PNC FINANCIAL SERVICES GROUP INC
Form 10-Q
May 07, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

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

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

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

Yes ¨ No x

As of April 30, 2010, there were 526,050,424 shares of the registrant s common stock ($5 par value) outstanding.

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The PNC Financial Services Group, Inc.

Cross-Reference Index to First Quarter 2010 Form 10-Q

PART II OTHER INFORMATION

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FINANCIAL REVIEW

CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended March 31 **2010**	2009
FINANCIAL PERFORMANCE (a)		
Revenue		
Net interest income	**$ 2,379**	$ 2,320
Noninterest income	**1,384**	1,366
Total revenue	**3,763**	3,686
Noninterest expense	**2,113**	2,158
Pretax, pre-provision earnings (b)	**$ 1,650**	$ 1,528
Provision for credit losses	**$ 751**	$ 880
Income from continuing operations before noncontrolling interests	**$ 648**	$ 520
Income from discontinued operations, net of income taxes (c)	**$ 23**	$ 10
Net income	**$ 671**	$ 530
Net income attributable to common shareholders	**$ 333**	$ 460
Diluted earnings per common share		
Continuing operations	**$ .61**	$ 1.01
Discontinued operations (c)	**.05**	.02
Net income	**$ .66**	$ 1.03
Cash dividends declared per common share	**$ .10**	$ .66
Total preferred dividends declared	**$ 93**	$ 51
TARP Capital Purchase Program preferred dividends (d)	**$ 89**	$ 47
Impact of TARP Capital Purchase Program preferred dividends per diluted common share	**$ .18**	$ .11
PERFORMANCE RATIOS		
From continuing operations		
Noninterest income to total revenue	**37%**	37%
Efficiency (e)	**56**	59
From net income		
Net interest margin (f)	**4.24%**	3.81%
Return on:		
Average common shareholders equity	**5.37**	10.23
Average assets	**1.02**	.77

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

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

(a) The Executive Summary and Consolidated Income Statement Review portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.
(b) PNC believes that pre-tax, pre-provision earnings, a non-GAAP measure, is useful as a tool to help evaluate its ability to provide for credit costs through operations.
(c) Includes results of operations for PNC Global Investment Servicing Inc. See Pending Sale of PNC Global Investment Servicing in the Executive Summary section of the Financial Review section of this Report and Note 2 Divestiture in the Notes To Consolidated Financial Statements of this Report for additional information.
(d) PNC redeemed the Series N (TARP) Preferred Stock on February 10, 2010.
(e) Calculated as noninterest expense divided by total revenue.
(f) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from Federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This

adjustment is not permitted under GAAP in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended March 31, 2010 and March 31, 2009 were $18 million and $15 million, respectively.

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CONSOLIDATED FINANCIAL HIGHLIGHTS (CONTINUED) (a)

Unaudited	**March 31 2010**	December 31 2009	March 31 2009
BALANCE SHEET DATA (dollars in millions, except per share data)			
Assets	**$ 265,396**	$ 269,863	$ 286,422
Loans	**157,266**	157,543	171,373
Allowance for loan and lease losses	**5,319**	5,072	4,299
Interest-earning deposits with banks	**607**	4,488	14,783
Investment securities	**57,606**	56,027	46,253
Loans held for sale	**2,691**	2,539	4,045
Goodwill and other intangible assets	**12,714**	12,909	12,178
Equity investments	**10,256**	10,254	8,215
Noninterest-bearing deposits	**43,122**	44,384	40,610
Interest-bearing deposits	**139,401**	142,538	154,025
Total deposits	**182,523**	186,922	194,635
Transaction deposits	**126,420**	126,244	118,869
Borrowed funds	**42,461**	39,261	48,459
Shareholders equity	**26,818**	29,942	26,477
Common shareholders equity	**26,466**	22,011	18,546
Accumulated other comprehensive loss	**1,288**	1,962	3,289
Book value per common share	**50.32**	47.68	41.67
Common shares outstanding (millions)	**526**	462	445
Loans to deposits	**86%**	84%	88%
ASSETS UNDER ADMINISTRATION (billions)			
Discretionary assets under management	**$ 105**	$ 103	$ 96
Nondiscretionary assets under administration	**104**	102	120
Total assets under administration	**$ 209**	$ 205	$ 216
CAPITAL RATIOS			
Tier 1 risk-based (b)	**10.3%**	11.4%	10.0%
Tier 1 common	**7.9**	6.0	4.9
Total risk-based (b)	**13.9**	15.0	13.6
Leverage (b)	**8.8**	10.1	8.9
Common shareholders equity to assets	**10.0**	8.2	6.5
ASSET QUALITY RATIOS			
Nonperforming loans to total loans	**3.66%**	3.60%	1.73%
Nonperforming assets to total loans and foreclosed and other assets	**4.14**	3.99	2.05
Nonperforming assets to total assets	**2.46**	2.34	1.23
Net charge-offs to average loans (for the three months ended) (annualized)	**1.77**	2.09	1.01
Allowance for loan and lease losses to total loans	**3.38**	3.22	2.51
Allowance for loan and lease losses to nonperforming loans	**92**	89	145

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

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

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FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

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

EXECUTIVE SUMMARY

THE PNC FINANCIAL SERVICES GROUP, INC.

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

PNC has businesses engaged in retail banking, corporate and institutional banking, asset management, 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, Virginia, Missouri, Delaware, Washington, D.C., and Wisconsin. PNC also provides certain products and services internationally.

REPURCHASE OF OUTSTANDING TARP PREFERRED STOCK

As further described in our 2009 Form 10-K, on December 31, 2008, we issued $7.6 billion of Fixed Rate Cumulative Perpetual Preferred Shares, Series N (Series N Preferred Stock), and a related warrant for common stock to the US Department of the Treasury (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 for $7.6 billion in cash. 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 Financial Review, and other available 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. See Note 20 Subsequent Event in the Notes To Consolidated Financial Statements of this Report regarding the May 2010 exchange of this warrant for 16,885,192 warrants, each to purchase one share of PNC common stock, and the sale of such warrants by the US Treasury in a secondary public offering.

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.

Results of operations of GIS are presented as income from discontinued operations, net of income taxes, on our Consolidated Income Statement for the periods presented in this Report. Further information regarding the pending sale of GIS is included in Note 2 Divestiture in our Notes To Consolidated Financial Statements in this Report and in Item 1A Risk Factors in our 2009 Form 10-K. As a result of its pending sale, GIS is no longer a reportable business segment.

National City Integration Costs

We expect to incur pretax merger and integration costs in 2010 of approximately $285 million in connection with our

December 31, 2008 acquisition of National City Corporation (National City), including $113 million recognized in the first quarter of 2010. We recognized National City-related pretax merger and integration costs of $421 million in 2009, including $52 million in the first 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.

KEY STRATEGIC GOALS

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

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

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

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

RECENT MARKET AND INDUSTRY DEVELOPMENTS

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 moderate economic recovery that began last year. In addition, there have been dramatic changes in the competitive landscape of the financial services industry during this time.

Items 1 and 7 of our 2009 Form 10-K include information regarding efforts over the past 18 months by the Federal government, including the US Congress, the US Department of the Treasury, the Federal Reserve, the FDIC, and the Securities and Exchange Commission, to stabilize and restore confidence in the financial services industry that have impacted and will likely continue to impact PNC and our stakeholders. These efforts, which will continue to evolve, include the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, 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).

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

TARP Capital Purchase Program

See Repurchase of Outstanding TARP Preferred Stock above and Note 14 Total Equity And Other Comprehensive Income in the Notes To Consolidated Financial Statements in this Report for additional information.

FDIC Temporary Liquidity Guarantee Program

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

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

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

From October 14, 2008 through December 31, 2009, PNC Bank, National Association (PNC Bank, N.A.) participated in the TLGP-Transaction Account Guarantee Program. Beginning January 1, 2010, PNC Bank, N.A. is no longer participating in this program.

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Federal Reserve Commercial Paper Funding Facility (CPFF)

The CPFF commitment to purchase up to $5.4 billion of Market Street Funding LLC (Market Street) three-month commercial paper expired on February 1, 2010. Market Street had no borrowings under this facility in January 2010.

Public-Private Investment Fund Programs (PPIFs)

PNC did not participate in these programs during the first quarter of 2010 and is determining to what extent, if any, it will participate in these programs in the future.

Home Affordable Modification Program (HAMP)

As previously reported, PNC began participating in HAMP for GSE mortgages in May 2009 and for non-GSE mortgages in July 2009, 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)

As previously reported, 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:

- General economic conditions, including the speed and stamina of the moderate economic recovery that began last year,
- The level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve,
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets,
- Loan demand, utilization of credit commitments and standby letters of credit, and asset quality,
- Customer demand for other products and services,
- Changes in the competitive and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment,
- The impact of legislative, regulatory and administrative initiatives, including those outlined above, and
- The impact of market credit spreads on asset valuations.

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

- Further success in the acquisition, growth and retention of customers,
- Progress toward completion of the integration of the National City acquisition,
- The timely 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,
Improving our overall asset quality and continuing to meet evolving regulatory capital standards,
Continuing to maintain and grow our deposit base as a low-cost funding source,
Prudent risk and capital management leading to re-establishing our desired moderate risk profile, and
Actions we take within the capital and other financial markets.

SUMMARY FINANCIAL RESULTS

	Three months ended March 31	
	2010	2009
Net income, in millions	**$ 671**	$ 530
Diluted earnings per common share		
Continuing operations	**$ .61**	$ 1.01
Discontinued operations	**.05**	.02
Net income	**$ .66**	$ 1.03
Return from net income on:		
Average common shareholders equity	**5.37%**	10.23%
Average assets	**1.02%**	.77%

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Highlights of the first quarter of 2010 included the following:

- We remain committed to responsible lending to support economic growth. Loans and commitments originated and renewed totaled approximately $32 billion in the first quarter. Since its inception, we have funded approximately 3,200 refinances totaling $.6 billion through HARP, and we have sent approximately 80,700 solicitations to eligible borrowers under HAMP through March 31, 2010. Trial Modification Plan offers under HAMP have been extended to approximately 21,700 eligible borrowers.
- Loans totaled $157 billion at March 31, 2010 and decreased a nominal $.3 billion since year end. An increase in loans of $3.5 billion from consolidating Market Street, a variable interest entity, and the securitized credit card portfolio was offset by soft customer loan demand combined with loan repayments and payoffs in the distressed assets portfolio.
- Deposits declined by $4.4 billion or 2% since year end as we continued to reduce nonrelationship certificates of deposit and other time deposits and effectively managed deposit pricing, reducing the rate paid on deposits to .81% in the first quarter of 2010 from .93% in the fourth quarter of 2009.
- We remained core funded with a loan to deposit ratio of 86% at March 31, 2010, providing a strong bank liquidity position to support growth and stability.
- Pretax pre-provision earnings of $1.7 billion were more than double the provision for credit losses of $.8 billion in the first quarter of 2010 driven by well-diversified revenue performance, exceptional expense management and reduced credit costs.
- Total revenue was $3.8 billion for the quarter and reflected strong net interest income of $2.4 billion due to the benefit of deposit repricing. The net interest margin increased 19 basis points to 4.24% compared with the fourth quarter of 2009 due to the impact of deposit repricing and a reduction in low-rate interest-earning deposits with banks.
- Expenses of $2.1 billion in the first quarter declined 4% compared with the linked quarter reflecting further progress in integrating the National City acquisition.
- We expect to exceed our overall annualized cost savings goal related to the National City acquisition of $1.5 billion by the fourth quarter of 2010. This is $300 million higher and six months earlier than originally anticipated. As of mid-April 2010, we had successfully completed the conversion of more than 4 million customers at over 1,000 National City branches to the PNC platform. Remaining branch conversions are scheduled to be completed in June 2010.
- The pace of credit quality deterioration during the first quarter continued to ease. Nonperforming assets increased $.2 billion from year end 2009 to $6.5 billion as of March 31, 2010, a lower increase compared with $.7 billion in the fourth quarter. Loan loss reserves increased by 5% primarily due to the consolidation of the securitized credit card portfolio. The allowance for loan and lease losses was increased to $5.3 billion, or 3.38% of total loans, as of March 31, 2010.
- Common capital was strengthened during the first quarter with a $3.4 billion common equity offering. The Tier 1 common equity ratio increased by 190 basis points to 7.9% at March 31, 2010 from 6.0% at December 31, 2009. On a pro forma basis at March 31, 2010, our Tier 1 common capital ratio would have been an estimated 8.6% based on completion of the sale of GIS.

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

Average Consolidated Balance Sheet Highlights

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

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

Total average assets were $267.1 billion for the first three months of 2010 compared with $280.9 billion for the first three months of 2009.

Average interest-earning assets were $227.0 billion for the first quarter of 2010, compared with $244.2 billion in the first quarter of 2009. A decrease of $15.0 billion in loans was reflected in the decrease in average interest-earning assets.

Average noninterest-earning assets totaled $40.2 billion in the first three months of 2010 compared with $36.6 billion in the prior year period.

The decrease in average total loans reflected a decline in commercial loans of $11.8 billion and commercial real estate loans of $3.2 billion. Loans represented 70% of average interest-earning assets for the first three months of 2010 and 71% for the first three months of 2009.

Average securities available for sale increased $4.5 billion, to $50.7 billion, in the first quarter of 2010 compared with the first quarter of 2009. Average US Treasury and government agencies securities increased $6.3 billion compared with the

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first three months of 2009. Average commercial mortgage-backed securities increased $1.1 billion and average other debt securities increased $1.2 billion in the comparison. These increases were partially offset by a decline of $4.1 billion in average residential mortgage-backed securities compared with the prior year period.

Average securities held to maturity increased $2.5 billion, to $5.9 billion, in the first three months of 2010 compared with the first three months of 2009.

Total investment securities comprised 25% of average interest-earning assets for the first three months of 2010 and 20% for the first three months of 2009.

Average total deposits were $183.1 billion for the first quarter of 2010 compared with $192.2 billion for the first quarter of 2009. Average deposits declined from the prior year period primarily as a result of decreases in retail certificates of deposit and other time deposits, which were partially offset by increases in money market balances, demand and other noninterest-bearing deposits. Average total deposits represented 69% of average total assets for the first three months of 2010 and 68% for the first three months of 2009.

Average transaction deposits were $125.2 billion for the first three months of 2010 compared with $113.5 billion for the first three months of 2009.

Average borrowed funds were $42.3 billion for the first quarter of 2010 compared with $47.9 billion for the first quarter of 2009.

Line of Business Highlights

We have six reportable business segments:

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

Total business segment earnings were $654 million for the first three months of 2010 and $701 million for the first three months of 2009. Highlights of results for the first three months of 2010 and 2009 are included below. The Business Segments Review section of this Financial Review includes a Results of Business-Summary table and further analysis of our business segment results over these periods including presentation differences from Note 19 Segment Reporting.

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

Retail Banking

Retail Banking earned $24 million for the quarter compared with earnings of $50 million for the year-ago quarter. Earnings declined from the prior year quarter as a result of

increased credit costs, lower interest credits assigned to deposits, and a decline in fees which were partially offset by well managed expenses. Retail Banking continued to maintain its focus on growing customers and deposits, customer and employee satisfaction, investing in the business for future growth, as well as disciplined expense management during this period of market and economic uncertainty.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $360 million in the first quarter of 2010 compared with $359 million in the first quarter of 2009. Earnings were flat as a decrease in net interest income was offset by higher noninterest income and a lower provision for credit losses.

Asset Management Group

Asset Management Group earned $39 million for the first quarters of 2010 and 2009. Assets under administration were $209 billion at March 31, 2010. The quarter reflected higher noninterest income, lower provision for credit losses, and lower expenses from disciplined expense management. These improvements offset a decrease in net interest income from lower yields on loans in the first quarter of 2010.

Residential Mortgage Banking

Residential Mortgage Banking earned $82 million for the first quarter of 2010 compared with $227 million in the first quarter of 2009. Earnings decreased from the first quarter of 2009 primarily due to lower net hedging gains on mortgage servicing rights and reduced loan sales revenue.

BlackRock

Our BlackRock business segment earned $77 million in the first three months of 2010 and $23 million in the first three months of 2009. Improved capital market conditions and the impact of BlackRock s December 2009 acquisition of Barclays Global Investors (BGI) contributed to higher earnings at BlackRock.

Distressed Assets Portfolio

The Distressed Assets Portfolio had earnings of $72 million for the first three months of 2010, compared to $3 million for the first three months of 2009. Earnings improved primarily due to lower provision for credit losses and lower noninterest expense.

Other

Other reported a net loss of $6 million for the first three months of 2010 compared with a net loss of $181 million for the first three months of 2009. The higher loss for the 2009 period reflected the after-tax impact in 2009 of higher other-than-temporary impairment charges compared with 2010 and alternative investment writedowns and equity management losses, which more than offset the impact of higher National City-related integration costs in the first quarter of 2010. Higher net gains on sales of securities in the first quarter of 2010 compared with the prior year first quarter also contributed to the smaller loss in the 2010 period.

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CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for the first three months of 2010 was $671 million compared with $530 million for the first three months of 2009. Total revenue for the first three months of 2010 was $3.8 billion compared with $3.7 billion for the first three months of 2009. We expect total revenue for full year 2010 to be relatively stable with the level for full year 2009 apart from the impact of the $1.1 billion gain we recognized in the fourth quarter of 2009 in connection with BlackRock s acquisition of BGI.

NET INTEREST INCOME AND NET INTEREST MARGIN

	Three months ended March 31	
Dollars in millions	**2010**	2009
Net interest income	**$ 2,379**	$ 2,320
Net interest margin	**4.24%**	3.81%

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

The increase in net interest income and net interest margin for the first quarter of 2010 compared with the first quarter of 2009 reflected our successful deposit pricing strategy as well as the benefit to the margin of a reduction in low-rate interest-earning deposits with banks. Our deposit strategy included the retention and repricing at lower rates of relationship-based certificates of deposit and the planned run off of maturing non-relationship certificates of deposit.

We have approximately $19 billion of certificates of deposit with an average rate of 2.4% that are scheduled to mature during the remainder of 2010. Assuming interest rates stay low, we believe that we will continue to reprice these deposits and lower our funding costs even further. We expect to retain approximately 80% of our relationship-based CDs in 2010, which is comparable with our first quarter 2010 results. This assumes our current expectations for interest rates and economic conditions we include our current economic assumptions underlying our forward-looking statements in the Cautionary Statement Regarding Forward-Looking Information section of this Financial Review.

The net interest margin was 4.24% for the first three months of 2010 and 3.81% for the first three months of 2009. The following factors impacted the comparison:

- A decrease in the rate accrued on interest-bearing liabilities of 75 basis points. The rate accrued on interest-bearing deposits, the largest component, decreased 63 basis points.
- These factors were partially offset by a 21 basis point decrease in the yield on interest-earning assets. The yield on loans, which represented the largest portion of our earning assets in the first three months of 2010, decreased 22 basis points.
- In addition, the impact of noninterest-bearing sources of funding decreased 11 basis points primarily due to the decline in interest rates.

For comparing to the broader market, the average Federal funds rate was .14% for the first quarter of 2010 compared with ..19% for the first quarter of 2009. We expect that net interest income and margin will remain relatively flat at least through the first half of 2010.

NONINTEREST INCOME

Summary

Noninterest income totaled $1.384 billion for the first three months of 2010, compared with $1.366 billion for the first three months of 2009.

Noninterest income was essentially flat compared with the prior year first quarter as higher asset management and corporate service fees and an increase in the net effect of net securities gains and other-than-temporary impairment (OTTI) losses on securities were substantially offset by declines in revenue related to residential mortgage servicing activities, consumer service fees and service charges on deposits.

Additional Analysis

Asset management revenue increased $70 million to $259 million in the first three months of 2010 compared with the first three months of 2009. This increase reflected improving equity markets and client growth. Assets managed at March 31, 2010 totaled $105 billion compared with $96 billion at March 31, 2009. Higher equity earnings from our BlackRock investment also contributed to the improved first quarter results.

For the first quarter of 2010, consumer services fees totaled $296 million compared with $316 million in the first quarter of 2009. Lower consumer service fees in the 2010 quarter resulted from lower brokerage fees and the impact of the consolidation of the securitized credit card portfolio partially offset by higher volume-related transaction fees.

Corporate services revenue totaled $268 million in the first three months of 2010 and $245 million in the first three months of 2009. The increase in the comparison was primarily due to higher commercial mortgage special servicing ancillary income. Corporate services fees include the noninterest component of treasury management fees, which continued to be a strong contributor to revenue.

