PNC FINANCIAL SERVICES GROUP INC
Form 10-K
March 02, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

Commission file number 001-09718

THE PNC FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

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

One PNC Plaza

249 Fifth Avenue

Pittsburgh, Pennsylvania 15222-2707

(Address of principal executive offices, including zip code)

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

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

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

6.625% Trust Preferred Securities (issued by National City Capital Trust II)	New York Stock Exchange
6.625% Trust Preferred Securities (issued by National City Capital Trust III)	New York Stock Exchange
8.000% Trust Preferred Securities (issued by National City Capital Trust IV)	New York Stock Exchange

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

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

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

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

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

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

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

Form 10-K or any amendment to this Form 10-K. X

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

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

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

The aggregate market value of the registrant s outstanding voting common stock held by nonaffiliates on June 30, 2008, determined using the per share closing price on that date on the New York Stock Exchange of $57.10, was approximately $19.7 billion. There is no non-voting common equity of the registrant outstanding.

Number of shares of registrant s common stock outstanding at February 17, 2009: 444,312,329

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of The PNC Financial Services Group, Inc. to be filed pursuant to Regulation 14A for the 2009 annual meeting of shareholders (Proxy Statement) are incorporated by reference into Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

PART I

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

ITEM 1 BUSINESS

BUSINESS OVERVIEW We are one of the largest diversified financial services companies in the United States and are headquartered in Pittsburgh, Pennsylvania. As described further below and elsewhere in this Report, on December 31, 2008, PNC acquired National City Corporation (National City), nearly doubling our assets to a total of $291 billion and expanding our total consolidated deposits to $193 billion.

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

Prior to the National City acquisition, PNC had businesses engaged in retail banking, corporate and institutional banking, asset management, and global investment servicing, providing many of its products and services nationally and others in PNC s primary geographic markets located in Pennsylvania, New Jersey, Washington, DC, Maryland, Virginia, Ohio, Kentucky and Delaware. PNC also provided certain investment servicing internationally.

National City s primary businesses prior to its acquisition by PNC included commercial and retail banking, mortgage financing and servicing, consumer finance and asset management, operating through an extensive network in Ohio, Florida, Illinois, Indiana, Kentucky, Michigan, Missouri, Pennsylvania and Wisconsin. National City also conducted selected consumer lending businesses and other financial services on a nationwide basis.

Acquisition Of National City Corporation

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

We completed the acquisition primarily by issuing approximately 95 million shares of PNC common stock. In accordance with purchase accounting methodologies, National City Bank s balance sheet was adjusted to fair value at which time the bank was under-capitalized from a regulatory perspective. However, PNC s Consolidated Balance Sheet remained well-capitalized and liquid.

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

National City, based in Cleveland, Ohio, was one of the nation s largest financial services companies. In connection with obtaining regulatory approvals for the acquisition, PNC has agreed to divest 61 of National City Bank s branches in Western Pennsylvania with deposits of approximately $3.9 billion as of December 31, 2008. We expect to merge National City Bank into PNC Bank, National Association (PNC Bank, N.A.) in the fourth quarter of 2009.

Additional information regarding our acquisition of National City can be found in the following disclosures:

- The Executive Summary portion of Item 7 of this Report,
- Note 2 Acquisitions and Divestitures included in our Notes To Consolidated Financial Statements within Item 8 of this Report, and
- Our Current Reports on Form 8-K filed October 24, 2008, October 30, 2008, December 23, 2008, and January 2, 2009.

Other Acquisition And Divestiture Activity

On April 4, 2008, we acquired Lancaster, Pennsylvania-based Sterling Financial Corporation for approximately 4.6 million shares of PNC common stock and $224 million in cash. Sterling was a banking and financial services company with approximately $3.2 billion in assets, $2.7 billion in deposits, and 65 branches in south-central Pennsylvania, northern Maryland and northern Delaware.

On March 31, 2008, we sold J.J.B. Hilliard, W.L. Lyons, LLC, a Louisville, Kentucky-based wholly-owned subsidiary of PNC and a full-service brokerage and financial services provider, to Houchens Industries, Inc. We recognized an after-tax gain of $23 million in the first quarter of 2008 in connection with this divestiture.

We include information on significant acquisitions and divestitures in Note 2 Acquisitions and Divestitures in the Notes To Consolidated Financial Statements in Item 8 of this Report and here by reference.

Review Of Lines Of Business In addition to the following information relating to our lines of business, we incorporate information under the captions Line of Business Highlights, Product Revenue, and Business Segments Review in Item 7 of this Report here by reference. Also, we include financial and other information by business in Note 27 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report here by reference.

We have four major businesses engaged in providing banking, asset management and global fund processing products and services: Retail Banking; Corporate & Institutional Banking; BlackRock; and Global Investment Servicing. Assets, revenue

and earnings attributable to foreign activities were not material in the periods presented. The business segment results for 2008 and prior periods do not include the impact of National City, which we acquired on December 31, 2008.

Retail Banking

Retail Banking provides deposit, lending, brokerage, trust, investment management, and cash management services to over 6 million consumer and small business customers within our primary geographic markets. Our customers are serviced through 2,589 offices in our branch network as of December 31, 2008 (including National City branches), the call center and the internet. The branch network is located primarily in Pennsylvania, New Jersey, Washington, DC, Maryland, Virginia, Delaware, Ohio, Kentucky, Indiana, Illinois, Michigan, Missouri, Florida and Wisconsin.

Retail Banking also serves as investment manager and trustee for employee benefit plans and charitable and endowment assets and provides nondiscretionary defined contribution plan services. These services are provided to individuals and corporations primarily within our primary geographic markets.

Our core strategy is to acquire and retain customers who maintain their primary checking and transaction relationships with PNC. We also seek revenue growth by deepening our share of our customers financial assets and needs, including savings and liquidity deposits, loans and investable assets. A key element of our strategy is to continue to optimize our physical distribution network by opening and upgrading stand-alone and in-store branches in attractive sites while consolidating or selling branches with less opportunity for growth.

Corporate & Institutional Banking

Corporate & Institutional Banking provides lending, treasury management, and capital markets-related products and services to mid-sized corporations, government entities, and selectively to large corporations. Lending products include secured and unsecured loans, letters of credit and equipment leases. Treasury management services include cash and investment management, receivables management, disbursement services, funds transfer services, information reporting, and global trade services. Capital markets-related products and services include foreign exchange, derivatives, loan syndications, mergers and acquisitions advisory and related services to middle-market companies, securities underwriting, and securities sales and trading. Corporate & Institutional Banking also provides commercial loan servicing, and real estate advisory and technology solutions for the commercial real estate finance industry. Corporate & Institutional Banking provides products and services generally within our primary geographic markets with certain products and services offered nationally.

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

BLACKROCK

BlackRock is one of the largest publicly-traded investment management firms in the United States with $1.3 trillion of assets under management at December 31, 2008. BlackRock manages assets on behalf of institutional and individual investors worldwide through a variety of fixed income, cash management, equity and balanced and alternative investment separate accounts and funds. In addition, BlackRock provides risk management, investment system outsourcing and financial advisory services globally to institutional investors.

At December 31, 2008, our equity ownership interest in BlackRock was approximately 33%. Our investment in BlackRock is a strategic asset of PNC and a key component of our diversified earnings stream. The ability of BlackRock to grow assets under management is the key driver of increases in its revenue, earnings and, ultimately, shareholder value. BlackRock s strategies for growth in assets under management include a focus on achieving client investment performance objectives in a manner consistent with their risk preferences and delivering excellent client service. The business dedicates significant resources to attracting and retaining talented professionals and to the ongoing enhancement of its investment technology and operating capabilities to deliver on this strategy.

GLOBAL INVESTMENT SERVICING

Global Investment Servicing (formerly PFPC) is a leading provider of processing, technology and business intelligence services to asset managers, broker-dealers, and financial advisors worldwide. Securities services include custody, securities lending, and accounting and administration for funds registered under the Investment Company Act of 1940 and alternative investments. Investor services include transfer agency, subaccounting, banking transaction services, and distribution. Financial advisor services include managed accounts and information management. This business segment serviced $2.0 trillion in total assets and 72 million shareholder accounts as of December 31, 2008, both domestically and internationally. International locations include Ireland, Poland and Luxembourg.

Global Investment Servicing focuses technological resources on driving efficiency through streamlining operations and developing flexible systems architecture and client-focused servicing solutions. Global Investment Servicing s mission is to help enable its clients to expand their capabilities, maintain a technical edge, and maximize returns on their internal resources by growing revenue and staying ahead of

competitors. During the past year, Global Investment Servicing expanded its capabilities to serve its clients in the full service subaccounting arena, integrated its recent acquisitions of Albridge Solutions and Coates Analytics, and opened a new servicing unit in Wroclaw, Poland.

BUSINESS SEGMENT CHANGES IN 2009

In addition to our existing business segments, PNC will have three additional business segments beginning in the first quarter of 2009: Residential Mortgage Banking; PNC Asset Management Group; and Distressed Assets Portfolio. These new business segments reflect the impact of our December 31, 2008 acquisition of National City and are more fully described in Note 28 Subsequent Event included in the Notes To Consolidated Financial Statements included under Item 8 of this Report.

SUBSIDIARIES Our corporate legal structure at December 31, 2008 consisted of three domestic subsidiary banks, including their subsidiaries, and approximately 79 active non-bank subsidiaries. PNC Bank, N.A., headquartered in Pittsburgh, Pennsylvania, and National City Bank, headquartered in Cleveland, Ohio, are our principal bank subsidiaries. Our other bank subsidiary is PNC Bank, Delaware. Our non-bank subsidiary, Global Investment Servicing, has obtained a banking license in Ireland and a branch in Luxembourg, which allow Global Investment Servicing to provide depositary services as part of its business. For additional information on our subsidiaries, see Exhibit 21 to this Report.

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

	Form 10-K page
Average Consolidated Balance Sheet And Net Interest Analysis	157

Table of Contents

SUPERVISION AND REGULATION

OVERVIEW

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

We are subject to numerous governmental regulations, some of which are highlighted below. You should also read Note 23 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, included here by reference, for additional information regarding our regulatory matters. Applicable laws and regulations restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, among other things. They also restrict our ability to repurchase stock or to receive dividends from bank subsidiaries and impose capital adequacy requirements. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions.

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

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

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

Due to the current economic environment and issues facing the financial services industry, as well as the effect of the change from the Bush to the Obama administration, we anticipate new legislative and regulatory initiatives over the next several years, including many focused specifically on banking and other financial services in which we are engaged. These initiatives will be in addition to the actions already taken by Congress and the regulators, including the Emergency Economic Stabilization Act of 2008 (EESA) and the American Recovery and Reinvestment Act of 2009 (the Recovery Act). Developments to date, as well as those that come in the future, have had and are likely to continue to have an impact on the conduct of our business. The more detailed description of the significant regulations to which we are subject that follows is based on the current regulatory environment and is subject to potentially material change.

On February 10, 2009, the US Department of the Treasury announced a capital assistance program to ensure that banking institutions are appropriately capitalized, with high quality capital. A key component of the program is a one-time forward-looking supervisory assessment of the capital needs of the 19 largest bank holding companies (those such as PNC with risk-weighted assets of $100 billion or more) under a more challenging economic environment than currently projected.

