governmental investigations into the practices of the mutual and hedge fund industries, our fund processing business results also could be adversely impacted. As a result of these types of factors, fluctuations may occur in the level or value of assets for which we provide processing services. In addition, this regulatory and business environment is likely to continue to result in operating margin pressure for our various services.

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

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

business and organization. PNC services its obligations primarily with dividends and advances that it receives from its subsidiaries.

Our businesses are subject to regulation by multiple bank regulatory bodies as well as multiple securities industry regulators. Applicable laws and regulations restrict our ability to repurchase stock or to receive dividends from subsidiaries that operate in the banking and securities businesses and impose capital adequacy requirements. They also restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, and for the protection of customer information, among other things. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions as well as damage to our reputation and businesses.

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

Due to the current economic environment and issues facing the financial services industry, we anticipate new legislative and regulatory initiatives over the next several years, including many focused specifically on banking and other financial services in which we are engaged. These initiatives will be in addition to the actions already taken by Congress and the regulators, including EESA, the Recovery Act, the Credit CARD Act, and the SAFE Act, as well as changes to the regulations implementing the Real Estate Settlement Procedures Act, the Federal Truth in Lending Act, and the Electronic Fund Transfer Act. Developments to date, as well as those that come in the future, have had and are likely to continue to have an impact on the conduct of our business. This impact could include rules and regulations that affect the nature and profitability of our business activities, how we use our capital, how we compensate and incent our employees, and other matters potentially having a negative effect on our overall business results and prospects.

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

Our ability to pay dividends to shareholders is largely dependent on dividends from our operating subsidiaries, principally PNC Bank, N.A. Banks are subject to regulation on the amount and circumstances of dividends they can pay to their holding companies.

We discuss these and other regulatory issues applicable to PNC, including some particular areas of current regulatory focus or concern, in the Supervision and Regulation section included in Item 1 of this Report and in Note 23 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report and here by reference.

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

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

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

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

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

Our asset valuation may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to asset valuations that may materially adversely affect our results of operations or financial condition.

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

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be more difficult to value certain of our assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, certain asset valuations may require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of assets as reported within our consolidated financial statements, and the period-to-period changes in value could vary significantly.

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

Many aspects of our business involve substantial risk of legal liability. We have been named as defendants in various legal proceedings arising from our business activities (and in some cases from the activities of companies we have acquired). In addition, we are regularly the subject of governmental investigations and other forms of regulatory inquiry. The results of these legal proceedings and governmental investigations and inquiries could lead to significant monetary damages or penalties, restrictions on the way in which we conduct our business, or reputational harm.

Some of our customers could be adversely affected by climate-related conditions which could have an impact on our business.

Our business could be negatively impacted by adverse changes in the creditworthiness of our customers and by

adverse changes in customer demand for our products and services to the extent that our customers are negatively impacted by climate-related physical changes and hazards or by legislative and regulatory initiatives relating to climate change or other conditions.

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

The impact of natural disasters, terrorist activities and international hostilities cannot be predicted with respect to severity or duration. However, any of these could impact us directly (for example, by causing significant damage to our facilities or preventing us from conducting our business in the ordinary course), or could impact us indirectly through a direct impact on our borrowers, depositors, other customers, suppliers or other counterparties. We could also suffer adverse consequences to the extent that natural disasters, terrorist activities or international hostilities affect the economy and capital and other financial markets generally. These types of impacts could lead, for example, to an increase in delinquencies, bankruptcies or defaults that could result in our experiencing higher levels of nonperforming assets, net charge-offs and provisions for credit losses.

Our ability to mitigate the adverse consequences of such occurrences is in part dependent on the quality of our resiliency planning, including our ability to anticipate the nature of any such event that occurs. The adverse impact of natural disasters or terrorist activities or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon.

ITEM 1B UNRESOLVED STAFF COMMENTS

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

ITEM 2 PROPERTIES

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

We own or lease numerous other premises for use in conducting business activities, including operations centers, offices, and branch and other facilities. We consider the facilities owned or occupied under lease by our subsidiaries to be adequate. We include here by reference the additional information regarding our properties in Note 11 Premises, Equipment and Leasehold Improvements in the Notes To Consolidated Financial Statements in Item 8 of this Report.

ITEM 3 LEGAL PROCEEDINGS

See the information set forth in Note 24 Legal Proceedings included in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated here by reference.

During 2009 National City paid penalties of $400,000 imposed under §6707A(b)(2) of the Internal Revenue Code for failure to include certain reportable transaction information in its 2004 federal income tax return related to listed transactions.

ITEM 4 RESERVED

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding each of our executive officers as of February 26, 2010 is set forth below. Executive officers do not have a stated term of office. Each executive officer has held the position or positions indicated or another executive position with the same entity or one of its affiliates for the past five years unless otherwise indicated below.

Name	Age	Position with PNC	Year Employed (1)
James E. Rohr	61	Chairman and Chief Executive Officer (2)	1972
Joseph C. Guyaux	59	President	1972
William S. Demchak	47	Senior Vice Chairman	2002
Timothy G. Shack	59	Vice Chairman	1976
Thomas K. Whitford	53	Vice Chairman and Chief Risk Officer	1983
Joan L. Gulley	62	Executive Vice President and Chief Human Resources Officer	1986
Michael J. Hannon	53	Executive Vice President and Chief Credit Officer	1982
Richard J. Johnson	53	Executive Vice President and Chief Financial Officer	2002
Helen P. Pudlin	60	Executive Vice President and General Counsel	1989
Robert Q. Reilly	45	Executive Vice President	1987
Samuel R. Patterson	51	Senior Vice President and Controller	1986

(1) Where applicable, refers to year employed by predecessor company.

(2) Also serves as a director of PNC.

William S. Demchak was appointed Senior Vice Chairman in February 2009. He joined PNC as Vice Chairman and Chief Financial Officer in September 2002. Since August 2005, he has had oversight responsibilities for the Corporation s Corporate & Institutional Banking business. He also oversees PNC s asset and liability management and equity management activities.

Timothy G. Shack was appointed Vice Chairman in February 2009. He was Executive Vice President from July 1991 to February 2009, and also served as Chief Information Officer from April 1998 to May 2008.

Thomas K. Whitford was appointed Chief Risk Officer in November 2009 in addition to serving as Vice Chairman since February 2009. He was appointed Chief Administrative Officer in May 2007. From April 2002 through May 2007, he served as Chief Risk Officer.

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

Michael J. Hannon was appointed Executive Vice President and Chief Credit Officer in November 2009. From February 2009 to November 2009 he was Executive Vice President and Chief Risk Officer and was previously Senior Vice President and Chief Credit Officer.

Richard J. Johnson joined PNC in December 2002 and served as Senior Vice President and Director of Finance until his appointment as Chief Financial Officer of the Corporation effective in August 2005. He was appointed Executive Vice President in February 2009.

Helen P. Pudlin was appointed Executive Vice President and General Counsel in February 2009 and was previously Senior Vice President and General Counsel.

Robert Q. Reilly joined PNC Bank, N.A. in September 1987. He currently serves as the head of PNC s Asset Management Group. Previously, he has held numerous management roles in both Corporate Banking and Asset Management. He was appointed Executive Vice President of PNC in February 2009.

DIRECTORS OF THE REGISTRANT

The name, age and principal occupation of each of our directors as of February 26, 2010, and the year he or she first became a director is set forth below:

Richard O. Berndt, 67, Managing Partner of Gallagher, Evelius & Jones LLP (*law firm*) (2007)
Charles E. Bunch, 60, Chairman and Chief Executive Officer of PPG Industries, Inc. (*coatings, sealants and glass products*) (2007)
Paul W. Chellgren, 67, Operating Partner, Snow Phipps Group, LLC (*private equity*) (1995)
Robert N. Clay, 63, President and Chief Executive Officer of Clay Holding Company (*investments*) (1987)
Kay Coles James, 60, President and Founder of The Gloucester Institute (*non-profit*) (2006)
Richard B. Kelson, 63, Operating Advisor, Pegasus Capital Advisors, L.P. (*private equity*) (2002)
Bruce C. Lindsay, 68, Chairman and Managing Member of 2117 Associates, LLC (*advisory company*) (1995)

Anthony A. Massaro, 65, Retired Chairman and Chief Executive Officer of Lincoln Electric Holdings, Inc. (*manufacturer of welding and cutting products*) (2002)
Jane G. Pepper, 64, President of the Pennsylvania Horticultural Society (*non-profit*) (1997)
James E. Rohr, 61, Chairman and Chief Executive Officer of PNC (1990)
Donald J. Shepard, 63, Non-executive Chairman of AEGON U.S. Holding Corporation (*insurance*) (2007)
Lorene K. Steffes, 64, Independent Business Advisor (*technology and technical services*) (2000)
Dennis F. Strigl, 63, Retired President and Chief Operating Officer of Verizon Communications Inc. (*telecommunications*) (2001)
Stephen G. Thieke, 63, Retired Chairman, Risk Management Committee of J.P. Morgan (*financial and investment banking services*) (2002)
Thomas J. Usher, 67, Non-executive Chairman of Marathon Oil Corporation (*oil and gas industry*) (1992)
George H. Walls, Jr., 67, former Chief Deputy Auditor for the State of North Carolina (2006)
Helge H. Wehmeier, 67, Retired Vice Chairman of Bayer Corporation (*healthcare, crop protection, and chemicals*) (1992)

PART II

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

(a) (1) Our common stock is listed on the New York Stock Exchange and is traded under the symbol PNC. At the close of business on February 26, 2010, there were 81,425 common shareholders of record.

Holders of PNC common stock are entitled to receive dividends when declared by the Board of Directors out of funds legally available for this purpose. Our Board of Directors may not pay or set apart dividends on the common stock until dividends for all past dividend periods on any series of outstanding preferred stock have been paid or declared and set apart for payment. The Board presently intends to continue the policy of paying quarterly cash dividends. The amount of any future dividends will depend on economic and market conditions, our financial condition and operating results, and other factors, including contractual restrictions and applicable government regulations and policies (such as those relating to the ability of bank and non-bank subsidiaries to pay dividends to the parent company).

The Federal Reserve has the power to prohibit us from paying dividends without its approval. For further information concerning dividend restrictions and restrictions on loans,

dividends or advances from bank subsidiaries to the parent company, you may review Supervision and Regulation in Item 1 of this Report, Funding and Capital Sources in the Consolidated Balance Sheet Review section, Liquidity Risk Management in the Risk Management section, and Perpetual Trust Securities , PNC Capital Trust E Trust Preferred Securities and Acquired Entity Trust Preferred Securities in the Off-Balance Sheet Arrangements and VIEs section of Item 7 of this Report, and Note 23 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, which we include here by reference.

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

We include here by reference the information regarding our compensation plans under which PNC equity securities are authorized for issuance as of December 31, 2009 in the table (with introductory paragraph and notes) that appears under Item 12 of this Report.

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

Computershare Investor Services, LLC

250 Royall Street

Canton, MA 02021

800-982-7652

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

(a) (2) None.

(b) Not applicable.

(c) Details of our repurchases of PNC common stock during the fourth quarter of 2009 are included in the following table:

In thousands, except per share data

2009 period	Total shares purchased (a)	Average price paid per share	Total shares purchased as part of publicly announced programs (b)	Maximum number of shares that may yet be purchased under the programs (b)
October 1 – October 31	359	$ 48.97		24,710
November 1 – November 30	462	$ 54.87		24,710
December 1 – December 31	386	$ 53.72		24,710
Total	1,207	$ 52.75		

(a) Reflects PNC common stock purchased in connection with our various employee benefit plans. No shares were purchased under the program referred to in note (b) to this table during the fourth quarter of 2009.

(b) Our current stock repurchase program allows us to purchase up to 25 million shares on the open market or in privately negotiated transactions. This program was authorized on October 4, 2007 and will remain in effect until fully utilized or until modified, superseded or terminated.

Common Stock Performance Graph

This graph shows the cumulative total shareholder return (i.e., price change plus reinvestment of dividends) on our common stock during the five-year period ended December 31, 2009, as compared with: (1) a selected peer group of our competitors, called the Peer Group; (2) an overall stock market index, the S&P 500 Index; and (3) a published industry index, the S&P 500 Banks. The yearly points marked on the horizontal axis of the graph correspond to December 31 of that year. The stock performance graph assumes that $100 was invested on January 1, 2005 for the five-year period and that any dividends were reinvested. The table below the graph shows the resultant compound annual growth rate for the performance period.

	Base Period	Assumes $100 investment at Close of Market on December 31, 2004 Total Return = Price change plus reinvestment of dividends					5-Year Compound Growth Rate
	Dec. 04	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	
PNC	$ 100	111.66	138.01	126.57	98.50	108.61	1.67%
S&P 500 Index	$ 100	104.91	121.48	128.15	80.74	102.11	0.42%
S&P 500 Banks	$ 100	98.57	114.46	80.37	42.20	39.42	(16.99%)
Peer Group	$ 100	102.39	121.14	82.07	46.97	59.95	(9.73%)

The Peer Group for the preceding chart and table consists of the following companies: BB&T Corporation; Bank of America Corporation; Capital One Financial, Inc.; Comerica Inc.; Fifth Third Bancorp; JPMorgan Chase; KeyCorp; M&T

Bank; The PNC Financial Services Group, Inc.; Regions Financial Corporation; SunTrust Banks, Inc.; U.S. Bancorp; and Wells Fargo & Co. This Peer Group was approved by the Board s Personnel and Compensation Committee (the Committee) for 2009. The Committee has approved the same Peer Group for 2010.

Each yearly point for the Peer Group is determined by calculating the cumulative total shareholder return for each company in the Peer Group from December 31, 2004 to December 31 of that year (End of Month Dividend Reinvestment Assumed) and then using the median of these returns as the yearly plot point.

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

ITEM 6 SELECTED FINANCIAL DATA

Dollars in millions, except per share data	2009 (a)	Year ended December 31 2008	2007	2006	2005
SUMMARY OF OPERATIONS					
Interest income	**$ 12,086**	$ 6,301	$ 6,144	$ 4,592	$ 3,720
Interest expense	**3,003**	2,447	3,197	2,309	1,533
Net interest income	**9,083**	3,854	2,947	2,283	2,187
Noninterest income (b)	**7,145**	2,442	2,944	5,422	3,297
Total revenue	**16,228**	6,296	5,891	7,705	5,484
Provision for credit losses (c)	**3,930**	1,517	315	124	21
Noninterest expense	**9,073**	3,685	3,652	3,795	3,662
Income from continuing operations before income taxes and noncontrolling interests	**3,225**	1,094	1,924	3,786	1,801
Income taxes	**867**	298	561	1,311	547
Income from continuing operations before noncontrolling interests	**2,358**	796	1,363	2,475	1,254
Income from discontinued operations (net of income taxes of $54, $63, $66, $52 and $57) (d)	**45**	118	128	124	104
Net income	**2,403**	914	1,491	2,599	1,358
Less: Net income (loss) attributable to noncontrolling interests	**(44)**	32	24	4	33
Preferred stock dividends (e)	**388**	21		1	1
Preferred stock discount accretion	**56**				
Net income attributable to common shareholders	**$ 2,003**	$ 861	$ 1,467	$ 2,594	$ 1,324
PER COMMON SHARE					
Basic earnings					
Continuing operations	**$ 4.30**	$ 2.15	$ 4.02	$ 8.39	$ 4.24
Discontinued operations (d)	**.10**	.34	.38	.42	.36
Net income	**$ 4.40**	$ 2.49	$ 4.40	$ 8.81	$ 4.60
Diluted earnings					
Continuing operations	**$ 4.26**	$ 2.10	$ 3.94	$ 8.29	$ 4.17
Discontinued operations (d)	**.10**	.34	.38	.42	.36
Net income	**$ 4.36**	$ 2.44	$ 4.32	$ 8.71	$ 4.53
Book value	**$ 47.68**	$ 39.44	$ 43.60	$ 36.80	$ 29.21
Cash dividends declared	**$ .96**	$ 2.61	$ 2.44	$ 2.15	$ 2.00

(a) Includes the impact of National City, which we acquired on December 31, 2008.
(b) Amount for 2009 included $1.076 billion gain related to BlackRock s acquisition of Barclays Global Investors (BGI) on December 1, 2009.
(c) Amount for 2008 included $504 million conforming provision for credit losses related to our National City acquisition.
(d) Reflects results of operations for PNC Global Investment Servicing for all years presented. See Pending Sale of PNC Global Investment Servicing in the Executive Summary section of Item 7 and Note 2 Acquisitions and Divestitures in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information.
(e) Amount for 2009 included $332 million paid under the TARP Capital Purchase Program.