Residential mortgage revenue totaled $147 million in the first quarter of 2010 and $431 million in the first quarter of 2009. The decline compared with the first quarter of 2009 was due to lower net hedging gains on mortgage servicing rights and reduced loan sales revenue related to strong loan origination refinance volume in the first quarter of 2009.

Service charges on deposits totaled $200 million for the first three months of 2010 and $224 million for the first three months of 2009. The decrease in the comparison was due to required branch divestitures and lower overdraft charges.

Net gains on sales of securities totaled $90 million for the first quarter of 2010 and $56 million for the first quarter of 2009. The net credit component of OTTI of securities recognized in earnings was a loss of $116 million in the first quarter of 2010, compared with a loss of $149 million in the first quarter of 2009.

Other noninterest income totaled $240 million for the first three months of 2010 compared with $54 million for the first three months of 2009. The first quarter of 2010 included trading income of $58 million and net gains on private equity and alternative investments of $57 million.

Other noninterest income for the first three months of 2009 included gains of $103 million related to our equity investment in BlackRock and net losses on private equity and alternative investments of $122 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 Financial Review, further details regarding private equity and alternative investments are included in the Market Risk Management-Equity And Other Investment Risk section and further details regarding gains or losses related to our equity investment in BlackRock are included in the Business Segments Review section.

We believe that as the economy recovers, there are greater opportunities for growth in client-related fee-based income. We also expect that the conversions of National City branches to the PNC platform this quarter, and those completed in April 2010 and the remaining branch conversions scheduled for 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 $298 million for the first three months of 2010 and $276 million for the first three months of 2009. This increase was primarily related to deposit growth and continued growth in legacy offerings such as purchasing cards and services provided to the Federal government and healthcare customers.

Revenue from capital markets-related products and services totaled $164 million in the first quarter of 2010 compared with $43 million in the first quarter of 2009. The increase was primarily due to a benefit from reduced impact of counterparty credit risk on valuations of customer derivative positions, higher underwriting revenue and an increase in merger and acquisition advisory fees.

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

Commercial mortgage banking activities resulted in revenue of $115 million in the first three months of 2010 compared with $94 million in the first three months of 2009. The increase in the comparison was due to a reduction in reserves for the DUS lending program and higher special servicing ancillary income which more than offset decreases in net valuation gains and net interest income on the held for sale portfolio.

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Provision For Credit Losses

The provision for credit losses totaled $751 million for the first three months of 2010 compared with $880 million for the first three months of 2009. The lower provision in the 2010 period reflected economic factors that are beginning to stabilize.

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

We believe that our provision for credit losses may have peaked in the fourth quarter of 2009 and that our provision for full year 2010 will be below the provision for 2009. Future provision levels will depend primarily on the level of nonperforming loans, our related coverage ratios, the pace of economic recovery and the nature of regulatory reforms.

Noninterest Expense

Noninterest expense for the first three months of 2010 was $2.113 billion compared with $2.158 billion in the first three months of 2009, a decline of 2%. Lower noninterest expense in the first three months of 2010 was primarily due to the impact of higher cost savings related to the National City acquisition.

Integration costs included in noninterest expense totaled $102 million in the first quarter of 2010 compared with $52 million in the first quarter of 2009.

Annualized National City acquisition cost savings of approximately $1.4 billion were realized by the first quarter of 2010. We expect to exceed our overall annualized cost savings goal related to the National City acquisition of $1.5 billion by the fourth quarter of 2010. This is $300 million higher and six months earlier than originally anticipated.

Effective Tax Rate

The effective tax rate was 27.9% in the first quarter of 2010 compared with 19.8% in the first quarter of 2009. The effective tax rate was lower in the first quarter of 2009 primarily as a result of relatively equal levels of favorable permanent differences (tax exempt income, tax credits and dividend received deductions) on lower pretax income in 2009. We anticipate that the effective tax rate will be approximately 27% for the remainder of 2010, excluding the impact of the anticipated gain on the pending sale of GIS.

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CONSOLIDATED BALANCE SHEET REVIEW

SUMMARIZED BALANCE SHEET DATA

In millions	March 31 2010	Dec. 31 2009
Assets		
Loans	**$ 157,266**	$ 157,543
Investment securities	**57,606**	56,027
Cash and short-term investments	**7,132**	13,290
Loans held for sale	**2,691**	2,539
Goodwill and other intangible assets	**12,714**	12,909
Equity investments	**10,256**	10,254
Other	**17,731**	17,301
Total assets	**$ 265,396**	$ 269,863
Liabilities		
Deposits	**$ 182,523**	$ 186,922
Borrowed funds	**42,461**	39,261
Other	**10,978**	11,113
Total liabilities	**235,962**	237,296
Total shareholders equity	**26,818**	29,942
Noncontrolling interests	**2,616**	2,625
Total equity	**29,434**	32,567
Total liabilities and equity	**$ 265,396**	$ 269,863

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

The decline in total assets at March 31, 2010 compared with December 31, 2009 was primarily due to lower interest-earning deposits with banks. Total assets at March 31, 2010 included $5.2 billion of assets related to Market Street and a credit card securitization trust as more fully described in the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review and Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements of this Report.

An analysis of changes in selected balance sheet categories follows.

LOANS

A summary of the major categories of loans outstanding follows. Outstanding loan balances reflect unearned income, unamortized discount and premium, and purchase discounts and premiums totaling $3.0 billion at March 31, 2010 and $3.2 billion at December 31, 2009, respectively. The balances do not include accretable net interest on the purchased impaired loans.

Loans decreased $.3 billion, or less than 1%, as of March 31, 2010 compared with December 31, 2009. An increase in loans of $3.5 billion from consolidating Market Street and the securitized credit card portfolio was offset by soft customer loan demand combined with loan repayments and payoffs in the distressed assets portfolio.

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

Details Of Loans

In millions	March 31 2010	Dec. 31 2009
Commercial		
Retail/wholesale	**$ 9,557**	$ 9,515
Manufacturing	**9,863**	9,880
Other service providers	**8,528**	8,256
Real estate related (a)	**7,379**	7,403
Financial services	**4,654**	3,874
Health care	**2,998**	2,970
Other	**11,724**	12,920
Total commercial	**54,703**	54,818
Commercial real estate		
Real estate projects	**14,535**	15,582
Commercial mortgage	**7,415**	7,549
Total commercial real estate	**21,950**	23,131
Equipment lease financing	**6,111**	6,202
TOTAL COMMERCIAL LENDING	**82,764**	84,151
Consumer		
Home equity		
Lines of credit	**24,040**	24,236
Installment	**11,390**	11,711
Education	**8,320**	7,468
Automobile	**2,206**	2,013
Credit card and other unsecured lines of credit	**4,962**	3,536
Other	**4,316**	4,618
Total consumer	**55,234**	53,582
Residential real estate		
Residential mortgage	**17,599**	18,190
Residential construction	**1,669**	1,620
Total residential real estate	**19,268**	19,810
TOTAL CONSUMER LENDING	**74,502**	73,392
Total loans	**$ 157,266**	$ 157,543

(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 $9.7 billion, or 6% of total loans, at March 31, 2010, and $10.3 billion, or 7% of total loans, at December 31, 2009.

We are committed to providing credit and liquidity to qualified borrowers. Total loan originations and new commitments and renewals totaled $32 billion for the first quarter of 2010, including originations for first mortgages of $2 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 \$3.3 billion, or 62%, of the total allowance for loan and lease losses at March 31, 2010 to these loans. We allocated \$2.0 billion, or 38%, of the total allowance at that date to consumer lending. This allocation also considers other relevant factors such as:

- Actual versus estimated losses,
- Regional and national economic conditions,
- Business segment and portfolio concentrations,
- Industry conditions,
- The impact of government regulations, and
- Risk of potential estimation or judgmental errors, including the accuracy of risk ratings.

Higher Risk Loans

Our loan portfolio contains higher risk loans that are more likely to result in credit losses. We established specific and pooled reserves on the total commercial lending category, including higher risk loans, of \$3.3 billion at March 31, 2010. This represented 62% of the total allowance for loan and lease losses of \$5.3 billion at that date. The remaining 38% 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 \$35.4 billion at March 31, 2010. In this portfolio, we consider the higher risk loans to be those with a recent FICO credit score of less than or equal to 660 and a loan-to-value ratio greater than 90%. Such loans totaled \$1.2 billion or approximately 3% of the total home equity line and installment loans at March 31, 2010. These higher risk loans were concentrated in our geographic footprint with 28% in Pennsylvania, 14% in Ohio, 11% in New Jersey, 7% in Illinois, and 6% in Michigan, 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 11% are in some stage of delinquency and 6% are in late stage (90+ days) delinquency status.

In our \$17.6 billion residential mortgage portfolio, loans with a recent FICO credit score of less than or equal to 660 and a loan-to-value ratio greater than 90% totaled \$.8 billion and comprised approximately 5% of this portfolio at March 31, 2010. Twenty-one percent of the higher risk loans are located in California, 14% in Florida, 11% 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 48% are in some stage of delinquency and 37% 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 \$53.0 billion loan outstandings have loan-to-value ratios in excess of 100%. The impact of housing price depreciation is reflected in the allowance for loans and lease losses as a result of the consumer reserve methodology process. The consumer reserve process is sensitive to collateral values which in turn affect loan loss severity. While our consumer reserve methodology strives to reflect all significant risk factors, there is an element of uncertainty associated with, but not limited to, potential imprecision in the estimation process due to the inherent time lag of obtaining information such as housing price depreciation. We provide additional reserves where appropriate to provide coverage for losses attributable to such risks.

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

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

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Valuation of FASB ASC 310-30 Purchased Impaired Loans

	December 31, 2008		December 31, 2009		**March 31, 2010**	
Dollars in billions	Balance	Net Investment	Balance	Net Investment	**Balance**	**Net Investment**
Commercial and commercial real estate loans:						
Unpaid principal balance	$ 6.3		$ 3.5		**$ 2.9**	
Purchase impaired mark	(3.4)		(1.3)		**(1.0)**	
Recorded investment	2.9		2.2		**1.9**	
Allowance for loan losses			(.2)		**(.3)**	
Net investment	2.9	46%	2.0	57%	**1.6**	**55%**
Consumer and residential mortgage loans:						
Unpaid principal balance	15.6		11.7		**10.6**	
Purchase impaired mark	(5.8)		(3.6)		**(2.8)**	
Recorded investment	9.8		8.1		**7.8**	
Allowance for loan losses			(.3)		**(.3)**	
Net investment	9.8	63%	7.8	67%	**7.5**	**71%**
Total FASB ASC 310-30 purchased impaired loans:						
Unpaid principal balance	21.9		15.2		**13.5**	
Purchase impaired mark (a)	(9.2)		(4.9)		**(3.8)**	
Recorded investment	12.7		10.3		**9.7**	
Allowance for loan losses			(.5)		**(.6)(b)**	
Net investment	$ 12.7	58%	$ 9.8	64%	**$ 9.1**	**67%**

(a) Comprised of $5.5 billion of nonaccretable and $3.7 billion of accretable at December 31, 2008, $1.4 billion of nonaccretable and $3.5 billion of accretable at December 31, 2009, and $.2 billion of nonaccretable and $3.6 billion of accretable at March 31, 2010.

(b) While additional impairment reserves of $.6 billion have been provided for further deterioration, incremental accretable interest of $1.4 billion has been reclassified since acquisition date on those purchased impaired loans with improving estimated cash flows.

The unpaid principal balance of purchased impaired loans declined from $21.9 billion at December 31, 2008 to $13.5 billion at March 31, 2010 due to amounts determined to be uncollectible, payoffs and disposals. The remaining purchased impaired mark at March 31, 2010 was $3.8 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 $9.1 billion at March 31, 2010 primarily due to payoffs, disposals and further impairment partially offset by accretion during 2009 and the first three months of 2010. At March 31, 2010, our largest purchased impaired loan was $32 million.

We currently expect to collect total cash flows of $13.3 billion on purchased impaired loans, representing the $9.7 billion recorded investment at March 31, 2010 and the accretable net interest of $3.6 billion shown in the Accretable Net Interest table that follows.

Purchase Accounting Net Interest Accretion

In millions	**Three months ended March 31 2010**	Three months ended March 31 2009
Non-impaired loans	**$ 112**	$ 322
Impaired loans	**265**	257
Reversal of contractual interest on impaired loans	**(134)**	(223)
Net impaired loans	**131**	34
Securities	**11**	31
Deposits	**167**	312
Borrowings	**(56)**	(85)
Total	**$ 365**	$ 614

Cash received in excess of recorded investment from sales or payoffs of impaired commercial loans (cash recoveries) totaled $75 million for the first quarter of 2010.

Accretable Net Interest

In billions	Dec. 31 2008	Dec. 31 2009	**March 31 2010**
Non-impaired loans	$ 2.4	$ 1.6	**$ 1.5**
Impaired loans (a)	3.7	3.5	**3.6**
Total loans (gross)	6.1	5.1	**5.1**
Securities	.2	.1	**.1**
Deposits	2.1	1.0	**.9**
Borrowings	(1.5)	(1.2)	**(1.2)**
Total	$ 6.9	$ 5.0	**$ 4.9**

(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 the identification of additional purchased impaired loans as of the National City acquisition close date of December 31, 2008.

Accretable Net Interest Purchased Impaired Loans

In billions	
January 1, 2010	$ 3.5
Accretion (including cash recoveries)	(.3)
Net reclassifications from non-accretable to accretable	.5
Disposals	(.1)
March 31, 2010	$ 3.6

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In billions	
January 1, 2009	$ 3.7
Accretion (including cash recoveries)	(1.5)
Adjustments resulting from changes in purchase price allocation	.3
Net reclassifications from non-accretable to accretable	1.4
Disposals	(.3)
March 31, 2010	$ 3.6

Net unfunded credit commitments are comprised of the following:

Net Unfunded Credit Commitments

In millions	**March 31 2010**	Dec. 31 2009
Commercial / commercial real estate (a)	**$ 56,850**	$ 60,143
Home equity lines of credit	**20,229**	20,367
Consumer credit card and other unsecured lines	**18,248**	18,800
Other	**1,036**	1,485
Total	**$ 96,363**	$ 100,795

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

Unfunded commitments are concentrated in our primary geographic markets. Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments are reported net of participations, assignments and syndications, primarily to financial institutions, totaling $12.5 billion at March 31, 2010 and $13.2 billion at December 31, 2009.

Unfunded credit commitments related to purchased customer receivables totaled $2.8 billion at March 31, 2010. These receivables are included due to the consolidation of Market Street and are now a component of PNC s total unfunded credit commitments. These amounts are included in the preceding table within the Commercial / commercial real estate category.

In addition to credit commitments, our net outstanding standby letters of credit totaled $10.1 billion at March 31, 2010 and $10.0 billion at December 31, 2009. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $545 million at March 31, 2010 and $6.2 billion at December 31, 2009 and are included in the preceding table primarily within the Commercial / commercial real estate category. Due to the consolidation of Market Street, $5.4 billion of unfunded liquidity facility commitments were no longer included in the amounts in the preceding table as of March 31, 2010.

INVESTMENT SECURITIES

Details of Investment Securities

In millions	Amortized Cost	Fair Value
March 31, 2010		
Securities Available for Sale		
Debt securities		
US Treasury and government agencies	**$ 10,520**	**$ 10,539**
Residential mortgage-backed		

Agency	**22,259**	**22,704**
Non-agency	**9,498**	**7,710**
Commercial mortgage-backed		
Agency	**1,179**	**1,202**
Non-agency	**1,908**	**1,856**
Asset-backed	**1,842**	**1,531**
State and municipal	**1,374**	**1,376**
Other debt	**2,180**	**2,224**
Corporate stocks and other	**399**	**399**
Total securities available for sale	**$ 51,159**	**$ 49,541**
Securities Held to Maturity		
Debt securities		
Commercial mortgage-backed (non-agency)	**$ 4,295**	**$ 4,506**
Asset-backed	**3,761**	**3,850**
Other debt	**9**	**10**
Total securities held to maturity	**$ 8,065**	**$ 8,366**
December 31, 2009		
Securities Available for Sale		
Debt securities		
US Treasury and government agencies	$ 7,548	$ 7,520
Residential mortgage-backed		
Agency	24,076	24,438
Non-agency	10,419	8,302
Commercial mortgage-backed		
Agency	1,299	1,297
Non-agency	4,028	3,848
Asset-backed	2,019	1,668
State and municipal	1,346	1,350
Other debt	1,984	2,015
Corporate stocks and other	360	360
Total securities available for sale	$ 53,079	$ 50,798
Securities Held to Maturity		
Debt securities		
Commercial mortgage-backed (non-agency)	$ 2,030	$ 2,225
Asset-backed	3,040	3,136
Other debt	159	160
Total securities held to maturity	$ 5,229	$ 5,521

The carrying amount of investment securities totaled $57.6 billion at March 31, 2010 and $56.0 billion at December 31, 2009. The Market Street consolidation was the largest component of the 3% increase in investment securities since December 31, 2009. Investment securities represented 22% of total assets at March 31, 2010 and 21% of total assets at December 31, 2009.

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

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appropriate, take steps intended to improve our overall positioning. Overall, we consider the portfolio to be well-diversified and high quality. US Treasury and government agencies, agency residential mortgage-backed securities and agency commercial mortgage-backed securities collectively represented 60% of the investment securities portfolio at March 31, 2010.

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

At March 31, 2010, the securities available for sale portfolio included a net unrealized loss of $1.6 billion, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2009 was a net unrealized loss of $2.3 billion. The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa. The decline in the net unrealized loss from December 31, 2009

was primarily the result of 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 from continuing operations, net of tax.

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

The expected weighted-average life of investment securities (excluding corporate stocks and other) was 4.0 years at March 31, 2010 and 4.1 years at December 31, 2009.

We estimate that at March 31, 2010 the effective duration of investment securities was 2.8 years for an immediate 50 basis points parallel increase in interest rates and 2.4 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2009 were 2.9 years and 2.5 years, respectively.

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

	March 31, 2010				
	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	**$ 22,704**	**$ 1,202**	**$ 7,710**	**$ 1,856**	**$ 1,531**
Fair Value Held to Maturity				**4,506**	**3,850**
Total Fair Value	**$ 22,704**	**$ 1,202**	**$ 7,710**	**$ 6,362**	**$ 5,381**
<u>% of Fair Value:</u>					
By Vintage					
2010	**11%**	**8%**			**4%**
2009	**33%**	**56%**		**3%**	**27%**
2008	**14%**	**2%**			**16%**
2007	**9%**	**4%**	**18%**	**16%**	**18%**
2006	**10%**	**10%**	**22%**	**33%**	**18%**
2005 and earlier	**23%**	**20%**	**60%**	**48%**	**17%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By Credit Rating					
Agency	**100%**	**100%**			
AAA			**10%**	**88%**	**62%**
AA			**6%**	**3%**	**9%**
A			**7%**	**4%**	**8%**
BBB			**9%**	**4%**	
BB			**12%**	**1%**	**3%**
B			**19%**		**2%**
Lower than B			**37%**		**11%**
No rating					**5%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By FICO Score					
>720			**58%**		**4%**
<720 and >660			**32%**		**10%**
<660					**9%**
No FICO score	**N/A**	**N/A**	**10%**	**N/A**	**77%**
Total			**100%**		**100%**

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

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

We recognize the credit portion of OTTI charges in current earnings for those debt securities where there is no intent to sell and it is not more likely than not that 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.

We recognized OTTI for the first three months of 2010 and 2009 as follows:

Other-Than-Temporary Impairments

	Three months ended March 31	
In millions	**2010**	2009
Credit portion of OTTI losses (a)	**$ (116)**	$ (149)
Noncredit portion of OTTI losses (b)	**(124)**	(537)
Total OTTI losses	**$ (240)**	$ (686)

(a) Reduction of noninterest income in our Consolidated Income Statement.
(b) Included in accumulated other comprehensive loss on the Consolidated Balance Sheet.