To conduct the exercise, these bank holding companies will be asked to analyze their loans and securities portfolios, as well as off-balance sheet commitments and contingencies, to determine expected future losses under base case and more adverse economic scenarios. They will also be asked to forecast internal resources available to absorb losses, including pre-provision revenue and reserves.

Should the supervisory agencies determine based on the assessment that an additional capital buffer is warranted, bank holding companies will be given a six month period to raise the additional capital from private sources. Otherwise, bank holding companies that have undergone this forward-looking capital test will have access to the US Department of the Treasury capital in the form of mandatorily convertible preferred shares.

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

There has been a heightened focus recently on consumer protection issues generally, including those related to the protection of confidential customer information.

Table of Contents

Over the last several years, there has been an increasing regulatory focus on compliance with anti-money laundering laws and regulations, resulting in, among other things, several significant publicly announced enforcement actions.

There are numerous rules governing the regulation of financial services institutions and their holding companies. Accordingly, the following discussion is general in nature and does not purport to be complete or to describe all of the laws and regulations that apply to us.

BANK REGULATION

As a bank holding company and a financial holding company, we are subject to supervision and regular inspection by the Federal Reserve. Our subsidiary banks and their subsidiaries are subject to supervision and examination by applicable federal and state banking agencies, principally the OCC with respect to PNC Bank, N.A. and National City Bank, and the Federal Reserve Bank of Cleveland and the Office of the State Bank Commissioner of Delaware with respect to PNC Bank, Delaware.

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

Parent Company Liquidity and Dividends. The principal source of our liquidity at the parent company level is dividends from PNC Bank, N.A. and National City Bank. PNC Bank, N.A. and National City Bank are subject to various federal and state restrictions on their ability to pay dividends to PNC Bancorp, Inc., and PNC, respectively, the direct parents of the subsidiary banks. Our subsidiary banks are also subject to federal laws limiting extensions of credit to their parent holding company and non-bank affiliates as discussed in Note 23 Regulatory Matters included in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference. Further information on bank level liquidity and parent company liquidity and on certain contractual restrictions is also available in the Liquidity Risk Management section and in the Perpetual Trust Securities , PNC Capital Trust E Trust Preferred Securities , and Acquired Entity Trust Preferred Securities sections of the Off-Balance Sheet Arrangements and VIEs section of Item 7 of this Report.

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

are restrictions on dividends associated with our December 31, 2008 issuance of preferred stock to the US Department of the Treasury under the TARP Capital Purchase Program, as discussed in Note 19 Shareholders Equity of the Notes To Consolidated Financial Statements under Item 8 of this Report.

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

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

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

In addition, the GLB Act permits national banks, such as PNC Bank, N.A. and National City Bank, to engage in expanded activities through the formation of a financial subsidiary. In order to qualify to establish or acquire a financial subsidiary, PNC Bank, N.A., National City Bank and PNC Bank, Delaware must be well capitalized and well managed and may not have a less than satisfactory Community Reinvestment Act (CRA) rating. A national bank that is one of the largest 50 insured banks in the United States, such as PNC Bank, N.A. and National City Bank, must also have issued debt (which, for this purpose, may include the uninsured portion of a national bank s long-term certificates of deposit) with certain minimum ratings. PNC Bank, N.A. and National City Bank have filed financial subsidiary certifications with the OCC and currently engage in

6

insurance agency activities through financial subsidiaries. PNC Bank, N.A. and National City Bank may also generally engage through a financial subsidiary in any activity that is financial in nature or incidental to a financial activity. Certain activities, however, are impermissible for a financial subsidiary of a national bank, including insurance underwriting, insurance investments, real estate investment or development, and merchant banking.

Because of issues regarding the operations of National City Bank, PNC has entered into an agreement with the Federal Reserve, and PNC Bank, N.A. and National City Bank have entered into agreements with the OCC, pursuant to which we are providing a plan for National City Bank to address these issues. If PNC fails to satisfy the concerns of the regulators within six-months of the acquisition of National City Bank (that is, by June 30, 2009), and no extension of the time period is granted, the Federal Reserve would have broad authority to limit PNC s activities, including a requirement that we conform existing non-banking activities to activities that were permissible prior to the enactment of the GLB Act. In addition, pursuant to the agreements with the OCC, the OCC could limit the activities of PNC Bank, N.A. and National City Bank if the concerns are not addressed satisfactorily by June 30, 2009, or within any additional time granted by the OCC. PNC Bank, N.A. and National City Bank could be required to conform the activities of their financial subsidiaries to activities in which a national bank could engage directly. The potential impact of these consequences for PNC and the two banks is primarily on the conduct of existing merchant banking, securities underwriting and dealing, and insurance activities that in part can be addressed through alternative means of conducting these activities and that in any event is not expected to be material to PNC s consolidated business.

Other Federal Reserve and OCC Regulation. The federal banking agencies possess broad powers to take corrective action as deemed appropriate for an insured depository institution and its holding company. The extent of these powers depends upon whether the institution in question is considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. Generally, the smaller an institution s capital base in relation to its risk-weighted assets, the greater the scope and severity of the agencies powers, ultimately permitting the agencies to appoint a receiver for the institution. Business activities may also be influenced by an institution s capital classification. For instance, only a well capitalized depository institution may accept brokered deposits without prior regulatory approval and an adequately capitalized depository institution may accept brokered deposits only with prior regulatory approval. At December 31, 2008, each of our domestic subsidiary banks exceeded the required ratios for classification as well capitalized. For additional discussion of capital adequacy requirements, we refer you to Funding and Capital Sources in the Consolidated Balance Sheet Review section of Item 7 of

this Report and to Note 23 Regulatory Matters included in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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

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

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

At December 31, 2008, PNC Bank, N.A., National City Bank, and PNC Bank, Delaware were rated outstanding with respect to CRA.

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

Our subsidiary banks are subject to cross-guarantee provisions under federal law that provide that if one of these banks fails or requires FDIC assistance, the FDIC may assess a commonly-controlled bank for the estimated losses suffered by the FDIC. Such liability could have a material adverse effect on our financial condition or that of the assessed bank. While the FDIC s claim is junior to the claims

of depositors, holders of secured liabilities, general creditors and subordinated creditors, it is superior to the claims of the bank s shareholders and affiliates, including PNC and intermediate bank holding companies.

SECURITIES AND RELATED REGULATION

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

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

In addition, our investment advisory subsidiaries that are investment advisors to registered investment companies and other managed accounts are subject to the requirements of the Investment Company Act of 1940, as amended, and the SEC s regulations thereunder, including Allegiant Asset Management Company, a wholly-owned subsidiary of National City Bank and registered investment advisor that serves as the investment advisor for the Allegiant mutual funds. Global Investment Servicing is subject to regulation by the SEC as a service provider to registered investment companies.

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

Over the past several years, the SEC and other governmental agencies have been investigating the mutual fund and hedge

fund industries, including Allegiant, Global Investment Servicing and other industry participants. The SEC has proposed various rules, and legislation has been introduced in Congress, intended to reform the regulation of these industries. The effect of regulatory reform has, and is likely to continue to, increase the extent of regulation of the mutual fund and hedge fund industries and impose additional compliance obligations and costs on our subsidiaries involved with those industries.

Under provisions of the federal securities laws applicable to broker-dealers, investment advisers and registered investment companies and their service providers, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in fines, restitution, a limitation of permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations can also affect a public company in its timing and ability to expeditiously issue new securities into the capital markets. In addition, expansion of activities of a broker-dealer generally requires approval of FINRA and regulators may take into account a variety of considerations in acting upon such applications, including internal controls, capital, management experience and quality, prior enforcement and disciplinary history and supervisory concerns.

Global Investment Servicing and BlackRock are also subject to regulation by appropriate authorities in the foreign jurisdictions in which they do business.

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

COMPETITION

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

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

Table of Contents

Our subsidiary banks compete for deposits with the following:

- Other commercial banks,
- Savings banks,
- Savings and loan associations,
- Credit unions,
- Treasury management service companies,
- Insurance companies, and
- Issuers of commercial paper and other securities, including mutual funds.

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

- Commercial banks,
- Investment banking firms,
- Merchant banks,
- Insurance companies,
- Private equity firms, and
- Other investment vehicles.

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

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

The fund servicing business is also highly competitive, with a relatively small number of providers. Merger, acquisition and consolidation activity in the financial services industry has also impacted the number of existing or potential fund servicing clients and has intensified competition.

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

EMPLOYEES Period-end employees totaled 59,595 at December 31, 2008. This total includes 25,313 full-time and 2,908 part-time PNC legacy employees and 27,112 full-time and 4,262 part-time National City employees.

SEC REPORTS AND CORPORATE GOVERNANCE INFORMATION

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

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

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

We also make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge on or through our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. PNC s corporate internet address is www.pnc.com and you can find this information at www.pnc.com/secfilings. Shareholders and bondholders may also obtain copies of these filings without charge by contacting Shareholder Services at 800-982-7652 or via the online contact form at www.computershare.com/contactus for copies without exhibits, or by contacting Shareholder Relations at 800- 843-2206 or via e-mail at investor.relations@pnc.com for copies of exhibits.

We filed the certifications of our Chairman and Chief Executive Officer and our Chief Financial Officer required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 with respect to our Annual Report on Form 10-K for 2007 with the SEC as exhibits to that report and have filed the CEO and CFO certifications required by Section 302 of that Act with respect to this Form 10-K as exhibits to this Report.

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

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol PNC. Our Chairman and Chief Executive Officer submitted the required annual CEO Certification regarding the NYSE s corporate governance listing standards (a Section 12(a) CEO Certification) to the NYSE within 30 days after our 2008 annual shareholders meeting.

INTERNET INFORMATION

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

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

ITEM 1A RISK FACTORS

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

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

Risk management is an important part of our business model. The success of our business is dependent on our ability to identify, understand and manage the risks presented by our business activities so that we can balance appropriately revenue generation and profitability with these inherent risks. Our shareholders have been well served by our focus on maintaining a moderate risk profile. With an economy in severe recession and our recent acquisition of National City,

our Consolidated Balance Sheet at December 31, 2008 did not reflect that desired risk profile. However, we remain committed to a moderate risk profile and we are working hard to bring our risk issues back into alignment. We discuss our principal risk management processes and, in appropriate places, related historical performance in the Risk Management section included in Item 7 of this Report.

The following are the key risk factors that affect us. These risk factors and other risks are also discussed further in other parts of this Report.

Risks related to current economic conditions

The continuation or worsening of current recessionary conditions, as well as continued turmoil in the financial markets, would likely have an adverse effect on our business, financial position and results of operations.

The economy in the United States and globally is currently in the midst of a severe recession. This economic situation has been accompanied by disruption and turmoil in financial markets around the world. Throughout much of the United States, the past two years have seen dramatic declines in the housing market, with falling home prices and increasing foreclosures. The deepening recession has led to increased unemployment and underemployment. Businesses across many industries are showing reduced earnings or in some cases losses, with reduced investments in growth.

For the financial services industry, this overall environment has resulted in significant write-downs of asset values, initially of mortgage-backed securities but spreading to other derivative and cash securities. Affected institutions include commercial and investment banks as well as government-sponsored entities. The impact of this situation has led to distress in credit markets, reduced liquidity for many types of securities, and concerns regarding the financial strength and adequacy of the capitalization of financial institutions. Some financial institutions around the world have failed, some have needed significant additional capital, and others have been forced to seek acquisition partners.