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. See Note 2 Acquisitions and Divestitures in the Notes To Consolidated Financial Statements in Item 8 of this Report for information on significant recent business acquisitions and divestitures, including our December 31, 2008 acquisition of National City and our pending 2010 sale of GIS.

For information regarding certain business risks, see Item 1A Risk Factors and the Risk Management section of Item 7 of this Report. Also, see our Cautionary Statement Regarding Forward-Looking Information included in Item 7 of this Report for certain risks and uncertainties that could cause actual results to differ materially from those anticipated in forward-looking statements or from historical performance.

	At or for the year ended December 31				
Dollars in millions, except as noted	**2009 (a)**	2008 (b)	2007	2006	2005
BALANCE SHEET HIGHLIGHTS					
Assets	**$ 269,863**	$ 291,081	$ 138,920	$ 101,820	$ 91,954
Loans	**157,543**	175,489	68,319	50,105	49,101
Allowance for loan and lease losses	**5,072**	3,917	830	560	596
Interest-earning deposits with banks	**4,488**	14,859	346	339	669
Investment securities	**56,027**	43,473	30,225	23,191	20,710
Loans held for sale	**2,539**	4,366	3,927	2,366	2,449
Goodwill and other intangible assets	**12,909**	11,688	9,551	4,043	4,466
Equity investments (c)	**10,254**	8,554	6,045	5,330	1,323
Noninterest-bearing deposits	**44,384**	37,148	19,440	16,070	14,988
Interest-bearing deposits	**142,538**	155,717	63,256	50,231	45,287
Total deposits	**186,922**	192,865	82,696	66,301	60,275
Borrowed funds (d)	**39,261**	52,240	30,931	15,028	16,897
Shareholders equity	**29,942**	25,422	14,854	10,788	8,563
Common shareholders equity	**22,011**	17,490	14,847	10,781	8,555
ASSETS UNDER ADMINISTRATION (billions)					
Discretionary assets under management (e)	**$ 103**	$ 103	$ 74	$ 55	$ 495
Nondiscretionary assets under management	**102**	125	112	85	83
Total assets under administration	**$ 205**	$ 228	$ 186	$ 140	$ 578
SELECTED RATIOS					
From continuing operations					
Noninterest income to total revenue	**44**	39	50	70	60
Efficiency	**56**	59	62	49	67
From net income					
Net interest margin (f)	**3.82%**	3.37%	3.00%	2.92%	3.00%
Return on					
Average common shareholders equity	**9.78**	6.52	10.70	28.01	17.00
Average assets	**.87**	.64	1.21	2.74	1.53
Loans to deposits	**84**	91	83	76	81
Dividend payout	**21.4**	104.6	55.0	24.4	43.4
Tier 1 risk-based	**11.4**	9.7	6.8	10.4	8.3
Tier 1 common	**6.0**	4.8	5.4	8.7	6.1
Common shareholders equity to total assets	**8.2**	6.0	10.7	10.6	9.3
Average common shareholders equity to average assets	**7.2**	9.6	11.3	9.8	9.0
SELECTED STATISTICS					
Employees	**55,820**	59,595	28,320	23,783	25,348
Retail Banking branches	**2,512**	2,580	1,102	848	835
ATMs	**6,473**	6,233	3,900	3,581	3,721
Residential mortgage servicing portfolio (billions)	**$ 158**	$ 187			
Commercial mortgage servicing portfolio (billions)	**$ 287**	$ 270	$ 243	$ 200	$ 136

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

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

(c) Includes our investment in BlackRock beginning with the 2006 balance. BlackRock was a consolidated entity at December 31, 2005.

(d) Includes long-term borrowings of $26.3 billion, $33.6 billion, $12.6 billion, $6.6 billion and $6.8 billion for 2009, 2008, 2007, 2006 and 2005, respectively. Borrowings which mature more than one year after December 31, 2009 are considered to be long-term.

(e) Assets under management at December 31, 2005 include BlackRock s assets under management. We deconsolidated BlackRock effective September 29, 2006.

(f) Calculated as taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of 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 on the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the years 2009, 2008, 2007, 2006 and 2005 were $65 million, $36 million, $27 million, $25 million and $33 million, respectively.

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

EXECUTIVE SUMMARY

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

PNC has businesses engaged in retail banking, corporate and institutional banking, asset management, residential mortgage banking and global investment servicing, 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, Missouri, Virginia, Delaware, Washington, D.C., and Wisconsin. PNC also provides certain investment servicing internationally.

On December 31, 2008, PNC acquired National City Corporation (National City). Our consolidated financial statements for 2009 reflect the impact of National City. The impact of National City is described where appropriate throughout this Report.

We expect to incur additional merger and integration costs in 2010 of approximately $285 million pretax in connection with the acquisition of National City. We previously recognized $421 million pretax in 2009, including $155 million pretax in the fourth quarter, and $575 million pretax in the fourth quarter of 2008. The transaction is expected to result in the reduction of more than $1.5 billion of combined company annualized noninterest expense through the elimination of operational and administrative redundancies.

We continue to integrate the businesses and operations of National City with those of PNC.

REPURCHASE OF OUTSTANDING TARP PREFERRED STOCK

As further described in Note 19 Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report, on December 31, 2008, we issued $7.6 billion of Fixed Rate Cumulative Perpetual Preferred Shares, Series N (Series N Preferred Stock), and the related warrant to the US Treasury under the US Treasury s Troubled Asset Relief Program (TARP) Capital Purchase Program.

As approved by the Federal Reserve Board, the 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 our February 2010 common stock and senior notes offerings, described further in the Liquidity Risk Management section of this Item 7, and other funds to redeem the Series N Preferred Stock.

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 Stock was outstanding.

We did not exercise our right to seek to repurchase the related warrant at the time we redeemed the Series N Preferred Stock.

PENDING SALE OF PNC GLOBAL INVESTMENT SERVICING

On February 2, 2010, we entered into a definitive agreement to sell 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. Upon completion of the sale, we expect to report an after-tax gain of approximately $455 million.

We currently anticipate closing the transaction in the third quarter of 2010. Completion of the transaction is subject to regulatory approvals and certain other closing conditions. If the sale of GIS is not completed by November 1, 2010, we will be required, on or before that date, to raise $700 million in additional Tier 1 common capital. We would do this either through the sale of assets approved by the Federal Reserve Board and/or through the issuance of additional common stock. See Item 1A Risk Factors in this Report for additional information.

Further information regarding the National City acquisition and the pending sale of GIS is included in Note 2 Acquisitions and Divestitures in our Notes To Consolidated Financial Statements within Item 8 of this Report.

KEY STRATEGIC GOALS

We manage our company for the long term and are focused on returning to 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 returning to a moderate risk profile 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, 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 Item 7.

Supervisory Capital Assessment Program (Stress tests)

On May 7, 2009, the Board of Governors of the Federal Reserve System announced the results of the stress tests conducted by banking regulators under the Supervisory Capital Assessment Program with respect to the 19 largest bank holding companies. As a result of this test, the Federal Reserve concluded that PNC was well capitalized but that, in order to provide a greater cushion against the risk that economic conditions over the next two years are worse than currently anticipated, PNC needed to augment the composition of its capital by increasing the common shareholders equity component of Tier 1 capital. In May 2009 we raised $624 million in new common equity through the issuance of 15 million shares of common stock. In connection with the Supervisory Capital Assessment Program, we submitted a capital plan which was accepted by the Federal Reserve.

Recent Market and Industry Developments

Since the middle of 2007 and with a heightened level of activity during 2008 and 2009, there has been unprecedented turmoil, volatility and illiquidity in worldwide financial markets, accompanied by uncertain prospects for sustaining a fragile economic recovery that began mid-year 2009. In addition, there have been dramatic changes in the competitive landscape of the financial services industry during this time.

Recent efforts 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 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, and other legislative, administrative and regulatory initiatives, including the US Treasury s TARP Capital Purchase Program, the FDIC s Temporary Liquidity Guarantee Program (TLGP) and the

Federal Reserve s Commercial Paper Funding Facility (CPFF).

These programs include the following:

TARP Capital Purchase Program

The TARP Capital Purchase Program enabled US financial institutions to build capital through the sale to the US Treasury of senior preferred shares of stock to increase the flow of financing to US businesses and consumers and to support the US economy.

Note 19 Equity included in our Notes To Consolidated Financial Statements within Item 8 of this Report includes information regarding the preferred stock and the related warrant that we issued under this program. See Repurchase of Outstanding TARP Preferred Stock above.

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).

In December 2008, PNC Funding Corp issued fixed and floating rate senior notes totaling $2.9 billion under the FDIC s TLGP-Debt Guarantee Program. In March 2009, PNC Funding Corp issued floating rate senior notes totaling $1.0 billion under this program. Each of these series of senior notes is guaranteed through maturity by the FDIC.

From October 14, 2008 through December 31, 2009, PNC Bank, National Association (PNC Bank, N.A.) participated in the TLGP-Transaction Account Guarantee Program. Under this program, all non-interest bearing transaction accounts were fully guaranteed by the FDIC for the entire amount in the account. Coverage under this program is in addition to, and separate from, the coverage available under the FDIC s general deposit insurance rules.

Beginning January 1, 2010, PNC Bank, N.A. is no longer participating in the TLGP-Transaction Account Guarantee Program. Thus, as of December 31, 2009, funds held in noninterest-bearing transaction accounts were no longer guaranteed in full under the TLGP Transaction Account Guarantee Program, but are insured up to $250,000 under the FDIC s general deposit insurance rules.

Federal Reserve Commercial Paper Funding Facility (CPFF)

Effective October 28, 2008, Market Street Funding LLC (Market Street) was approved to participate in the Federal

Reserve s CPFF. The CPFF commitment to purchase up to $5.4 billion of three-month Market Street commercial paper expired on February 1, 2010. Market Street had no borrowings under this facility at December 31, 2009 or during the year then ended.

Public-Private Investment Fund Programs (PPIFs) In March 2009, the US Treasury and the FDIC announced that they would establish the Legacy Loans Program (LLP) to remove troubled loans and other assets from banks. The FDIC will provide oversight for the formation, funding, and operation of new PPIFs that will purchase loans and other assets from depository institutions. The LLP will attract private capital through an FDIC debt guarantee and Treasury equity co-investment. All FDIC-insured depository institutions will be eligible to participate in the program.

In March 2009, the US Treasury also announced the establishment of the Legacy Securities PPIFs, which are designed to address issues raised by troubled assets. These Legacy Securities PPIFs are specifically focused on legacy securities and are part of a plan that directs both equity capital and debt financing into the market for legacy assets. This program is designed to draw in private capital to these markets by providing matching equity capital from the US Treasury and debt financing from the Federal Reserve via the Term Asset-Backed Loan Facility (TALF) and the US Treasury.

PNC has not participated in these programs and is determining to what extent, if any, it will participate in these programs.

Home Affordable Modification Program (HAMP) As part of its effort to stabilize the US housing market, in March 2009 the Obama Administration published detailed guidelines implementing HAMP, and authorized servicers to begin loan modifications. PNC began participating in HAMP for GSE mortgages in May and for non-GSE mortgages in July, and is evaluating participation in the Second Lien Program. This program is scheduled to terminate as of December 31, 2012.

Home Affordable Refinance Program (HARP) Another part of its efforts to stabilize the US housing market is the Obama Administration s Home Affordable Refinance Program (HARP), which provides a means for certain borrowers to refinance their mortgage loans. PNC began participating in HARP in May 2009. The program is scheduled to terminate as of June 10, 2010.

In June 2009 the US Treasury issued a report entitled Financial Regulatory Reform: A New Foundation which outlined five key objectives:

- Promote robust supervision and regulation of financial firms,
- Establish comprehensive supervision of financial markets,
- Protect consumers and investors from financial abuse,
- Provide the US government with the tools it needs to manage financial crises, and
- Raise international regulatory standards and improve international cooperation.

To implement the proposals set forth in the US Treasury report, as well as to provide economic stimulus and financial market stability and to enhance the liquidity and solvency of financial institutions and markets, the US Congress and federal banking agencies have announced, and are continuing to develop, additional legislation, regulations and programs. These proposals include changes in or additions to the statutes or regulations related to existing programs, including those described above.

The current regulatory environment remains uncertain and we expect greater reforms and additional regulatory changes. 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, some of which may be affected by legislative, regulatory and administrative initiatives, such as the Federal government initiatives outlined above:

- General economic conditions, including the speed and stamina of the fragile recovery,
- 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, 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,

Progress toward completion of the integration of the National City acquisition,
The closing of our planned 2010 sale of GIS,
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 pre-tax, pre-provision earnings,
Managing the distressed assets portfolio and other impaired assets,
Maintaining 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 leading to a return to our desired moderate risk profile, and
Actions we take within the capital and other financial markets.

Summary Financial Results

	Year ended December 31	
	2009	2008
Net income, in millions	**$ 2,403**	$ 914
Diluted earnings per common share		
Continuing operations	**$ 4.26**	$ 2.10
Discontinued operations	**.10**	.34
Net income	**$ 4.36**	$ 2.44
Return on		
Average common shareholders equity	**9.78%**	6.52%
Average assets	**.87%**	.64%

On December 1, 2009, BlackRock acquired Barclays Global Investors (BGI) from Barclays Bank PLC. PNC recognized a pretax gain of $1.076 billion, or $687 million after taxes, in the fourth quarter of 2009 related to this transaction. Additional information regarding this transaction is included within the BlackRock section of our Business Segments Review section of this Item 7.

Our earnings and related per share amounts for 2008 do not include the impact of National City, which we acquired effective December 31, 2008, other than a conforming adjustment to our provision for credit losses of $504 million and other integration costs of $71 million, both of which were recognized in the fourth quarter of 2008. Our Consolidated Balance Sheet at December 31, 2008 includes National City s assets and liabilities at estimated fair value.

Our performance in 2009 included the following:

We remain committed to responsible lending to support economic growth. Loans and commitments originated and renewed totaled approximately $110 billion in 2009. Included were $4 billion of small business loans originated and renewed in 2009, and we have enhanced our second-look programs for small business loan applications. As of December 31, 2009, we had funded approximately 2,100 refinances totaling $.4 billion through the Home Affordable Refinance Program and over 70,000 solicitations under the Home Affordable Modification Program had been sent to eligible borrowers.
Loans totaled $158 billion at December 31, 2009 and declined 2% during the fourth quarter reflecting a slower pace of decline compared with the first nine months of 2009.
We effectively managed deposit pricing and realigned the deposit mix during 2009, growing transaction deposits by $15 billion, or 14%, and reducing nonrelationship certificates of deposit by approximately $16 billion.
Pretax, pre-provision earnings of $7.2 billion exceeded the provision for credit losses by $3.2 billion for 2009.
Total revenue was $16.2 billion for 2009, reflecting our diverse revenue sources. The net interest margin increased 45 basis points to 3.82% in 2009 compared with 2008.
Noninterest expense totaled $9.1 billion in 2009, including $421 million of integration costs offset by $800 million of acquisition cost savings.
The pace of credit quality deterioration continued to ease during the fourth quarter of 2009. Nonperforming assets increased $.7 billion over the third quarter to $6.3 billion, a lower increase compared with the $1.0 billion increase in the third quarter. We strengthened loan loss reserves for the 11th consecutive quarter. The allowance for loan and lease losses of $5.1 billion combined with $4.9 billion of marks on acquired impaired loans represented approximately 6% of loans outstanding at December 31, 2009.
Capital ratios continued to grow. The Tier 1 common equity ratio increased by 50 basis points to 6.0% at December 31, 2009 and the Tier 1 risk-based capital ratio increased by 50 basis points to 11.4% as of year-end.
We continued to maintain a strong bank liquidity position with an 84% loan to deposit ratio at December 31, 2009. Holding company liquidity remained strong with sufficient liquid assets to fund 2010 debt maturities and other corporate obligations.
The acquisition of National City Corporation exceeded our expectations during 2009.

- The transaction was accretive to 2009 earnings.
- Cost savings of over $800 million were realized in 2009. We increased our multi-year acquisition-related annualized cost savings goal to $1.5 billion from $1.2 billion and are on track to meet the new goal.
- We have successfully completed two major conversions of National City customers to the PNC platform one in November 2009 and another in February 2010. We expect to complete the two remaining conversions by June 2010, ahead of original plans.

- We completed the consolidation of bank charters in November 2009.

Our Consolidated Income Statement Review and Consolidated Balance Sheet Review sections of this Item 7 describe in greater detail the various items that impacted our results for 2009 and 2008.