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

	March 31, 2010					
In millions	Residential Mortgage-Backed Securities		Commercial Mortgage-Backed Securities		Asset-Backed Securities (a)	
AVAILABLE FOR SALE SECURITIES NON-AGENCY						
	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain (Loss)
By Credit Rating						
AAA	**$ 786**	**$ (85)**	**$ 1,083**	**$ 21**	**$ 335**	**$ (2)**
Other Investment Grade (AA, A, BBB)	**1,653**	**(210)**	**728**	**(57)**	**317**	**(22)**
Total Investment Grade	**2,439**	**(295)**	**1,811**	**(36)**	**652**	**(24)**
BB	**921**	**(223)**	**41**	**(18)**	**118**	**(24)**
B	**1,458**	**(393)**	**4**	**2**	**121**	**(29)**
Lower than B	**2,892**	**(877)**			**602**	**(213)**
No Rating					**34**	**(21)**
Total Sub-Investment Grade	**5,271**	**(1,493)**	**45**	**(16)**	**875**	**(287)**
Total	**$ 7,710**	**$ (1,788)**	**$ 1,856**	**$ (52)**	**$ 1,527**	**$ (311)**
Investment Grade:						
OTTI has been recognized	**$ 166**	**$ (52)**				
No OTTI recognized to date	**2,273**	**(243)**	**$ 1,811**	**$ (36)**	**$ 652**	**$ (24)**
Total Investment Grade	**$ 2,439**	**$ (295)**	**$ 1,811**	**$ (36)**	**$ 652**	**$ (24)**
Sub-Investment Grade:						
OTTI has been recognized	**$ 2,862**	**$ (1,018)**			**$ 559**	**$ (203)**
No OTTI recognized to date	**2,409**	**(475)**	**$ 45**	**$ (16)**	**316**	**(84)**
Total Sub-Investment Grade	**$ 5,271**	**$ (1,493)**	**$ 45**	**$ (16)**	**$ 875**	**$ (287)**
SECURITIES HELD TO MATURITY NON-AGENCY						
By Credit Rating						
AAA			**$ 4,506**	**$ 211**	**$ 2,975**	**$ 89**
Other Investment Grade (AA, A, BBB)					**579**	**5**
Total Investment Grade			**4,506**	**211**	**$ 3,554**	**94**
BB					**25**	**1**
B					**3**	
Lower than B						
No Rating					**254**	**(5)**
Total Sub-Investment Grade					**282**	**(4)**
Total			**$ 4,506**	**$ 211**	**$ 3,836**	**$ 90**

(a) Table excludes $4 million and $14 million of available for sale and held to maturity agency asset-backed securities, respectively.

Residential Mortgage-Backed Securities

At March 31, 2010, our residential mortgage-backed securities portfolio was comprised of $22.7 billion fair value of US government agency-backed securities and $7.7 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 the first quarter of 2010, we recorded OTTI credit losses of $73 million on non-agency residential mortgage-backed securities. As of March 31, 2010, $69 million of the year-to-date credit losses related to securities rated below investment grade. As of March 31, 2010, 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 $3.0 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of

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March 31, 2010 totaled $2.4 billion, with unrealized net losses of $475 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 $6.4 billion at March 31, 2010 and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. The agency commercial mortgage-backed securities portfolio was $1.2 billion fair value at March 31, 2010 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

There were no OTTI credit losses on commercial mortgage-backed securities recorded during the first quarter. The remaining fair value of the securities for which OTTI was previously recorded approximates zero. All of the previously impaired securities were rated below investment grade.

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $5.4 billion at March 31, 2010 and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including residential mortgage loans, credit cards, and automobile loans. Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

During the first three months of 2010, we recorded OTTI credit losses of $43 million on asset-backed securities. All of the securities were collateralized by first and second lien residential mortgage loans and were rated below investment grade. As of March 31, 2010, the noncredit portion of OTTI losses recorded in accumulated other comprehensive loss for asset-backed securities totaled $203 million and the related securities had a fair value of $559 million.

For the sub-investment grade investment securities for which we have not recorded an OTTI loss through March 31, 2010, the remaining fair value was $598 million, with unrealized net losses of $88 million. The results of our security-level assessments indicate that we will recover the entire cost basis

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

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

Loans Held For Sale

In millions	**March 31 2010**	Dec. 31 2009
Commercial mortgages at fair value	**$ 1,041**	$ 1,050
Commercial mortgages at lower of cost or market	**275**	251
Total commercial mortgages	**1,316**	1,301
Residential mortgages at fair value	**1,158**	1,012
Other	**217**	226
Total	**$ 2,691**	$ 2,539

We stopped originating certain commercial mortgage loans designated as held for sale during the first quarter of 2008 and intend to continue pursuing opportunities to reduce these positions at appropriate prices. We sold $24 million of commercial mortgage loans held for sale carried at fair value in the first three months of 2010 and sold $115 million in the first three months of 2009.

We recognized net gains of $9 million in the first three months of 2010 on the valuation and sale of commercial mortgage loans held for sale, net of hedges compared with losses of $1 million in the comparable 2009 period.

Residential mortgage loan origination volume was $2.0 billion in the first quarter of 2010. Substantially all such loans were originated to agency or FHA standards. We sold $1.9 billion of loans and recognized related gains of $39 million during the first three months of 2010 compared with $6.3 billion and $175 million, respectively, for the first three months of 2009.

Net interest income on residential mortgage loans held for sale was $80 million for the first quarter of 2010 and $91 million for the first quarter of 2009.

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FUNDING AND CAPITAL SOURCES

Details Of Funding Sources

In millions	March 31 2010	Dec. 31 2009
Deposits		
Money market	**$ 86,427**	$ 85,838
Demand	**39,993**	40,406
Retail certificates of deposit	**45,394**	48,622
Savings	**6,963**	6,401
Other time	**956**	1,088
Time deposits in foreign offices	**2,790**	4,567
Total deposits	**182,523**	186,922
Borrowed funds		
Federal funds purchased and repurchase agreements	**5,511**	3,998
Federal Home Loan Bank borrowings	**8,700**	10,761
Bank notes and senior debt	**12,638**	12,362
Subordinated debt	**10,001**	9,907
Other	**5,611**	2,233
Total borrowed funds	**42,461**	39,261
Total	**$ 224,984**	$ 226,183

Total funding sources decreased $1.2 billion, or 1%, at March 31, 2010 compared with December 31, 2009.

Total deposits decreased $4.4 billion at March 31, 2010 compared with December 31, 2009. Deposits decreased in the comparison due to the withdrawal of corporate client balances in noninterest-bearing demand deposits, the continued reduction of non-relationship certificates of deposit and lower time deposits in foreign offices, partially offset by increased balances of interest-bearing transaction accounts.

Interest-bearing deposits represented 76% of total deposits at both March 31, 2010 and December 31, 2009.

Total borrowed funds increased $3.2 billion since December 31, 2009. In February 2010, PNC Funding Corp issued $2.0 billion of senior notes as described further in the Liquidity Risk Management section of this Financial Review. In addition, other borrowed funds at March 31, 2010 included an increase in commercial paper borrowings of $3.1 billion primarily due to the consolidation of Market Street.

Capital

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

Total shareholders equity decreased $3.1 billion, to $26.8 billion, at March 31, 2010 compared with December 31, 2009 primarily due to the following:

- A decline of $7.3 billion in capital surplus preferred stock in connection with our February 2010 redemption of the Series N Preferred Stock as explained further in the Executive Summary section of this Financial Review,
- The first quarter 2010 issuance of 63.9 million shares of common stock in an underwritten offering at $54 per share resulted in a $3.4 billion increase in total shareholders equity, and
- A decline of $.7 billion in accumulated other comprehensive loss primarily as a result of decreases in net unrealized securities losses as more fully described in the Investment Securities portion of this Consolidated Balance Sheet Review.

Common shares outstanding were 526 million at March 31, 2010 and 462 million at December 31, 2009. Our first quarter 2010 common stock offering referred to above drove this increase.

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.

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 first quarter 2010 under this program and, as described in our 2009 Form 10-K, were restricted from doing so under the TARP Capital Purchase Program prior to our February 2010 redemption of the Series N Preferred Stock.

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Risk-Based Capital

Dollars in millions	March 31 2010	Dec. 31 2009
Capital components		
Shareholders equity		
Common	**$ 26,172**	$ 21,967
Preferred	**646**	7,975
Trust preferred capital securities	**3,000**	2,996
Noncontrolling interests	**1,698**	1,611
Goodwill and other intangible assets	**(10,518)**	(10,652)
Eligible deferred income taxes on goodwill and other intangible assets	**705**	738
Pension, other postretirement benefit plan adjustments	**421**	542
Net unrealized securities losses, after-tax	**1,089**	1,575
Net unrealized losses (gains) on cash flow hedge derivatives, after-tax	**(244)**	(166)
Other	**(63)**	(63)
Tier 1 risk-based capital	**22,906**	26,523
Subordinated debt	**5,277**	5,356
Eligible allowance for credit losses	**2,827**	2,934
Total risk-based capital	**$ 33,010**	$ 34,813
Tier 1 common capital		
Tier 1 risk-based capital	**$ 22,906**	$ 26,523
Preferred equity	**(646)**	(7,975)
Trust preferred capital securities	**(3,000)**	(2,996)
Noncontrolling interests	**(1,698)**	(1,611)
Tier 1 common capital	**$ 17,562**	$ 13,941
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$ 223,426**	$ 232,257
Adjusted average total assets	**259,078**	263,103
Capital ratios		
Tier 1 risk-based	**10.3%**	11.4%
Tier 1 common	**7.9**	6.0
Total risk-based	**13.9**	15.0
Leverage	**8.8**	10.1

Federal banking regulators have stated that they expect all bank holding companies to have a level and composition of Tier 1 capital well in excess of the 4% regulatory minimum, and they have required the largest US bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet credit needs of their customers through the economic downturn. They have also stated their view that common equity should be the dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels, although this metric is not provided for in the regulations. We seek to manage our capital consistent with these regulatory principles, and believe that our March 31, 2010 capital levels were aligned with them.

PNC s Tier 1 risk-based capital ratio decreased by 110 basis points to 10.3% at March 31, 2010 from 11.4% at

December 31, 2009 due to our redemption of the Series N Preferred Stock. See Repurchase of Outstanding TARP Preferred Stock in the Executive Summary section of this Financial Review.

Our Tier 1 common capital ratio was 7.9% at March 31, 2010, an increase of 190 basis points compared with 6.0% at December 31, 2009. Our first quarter earnings and common stock offering were reflected in the higher Tier 1 common capital ratio.

Our Tier 1 risk-based capital ratio and our Tier 1 common capital ratio would have been 11.0% and 8.6%, respectively, at March 31, 2010 had they included the estimated net impact of the pending sale of GIS. A reconciliation of these ratios reflecting the impact of the pending sale of GIS to the ratios set forth in the Risk-Based Capital table above follows:

Dollars in billions	Tier 1 risk-based	Tier 1 common
Ratios as reported	10.3%	7.9%
Capital as reported	$ 22.9	$ 17.6
Adjustment:		
Net impact of pending 2010 sale of GIS (a)	1.6	1.6
Capital pro forma	$ 24.5	$ 19.2
Ratios pro forma	11.0%	8.6%

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

Dollars in billions	
Sales price	$ 2.3
Less:	
Book equity / intercompany debt	(1.5)
Pretax gain	.8
Income taxes	(.3)
After-tax gain	.5
Elimination of net intangible assets:	
Goodwill and other intangible assets	1.3
Eligible deferred income taxes on goodwill and other intangible assets	(.2)
Net intangible assets	1.1
Estimated net impact of pending sale of GIS	$ 1.6

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

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.

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At March 31, 2010, PNC Bank, N.A., our domestic bank subsidiary, was considered well capitalized based on US regulatory capital ratio requirements, which are indicated on page 2 of this Report. We believe PNC Bank, N.A. will continue to meet these requirements during 2010.

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

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

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

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Financial Review, and
- Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

On January 1, 2010, we adopted ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This guidance removes the scope exception for qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity (VIE) and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. VIEs are assessed for consolidation under Topic 810 when we hold variable interests in these entities. PNC consolidates VIEs when we are deemed to be the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Effective January 1, 2010, we consolidated Market Street, a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments. We recorded consolidated assets and liabilities of $4.1 billion and $4.2 billion, respectively, and an after-tax cumulative effect adjustment to retained earnings of $92 million upon adoption.

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

Consolidated VIEs Carrying Value (a)

March 31, 2010 In millions	Market Street	Credit Card Securitization Trust	Tax Credit Investments (b)	Credit Risk Transfer Transaction	Total
Assets					
Cash and due from banks			**$ 17**		**$ 17**
Interest-earning deposits with banks			**4**		**4**
Investment securities	**$ 650**				**650**
Loans	**2,149**	**$ 2,216**		**$ 482**	**4,847**
Allowance for loan and lease losses		**(198)**		**(11)**	**(209)**
Equity investments			**1,767**		**1,767**
Other assets	**419**		**345**	**11**	**775**
Total assets	**$ 3,218**	**$ 2,018**	**$ 2,133**	**$ 482**	**$ 7,851**
Liabilities					
Other borrowed funds	**$ 2,811**	**$ 1,512**	**$ 131**		**$ 4,454**
Accrued expenses		**21**	**97**		**118**

Other liabilities	**410**		**562**	**972**
Total liabilities	**$ 3,221**	**$ 1,533**	**$ 790**	**$ 5,544**

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

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

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Consolidated VIEs

In millions	Aggregate Assets (a)	Aggregate Liabilities (a)
March 31, 2010		
Market Street	**$ 3,779**	**$ 3,790**
Credit Card Securitization Trust	**2,208**	**1,643**
Tax Credit Investments (b)	**2,156**	**877**
Credit Risk Transfer Transaction	**829**	**829**
December 31, 2009		
Tax Credit Investments (b)	$ 1,933	$ 808
Credit Risk Transfer Transaction	860	860

(a) Aggregate assets and aggregate liabilities differ from the consolidated carrying value of assets and liabilities due to elimination of intercompany assets and liabilities held by the consolidated VIE.
(b) Amounts reported primarily represent investments in low income housing projects.

Non-Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss	Carrying Value of Assets	Carrying Value of Liabilities
March 31, 2010					
Tax Credit Investments (a)	**$ 3,243**	**$ 1,794**	**$ 664**	**$ 664(c)**	**$ 300(d)**
Commercial Mortgage-Backed Securitizations (b)	**90,648**	**90,648**	**2,149**	**2,149(e)**	
Residential Mortgage-Backed Securitizations (b)	**55,013**	**55,013**	**1,314**	**1,311(e)**	**3(d)**
Collateralized Debt Obligations	**24**		**2**	**2(c)**	
Total	**$ 148,928**	**$ 147,455**	**$ 4,129**	**$ 4,126**	**$ 303**

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

(a) Amounts reported primarily represent investments in low income housing projects. Aggregate assets and aggregate liabilities represent estimated balances due to limited availability of financial information associated with certain acquired National City partnerships.
(b) Amounts reported reflect involvement with securitization SPEs where PNC transferred to and/or services loans for a SPE and we hold securities issued by that SPE. For information regarding where we only hold securities refer to Note 7 Investment Securities.
(c) Included in the table above as we do not have the power to direct the activities that most significantly impact the economic performance of the entity. Included in Equity investments on our Consolidated Balance Sheet.
(d) Included in Other liabilities on our Consolidated Balance Sheet.
(e) Included in Investment securities, Other intangible assets, and Other assets on our Consolidated Balance Sheet.
(f) PNC s risk of loss consisted of off-balance sheet liquidity commitments to Market Street of $5.6 billion and other credit enhancements of $.6 billion at December 31, 2009.

Market Street

Market Street is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street s activities primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets or loans by issuing commercial paper 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 2009 and the first quarter of 2010, Market Street met all of its funding needs through the issuance of commercial paper.

Market Street commercial paper outstanding was $2.8 billion at March 31, 2010 and $3.1 billion at December 31, 2009. The weighted average maturity of the commercial paper was 36 days at both March 31, 2010 and December 31, 2009.

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

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

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

The commercial paper obligations at March 31, 2010 and December 31, 2009 were effectively collateralized by Market Street s assets. While PNC may be obligated to fund under the $5.4 billion of liquidity facilities for events such as commercial paper market disruptions, borrower bankruptcies, collateral deficiencies or covenant violations, our credit risk under the liquidity facilities is secondary to the risk of first loss provided by the borrower such as by the over- collateralization of the assets or by another third party in the form of deal-specific credit enhancement. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of expected losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. In addition, PNC would be required to fund $441 million of the liquidity facilities if the underlying assets are in default. Market Street creditors have no direct recourse to PNC.

PNC provides program-level credit enhancement to cover net losses in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities. PNC provides 100% of the enhancement in the form of a cash collateral account funded by a loan facility. This facility expires in March 2013. At March 31, 2010, approximately $567 million was outstanding on this facility. This amount was eliminated in PNC s Consolidated Balance Sheet as of March 31, 2010 due to the consolidation of Market Street. We are not required to nor have we provided additional financial support to the SPE.

Assets of Market Street (a)

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

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

Market Street Commitments by Credit Rating (a)

	March 31, 2010	December 31, 2009
AAA/Aaa	**16%**	14%
AA/Aa	**62**	50
A/A	**20**	34
BBB/Baa	**2**	2
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.

Credit Card Securitization Trust

We are the sponsor of several credit card securitizations facilitated through an SPE trust. This bankruptcy-remote SPE or VIE was established to purchase credit card receivables from the sponsor and to issue and sell asset-backed securities created by it to independent third-parties. The SPE was financed primarily through the sale of these asset-backed securities. These transactions were originally structured as a form of liquidity and to afford favorable capital treatment. At March 31, 2010, Series 2005-1, 2006-1, 2007-1, and 2008-3 issued by the SPE were outstanding.

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

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gives us the obligation to absorb or receive expected losses or residual returns that are significant to the SPE. Accordingly, all retained interests held in the credit card SPE are eliminated in consolidation. We are not required to nor have we provided additional financial support to the SPE. Additionally, creditors of the SPE have no direct recourse to PNC.

Tax Credit Investments

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

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

Typically, the general partner or managing member will be the party that has the right to make decisions that will most significantly impact the economic performance of the entity. The primary sources of losses and benefits in LIHTC investments are the tax credits, tax benefits due to passive losses on the investments, and development and operating cash flows. We have consolidated LIHTC investments in which we are the general partner or managing member and have a limited partnership interest or non-managing member interest that could potentially absorb losses or receive benefits that are significant. The assets are primarily included in Equity investments and Other assets on our Consolidated Balance Sheet with the liabilities classified in Other liabilities and third party investors interests included in the Equity section as Noncontrolling interests. Neither creditors nor equity investors in the LIHTC investments have any recourse to our general credit. There are no terms or conditions that

have required or could require us, as the primary beneficiary, to provide financial support. Also, we have not provided nor do we intend to provide financial or other support to the limited partnership or LLC that we are not contractually obligated to provide. The consolidated aggregate assets and liabilities of these LIHTC investments are provided in the Consolidated VIEs table and reflected in the Other business segment.

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

Credit Risk Transfer Transaction

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

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

Accordingly, this SPE is consolidated and all of the entity s assets, liabilities, and equity associated with the securities held by us are intercompany balances and are eliminated in consolidation. We are not required to nor have we provided additional financial support to the SPE.

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Residential and Commercial Mortgage-Backed Securitizations

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

Our first step in our assessment is to determine whether we hold a variable interest in the securitization SPE. We hold a variable interest in an Agency and Non-Agency securitization SPE through our holding of mortgage-backed securities issued by the SPE and/or our recourse obligations. Each SPE in which we hold a variable interest is evaluated to determine whether we are the primary beneficiary of the entity. For Agency securitization transactions, our contractual role as servicer does not give us the power to direct the activities that most significantly affect the economic performance of the SPEs. Thus, we are not the primary beneficiary of these entities. For Non-Agency securitization transactions, we would be the primary beneficiary to the extent our servicing activities give us the power to direct the activities that most significantly affect the economic performance of the SPE and we hold a more than insignificant variable interest in the entity. At March 31, 2010, our level of continuing involvement in Non-Agency securitization SPEs did not result in PNC as the primary beneficiary of any of these entities. Details about the Agency and Non-Agency securitization SPEs where we hold a variable interest and are not the primary beneficiary are included in the table above. Our maximum exposure to loss as a result of our involvement with these SPEs is the carrying value of the mortgage-backed securities, servicing assets, servicing advances, and our liabilities associated with our recourse obligations. Creditors of the securitization SPEs have no recourse to PNC s assets or general credit.

Perpetual Trust Securities

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

In February 2008, PNC Preferred Funding LLC (the LLC), one of our indirect subsidiaries, sold $375 million of 8.700% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities of PNC Preferred Funding Trust III (Trust III) to third parties in a private placement. In connection with the private placement, Trust III acquired $375 million of Fixed-to-Floating Rate Non-Cumulative Perpetual

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

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

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

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

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

PNC Capital Trust E Trust Preferred Securities

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

In connection with the closing of the Trust E Securities sale, we agreed that, if we have given notice of our election to defer interest payments on the JSNs or a related deferral period is continuing, then PNC would be subject during such period to restrictions on dividends and other provisions protecting the status of the JSN debenture holder similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described above. PNC Capital Trusts C and D have similar protective provisions with respect to $500 million in principal amount of junior subordinated debentures. Also, in connection with the

closing of the Trust E Securities sale, we entered into a replacement capital covenant as described more fully in our 2009 Form 10-K.