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

The United States and other governments have taken unprecedented steps to try to stabilize the financial system, including making significant investments in financial institutions and guaranteeing or otherwise supporting troubled assets held by financial institutions. The new Obama administration and the U.S. Congress are actively seeking

Table of Contents

ways of providing economic stimulus and financial market stability, including the recent enactment of the Recovery Act.

These economic conditions have had an adverse effect on our business and financial performance. We do not expect that the weakened economy or difficult conditions in the financial markets are likely to improve meaningfully in the near future, and we expect those conditions to have an ongoing negative impact on us. A worsening or prolonged continuation of these conditions would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial institutions industry.

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

- Proposals to permit bankruptcy courts to adjust the terms of home mortgage obligations of people in proceedings before them may adversely impact the value of mortgages and mortgage-backed securities held by us, including, in the case of securities, by affecting the protections offered by subordination provisions.
- We expect to face increased regulation of our industry, including as a result of the EESA, the Recovery Act and other current or future initiatives to provide economic stimulus, financial market stability and enhanced regulation of financial services companies. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.
- Investors may have less confidence in the equity markets in general and in financial services industry stocks in particular, which could place downward pressure on PNC s stock price and resulting market valuation.
- Market developments may further affect consumer and business confidence levels and may cause declines in credit usage and adverse changes in payment patterns, causing increases in delinquencies and default rates.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors.
- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective, and complex judgments, including the review of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans, which may no longer be capable of accurate estimation, which may, in turn, impact the reliability of the process.
- We could suffer decreases in customer desire to do business with us, whether as a result of a decreased demand for loans or other financial products and services or decreased deposits or other investments in accounts with PNC.
- Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions. Governmental support provided to financial institutions could alter the competitive landscape.
- Increased regulation of compensation at financial services companies as part of government efforts to reform the industry may hinder our ability to attract and retain well-qualified individuals in key positions.
- We may be required to pay significantly higher Federal Deposit Insurance Corporation premiums because market developments have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

Some of these risks are discussed in more detail below.

The continuation of current recessionary conditions would likely adversely affect our lending businesses and the value of the loans and debt securities we hold.

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

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

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

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

As most of our assets and liabilities are financial in nature, we tend to be particularly sensitive to the performance of the

financial markets. Starting in the middle of 2007, there has been significant turmoil and volatility in worldwide financial markets, which is, at present, ongoing. This turmoil and volatility are a contributory factor to overall economic conditions, leading to some of the risks discussed above, including impairing the ability of borrowers and other counterparties to meet obligations to us. Financial market volatility also can have some of the following adverse effects on PNC and our business and financial performance:

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

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

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

As a result of the high percentage of our assets and liabilities that are in the form of interest-bearing or interest-related instruments, changes in interest rates, in the shape of the yield curve or in spreads between different market interest rates can

have a material effect on our business, our profitability and the value of our financial assets and liabilities. For example:

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

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

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There can be no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

Table of Contents

Actions taken by the federal government to stabilize the U.S. financial system and provide economic stimulus may not succeed.

Given the recent financial market turmoil, particularly in the last several months, the federal government has taken numerous steps to stabilize the US financial system, both through legislative and regulatory action. The steps include passage of EESA and actions taken by the US Department of the Treasury thereafter to implement EESA, as well as the recent enactment of the Recovery Act. Legislative and regulatory initiatives to provide economic stimulus, financial market stability and financial market regulatory reform have been proposed or are pending (including some that have modified or would modify EESA), and more are anticipated going forward. What steps the government will take, the manner in which they will be implemented and the actual impact they will have on the economy and financial markets are uncertain. The failure of these governmental actions to help stabilize the financial markets and the U.S. economy, and the potential impact of compliance with government regulations undertaken in connection with such actions on our costs and our ability to pursue business opportunities, could materially and adversely affect our business, financial condition, results of operations, access to credit, or the trading price of our common stock.

Risks resulting from recent transactions

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

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

This acquisition presents the following risks to PNC:

- Like PNC, National City was a large financial institution and has retail and other banking operations in numerous markets in which PNC had little or no experience. National City also had major operations in areas in which PNC did not have a significant presence, including residential mortgage lending, residential mortgage servicing, credit card lending and equipment leasing. As a result of these factors, there are significant integration-related risks, which are greater than in other recent acquisitions by PNC.
- Prior to completion of the merger, PNC and National City operated as separate independent entities. The integration process may result in the loss of key employees, the disruption of either company s ongoing businesses or inconsistencies in standards, controls, procedures, and policies that adversely affect our ability to maintain relationships with clients, customers, depositors, and employees or to
achieve the anticipated benefits of the merger. Integration efforts between the two companies will also divert management attention and resources. Successful integration may also be hampered by cultural differences between the two organizations. Further, PNC agreed, in connection with obtaining regulatory approvals for the National City acquisition, to divest 61 of National City Bank s branches in Western Pennsylvania and this process is also underway.
- In recent periods, National City s results had been impacted negatively by a significant amount of asset impairments. Our results following the acquisition will depend on our ability to manage these assets, which require special servicing and management oversight, including disposition if appropriate. As the integration process develops, we may identify other issues with respect to National City s asset valuation or accounting procedures that may lead to further impairments or write-downs.
- National City s pre-acquisition financial performance and resulting stock price performance and other pre-acquisition activities have led to several lawsuits and governmental investigations, and more may be commenced in the future. As a result of this acquisition, we now bear the risks associated with lawsuits and governmental investigations relating to National City, the full extent of the potential adverse impact of which cannot currently be predicted with reasonable certainty. See Note 24 Legal Proceedings in the Notes to Consolidated Financial Statements in Item 8 of this Report for additional information.

Our issuance of securities to the US Department of the Treasury may limit our ability to return capital to our shareholders and is dilutive to our common shares. Also, the dividend rate increases substantially after five years if we are unable to redeem the shares by that time.

In connection with our sale of $7.6 billion of senior preferred stock to the US Department of the Treasury on December 31, 2008, we also issued the US Department of the Treasury a warrant to purchase approximately 17 million shares of our common stock at $67.33 per share. The terms of the transaction with the Department of the Treasury result in limitations on our ability to pay dividends and repurchase our shares. For three years after issuance or until the Department of the Treasury no longer holds any preferred shares, we will not be able to increase our dividends above the most recent level prior to October 14, 2008 ($.66 per common share on a quarterly basis) nor repurchase any of our shares without the Department of the Treasury s approval with limited exceptions, most significantly purchases in connection with benefit plans. Also, we will not be able to pay any dividends at all unless we are current on our dividend payments on the preferred shares. These restrictions, as well as the dilutive impact of the warrant, may have an adverse effect on the market price of our common stock.

Unless we are able to redeem the preferred stock during the first five years, the dividends on this capital will increase substantially at that point, from 5% (almost $400 million annually) to 9% (almost $700 million annually). Depending on market conditions and our financial performance at the time, this increase in dividends could significantly impact our capital and liquidity.

The US Department of the Treasury has the unilateral ability to change some of the restrictions imposed on us by virtue of our sale of securities to it.

Our agreement with the US Department of the Treasury under which it purchased our securities imposes restrictions on our conduct of our business, including restrictions related to our payment of dividends and repurchase of our stock and related to our executive compensation and governance. The US Department of the Treasury has the right under this agreement to unilaterally amend it to the extent required to comply with any future changes in federal statutes. The Recovery Act amended provisions of EESA relating to compensation and governance as they affect companies such as PNC that have sold securities to the US Department of the Treasury. In some cases, these amendments require action by the US Department of the Treasury to implement them. These amendments could have an adverse impact on the conduct of our business, as could additional amendments in the future that impose further requirements or amend existing requirements.

Risks related to the ordinary course of PNC s business

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

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

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

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

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

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

In general, acquisitions may be substantially more expensive to complete (including as a result of costs incurred in connection with the integration of the acquired company) and the anticipated benefits (including anticipated cost savings and strategic gains) may be significantly harder or take longer to achieve than expected. In some cases, acquisitions involve our entry into new businesses or new geographic or other markets, and these situations also present risks resulting from our inexperience in these new areas. As a regulated financial institution, our pursuit of attractive acquisition opportunities could be negatively impacted due to regulatory delays or other regulatory issues. Regulatory and/or legal issues relating to the pre-acquisition operations of an acquired business may cause reputational harm to PNC following the acquisition and integration of the acquired business into ours and may result in additional future costs or regulatory limitations arising as a result of those issues.

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

Asset management revenue is primarily based on a percentage of the value of assets under management and, in some cases, performance fees, in most cases expressed as a percentage of the returns realized on assets under management, and thus is impacted by general changes in capital markets valuations as well as by customer preferences and needs. In addition, investment performance is an important factor influencing the level of assets under management. Poor investment performance could impair revenue and growth as existing clients might withdraw funds in favor of better performing products. Also, performance fees could be lower or nonexistent. Additionally, the ability to attract funds from existing and new clients might diminish. Overall economic conditions may limit the amount that customers are able or willing to invest.

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

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

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

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

PNC is a bank and financial holding company and is subject to numerous governmental regulations involving both its business and organization. PNC services its obligations primarily with dividends and advances that it receives from its subsidiaries.

Our businesses are subject to regulation by multiple bank regulatory bodies as well as multiple securities industry regulators. Applicable laws and regulations restrict our ability

to repurchase stock or to receive dividends from subsidiaries that operate in the banking and securities business and impose capital adequacy requirements. They also restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, and for the protection of customer information, among other things. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions as well as damage to our reputation and businesses.

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

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

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

Our ability to pay dividends to shareholders is largely dependent on dividends from our operating subsidiaries, principally our banking subsidiaries. Banks are subject to regulation on the amount and circumstances of dividends they can pay to their holding companies. At present, National City Bank does not have any ability to pay dividends, so we are primarily relying on PNC Bank, N.A. s dividend capacity to support our external dividends.

We discuss these and other regulatory issues applicable to PNC in the Supervision and Regulation section included in Item 1 of this Report and in Note 23 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report and here by reference.

Over the last several years, there has been an increasing regulatory focus on compliance with anti-money laundering laws and regulations, resulting in, among other things, several significant publicly-announced enforcement actions. There has also been a heightened focus recently, by customers and the media as well as by regulators, on the protection of confidential customer information. A failure to have adequate procedures to comply with anti-money laundering laws and regulations or to protect the confidentiality of customer information could expose us to damages, fines and regulatory penalties, which could be significant, and could also injure our reputation with customers and others with whom we do business.

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

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

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

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

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

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

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

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

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

Table of Contents

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

ITEM 1B UNRESOLVED STAFF COMMENTS

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

ITEM 2 PROPERTIES

Our executive and administrative offices are located at One PNC Plaza, Pittsburgh, Pennsylvania. The thirty-story structure is owned by PNC Bank, N. A. We occupy the entire building. In addition, PNC Bank, N.A. owns a thirty-four story structure adjacent to One PNC Plaza, known as Two PNC Plaza, that houses additional office space.

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

ITEM 3 LEGAL PROCEEDINGS

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

National City has agreed to pay a penalty of $200,000 imposed under section 6707 A(b)(2) of the Internal Revenue Code for failure to include certain reportable transaction information in its 2004 federal income tax return related to a listed transaction. We expect to pay the penalty in 2009.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

A special meeting of shareholders of The PNC Financial Services Group, Inc. was held on December 23, 2008 for the purpose of considering and acting upon the following matters: (1) a proposal to approve the issuance of shares of PNC common stock as contemplated by the Agreement and Plan of Merger, dated as of October 24, 2008, by and between The PNC Financial Services Group, Inc. and National City Corporation, as such agreement may be amended from time to time; and (2) a proposal to approve the adjournment of the

special meeting, if necessary or appropriate, to solicit additional proxies, in the event that there were not sufficient votes at the time of the special meeting to approve the proposal described under (1) above.