LINE OF BUSINESS HIGHLIGHTS

In the first quarter of 2009, we made changes to our business organization structure and management reporting in conjunction with the acquisition of National City.

Business segment results for 2008 and 2007 in this Report have been reclassified to reflect current methodologies and current business and management structure and to present all periods on the same basis. As a result of its pending sale, GIS is no longer a reportable business segment.

Results for 2009 for all of our business segments except BlackRock reflect the impact of revenues and expenses associated with businesses acquired with National City.

Highlights of results for 2009 and 2008 are included below.

We refer you to Item 1 of this Report under the captions Business Overview and Review of Lines of Business for an overview of our business segments and to the Business Segments Review section of this Item 7 for a Results Of Businesses Summary table and further analysis of business segment results for 2009 and 2008, including presentation differences from Note 27 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report.

We provide a reconciliation of total business segment earnings to PNC consolidated income from continuing operations as reported on a GAAP basis in Note 27.

Retail Banking

Retail Banking s earnings were $136 million for 2009 compared with $328 million for 2008. Results were challenged in this environment by increased credit costs, lower interest credits assigned to the segment s deposits, reduced consumer spending and increased FDIC insurance costs. Pre-tax, pre-provision earnings were $1.6 billion for 2009, a 65% increase over 2008. Retail Banking continues to maintain its focus on customer, loan and deposit growth, employee and customer satisfaction, investing in the business for future growth, as well as disciplined expense management during this period of market and economic uncertainty.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $1.2 billion in 2009 compared with $215 million in 2008. The acquisition of National City positively impacted operating results as revenues nearly tripled while noninterest expense approximately doubled. As a result, operating leverage of $2.6 billion more than offset a $1.0 billion increase in the provision for credit losses.

Asset Management Group

Asset Management Group earned $105 million for 2009 compared with $119 million for 2008. Asset Management Group achieved strong total revenue of $919 million, with $308 million in net interest income and $611 million in noninterest income. The business increased pretax, pre-provision earnings by $69 million or 35% over 2008, as the business grew clients, managed expenses and successfully executed the National City integration. The earnings decline from 2008 was primarily driven by a $91 million increase in provision for credit losses reflective of a weakened economy.

Residential Mortgage Banking

Residential Mortgage Banking earned $435 million in 2009 driven by strong loan origination activity and net mortgage servicing rights hedging gains. This business segment consists primarily of activities acquired with National City.

BlackRock

Our BlackRock business segment earned $207 million in both 2009 and 2008. These results reflect our share of BlackRock s reported GAAP earnings during both periods and the additional income taxes on these earnings incurred by PNC.

Distressed Assets Portfolio

The Distressed Assets Portfolio had earnings of $84 million for 2009. Earnings were largely driven by net interest income of $1.1 billion. The provision for credit losses was $771 million in 2009, which reflected credit quality deterioration, particularly in the commercial residential development and consumer residential construction portfolios. Noninterest expense was $246 million for 2009, comprised primarily of costs associated with foreclosed assets and servicing costs.

Other

Other earnings were $201 million in 2009 compared with a loss of $73 million in 2008. Results for 2009 included the $687 million after-tax impact of the BlackRock/BGI gain partially offset by the after-tax impact of other-than-temporary impairment charges and alternative investment writedowns, integration costs related primarily to the National City acquisition, a special FDIC assessment, and equity management losses.

Other for 2008 included the impact of integration costs, including the National City conforming provision for credit losses, totaling $422 million after taxes. In addition, net securities losses in 2008 totaled $134 million after taxes. These factors were partially offset by strong growth in net interest income related to asset and liability management activities, a gain related to PNC s remaining BlackRock long-term incentive plan programs (LTIP) shares obligation, the reversal of a legal contingency reserve established in connection with an acquisition due to a settlement, the partial reversal of the Visa indemnification liability and the gain from our sale of Hilliard Lyons.

CONSOLIDATED INCOME STATEMENT REVIEW

Net income for 2009 was $2.4 billion and for 2008 was $914 million. Amounts for 2009 include operating results of National City and the fourth quarter impact of a $687 million after-tax gain related to BlackRock s acquisition of BGI. Increases in income statement comparisons to 2008, except as noted, are primarily due to the operating results of National City. Our Consolidated Income Statement is presented in Item 8 of this Report.

NET INTEREST INCOME AND NET INTEREST MARGIN

Year ended December 31

Dollars in millions	**2009**	2008
Net interest income	**$ 9,083**	$ 3,854
Net interest margin	**3.82%**	3.37%

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 Statistical Information Analysis Of Year-To-Year Changes In Net Interest (Unaudited) Income And Average Consolidated Balance Sheet and Net Interest Analysis in Item 8 of this Report for additional information.

Higher net interest income for 2009 compared with 2008 reflected the increase in average interest-earning assets due to National City and the improvement in the net interest margin.

The net interest margin was 3.82% for 2009 and 3.37% for 2008. The following factors impacted the comparison:

- A decrease in the rate accrued on interest-bearing liabilities of 97 basis points. The rate accrued on interest-bearing deposits, the largest component, decreased 107 basis points.
- These factors were partially offset by a 45 basis point decrease in the yield on interest-earning assets. The yield on loans, which represented the largest portion of our earning assets in 2009, decreased 30 basis points.
- In addition, the impact of noninterest-bearing sources of funding decreased 7 basis points.

For comparing to the broader market, the average Federal funds rate was .16% for 2009 compared with 1.94% for 2008. We expect our net interest income for 2010 will likely be modestly lower as a result of cash recoveries on purchased impaired loans in 2009 and additional run-off of higher-yielding assets, which could be mitigated by rising interest rates. 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 Item 7.

NONINTEREST INCOME

Summary

Noninterest income was $7.1 billion for 2009 and $2.4 billion for 2008.

Noninterest income for 2009 included the following:

- The gain on BlackRock/BGI transaction of $1.076 billion,
- Net credit-related other-than-temporary impairments (OTTI) on debt and equity securities of $577 million,
- Net gains on sales of securities of $550 million,
- Gains on hedging of residential mortgage servicing rights of $355 million,
- Valuation and sale income related to our commercial mortgage loans held for sale, net of hedges, of $107 million,
- Gains of $103 million related to our BlackRock LTIP shares adjustment in the first quarter, and net losses on private equity and alternative investments of $93 million.

Noninterest income for 2008 included the following:

Net OTTI on debt and equity securities of $312 million,
Gains of $246 million related to our BlackRock LTIP shares adjustment,
Valuation and sale losses related to our commercial mortgage loans held for sale, net of hedges, of $197 million,
Impairment and other losses related to private equity and alternative investments of $180 million,
Income from Hilliard Lyons totaling $164 million, including the first quarter gain of $114 million from the sale of this business,
Net gains on sales of securities of $106 million, and
A gain of $95 million related to the redemption of a portion of our Visa Class B common shares related to Visa s March 2008 initial public offering.

Additional analysis

Asset management revenue increased $172 million to $858 million in 2009, compared with $686 million in 2008. This increase reflected improving equity markets, new business generation and a shift in assets into higher yielding equity investments during the second half of 2009. Assets managed totaled $103 billion at both December 31, 2009 and 2008, including the impact of National City. The Asset Management Group section of the Business Segments Review section of this Item 7 includes further discussion of assets under management.

Consumer services fees totaled $1.290 billion in 2009 compared with $623 million in 2008. Service charges on deposits totaled $950 million for 2009 and $372 million for 2008. Both increases were primarily driven by the impact of the National City acquisition. Reduced consumer spending, given economic conditions, hindered PNC legacy growth during 2009 in both categories.

Corporate services revenue totaled $1.021 billion in 2009 compared with $704 million in 2008. Corporate services fees include treasury management fees which increased $221 million in 2009 compared with 2008.

Residential mortgage fees totaled $990 million in 2009. Fees from strong mortgage refinancing volumes, especially in the first quarter, and $355 million of net hedging gains from mortgage servicing rights contributed to this total. We do not expect to repeat this strong performance in 2010.

Other noninterest income totaled $987 million for 2009 compared with $263 million for 2008. Other noninterest income for 2009 included trading income of $170 million, valuation and sale income related to our commercial mortgage loans held for sale, net of hedges, of $107 million, other gains of $103 million related to our equity investment in BlackRock and net losses on private equity and alternative investments of $93 million.

Other noninterest income for 2008 included the $114 million gain from the sale of Hilliard Lyons, the $95 million Visa gain, gains of $246 million related to our equity investment in BlackRock, and losses related to our commercial mortgage loans held for sale, net of hedges, of $197 million.

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

With the exception of hedging gains related to residential mortgage servicing and the BlackRock/BGI gain, we expect noninterest income to be relatively flat in 2010 compared with 2009 levels. We also expect that the conversions of National City customers to the PNC platform scheduled for completion by 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 and commercial mortgage banking activities, 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 $1.137 billion for 2009 and $567 million for 2008. In addition to the impact of National City, the 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 $533 million in 2009 compared with $336 million in 2008. The impact of National City-related revenue helped to offset declines in merger and acquisition revenues reflecting the difficult economic environment.

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 $485 million in 2009 compared with $65 million in 2008. The impact of National City-related revenue was reflected in the 2009 increase. Revenue for 2009 included gains of $107 million on commercial mortgage loans held for sale, net of hedges. Losses of $197 million on commercial mortgage loans held for sale, net of hedges, reduced revenue for 2008.

Provision For Credit Losses

The provision for credit losses totaled $3.9 billion for 2009 compared with $1.5 billion for 2008. The provision for credit losses for 2009 was in excess of net charge-offs of $2.7 billion primarily due to required increases to our allowance for loan and lease losses reflecting continued deterioration in the credit markets and the resulting increase in nonperforming loans.

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

We expect the provision for credit losses in the first quarter of 2010 to be similar to the provision recognized in the third quarter of 2009.

Noninterest Expense

Noninterest expense for 2009 was $9.1 billion compared with $3.7 billion in 2008. Acquisition cost savings totaled $800 million in 2009. The increase was substantially related to

National City. We also recorded a special FDIC assessment of $133 million in the second quarter of 2009, which was intended to build the FDIC s Deposit Insurance Fund.

Integration costs included in noninterest expense totaled $421 million in 2009 compared with $122 million in 2008. Our quarterly run rate of acquisition cost savings related to National City increased to $300 million in the fourth quarter of 2009, or $1.2 billion per year.

We anticipate meaningful expense reductions in 2010, driven by acquisition cost saves, as we continue to focus on effectively managing expenses and achieving cost savings targets and credit cost improvements.

Effective Tax Rate

Our effective tax rate was 26.9% for 2009 and 27.2% for 2008. The decrease in the effective tax rate for 2009 compared with 2008 was principally due to additional tax expense in 2008 related to the sale of Hilliard Lyons partially offset by additional tax expense associated with an increase in the level of pretax earnings in 2009.

Consolidated Balance Sheet Review

Summarized Balance Sheet Data

In millions	Dec. 31 2009	Dec. 31 2008
Assets		
Loans	**$ 157,543**	$ 175,489
Investment securities	**56,027**	43,473
Cash and short-term investments	**13,290**	22,911
Loans held for sale	**2,539**	4,366
Goodwill and other intangible assets	**12,909**	11,688
Equity investments	**10,254**	8,554
Other	**17,301**	24,600
Total assets	**$ 269,863**	$ 291,081
Liabilities		
Deposits	**$ 186,922**	$ 192,865
Borrowed funds	**39,261**	52,240
Other	**11,113**	18,328
Total liabilities	**237,296**	263,433
Total shareholders equity	**29,942**	25,422
Noncontrolling interests	**2,625**	2,226
Total equity	**32,567**	27,648
Total liabilities and equity	**$ 269,863**	$ 291,081

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

The decline in total assets at December 31, 2009 compared with December 31, 2008 was primarily due to reduced loan demand and lower interest-earning deposits with banks, partially offset by an increase in lower risk investment securities.

An analysis of changes in selected balance sheet categories follows.

Loans

A summary of the major categories of loans outstanding follows. Outstanding loan balances reflect unearned income, unamortized discount and premium, and purchase discounts and premiums totaling $3.2 billion at December 31, 2009 and $4.3 billion at December 31, 2008, respectively. The balances do not include accretable net interest on the purchased impaired loans.

Loans decreased $17.9 billion, or 10%, as of December 31, 2009 compared with December 31, 2008. Loans represented 58% of total assets at December 31, 2009 and 60% of total assets at December 31, 2008. The decline in loans during 2009 was driven primarily by lower utilization levels for commercial lending among middle market and large corporate clients, although this trend in utilization rates appeared to have eased in the fourth quarter of 2009. Given current economic conditions, we expect continued weak loan demand and low utilization rates until the economy improves.

Commercial lending represented 53% of the loan portfolio and consumer lending represented 47% at December 31, 2009. Commercial lending declined 17% at December 31, 2009 compared with December 31, 2008. Commercial loans, which comprised 65% of total commercial lending, declined 21% due to reduced demand for new loans, lower utilization levels and paydowns as clients continued to deleverage their balance sheets. Total consumer lending decreased slightly at December 31, 2009 from December 31, 2008.

Details Of Loans

In millions	Dec. 31 2009	Dec. 31 2008
Commercial		
Retail/wholesale	$ 9,515	$ 11,482
Manufacturing	9,880	13,263
Other service providers	8,256	9,038
Real estate related [(a)]	7,403	9,107
Financial services	3,874	5,194
Health care	2,970	3,201
Other	12,920	17,935
Total commercial	54,818	69,220
Commercial real estate		
Real estate projects	15,582	17,176
Commercial mortgage	7,549	8,560
Total commercial real estate	23,131	25,736
Equipment lease financing	6,202	6,461
TOTAL COMMERCIAL LENDING	84,151	101,417
Consumer		
Home equity		
Lines of credit	24,236	24,024
Installment	11,711	14,252
Education	7,468	4,211
Automobile	2,013	1,667
Credit card and other unsecured lines of credit	3,536	3,163
Other	4,618	5,172
Total consumer	53,582	52,489
Residential real estate		
Residential mortgage	18,190	18,783
Residential construction	1,620	2,800
Total residential real estate	19,810	21,583
TOTAL CONSUMER LENDING	73,392	74,072
Total loans	$ 157,543	$ 175,489

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

Total loans in the table above include purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008, amounting to $10.3 billion, or 7% of total loans, at December 31, 2009 and $12.7 billion, or 7% of total loans, at December 31, 2008.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $110 billion for 2009, including originations for first mortgages of $19 billion and small business loans of $4 billion.

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 $3.4 billion, or 66%, of the total allowance for loan and lease losses at December 31, 2009 to these loans. We allocated $1.7 billion, or 34%, of the remaining allowance at that date to consumer lending. This allocation also considers other relevant factors such as:

(a) Actual versus estimated losses,
(b) Regional and national economic conditions,
(c) Business segment and portfolio concentrations,
(d) Industry conditions,
(e) The impact of government regulations, and
(f) 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 $3.4 billion at December 31, 2009. This represented approximately two-thirds of the total allowance for loan and lease losses of $5.1 billion at that date. The remaining one-third 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 $35.9 billion at December 31, 2009. 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 $1.2 billion or approximately 3% of the total home equity line and installment loans at December 31, 2009. These higher risk loans were concentrated in our geographic footprint with 28% in Pennsylvania, 14% in Ohio, 11% in New Jersey, 7% in Illinois, 6% Missouri, 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 10% are in some stage of delinquency and 5% are in late stage (90+ days) delinquency status.

In our $18.2 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 $.8 billion and comprised approximately 5% of this portfolio at December 31, 2009. Twenty-two percent of the higher risk loans are located in California, 13% in Florida, 10% in Illinois, 8% in Maryland, 5% in Pennsylvania, 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 significant. Within the higher risk residential mortgage portfolio of $.8 billion, approximately 53% are in some stage of delinquency and 41% 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 $54.1 billion loan outstandings at December 31, 2009 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 2009 in connection with our acquisition of National City follows.