Acquired Entity Trust Preferred Securities

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

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

FAIR VALUE MEASUREMENTS

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

At both March 31, 2010 and December 31, 2009, assets recorded at fair value represented 23% of total assets and liabilities recorded at fair value represented 2% of total liabilities.

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

In millions	March 31, 2010 Total Fair Value	March 31, 2010 Level 3	December 31, 2009 Total Fair Value	December 31, 2009 Level 3
Assets				
Securities available for sale	**$ 49,541**	**$ 9,302**	$ 50,798	$ 9,933
Financial derivatives	**4,226**	**86**	3,916	50
Residential mortgage loans held for sale	**1,158**		1,012	
Trading securities	**1,595**	**77**	2,124	89
Residential mortgage servicing rights	**1,271**	**1,271**	1,332	1,332
Commercial mortgage loans held for sale	**1,041**	**1,041**	1,050	1,050
Equity investments	**1,208**	**1,208**	1,188	1,188
Customer resale agreements	**963**		990	
Loans	**111**		107	
Other assets	**880**	**461**	716	509
Total assets	**$ 61,994**	**$ 13,446**	$ 63,233	$ 14,151
Level 3 assets as a percentage of Total Assets at Fair Value		**22%**		22%
Level 3 assets as a percentage of Consolidated Assets		**5%**		5%
Liabilities				
Financial derivatives	**$ 3,748**	**$ 494**	$ 3,839	$ 506
Trading securities sold short	**255**		1,344	
Other liabilities			6	
Total liabilities	**$ 4,003**	**$ 494**	$ 5,189	$ 506
Level 3 liabilities as a percentage of Total Liabilities at Fair Value		**12%**		10%
Level 3 liabilities as a percentage of Consolidated Liabilities		**<1%**		<1%

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

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

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BUSINESS SEGMENTS REVIEW

We have six reportable business segments:

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

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

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

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

We have allocated the allowances for loan and lease losses and unfunded loan commitments and letters of credit based on our assessment of risk inherent in the business segment loan

portfolios. Our allocation of the costs incurred by operations and other shared support areas not directly aligned with the businesses is primarily based on the use of services.

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

Period-end Employees

	March 31 2010	Dec. 31 2009	March 31 2009
Full-time employees			
Retail Banking	**21,522**	21,416	22,468
Corporate & Institutional Banking	**3,760**	3,746	4,169
Asset Management Group	**2,986**	2,960	3,210
Residential Mortgage Banking	**3,340**	3,267	3,596
Distressed Assets Portfolio	**178**	175	110

Other			
Operations & Technology	**9,284**	9,275	9,406
Staff Services and other (a)	**9,043**	8,922	8,899
Total Other	**18,327**	18,197	18,305
Total full-time employees	**50,113**	49,761	51,858
Retail Banking part-time employees	**4,798**	4,737	5,375
Other part-time employees	**1,187**	1,322	1,562
Total part-time employees	**5,985**	6,059	6,937
Total	**56,098**	55,820	58,795

(a) Includes employees of GIS.

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.

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Results Of Businesses Summary

(Unaudited)

Three months ended March 31 in millions	Earnings (Loss) 2010	2009	Revenue 2010	2009	Average Assets (a) 2010	2009
Retail Banking (b)	**$ 24**	$ 50	**$ 1,360**	$ 1,441	**$ 67,966**	$ 65,620
Corporate & Institutional Banking	**360**	359	**1,248**	1,290	**79,516**	91,130
Asset Management Group	**39**	39	**228**	250	**7,117**	7,457
Residential Mortgage Banking	**82**	227	**237**	528	**8,855**	7,219
BlackRock	**77**	23	**99**	26	**6,225**	4,295
Distressed Assets Portfolio	**72**	3	**337**	344	**19,507**	24,816
Total business segments	**654**	701	**3,509**	3,879	**189,186**	200,537
Other (b) (c) (d)	**(6)**	(181)	**254**	(193)	**77,962**	80,315
Results from continuing operations before noncontrolling interests	**$ 648**	$ 520	**$ 3,763**	$ 3,686	**$ 267,148**	$ 280,852

(a) Period-end balances for BlackRock.

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

(c) For our segment reporting presentation in this Financial Review, Other for the first three months of 2010 and 2009 included $113 million and $52 million, respectively, of pretax integration costs primarily related to National City.

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

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RETAIL BANKING

(Unaudited)

Three months ended March 31

Dollars in millions	2010 (a)	2009
INCOME STATEMENT		
Net interest income	**$ 871**	$ 921
Noninterest income		
Service charges on deposits	**195**	220
Brokerage	**53**	61
Consumer services	**209**	208
Other	**32**	31
Total noninterest income	**489**	520
Total revenue	**1,360**	1,441
Provision for credit losses	**340**	304
Noninterest expense	**975**	1,053
Pretax earnings	**45**	84
Income taxes	**21**	34
Earnings	**$ 24**	$ 50
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	**$ 26,824**	$ 27,638
Indirect	**3,973**	4,120
Education	**8,060**	4,882
Credit cards	**4,079**	2,112
Other consumer	**1,790**	1,860
Total consumer	**44,726**	40,612
Commercial and commercial real estate	**11,487**	12,755
Floor plan	**1,296**	1,495
Residential mortgage	**1,800**	2,252
Total loans	**59,309**	57,114
Goodwill and other intangible assets	**5,935**	5,807
Other assets	**2,722**	2,699
Total assets	**$ 67,966**	$ 65,620
Deposits		
Noninterest-bearing demand	**$ 16,776**	$ 15,819
Interest-bearing demand	**19,212**	17,900
Money market	**39,699**	38,831
Total transaction deposits	**75,687**	72,550
Savings	**6,552**	6,360
Certificates of deposit	**45,614**	56,355
Total deposits	**127,853**	135,265
Other liabilities	**1,671**	82
Capital	**8,195**	8,376
Total liabilities and equity	**$ 137,719**	$ 143,723
PERFORMANCE RATIOS		
Return on average capital	**1%**	2%
Noninterest income to total revenue	**36**	36
Efficiency	**72**	73
OTHER INFORMATION (b)		
Credit-related statistics:		
Commercial nonperforming assets	**$ 324**	$ 194
Consumer nonperforming assets	**276**	87
Total nonperforming assets (c)	**$ 600**	$ 281
Impaired loans (d)	**$ 1,013**	$ 1,269
Commercial lending net charge-offs	**$ 96**	$ 83
Credit card lending net charge-offs (on balance sheet)	**96**	49
Consumer lending (excluding credit card) net charge-offs	**108**	75

Total net charge-offs	**$ 300**	$ 207
Commercial lending annualized net charge-off ratio	**3.05%**	2.36%
Credit card annualized net charge-off ratio (on balance sheet)	**9.54%**	9.41%
Consumer lending (excluding credit card) annualized net charge-off ratio	**1.03%**	.75%
Total annualized net charge-off ratio	**2.05%**	1.47%
Other statistics:		
ATMs	**6,467**	6,402
Branches (e)	**2,461**	2,586

At March 31

Dollars in millions, except as noted	2010 (a)	2009
OTHER INFORMATION (CONTINUED) (b)		
Home equity portfolio credit statistics:		
% of first lien positions (f)	**34%**	35%
Weighted average loan-to-value ratios (f)	**73%**	74%
Weighted average FICO scores (g)	**725**	727
Annualized net charge-off ratio	**.70%**	.34%
Loans 30 89 days past due	**.74%**	.73%
Loans 90 days past due	**.85%**	.67%
Customer-related statistics (h):		
Retail Banking checking relationships	**5,037,000**	5,134,000
Retail online banking active customers	**2,782,000**	2,636,000
Retail online bill payment active customers	**826,000**	726,000
Brokerage statistics:		
Financial consultants (i)	**722**	658
Full service brokerage offices	**41**	43
Brokerage account assets (billions)	**$ 33**	$ 26

(a) Information as of March 31, 2010 reflects the impact of the consolidation in our financial statements for the securitized portfolio of approximately $1.6 billion of credit card loans as of January 1, 2010.
(b) Presented as of March 31 except for net charge-offs and annualized net charge-off ratios, which are for the three months ended.
(c) Includes nonperforming loans of $579 million at March 31, 2010 and $264 million at March 31, 2009.
(d) Recorded investment of purchased impaired loans related to National City.
(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 limited.
(g) Represents the most recent FICO scores we have on file.
(h) Amounts as of March 31, 2010 and March 31, 2009 include the impact of National City prior to 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 earned $24 million for the quarter compared with earnings of $50 million for the year-ago quarter. Earnings declined from the prior year quarter as a result of increased credit costs, lower interest credits assigned to deposits, and a decline in fees which were partially offset by well managed expenses. Retail Banking continued to maintain its focus on growing customers and deposits, customer and employee satisfaction, investing in the business for future growth, as well as disciplined expense management during this period of market and economic uncertainty.

Highlights of Retail Banking s performance for the first quarter of 2010 include the following:

- Information as of March 31, 2010 reflects the impact of the consolidation in our financial statements for the securitized credit card portfolio of approximately $1.6 billion of credit card loans as of January 1, 2010. This consolidation impacted nearly all major categories of our income statement and primarily the loan and borrowings categories on the balance sheet.
- As of mid-April 2010, we successfully completed the third of four major conversions of National City customers to the PNC platform. To date, we have successfully converted customer relationships at over 1,000 National City branches to PNC s network and platform. The remaining branch conversions are scheduled to be completed in June 2010.

- Success in implementing Retail Banking s deposit strategy resulted in growth in average demand deposits of $2.3 billion, or 7%, over the prior year first quarter. Excluding approximately $.9 billion of average demand deposits from the first quarter 2009 balances related to the 61 required branch divestitures completed by early September 2009, average demand deposits increased $3.2 billion, or 10%, over the prior year first quarter.
- Growth in demand deposits reflected the continued focus of Retail Banking on expanding and deepening customer relationships. Checking relationships declined by 5,000 during the first quarter of 2010 reflecting the impact of branch conversion activities in many markets. Customer retention was stronger than expected and helped offset lower acquisition of new relationships in branch conversion markets. Markets not impacted by conversion activities had strong first quarter checking relationship results. Excluding the impact of the required branch divestitures, net new customer and business checking relationships grew 54,000 over the prior year quarter.
- Our investment in online banking capabilities continues to pay off. Active online bill payment and online banking customers grew by 6% and 1%, respectively, during the first quarter. Excluding the impact of the required branch divestitures, active online bill pay and active online banking customers have increased 16% and 8%, respectively since March 31, 2009.
- For the second consecutive year, the Retail Bank was named a Gallup Great WorkPlace Award winner, reflecting our brand attributes of ease, confidence and achievement. This recognition reflects our commitment to having an engaged workforce, as engagement delivers real bottom-line benefits.
- At March 31, 2010, Retail Banking had 2,461 branches and an ATM network of 6,467 machines giving PNC one of the largest distribution networks among US banks. We continue to invest in the branch network, albeit at a slower pace than in prior years given the current economic conditions. In the first quarter of 2010, we opened 3 traditional branches, consolidated 55 branches and had a net reduction of 6 ATMs. The reduction in branches and ATMs mainly resulted from branch consolidations following the second major National City customer conversion in February 2010.

Total revenue for the first quarter of 2010 was $1.360 billion compared with $1.441 billion for the same quarter in 2009. Net interest income of $871 million declined $50 million compared with the first quarter 2009. Net interest income was negatively impacted by lower interest credits assigned to deposits, reflective of the rate environment, and benefited from the consolidation of the securitized credit card portfolio, higher demand deposits, and increased education loans.

Noninterest income declined $31 million over the first quarter of 2009. The decrease can be attributed to the negative impact of the consolidation of the securitized credit card portfolio, a decrease in service charges on deposits related to lower

overdraft charges, lower brokerage fees, and the impact of the required branch divestitures, but benefited as a result of higher transaction volume-related fees within consumer services.

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

Current estimates are that 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 impact to revenue for other changes that may be made in 2010 responding to market conditions or other/additional regulatory requirements, or any offsetting impact of changes to products and/or pricing.

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

The provision for credit losses was $340 million for the first quarter of 2010 compared with $304 million in the first quarter of 2009. Net charge-offs were $300 million for the first quarter of 2010 compared with $207 million in the prior year first quarter. The year over year increase in provision and net charge-offs is due to the deteriorating economy that occurred throughout 2009 as well as the larger credit card portfolio that is now on the balance sheet.

Noninterest expense for the first quarter declined $78 million from the prior year first quarter. Expenses were well managed as continued investments in distribution channels were more than offset by reductions in expenses from acquisitions and the required branch divestitures.

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

In the first quarter of 2010, average total deposits decreased $7.4 billion compared with 2009.

Average demand deposits increased $2.3 billion, or 7%, over the same quarter of 2009. The increase was primarily driven by organic growth.

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- Average money market deposits increased $868 million from the first quarter of 2009. The increase was primarily due to core money market growth as customers generally prefer more liquid deposits in a low rate environment.
- In the first quarter of 2010, average certificates of deposit decreased $10.7 billion from the same quarter last year. 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 obtained through the National City acquisition.

Currently, we plan to maintain our focus on a relationship-based lending strategy that targets specific customer sectors (mass consumers, homeowners, students, small businesses and auto dealerships) and our moderate risk lending approach. In the first quarter of 2010, average total loans were $59.3 billion, an increase of $2.2 billion over the same quarter last year.

- Average commercial and commercial real estate loans declined $1.3 billion compared with the first quarter of 2009. The decline was primarily due to the required branch divestitures and loan demand being outpaced by refinancings, paydowns, and charge-offs. Average home equity loans declined $814 million over the same quarter of 2009. Consumer loan demand has slowed as a result of the current economic environment. 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 credit card balances increased $2.0 billion over the first quarter of 2009. The increase was primarily the result of the consolidation of the securitized credit card portfolio effective January 1, 2010.
- Average education loans grew $3.2 billion compared with the same quarter in 2009 due primarily to increases in federal loan volumes as a result of non-bank competitors exiting from the business, portfolio purchases in the fourth quarter of 2009, and the impact of our current strategy of holding education loans on the balance sheet. As previously disclosed in this section, the federally guaranteed portion of this business will be essentially eliminated on July 1, 2010 due to HCERA.

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CORPORATE & INSTITUTIONAL BANKING

(Unaudited)

Three months ended March 31

Dollars in millions except as noted	2010 (a)	2009
INCOME STATEMENT		
Net interest income	**$ 877**	$ 1,023
Noninterest income		
Corporate service fees	**242**	218
Other	**129**	49
Noninterest income	**371**	267
Total revenue	**1,248**	1,290
Provision for credit losses	**236**	287
Noninterest expense	**445**	430
Pretax earnings	**567**	573
Income taxes	**207**	214
Earnings	**$ 360**	$ 359
AVERAGE BALANCE SHEET		
Loans		
Commercial	**$ 34,024**	$ 41,709
Commercial real estate	**17,961**	19,460
Commercial real estate related	**3,128**	4,267
Asset-based lending	**5,940**	7,021
Equipment lease financing	**5,318**	5,554
Total loans	**66,371**	78,011
Goodwill and other intangible assets	**3,795**	3,376
Loans held for sale	**1,410**	1,714
Other assets	**7,940**	8,029
Total assets	**$ 79,516**	$ 91,130
Deposits		
Noninterest-bearing demand	**$ 22,271**	$ 17,108
Money market	**12,253**	7,949
Other	**7,610**	7,391
Total deposits	**42,134**	32,448
Other liabilities	**10,870**	10,024
Capital	**7,633**	7,690
Total liabilities and equity	**$ 60,637**	$ 50,162

Three months ended March 31

Dollars in millions except as noted	2010 (a)	2009
PERFORMANCE RATIOS		
Return on average capital	**19%**	19%
Noninterest income to total revenue	**30**	21
Efficiency	**36**	33
COMMERCIAL MORTGAGE SERVICING PORTFOLIO (in billions)		
Beginning of period	**$ 287**	$ 270
Acquisitions/additions	**8**	5
Repayments/transfers	**(13)**	(6)
End of period	**$ 282**	$ 269
OTHER INFORMATION		
Consolidated revenue from: (b)		

Treasury Management	**$ 298**	$ 276
Capital Markets	**$ 164**	$ 43
Commercial mortgage loans held for sale (c)	**$ 27**	$ 22
Commercial mortgage loan servicing (d)	**88**	72
Total commercial mortgage banking activities	**$ 115**	$ 94
Total loans (e)	**$ 65,076**	$ 75,886
Credit-related statistics:		
Nonperforming assets (e) (f)	**$ 3,343**	$ 1,862
Impaired loans (e) (g)	**$ 1,033**	$ 1,757
Net charge-offs	**$ 271**	$ 167
Net carrying amount of commercial mortgage servicing rights (e)	**$ 921**	$ 874

(a) Information as of March 31, 2010 reflects the impact of the consolidation in our financial statements of Market Street Funding LLC effective January 1, 2010. Also, includes $1.6 billion of loans, net of eliminations, and $2.8 billion of commercial paper borrowings included in other liabilities.
(b) Represents consolidated PNC amounts.
(c) Includes valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(d) Includes net interest income and noninterest income from loan servicing and ancillary services.
(e) At March 31.
(f) Includes nonperforming loans of $3.2 billion at March 31, 2010 and $1.8 billion at March 31, 2009.
(g) Recorded investment of purchased impaired loans related to National City.

Corporate & Institutional Banking earned $360 million in the first three months of 2010 compared with $359 million in the first quarter of 2009. Earnings were relatively flat as a decrease in net interest income was offset by higher noninterest income and a lower provision for credit losses.

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

- Net interest income for the first three months of 2010 was $877 million, a decrease of $146 million from 2009 impacted by a decrease in average loans and lower interest credits assigned to deposits.
- Corporate service fees were $242 million for the first quarter of 2010, an increase of $24 million over the same period a year ago primarily due to increases in commercial mortgage special servicing ancillary income and merger and acquisition advisory fees. The major components of corporate service fees are

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treasury management, corporate finance fees and commercial mortgage servicing revenue.

Our Treasury Management business, which is ranked in the top ten nationally, continues to invest in the healthcare initiative which is designed to help provide our customers opportunities to reduce operating costs. Healthcare-related revenues in the first quarter of 2010 increased 32% from the first quarter of 2009.

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

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

The commercial mortgage servicing portfolio was $282 billion at March 31, 2010 compared with $269 billion at March 31, 2009. The increase from a year ago reflected the continued growth in the agency and conventional servicing portfolios that was somewhat offset by a decline in the commercial mortgage-backed securities servicing portfolio.

Other noninterest income was $129 million for the first three months of 2010, an increase of $80 million from the same period in 2009 primarily due to a reduction in reserves for the DUS lending program, a reduced impact of counterparty credit risk on valuations of customer derivative positions and higher underwriting revenue, partially offset by a decline in net valuation gains on the commercial mortgage and multi-family held for sale loan portfolios carried at fair value.

Provision for credit losses was $236 million in the first three months of 2010, a decrease of $51 million from 2009. The 2010 provision reflected continued deterioration in commercial real estate loans. The decline compared with the prior year first quarter was driven primarily by lower loan balances. Net charge-offs for the first quarter of 2010 were $271 million compared with $167 million for the first quarter of 2009. Net charge-offs showed signs of slowing in the middle market and asset-based lending portfolios.

Noninterest expense was $445 million for the first three months of 2010, an increase of $15 million from the same period in 2009. The increase was primarily due to higher compensation expense related to increased sales activity, FDIC costs associated with higher deposit balances and credit-related expenses.

Average loans were $66.4 billion for the first three months of 2010 compared with $78.0 billion in the first quarter of 2009. The first quarter of 2010 included an increase in loans from the consolidation of Market Street. Excluding the impact of the Market Street consolidation, average loans decreased $13.2 billion or 17% compared with the prior year first quarter. The decrease was due to reductions in non-strategic areas, paydowns and charge-offs as well as declines in utilization levels among middle-market and large corporate clients.

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

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

PNC Equipment Finance is the 5th largest bank-affiliated leasing company with approximately $9 billion in equipment finance assets, although average loans and leases have declined approximately 5% due to runoff of non-strategic portfolios.