Based on a total of approximately 348.5 million eligible votes, approximately 266 million votes, or 76% of the total, were cast. The votes cast included votes for or against either proposal, as well as abstentions.

The proposal to approve the issuance of shares of PNC common stock in connection with PNC s acquisition of National City was ratified and the aggregate votes cast for or against and the abstentions were as follows:

Aggregate Votes		
For	Against	Abstain
262,287,739	3,057,391	634,073

The proposal to approve the adjournment of the special meeting, if necessary, was ratified and the aggregate votes cast for or against and the abstentions were as follows (there were also 1,550 non-votes):

Aggregate Votes		
For	Against	Abstain
240,665,800	24,585,286	726,567

With respect to all of the preceding matters, holders of our common and voting preferred stock voted together as a single class. The following table sets forth, as of the November 14, 2008 record date, the number of shares of each class or series of stock that were issued and outstanding and entitled to vote, the voting power per share, and the aggregate voting power of each class or series:

Title of Class or Series	Voting Rights Per Share	Number of Shares Entitled to Vote	Aggregate Voting Power
Common Stock	1	347,960,466	347,960,466
$1.80 Cumulative Convertible Preferred Stock Series A	8	6,540	52,320
$1.80 Cumulative Convertible Preferred Stock Series B	8	1,137	9,096
$1.60 Cumulative Convertible Preferred Stock Series C	4/2.4	119,126	198,543
$1.80 Cumulative Convertible Preferred Stock Series D	4/2.4	170,761	284,602
Total possible votes			348,505,027*

* Represents greatest number of votes possible. Actual aggregate voting power was less since each holder of voting preferred stock was entitled to a number of votes equal to the number of full shares of common stock into which such holder s preferred stock was convertible.

Table of Contents

EXECUTIVE OFFICERS OF THE REGISTRANT Information regarding each of our executive officers as of February 17, 2009 is set forth below. Executive officers do not have a stated term of office. Each executive officer has held the position or positions indicated or another executive position with the same entity or one of its affiliates for the past five years unless otherwise indicated below.

Name	Age	Position with PNC	Year Employed (1)
James E. Rohr	60	Chairman and Chief Executive Officer (2)	1972
Joseph C. Guyaux	58	President	1972
William S. Demchak	46	Senior Vice Chairman	2002
Timothy G. Shack	58	Vice Chairman	1976
Thomas K. Whitford	52	Vice Chairman	1983
Joan L. Gulley	61	Executive Vice President and Chief Human Resources Officer	1986
Michael J. Hannon	52	Executive Vice President and Chief Risk Officer	1982
Richard J. Johnson	52	Executive Vice President and Chief Financial Officer	2002
Helen P. Pudlin	59	Executive Vice President and General Counsel	1989
Robert Q. Reilly	44	Executive Vice President	1987
Samuel R. Patterson	50	Senior Vice President and Controller	1986
John J. Wixted, Jr.	57	Senior Vice President	2002

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

(2) Also serves as a director of PNC.

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

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

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

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

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

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

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

Robert Q. Reilly joined PNC Bank, N.A. in September 1987. He serves as the lead of PNC s wealth management business, and in February 2009 he was appointed Executive Vice President of PNC.

John J. Wixted, Jr. joined PNC as Senior Vice President and Chief Regulatory Officer in August 2002. From May 2007 until February 2009, he also served as Chief Risk Officer.

DIRECTORS OF THE REGISTRANT The name, age and principal occupation of each of our directors as of February 17, 2009, and the year he or she first became a director is set forth below:

Richard O. Berndt, 66, Managing Partner of Gallagher, Evelius & Jones LLP (*law firm*) (2007)
Charles E. Bunch, 59, Chairman and Chief Executive Officer of PPG Industries, Inc. (*coatings, sealants and glass products*) (2007)
Paul W. Chellgren, 66, Operating Partner, SPG Partners, LLC, (*private equity*) (1995)
Robert N. Clay, 62, President and Chief Executive Officer of Clay Holding Company (*investments*) (1987)
George A. Davidson, Jr., 70, Retired Chairman of Dominion Resources, Inc. (*public utility holding company*) (1988)
Kay Coles James, 59, President and Founder of The Gloucester Institute (*non-profit*) (2006)
Richard B. Kelson, 62, Operating Advisor, Pegasus Capital Advisors, L.P., (*private equity*) (2002)
Bruce C. Lindsay, 67, Chairman and Managing Member of 2117 Associates, LLC (*advisory company*) (1995)
Anthony A. Massaro, 64, Retired Chairman and Chief Executive Officer of Lincoln Electric Holdings, Inc. (*manufacturer of welding and cutting products*) (2002)
Jane G. Pepper, 63, President of Pennsylvania Horticultural Society (*non-profit*) (1997)
James E. Rohr, 60, Chairman and Chief Executive Officer of PNC (1990)
Donald J. Shepard, 62, Retired Chairman of the Executive Board and Chief Executive Officer, AEGON N.V. (*insurance*) (2007)

Table of Contents

Lorene K. Steffes, 63, Independent Business Advisor *(technology and technical services)* (2000)
Dennis F. Strigl, 62, President and Chief Operating Officer of Verizon Communications Inc. (*telecommunications*) (2001)
Stephen G. Thieke, 62, Retired Chairman, Risk Management Committee of JP Morgan Incorporated (*financial and investment banking services*) (2002)
Thomas J. Usher, 66, Chairman of Marathon Oil Corporation (*oil and gas industry*) (1992)
George H. Walls, Jr., 66, former Chief Deputy Auditor of the State of North Carolina (2006)
Helge H. Wehmeier, 66, Retired President and Chief Executive Officer of Bayer Corporation (*healthcare, crop protection, and chemicals*) (1992)

PART II

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

(a) Our common stock is listed on the New York Stock Exchange and is traded under the symbol PNC. At the close of business on February 17, 2009, there were 79,036 common shareholders of record.

Holders of PNC common stock are entitled to receive dividends when declared by the Board of Directors out of funds legally available for this purpose. Our Board of Directors may not pay or set apart dividends on the common stock until dividends for all past dividend periods on any series of outstanding preferred stock have been paid or declared and set apart for payment. The Board presently intends to continue the policy of paying quarterly cash dividends. However, on March 1, 2009, the Board decided to reduce PNC s quarterly common stock dividend from $0.66 to $0.10 per share. The next dividend is expected to be declared in early April 2009. The amount of any future dividends will depend on economic and market conditions, our financial condition and operating results, and other factors, including contractual restrictions and applicable government regulations and policies (such as those relating to the ability of bank and non-bank subsidiaries to pay dividends to the parent company).

The Risk Factors section of Item 1A of this Report and Note 19 Shareholders Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report, which we include here by reference, describe restrictions on dividends and common share repurchases associated with our December 31, 2008 issuance of preferred stock to the US Department of the Treasury under the TARP Capital Purchase Program. In addition, the Federal Reserve has the power to prohibit us from paying dividends without its approval. For further information concerning dividend restrictions and restrictions on loans, dividends or advances from bank subsidiaries to the parent company, you may review

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

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

We include here by reference the information regarding our compensation plans under which PNC equity securities are authorized for issuance as of December 31, 2008 in the table (with introductory paragraph and notes) that appears under Item 12 of this Report.

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

Computershare Investor Services, LLC

250 Royall Street

Canton, MA 02021

800-982-7652

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

(b) Not applicable.

(c) Details of our repurchases of PNC common stock during the fourth quarter of 2008 are included in the following table:

In thousands, except per share data

2008 period	Total shares purchased (a) (b)	Average price paid per share	Total shares purchased as part of publicly announced programs (c)	Maximum number of shares that may yet be purchased under the programs (c)
October 1 October 31	247	$ 67.37		24,710
November 1 November 30	186	$ 62.13		24,710
December 1 December 31	143	$ 49.13		24,710
Total	576	$ 61.16		

(a) Under the US Treasury s TARP Capital Purchase Program, there are restrictions on dividends and common share repurchases associated with the preferred stock that we issued to the US Treasury under that program on December 31, 2008. As is typical with cumulative preferred stocks, dividend payments for this preferred must be current before dividends can be paid on junior shares, including our common stock, or junior shares can be repurchased or redeemed. Also, the US Treasury s consent will be required for any increase in common dividends per share above the most recent level prior to October 14, 2008 until the third anniversary of the preferred issuance unless all of that preferred has been redeemed or is no longer held by the US Treasury. Further, during that same period, the US Treasury s consent will be

Table of Contents

required, unless the preferred stock is no longer held by the US Treasury, for any share repurchases with limited exceptions, most significantly purchases of common shares in connection with any benefit plan in the ordinary course of business consistent with past practice.

(b) Reflects PNC common stock purchased in connection with our various employee benefit plans. No shares were purchased under the program referred to in note (c) to this table during the fourth quarter of 2008.

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

Common Stock Performance Graph

This graph shows the cumulative total shareholder return (i.e., price change plus reinvestment of dividends) on our common stock during the five-year period ended December 31, 2008, as compared with: (1) a selected peer group of our competitors, called the Peer Group; (2) an overall stock market index, the S&P 500 Index; and (3) a published industry index, the S&P 500 Banks. The yearly points marked on the horizontal axis of the graph correspond to December 31 of that year. The stock performance graph assumes that $100 was invested on January 1, 2004 for the five-year period and that any dividends were reinvested. The table below the graph shows the resultant compound annual growth rate for the performance period.

	Base Period	Assumes $100 investment at Close of Market on December 31, 2002 Total Return = Price change plus reinvestment of dividends					5-Year Compound Growth Rate
	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	Dec 08	
PNC	$ 100	108.92	121.63	150.33	137.87	107.29	1.42%
S&P 500 Index	$ 100	110.88	116.32	134.69	142.09	89.52	(2.19)%
S&P 500 Banks	$ 100	114.44	112.80	130.99	91.98	48.29	(13.55)%
Peer Group	$ 100	112.86	113.85	133.00	94.06	45.03	(14.75)%

The Peer Group for the preceding chart and table consists of the following companies: BB&T Corporation; Comerica Inc.; Fifth Third Bancorp; KeyCorp; National City Corporation; The PNC Financial Services Group, Inc.; SunTrust Banks, Inc.; U.S. Bancorp.; Wachovia Corporation; Regions Financial Corporation; and Wells Fargo & Co. This Peer Group was approved by the Board s Personnel and Compensation Committee (the Committee) for 2008. As of December 31, 2008, Wells Fargo & Co. acquired Wachovia Corporation and PNC acquired National City Corporation. Typically, the Committee reviews the makeup of the peer group annually. Due to the many changes in the financial industry generally, PNC s substantially increased size and scope at the beginning of 2009, and a significant number of mergers and other changes with respect to PNC s 2008 peers and other industry leaders, the Committee has changed the peer group for 2009 to consist of the following companies: BB&T Corporation; Bank of America Corporation; Capital One Financial, Inc.; Comerica Inc.; Fifth Third Bancorp; JPMorgan Chase; KeyCorp; M&T Bank; Regions Financial Corporation; SunTrust Banks, Inc.; U.S. Bancorp; and Wells Fargo & Co.