Valuation of FASB ASC 310-30 Purchased Impaired Loans

	December 31, 2008 (a)		**December 31, 2009**	
Dollars in billions	Balance	Net Investment	**Balance**	**Net Investment**
Commercial and commercial real estate loans:				
Unpaid principal balance	$ 6.3		**$ 3.5**	
Purchased impaired mark	(3.4)		**(1.3)**	
Recorded investment	2.9		**2.2**	
Allowance for loan losses			**(.2)**	
Net investment	2.9	46%	**2.0**	**57%**
Consumer and residential mortgage loans:				
Unpaid principal balance	15.6		**11.7**	
Purchased impaired mark	(5.8)		**(3.6)**	
Recorded investment	9.8		**8.1**	
Allowance for loan losses			**(.3)**	
Net investment	9.8	63%	**7.8**	**67%**
Total FASB ASC 310-30 purchased impaired loans:				
Unpaid principal balance	21.9		**15.2**	
Purchased impaired mark	(9.2)(b)		**(4.9)(b)**	
Recorded investment	12.7		**10.3**	
Allowance for loan losses			**(.5)(c)**	
Net investment	$ 12.7	58%	**$ 9.8**	**64%**

(a) Subsequent to December 31, 2008, an additional $2.6 billion of acquired National City loans were identified as impaired under FASB ASC 310-30. A total fair value mark of $1.8 billion was recorded, resulting in a $.8 billion net investment. These impairments were effective December 31, 2008 based on additional information regarding the borrowers and credit conditions that existed as of the acquisition date.

(b) Comprised of $5.5 billion of nonaccretable and $3.7 billion of accretable at December 31, 2008 and $1.4 billion of nonaccretable and $3.5 billion of accretable at December 31, 2009.

(c) An additional allowance for loan losses of $.5 billion does not recognize the incremental accretable yield of $.9 billion related to certain purchased impaired loans with improving estimated cash flows. This income will be recognized over time.

The unpaid principal balance of purchased impaired loans declined from $21.9 billion at December 31, 2008 to $15.2 billion at December 31, 2009 due to amounts determined to be uncollectible, payoffs and disposals. The remaining purchased impaired mark at December 31, 2009 was $4.9 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 $9.8 billion at December 31, 2009 primarily due to payoffs, disposals and further impairment partially offset by accretion during 2009.

We currently expect to collect total cash flows of $13.8 billion on purchased impaired loans, representing the $10.3 billion recorded investment at December 31, 2009 and the accretable net interest of $3.5 billion shown in the Accretable Net Interest table that follows.

Purchase Accounting Net Interest Accretion

Year ended December 31- in billions	**2009**
Non-impaired loans	**$.8**
Impaired loans	
Accretion	**.9**
Cash recoveries	**.2**
Total impaired loans	**1.1**
Reversal of contractual interest on impaired loans	**(.7)**
Net impaired loans	**.4**
Securities	**.1**
Deposits	**1.0**
Borrowings	**(.3)**

Total	**$ 2.0**

Accretable Net Interest

In billions	Dec. 31 2008	**Dec. 31 2009**
Non-impaired loans	$ 2.4	**$ 1.6**
Impaired loans (a)	3.7	**3.5**
Total loans (gross)	6.1	**5.1**
Securities	.2	**.1**
Deposits (b)	2.1	**1.0**
Borrowings	(1.5)	**(1.2)**
Total	$ 6.9	**$ 5.0**

(a) Adjustments to accretable net interest include purchase accounting accretion, reclassifications from non-accretable to accretable interest as a result of increases in estimated cash flows, and reductions in the accretable amount as a result of additional loan impairments.

(b) Adjustments to accretable net interest include the impact of branch divestitures.

Accretable Net Interest Purchased Impaired Loans

In billions	
January 1, 2009	$3.7
Accretion	(1.1)
Adjustments resulting from changes in purchase price allocation	.3
Reclassifications from nonaccretable to accretable	.8
Disposals	(.2)
December 31, 2009	**$ 3.5**

Net unfunded credit commitments are comprised of the following:

Net Unfunded Credit Commitments

In millions	**Dec. 31 2009**	Dec. 31 2008
Commercial/commercial real estate (a)	**$ 60,143**	$ 60,020
Home equity lines of credit	**20,367**	23,195
Consumer credit card and other unsecured lines	**18,800**	20,207
Other	**1,485**	1,466
Total	**$ 100,795**	$ 104,888

(a) Less than 4% 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 $13.2 billion at December 31, 2009 and $8.6 billion at December 31, 2008.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $6.2 billion at December 31, 2009 and $7.0 billion at December 31, 2008 and are included in the preceding table primarily within the Commercial/commercial real estate category.

In addition to credit commitments, our net outstanding standby letters of credit totaled $10.0 billion at December 31, 2009 and $10.3 billion at December 31, 2008. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

INVESTMENT SECURITIES

Details of Investment Securities

In millions	Amortized Cost	Fair Value
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**
December 31, 2008		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	$ 738	$ 739
Residential mortgage-backed		
Agency	22,744	23,106
Non-agency	13,205	8,831
Commercial mortgage-backed (non-agency)	4,305	3,446
Asset-backed	2,069	1,627
State and municipal	1,326	1,263
Other debt	563	559
Corporate stocks and other	575	571
Total securities available for sale	$ 45,525	$ 40,142
SECURITIES HELD TO MATURITY		
Debt securities		
Commercial mortgage-backed (non-agency)	$ 1,945	$ 1,896
Asset-backed	1,376	1,358
Other debt	10	10
Total securities held to maturity	$ 3,331	$ 3,264

The carrying amount of investment securities totaled $56.0 billion at December 31, 2009 and $43.5 billion at December 31, 2008 and represented 21% of total assets at December 31, 2009 compared with 15% of total assets at December 31, 2008. The increase in securities of $12.6 billion since December 31, 2008 primarily reflected the purchase of US Treasury and government agency securities as well as price appreciation in the available for sale portfolio, partially offset by maturities, prepayments and sales.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning. 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 59% of the investment securities portfolio at December 31, 2009.

At December 31, 2009, the securities available for sale portfolio included a net unrealized loss of $2.3 billion, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2008 was a net unrealized loss of $5.4 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 the prior year-end was primarily the result of improving fair values in 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, 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 other-than-temporary impairments 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 December 31, 2009 and 3.1 years at December 31, 2008.

We estimate that at December 31, 2009 the effective duration of investment securities was 2.9 years for an immediate 50 basis points parallel increase in interest rates and 2.5 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2008 were 3.7 years and 3.1 years, respectively.

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:

	December 31, 2009				
	Agency		Non-agency		
Dollars in millions	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Asset-Backed Securities
Fair Value Available for Sale	**$ 24,438**	**$ 1,297**	**$ 8,302**	**$ 3,848**	**$ 1,668**
Fair Value Held to Maturity				**2,225**	**3,136**
Total Fair Value	**$ 24,438**	**$ 1,297**	**$ 8,302**	**$ 6,073**	**$ 4,804**
% of Fair Value:					
By Vintage					
2009	**40%**	**73%**		**2%**	**34%**
2008	**17%**	**2%**			**11%**
2007	**9%**		**16%**	**16%**	**17%**
2006	**11%**	**3%**	**23%**	**33%**	**18%**
2005 and earlier	**23%**	**22%**	**61%**	**49%**	**20%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By Credit Rating					
Agency	**100%**	**100%**			
AAA			**12%**	**91%**	**74%**
AA			**7%**	**2%**	**5%**
A			**8%**	**3%**	
BBB			**12%**	**3%**	**1%**
BB			**16%**	**1%**	**5%**
B			**15%**		**5%**
Lower than B			**30%**		**8%**
No rating					**2%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By FICO Score					
>720			**61%**		**4%**
<720 and >660			**30%**		**10%**
<660					**4%**
No FICO score	**N/A**	**N/A**	**9%**	**N/A**	**82%**
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. New US GAAP issued in 2009 amended OTTI guidance for debt securities regarding recognition and disclosure. The

major change in the guidance was the requirement to recognize only 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 the entity would be required to sell the security prior to expected recovery. The remaining portion of OTTI charges is included in accumulated other comprehensive loss.

PNC adopted this guidance effective January 1, 2009. Upon adoption, we recorded a cumulative effect adjustment of $110 million to retained earnings at January 1, 2009 to reclassify the noncredit component of OTTI recognized in 2008 from retained earnings to accumulated other comprehensive loss. During 2009, we recognized OTTI losses of $1.9 billion, of which $577 million represented the credit portion of the losses recognized as a reduction of noninterest income on our Consolidated Income Statement. The remaining noncredit portion of the OTTI losses totaled $1.4 billion and was recognized in accumulated other comprehensive loss on the

Consolidated Balance Sheet at December 31, 2009. 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 in 2009 by investment type is included in Note 7 Investment Securities in the Notes To Consolidated Financial Statements of this Report.

In millions	December 31, 2009 Residential Mortgage-Backed Securities		Commercial Mortgage-Backed Securities		Asset-Backed Securities (a)	
AVAILABLE FOR SALE SECURITIES NON-AGENCY						
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
By Credit Rating						
AAA	**$ 977**	**$ (143)**	**$ 3,314**	**$ (30)**	**$ 729**	**$ (23)**
Other Investment Grade (AA, A, BBB)	**2,259**	**(287)**	**492**	**(131)**	**76**	**(6)**
Total Investment Grade	**3,236**	**(430)**	**3,806**	**(161)**	**805**	**(29)**
BB	**1,306**	**(392)**	**38**	**(20)**	**203**	**(67)**
B	**1,260**	**(448)**	**4**	**1**	**235**	**(43)**
Lower than B	**2,497**	**(847)**			**388**	**(188)**
No Rating	**3**				**33**	**(24)**
Total Sub-Investment Grade	**5,066**	**(1,687)**	**42**	**(19)**	**859**	**(322)**
Total	**$ 8,302**	**$ (2,117)**	**$ 3,848**	**$ (180)**	**$ 1,664**	**$ (351)**
Investment Grade:						
OTTI has been recognized	**$ 152**	**$ (45)**				
No OTTI recognized to date	**3,084**	**(385)**	**$ 3,806**	**$ (161)**	**$ 805**	**$ (29)**
Total Investment Grade	**$ 3,236**	**$ (430)**	**$ 3,806**	**$ (161)**	**$ 805**	**$ (29)**
Sub-Investment Grade:						
OTTI has been recognized	**$ 2,491**	**$ (1,029)**			**$ 562**	**$ (221)**
No OTTI recognized to date	**2,575**	**(658)**	**$ 42**	**$ (19)**	**297**	**(101)**
Total Sub-Investment Grade	**$ 5,066**	**$ (1,687)**	**$ 42**	**$ (19)**	**$ 859**	**$ (322)**
SECURITIES HELD TO MATURITY NON-AGENCY						
By Credit Rating						
AAA			**$ 2,225**	**$ 195**	**$ 2,822**	**$ 95**
Other Investment Grade (AA, A, BBB)					**215**	**10**
Total Investment Grade			**2,225**	**195**	**3,037**	**105**
BB					**25**	**1**
B					**4**	
No Rating					**55**	**(10)**
Total Sub-Investment Grade					**84**	**(9)**
Total			**$ 2,225**	**$ 195**	**$ 3,121**	**$ 96**

(a) Table excludes $4 million and $15 million of available for sale and held to maturity agency asset-backed securities, respectively.

Residential Mortgage-Backed Securities

At December 31, 2009, our residential mortgage-backed securities portfolio was comprised of $24.4 billion fair value of US government agency-backed securities and $8.3 billion fair value of non-agency (private issuer) securities. The agency securities are generally collateralized by 1-4 family, conforming, fixed-rate residential mortgages**.** The non-agency securities are also generally collateralized by 1-4 family residential mortgages. The mortgage loans underlying the non-agency securities are generally non-conforming (i.e., original balances in excess of the amount qualifying for agency securities) and predominately have interest rates that

are fixed for a period of time, after which the rate adjusts to a floating rate based upon a contractual spread that is indexed to a market rate (i.e., a hybrid ARM), or interest rates that are fixed for the term of the loan.

Substantially all of the 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 2009, we recorded OTTI credit losses of $444 million on non-agency residential mortgage-backed securities. As of

December 31, 2009, $397 million of the credit losses related to securities rated below investment grade. As of December 31, 2009, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for non-agency residential mortgage-backed securities totaled $1.1 billion and the related securities had a fair value of $2.6 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of December 31, 2009 totaled $2.6 billion, with unrealized net losses of $658 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 December 31, 2009 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 December 31, 2009 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

We recorded OTTI credit losses of $6 million on non-agency commercial mortgage-backed securities during 2009. The remaining fair value of the securities for which OTTI was recorded approximates zero. All of the credit-impaired securities were rated below investment grade.

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $4.8 billion at December 31, 2009 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.

We recorded OTTI credit losses of $111 million on asset-backed securities during 2009. All of the securities were collateralized by first and second lien residential mortgage loans and were rated below investment grade. As of December 31, 2009, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for asset-backed securities totaled $221 million and the related securities had a fair value of $562 million.

For the sub-investment grade investment securities for which we have not recorded an OTTI loss through December 31, 2009, the remaining fair value was $381 million, with

unrealized net losses of $110 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 the 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

In millions	**Dec. 31 2009**	Dec. 31 2008
Commercial mortgages at fair value	**$ 1,050**	$ 1,401
Commercial mortgages at lower of cost or market	**251**	747
Total commercial mortgages	**1,301**	2,148
Residential mortgages at fair value	**1,012**	1,824
Residential mortgages at lower of cost or market		138
Total residential mortgages	**1,012**	1,962
Other	**226**	256
Total	**$ 2,539**	$ 4,366

We stopped originating commercial mortgage loans held for sale designated at fair value during the first quarter of 2008 and intend to continue pursuing opportunities to reduce these positions at appropriate prices. For commercial mortgages held for sale carried at the lower of cost or market, strong origination volumes partially offset sales to government agencies of $5.4 billion during 2009.

We recognized net gains of $107 million in 2009 on the valuation and sale of commercial mortgage loans held for sale, net of hedges, carried at fair value and lower of cost or market compared with losses of $197 million in 2008. We sold $.3 billion and $.6 billion, respectively, of commercial mortgage loans held for sale carried at fair value in 2009 and 2008.

Residential mortgage loans held for sale decreased during 2009 despite strong refinancing volumes, especially in the first quarter. Loan origination volume was $19.1 billion. Substantially all such loans were originated to agency standards. We sold $19.8 billion of loans and recognized related gains of $435 million during 2009.

Net interest income on residential mortgage loans held for sale was $332 million for 2009.

Goodwill and Other Intangible Assets

Goodwill increased $637 million and other intangible assets increased $584 million at December 31, 2009 compared with December 31, 2008. Note 2 Acquisitions and Divestitures and Note 9 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements in Item 8 of this Report have further details on the National City-related items that were the primary drivers of these increases.

FUNDING AND CAPITAL SOURCES

Details Of Funding Sources

In millions	**Dec. 31 2009**	Dec. 31 2008
Deposits		
Money market	**$ 85,838**	$ 77,889
Demand	**40,406**	33,001
Retail certificates of deposit	**48,622**	58,315
Savings	**6,401**	6,056
Other time	**1,088**	13,620
Time deposits in foreign offices	**4,567**	3,984
Total deposits	**186,922**	192,865
Borrowed funds		
Federal funds purchased and repurchase agreements	**3,998**	5,153
Federal Home Loan Bank borrowings	**10,761**	18,126
Bank notes and senior debt	**12,362**	13,664
Subordinated debt	**9,907**	11,208
Other	**2,233**	4,089
Total borrowed funds	**39,261**	52,240
Total	**$ 226,183**	$ 245,105

Total funding sources decreased $18.9 billion at December 31, 2009 compared with December 31, 2008 driven by declines in other time deposits, retail certificates of deposit and Federal Home Loan Bank borrowings, partially offset by increases in money market and demand deposits.

Total deposits decreased $5.9 billion at December 31, 2009 compared with December 31, 2008. Relationship-growth driven increases in money market, demand and savings deposits were more than offset by declines in other time deposits, reflecting a planned run-off of brokered certificates of deposits, and non-relationship retail certificates of deposits. We anticipate that growth in relationship-based deposits will be offset by additional run-off of higher-cost retail time deposits in 2010.

Interest-bearing deposits represented 76% of total deposits at December 31, 2009 compared with 81% at December 31, 2008.

The $13.0 billion decline in borrowed funds since December 31, 2008 primarily resulted from repayments of Federal Home Loan Bank borrowings along with decreases in all other borrowed fund categories.

In March 2009, PNC issued $1.0 billion of floating rate senior notes guaranteed by the FDIC under the TLGP. In addition,

PNC issued $1.5 billion of senior notes during the second and third quarters of 2009, which were not issued under the TLGP. The Liquidity Risk Management section of this Item 7 contains further details regarding actions we have taken which impacted our borrowed funds balances in 2009.

In February 2010, PNC issued $2.0 billion of senior notes as described further in the Liquidity Risk Management section of this Item 7.