Average deposits were $42.1 billion for the first three months of 2010, an increase of $9.7 billion, or 30%, compared with the first quarter of 2009 as customers continued to move balances from off-balance sheet sweep products to noninterest-bearing demand deposits and from the impact of the return of deposits from National City customers who had previously moved funds to other institutions.

See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities on page 9.

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ASSET MANAGEMENT GROUP

(Unaudited)

Three months ended March 31

Dollars in millions except as noted	2010	2009
INCOME STATEMENT		
Net interest income	**$ 64**	$ 96
Noninterest income	**164**	154
Total revenue	**228**	250
Provision for credit losses	**9**	17
Noninterest expense	**157**	170
Pretax earnings	**62**	63
Income taxes	**23**	24
Earnings	**$ 39**	$ 39
AVERAGE BALANCE SHEET		
Loans		
Consumer	**$ 3,994**	$ 3,851
Commercial and commercial real estate	**1,504**	1,761
Residential mortgage	**963**	1,153
Total loans	**6,461**	6,765
Goodwill and other intangible assets	**415**	404
Other assets	**241**	288
Total assets	**$ 7,117**	$ 7,457
Deposits		
Noninterest-bearing demand	**$ 1,228**	$ 1,260
Interest-bearing demand	**1,699**	1,544
Money market	**3,217**	3,330
Total transaction deposits	**6,144**	6,134
Certificates of deposit and other	**818**	1,289
Total deposits	**6,962**	7,423
Other liabilities	**119**	117
Capital	**553**	576
Total liabilities and equity	**$ 7,634**	$ 8,116
PERFORMANCE RATIOS		
Return on average capital	**29%**	27%
Noninterest income to total revenue	**72**	62
Efficiency	**69**	68
OTHER INFORMATION		
Total nonperforming assets (a) (b)	**$ 139**	$ 68
Impaired loans (a) (c)	**$ 191**	$ 223
Total net charge-offs	**$ 4**	$ 11
ASSETS UNDER ADMINISTRATION (in billions) (a) (d)		
Personal	**$ 96**	$ 85
Institutional	**113**	131
Total	**$ 209**	$ 216
Asset Type		
Equity	**$ 104**	$ 79
Fixed Income	**59**	57
Liquidity/Other	**46**	80
Total	**$ 209**	$ 216
Discretionary assets under management		

Personal	**$ 69**	$ 59
Institutional	**36**	37
Total	**$ 105**	$ 96
Asset Type		
Equity	**$ 51**	$ 38
Fixed Income	**35**	32
Liquidity/Other	**19**	26
Total	**$ 105**	$ 96
Nondiscretionary assets under administration		
Personal	**$ 27**	$ 26
Institutional	**77**	94
Total	**$ 104**	$ 120
Asset Type		
Equity	**$ 53**	$ 41
Fixed Income	**24**	25
Liquidity/Other	**27**	54
Total	**$ 104**	$ 120

(a) As of March 31.
(b) Includes nonperforming loans of $132 million at March 31, 2010 and $66 million at March 31, 2009.
(c) Recorded investment of purchased impaired loans related to National City.
(d) Excludes brokerage account assets.

Asset Management Group earned $39 million for the first quarters of 2010 and 2009. Assets under administration were $209 billion at March 31, 2010. The quarter reflected higher noninterest income, lower provision for credit losses, and lower expenses from disciplined expense management. These improvements offset a decrease in net interest income from lower yields on loans in the first quarter of 2009.

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

- Successfully executed the first and largest of the National City trust system conversions;
- Delivered solid sales and client retention results;
- Managed expenses; and
- Credit performance began to stabilize.

Assets under administration of $209 billion at March 31, 2010 decreased $7 billion compared with the balance at March 31, 2009. Discretionary assets under management of $105 billion at March 31, 2010 increased $9 billion compared with the balance at March 31, 2009 due to improvement in the equity markets and client acquisition and retention. The increase in discretionary assets under management was more than offset by a decrease in nondiscretionary assets of $16 billion as a result of an exit of a noncore product offering and other National City integration impacts.

Total revenue for the first quarter of 2010 was $228 million, compared with $250 million for the same period in 2009. Net interest income for the first quarter decreased $32 million compared with the first quarter of 2009, primarily due to a reduction in higher yield loans. Noninterest income of $164 million for the quarter increased $10 million compared with the first quarter of 2009. The growth was primarily due to the improved equity markets and continued client expansion.

Provision for credit losses was $9 million for the first three months of 2010 compared with $17 million for the first three months of 2009. The decrease reflected a decline in net charge-offs of $7 million. Charge-offs were $4 million for the first three months of 2010 and $11 million for the first three months of 2009.

Noninterest expense of $157 million in the first quarter of 2010 decreased $13 million from the first quarter of 2009. The decline is attributable to disciplined expense management as well as integration-related initiatives. The implementation of efficiency initiatives will continue through the remainder of 2010.

Average deposits for the first three months of 2010 decreased $461 million, or 6%, from the comparable period last year.

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The decrease was due to a strategic exit of higher rate certificates of deposit, expected to continue in 2010. Average loan balances decreased $304 million, or 4%, from the first quarter of 2009. Home equity loans grew while commercial loans and residential mortgages declined.

Residential Mortgage Banking

(Unaudited)

Three months ended March 31

Dollars in millions, except as noted	**2010**	2009
Income Statement		
Net interest income	**$ 80**	$ 91
Noninterest income		
Loan servicing revenue		
Servicing fees	**69**	59
Net MSR hedging gains	**46**	202
Loan sales revenue	**39**	175
Other	**3**	1
Total noninterest income	**157**	437
Total revenue	**237**	528
Provision for (recoveries of) credit losses	**(16)**	(9)
Noninterest expense	**124**	173
Pretax earnings	**129**	364
Income taxes	**47**	137
Earnings	**$ 82**	$ 227
Average Balance Sheet		
Portfolio loans	**$ 2,820**	$ 1,430
Loans held for sale	**974**	2,693
Mortgage servicing rights (MSR)	**1,264**	1,164
Other assets	**3,797**	1,932
Total assets	**$ 8,855**	$ 7,219
Deposits	**$ 3,602**	$ 4,101
Borrowings and other liabilities	**2,279**	2,080
Capital	**1,781**	1,271
Total liabilities and equity	**$ 7,662**	$ 7,452
Performance Ratios		
Return on average capital	**19%**	72%
Efficiency	**52%**	33%
Other Information		
Servicing portfolio for others (in billions) (a)	**$ 141**	$ 168
Fixed rate	**89%**	87%
Adjustable rate/balloon	**11%**	13%
Weighted average interest rate	**5.79%**	5.99%
MSR capitalized value (in billions)	**$ 1.3**	$ 1.0
MSR capitalization value (in basis points)	**90**	62
Weighted average servicing fee (in basis points)	**30**	30
Loan origination volume (in billions)	**$ 2.0**	$ 6.9
Percentage of originations represented by:		
Agency and government programs	**98%**	97%
Refinance volume	**73%**	83%
Total nonperforming assets (a) (b)	**$ 418**	$ 267
Impaired loans (a) (c)	**$ 298**	$ 533

(a) As of March 31.
(b) Includes nonperforming loans of $239 million at March 31, 2010 and $100 million at March 31, 2009.
(c) Recorded investment of purchased impaired loans related to National City.

Residential Mortgage Banking earned $82 million for the first quarter of 2010 compared with $227 million in the first quarter of 2009. Earnings decreased from the first quarter of 2009 primarily due to lower net hedging gains on mortgage servicing rights and reduced loan sales revenue.

Residential Mortgage Banking overview:

Total loan originations were $2.0 billion for the first three months of 2010 compared with $6.9 billion for the first three months of 2009. Lower mortgage rates in the first quarter of 2009 resulted in high loan application and origination volumes. Loans continued to be primarily originated through direct channels under FNMA, FHLMC and FHA/VA agency guidelines.

Investors may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable representations. At March 31, 2010, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $188 million. See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.

Residential mortgage loans serviced for others totaled $141 billion at March 31, 2010 compared with $168 billion at March 31, 2009. Payoffs continued to outpace new direct loan origination volume during the quarter. The decline from a year earlier also reflected the sale of a $7.9 billion servicing portfolio in the fourth quarter of 2009.

Noninterest income was $157 million in the first quarter of 2010 compared with $437 million in the first quarter of 2009. The decline was due to lower net hedging gains on mortgage servicing rights and reduced loan sales revenue related to strong loan origination refinance volume in the first quarter of 2009.

Net interest income was $80 million for the first three months of 2010 compared with $91 million for the first three months of 2009. The decrease resulted from lower residential mortgage loans held for sale.

Noninterest expense declined to $124 million in the first quarter of 2010 compared with $173 million in the first quarter of 2009 as lower loan origination volume drove a reduction in expense.

The fair value of mortgage servicing rights was $1.3 billion at March 31, 2010 compared with $1.0 billion at March 31, 2009.

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BlackRock

Information related to our equity investment in BlackRock follows:

Three months ended March 31

Dollars in millions	**2010**	2009
Business segment earnings (a)	**$ 77**	$ 23
PNC s share of BlackRock earnings (b)	**23%**	31.5%

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

(b) At March 31.

PNC accounts for its investment in BlackRock under the equity method of accounting. The carrying value of PNC s investment in BlackRock was $5.8 billion at both March 31, 2010 and December 31, 2009.

BlackRock/Barclays Global Investors Transaction

As more fully described in Item 7 of our 2009 Form 10-K, on December 1, 2009, BlackRock acquired BGI from Barclays Bank PLC in exchange for approximately $6.65 billion in cash and 37,566,771 shares of BlackRock common and participating preferred stock. In connection with the BGI transaction, BlackRock entered into a stock purchase agreement with PNC in which we purchased 3,556,188 shares of BlackRock 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.

BlackRock LTIP and Exchange Agreements

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

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

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

In connection with the PNC Exchange Agreement, PNC s obligation to deliver BlackRock common shares in connection with the BlackRock LTIP was replaced with an obligation to deliver shares of BlackRock s new Series C Preferred Stock. PNC acquired 2.9 million shares of Series C Preferred Stock from BlackRock in exchange for common shares on that same date. PNC accounts for its BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock. The fair value amount of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 8 Fair Value in the Notes To Consolidated Financial Statements of this Report.

PNC accounts for its remaining investment in BlackRock under the equity method of accounting. As a result of the Exchange Agreements, our percentage ownership of BlackRock common stock (approximately 34% at March 31, 2010) is higher than our overall share of BlackRock s equity and earnings. The transactions related to the Exchange Agreements do not affect our right to receive dividends declared by BlackRock.

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DISTRESSED ASSETS PORTFOLIO

(Unaudited)

Three months ended March 31

Dollars in millions, except as noted	**2010**	2009
INCOME STATEMENT		
Net interest income	**$ 338**	$ 331
Noninterest income	**(1)**	13
Total revenue	**337**	344
Provision for credit losses	**165**	259
Noninterest expense	**58**	80
Pretax earnings	**114**	5
Income taxes	**42**	2
Earnings	**$ 72**	$ 3
AVERAGE BALANCE SHEET		
COMMERCIAL LENDING:		
Commercial	**$ 115**	$ 198
Commercial real estate		
Real estate projects	**2,404**	3,526
Commercial mortgage	**80**	93
Equipment lease financing	**803**	858
Total commercial lending	**3,402**	4,675
CONSUMER LENDING:		
Consumer:		
Home equity lines of credit	**4,533**	5,297
Home equity installment loans	**2,015**	2,553
Other consumer	**25**	10
Total consumer	**6,573**	7,860
Residential real estate:		
Residential mortgage	**7,717**	9,231
Residential construction	**473**	1,541
Total residential real estate	**8,190**	10,772
Total consumer lending	**14,763**	18,632
Total portfolio loans	**18,165**	23,307
Other assets	**1,342**	1,509
Total assets	**$ 19,507**	$ 24,816
Deposits	**$ 85**	$ 45
Other liabilities	**55**	107
Capital	**1,353**	1,570
Total liabilities and equity	**$ 1,493**	$ 1,722
OTHER INFORMATION		
Nonperforming assets (a) (b)	**$ 1,777**	$ 933
Impaired loans (a) (c)	**$ 7,124**	$ 8,778
Net charge-offs (d)	**$ 111**	$ 51
Net charge-offs as a percentage of portfolio loans (annualized) (d)	**2.48%**	.89%
LOANS (IN BILLIONS) (a)		
Commercial		
Residential development	**$ 2.6**	$ 3.5
Cross-border leases	**.8**	.8
Consumer		
Brokered home equity	**6.3**	7.1
Retail mortgages	**5.1**	6.4

Non-prime mortgages	**1.7**	2.0
Residential construction	**1.6**	2.4
Total loans	**$ 18.1**	$ 22.2

(a) As of March 31.
(b) Includes nonperforming loans of $1.4 billion at March 31, 2010 and $.7 billion at March 31, 2009.
(c) Recorded investment of purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008. At March 31, 2010, this segment contained 73% of PNC s purchased impaired loans.
(d) For the three months ended March 31.

This business segment consists primarily of assets acquired with National City. The Distressed Assets Portfolio had earnings of $72 million for the first three months of 2010, compared to $3 million for the first three months of 2009. Earnings improved primarily due to lower provision for credit losses and lower noninterest expense.

Distressed Assets Portfolio overview:

- Average loans declined to $18.2 billion in the first quarter of 2010 compared with $23.3 billion in the first quarter of 2009. The decline was impacted by portfolio management activities including loan sales and efforts to encourage customers to refinance or pay off consumer loan balances.
- Net interest income was $338 million for the first three months of 2010 compared with $331 million for the first three months of 2009. The increase was driven by higher accretion on impaired loans due to improved cash collection results which more than offset the decline in average loans.
- Noninterest income reflected a loss of $1 million for the first quarter of 2010 compared with revenue of $13 million for the first quarter of 2009 due to an increase in recourse reserves for brokered home equity loans sold. First quarter 2009 results included asset disposition gains which were higher than those in the first quarter of 2010.
- The provision for credit losses was $165 million in the first quarter of 2010 compared with $259 million in the first quarter 2009. The decline was largely driven by the consumer loan portfolio.
- Noninterest expense for the first three months of 2010 of $58 million declined $22 million compared with the first three months of 2009 primarily due to lower other real estate owned related expenses and losses.
- The loan portfolio included commercial residential development loans, cross border leases, consumer brokered home equity loans and lines, 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 portfolio assigned to it while mitigating risk. Business intent drives the inclusion of assets in this business segment. Not all impaired loans are included in this business segment, nor are all of the loans included in this business segment considered impaired.
- The $18.1 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 77% 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.

When loans are sold, investors may request PNC to indemnify them against losses or to repurchase loans that they believe do not comply with applicable representations. At March 31, 2010, the liability for estimated losses on repurchase and indemnification claims for the Distressed Assets Portfolio business segment was $63 million. See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.

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CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

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

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

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

PNC employs a risk management strategy designed to protect the value of MSRs from changes in interest rates. MSR values

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

The fair value of residential MSRs and significant inputs to the valuation model as of March 31, 2010 are shown in the table below. The expected and actual rates of mortgage loan prepayments are the most significant factors driving the fair value. Management uses an internal proprietary model to estimate future loan prepayments. This model uses empirical data drawn from the historical performance of our managed portfolio, as adjusted for current market conditions. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied forward interest rates to estimate the future direction of mortgage and discount rates. The forward rates utilized are derived from the current yield curve for U.S. dollar interest rate swaps and are consistent with pricing of capital markets instruments. Changes in the shape and slope of the forward curve in future periods may result in volatility in the fair value estimate.

Dollars in millions	March 31, 2010
Fair value	$ 1,271
Weighted-average life (in years)	3.7

Weighted-average constant prepayment rate	**21.98%**
Spread over forward interest rate swap rates	**12.17%**

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

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Dollars in millions	March 31, 2010
Prepayment rate:	
Decline in fair value from 10% adverse change	**$ 56**
Decline in fair value from 20% adverse change	**$ 108**
Spread over forward interest rate swap rates:	
Decline in fair value from 10% adverse change	**$ 53**
Decline in fair value from 20% adverse change	**$ 102**

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

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

Status Of Qualified Defined Benefit Pension Plan

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are derived from 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 our 2009 Form 10-K.

We calculate the expense associated with the pension plan and the assumptions and methods that we use include a policy of reflecting trust assets at their fair market value. On an annual basis, we review the actuarial assumptions related to the pension plan, including the discount rate, the rate of compensation increase and the expected return on plan assets. The discount rate and compensation increase assumptions do not significantly affect pension expense.

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

For purposes of setting and reviewing this assumption, long term refers to the period over which the plan s projected benefit obligation will be disbursed. While year-to-year annual returns can vary significantly (rates of return for the reporting years of 2009, 2008, and 2007 were +20.61%, -32.91%, and +7.57% respectively), the assumption represents our estimate of long-term average prospective returns. Our selection process references certain historical data and the current environment, but primarily utilizes qualitative judgment regarding future return expectations. Recent annual returns may differ but, recognizing the volatility and unpredictability of investment returns, we generally do not change the assumption unless we modify our investment strategy or identify events that would alter our expectations of future returns.

To evaluate the continued reasonableness of our assumption, we examine a variety of viewpoints and data. Various studies have shown that portfolios comprised primarily of US equity securities have returned approximately 10% over long periods of time, while US debt securities have returned approximately 6% annually over long periods. Application of these historical returns to the plan s allocation of equities and bonds produces a result between 8% and 8.5% and is one point of reference, among many other factors, that is taken into consideration. We also examine the plan s actual historical returns over various periods. Recent experience is considered in our evaluation with appropriate consideration that, especially for short time periods, recent returns are not reliable indicators of future returns, and in many cases low returns in recent time periods are followed by higher returns in future periods (and vice versa).

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

The expected long-term return on plan assets for determining net periodic pension cost for 2010 is 8.00%, down from 8.25% for 2009. During 2010, we decreased the midpoint of the plan s target allocation range for equities by approximately five percentage points. As a result of this change and taking into account all other factors described above, we changed the expected long-term return on plan assets to 8.00% for determining net periodic pension cost for 2010. Under current accounting rules, the difference between expected long-term returns and actual returns is accumulated and amortized to pension expense over future periods. Each one percentage point difference in actual return compared with our expected return causes expense in subsequent years to change by up to $8 million as the impact is amortized into results of operations.

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

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

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

We currently estimate a pretax pension expense of $41 million in 2010 compared with pretax expense of $117 million in 2009. This year-over-year reduction was primarily due to the amortization impact of the favorable 2009 investment returns as compared with the expected long-term return assumption.

Our pension plan contribution requirements are not particularly sensitive to actuarial assumptions. Investment performance has the most impact on contribution requirements and will drive the amount of permitted contributions in future years. Also, current law, including the provisions of the Pension Protection Act of 2006, sets limits as to both minimum and maximum contributions to the plan. We do not expect to be required by law to make any contributions to the plan for 2010.

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

RISK MANAGEMENT

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

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

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

CREDIT RISK MANAGEMENT

Credit risk represents the possibility that a customer, counterparty or issuer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers, purchasing securities, and entering into financial derivative transactions and certain guarantee contracts. Credit risk is one of our most significant risks.

Nonperforming, Past Due And Potential Problem Assets

The pace of credit quality deterioration continued to ease during the first quarter of 2010 and, overall, delinquencies and nonperforming loans continued to show signs of stabilization compared with prior quarters.

Nonperforming assets were $6.5 billion at March 31, 2010, reflecting a nominal increase compared with $6.3 billion at December 31, 2009. Nonperforming loans increased $90 million since December 31, 2009 while foreclosed and other assets increased $134 million. The increase in nonperforming assets of $224 million from year-end 2009 to March 31, 2010 was lower than the increase in nonperforming assets in the past three consecutive quarters of 2009 of $672 million, $988 million and $1.1 billion, respectively.

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

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

The portion of the allowance for loan and lease losses allocated to commercial lending nonperforming loans was 27% at March 31, 2010 and 29% at December 31, 2009. Approximately 67% of these nonperforming loans are secured by collateral that is expected to reduce credit losses and require less reserves in the event of default. Nonperforming assets were 4.14% of total loans and foreclosed and other assets at March 31, 2010 compared with 3.99% at December 31, 2009.