Each yearly point for the Peer Group is determined by calculating the cumulative total shareholder return for each company in the Peer Group from December 31, 2003 to December 31 of that year (End of Month Dividend Reinvestment Assumed) and then using the median of these returns as the yearly plot point.

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

Table of Contents

ITEM 6 SELECTED FINANCIAL DATA

Dollars in millions, except per share data	2008 (a)	2007	2006 (b)	2005	2004
			Year ended December 31		
Summary Of Operations					
Interest income	**$ 6,313**	$ 6,166	$ 4,612	$ 3,734	$ 2,752
Interest expense	**2,490**	3,251	2,367	1,580	783
Net interest income	**3,823**	2,915	2,245	2,154	1,969
Noninterest income	**3,367**	3,790	6,327	4,173	3,572
Total revenue	**7,190**	6,705	8,572	6,327	5,541
Provision for credit losses (c)	**1,517**	315	124	21	52
Noninterest expense	**4,430**	4,296	4,443	4,306	3,712
Income before minority interests and income taxes	**1,243**	2,094	4,005	2,000	1,777
Minority interest in income of BlackRock			47	71	42
Income taxes	**361**	627	1,363	604	538
Net income	**$ 882**	$ 1,467	$ 2,595	$ 1,325	$ 1,197
Per Common Share					
Basic earnings	**$ 2.50**	$ 4.43	$ 8.89	$ 4.63	$ 4.25
Diluted earnings	**$ 2.46**	$ 4.35	$ 8.73	$ 4.55	$ 4.21
Book value (d)	**$ 39.44**	$ 43.60	$ 36.80	$ 29.21	$ 26.41
Cash dividends declared	**$ 2.61**	$ 2.44	$ 2.15	$ 2.00	$ 2.00
Selected Ratios					
Net interest margin (e)	**3.37%**	3.00%	2.92%	3.00%	3.22%
Noninterest income to total revenue	**47**	57	74	66	64
Efficiency	**62**	64	52	68	67
Return on					
Average tangible common shareholders equity	**17.70**	22.65	48.74	30.64	29.90
Average common shareholders equity	**6.28**	10.53	27.97	16.58	16.82
Average assets	**.62**	1.19	2.73	1.50	1.59
Loans to deposits (d)	**91**	83	76	81	82
Dividend payout	**104.6**	55.0	24.4	43.4	47.2
Tier 1 risk-based capital (d)	**9.7**	6.8	10.4	8.3	9.0
Common shareholders equity to total assets (d)	**6.0**	10.7	10.6	9.3	9.4
Average common shareholders equity to average assets	**9.6**	11.3	9.8	9.0	9.4

(a) The 2008 Consolidated Income Statement does not include operating results of National City.

(b) The 2007 Versus 2006 Consolidated Income Statement Review section of Item 7 of this Report describes certain items impacting 2006 results.

(c) Amount for 2008 included $504 million conforming provision for credit losses related to our National City acquisition.

(d) At December 31.

(e) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of 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 years 2008, 2007, 2006, 2005 and 2004 were $36 million, $27 million, $25 million, $33 million and $20 million, respectively.

Certain prior-period amounts have been reclassified to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. See Note 2 Acquisitions and Divestitures in the Notes To Consolidated Financial Statements in Item 8 of this Report for information on significant recent business acquisitions and divestitures, including our December 31, 2008 acquisition of National City Corporation. For information regarding certain business risks, see Item 1A Risk Factors and the Risk Management section of Item 7 of this Report. Also, see our Cautionary Statement Regarding Forward-Looking Information included in Item 7 of this Report for certain risks and uncertainties that could cause actual results to differ materially from those anticipated in forward-looking statements or from historical performance.

Table of Contents

December 31

Dollars in millions, except as noted	**2008 (a)**	2007	2006	2005	2004
Balance Sheet Highlights					
Assets	**$ 291,081**	$ 138,920	$ 101,820	$ 91,954	$ 79,723
Loans	**175,489**	68,319	50,105	49,101	43,495
Allowance for loan and lease losses	**3,917**	830	560	596	607
Investment securities	**43,473**	30,225	23,191	20,710	16,761
Loans held for sale	**4,366**	3,927	2,366	2,449	1,670
Goodwill	**8,868**	8,405	3,402	3,619	3,001
Equity investments (b)	**8,554**	6,045	5,330	1,323	1,058
Deposits	**192,865**	82,696	66,301	60,275	53,269
Borrowed funds (c)	**52,240**	30,931	15,028	16,897	11,964
Shareholders equity	**25,422**	14,854	10,788	8,563	7,473
Common shareholders equity	**17,490**	14,847	10,781	8,555	7,465
Assets Administered (in billions)					
Managed (d)	**$ 110**	$ 74	$ 55	$ 495	$ 383
Nondiscretionary	**125**	112	85	83	93
Fund Assets Serviced (in billions)					
Accounting/administration net assets	**$ 839**	$ 990	$ 837	$ 835	$ 721
Custody assets	**379**	500	427	476	451
Selected Statistics					
Period-end employees	**59,595**	28,320	23,783	25,348	24,218
Branches	**2,589**	1,109	852	839	776
ATMs	**6,232**	3,900	3,581	3,721	3,581
Residential mortgage servicing portfolio (in billions)	**$ 187**				
Commercial mortgage servicing portfolio (in billions)	**$ 286**	$ 243	$ 200	$ 136	$ 98

(a) Information at December 31, 2008 includes the impact of National City Corporation, which we acquired as of that date.

(b) The balances at December 31, 2008, 2007 and 2006 include our investment in BlackRock. BlackRock was a consolidated entity at December 31, 2005 and 2004.

(c) Includes long-term borrowings of $35 billion, $12.6 billion, $6.6 billion, $6.8 billion, and $5.7 billion for 2008, 2007, 2006, 2005, and 2004, respectively. Borrowings which mature more than one year after December 31, 2008 are considered to be long-term.

(d) Assets under management at December 31, 2008, 2007 and 2006 do not include BlackRock s assets under management as we deconsolidated BlackRock effective September 29, 2006.

Table of Contents

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

EXECUTIVE SUMMARY

THE PNC FINANCIAL SERVICES GROUP, INC.

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

As described further below, on December 31, 2008, PNC acquired National City Corporation (National City), nearly doubling our assets to a total of $291 billion and expanding our total consolidated deposits to $193 billion. Our Consolidated Balance Sheet includes the impact of National City as of December 31, 2008.

Prior to the acquisition, PNC had businesses engaged in retail banking, corporate and institutional banking, asset management, and global investment servicing, providing many of its products and services nationally and others in PNC s primary geographic markets located in Pennsylvania, New Jersey, Washington, DC, Maryland, Virginia, Ohio, Kentucky and Delaware. PNC also provided certain investment servicing internationally.

National City s primary businesses prior to its acquisition by PNC included commercial and retail banking, mortgage financing and servicing, consumer finance and asset management, operating through an extensive network in Ohio, Florida, Illinois, Indiana, Kentucky, Michigan, Missouri, Pennsylvania and Wisconsin. National City also conducted selected consumer lending businesses and other financial services on a nationwide basis.

PNC is now in the process of integrating the business and operations of National City with those of PNC.

KEY STRATEGIC GOALS

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

Our strategy to enhance shareholder value centers on driving positive operating leverage by achieving growth in revenue from our balance sheet and diverse business mix that exceeds growth in expenses controlled through disciplined cost management. In each of our current business segments, the primary drivers of revenue growth are the acquisition, expansion and retention of customer relationships. We strive to expand our customer base by offering convenient banking options and leading technology solutions, providing a broad range of fee-based and credit products and services, focusing on customer service, and through a significantly enhanced branding initiative. We may also grow revenue through

appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

We are focused on our strategies for quality growth. We are committed to returning to a moderate risk profile characterized by disciplined credit management and limited exposure to earnings volatility resulting from interest rate fluctuations and the shape of the interest rate yield curve. Our actions have created a well-positioned and strong balance sheet, ample liquidity and investment flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

We continue to be disciplined in investing capital in our businesses while returning a portion to shareholders through dividends and share repurchases when appropriate and permissible. See the Funding and Capital Sources section of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this Financial Review regarding certain restrictions on dividends and common share repurchases resulting from PNC s participation in the US Treasury s Troubled Asset Relief Program (TARP) Capital Purchase Program and dividend capacity.

On March 1, 2009, the Board decided to reduce PNC s quarterly common stock dividend from $0.66 to $0.10 per share. The next dividend is expected to be declared in early April 2009. Our Board recognizes the importance of the dividend to our shareholders. While our overall capital and liquidity positions are strong, extreme economic and market deterioration and the changing regulatory environment drove this difficult but prudent decision. This proactive measure will help us build capital, further strengthen our balance sheet and continue to serve our customers.

ACQUISITION OF NATIONAL CITY CORPORATION

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

We completed the acquisition primarily by issuing approximately 95 million shares of PNC common stock. In accordance with purchase accounting methodologies, National City Bank s balance sheet was adjusted to fair value at which time the bank was under-capitalized from a regulatory perspective. However, PNC s Consolidated Balance Sheet remained well-capitalized and liquid.

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

Table of Contents

National City, based in Cleveland, Ohio, was one of the nation s largest commercial banking organizations based on assets. We expect to incur total merger and integration costs of approximately $1.2 billion in connection with the acquisition of National City, including $575 million recognized in the fourth quarter of 2008. The transaction is expected to result in the reduction of approximately $1.2 billion of combined company annualized noninterest expense through the elimination of operational and administrative redundancies.

Other than the merger and integration costs discussed above, our acquisition of National City did not impact our 2008 Consolidated Income Statement, nor did it impact our 2008 Average Consolidated Balance Sheet. Note 2 Acquisitions and Divestitures included in our Notes To Consolidated Financial Statements within Item 8 of this Report and our Current Reports on Form 8-K filed October 24, 2008, October 30, 2008, December 23, 2008, and January 2, 2009 provide additional information regarding our acquisition of National City.

Recent Market and Industry Developments

Starting in the middle of 2007 and with a heightened level of activity during the second half of 2008 and into early 2009, there has been unprecedented turmoil, volatility and illiquidity in worldwide financial markets, accompanied by uncertain prospects for the overall national economy, which is currently in the midst of a severe recession. In addition, there have been dramatic changes in the competitive landscape of the financial services industry during this time.

Recent efforts by the Federal government, including the US Department of the Treasury, the Federal Reserve, the FDIC, and the Securities and Exchange Commission, to stabilize and restore confidence in the financial services industry have impacted and will likely continue to impact PNC and our stakeholders. These efforts, which will continue to evolve, include the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, and other legislative, administrative and regulatory initiatives, including the US Treasury s TARP and TARP Capital Purchase Program, the FDIC s Temporary Liquidity Guarantee Program (TLGP) and the Federal Reserve s Commercial Paper Funding Facility (CPFF).

Beginning in the fourth quarter of 2008, PNC participated in several of these programs as further described below:

TARP Capital Purchase Program

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

On December 31, 2008, PNC issued to the US Treasury $7.6 billion of preferred stock together with a related warrant to purchase shares of common stock of PNC, in accordance with

the terms of the TARP Capital Purchase Program. Funds from this sale count as Tier 1 capital and the warrant qualifies as tangible common equity.