Capital

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. On March 1, 2009, we took the proactive step to build capital and further strengthen our balance sheet when the Board of Directors decided to reduce PNC s quarterly common stock dividend from

$0.66 to $0.10 per share. The reduction added $766 million in 2009, and is expected to add approximately $1 billion on an annualized basis, to PNC s common equity and cash positions, resulting in annual improvement in capital ratios of approximately 40 basis points.

Total shareholders equity increased $4.5 billion, to $29.9 billion, at December 31, 2009 compared with December 31, 2008 primarily due to the following:

- A decline of $2.0 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,
- An increase of $1.7 billion in retained earnings, and
- An increase of $.6 billion in capital surplus-common stock and other, primarily due to the May 2009 common stock issuance.

Common shares outstanding were 462 million at December 31, 2009 and 443 million at December 31, 2008. As described in the Executive Summary section of this Item 7, in May 2009 we raised $624 million in new common equity through the issuance of 15 million shares of common stock. The offering was related to our plan for increasing common equity following the results of the stress tests conducted under the Supervisory Capital Assessment Program by the Board of Governors of the Federal Reserve System and the OCC.

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. See Repurchase of Outstanding TARP Preferred Stock in the Executive Summary section and information regarding our February 2010 common stock offering in the Liquidity Risk Management section of this Report.

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 2009 under this program.

Risk-Based Capital

Dollars in millions	**Dec. 31 2009**	Dec. 31 2008
Capital components		
Shareholders equity		
Common	**$ 21,967**	$ 17,490
Preferred	**7,975**	7,932
Trust preferred capital securities	**2,996**	2,898
Noncontrolling interests	**1,611**	1,506
Goodwill and other intangible assets	**(10,652)**	(9,800)
Eligible deferred income taxes on goodwill and other intangible assets	**738**	594
Pension, other postretirement benefit plan adjustments	**542**	666
Net unrealized securities losses, after-tax	**1,575**	3,618
Net unrealized losses (gains) on cash flow hedge derivatives, after-tax	**(166)**	(374)
Other	**(63)**	(243)
Tier 1 risk-based capital	**26,523**	24,287
Subordinated debt	**5,356**	5,676
Eligible allowance for credit losses	**2,934**	3,153
Total risk-based capital	**$ 34,813**	$ 33,116
Tier 1 common capital		
Tier 1 risk-based capital	**$ 26,523**	$ 24,287
Preferred equity	**(7,975)**	(7,932)
Trust preferred capital securities	**(2,996)**	(2,898)
Noncontrolling interests	**(1,611)**	(1,506)
Tier 1 common capital	**$ 13,941**	$ 11,951
Assets		
Risk-weighted assets, including off- balance sheet instruments and market risk equivalent assets	**$ 232,257**	$ 251,106
Adjusted average total assets	**263,103**	138,689
Capital ratios		
Tier 1 risk-based	**11.4%**	9.7%
Tier 1 common	**6.0**	4.8
Total risk-based	**15.0**	13.2
Leverage	**10.1**	17.5

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 year-end capital levels were aligned with them. Actions that we have taken since year-end that increase our Tier 1 common capital ratio on a pro forma basis are described below.

Capital levels were strengthened during 2009. Higher capital levels were net of dividend payments including $332 million paid to the US Department of the Treasury during 2009 on $7.6 billion of preferred stock. See Repurchase of Outstanding TARP Preferred Stock and Pending Sale of PNC Global Investment Servicing in the Executive Summary section of Item 7. Our Tier 1 risk-based capital ratio and our Tier 1 common capital ratio would have been 10.3% and 8.0%, respectively, at December 31, 2009 had they included the estimated net impact of the redemption of the outstanding TARP preferred stock, our February 2010 equity offering discussed further in the Liquidity Risk Management section of Item 7, and the pending sale of GIS. We provide a reconciliation of these ratios reflecting the impact of the TARP redemption, common equity offering and sale of GIS to the ratios set forth in the Risk-Based Capital table above in the Statistical Information (Unaudited) section in Item 8 of this Report.

PNC s Tier 1 risk-based capital ratio increased by 170 basis points to 11.4% at December 31, 2009 from 9.7% at December 31, 2008. The increase in the ratio was due to higher risk-based capital primarily from retained earnings and the May 2009 common equity issuance coupled with a decline in risk-weighted assets. Our Tier 1 common capital ratio was 6.0% at December 31, 2009 compared with 4.8% at December 31, 2008.

The leverage ratio at December 31, 2008 reflected the favorable impact on Tier 1 risk-based capital from the issuance of securities under TARP and the issuance of PNC common stock in connection with the National City acquisition, both of which occurred on December 31, 2008. In addition, the ratio as of that date did not reflect any impact of National City on PNC s adjusted average total assets.

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.

We merged the charter of PNC Bank Delaware into PNC Bank, N.A. during August 2009 and merged the charter of National City Bank into PNC Bank, N.A. in November 2009.

At December 31, 2009, PNC Bank, N.A., our domestic bank subsidiary, was considered well capitalized based on US regulatory capital ratio requirements. See the Supervision And Regulation section of Item 1 of this Report and Note 23 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information. We believe PNC Bank, N.A. will continue to meet these requirements during 2010.

Off-Balance Sheet Arrangements And VIEs

We engage in a variety of activities that involve unconsolidated entities including qualified special purpose entities (QSPEs) or that are otherwise not reflected on our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. The following sections of this Report provide further information on these types of activities:

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Item 7, and
- Note 10 Loan Sales and Securitizations and Note 25 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

The following provides a summary of variable interest entities (VIEs), including those that we have consolidated and those in which we hold a significant variable interest but have not consolidated into our financial statements as of December 31, 2009 and December 31, 2008.

Consolidated VIEs PNC Is Primary Beneficiary

In millions	Aggregate Assets	Aggregate Liabilities
Tax credit investments (a)		
December 31, 2009	**$ 1,933**	**$ 808**
December 31, 2008	$ 1,690	$ 921
Credit Risk Transfer Transaction		
December 31, 2009	**$ 860**	**$ 860**
December 31, 2008	$ 1,070	$ 1,070

(a) Amounts reported primarily represent investments in low income housing projects.

Impact of New Accounting Guidance in 2010

We transfer loans to QSPEs sponsored by PNC or third parties in connection with loan sales and securitization transactions. These transactions effectively transfer the risk to the QSPE and permit the loans to be excluded from our Consolidated Balance Sheet. See Note 10 Loan Sales and Securitizations included in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

The FASB issued guidance during 2009 that removes the nonconsolidation exception for QSPEs and includes new criteria for determining the primary beneficiary of a VIE. The

guidance also increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE and requires enhanced disclosures. We adopted this guidance effective January 1, 2010. Based on the new guidance, we consolidated Market Street effective January 1, 2010. Accordingly, we recognized the assets, liabilities and noncontrolling interests of Market Street on our Consolidated Balance Sheet based on their respective carrying amounts as prescribed by the guidance. We also consolidated the QSPE associated with the securitization of credit card loans effective January 1, 2010. These changes had a minimal impact on our capital ratios. We are continuing to analyze other entities, including non-PNC sponsored securitization trusts where we provide loan servicing, for possible consolidation of the trusts.

The impact on total assets of adopting this new accounting standard on January 1, 2010 for those VIEs that were consolidated is as follows:

In millions	Incremental Assets

Market Street	$ 2,486
Credit card loans	1,480
Total	$ 3,966

Non-Consolidated VIEs Significant Variable Interests

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
December 31, 2009			
Market Street	**$ 3,698**	**$ 3,718**	**$ 6,155(a)**
Tax credit investments (b) (c)	**1,786**	**1,156**	**743**
Collateralized debt obligations	**23**		**2**
Total	**$ 5,507**	**$ 4,874**	**$ 6,900**
December 31, 2008			
Market Street	$ 4,916	$ 5,010	$ 6,965(a)
Tax credit investments (b) (c)	1,517	1,041	811
Collateralized debt obligations	20		2
Total	$ 6,453	$ 6,051	$ 7,778

(a) PNC s risk of loss consists of off-balance sheet liquidity commitments to Market Street of $5.6 billion and other credit enhancements of $.6 billion at December 31, 2009. The comparable amounts were $6.4 billion and $.6 billion at December 31, 2008.

(b) Amounts reported primarily represent investments in low income housing projects.

(c) Aggregate assets and aggregate liabilities represent estimated balances due to limited availability of financial information associated with certain acquired National City partnerships.

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 which has been rated A1/P1/F1 by Standard & Poor s, Moody s, and Fitch, respectively, 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 2008 and 2009, Market Street met all of its funding needs through the issuance of commercial paper.

Market Street commercial paper outstanding was $3.1 billion at December 31, 2009 and $4.4 billion at December 31, 2008. The weighted average maturity of the commercial paper was 36 days at December 31, 2009 and 24 days at December 31, 2008.

Effective October 28, 2008, Market Street was approved to participate in the Federal Reserve s CPFF authorized under

Section 13(3) of the Federal Reserve Act. The CPFF commitment to purchase up to $5.4 billion of three-month Market Street commercial paper expired on February 1, 2010. Market Street had no borrowings under this facility at December 31, 2009 or during the year then ended.

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 of $75 million with an average balance of $12 million during 2008. PNC Capital Markets owned no Market Street commercial paper at December 31, 2009 and December 31, 2008. PNC Bank, N.A. made no purchases of Market Street commercial paper during 2009.

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. Program administrator fees related to PNC s portion of liquidity facilities were $43 million for 2009 and $21 million for 2008. Commitment fees related to PNC s portion of the liquidity facilities for 2009 and 2008 were insignificant.

The commercial paper obligations at December 31, 2009 and December 31, 2008 were effectively collateralized by Market Street s assets. While PNC may be obligated to fund under the $5.6 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 or another third party in the form of deal-specific credit enhancement, such as by the over-collateralization of the assets. 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 $.4 billion of the liquidity facilities if the underlying assets are in default. See Note 25 Commitments And Guarantees included in the Notes To Consolidated Financial Statements of this Report for additional information.

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.

Market Street has entered into a Subordinated Note Purchase Agreement (Note) with an unrelated third party. The Note provides first loss coverage whereby the investor absorbs losses up to the amount of the Note, which was $8.0 million as of December 31, 2009. Proceeds from the issuance of the Note are held by Market Street in a first loss reserve account that will be used to reimburse any losses incurred by Market Street, PNC Bank, N.A. or other providers under the liquidity facilities and the credit enhancement arrangements.

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**
December 31, 2008			
Trade receivables	$ 1,516	$ 3,370	2.34
Automobile financing	992	992	3.94
Auto fleet leasing	473	560	1.34
Collateralized loan obligations	306	405	1.58
Credit cards	400	400	.19
Residential mortgage	14	14	27.00
Other	695	765	2.06
Cash and miscellaneous receivables	520		
Total	$ 4,916	$ 6,506	2.34

(a) Market Street did not recognize an asset impairment charge or experience any material rating downgrades during 2008 or 2009.

Market Street Commitments by Credit Rating (a)

	December 31, 2009	December 31, 2008
AAA/Aaa	**14%**	19%
AA/Aa	**50**	6
A/A	**34**	72
BBB/Baa	**2**	3
Total	**100%**	100%

(a) 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.

We evaluated the design of Market Street, its capital structure, the Note, and relationships among the variable interest holders. Based on this analysis and under accounting guidance effective during 2009 and 2008, we are not the primary beneficiary and therefore the assets and liabilities of Market Street are not included on our Consolidated Balance Sheet.

We considered changes to the variable interest holders (such as new expected loss note investors and changes to program-level credit enhancement providers), terms of expected loss notes, and new types of risks related to Market Street as reconsideration events. We reviewed the activities of Market Street on at least a quarterly basis to determine if a reconsideration event has occurred.

Tax Credit Investments

We make certain equity investments in various limited partnerships or limited liability companies (LLCs) that sponsor affordable housing projects utilizing the Low Income Housing Tax Credit (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. 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.

We evaluate our interests and third party interests in the limited partnerships/LLCs in determining whether we are the primary beneficiary. The primary beneficiary determination is based on which party absorbs a majority of the variability. The primary sources of variability 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 absorb a majority of the variability and thus are considered the primary beneficiary. 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. The consolidated aggregate assets and liabilities of these LIHTC investments are provided in the Consolidated VIEs PNC Is Primary Beneficiary table and reflected in the Other business segment.

We also have LIHTC investments in which we are not the primary beneficiary, but are considered to have a significant variable interest based on our interests in the partnership/LLC. These investments are disclosed in the Non-Consolidated VIEs Significant Variable Interests 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 and cost methods 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, (a former PNC subsidiary which merged into PNC Bank, N.A. in November 2009) sponsored a special purpose entity (SPE) and concurrently entered into a credit risk transfer agreement with an independent third party to mitigate credit losses on a pool of nonconforming mortgage loans originated by its former First Franklin business unit. The SPE was formed with a small equity contribution and was structured as a bankruptcy-remote entity so that its creditors have no recourse to us. In exchange for a perfected security interest in the cash flows of the nonconforming mortgage loans, the SPE issued to us asset-backed securities in the form of senior, mezzanine, and subordinated equity notes.

The SPE was deemed to be a VIE as its equity was not sufficient to finance its activities. We were determined to be the primary beneficiary of the SPE as we would absorb the majority of the expected losses of the SPE through our holding of the asset-backed securities. Accordingly, this SPE was consolidated and all of the entity s assets, liabilities, and equity associated with the note tranches held by us are intercompany balances and are eliminated in consolidation. Nonconforming mortgage loans, including foreclosed properties, pledged as collateral to the SPE remain on the balance sheet at a net carrying value of $587 million at December 31, 2009.

In connection with the credit risk transfer agreement, we held the right to put the mezzanine notes to the independent third-party once credit losses in the mortgage loan pool exceeded the principal balance of the subordinated equity notes. During 2009, cumulative credit losses in the mortgage loan pool surpassed the principal balance of the subordinated equity notes which resulted in us exercising our put option on two of the subordinate mezzanine notes. Cash proceeds received from the third party for the exercise of these put options totaled $36 million. In addition, during 2009 we entered into an agreement with the third party to terminate each party s rights and obligations under the credit risk transfer agreement for the remaining mezzanine notes. We agreed to terminate our contractual right to put the remaining mezzanine notes to the third party for a cash payment of $126 million. A pretax gain of $10 million was recognized in noninterest income as a result of these transactions.

We assessed what impact the reconsideration events above had on determining whether we would remain the primary beneficiary of the SPE. Management concluded that we would remain the primary beneficiary and accordingly should continue to consolidate the SPE.

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.

We entered into a replacement capital covenant in connection with the closing of the Trust I Securities sale (the Trust RCC) whereby we agreed that neither we nor our subsidiaries (other than PNC Bank, N.A. and its subsidiaries) would purchase the Trust Securities, the LLC Preferred Securities or the PNC Bank Preferred Stock unless such repurchases or redemptions are made from the proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the replacement capital covenant with respect to the Trust RCC.

We also entered into a replacement capital covenant in connection with the closing of the Trust II Securities sale (the Trust II RCC) whereby we agreed until March 29, 2017 that neither we nor our subsidiaries would purchase or redeem the Trust II Securities, the LLC Preferred Securities or the Series I Preferred Stock unless such repurchases or redemptions are made from the proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the replacement capital covenant with respect to the Trust RCC.

As of December 31, 2009, each of the Trust RCC and the Trust II RCC are for the benefit of holders of our $200 million of Floating Rate Junior Subordinated Notes issued in June 1998. We filed a copy of each of the Trust RCC and the Trust II RCC with the SEC as Exhibit 99.1 to PNC s Form 8-K filed on December 8, 2006 and as Exhibit 99.1 to PNC s Form 8-K filed on March 30, 2007, respectively.

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 stock for

any other class or series of PNC s capital stock, (v) the purchase of fractional interests in shares of PNC capital stock pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged or (vi) any stock dividends paid by PNC where the dividend stock is the same stock as that on which the dividend is being paid.

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, a copy of which was attached as Exhibit 99.1 to PNC s Form 8-K filed on February 13, 2008 and which is described in Note 14 Capital Securities of Subsidiary Trusts in Item 8 of this Report.

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.

We are subject to replacement capital covenants (RCCs) with respect to four tranches of junior subordinated debentures inherited from National City, copies of which RCCs were attached, respectively, as Exhibit 99.2 to the National City Form 8-K filed on February 4, 2008 and Exhibit 99.1 to the National City Forms 8-K filed on November 9, 2006, May 25, 2007 and August 30, 2007. See Note 14 Capital Securities of Subsidiary Trusts. Similarly, we are subject to a replacement capital covenant with respect to our Series L Preferred Stock, a copy of which was attached as Exhibit 99.1 to National City s Form 8-K filed on February 4, 2008. See Note 19 Equity in Item 8 of this Report.