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Nonperforming Assets By Type

In millions	March 31 2010	Dec. 31 2009
Nonaccrual loans		
Commercial		
Retail/wholesale	**$ 246**	$ 231
Manufacturing	**341**	423
Other service providers	**527**	394
Real estate related (a)	**460**	419
Financial services	**77**	117
Health care	**48**	41
Other	**134**	181
Total commercial	**1,833**	1,806
Commercial real estate		
Real estate projects	**1,797**	1,754
Commercial mortgage	**419**	386
Total commercial real estate	**2,216**	2,140
Equipment lease financing	**123**	130
TOTAL COMMERCIAL LENDING	**4,172**	4,076
Consumer		
Home equity	**337**	356
Other	**35**	36
Total consumer	**372**	392
Residential real estate		
Residential mortgage	**968**	955
Residential construction	**249**	248
Total residential real estate	**1,217**	1,203
TOTAL CONSUMER LENDING	**1,589**	1,595
Total nonperforming loans	**5,761**	5,671
Foreclosed and other assets		
Commercial lending	**328**	266
Consumer lending	**451**	379
Total foreclosed and other assets	**779**	645
Total nonperforming assets	**$ 6,540**	$ 6,316

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

Change In Nonperforming Assets

In millions	2010	2009
January 1	**$ 6,316**	$ 2,181
Transferred from accrual	**1,774**	2,028
Charge-offs and valuation adjustments	**(620)**	(310)
Principal activity including payoffs	**(278)**	(235)
Asset sales	**(265)**	(126)
Returned to performing -TDRs	**(217)**	
Returned to performing-Other	**(170)**	(20)
March 31	**$ 6,540**	$ 3,518

Total nonperforming loans and nonperforming assets in the tables above are significantly lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in lower ratios of nonperforming loans to total loans and allowance for loan and lease losses to nonperforming loans. We recorded purchased impaired loans at estimated fair value of $12.7 billion at December 31, 2008, including an impairment mark for life of loan credit losses. These loans are considered performing, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans. The accretable interest/yield represents the excess of expected cash flows on the loans at the measurement date over the recorded investment. See Note 6 Purchased Impaired Loans Related to National City in the Notes To Consolidated Financial Statements in this Report for additional information on those loans.

At March 31, 2010, our largest nonperforming asset was approximately $32 million and our average nonperforming loan associated with commercial lending was approximately $1 million.

The amount of nonperforming loans that were current as to principal and interest was $1.5 billion at March 31, 2010 and $1.7 billion at December 31, 2009.

Loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties where we do not receive adequate compensation are considered troubled debt restructurings (TDRs). TDRs typically result from our loss mitigation activities and could include rate reductions, principal forgiveness, forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. Total nonperforming loans included TDRs of $385 million at March 31, 2010 and $440 million at December 31, 2009. Purchased impaired loans are excluded from TDRs.

TDRs returned to performing (accrual) status totaled $217 million at March 31, 2010 and are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of performance under the modified terms.

In addition, credit cards and certain small business and consumer credit agreements whose terms have been modified totaled $279 million at March 31, 2010 and are excluded from nonperforming loans. Our policy is generally to exempt these loans from being placed on nonaccrual status as permitted by regulatory guidance as these loans are directly charged off in the period that they become 180 days past due.

Accruing Loans Past Due 30 To 89 Days (a)

	Amount		Percent of Outstandings	
Dollars in millions	**March 31 2010**	Dec. 31 2009	**March 31 2010**	Dec. 31 2009
Commercial	**$ 622**	$ 684	**1.15%**	1.26%
Commercial real estate	**859**	666	**4.19**	3.10
Equipment lease financing	**97**	128	**1.59**	2.06
Consumer	**440**	438	**.85**	.87
Residential real estate	**464**	472	**3.14**	3.12
Total (b)	**$ 2,482**	$ 2,388	**1.68**	1.62

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Accruing Loans Past Due 90 Days Or More (a)

	Amount		Percent of Outstandings	
	March 31	Dec. 31	**March 31**	Dec. 31
Dollars in millions	**2010**	2009	**2010**	2009
Commercial	**$ 201**	$ 188	**.37%**	.35%
Commercial real estate	**111**	150	**.54**	.70
Equipment lease financing	**2**	6	**.03**	.10
Consumer	**248**	226	**.48**	.45
Residential real estate	**284**	314	**1.92**	2.07
Total (c)	**$ 846**	$ 884	**.57**	.60

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

(b) Excludes impaired loans acquired from National City totaling $.6 billion at March 31, 2010 and $.8 billion at December 31, 2009. These loans are excluded as they were recorded at estimated fair value when acquired and are currently considered performing loans due to the accretion of interest in purchase accounting.

(c) Excludes impaired loans acquired from National City totaling $2.5 billion at March 31, 2010 and $2.7 billion at December 31, 2009. These loans are excluded as they were recorded at estimated fair value when acquired and are currently considered performing loans due to the accretion of interest in purchase accounting.

Loans that are not included in nonperforming or past due categories and which we are uncertain about the borrower s ability to comply with existing repayment terms over the next six months totaled $1.2 billion at March 31, 2010 and $811 million at December 31, 2009. The increase compared with December 31, 2009 was driven by exposures in commercial real estate arising from the challenges of attracting tenants as construction projects near completion, or the loss of tenants/lease rate concessions on completed projects.

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

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

We increased the allowance for loan and lease losses to $5.3 billion at March 31, 2010 compared with $5.1 billion at December 31, 2009. The increase was primarily due to consolidation of the securitized credit card portfolio. The allowance as a percent of nonperforming loans was 92% and as a percent of total loans was 3.38% at March 31, 2010. The comparable percentages at December 31, 2009 were 89% and 3.22%. The majority of the commercial portfolio is secured by collateral, including loans to asset-based lending customers that continue to show demonstrably lower loss given default. Further, the large high investment grade portion of the loan portfolio has performed well and has not been subject to significant deterioration.

The allowance for loan and lease losses is significantly lower than it would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of allowance for loan and lease losses to total loans. Loan loss reserves on the purchased impaired loans were not carried over on the date of acquisition. In addition, these loans were recorded net of $9.2 billion of fair value marks as of December 31, 2008. As a result, the ratio of allowance for loan and lease losses to total loans is lower than it would be otherwise. Since acquisition date, additional reserves of $.6 billion have been provided for purchased impaired loans.

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

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

We believe that our provision for credit losses may have peaked in the fourth quarter of 2009 and that our provision for full year 2010 will be below the provision for 2009. Future provision levels will depend primarily on the level of nonperforming loans, our related coverage ratios, the pace of economic recovery and the nature of regulatory reforms.

Charge-Offs And Recoveries

Three months ended March 1 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2010				
Commercial	**$ 273**	**$ 65**	**$ 208**	**1.52%**
Commercial real estate	**238**	**33**	**205**	**3.71**
Equipment lease financing	**36**	**12**	**24**	**1.59**
Consumer	**242**	**26**	**216**	**1.58**
Residential real estate	**38**		**38**	**.79**
Total	**$ 827**	**$ 136**	**$ 691**	**1.77%**
2009				
Commercial	$ 209	$ 16	$ 193	1.16%
Commercial real estate	106	5	101	1.60
Equipment lease financing	23	5	18	1.14
Consumer	148	27	121	.93
Residential real estate	26	28	(2)	(.04)
Total	$ 512	$ 81	$ 431	1.01%

We establish reserves to provide coverage for probable losses not considered in the specific, pool and consumer reserve methodologies, such as, but not limited to, the following:

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

Total net charge-offs are significantly lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. Customer balances related to these impaired loans were reduced by the fair value marks of $9.2 billion as of December 31, 2008. However, as a result of further credit deterioration on purchased impaired commercial loans, we recorded $62 million of net charge-offs during the first three months of 2010. Net charge-offs were not recorded on purchased impaired consumer pools.

Credit Default Swaps

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

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

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

CDSs are included in the Derivatives not designated as hedging instruments under GAAP table in the Financial Derivatives section of this Risk Management discussion. Net gains from CDSs for proprietary trading positions, reflected in other noninterest income on our Consolidated Income Statement, totaled $4 million for the first three months of 2010 compared with net losses of $11 million for the first three months of 2009.

Liquidity Risk Management

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

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

Liquid assets consist of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning deposits with banks) and securities available for sale. At March 31, 2010, our liquid assets totaled $53.1 billion, with $25.3 billion pledged as collateral for borrowings, trust, and other commitments.

Bank Level Liquidity

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

PNC Bank, N.A. can borrow from the Federal Reserve Bank of Cleveland s (Federal Reserve Bank) discount window to meet short-term liquidity requirements. These borrowings are secured by securities and commercial loans. PNC Bank, N.A. is also a member of the Federal Home Loan Bank (FHLB)-Pittsburgh and as such has access to advances from FHLB-Pittsburgh secured generally by residential mortgage and other mortgage-related loans. At March 31, 2010, our unused secured borrowing capacity was $24.3 billion with the Federal Reserve Bank and $7.4 billion with FHLB-Pittsburgh.

Total FHLB borrowings were $8.7 billion at March 31, 2010 compared with $10.8 billion at December 31, 2009.

We can also obtain funding through traditional forms of borrowing, including Federal funds purchased, repurchase agreements, and short and long-term debt issuances. PNC Bank, N.A. has the ability to offer up to $20 billion in senior and subordinated unsecured debt obligations with maturities of more than nine months. Through March 31, 2010, PNC Bank, N.A. had issued $6.9 billion of debt under this program.

PNC Bank, N.A. also has the ability to offer up to $3.0 billion of its commercial paper. As of March 31, 2010, there were no issuances outstanding under this program.

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As of March 31, 2010, there were $7.2 billion of bank borrowings with maturities of less than one year.

Parent Company Liquidity

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

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

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

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

Also, there are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. See Note 23 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of our 2009 Form 10-K for a further discussion of these limitations. Dividends may also be impacted by the bank s capital needs and by contractual restrictions. We provide additional information on certain contractual restrictions under the Perpetual Trust Securities, PNC Capital Trust E Trust Preferred Securities, and Acquired Entity Trust Preferred Securities sections of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review. The amount available for dividend payments to the parent company by PNC Bank, N.A. without prior regulatory approval was approximately $735 million at March 31, 2010.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and short-term investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of March 31, 2010, the parent company had approximately $1.9 billion in funds available from its cash and short-term investments.

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

During the first quarter of 2010 we raised $3.4 billion in new common equity through the issuance of 63.9 million shares of common stock in an underwritten offering at $54 per share.

On February 8, 2010, PNC Funding Corp issued the following securities:

- $1 billion of senior notes due February 2015; interest will be paid semiannually at a fixed rate of 3.625%.
- $1 billion of senior notes due February 2020; interest will be paid semiannually at a fixed rate of 5.125%.

As approved by the Federal Reserve Board, US Treasury and our other banking regulators, on February 10, 2010, we redeemed all 75,792 shares of our Fixed Rate Cumulative Perpetual Preferred Shares, Series N (Series N Preferred Stock) issued to the US Treasury on December 31, 2008 totaling $7.6 billion. We used the net proceeds from the common stock and senior notes offerings described above and other parent company 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.

In connection with the redemption of the Series N Preferred Stock, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of $250 million during the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common stockholders and related basic and diluted earnings per share.

See Note 19 Equity in the Notes To Consolidated Financial Statements in Item 8 of our 2009 Form 10-K for more details regarding the issuance of the Series N Preferred Stock, related issuance discount and the warrant to purchase common shares to the US Treasury under the TARP Capital Purchase Program. See Note 20 Subsequent Event in the Notes To Consolidated Financial Statement of this Report regarding the May 2010 exchange of the TARP warrant for 16,885,192 warrants, each to purchase one share of PNC common stock, and the sale of such warrants by the US Treasury in a secondary public offering.

PNC Bank, N.A., through its subsidiary PNC Funding Corp, has the ability to offer up to $3.0 billion of commercial paper to provide the parent company with additional liquidity. As of March 31, 2010, there was $322 million outstanding under this program.

We have effective shelf registration statements pursuant to which we can issue additional debt and equity securities, including certain hybrid capital instruments. As of March 31, 2010, there were $2.5 billion of parent company borrowings with maturities of less than one year.

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Status of Credit Ratings

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

Credit ratings as of March 31, 2010 for PNC and PNC Bank, N.A. follow:

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

Commitments

The following tables set forth contractual obligations and various other commitments as of March 31, 2010 representing required and potential cash outflows.

Contractual Obligations

March 31, 2010 in millions	Total
Remaining contractual maturities of time deposits	**$ 49,140**
Borrowed funds	**42,461**
Minimum annual rentals on noncancellable leases	**2,497**
Nonqualified pension and postretirement benefits	**539**
Purchase obligations (a)	**843**
Total contractual cash obligations	**$ 95,480**

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

At March 31, 2010, the liability for uncertain tax positions, excluding associated interest and penalties, was $227 million. This liability represents an estimate of tax positions that we have taken in our tax returns which may ultimately not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the contractual obligations table. See Note 15 Income Taxes in the Notes To Consolidated Financial Statements of this Report for additional information.

Other Commitments (a)

March 31, 2010 in millions	Total Amounts Committed
Net unfunded credit commitments	**$ 96,363**
Standby letters of credit (b)	**10,063**
Reinsurance agreements	**1,674**
Other commitments (c)	**906**
Total commitments	**$ 109,006**

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of participations, assignments and syndications.
(b) Includes $6.0 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.
(c) Includes unfunded commitments related to private equity investments of $440 million and other investments of $64 million which are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $380 million and other direct equity investments of $22 million which are included in other liabilities on the Consolidated Balance Sheet.

MARKET RISK MANAGEMENT OVERVIEW

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

MARKET RISK MANAGEMENT INTEREST RATE RISK

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

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

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

Interest Sensitivity Analysis

	First Quarter 2010	First Quarter 2009
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	**1.3%**	1.1%
100 basis point decrease (a)	**(2.1)%**	(1.1)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**1.3%**	2.7%
100 basis point decrease (a)	**(6.3)%**	(4.2)%
Duration of Equity Model (a)		
Base case duration of equity (in years):	**(1.7)**	(4.7)
Key Period-End Interest Rates		
One-month LIBOR	**.25%**	.50%
Three-year swap	**1.81%**	1.68%

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

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

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

	PNC Economist	Market Forward	Two-Ten Inversion
First year sensitivity	**1.3%**	**1.6%**	**.5%**
Second year sensitivity	**(1.6)%**	**.7%**	**(.4)%**

All changes in forecasted net interest income are relative to results in a base rate scenario where current market rates are assumed to remain unchanged over the forecast horizon.

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business, and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in the following table. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates.

The graph below presents the yield curves for the base rate scenario and each of the alternate scenarios one year forward.

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

Market Risk Management Trading Risk

Our trading activities include customer-driven trading in fixed income securities, equities, derivatives, and foreign exchange contracts. They also include the underwriting of fixed income and equity securities and proprietary trading.

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

During the first quarter of 2010, our VaR ranged between $5.9 million and $8.8 million, averaging $7.1 million. During the first quarter of 2009, our VaR ranged between $5.8 million and $7.9 million, averaging $6.6 million.

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

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

Trading revenue

Three months ended March 31

In millions	**2010**	2009
Net interest income	**$ 16**	$ 19
Noninterest income	**58**	(11)
Total trading revenue	**$ 74**	$ 8
Securities underwriting and trading (a) (b)	**$40**	**$11**
Foreign exchange	**22**	20
Financial derivatives	**12**	(23)
Total trading revenue	**$ 74**	$ 8

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

(b) Includes fee income for participating in a large debt underwriting for a large corporate client that was recognized at March 31, 2010 (see above graph).

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

Trading revenue for first quarter of 2010 increased $66 million compared with the first quarter of 2009 primarily due to the reduced impact of counterparty credit risk on valuations of customer derivative positions and higher underwriting revenue.

Market Risk Management Equity And Other Investment Risk

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

BlackRock

PNC owns approximately 44 million common stock equivalent shares of BlackRock equity, accounted for under the equity method. Our investment in BlackRock was $5.8 billion at both March 31, 2010 and December 31, 2009. The

market value of our investment in BlackRock was $9.5 billion at March 31, 2010. The primary risk measurement, similar to other equity investments, is economic capital. Further information about BlackRock is included in the Business Segments Review section of this Financial Review.

Tax Credit Investments

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

Visa

At March 31, 2010, our investment in Visa Class B common shares totaled approximately 23 million shares. Considering the adjustment to the conversion ratio due to settled litigation reported by Visa, these shares would convert to approximately 13.6 million of publicly traded Visa Class A common shares. As of March 31, 2010, we had recognized $456 million of our Visa ownership, which we acquired with National City, on our Consolidated Balance Sheet. Based on the March 31, 2010 closing price of $91.03 for the Visa shares, the market value of our investment was $1.2 billion. The Visa Class B common shares we own generally will not be transferable, except under limited circumstances, until they can be converted into shares of the publicly traded class of stock, which cannot happen until the later of three years after the IPO or settlement of all of the specified litigation. It is expected that Visa will continue to adjust the conversion ratio of Visa Class B to Class A shares in connection with settlements in excess of any amounts then in escrow for that purpose and will also reduce the conversion ratio to the extent that it adds any funds to the escrow in the future.

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

Private Equity

The private equity portfolio is an illiquid portfolio comprised of equity and mezzanine investments that vary by industry, stage and type of investment. Private equity investments carried at estimated fair value totaled $1.2 billion at both March 31, 2010 and December 31, 2009. As of March 31, 2010, $602 million was invested directly in a variety of companies and $601 million was invested indirectly through various private equity funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The noncontrolling interests of these funds totaled $137 million as of March 31, 2010. The indirect private equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee.

Our unfunded commitments related to private equity totaled $440 million at March 31, 2010 compared with $453 million at December 31, 2009.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At March 31, 2010, other investments totaled $367 million compared with $368 million at December 31, 2009. We recognized net gains related to these investments of $17 million during the first three months of 2010 and net losses of $71 million during the first three months of 2009. Given the nature of these investments, if market conditions affecting their valuation were to worsen, we could incur future losses.

Our unfunded commitments related to other investments totaled $64 million at March 31, 2010 and $66 million at December 31, 2009.

Financial Derivatives

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

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

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

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

Financial Derivatives

	March 31, 2010		December 31, 2009	
In millions	Notional/ Contractual Amount	Estimated Net Fair Value	Notional/ Contractual Amount	Estimated Net Fair Value
Derivatives designated as hedging instrument under GAAP				
Asset rate conversion				
Interest rate swaps (a)				
Receive fixed	**$ 10,061**	**$ 81**	$ 13,055	$ (64)
Forward purchase commitments	**950**	**4**	350	1
Liability rate conversion				
Interest rate swaps (a)				
Receive fixed	**14,176**	**816**	13,048	707
Total interest rate risk management	**25,187**	**901**	26,453	644
Total derivatives designated as hedging instruments (b)	**$ 25,187**	**$ 901**	$ 26,453	$ 644
Derivatives not designated as hedging instruments under GAAP				
Derivatives used for residential mortgage banking activities:				
Interest rate contracts				
Swaps	**$ 48,265**	**$ (110)**	$ 38,596	$ (152)
Caps/floors Purchased	**1,700**	**46**	5,200	50
Futures	**61,123**		41,609	
Future options	**56,300**	**30**	18,580	28
Swaptions	**13,680**	**40**	24,145	(22)
Commitments related to residential mortgage assets	**8,988**	**9**	9,565	6
Total residential mortgage banking activities	**$ 190,056**	**$ 15**	$ 137,695	$ (90)
Derivatives used for commercial mortgage banking activities:				
Interest rate contracts				
Swaps (c)	**$ 1,909**	**$ (28)**	$ 1,948	$ (15)
Commitments related to commercial mortgage assets	**1,915**	**9**	1,733	8
Credit contracts				
Credit default swaps	**435**	**40**	460	52
Total commercial mortgage banking activities	**$ 4,259**	**$ 21**	$ 4,141	$ 45
Derivatives used for customer-related activities:				
Interest rate contracts				
Swaps (c)	**$ 88,596**	**$ (57)**	$ 91,090	$ (54)
Caps/floors				
Sold	**2,899**	**(10)**	3,457	(15)
Purchased	**1,891**	**7**	2,115	14
Swaptions	**2,274**	**17**	1,996	11
Futures	**1,826**		2,271	
Foreign exchange contracts	**9,167**	**25**	8,002	14
Equity contracts (c)	**388**	**(2)**	351	
Credit contracts				
Risk participation agreements	**3,031**		2,819	1
Total customer-related	**$ 110,072**	**$ (20)**	$ 112,101	$ (29)
Derivatives used for other risk management activities:				
Interest rate contracts				
Swaps	**$ 2,196**	**$ 3**	$ 4,667	$ 3
Caps/floors Sold	**115**			
Swaptions	**725**	**2**	720	(9)
Futures	**721**		145	
Future options	**2,830**			
Commitments related to residential mortgage assets	**514**	**1**	50	
Foreign exchange contracts	**39**		41	1
Credit contracts				
Credit default swaps	**1,053**	**7**	1,128	(2)
Other contracts (d)	**209**	**(452)**	211	(486)
Total other risk management	**$ 8,402**	**$ (439)**	$ 6,962	$ (493)

Total derivatives not designated as hedging instruments	**$ 312,789**	**$**	**(423)**	$ 260,899	$	(567)
Total Gross Derivatives	**$ 337,976**	**$**	**478**	$ 287,352	$	77

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 46% were based on 1-month LIBOR and 54% on 3-month LIBOR at March 31, 2010 compared with 57% and 43%, respectively, at December 31, 2009.