Holders of this preferred stock are entitled to a cumulative cash dividend at the annual rate per share of 5% of the liquidation preference per year for the first five years after the closing date. Afterward, the annual dividend rate will increase, to 9% per year. PNC s intent is to redeem this preferred stock prior to the escalation of the dividend rate.

Note 19 Shareholders Equity included in our Notes to Consolidated Financial Statements within Item 8 of this Report includes additional information regarding the preferred stock and the related warrant that we issued under this program.

FDIC Temporary Liquidity Guarantee Program

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

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

In December 2008, PNC Funding Corp issued at the holding company level fixed and floating rate senior notes totaling $2.9 billion under the FDIC s TLGP-Debt Guarantee Program as more fully described within the Liquidity Risk Management section of this Item 7. Each of these series of senior notes is guaranteed by the FDIC and is backed by the full faith and credit of the United States through June 30, 2012.

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

Commercial Paper Funding Facility

The Federal Reserve established the CPFF to provide a liquidity backstop to US issuers of commercial paper and thereby improve liquidity in short-term funding markets and thus increase the availability of credit for businesses and households. Effective October 28, 2008, Market Street Funding LLC (Market Street) was approved to participate in the Federal Reserve s CPFF. The CPFF commitment to purchase up to $5.4 billion of three-month Market Street commercial paper expires on October 30, 2009. As of December 31, 2008, Market Street s participation in this

Table of Contents

program totaled $445 million. These trades matured at the end of January 2009 and were replaced with commercial paper sold to investors.

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It is also possible that the US Congress and federal banking agencies, as part of their efforts to provide economic stimulus and financial market stability, to enhance the liquidity and solvency of financial institutions and markets, and to enhance the regulation of financial institutions and markets, will announce additional legislation, regulations or programs. These additional actions may take the form of changes in or additions to the statutes or regulations related to existing programs, including those described above. It is not possible at this time to predict the ultimate impact of these actions on PNC s business plans and strategies.

Key Factors Affecting Financial Performance

Our financial performance is substantially affected by several external factors outside of our control including the following, some of which may be affected by legislative, regulatory and administrative initiatives of the Federal government outlined above:

- General economic conditions, including the length and severity of the current recession,
- 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 landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment,
- Movement of customer deposits from lower to higher rate accounts or to investment alternatives, 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 integrating the National City acquisition,
- Continued development of the 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 operating leverage,
- Managing the distressed assets portfolio,
- Maintaining solid overall asset quality,
- Continuing to maintain our solid deposit base,
- Prudent risk and capital management leading to a return to our desired moderate risk profile, and
- Actions we take within the capital and other financial markets.

See also Item 1A Risk Factors and the Cautionary Statement Regarding Forward-Looking Information section of Item 7 of this Report.

Other 2008 Acquisition And Divestiture Activity

On April 4, 2008, we acquired Lancaster, Pennsylvania-based Sterling Financial Corporation (Sterling) for approximately 4.6 million shares of PNC common stock and $224 million in cash. Sterling was a banking and financial services company with approximately $3.2 billion in assets, $2.7 billion in deposits, and 65 branches in south-central Pennsylvania, northern Maryland and northern Delaware. The Sterling technology systems and bank charter conversions were completed during the third quarter of 2008 and we realized the anticipated cost savings related to these activities.

On March 31, 2008, we sold J.J.B. Hilliard, W.L. Lyons, LLC (Hilliard Lyons), a Louisville, Kentucky-based wholly-owned subsidiary of PNC and a full-service brokerage and financial services provider, to Houchens Industries, Inc. We recognized an after-tax gain of $23 million in the first quarter of 2008 in connection with this divestiture. Business segment information for the periods presented in this Item 7 reflects the reclassification of results for Hilliard Lyons, including the gain on the sale of this business, from the Retail Banking business segment to Other.

Summary Financial Results

	Year ended December 31	
In millions, except	**2008**	2007

per share data		
Net income	**$ 882**	$ 1,467
Diluted earnings per share	**$ 2.46**	$ 4.35
Return on		
Average common shareholders equity	**6.28%**	10.53%
Average assets	**.62%**	1.19%

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

Our performance in 2008 included the following:

At December 31, 2008 we had total assets of $291 billion, including loans of $175 billion, and total deposits of $193 billion, reflecting the acquisition of National City.

We significantly strengthened capital. The Tier 1 risk-based capital ratio was 9.7% at December 31,

Table of Contents

2008 compared with 6.8% at December 31, 2007. We issued $7.6 billion of preferred stock and a common stock warrant to the US Department of the Treasury under the TARP Capital Purchase Program on December 31, 2008, which qualified as Tier 1 capital.

Our tangible common equity ratio was 2.9% at December 31, 2008. We expect our tangible common equity ratio to be less sensitive to the impact of widening credit spreads on accumulated other comprehensive loss going forward primarily due to the composition of the securities available for sale portfolio acquired from National City and a substantially higher level of tangible common equity in the combined company.

We maintained a strong liquidity position and continued to generate deposits. The loan to deposit ratio was 91% at December 31, 2008, reflecting the acquisition of National City. Average deposits for 2008 increased 10% compared with 2007.

Credit quality migration reflected a rapidly weakening economy, but remained manageable as PNC was able to maintain a strong capital position and generate positive operating leverage. The allowance for loan and lease losses increased to $3.9 billion at December 31, 2008 from $830 million at December 31, 2007 primarily as a result of the National City acquisition and related conforming credit adjustment. The ratio of allowance for loan and lease losses to total loans was strengthened to 2.23% at December 31, 2008 compared with 1.21% at December 31, 2007. This ratio excluding the impact of the National City acquisition was 1.77% at December 31, 2008. We provide a reconciliation of this ratio excluding the National City impact to the GAAP-basis ratio in the Statistical Information (Unaudited) section in Item 8 of this Report.

Average loans for 2008 increased 16% over 2007.

We are committed to supporting the objectives of the Emergency Economic Stabilization Act of 2008. To that end, we are continuing to make credit available to qualified borrowers including enhanced calling efforts on small businesses and corporations, promotions offered with special financing rates and responding to increased loan demand for first mortgages. We have reaffirmed and renewed loans and lines of credit, focused on early identification of loan modification candidates and are working closely where appropriate with customers who are experiencing financial hardship to set up new repayment schedules, loan modifications and forbearance programs. We plan to enhance these efforts over time to improve the effectiveness of our broad-reaching initiatives.

Investment securities were $43.5 billion at December 31, 2008, or 15% of total assets. The portfolio was primarily comprised of well-diversified, high quality securities with US
government agency residential mortgage-backed securities representing 53% of the portfolio. Of the remaining portfolio, approximately 80% of the securities had AAA-equivalent ratings.

PNC created positive operating leverage for the year of 4%, or $351 million. Total revenue for 2008 grew 7% compared with 2007, driven by growth in net interest income, and exceeded year-over-year noninterest expense growth of 3%.

With the acquisition of National City, our retail banks now serve over 6 million consumer and business customers. Comprehensive two-year integration plans are being implemented with a goal of eliminating $1.2 billion of annualized expenses, including the reduction of approximately 5,800 positions across the combined 59,595 employee base by 2011. The first regional branch conversion is planned for the second half of 2009.

Our Consolidated Income Statement Review section of this Item 7 describes in greater detail the various items that impacted our results for 2008 and 2007.

BALANCE SHEET HIGHLIGHTS

Total assets were $291.1 billion at December 31, 2008 compared with $138.9 billion at December 31, 2007. Total assets at December 31, 2008 included $133.7 billion related to National City. Our acquisition of National City did not impact our 2008 Average Consolidated Balance Sheet.

Total average assets were $142.0 billion for 2008 compared with $123.4 billion for 2007. This increase reflected a $16.5 billion increase in average interest-earning assets and a $2.1 billion increase in average noninterest-earning assets. An increase of $10.2 billion in loans and a $6.2 billion increase in investment securities were the primary factors for the increase in average interest-earning assets.

The increase in average noninterest-earning assets for 2008 reflected an increase in average goodwill of $1.6 billion primarily related to the acquisition of Sterling on April 4, 2008, Yardville National Bancorp (Yardville) on October 26, 2007 and Mercantile Bankshares Corporation (Mercantile) on March 2, 2007.

The impact of the Sterling, Yardville and Mercantile acquisitions is also reflected in our year-over-year increases in average total loans, average securities available for sale and average total deposits as described further below.

Average total loans were $72.7 billion for 2008 and $62.5 billion for 2007. The increase in average total loans included growth in commercial loans of $5.5 billion, consumer loans of $2.8 billion, commercial real estate loans of $1.7 billion and residential mortgage loans of $.5 billion. Loans represented 64% of average interest-earning assets for both 2008 and 2007.

Table of Contents

Average investment securities totaled $32.7 billion for 2008 and $26.5 billion for 2007. Average residential and commercial mortgage-backed securities increased $4.5 billion on a combined basis in the comparison. Average investment securities for 2008 included $.4 billion of held to maturity securities that we transferred from available for sale status during the fourth quarter of 2008. Investment securities comprised 29% of average interest-earning assets for 2008 and 27% for 2007.

Average total deposits were $84.5 billion for 2008, an increase of $7.7 billion over 2007. Average deposits grew from the prior year period primarily as a result of increases in money market balances and other time deposits.

Average total deposits represented 60% of average total assets for 2008 and 62% for 2007. Average transaction deposits were $55.7 billion for 2008 compared with $50.7 billion for 2007.

Average borrowed funds were $31.3 billion for 2008 and $23.0 billion for 2007. Increases of $7.1 billion in Federal Home Loan Bank borrowings and $1.4 billion in other borrowed funds drove the increase compared with 2007.

Shareholders equity totaled $25.4 billion at December 31, 2008 compared with $14.9 billion at December 31, 2007 and reflected the issuance of securities under the TARP Capital Purchase Program and the impact of National City. See the Consolidated Balance Sheet Review section of this Item 7 for additional information.

Line of Business Highlights

We refer you to Item 1 of this Report under the captions Business Overview and Review of Lines of Business for an overview of our business segments and to the Business Segments Review section of this Item 7 for a Results Of Businesses Summary table and further analysis of business segment results for 2008 and 2007, including presentation differences from Note 27 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Total business segment earnings were $983 million for 2008 and $1.7 billion for 2007. We provide a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis in Note 27.

Retail Banking

Retail Banking s earnings were $429 million for 2008 compared with $876 million for 2007. The decline in earnings over the prior year was primarily driven by increases in the provision for credit losses and noninterest expense. The 2008 revenue growth was negatively impacted by a lower interest credit attributed to deposits in the declining rate environment and was therefore not reflective of the solid growth in customers and deposits.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $225 million in 2008 compared with $432 million in 2007. The 48% decline in earnings over 2007 was primarily driven by an increase in the provision for credit losses and by higher valuation losses on commercial mortgage loans held for sale, net of hedges.

BlackRock

Our BlackRock business segment earned $207 million in 2008 and $253 million in 2007. These results reflect our approximately 33% share of BlackRock s reported GAAP earnings during both periods and the additional income taxes on these earnings incurred by PNC.

Global Investment Servicing

Global Investment Servicing earned $122 million for 2008 and $128 million for 2007. Results for 2008 were negatively impacted by declines in asset values and fund redemptions as a result of severe deterioration of the financial markets during the fourth quarter.