Fair Value Measurements And Fair Value Option

In addition to the following, see Note 8 Fair Value in the Notes To Consolidated Financial Statements under Part II, Item 8 of this Report for further information regarding fair value. New GAAP was issued in 2009 for estimating fair values when the volume and level of activity for the asset or liability have significantly decreased. It also provides guidance on identifying circumstances that indicate a transaction is not orderly. As permitted, PNC adopted this guidance effective January 1, 2009.

Assets and liabilities measured at fair value on a recurring basis, including instruments for which PNC has elected the fair value option, are summarized below. As prescribed by GAAP, the assets and liabilities acquired from National City on December 31, 2008 are excluded from the following disclosures as of that date, but are included as of and for the year ended December 31, 2009.

At December 31, 2009, assets recorded at fair value represented 23% of total assets and fair value liabilities represented 2% of total liabilities compared with 13% of total assets and 2% of total liabilities as of December 31, 2008.

Fair Value Measurements Summary

In millions	December 31, 2009 Level 1	Level 2	Level 3	Total Fair Value	December 31, 2008 (j) Level 1	Level 2	Level 3	Total Fair Value
Assets								
Securities available for sale	**$ 7,256**	**$ 33,609**	**$ 9,933**	**$ 50,798**	$ 347	$ 21,633	$ 4,837	$ 26,817
Financial derivatives (a)	**27**	**3,839**	**50**	**3,916**	16	5,582	125	5,723
Residential mortgage loans held for sale (b)		**1,012**		**1,012**				
Trading securities (c)	**1,736**	**299**	**89**	**2,124**	89	529	73	691
Residential mortgage servicing rights (d)			**1,332**	**1,332**			6	6
Commercial mortgage loans held for sale (b)			**1,050**	**1,050**			1,400	1,400
Equity investments			**1,188**	**1,188**			571	571
Customer resale agreements (e)		**990**		**990**		1,072		1,072
Loans (f)		**107**		**107**				
Other assets (g)		**207**	**509**	**716**		144		144
Total assets	**$ 9,019**	**$ 40,063**	**$ 14,151**	**$ 63,233**	$ 452	$ 28,960	$ 7,012	$ 36,424
Liabilities								
Financial derivatives (h)	**$ 2**	**$ 3,331**	**$ 295**	**$ 3,628**	$ 2	$ 4,387	$ 22	$ 4,411
Trading securities sold short (i)	**1,302**	**42**		**1,344**	182	207		389
Other liabilities		**6**		**6**		9		9
Total liabilities	**$ 1,304**	**$ 3,379**	**$ 295**	**$ 4,978**	$ 184	$ 4,603	$ 22	$ 4,809

(a) Included in other assets on the Consolidated Balance Sheet.
(b) Included in loans held for sale on the Consolidated Balance Sheet. PNC has elected the fair value option for certain commercial and residential mortgage loans held for sale.
(c) Included in trading securities on the Consolidated Balance Sheet. Fair value includes net unrealized gains of $9 million at December 31, 2009 compared with net unrealized losses of $28 million at December 31, 2008.
(d) Included in other intangible assets on the Consolidated Balance Sheet.
(e) Included in Federal funds sold and resale agreements on the Consolidated Balance Sheet. PNC has elected the fair value option for this item.
(f) Included in loans on the 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.
(g) Includes BlackRock Series C Preferred Stock.
(h) Included in other liabilities on the Consolidated Balance Sheet.
(i) Included in other borrowed funds on the Consolidated Balance Sheet.
(j) Excludes assets and liabilities associated with the acquisition of National City.

Valuation Hierarchy

The following is an outline of the valuation methodologies used for measuring fair value for the major items above. GAAP 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 and establishes a reporting hierarchy to maximize the use of observable inputs. The fair value hierarchy (i.e., Level 1, Level 2, and Level 3) is described in detail in Note 8 Fair Value in the Notes To Consolidated Financial Statements under Part II, Item 8 of this Report.

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. Approximately 60% of our positions are valued using prices obtained from pricing services provided by the Barclay s Capital Index, formerly known as the Lehman Index, and Interactive Data Corp. (IDC). For approximately 15% or more 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 securities, agency adjustable rate mortgage securities, agency CMOs and municipal bonds. Dealer quotes received are typically non-binding and corroborated with other dealers 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 December 31, 2009, 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 account for residential mortgage loans originated for sale on a recurring basis 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. 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

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 2009 and 2008, 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 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 classify 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. In September 2009, the FASB issued ASU 2009-12 Fair Value Measurements and Disclosures (Topic 820) Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent). Based on the guidance, 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 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

Effective February 27, 2009, we elected to account for the approximately 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. Due to the significance of unobservable inputs, this security is classified as Level 3.

Level 3 Assets and Liabilities

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

Level 3 Assets and Liabilities

Dollars in millions	Total Level 3 Assets	Total Level 3 Liabilities	% of Total Assets at Fair Value	% of Total Liabilities at Fair Value	% of Consolidated Assets	% of Consolidated Liabilities
December 31, 2009	**$ 14,151**	**$ 295**	**22%**	**6%**	**5%**	**< 1%**
December 31, 2008	7,012	22	19%	< 1%	2%	< 1%

During 2009, securities transferred into Level 3 from Level 2 exceeded securities transferred out by $4.4 billion. Total securities measured at fair value and classified in Level 3 at December 31, 2009 and December 31, 2008 included securities available for sale and trading securities consisting primarily of non-agency residential mortgage-backed securities and asset-backed securities where management determined that the volume and level of activity for these assets had significantly decreased. There have been no recent new private label issues

in the residential mortgage-backed securities market. The lack of relevant market activity for these securities resulted in management modifying its valuation methodology for the instruments transferred in 2009. Other Level 3 assets include certain commercial mortgage loans held for sale, certain equity securities, auction rate securities, corporate debt securities, private equity investments, residential mortgage servicing rights and other assets.

BUSINESS SEGMENTS REVIEW

In the first quarter of 2009, we made changes to our business organization structure and management reporting in conjunction with the acquisition of National City.

Business segment results for 2008 have been reclassified to reflect current methodologies and current business and management structure and to present prior periods on the same basis. As a result of its pending sale, GIS is no longer a reportable business segment.

Results for 2009 for all of our business segments except BlackRock include revenues and expenses associated with businesses acquired with National City.

Business segment results, including inter-segment revenues, and a description of each business are included in Note 27 Segment Reporting included in the Notes To Consolidated Financial Statements of this Report. Certain revenue and expense amounts included in this Item 7 differ from the amounts shown in Note 27 primarily due to the presentation in this Item 7 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. We typically update key cost allocation components annually. Certain prior period amounts have been reclassified to reflect current methodologies and our current business and management structure. Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis. We have aggregated the business results for certain similar operating segments for financial reporting purposes.

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product maturities, duration and other factors. Capital is intended to cover unexpected losses and is assigned to 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 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 consolidated results from continuing operations. The impact of these differences is reflected in the Other category. Other for purposes of this Business Segments Review and the Business Segment Highlights in the Executive Summary includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions including LTIP share distributions and obligations, earnings and gains related to Hilliard Lyons for the first quarter of 2008, integration costs, asset and liability management activities including net securities gains or losses and certain trading activities, exited businesses, equity management activities, tax credit investments, 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

	Dec. 31 2009	Dec. 31 2008
Full-time employees		
Retail Banking	**21,416**	22,461
Corporate & Institutional Banking	**3,746**	4,264
Asset Management Group	**2,960**	3,204
Residential Mortgage Banking	**3,267**	3,637
Distressed Assets Portfolio	**175**	106

Other		
Operations & Technology	**9,275**	9,350
Staff Services and other (a)	**8,922**	9,586
Total Other	**18,197**	18,936
Total full-time employees	**49,761**	52,608
Retail Banking part-time employees	**4,737**	5,448
Other part-time employees	**1,322**	1,539
Total part-time employees	**6,059**	6,987
Total	**55,820**	59,595

(a) Includes employees of Global Investment Servicing totaling 4,450 at December 31, 2009 and 4,934 at December 31, 2008.

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. In addition to reductions of full-time and part-time employees since the closing of the National City acquisition, we significantly reduced outside contract programmers related to National City systems scheduled for conversion to PNC systems.

Results Of Businesses Summary

Year ended December 31 - in millions	Earnings 2009	Earnings 2008	Revenue 2009	Revenue 2008	Average Assets (a) 2009	Average Assets (a) 2008
Retail Banking (b)	**$ 136**	$ 328	**$ 5,721**	$ 2,731	**$ 65,320**	$ 32,922
Corporate & Institutional Banking	**1,190**	215	**5,266**	1,859	**84,689**	47,050
Asset Management Group	**105**	119	**919**	559	**7,341**	3,001
Residential Mortgage Banking	**435**		**1,328**		**8,420**	
Distressed Assets Portfolio	**84**		**1,153**		**22,844**	
BlackRock	**207**	207	**262**	261	**6,249**	4,240
Total business segments	**2,157**	869	**14,469**	5,410	**194,863**	87,213
Other (b) (c) (d)	**201**	(73)	**1,579**	886	**82,013**	54,807
Results from continuing operations	**$ 2,358**	$ 796	**$ 16,228**	$ 6,296	**$ 276,876**	$ 142,020

(a) Period-end balances for BlackRock.

(b) Amounts for 2009 include the results of the 61 branches divested by early September 2009. Amounts for 2008 reflect the reclassification of the results of Hilliard Lyons, which we sold on March 31, 2008, and the related gain on sale, from Retail Banking to Other.

(c) Other earnings and revenue for 2009 include a $687 million after-tax ($1.076 billion pretax) gain related to the BlackRock/BGI transaction and Other earnings for 2009 also includes $274 million of after-tax ($421 million pretax) integration costs primarily related to National City. Other earnings for 2008 includes $422 million of after-tax ($649 million pretax) integration costs, including conforming provision for credit losses, primarily related to National City.

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

Retail Banking

(Unaudited)

Year ended December 31

Dollars in millions	2009 (a)	2008
Income Statement		
Net interest income	**$ 3,522**	$ 1,594
Noninterest income		
Service charges on deposits	**930**	359
Brokerage	**245**	152
Consumer services	**886**	416
Other	**138**	210
Total noninterest income	**2,199**	1,137
Total revenue	**5,721**	2,731
Provision for credit losses	**1,330**	388
Noninterest expense	**4,169**	1,789
Pretax earnings	**222**	554
Income taxes	**86**	226
Earnings	**$ 136**	$ 328
Average Balance Sheet		
Loans		
Consumer		
Home equity	**$ 27,403**	$ 13,263
Indirect	**4,036**	2,050
Education	**5,625**	2,012
Credit cards	**2,239**	264
Other consumer	**1,791**	468
Total consumer	**41,094**	18,057
Commercial and commercial real estate	**12,306**	5,029
Floor plan	**1,264**	992
Residential mortgage	**2,064**	2,029
Total loans	**56,728**	26,107
Goodwill and other intangible assets	**5,842**	5,192
Other assets	**2,750**	1,623
Total assets	**$ 65,320**	$ 32,922
Deposits		
Noninterest-bearing demand	**$ 16,308**	$ 9,191
Interest-bearing demand	**18,357**	8,073
Money market	**39,394**	17,220
Total transaction deposits	**74,059**	34,484
Savings	**6,610**	2,681
Certificates of deposit	**53,145**	15,800
Total deposits	**133,814**	52,965
Other liabilities	**51**	333
Capital	**8,497**	3,334
Total liabilities and equity	**$ 142,362**	$ 56,632
Performance Ratios		
Return on average capital	**2%**	10%
Noninterest income to total revenue	**38**	42
Efficiency	**73**	66
Other Information (b)		
Credit-related statistics:		
Commercial nonperforming assets	**$ 324**	$ 122
Consumer nonperforming assets	**284**	68
Total nonperforming assets (c)	**$ 608**	$ 190
Impaired loans (d)	**$ 1,056**	$ 1,297
Commercial lending net charge-offs	**$ 415**	$ 139
Consumer lending net charge-offs	**611**	118
Total net charge-offs	**$ 1,026**	$ 257
Commercial lending annualized net charge-off ratio	**3.06%**	2.31%
Consumer lending annualized net charge-off ratio	**1.42%**	.59%

Total annualized net charge-off ratio	**1.81%**	.98%
At December 31		

Dollars in millions, except as noted	2009 (a)	2008
OTHER INFORMATION (CONTINUED) (b)		
Other statistics:		
ATMs	**6,473**	4,041
Branches (e)	**2,512**	1,141
Home equity portfolio credit statistics:		
% of first lien positions (f)	**35%**	37%
Weighted average loan-to-value ratios (f)	**74%**	73%
Weighted average FICO scores (g)	**727**	726
Annualized net charge-off ratio	**.75%**	.49%
Loans 30 89 days past due	**.78%**	.68%
Loans 90 days past due	**.76%**	.62%
Customer-related statistics (h):		
Retail Banking checking relationships	**5,042,000**	2,402,000
Retail online banking active customers	**2,771,000**	1,215,000
Retail online bill payment active customers	**766,000**	379,000
Brokerage statistics:		
Financial consultants (i)	**704**	414
Full service brokerage offices	**40**	23
Brokerage account assets (billions)	**$ 32**	$ 15
Managed credit card loans:		
Loans held in portfolio	**$ 2,556**	$ 330
Loans securitized	**1,622**	
Total managed credit card loans	**$ 4,178**	$ 330
Net charge-offs:		
Securitized credit card loans	**$ 131**	
Managed credit card loans	**$ 340**	$ 11
Net charge-offs as a % of average loans (annualized):		
Securitized credit card loans	**7.31%**	
Managed credit card loans	**8.46%**	4.17%

(a) Includes the impact of National City, which we acquired on December 31, 2008.
(b) Presented as of December 31 except for net charge-offs and annualized net charge-off ratios.
(c) Includes nonperforming loans of $597 million at December 31, 2009 and $176 million at December 31, 2008.
(d) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.
(e) Excludes certain satellite branches that provide limited products and/or services.
(f) Includes loans from acquired portfolios for which lien position and loan-to-value information was not available.
(g) Represents the most recent FICO scores we have on file.
(h) Amounts for 2009 include the impact of National City prior to the completion of all application system conversions. These amounts may be refined subsequent to system conversions.
(i) Financial consultants provide services in full service brokerage offices and traditional bank branches.

Retail Banking s earnings were $136 million for 2009 compared with $328 million for 2008. Results were challenged in this environment by increased credit costs, lower interest credits assigned to the segment s deposits, reduced consumer spending and increased FDIC insurance costs. Pre-tax, pre-provision earnings were $1.6 billion for 2009, a 65% increase over 2008. Retail Banking continues to maintain its focus on customer, loan and deposit growth, employee and customer 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 2009:

- The acquisition of National City added approximately $29 billion of loans and $81 billion of deposits to Retail Banking. Other salient points related to this acquisition include the following:
  - Added over 1,400 branches,
  - Expanded our ATMs by over 2,100 locations,
  - Established or significantly increased our branch presence in Ohio, Kentucky, Indiana, Illinois, Pennsylvania, Michigan, Wisconsin, Missouri and Florida giving PNC one of the largest branch distribution networks among banks in the country,
  - Expanded our customer base with the addition of approximately 2.7 million checking relationships, and
  - Added $12 billion in brokerage account assets.

We successfully completed the required divestiture of 61 branches and 73 ATMs from the National City acquisition by early September and the first major conversion of National City customers to the PNC platform in November 2009, with three remaining conversions on schedule to be completed by June 2010.

- Retail Banking expanded the number of customers it serves and grew checking relationships. Excluding relationships added from acquisitions and the impact of the required divestitures, net new consumer and business checking relationships for legacy PNC grew by 119,000 since December 31, 2008 compared with 70,000 during the same period last year.
- Our investment in online banking capabilities continued to pay off. Excluding customers added from acquisitions and the impact of the required divestitures, active online bill pay and active online banking customers have increased 18% and 17%, respectively, since December 31, 2008. We continue to seek customer growth by expanding our use of technology, such as our Virtual Wallet online banking product. We leveraged our understanding of this market along with our extensive university banking program and launched a new product in the second quarter of 2009 for college students and their parents, called Virtual Wallet Student.
- Employee engagement and customer satisfaction/loyalty results are tracking at all time highs. In 2009, we received the Gallup Great Workplace Award in recognition of our extraordinary ability to create an engaged workplace culture.
- At December 31, 2009, Retail Banking had 2,512 branches and an ATM network of 6,473 machines giving PNC one of the largest distribution networks among US banks. We continued to invest in the branch network, albeit at a slower pace than in prior years given the current economic conditions. We are optimizing our network by opening new branches in high growth areas, relocating branches to areas of higher market opportunity, and consolidating branches in areas of declining opportunity. In 2009, we opened 27 traditional branches and 45 in-store branches, added 313 ATMs, and divested 61 branches and 73 ATMs. To continue to optimize our network, we also consolidated 79 and relocated 11 branches in 2009. The in-store branches and the ATMs were primarily opened under our previously reported exclusive banking services agreement with Giant Food LLC supermarkets.