(b) Fair value amount includes net accrued interest receivable of $170 million at March 31, 2010 and $162 million at December 31, 2009.

(c) The increases in the negative fair values from December 31, 2009 to March 31, 2010 for interest rate contracts, foreign exchange, equity contracts and other contracts were due to the changes in fair values of the existing contracts along with new contracts entered into during 2010 and contracts terminated.

(d) Includes PNC s obligation to fund a portion of certain BlackRock LTIP programs.

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INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of March 31, 2010, we performed an evaluation under the supervision and with the participation of our management, including the Chairman and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended) were effective as of March 31, 2010, and that there has been no change in PNC s internal control over financial reporting that occurred during the first quarter of 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

GLOSSARY OF TERMS

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

Accretable yield   The excess of a loan s cash flows expected to be collected over the carrying value of the loan. The accretable yield is recognized in interest income over the remaining life of the loan using the constant effective yield method.

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

Annualized   Adjusted to reflect a full year of activity.

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

Basis point   One hundredth of a percentage point.

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

Charge-off   Process of removing a loan or portion of a loan from our balance sheet because it is considered uncollectible.

We also record a charge-off when a loan is transferred to held for sale by reducing the loan carrying amount to the fair value of the loan, if fair value is less than carrying amount.

Client-related noninterest income   Total noninterest income included on our Consolidated Income Statement less amounts for net gains (losses) on sales of securities, net other-than-temporary impairments, and other noninterest income.

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

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

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

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

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

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

Economic capital   Represents the amount of resources that a business segment should hold to guard against potentially large losses that could cause insolvency. It is based on a measurement of economic risk, as opposed to risk as defined by regulatory bodies. The economic capital measurement process involves converting a risk distribution to the capital that is required to support the risk, consistent with our target

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credit rating. As such, economic risk serves as a common currency of risk that allows us to compare different risks on a similar basis.

Effective duration A measurement, expressed in years, that, when multiplied by a change in interest rates, would approximate the percentage change in value of on- and off- balance sheet positions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Nonperforming loans   Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, consumer, and residential mortgage customers and construction customers as well as troubled debt restructured loans. Nonperforming loans do not include loans held for sale or foreclosed and other assets. We do not accrue interest income on loans classified as nonperforming.

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

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

Options   Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or sell the associated financial instrument at a set price during a specified period or at a specified date in the future.

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

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

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

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

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

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

Residential development loans Project-specific loans to commercial customers for the construction or development of residential real estate including land, single family homes, condominiums and other residential properties. This would exclude loans to commercial customers where proceeds are for general corporate purposes whether or not such facilities are secured.

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

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

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

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

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

Securitization The process of legally transforming financial assets into securities.

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

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

Taxable-equivalent interest The interest income earned on certain assets is completely or partially exempt from Federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of yields and margins for all interest-earning assets, we use interest income on a taxable-equivalent basis in calculating average yields and net interest margins by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on other taxable investments. This adjustment is not permitted under GAAP on the Consolidated Income Statement.

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

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

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

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

Total equity   Total shareholders equity plus noncontrolling interests.

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

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

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

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

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

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made. We do not assume any duty and do not undertake to update our forward-looking statements. Actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements, and future results could differ materially from our historical performance.

Our forward-looking statements are subject to the following principal risks and uncertainties. We provide greater detail regarding some of these factors in our 2009 Form 10-K and elsewhere in this Report, including in the Risk Factors and Risk Management sections of those reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

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

Changes in interest rates and valuations in the debt, equity and other financial markets.

Disruptions in the liquidity and other functioning of financial markets, including such disruptions in the markets for real estate and other assets commonly securing financial products.
Actions by the Federal Reserve and other government agencies, including those that impact money supply and market interest rates.
Changes in our customers , suppliers and other counterparties performance in general and their creditworthiness in particular.
Changes in levels of unemployment.
Changes in customer preferences and behavior, whether as a result of changing business and economic conditions, climate-related physical changes or legislative and regulatory initiatives, or other factors.

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

Our business and financial performance could be impacted as the financial industry restructures in the current environment, both by changes in the creditworthiness and performance of our counterparties and by changes in the competitive and regulatory landscape.

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

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

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

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

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

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

Our ability to implement our business initiatives and strategies could affect our financial performance over the next several years.

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

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

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

In addition, our acquisition of National City Corporation (National City) on December 31, 2008 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:

- The anticipated benefits of the transaction, including anticipated strategic gains, may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events.
- Our ability to achieve anticipated results from this transaction is dependent on the state going forward of the economic and financial markets, which have been under significant stress. Specifically, we may incur more credit losses from National City s loan portfolio than expected. Other issues related to achieving anticipated financial results include the possibility that deposit attrition or attrition in key client, partner and other relationships may be greater than expected.
- Legal proceedings or other claims made and governmental investigations currently pending against National City, as well as others that may be filed, made or commenced relating to National City s business and activities before the acquisition, could adversely impact our financial results.
- Our ability to achieve anticipated results is also dependent on our ability to bring National City s systems, operating models, and controls into conformity with ours and to do so on our planned time schedule. The integration of National City s business and operations into PNC, which includes conversion of National City s different systems and procedures, may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to National City s or PNC s existing businesses. PNC s ability to integrate National City successfully may be adversely affected by the fact that this transaction has resulted in PNC entering several markets where PNC did not previously have any meaningful retail presence.

In addition to the National City transaction, we grow our business from time to time by acquiring other financial services companies. Acquisitions in general present us with risks, in addition to those presented by the nature of the business acquired, similar to some or all of those described above relating to the National City acquisition.

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CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except per share data	Three months ended March 31	
Unaudited	**2010**	2009
Interest Income		
Loans	**$ 2,160**	$ 2,465
Investment securities	**623**	689
Other	**122**	105
Total interest income	**2,905**	3,259
Interest Expense		
Deposits	**281**	546
Borrowed funds	**245**	393
Total interest expense	**526**	939
Net interest income	**2,379**	2,320
Noninterest Income		
Asset management	**259**	189
Consumer services	**296**	316
Corporate services	**268**	245
Residential mortgage	**147**	431
Service charges on deposits	**200**	224
Net gains on sales of securities	**90**	56
Other-than-temporary impairments	**(240)**	(686)
Less: Noncredit portion of other-than-temporary impairments (a)	**(124)**	(537)
Net other-than-temporary impairments	**(116)**	(149)
Other	**240**	54
Total noninterest income	**1,384**	1,366
Total revenue	**3,763**	3,686
Provision For Credit Losses	**751**	880
Noninterest Expense		
Personnel	**956**	996
Occupancy	**187**	179
Equipment	**172**	178
Marketing	**50**	57
Other	**748**	748
Total noninterest expense	**2,113**	2,158
Income from continuing operations before income taxes and noncontrolling interests	**899**	648
Income taxes	**251**	128
Income from continuing operations before noncontrolling interests	**648**	520
Income from discontinued operations (net of income taxes of $14 and $5)	**23**	10
Net income	**671**	530
Less: Net income (loss) attributable to noncontrolling interests	**(5)**	4
Preferred stock dividends	**93**	51
Preferred stock discount accretion	**250**	15
Net income attributable to common shareholders	**$ 333**	$ 460
Basic Earnings Per Common Share		
Continuing operations	**$ .62**	$ 1.02
Discontinued operations	**.05**	.02
Net income	**$ .67**	$ 1.04
Diluted Earnings Per Common Share		
Continuing operations	**$ .61**	$ 1.01
Discontinued operations	**.05**	.02
Net income	**$ .66**	$ 1.03

Average Common Shares Outstanding		
Basic	**498**	443
Diluted	**500**	444

(a) Included in accumulated other comprehensive loss.

See accompanying Notes To Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except par value

Unaudited	**March 31 2010**	December 31 2009
Assets		
Cash and due from banks (March 31, 2010 includes $17 for VIEs) (a)	**$ 3,563**	$ 4,288
Federal funds sold and resale agreements (includes $963 and $990 measured at fair value) (b)	**1,367**	2,390
Trading securities	**1,595**	2,124
Interest-earning deposits with banks (March 31, 2010 includes $4 for VIEs) (a)	**607**	4,488
Loans held for sale (includes $2,199 and $2,062 measured at fair value) (b)	**2,691**	2,539
Investment securities (March 31, 2010 includes $650 for VIEs) (a)	**57,606**	56,027
Loans (March 31, 2010 includes $4,847 for VIEs) (includes $109 and $88 measured at fair value) (a) (b)	**157,266**	157,543
Allowance for loan and lease losses (March 31, 2010 includes $(209) for VIEs) (a)	**(5,319)**	(5,072)
Net loans	**151,947**	152,471
Goodwill	**9,425**	9,505
Other intangible assets	**3,289**	3,404
Equity investments (March 31, 2010 includes $1,767 for VIEs) (a)	**10,256**	10,254
Other (March 31, 2010 includes $775 for VIEs) (includes $453 and $486 measured at fair value) (a) (b)	**23,050**	22,373
Total assets	**$ 265,396**	$ 269,863
Liabilities		
Deposits		
Noninterest-bearing	**$ 43,122**	$ 44,384
Interest-bearing	**139,401**	142,538
Total deposits	**182,523**	186,922
Borrowed funds		
Federal funds purchased and repurchase agreements	**5,511**	3,998
Federal Home Loan Bank borrowings	**8,700**	10,761
Bank notes and senior debt	**12,638**	12,362
Subordinated debt	**10,001**	9,907
Other (March 31, 2010 includes $4,454 for VIEs) (a)	**5,611**	2,233
Total borrowed funds	**42,461**	39,261
Allowance for unfunded loan commitments and letters of credit	**252**	296
Accrued expenses (March 31, 2010 includes $118 for VIEs) (a)	**2,939**	3,590
Other (March 31, 2010 includes $972 for VIEs) (a)	**7,787**	7,227
Total liabilities	**235,962**	237,296
Equity		
Preferred stock (c)		
Common stock $5 par value		
Authorized 800 shares, issued 535 and 471 shares	**2,676**	2,354
Capital surplus preferred stock	**645**	7,974
Capital surplus common stock and other	**11,945**	8,945
Retained earnings	**13,340**	13,144
Accumulated other comprehensive loss	**(1,288)**	(1,962)
Common stock held in treasury at cost: 9 and 9 shares	**(500)**	(513)
Total shareholders equity	**26,818**	29,942
Noncontrolling interests	**2,616**	2,625
Total equity	**29,434**	32,567
Total liabilities and equity	**$ 265,396**	$ 269,863

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

(b) Amounts represent items for which the Corporation has elected the fair value option.
(c) Par value less than $.5 million at each date.

See accompanying Notes To Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions	**Three months ended March 31**	
Unaudited	**2010**	2009
Operating Activities		
Net income	**$ 671**	$ 530
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for credit losses	**751**	880
Depreciation and amortization	**226**	258
Deferred income taxes	**254**	237
Net gains on sales of securities	**(90)**	(56)
Net other-than-temporary impairments	**116**	149
Net gains related to BlackRock LTIP shares adjustment		(103)
Undistributed earnings of BlackRock	**(57)**	(10)
Net change in		
Trading securities and other short-term investments	**885**	1,123
Loans held for sale	**(218)**	148
Other assets	**437**	1,917
Accrued expenses and other liabilities	**(907)**	(4,812)
Other	**204**	609
Net cash provided by operating activities	**2,272**	870
Investing Activities		
Sales		
Securities available for sale	**6,040**	2,744
Loans	**299**	50
Repayments/maturities		
Securities available for sale	**1,815**	1,543
Securities held to maturity	**256**	88
Purchases		
Securities available for sale	**(9,154)**	(6,028)
Securities held to maturity	**(527)**	(336)
Loans	**(1,532)**	(45)
Net change in		
Federal funds sold and resale agreements	**1,024**	295
Interest-earning deposits with Federal Reserve	**3,848**	190
Loans	**3,251**	2,475
Other (a)	**297**	(154)
Net cash provided by investing activities	**5,617**	822
Financing Activities		
Net change in		
Noninterest-bearing deposits	**(559)**	3,462
Interest-bearing deposits	**(2,527)**	(1,691)
Federal funds purchased and repurchase agreements	**1,514**	(385)
Federal Home Loan Bank short-term borrowings	**(280)**	
Other short-term borrowed funds	**(1,149)**	(1,950)
Sales/issuances		
Bank notes and senior debt	**1,991**	967
Other long-term borrowed funds	**1,303**	55
Common and treasury stock	**3,409**	70
Repayments/maturities		
Federal Home Loan Bank long-term borrowings	**(1,757)**	(1,148)
Bank notes and senior debt	**(1,754)**	(996)
Subordinated debt	**29**	(550)

Other long-term borrowed funds	**(1,050)**	(42)
Preferred stock TARP	**(7,579)**	
Acquisition of treasury stock	**(67)**	(35)
Preferred stock cash dividends paid	**(93)**	(51)
Common stock cash dividends paid	**(45)**	(293)
Net cash used by financing activities	**(8,614)**	(2,587)
Net Decrease In Cash And Due From Banks	**(725)**	(895)
Cash and due from banks at beginning of period	**4,288**	4,471
Cash and due from banks at end of period	**$ 3,563**	$ 3,576
Supplemental Disclosures		
Interest paid	**$ 515**	$ 983
Income taxes paid	**308**	9
Income taxes refunded	**1**	19
Non-cash Items		
Transfer from (to) loans to (from) loans held for sale, net	**83**	(207)
Transfer from loans to foreclosed assets	**382**	213

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

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Notes To Consolidated Financial Statements (Unaudited)

The PNC Financial Services Group, Inc.

Business

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

PNC has businesses engaged in retail banking, corporate and institutional banking, asset management, 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, Virginia, Missouri, Delaware, Washington, D.C., and Wisconsin. PNC also provides certain products and services internationally.

Note 1 Accounting Policies

Basis Of Financial Statement Presentation

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

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

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

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

When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2009 Annual Report on Form 10-K (2009 Form 10-K). Reference is made to Note 1 Accounting Policies in the 2009 Form 10-K for a detailed description of significant accounting policies. There have been no significant changes to these policies in the first three months of 2010 other than as disclosed herein.

These interim consolidated financial statements serve to update the 2009 Form 10-K and may not include all information and notes necessary to constitute a complete set of financial statements.

We have considered the impact on these consolidated financial statements of events occurring subsequent to March 31, 2010.

Use Of Estimates

We prepare the consolidated financial statements using financial information available at the time, which requires us to make estimates and assumptions that affect the amounts reported. Our most significant estimates pertain to our allowance for loan and lease losses, impaired loans, fair value measurements, including security valuations and residential mortgage servicing rights, and revenue recognition. Actual results may differ from the estimates and the differences may be material to the consolidated financial statements.

Investment in BlackRock, Inc.

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

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

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

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Recent Accounting Pronouncements

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

On January 1, 2010, we adopted ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities which is a codification of guidance issued in June 2009. This guidance removes the scope exception for qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity (VIE) and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. VIEs are assessed for consolidation under Topic 810 when we hold variable interests in these entities. PNC consolidates VIEs when we are deemed to be the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Effective January 1, 2010, we consolidated Market Street Funding LLC (Market Street), a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments. We recorded consolidated assets and liabilities of $4.1 billion and $4.2 billion, respectively, and an after-tax cumulative effect adjustment to retained earnings of $92 million upon adoption (see Note 3 Loan Sale and Servicing Activities and Variable Interest Entities).

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

In April 2010, the FASB issued ASU 2010-18, Receivables (Topic 310), Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset. This ASU amends the accounting guidance related to loans that are accounted for within a pool under ASC 310-30. The new guidance clarifies that modifications of such loans do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a

troubled debt restructuring. The amended guidance continues to require that an entity consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. No additional disclosures are required as a result of this ASU. ASU 2010-18 is effective for modifications of loans accounted for within pools under ASC 310-30 occurring in the first interim or annual period ending on or after July 15, 2010 with early adoption permitted. PNC accounts for loans within pools consistent with the guidance in this ASU.

Note 2 Divestiture

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. 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.

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

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

Investment in Discontinued Operations

In millions	**March 31, 2010**	December 31,

		2009
Interest-earning deposits with banks	**$ 186**	$ 255
Goodwill	**1,243**	1,243
Other intangible assets	**50**	51
Other	**360**	359
Total assets	**$ 1,839**	$ 1,908
Interest-bearing deposits	**$ 94**	$ 93
Accrued expenses	**265**	266
Other	**1,557**	1,009
Total liabilities	**$ 1,916**	$ 1,368
Net assets (liabilities)	**$ (77)**	$ 540

NOTE 3 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES

LOAN SALE AND SERVICING ACTIVITIES

We have transferred residential and commercial mortgage loans in securitization or sales transactions in which we have continuing involvement. These transfers have occurred through Agency securitization, Non-Agency securitization, and whole-loan sale transactions. In Agency securitizations, Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC) (collectively the Agencies) securitize our

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transferred loans into mortgage-backed securities for sale into the secondary market through Special Purpose Entities (SPEs) they sponsor. In Non-Agency securitizations, we have transferred loans into securitization SPEs. In other instances third-party investors have purchased (in whole-loan sale transactions) and subsequently sold our loans into securitization SPEs. Third-party investors have also purchased our loans in whole-loan sale transactions. Securitization SPEs, which are legal entities that are utilized in the Agency and Non-Agency securitization transactions, are VIEs.

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

Depending on the transaction, we may act as the master, primary, and/or special servicer to the securitization SPEs or third-party investors. Servicing responsibilities typically consist of collecting and remitting monthly borrower principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and, in certain instances, funding of servicing advances. Servicing advances are made for principal and interest and collateral protection. Servicing advances, which are reimbursable, are recognized in Other assets at cost. With respect to Agency securitizations, the Agencies are responsible for working out defaulted loans.

We earn servicing and other ancillary fees for our role as servicer and depending on the contractual terms of the servicing arrangement, we can be terminated as servicer with or without cause. At the consummation date of each type of loan transfer, we recognize a servicing asset at fair value. See Note 9 Goodwill and Other Intangible Assets for further discussion of our residential and commercial servicing assets.

Certain loans transferred to the Agencies contain removal of account provisions (ROAPs). Under these ROAPs, we hold an option to repurchase at par individual delinquent loans that meet certain criteria. When we have the unilateral ability to repurchase a delinquent loan, effective control over the loan has been regained and we recognize the loan and a corresponding liability on the balance sheet regardless of our intent to repurchase the loan. At March 31, 2010 and December 31, 2009, the balance of our ROAP asset and liability totaled $373 million and $577 million, respectively.

We generally do not retain mortgage-backed securities issued by the Agency and Non-Agency securitization SPEs at the inception of the securitization transactions. Rather, our limited holdings of these securities occur through subsequent purchases in the secondary market. PNC does not retain any

credit risk on its Agency mortgage-backed security positions as FNMA, FHLMC, and the U.S. Government (for GNMA) guarantee losses of principal and interest on the underlying mortgage loans. We generally hold a senior class of Non-Agency mortgage-backed securities.

We also have involvement with certain Agency and Non-Agency commercial securitization SPEs where we have not transferred commercial mortgage loans. These SPEs were sponsored by independent third-parties and the loans held by these entities were purchased exclusively from other third-parties. Generally, our involvement with these SPEs is as servicer with servicing activities consistent to those described above. Other than providing temporary liquidity under servicing advances, we have not provided nor are we required to provide other financial support, guarantees or commitments to the SPEs. In certain instances, we can be terminated as servicer in these commercial securitization structures without cause by the controlling class of mortgage-backed security holders of the SPE.

Recourse Reserves

We recognize a liability for our loss exposure associated with contractual obligations to repurchase previously transferred loans due to breaches of representations and warranties and also for loss sharing arrangements with the Agencies. Inherent in all of our loan transfers are certain representation and warranties we make to cover defects that may have occurred during the underwriting and origination of the loans. We typically repurchase loans only when representation and warranty defects are identified and go uncured. At March 31, 2010, this repurchase liability totaled $188 million and was related to residential mortgage loan transfers. We generally do not recognize a representation and warranty liability for commercial mortgage loan transfers as our exposure to loss is minimal.