Other

Other incurred a loss of $101 million in 2008 and a loss of $222 million in 2007.

Other for 2008 included the impact of integration costs, including the National City conforming provision for credit losses, totaling $422 million after taxes, of which $380 million after taxes were recognized in the fourth quarter of 2008. In addition, net securities losses in 2008 totaled $134 million after taxes. These factors were partially offset by strong growth in net interest income related to asset and liability management activities in 2008, and the after-tax impact of the following:

- After-tax gains totaling $160 million from PNC s remaining BlackRock long-term incentive plan programs (LTIP) shares obligation,
- The $23 million after-tax gain on the sale of Hilliard Lyons in the first quarter,
- The $40 million after-tax third quarter reversal of a legal contingency reserve established in connection with an acquisition due to a settlement, and
- The $30 million after-tax partial reversal of the Visa indemnification liability.

Other for 2007 included the after-tax impact of the following:

- Integration costs totaling $99 million after taxes,
- A net after-tax charge of $83 million representing the net mark-to-market adjustment on our remaining BlackRock LTIP shares obligation partially offset by the gain recognized in connection with PNC s first quarter transfer of BlackRock shares to satisfy a portion of our BlackRock LTIP shares obligation, and
- A $53 million after-tax charge for an indemnification obligation related to certain Visa litigation.

Table of Contents

Consolidated Income Statement Review

Our Consolidated Income Statement is presented in Item 8 of this Report. Net income for 2008 was $882 million and for 2007 was $1.467 billion. Total revenue for 2008 increased 7% compared with 2007. We created positive operating leverage in the year-to-date comparison as total noninterest expense increased 3% in the comparison.

Net Interest Income and Net Interest Margin

Year ended December 31 Dollars in millions	2008	2007
Net interest income	**$ 3,823**	$ 2,915
Net interest margin	**3.37%**	3.00%

Changes in net interest income and margin result from the interaction of the volume and composition of interest-earning assets and related yields, interest-bearing liabilities and related rates paid, and noninterest-bearing sources of funding. See Statistical Information Analysis Of Year-To-Year Changes In Net Interest (Unaudited) Income And Average Consolidated Balance Sheet and Net Interest Analysis in Item 8 of this Report for additional information.

The 31% increase in net interest income for 2008 compared with 2007 was favorably impacted by the $16.5 billion, or 17%, increase in average interest-earning assets and a decrease in funding costs. The 2008 net interest margin was positively affected by declining rates paid on deposits and borrowings compared with the prior year. The reasons driving the higher interest-earning assets in these comparisons are further discussed in the Balance Sheet Highlights portion of the Executive Summary section of this Item 7.

The net interest margin was 3.37% for 2008 and 3.00% for 2007. The following factors impacted the comparison:

- A decrease in the rate paid on interest-bearing liabilities of 140 basis points. The rate paid on interest-bearing deposits, the single largest component, decreased 123 basis points.
- These factors were partially offset by a 77 basis point decrease in the yield on interest-earning assets. The yield on loans, the single largest component, decreased 109 basis points.
- In addition, the impact of noninterest-bearing sources of funding decreased 26 basis points due to lower interest rates and a lower proportion of noninterest-bearing sources of funding to interest-earning assets.

For comparing to the broader market, during 2008 the average federal funds rate was 1.94% compared with 5.03% for 2007.

We expect our full-year 2009 net interest income to benefit from the impact of interest accretion of discounts resulting from purchase accounting marks and deposit pricing

alignment related to our National City acquisition. We also currently expect our 2009 net interest margin to improve on a year-over-year basis.

Noninterest Income

Summary

Noninterest income was $3.367 billion for 2008 and $3.790 billion for 2007.

Noninterest income for 2008 included the following:

- Gains of $246 million related to the mark-to-market adjustment on our BlackRock LTIP shares obligation,
- Losses related to our commercial mortgage loans held for sale of $197 million, net of hedges,
- Impairment and other losses related to alternative investments of $179 million,
- Income from Hilliard Lyons totaling $164 million, including the first quarter gain of $114 million from the sale of this business,
- Net securities losses of $206 million,

A first quarter gain of $95 million related to the redemption of a portion of our Visa Class B common shares related to Visa s March 2008 initial public offering,
A third quarter $61 million reversal of a legal contingency reserve established in connection with an acquisition due to a settlement,
Trading losses of $55 million,
A $35 million impairment charge on commercial mortgage servicing rights, and
Equity management losses of $24 million.

Noninterest income for 2007 included the following:

The impact of $82 million gain recognized in connection with our transfer of BlackRock shares to satisfy a portion of PNC s LTIP obligation and a $209 million net loss on our LTIP shares obligation,
Income from Hilliard Lyons totaling $227 million,
Trading income of $104 million,
Equity management gains of $102 million, and
Gains related to our commercial mortgage loans held for sale of $3 million, net of hedges.

Apart from the impact of these items, noninterest income increased $16 million in 2008 compared with 2007.

Additional analysis

Fund servicing fees increased $69 million in 2008, to $904 million, compared with $835 million in 2007. The impact of the December 2007 acquisition of Albridge Solutions Inc. (Albridge Solutions) and growth in Global Investment Servicing s offshore operations were the primary drivers of this increase.

Global Investment Servicing provided fund accounting/ administration services for $839 billion of net fund investment assets and provided custody services for $379 billion of fund investment assets at December 31, 2008, compared with $990 billion and $500 billion, respectively, at December 31, 2007. The decrease in assets serviced was due to declines in asset values and fund outflows resulting primarily from market conditions in the second half of 2008.

Asset management fees totaled $686 million in 2008, a decline of $98 million compared with 2007. The effect on fees of lower equity earnings from BlackRock, a $12 billion decrease in assets managed due to equity values related to wealth management, and the Hilliard Lyons divestiture were reflected in the decline compared with 2007. Excluding $53 billion of assets acquired on December 31, 2008 resulting from our acquisition of National City, assets managed at December 31, 2008 totaled $57 billion compared with $74 billion at December 31, 2007. The Hilliard Lyons sale and the impact of comparatively lower equity markets in 2008 drove the decline in assets managed. The Retail Banking section of the Business Segments Review section of this Item 7 includes further discussion of assets under management.

Consumer services fees declined $69 million, to $623 million, for 2008 compared with 2007. The sale of Hilliard Lyons more than offset the benefits of increased volume-related fees, including debit card, credit card, bank brokerage and merchant revenues.

Corporate services revenue totaled $704 million in 2008 compared with $713 million in 2007. Higher revenue from treasury management and other fees were more than offset by lower merger and acquisition advisory fees and commercial mortgage servicing fees, net of amortization.

Service charges on deposits grew $24 million, to $372 million, in 2008 compared with 2007. The impact of our expansion into new markets contributed to the increase during 2008.

Net securities losses totaled $206 million in 2008 compared with net securities losses of $5 million in 2007. Losses for 2008 included other-than-temporary impairment charges of $312 million, including $74 million on our investment in preferred stock of FHLMC and FNMA that were partially offset by securities gains.

Other noninterest income totaled $284 million for 2008 compared with $423 million for 2007. Other noninterest income for 2008 included gains of $246 million related to our BlackRock LTIP shares adjustment, the $114 million gain from the sale of Hilliard Lyons, the $95 million gain from the redemption of a portion of our investment in Visa related to its March 2008 initial public offering, and the $61 million reversal of a legal contingency reserve referred to above. The impact of these items was partially offset by losses related to our commercial mortgage loans held for sale of $197 million, net of hedges, trading losses of $55 million and equity management losses of $24 million.

Other noninterest income for 2007 included a net loss related to our BlackRock investment of $127 million (the net of the two items described within the Summary section above), trading income of $104 million, equity management gains of $102 million and gains related to our commercial mortgage loans held for sale, net of hedges, of $3 million.

See the BlackRock portion of the Business Segments Review section of Item 7 of this Report for further information regarding LTIP. Additional information regarding our transactions related to Visa is included in Note 25 Commitments And Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report. Further details regarding our trading activities are included in the Market Risk Management Trading Risk portion of the Risk Management section of this Item 7 and information regarding equity management are included in the Market Risk Management-Equity and Other Investment Risk section.

Other noninterest income typically fluctuates from period to period depending on the nature and magnitude of transactions completed.

We expect noninterest income in 2009 to reflect customer growth, offset by softening consumer fees and by ongoing volatility of the more market-related categories.

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 loan servicing, that are marketed by several businesses to commercial and retail customers across PNC.

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, increased 14% to $545 million in 2008 compared with $476 million in 2007. The increase was primarily related to the impact of our expansion into new markets and strong growth in commercial payment card services and in cash and liquidity management products.

Revenue from capital markets-related products and services totaled $336 million in 2008 compared with $290 million in 2007. This increase was primarily driven by strong customer interest rate derivative and foreign exchange activity partially offset by a decline in merger and acquisition advisory fees.

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

Table of Contents

Commercial mortgage banking activities resulted in revenue of $65 million in 2008 compared with $252 million in 2007. Revenue for 2008 reflected losses of $197 million on commercial mortgage loans held for sale, net of hedges, due to the impact of an illiquid market during most of 2008. The comparable amount for 2007 was a gain of $3 million. Revenue for 2007 also reflected significant securitization activity. In addition, commercial mortgage servicing revenue declined $53 million primarily due to a $35 million impairment charge on commercial mortgage servicing rights while net interest income from commercial mortgage loans held for sale increased $61 million in 2008 compared with 2007 due to higher loans held for sale balances.

Provision For Credit Losses

The provision for credit losses totaled $1.517 billion for 2008 compared with $315 million for 2007. Of the total 2008 provision, $990 million was recorded in the fourth quarter, including $504 million of additional provision recorded on December 31, 2008 to conform the National City loan reserving methodology with ours. The differences in methodology include granularity of loss computations, statistical and quantitative factors rather than qualitative assessment, and the extent of current appraisals and risk assessments.

In addition to the impact of National City, the higher provision in 2008 compared with the prior year was driven by general credit quality migration, including residential real estate development and commercial real estate exposure, an increase in net charge-offs, and growth in nonperforming loans. Growth in our total credit exposure also contributed to the higher provision amounts in both comparisons.

With a deteriorating economy, we expect credit migration will continue throughout 2009 as credit quality improvements will lag any economic turnaround. The Credit Risk Management portion of the Risk Management section of this Item 7 includes additional information regarding factors impacting the provision for credit losses.

See also Item 1A Risk Factors and the Cautionary Statement Regarding Forward-Looking Information section of Item 7 of this Report.

Noninterest Expense

Total noninterest expense was $4.430 billion for 2008 and $4.296 billion for 2007, an increase of $134 million, or 3%. Higher noninterest expense in 2008 compared with 2007 primarily resulted from investments in growth initiatives, including acquisitions, partially offset by the impact of the sale of Hilliard Lyons and disciplined expense management.

Integration costs included in noninterest expense totaled $122 million for 2008, including $81 million in the fourth quarter, and $102 million for 2007. Integration costs for the fourth quarter of 2008 included $71 million related to our National City acquisition.

Noninterest expense for 2008 included the benefit of the reversal of $46 million of the $82 million Visa indemnification liability that we established in the fourth quarter of 2007. Additional information regarding our transactions related to Visa is included in Note 25 Commitments And Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

Expense management will be a key driver in 2009 as we intend to maintain our focus on continuous improvement and to achieve cost savings targets associated with our National City integration. We currently expect FDIC deposit insurance costs to increase significantly in 2009.