Total revenue for 2009 was $5.7 billion compared with $2.7 billion in 2008. Net interest income of $3.5 billion increased $1.9 billion compared with 2008. The increase in net interest income was driven by the National City acquisition and was partially offset by declines in legacy net interest income as a result of the negative impact of lower interest credits assigned to the segment s deposits in this low rate environment.

Noninterest income for 2009 was $2.2 billion, an increase of $1.1 billion over the prior year. The National City acquisition was the major factor for the increase, partially offset by a $95 million gain from the redemption of Visa common shares in the first quarter of 2008. In addition, core growth in brokerage account activities and consumer related fees have been negatively impacted by current economic conditions. The Market Risk Management Equity and Other Investment Risk section of this Item 7 includes further information regarding our investment in Visa.

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 and 2) the Credit CARD Act. Current estimates are that 2010 earnings will be impacted by approximately $115 million related to Regulation E and by approximately $40 million attributable to the Credit CARD Act. These estimates do not include any additional negative 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.

In 2009, the provision for credit losses was $1.3 billion compared with $388 million in 2008. Net charge-offs were $1.0 billion for 2009 and $257 million last year. The increases in provision and net charge-offs were primarily a result of a loan portfolio that has increased 117%, including a significantly larger credit card portfolio, and the continued credit deterioration in both the commercial and consumer loan portfolios which has required an increase to loan loss reserves.

Noninterest expense for 2009 totaled $4.2 billion, an increase of $2.4 billion over last year. The increase was primarily attributable to the impact of acquisitions, as well as increased FDIC insurance costs and continued investments in the business.

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. Average total deposits increased $80.8 billion compared with 2008.

- Average money market deposits increased $22.2 billion over 2008. This increase was primarily due to the National City acquisition and core money market growth as customers generally prefer more liquid deposits in a low rate environment.
- In 2009, average certificates of deposit increased $37.3 billion over the prior year. The increase was due to the National City acquisition, which was partially offset by a decrease in legacy certificates of deposits. The legacy decline is a result of a focus on relationship customers rather than pursuing higher-rate single service customers. A continued decline in certificates of deposit is expected in 2010 due to the planned run off of higher rate certificates of deposits that were primarily acquired through acquisition.
- Average demand deposits increased $17.4 billion over 2008. This increase was driven by acquisitions and organic growth.

Currently, we are predominately focused on a relationship-based lending strategy that targets specific customer sectors (mass consumers, homeowners, students, small businesses and auto dealerships). In 2009, average total loans were $56.7 billion, an increase of $30.6 billion over 2008. In the current environment, consumer and commercial loan demand is being outpaced by refinances, paydowns, and charge-offs.

- Average commercial and commercial real estate loans grew $7.3 billion compared with 2008. The increase was primarily due to the National City acquisition.
- Average home equity loans grew $14.1 billion over 2008. The majority of the increase is attributable to the National City acquisition. Our 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 education loans grew $3.6 billion compared with 2008. The increase was due to the National City acquisition and an increase in the core business. The core business increase was primarily a result of the transfer of approximately $1.8 billion of education loans previously held for sale to the loan portfolio during the first quarter of 2008.
- The education lending business may be adversely impacted by the proposed legislation surrounding guaranteed education loans issued under the current Federal program.
- Average credit card balances increased $2.0 billion over 2008. The increase was primarily the result of the National City acquisition and also reflected legacy growth of 71% over 2008. Effective January 2010, we will consolidate in our financial statements the securitized portfolio of approximately $1.6 billion of credit card loans. See Impact of New Accounting Guidance in 2010 in the Off-Balance Sheet Arrangements and VIEs section of Item 7.

Corporate & Institutional Banking

(Unaudited)

Year ended December 31

Dollars in millions except as noted	2009 (a)	2008
Income Statement		
Net interest income	**$ 3,833**	$ 1,323
Noninterest income		
Corporate service fees	**915**	583
Other	**518**	(47)
Noninterest income	**1,433**	536
Total revenue	**5,266**	1,859
Provision for credit losses	**1,603**	575
Noninterest expense	**1,800**	945
Pretax earnings	**1,863**	339
Income taxes	**673**	124
Earnings	**$ 1,190**	$ 215
Average Balance Sheet		
Loans		
Commercial	**$ 41,132**	$ 20,439
Commercial real estate	**15,489**	5,584
Commercial real estate related	**3,772**	3,049
Asset-based lending	**6,344**	5,274
Equipment lease financing	**5,390**	1,482
Total loans	**72,127**	35,828
Goodwill and other intangible assets	**3,583**	3,149
Loans held for sale	**1,679**	2,053
Other assets	**7,300**	6,020
Total assets	**$ 84,689**	$ 47,050
Deposits		
Noninterest-bearing demand	**$ 19,948**	$ 8,388
Money market	**9,697**	5,817
Other	**7,911**	3,129
Total deposits	**37,556**	17,334
Other liabilities	**9,118**	5,357
Capital	**7,837**	3,087
Total liabilities and equity	**$ 54,511**	$ 25,778
Performance Ratios		
Return on average capital	**15%**	7%
Noninterest income to total revenue	**27**	29
Efficiency	**34**	51
Commercial Mortgage Servicing Portfolio (in billions)		
Beginning of period	**$ 270**	$ 243
Acquisitions/additions	**50**	51
Repayments/transfers	**(33)**	(24)
End of period	**$ 287**	$ 270
Other Information		
Consolidated revenue from: (b)		
Treasury Management	**$ 1,137**	$ 567
Capital Markets	**$ 533**	$ 336
Commercial mortgage loans held for sale (c)	**$ 205**	$ (115)
Commercial mortgage loan servicing (d)	**280**	180
Total commercial mortgage banking activities	**$ 485**	$ 65
Total loans (e)	**$ 66,206**	$ 38,063
Credit-related statistics:		

Nonperforming assets (e) (f)	**$ 3,167**	$ 1,173
Impaired loans (e) (g)	**$ 1,075**	$ 1,816
Net charge-offs	**$ 1,052**	$ 267
Net carrying amount of commercial mortgage servicing rights (e)	**$ 921**	$ 654

(a) Includes the impact of National City, which we acquired on December 31, 2008.
(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 and net interest income on loans held for sale.
(d) Includes net interest income and noninterest income from loan servicing and ancillary services.
(e) At December 31.
(f) Includes nonperforming loans of $3.0 billion at December 31, 2009 and $1.2 billion at December 31, 2008.
(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 $1.2 billion in 2009 compared with $215 million in 2008. The acquisition of National City positively impacted operating results as revenues nearly tripled while expenses approximately doubled in the comparison. As a result, operating leverage of $2.6 billion more than offset a $1.0 billion increase in the provision for credit losses.

Highlights of Corporate & Institutional Banking performance during 2009 include:

- Net interest income for 2009 was $3.8 billion, an increase of $2.5 billion from 2008 driven primarily by the National City acquisition, higher deposit levels and improved loan spreads.
- Corporate service fees were $915 million for 2009, an increase of $332 million over 2008. The major components of corporate service fees are treasury management, corporate finance fees and commercial mortgage servicing revenue.
- We continued to invest in our healthcare initiative which is designed to help provide our customers opportunities to reduce operating costs. Healthcare-related revenues in 2009 increased 23% from 2008, to $85 million.
- The commercial real estate servicing portfolio remained relatively flat except for the impact of the National City acquisition. At Midland Loan Services, growth within the agency servicing portfolio offset the impact of the downturn in the CMBS market during 2008 and 2009. Rising commercial real estate delinquencies and defaults have resulted in growth in the special servicing portfolio, which increased from $2.9 billion at year-end 2008, to $12.1 billion at December 31, 2009.
- Midland Loan Services is the only company in the industry to hold the highest US CMBS primary, master and special servicer ratings from both Fitch and Standard & Poor s.
- In a challenging business environment, our multi-family origination activities for FNMA and FHLMC remained robust with 2009 originations of $4.2 billion.
- Our PNC Loan Syndications business led financings for over 160 middle market clients during 2009.
- Merger and advisory revenues declined $68 million from 2008 reflecting the impact of the difficult economic environment on acquisition activity.

Other noninterest income was $518 million for 2009, an increase of $565 million from 2008 primarily due to the National City acquisition.

Operating lease revenues were $106 million in 2009, largely due to the National City acquisition. The combined leasing operations are the 5th largest bank-affiliated leasing company.

Valuation and sale income related to our commercial mortgage loans held for sale, net of hedges, were $107 million in 2009 compared with losses of $197 million in 2008. Inventory carried at fair value at December 31, 2009 was $1.1 billion, reduced from $1.4 billion at December 31, 2008.

Gains on sales of loans related to our portfolio management activities were $95 million in 2009. We sold approximately $1.4 billion of commitments during 2009.

Provision for credit losses was $1.6 billion in 2009, an increase of $1.0 billion from 2008, driven by general credit deterioration, primarily in the real estate, middle market and transportation related portfolios, and the National City acquisition. The increases in net charge-offs and nonperforming assets were primarily due to the National City acquisition as well as increasing difficulties experienced by middle market customers.

Noninterest expense was $1.8 billion for 2009, an increase of $855 million from 2008, due to the National City acquisition.

Otherwise, expenses were essentially flat as lower compensation-related costs offset higher credit-related and FDIC insurance costs.

Average loans were $72.1 billion for 2009, an increase of $36.3 billion from 2008, driven by the National City acquisition. We continue to experience declines in utilization rates across our middle market and large corporate customer groups. We continue to pursue new customers that meet our risk profile. We added approximately 500 new corporate clients during 2009. Our PNC Business Credit business increased new lending commitments over 11%, to $15 billion, during 2009.

Average deposits were $37.6 billion for 2009, an increase of $20.2 billion over 2008 primarily due to the National City acquisition. PNC continued to experience deposit growth during 2009, including the return of deposits from National City customers who had previously moved funds to other institutions.

Harris Williams, our middle market merger and acquisitions advisory firm, recently opened its first overseas office in London under the name Harris Williams Limited. This office provides direct access to European investors.

See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities on page 28.

Asset Management Group

(Unaudited)

Year ended December 31 Dollars in millions except as noted	**2009 (a)**	2008 (b)
Income Statement		
Net interest income	**$ 308**	$ 130
Noninterest income	**611**	429
Total revenue	**919**	559
Provision for credit losses	**97**	6
Noninterest expense	**654**	363
Pretax earnings	**168**	190
Income taxes	**63**	71
Earnings	**$ 105**	$ 119
Average Balance Sheet		
Loans		
Consumer	**$ 3,957**	$ 2,136
Commercial and commercial real estate	**1,648**	577
Residential mortgage	**1,078**	66
Total loans	**6,683**	2,779
Goodwill and other intangible assets	**407**	39
Other assets	**251**	183
Total assets	**$ 7,341**	$ 3,001
Deposits		
Noninterest-bearing demand	**$ 1,091**	$ 859
Interest-bearing demand	**1,582**	700
Money market	**3,208**	1,855
Total transaction deposits	**5,881**	3,414
Certificates of deposit and other	**1,076**	589
Total deposits	**6,957**	4,003
Other liabilities	**111**	12
Capital	**575**	255
Total liabilities and equity	**$ 7,643**	$ 4,270
Performance Ratios		
Return on average capital	**18%**	47%
Noninterest income to total revenue	**66**	77
Efficiency	**71**	65
Other Information		
Total nonperforming assets (c) (d)	**$ 155**	$ 5
Impaired loans (c) (e)	**$ 198**	$ 225
Total net charge-offs	**$ 63**	$ 2
Assets Under Administration		
(in billions) (c) (f) (g)		
Personal	**$ 94**	$ 61
Institutional	**111**	83
Total	**$ 205**	$ 144
Asset Type		
Equity	**$ 100**	$ 60
Fixed Income	**58**	38
Liquidity/Other	**47**	46
Total	**$ 205**	$ 144

	2009 (a)	2008 (b)
Discretionary assets under management		
Personal	**$ 67**	$ 38

Institutional	**36**	19
Total	**$ 103**	$ 57
Asset Type		
Equity	**$ 49**	$ 26
Fixed Income	**34**	19
Liquidity/Other	**20**	12
Total	**$ 103**	$ 57
Nondiscretionary assets under administration		
Personal	**$ 27**	$ 23
Institutional	**75**	64
Total	**$ 102**	$ 87
Asset Type		
Equity	**$ 51**	$ 34
Fixed Income	**24**	19
Liquidity/Other	**27**	34
Total	**$ 102**	$ 87

(a) Includes the impact of National City, which we acquired on December 31, 2008.
(b) Includes the legacy PNC wealth management business previously included in Retail Banking.
(c) As of December 31.
(d) Includes nonperforming loans of $149 million at December 31, 2009 and $5 million at December 31, 2008.
(e) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.
(f) Excludes brokerage account assets.
(g) Amounts at December 31, 2008 exclude the impact of National City. Including National City, assets under administration totaled $228 billion at December 31, 2008, including discretionary assets under management of $103 billion and nondiscretionary assets under administration of $125 billion.

Asset Management Group earned $105 million for 2009 compared with $119 million for 2008. Assets under administration were $205 billion as of December 31, 2009. Asset Management Group achieved strong total revenue of $919 million for 2009, with $308 million in net interest income and $611 million in noninterest income. The business increased pretax, pre-provision earnings by $69 million or 35% over 2008, as the business grew clients, managed expenses and successfully executed the National City integration. The earnings decline from 2008 was primarily driven by a $91 million increase in provision for credit losses reflective of a weakened economy.

Highlights of Asset Management Group s performance during 2009 include the following:

- Strong sales and client retention,
- Increased client satisfaction, and
- Disciplined expense management.

Assets under administration of $205 billion at December 31, 2009 increased $61 billion compared with the balance at December 31, 2008. Including National City, assets under administration were $228 billion at December 31, 2008. Discretionary assets under management of $103 billion at December 31, 2009 increased $46 billion compared with the prior year-end balance. The increase in discretionary assets under management is attributable to the National City acquisition.

Nondiscretionary assets under administration of $102 billion at December 31, 2009 increased $15 billion compared with the balance at December 31, 2008. This increase was driven by the National City acquisition, somewhat mitigated by a decline in institutional assets related to the exit of a noncore product offering and other National City integration impacts.

Total revenue for 2009 was $919 million compared with $559 million for 2008. Net interest income of $308 million reflected additional revenue from the National City loan and deposit portfolios and strong yields from the loan portfolio. The year-over-year increase in net interest income was partially offset by lower interest credits assigned to the segment s deposits in this low interest rate environment. Noninterest income of $611 million increased $182 million compared with 2008 primarily

in asset management fees. The growth was attributable to the National City acquisition, client retention and new business development activities.

The provision for credit losses of $97 million increased from $6 million in 2008 as loan loss reserves were increased beyond charge-offs due to credit quality deterioration. Net charge-offs were $63 million for 2009 and $2 million for 2008.

Noninterest expense of $654 million increased $291 million in 2009 compared with 2008. The increase is attributable to the National City acquisition. Implementation of various integration-related initiatives has mitigated this increase in expenses. Expense management remains a key focal point for this business and the implementation of efficiency initiatives will continue throughout 2010.

Balance sheet activity for 2009 reflected both core and acquisition-related growth. Average loans of $6.7 billion increased $3.9 billion compared with 2008. Average total deposits of $7.0 billion increased $3.0 billion compared with 2008. During the economic downturn, customers shifted from riskier equity investments into safer deposit products, resulting in solid money market and demand deposit growth.