We also recognize a liability for certain commercial mortgage loan loss sharing arrangements for loan transfers to the Agencies. Our liability and total exposure to loss under these loss sharing arrangements was $65 million and $6.0 billion, respectively, at March 31, 2010 (see Note 18 Commitments and Guarantees for further information). Our representation and warranty and loss share liabilities (collectively recourse obligations) are recognized in Other liabilities on our Consolidated Balance Sheet and are evaluated quarterly based upon loss methodologies that utilize assumptions such as historical and projected repurchase activity, loss severity, and estimated defaults. Other than providing temporary liquidity under servicing advances and our loss exposure associated with our recourse obligations, we are not required to provide any type of credit support, guarantees, or commitments to the securitization SPEs or third-party investors in these transactions.

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The following tables summarize certain financial information and cash flows associated with our loan sale and servicing activities:

	March 31, 2010		December 31, 2009	
In millions	Residential Mortgages	Commercial Mortgages (a)	Residential Mortgages	Commercial Mortgages (a)
FINANCIAL INFORMATION				
Servicing portfolio (b)	**$ 141,395**	**$ 184,101**	$ 146,050	$ 185,167
Carrying value of servicing assets	**1,271**	**921**	1,332	921
Servicing advances	**713**	**438**	599	383
Servicing deposits	**2,485**	**3,469**	3,118	3,774
Recourse liability (c)	**188**	**65**	229	71
Carrying value of mortgage-backed securities held (d)	**1,286**	**1,977**	1,306	1,905

	Three Months Ended March 31, 2010	
In millions	Residential Mortgages	Commercial Mortgages (a)
CASH FLOWS		
Sales of loans (e)	**$ 1,930**	**$ 342**
Repurchases of previously transferred loans	**741**	
Contractual servicing fees received	**109**	**55**
Servicing advances funded, net	**114**	**55**
Cash flows on mortgage-backed securities held (d)	**142**	**37**

(a) Represents financial and cash flow information associated with both commercial mortgage loan transfer and servicing activities.

(b) For our continuing involvement with residential mortgage loan transfers, amount represents outstanding balance of loans transferred and serviced. For commercial mortgages, amount represents the portion of the overall servicing portfolio in which loans have been transferred by us or third parties to VIEs. It does not include loans serviced by us that were originated by third parties in which they have not transferred.

(c) Represents liability for our loss exposure associated with loan repurchases for breaches of representations and warranties and our commercial mortgage loss share arrangements.

(d) Represents securities held where PNC transferred and/or serviced loans to a securitization SPE and we hold securities issued by that SPE.

(e) There were no gains or losses recognized on the transaction date for sales of residential mortgage and certain commercial mortgage loans as these loans are recognized on the balance sheet at fair value. For transfers of commercial loans not recognized on the balance sheet at fair value, gains/losses recognized on sales of these loans were insignificant for the three months ended March 31, 2010.

Variable Interest Entities

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

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

Consolidated VIEs Carrying Value (a)

March 31, 2010			Tax Credit	Credit Risk	
In millions	Market Street	Credit Card Securitization Trust	Investments (b)	Transfer Transaction	Total
Assets					
Cash and due from banks			**$ 17**		**$ 17**
Interest-earning deposits with banks			**4**		**4**
Investment securities	**$ 650**				**650**
Loans	**2,149**	**$ 2,216**		**$ 482**	**4,847**
Allowance for loan and lease losses		**(198)**		**(11)**	**(209)**

Equity investments						1,767			1,767
Other assets		419				345		11	775
Total assets	$	3,218	$	2,018	$	2,133	$	482	$ 7,851
Liabilities									
Other borrowed funds	$	2,811	$	1,512	$	131			$ 4,454
Accrued expenses				21		97			118
Other liabilities		410				562			972
Total liabilities	$	3,221	$	1,533	$	790			$ 5,544

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

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

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Consolidated VIEs

In millions	Aggregate Assets (a)	Aggregate Liabilities (a)
March 31, 2010		
Market Street	**$ 3,779**	**$ 3,790**
Credit Card Securitization Trust	**2,208**	**1,643**
Tax Credit Investments (b)	**2,156**	**877**
Credit Risk Transfer Transaction	**829**	**829**
December 31, 2009		
Tax Credit Investments (b)	$ 1,933	$ 808
Credit Risk Transfer Transaction	860	860

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

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

Non-Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss	Carrying Value of Assets	Carrying Value of Liabilities
March 31, 2010					
Tax Credit Investments (a)	**$ 3,243**	**$ 1,794**	**$ 664**	**$ 664(c)**	**$ 300(d)**
Commercial Mortgage-Backed Securitizations (b)	**90,648**	**90,648**	**2,149**	**2,149(e)**	
Residential Mortgage-Backed Securitizations (b)	**55,013**	**55,013**	**1,314**	**1,311(e)**	**3(d)**
Collateralized Debt Obligations	**24**		**2**	**2(c)**	
Total	**$ 148,928**	**$ 147,455**	**$ 4,129**	**$ 4,126**	**$ 303**

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

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

(b) Amounts reported reflect involvement with securitization SPEs where PNC transferred to and/or services loans for a SPE and we hold securities issued by that SPE. Further information on all security holdings is included in Note 7 Investment Securities.

(c) Included in the table above as we do not have the power to direct the activities that most significantly impact the economic performance of the entity. Included in Equity investments on our Consolidated Balance Sheet.

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

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

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

Market Street

Market Street is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street s activities primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets or loans by issuing commercial paper 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 2009 and the first quarter of 2010,

Market Street met all of its funding needs through the issuance of commercial paper.

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

The commercial paper obligations at March 31, 2010 and December 31, 2009 were effectively collateralized by Market Street s assets. While PNC may be obligated to fund under the $5.4 billion of liquidity facilities for events such as commercial paper market disruptions, borrower bankruptcies, collateral deficiencies or covenant violations, our credit risk under the liquidity facilities is secondary to the risk of first loss provided by the borrower such as by the over-collateralization of the assets or by another third party in the form of deal-specific credit enhancement. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of expected losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. In addition, PNC would be required to fund $441 million of the liquidity facilities if the underlying assets are in default. Market Street creditors have no direct recourse to PNC.

PNC provides program-level credit enhancement to cover net losses in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities. PNC provides 100% of the enhancement in the form of a cash collateral account funded by a loan facility. This facility expires in March 2013. At March 31, 2010, approximately $567 million was outstanding on this facility. This amount was eliminated in PNC s Consolidated Balance Sheet as of March 31, 2010 due to the consolidation of Market Street. We are not required to nor have we provided additional financial support to the SPE.

Credit Card Securitization Trust

We are the sponsor of several credit card securitizations facilitated through an SPE trust. This bankruptcy-remote SPE or VIE was established to purchase credit card receivables from the sponsor and to issue and sell asset-backed securities created by it to independent third-parties. The SPE was financed primarily through the sale of these asset-backed securities. These transactions were originally structured as a form of liquidity and to afford favorable capital treatment. At March 31, 2010, Series 2005-1, 2006-1, 2007-1, and 2008-3 issued by the SPE were outstanding.

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

Tax Credit Investments

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

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

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

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

Credit Risk Transfer Transaction

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

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

Residential and Commercial Mortgage-Backed Securitizations

In connection with each Agency and Non-Agency securitization discussed above, we evaluate each SPE utilized in these transactions for consolidation. In performing these assessments, we evaluate our level of continuing involvement in these transactions as the magnitude of our involvement ultimately determines whether or not we hold a variable

interest and/or are the primary beneficiary of the SPE. Factors we consider in our consolidation assessment include the significance of (1) our role as servicer, (2) our holdings of mortgage-backed securities issued by the securitization SPE, and (3) the rights of third-party variable interest holders.

Our first step in our assessment is to determine whether we hold a variable interest in the securitization SPE. We hold a variable interest in an Agency and Non-Agency securitization SPE through our holding of mortgage-backed securities issued by the SPE and/or our recourse obligations. Each SPE in which we hold a variable interest is evaluated to determine whether we are the primary beneficiary of the entity. For Agency securitization transactions, our contractual role as servicer does not give us the power to direct the activities that most significantly affect the economic performance of the SPEs. Thus, we are not the primary beneficiary of these entities. For Non-Agency securitization transactions, we would be the primary beneficiary to the extent our servicing activities give us the power to direct the activities that most significantly affect the economic performance of the SPE and we hold a more than insignificant variable interest in the entity. At March 31, 2010, our level of continuing involvement in Non-Agency securitization SPEs did not result in PNC as the primary beneficiary of any of these entities. Details about the Agency and Non-Agency securitization SPEs where we hold a variable interest and are not the primary beneficiary are included in the table above. Our maximum exposure to loss as a result of our involvement with these SPEs is the carrying value of the mortgage-backed securities, servicing assets, servicing advances, and our liabilities associated with our recourse obligations. Creditors of the securitization SPEs have no recourse to PNC s assets or general credit.

Perpetual Trust Securities

We issue certain hybrid capital vehicles that qualify as capital for regulatory 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. PNC REIT Corp. owns 100% of LLC s common voting securities. As a result, LLC is an indirect subsidiary of PNC and is consolidated on our Consolidated Balance Sheet. Trust I, II and III s investment in LLC Preferred Securities is characterized as a noncontrolling interest on our Consolidated Balance Sheet since we are not the primary beneficiary of Trust I, Trust II and Trust III. This noncontrolling interest totaled approximately $1.3 billion at March 31, 2010.

Our 2009 Form 10-K includes additional information regarding the Trust I and Trust II Securities, including descriptions of replacement capital and dividend restriction covenants. The Trust III Securities include dividend restriction covenants similar to those described for Trust II Securities.

NOTE 4 LOANS AND COMMITMENTS TO EXTEND CREDIT

Loans outstanding were as follows:

In millions	March 31 2010	December 31 2009
Commercial	**$ 54,703**	$ 54,818
Commercial real estate	**21,950**	23,131
Consumer	**55,234**	53,582
Residential real estate	**19,268**	19,810
Equipment lease financing	**6,111**	6,202
Total loans	**$ 157,266**	$ 157,543

Loans are presented net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $3.0 billion and $3.2 billion at March 31, 2010 and December 31, 2009, respectively. Future accretable discounts related to purchased impaired loans are not included in loans outstanding.

At March 31, 2010, we pledged $15.7 billion of loans to the Federal Reserve Bank and $28.2 billion of loans to the Federal Home Loan Bank as collateral for the contingent ability to borrow, if necessary. The comparable amounts at December 31, 2009 were $18.8 billion and $32.6 billion, respectively.

Certain loans are accounted for at fair value with changes in the fair value reported in current period earnings. The fair value of these loans was $111 million, or less than 1% of the total loan portfolio, at March 31, 2010.

Net Unfunded Credit Commitments

In millions	March 31 2010	December 31 2009
Commercial and commercial real estate	**$ 56,850**	$ 60,143
Home equity lines of credit	**20,229**	20,367
Consumer credit card line and other unsecured lines	**18,248**	18,800
Other	**1,036**	1,485
Total	**$ 96,363**	$ 100,795

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. At March 31, 2010 commercial commitments are reported net of $12.5 billion of participations, assignments and syndications, primarily to financial institutions. The comparable amount at December 31, 2009 was $13.2 billion.

Commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer s credit quality deteriorates. Based on our historical experience, most commitments expire unfunded, and therefore cash requirements are substantially less than the total commitment. Consumer home equity lines of credit accounted for 53% of consumer unfunded credit commitments at March 31, 2010.

Unfunded credit commitments related to purchased customer receivables totaled $2.8 billion at March 31, 2010. These receivables are now a component of PNC s total unfunded credit commitments due to the January 1, 2010 consolidation of Market Street. These amounts are included in the preceding table within the Commercial and commercial real estate category.

Unfunded credit commitments related to Market Street totaled $5.6 billion at December 31, 2009 and are included in the preceding table primarily within the Commercial and commercial real estate category. This amount was eliminated as of March 31, 2010 due to the consolidation of Market Street.

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NOTE 5 ASSET QUALITY

The following table sets forth nonperforming assets and related information.

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

Dollars in millions	**March 31, 2010**	December 31, 2009
Nonaccrual loans		
Commercial	**$ 1,833**	$ 1,806
Commercial real estate	**2,216**	2,140
Equipment lease financing	**123**	130
TOTAL COMMERCIAL LENDING	**4,172**	4,076
Consumer		
Home equity	**337**	356
Other	**35**	36
Total consumer	**372**	392
Residential real estate		
Residential mortgage	**968**	955
Residential construction	**249**	248
Total residential real estate	**1,217**	1,203
TOTAL CONSUMER LENDING	**1,589**	1,595
Total nonaccrual/nonperforming loans	**5,761**	5,671
Foreclosed and other assets		
Commercial lending	**328**	266
Consumer lending	**451**	379
Total foreclosed and other assets	**779**	645
Total nonperforming assets	**$ 6,540**	$ 6,316
Nonperforming loans to total loans	**3.66%**	3.60%
Nonperforming assets to total loans and foreclosed and other assets	**4.14**	3.99
Nonperforming assets to total assets	**2.46**	2.34

Loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties where we do not receive adequate compensation are considered troubled debt restructurings (TDRs). TDRs typically result from our loss mitigation activities and could include rate reductions, principal forgiveness, forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. Total nonperforming loans in the table above include TDRs of $385 million at March 31, 2010 and $440 million at December 31, 2009.

TDRs returned to performing (accrual) status totaled $217 million at March 31, 2010 and are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of performance under the modified terms.

In addition, credit cards and certain small business and consumer credit agreements whose terms have been modified

totaled $279 million at March 31, 2010 and are excluded from nonperforming loans. Our policy is generally to exempt these loans from being placed on nonaccrual status as permitted by regulatory guidance. These loans are directly charged off in the period that they become 180 days past due.

Net interest income less the provision for credit losses was $1.6 billion for the first three months of 2010 compared with $1.4 billion for the first three months of 2009.

Changes in the allowance for loan and lease losses follow:

In millions	**2010**	2009
January 1	**$ 5,072**	$ 3,917
Charge-offs	**(827)**	(512)
Recoveries	**136**	81
Net charge-offs	**(691)**	(431)
Provision for credit losses	**751**	880
Acquired allowance adjustment		(83)
Adoption of ASU 2009-17, *Consolidations*	**141**	
Other	**2**	
Net change in allowance for unfunded loan commitments and letters of credit	**44**	16
March 31	**$ 5,319**	$ 4,299

Changes in the allowance for unfunded loan commitments and letters of credit follow:

In millions	**2010**	2009
January 1	**$ 296**	$ 344
Net change in allowance for unfunded loan commitments and letters of credit	**(44)**	(16)
March 31	**$ 252**	$ 328

Originated impaired loans exclude leases and smaller homogeneous type loans as well as purchased impaired loans related to our acquisition of National City. We did not recognize any interest income on originated loans while they were impaired in the first three months of 2010 or 2009. The following table provides further detail on impaired loans individually evaluated for reserves and the associated allowance for loan losses:

Originated Impaired Loans (a)

In millions	**Mar. 31 2010**	Dec. 31 2009
Impaired loans with an associated reserve	**$ 3,910**	$ 3,475
Impaired loans without an associated reserve	**491**	471
Total impaired loans	**$ 4,401**	$ 3,946
Specific allowance for credit losses	**$ 1,250**	$ 1,148
Average impaired loan balance (b)	**$ 4,163**	$ 2,909

(a) Purchased impaired loans related to our acquisition of National City are excluded from this table and are disclosed in Note 6 Purchased Impaired Loans Related to National City.

(b) Three-month average for 2010 and full-year average for 2009.

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NOTE 6 PURCHASED IMPAIRED LOANS RELATED TO NATIONAL CITY

As further described in Note 6 of the 2009 Form 10-K, at December 31, 2008, we identified certain loans related to the National City acquisition, for which there was evidence of credit quality deterioration since origination and it was probable that we would be unable to collect all contractually required principal and interest payments. GAAP requires these loans to be recorded at fair value at acquisition date and prohibits the carrying over or the creation of valuation allowances in the initial accounting for such loans acquired in a transfer.

At March 31, 2010 and December 31, 2009, purchased impaired loans had a carrying value of $9.8 billion and $10.4 billion, respectively. During the first three months of 2010, the amount of purchased impaired loans decreased by a net $0.6 billion as a result of payments and other exit activities partially offset by accretion of purchase accounting discount. The unpaid principal balance of these loans was $13.6 billion at March 31, 2010 and $15.4 billion at December 31, 2009, as detailed below:

Purchased Impaired Loans

	March 31, 2010		December 31, 2009	
In millions	Recorded Investment	Outstanding Balance	Recorded Investment	Outstanding Balance
Commercial (a)	**$ 430**	**$ 713**	$ 558	$ 1,016
Commercial real estate (a)	**1,495**	**2,235**	1,694	2,705
Consumer	**3,376**	**4,852**	3,457	5,097
Residential real estate	**4,471**	**5,784**	4,663	6,620
Total	**$ 9,772**	**$ 13,584**	$ 10,372	$ 15,438

(a) Includes purchased impaired loans held for sale. The recorded investment and outstanding balance of these loans was $99 million and $127 million, respectively, at March 31, 2010. Comparable balances at December 31, 2009 were $85 million and $200 million.

The excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan using the constant effective yield method. The difference between contractually required payments at acquisition and

the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Changes in the expected cash flows of individual commercial or pooled consumer purchased impaired loans from the date of acquisition will either impact the accretable yield or result in an impairment charge to the provision for credit losses in the period in which the changes become probable. Prepayments are treated as a reduction of cash flows expected to be collected and a reduction of projections of contractual cash flows such that the nonaccretable difference is not affected. Thus, for decreases in cash flows expected to be collected resulting from prepayments, the effect will be to reduce the yield prospectively. Subsequent decreases to the expected cash flows will generally result in an impairment charge to the provision for credit losses, resulting in an increase to the allowance for loan and lease losses, and a reclassification from accretable yield to nonaccretable difference. During the first three months of 2010, $110 million of provision and $62 million of charge-offs were recorded on impaired loans. As of March 31, 2010, decreases in the expected cash flows of purchased impaired loans resulted in an allowance for loan and lease losses of $604 million on $7.4 billion of the impaired loans while the remaining $2.4 billion of impaired loans required no allowance as expected cash flows improved or remained the same. Subsequent increases in cash flows will result in a recovery of any previously recorded allowance for loan and lease losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield. Disposals of loans, which may include sales of loans or foreclosures, result in removal of the loan from the purchased impaired loan portfolio at its carrying amount.

Activity for the accretable yield for the first three months of 2010 follows.

Accretable Yield

In millions	**2010**
January 1	**$ 3,502**
Accretion (including cash recoveries)	**(340)**
Net reclassifications from non-accretable to accretable	**516**
Disposals	**(98)**
March 31	**$ 3,580**

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NOTE 7 INVESTMENT SECURITIES

In millions	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2010				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
US Treasury and government agencies	**$ 10,520**	**$ 58**	**$ (39)**	**$ 10,539**
Residential mortgage-backed				
Agency	**22,259**	**499**	**(54)**	**22,704**
Non-agency	**9,498**	**205**	**(1,993)**	**7,710**
Commercial mortgage-backed				
Agency	**1,179**	**25**	**(2)**	**1,202**
Non-agency	**1,908**	**37**	**(89)**	**1,856**
Asset-backed	**1,842**	**24**	**(335)**	**1,531**
State and municipal	**1,374**	**56**	**(54)**	**1,376**
Other debt	**2,180**	**50**	**(6)**	**2,224**
Total debt securities	**50,760**	**954**	**(2,572)**	**49,142**
Corporate stocks and other	**399**			**399**
Total securities available for sale	**$ 51,159**	**$ 954**	**$ (2,572)**	**$ 49,541**
SECURITIES HELD TO MATURITY				
Debt securities				
Commercial mortgage-backed (non-agency)	**$ 4,295**	**$ 213**	**$ (2)**	**$ 4,506**
Asset-backed	**3,761**	**102**	**(13)**	**3,850**
Other debt	**9**	**1**		**10**
Total securities held to maturity	**$ 8,065**	**$ 316**	**$ (15)**	**$ 8,366**
December 31, 2009				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
US Treasury and government agencies	$ 7,548	$ 20	$ (48)	$ 7,520
Residential mortgage-backed				