RESIDENTIAL MORTGAGE BANKING

(Unaudited)

Year ended December 31

Dollars in millions, except as noted	2009
INCOME STATEMENT	
Net interest income	$ 332
Noninterest income	
Loan servicing revenue	
Servicing fees	222
Net MSR hedging gains	355
Loan sales revenue	435
Other	(16)
Total noninterest income	996
Total revenue	1,328
Provision for (recoveries of) credit losses	(4)
Noninterest expense	632
Pretax earnings	700
Income taxes	265
Earnings	$ 435
AVERAGE BALANCE SHEET	
Portfolio loans	$ 1,957
Loans held for sale	2,204
Mortgage servicing rights (MSR)	1,297
Other assets	2,962
Total assets	$ 8,420
Deposits	$ 4,135
Borrowings and other liabilities	2,924
Capital	1,359
Total liabilities and equity	$ 8,418
PERFORMANCE RATIOS	
Return on average capital	32%
Efficiency	48%
OTHER INFORMATION	
Servicing portfolio for others (in billions) (a)	$ 145
Fixed rate	88%
Adjustable rate/balloon	12%
Weighted average interest rate	5.82%
MSR capitalized value (in billions)	$ 1.3
MSR capitalization value (in basis points)	91
Weighted average servicing fee (in basis points)	30
Loan origination volume (in billions)	$ 19.1
Percentage of originations represented by:	
Agency and government programs	97%
Refinance volume	72%
Total nonperforming assets (a) (b)	$ 370
Impaired loans (a) (c)	$ 369

(a) As of December 31.
(b) Includes nonperforming loans of $215 million.
(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 $435 million in 2009 driven by strong loan origination activity and net mortgage servicing rights hedging gains. This business segment consists primarily of activities acquired with National City.

Residential Mortgage Banking overview:

As a step to improve the quality and efficiency of our mortgage operations, during 2009 we consolidated approximately 90 existing operations sites into two locations   Chicago and Pittsburgh.

Total loan originations were $19.1 billion for 2009, reflecting strong loan refinance activity consistent with industry trends. However, rising mortgage rates during the second half of 2009 reduced incoming application volume. Loans were primarily originated through direct channels under agency (FNMA, FHLMC, FHA/VA) 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. During 2009, the frequency of such requests increased in relation to prior years. Management maintains a liability for estimated losses on loans expected to be repurchased or on which indemnification is expected to be provided. At December 31, 2009 this liability for Residential Mortgage Banking was $229 million. See Note 25 Commitments and Guarantees in the Notes to Consolidated Financial Statements in Item 8 of this Report for additional information.

Residential mortgage loans serviced for others totaled $145 billion at December 31, 2009 compared with $173 billion at January 1, 2009, as payoffs exceeded new direct loan origination volume during the year. In addition, $7.9 billion of servicing was sold in the fourth quarter.

Noninterest income was $996 million for 2009, driven by loan sales revenue of $435 million that resulted from strong loan origination refinance volume and net mortgage servicing rights hedging gains of $355 million. In 2010, we do not expect a significant level of servicing hedge gains. Additionally, we do not expect refinance and application volumes to be as strong in 2010 as they were for 2009.

Net interest income was $332 million for 2009 resulting from residential mortgage loans held for sale associated with strong loan origination refinance volumes during the year.

Noninterest expense was $632 million for 2009 and included incremental staffing costs associated with strong origination volumes and an increased focus on loan underwriting and loss mitigation activities.

The carrying value of mortgage servicing rights was $1.3 billion at December 31, 2009 compared with $1.0 billion at January 1, 2009. The increase was primarily attributable to a higher fair value of the asset resulting from lower prepayment expectations due to rising interest rates during the period.

BlackRock

Information related to our equity investment in BlackRock follows:

	2009	2008
Business segment earnings (in millions) (a)	**$ 207**	$ 207
PNC s share of BlackRock earnings (b)	**23%**	33%
Carrying value of PNC s investment in BlackRock (in billions) (b)	**$ 5.8**	$ 4.2

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

BlackRock/Barclays

Global Investors Transaction

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 amendments to stockholder agreements with PNC and its other major shareholder. These amendments, which changed certain shareholder rights, including composition of the BlackRock Board of Directors and share transfer restrictions, became effective upon closing of the BGI transaction. Also 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 s 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.

Upon closing of the BGI transaction, the carrying value of our investment in BlackRock increased significantly, reflecting our portion of the increase in BlackRock s equity resulting from the value of BlackRock shares issued in connection with their acquisition of BGI. PNC recognized this increase in value as a $1.076 billion pretax gain in the fourth quarter of 2009. At December 31, 2009, our percentage ownership of BlackRock common stock was approximately 35%.

BlackRock LTIP Programs and Exchange Agreements

PNC s noninterest income included pretax gains of $98 million in 2009 and $243 million in 2008 related to our BlackRock LTIP shares obligation. These gains 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 those periods.

As previously reported, PNC entered into an Exchange Agreement with BlackRock on December 26, 2008. The transactions that resulted from this agreement restructured PNC s ownership of BlackRock equity without altering, to any meaningful extent, PNC s economic interest in BlackRock. PNC continues to be subject to the limitations on its voting rights in its existing agreements with BlackRock. Also on December 26, 2008, BlackRock entered into an Exchange Agreement with Merrill Lynch in anticipation of the consummation of the merger of Bank of America Corporation and Merrill Lynch that occurred on January 1, 2009. The PNC and Merrill Lynch Exchange Agreements restructured PNC s and Merrill Lynch s respective ownership of BlackRock common and preferred equity.

The exchange contemplated by these agreements was completed on February 27, 2009. On that date, PNC s obligation to deliver BlackRock common shares 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 these preferred shares at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock as we aligned the fair value marks on this asset and liability. The fair value of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in 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 included in Item 8 of this Report.

PNC accounts for its remaining investment in BlackRock under the equity method of accounting, with its share of BlackRock s earnings reduced primarily due to the exchange of BlackRock common stock for BlackRock Series C Preferred Stock. The Series C Preferred Stock is not taken into consideration in determining PNC s share of BlackRock earnings under the equity method. PNC s percentage ownership of BlackRock common stock increased as a result of the substantial exchange of Merrill Lynch s BlackRock common stock for BlackRock preferred stock. As a result of the BlackRock preferred stock held by Merrill Lynch and the new BlackRock preferred stock issued to Merrill Lynch and PNC under the Exchange Agreements, PNC s share of BlackRock common stock is higher than its 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.

DISTRESSED ASSETS PORTFOLIO

(Unaudited)

Year ended December 31

Dollars in millions, except as noted	**2009**
INCOME STATEMENT	
Net interest income	**$ 1,079**
Noninterest income	**74**
Total revenue	**1,153**
Provision for credit losses	**771**
Noninterest expense	**246**
Pretax earnings	**136**
Income taxes	**52**
Earnings	**$ 84**
AVERAGE BALANCE SHEET	
COMMERCIAL LENDING:	
Commercial	**$ 155**
Commercial real estate	
Real estate projects	**2,780**
Commercial mortgage	**97**
Equipment lease financing	**818**
Total commercial lending	**3,850**
CONSUMER LENDING:	
Consumer:	
Home equity lines of credit	**4,952**
Home equity installment loans	**2,134**
Other consumer	**15**
Total consumer	**7,101**
Residential real estate:	
Residential mortgage	**8,729**
Residential construction	**1,436**
Total residential real estate	**10,165**
Total consumer lending	**17,266**
Total portfolio loans	**21,116**
Other assets	**1,728**
Total assets	**$ 22,844**
Deposits	**$ 39**
Other liabilities	**92**
Capital	**1,574**
Total liabilities and equity	**$ 1,705**
OTHER INFORMATION	
Nonperforming assets (a) (b)	**$ 1,787**
Impaired loans (a) (c)	**$ 7,577**
Net charge-offs (d)	**$ 544**
Net charge-offs as a percentage of portfolio loans (d)	**2.58%**
LOANS (IN BILLIONS) (a)	
Commercial	
Residential development	**$ 2.6**
Cross-border leases	**.8**
Consumer	
Brokered home equity	**6.4**
Retail mortgages	**5.2**
Non-prime mortgages	**1.7**
Residential completed construction	**1.3**
Residential construction	**.5**

Total loans	**$ 18.5**

(a) As of December 31.
(b) Includes nonperforming loans of $1.456 billion.
(c) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008.
(d) For the year ended December 31.

This business segment consists primarily of assets acquired with National City. The Distressed Assets Portfolio had earnings of $84 million for 2009. Earnings were largely driven by net interest income of $1.1 billion. The provision for credit losses was $771 million in 2009, which reflected credit quality deterioration, particularly in the commercial residential development and consumer residential construction portfolios. Noninterest expense was $246 million for 2009, comprised primarily of costs associated with foreclosed assets and servicing costs.

Distressed Assets Portfolio overview:

- Total loans were $18.5 billion at December 31, 2009 compared with $27 billion at January 1, 2009. The reduction in loans during 2009 was primarily due to net paydowns and charge-offs.
- The loan portfolio included commercial residential development loans, cross border leases, consumer brokered home equity loans, retail mortgages, non-prime mortgages and residential construction loans.
- 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 portfolios 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 $18.5 billion of loans held in this portfolio are stated inclusive of a fair value mark at acquisition. Taking the mark and loan loss allowance into account, the net carrying basis of this loan portfolio is 75% of customer outstandings.
- The commercial residential development portfolio has undergone a loan review of the project collateral, including certain site visits. A team of asset managers has been assembled to address workout strategies. Actions taken on the portfolio included reducing unfunded loan exposure, foreclosing on residential real estate development properties, and selling loans.
- 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. We have implemented several modification programs to assist the loss mitigation teams that manage this risk. Additionally, we have initiated several voluntary and involuntary programs to reduce and/or block line availability on home equity lines of credit.
- Retail 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. As part of our loss mitigation strategy,

we have transferred a small portfolio to a third party servicer. Additionally, 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.

Active construction loans remain available as a part of some construction phases of the real estate development and have not been fully funded. 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.

Completed construction loans are comprised of loans on which all phases of property construction are complete and the loan has been funded as needed to allow for construction completion. We are managing completed construction loans consistent with the strategies for residential real estate loans.

The fair value marks 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.

Critical Accounting

Estimates And Judgments

Our consolidated financial statements are prepared by applying certain accounting policies. Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report describes the most significant accounting policies that we use. Certain of these policies require us to make estimates 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.

Fair Value Measurements

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

GAAP, Business Combinations (Topic 805). The valuation of both financial and nonfinancial assets and liabilities in these transactions requires numerous assumptions and estimates and the use of third-party sources including appraisers and valuation specialists.

Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Assets and liabilities measured at fair value on a recurring basis, including those elected under Financial Instruments (Topic 825), include available for sale and trading securities, financial derivatives, certain commercial and residential mortgage loans held for sale, customer resale agreements, private equity investments, and residential mortgage servicing rights. 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 other independent third-party sources, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact our future financial condition and results of operations.

Effective January 1, 2008, PNC adopted Fair Value Measurements and Disclosures (Topic 820). This guidance defines fair value as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. This guidance established a three level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable.

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

Fair Value Measurements and Fair Value Option included within this Item 7, and

Note 8 Fair Value included in Notes To Consolidated Financial Statements in Item 8 of this Report.

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

We maintain allowances for loan and lease losses and unfunded loan commitments and letters of credit at levels that we believe to be adequate to absorb estimated probable credit losses incurred in the loan portfolio. We determine the adequacy of the allowances based on periodic evaluations of the loan and lease portfolios and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, all of which may be susceptible to significant change, including, among others:

- Probability of default,
- Loss given default,
- Exposure at date of default,

- Amounts and timing of expected future cash flows on impaired loans,
- Value of collateral,
- Historical loss exposure, and
- Amounts for changes in economic conditions that may not be reflected in historical results.

In determining the adequacy of the allowance for loan and lease losses, we make specific allocations to impaired loans, allocations to pools of watchlist and non-watchlist loans, and allocations to consumer and residential mortgage loans. We also allocate reserves to provide coverage for probable losses not covered in specific, pool and consumer reserve methodologies related to qualitative factors. While allocations are made to specific loans and pools of loans, the total reserve is available for all credit losses.

Commercial lending is the largest category of credits 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 approximately $3.4 billion, or 66%, of the allowance for loan and lease losses at December 31, 2009 to the commercial lending category. Consumer and residential mortgage loan allocations are made at a total portfolio level based on historical loss experience adjusted for portfolio activity. Approximately $1.7 billion, or 34%, of the allowance for loan and lease losses at December 31, 2009 have been allocated to these consumer lending categories.

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

- Allowances For Loan And Lease Losses and Unfunded Loan Commitments and Letters Of Credit in the Credit Risk Management section of this Item 7 (which includes an illustration of the estimated impact on the aggregate of the allowance for loan and lease losses and allowance for unfunded loan commitments and letters of credit assuming we increased pool reserve loss rates for certain loan categories), and
- Note 5 Asset Quality in the Notes To Consolidated Financial Statements and Allocation Of Allowance For Loan And Lease Losses in the Statistical Information (Unaudited) section of Item 8 of this Report.

Estimated Cash Flows on Purchased Impaired Loans

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

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

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

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

Goodwill

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

As such, the value of goodwill is ultimately supported by earnings, which is driven by transaction volume and, for certain businesses, the market value of assets under administration or for which processing services are provided. Lower earnings resulting from a lack of growth or our inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could result in a current period charge to earnings. At least annually, management reviews the current operating environment and strategic direction of each reporting unit taking into consideration any events or changes in circumstances that may have an effect on the unit. A reporting unit is defined as an operating segment or one level below an operating segment. This input is then used to calculate the fair value of the reporting unit, including goodwill, which is compared to its carrying value. If the fair value of the reporting unit exceeds its carrying amount, then the goodwill of that reporting unit is not considered impaired. During the fourth quarter 2008, and the first quarter of 2009, PNC considered whether the decline in the fair value of our market capitalization due to market conditions is an indicator of declines in the fair value of the reporting units. Although the fair values of the reporting units decreased, their estimated fair values are still considered to be in excess of their respective carrying values.

Of the $9.5 billion of goodwill recorded on our consolidated balance sheet as of December 31, 2009, approximately $43 million was associated with the Residential Mortgage Banking reporting unit acquired as part of the National City acquisition. As of October 1, 2009, the date of PNC s annual goodwill impairment testing, the fair value of the Residential Mortgage Banking reporting unit exceeded its carrying value by approximately 11%. Since 11% is a narrow percentage, this reporting unit may be considered the most likely to become impaired in the future. The fair value of this reporting unit had been determined using a discounted cash flow (DCF) valuation model. We used the discounted cash flow median of the comparables, which we believe approximates the fair market value of the unit. The statistical information underlying the comparables and the resulting DCF valuation are highly sensitive to market changes. Therefore, any future deterioration in the residential mortgage market environment may have an adverse impact on the valuation which could result in a reduction of the excess over carrying value and possible impairment of the goodwill.

Based on the results of our analysis, there have been no impairment charges related to goodwill. See Note 9 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Lease Residuals

We provide financing for various types of equipment, aircraft, energy and power systems, and rolling stock through a variety of lease arrangements. Direct financing leases are carried at the sum of lease payments and the estimated residual value of the leased property, less unearned income. Residual value insurance or guarantees by governmental entities provide support for a significant portion of the residual value. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors and insurers. To the extent not guaranteed or assumed by a third party, or otherwise insured against, we bear the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the residual value,

which could result in an impairment charge and reduce earnings in the future. Residual values are reviewed for impairment on a quarterly basis.

Revenue Recognition

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

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

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

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

Residential 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 December 31, 2009 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 US 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.

		December 31
Dollars in millions		**2009**
Fair value	**$**	**1,332**
Weighted-average life (in years)		**4.5**
Weighted-average constant prepayment rate		**19.92%**
Spread over forward interest rate swap rates		**12.16%**

A sensitivity analysis of the hypothetical effect on the fair value of MSRs to adverse changes in key assumptions is presented below. 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.

		December 31
Dollars in millions		**2009**
Prepayment rate:		
Decline in fair value from 10% adverse change	**$**	**56**
Decline in fair value from 20% adverse change	**$**	**109**
Spread over forward interest rate swap rates:		
Decline in fair value from 10% adverse change	**$**	**55**
Decline in fair value from 20% adverse change	**$**	**106**

Income Taxes

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

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

Additional information regarding our Critical Accounting Policies and Judgments is found elsewhere in this Item 7 and in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Recent Accounting

Pronouncements

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report for information on new accounting pronouncements that were effective in 2008, 2009 or became effective on January 1, 2010.

In addition, the following Accounting Standards Update (ASU) was issued in early 2010:

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

Status Of Defined Benefit Pension Plan

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are derived from cash balance formulas 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 this Report.

We calculate the expense associated with the pension plan and the assumptions and methods that we use include a policy of reflecting trust assets at their fair market value. On an annual basis, we review the actuarial assumptions related to the pension plan, 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 has been 8.25% for the past three years. 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 appropri