Effective Tax Rate

Our effective tax rate was 29.1% for 2008 and 29.9% for 2007.

Table of Contents

Consolidated Balance Sheet Review

Summarized Balance Sheet Data

December 31 - in millions	2008	2007
Assets		
Loans	$ 175,489	$ 68,319
Investment securities	43,473	30,225
Cash and short-term investments	23,936	10,425
Loans held for sale	4,366	3,927
Equity investments	8,554	6,045
Goodwill	8,868	8,405
Other intangible assets	2,820	1,146
Other	23,575	10,428
Total assets	$ 291,081	$ 138,920
Liabilities		
Deposits	$ 192,865	$ 82,696
Borrowed funds	52,240	30,931
Other	18,328	8,785
Total liabilities	263,433	122,412
Minority and noncontrolling interests in consolidated entities	2,226	1,654
Total shareholders equity	25,422	14,854
Total liabilities, minority and noncontrolling interests, and shareholders equity	$ 291,081	$ 138,920

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

Our Consolidated Balance Sheet at December 31, 2008 included National City s assets and liabilities at estimated fair value as of that date. This acquisition added approximately $134 billion of assets, including $99.7 billion of loans, after giving effect to purchase accounting adjustments, eliminations and reclassifications.

Various seasonal and other factors impact our period-end balances whereas average balances (discussed under the Balance Sheet Highlights section of this Item 7 and included in the Statistical Information section of Item 8 of this Report) are generally more indicative of underlying business trends apart from the impact of recent acquisitions.

An analysis of changes in selected balance sheet categories follows.

Loans

A summary of the major categories of loans outstanding is shown in the following table. Outstanding loan balances reflect unearned income, unamortized discount and premium, and purchase discounts and premiums totaling $4.1 billion and $990 million at December 31, 2008 and 2007, respectively.

Loans increased $107.2 billion as of December 31, 2008 compared with December 31, 2007. Our National City

acquisition added $99.7 billion of loans, including $34.3 billion of commercial, $16.0 billion of commercial real estate, $30.5 billion of consumer and $10.6 billion of residential mortgage loans.

In February 2008, we transferred the education loans in our held for sale portfolio to the loan portfolio as further described in the Loans Held For Sale section of this Consolidated Balance Sheet Review.

Details Of Loans

December 31 - in millions	2008	2007
Commercial		
Retail/wholesale	**$ 11,482**	$ 6,013
Manufacturing	**13,263**	4,814
Other service providers	**9,038**	3,639
Real estate related [(a)]	**9,107**	5,556
Financial services	**5,194**	1,419
Health care	**3,201**	1,464
Other	**16,034**	5,634
Total commercial	**67,319**	28,539
Commercial real estate		
Real estate projects	**17,176**	6,111
Commercial mortgage	**8,560**	2,792
Total commercial real estate	**25,736**	8,903
Equipment lease financing	**6,461**	2,514
TOTAL COMMERCIAL LENDING	**99,516**	39,956
Consumer		
Home equity		
Lines of credit	**24,024**	6,811
Installment	**14,252**	7,636
Education	**4,211**	132
Automobile	**1,667**	1,513
Credit card and other unsecured lines of credit	**3,163**	462
Other	**5,172**	1,839
Total consumer	**52,489**	18,393
Residential real estate		
Residential mortgage	**18,783**	9,046
Residential construction	**2,800**	511
Total residential real estate	**21,583**	9,557
TOTAL CONSUMER LENDING	**74,072**	27,950
Other	**1,901**	413
Total loans	**$ 175,489**	$ 68,319

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

Total loans represented 60% of total assets December 31, 2008 and 49% of total assets at December 31, 2007.

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. See Note 4 Loans, Commitments To Extend Credit and Concentrations of Credit Risk in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Table of Contents

The following table presents the valuation adjustments applied against National City loans as part of the purchase accounting process at December 31, 2008.

National City Loan Portfolio Assessment

	December 31, 2008			
Dollars in billions	Principal Balance	Valuation Adjustment	Fair Value	Valuation Adjustment as % of Principal Balance
Valuation Adjustments By Loan Classification				
Commercial/Commercial real estate	$ 56.5	$ 4.7	$ 51.8	8.3%
Consumer	31.4	3.5	27.9	11.1%
Residential real estate	19.2	4.4	14.8	22.9%
Other	.9		.9	
Total	$ 108.0	$ 12.6	$ 95.4(a)	11.7%
Valuation Adjustments By Type				
Impaired loans				
Commercial/Commercial real estate	$ 4.0	$ 2.2	$ 1.8	55.0%
Consumer	5.8	1.9	3.9	32.8%
Residential real estate	9.5	3.3	6.2	34.7%
Total impaired loans	19.3	7.4	11.9	38.3%
Performing loans	88.7	5.2	83.5	5.9%
Total	$ 108.0	$ 12.6	$ 95.4(a)	11.7%
Valuation Adjustments By Component				
Fair value mark impaired loans		$ 7.4		
Fair value mark performing loans		2.4		
Subtotal fair value marks		9.8		
National City reserve carryover on performing loans		2.3		
Conforming credit reserve on performing loans		.5		
Total		$ 12.6		

(a) Represents total adjusted loans of $99.7 billion from the National City acquisition, net of $2.8 billion of loan loss reserves, $1.1 billion of loans previously classified as held for sale by National City, and $.4 billion of other purchase accounting adjustments.

Our home equity loan outstandings totaled $38.3 billion at December 31, 2008. 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 or equal to 90%. We had $1.2 billion or approximately 3% of the total portfolio in this grouping at December 31, 2008. In our $18.8 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 $2.5 billion and comprised approximately 14% of this portfolio at December 31, 2008.

Commercial lending outstandings are the largest category and are the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for

loan and lease losses. We have allocated $2.6 billion, or 67%, of the total allowance for loan and lease losses at December 31, 2008 to these loans. We allocated $1.2 billion, or 32%, of the remaining allowance at that date to consumer lending outstandings and $47 million, or 1%, to all other loans. 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.

32

Table of Contents

Included in total loans at December 31, 2008 were $27.2 billion of distressed loans. These loans include residential real estate development loans, cross-border leases, subprime residential mortgage loans, brokered home equity loans and certain other residential real estate loans. These loans require special servicing and management oversight given current market conditions or, in the case of cross-border leases, are tax and yield challenged. The majority of the distressed loans were from acquisitions, including $24.6 billion from National City. An allowance for loan and lease losses of $927 million was allocated to the distressed loans at December 31, 2008. A total of $537 million of the distressed loans were classified as nonperforming at that date. Details of distressed loans follow:

Details of Distressed Loan Portfolio

In millions	**Dec. 31, 2008**
Commercial	**$28**
Commercial real estate	
Real estate projects	**2,847**
Commercial mortgage	**510**
Total commercial real estate	**3,357**
Equipment lease financing	**858**
TOTAL COMMERCIAL LENDING	**4,243**
Consumer	
Home equity	
Lines of credit	**5,474**
Installment	**2,877**
Total home equity	**8,351**
Residential real estate	
Residential mortgage	**10,198**
Residential construction	**2,603**
Total residential real estate	**12,801**
TOTAL CONSUMER LENDING	**21,152**
Other	**1,761**
Total (a)	**$ 27,156**

(a) Includes impaired loans attributable to National City totaling $10.3 billion, net of valuation adjustments. The pre-adjusted principal balance was $15.3 billion and represented the majority of the total $19.3 billion principal balance of total impaired loans included in the National City Loan Portfolio Assessment table on page 32.

Net unfunded credit commitments are comprised of the following:

Net Unfunded Credit Commitments

December 31 - in millions	**2008 (a)**	2007
Commercial and commercial real estate	**$ 59,982**	$ 42,021
Home equity lines of credit	**23,195**	8,680
Consumer credit card lines	**19,028**	969
Other	**2,683**	1,677
Total	**$ 104,888**	$ 53,347

(a) Includes $53.9 billion related to National City.

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 $8.6 billion at December 31, 2008 and $8.9 billion at December 31, 2007.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $7.0 billion at December 31, 2008 and $9.4 billion at December 31, 2007 and are included in the preceding table primarily within the Commercial and Consumer categories. The decrease from December 31, 2007 was due to a $2.5 billion decline in Market Street commitments.

In addition to credit commitments, our net outstanding standby letters of credit totaled $10.3 billion at December 31, 2008 and $4.8 billion at December 31, 2007. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

INVESTMENT SECURITIES

Details Of Investment Securities

In millions	Amortized Cost	Fair Value
December 31, 2008		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
Residential mortgage-backed		
Agency	**$ 22,744**	**$ 23,106**
Nonagency	**13,205**	**8,831**
Commercial mortgage-backed	**4,305**	**3,446**
Asset-backed	**2,069**	**1,627**
US Treasury and government agencies	**738**	**739**
State and municipal	**1,326**	**1,263**
Other debt	**563**	**559**
Corporate stocks and other	**575**	**571**
Total securities available for sale	**$ 45,525**	**$ 40,142**
SECURITIES HELD TO MATURITY		
Debt securities		
Commercial mortgage-backed	**$ 1,945**	**$ 1,896**
Asset-backed	**1,376**	**1,358**
Other debt	**10**	**10**
Total securities held to maturity	**$ 3,331**	**$ 3,264**
December 31, 2007		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
Residential mortgage-backed		
Agency	$ 9,218	$ 9,314
Nonagency	11,929	11,638
Commercial mortgage-backed	5,227	5,264
Asset-backed	2,878	2,770
U.S. Treasury and government agencies	151	155
State and municipal	340	336
Other debt	85	84
Corporate stocks and other	662	664
Total securities available for sale	$ 30,490	$ 30,225

Table of Contents

Investment securities totaled $43.5 billion at December 31, 2008, including $13.3 billion from the National City acquisition that were primarily US government agency residential mortgage-backed securities. Securities represented 15% of total assets at December 31, 2008 and 22% of total assets at December 31, 2007.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where appropriate, take steps intended to improve our overall positioning. During the fourth quarter of 2008, we transferred $3.2 billion of securities available for sale to securities held to maturity status and transferred $599 million of proprietary trading securities to the available for sale portfolio.

The transfer of available for sale securities to held to maturity involved short-duration, high quality securities where management s intent to hold changed. In reassessing the classification of these securities, management also considered the current and ongoing illiquidity in the capital markets and that securities prices are under increasing downward pressure, even where there is no indication of credit impairment.

The transfer of trading securities to available for sale occurred against the backdrop of events occurring in the market that management determined to be unusual and highly unlikely to recur in the near term. As a result of these events, which included the unprecedented market illiquidity and related volatility, PNC s economic hedges associated with these trading positions become increasingly ineffective, resulting in increasing and unexpected earnings volatility. Coincident with the transfer of trading securities to available for sale, all hedging instruments were terminated.

At December 31, 2008, the investment securities balance included a net unrealized loss of $5.4 billion, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2007 was a net unrealized loss of $265 million. The fair value of investment securities is impacted by interest rates, credit spreads, and market volatility and illiquidity. We believe that a substantial portion of the decline in value of these securities is attributable to changes in market credit spreads and market illiquidity and not from deterioration in the credit quality of individual securities or underlying collateral, where applicable. The net unrealized losses at December 31, 2008 did not reflect credit quality concerns of any significance with the underlying assets, which represented an overall well-diversified, high quality portfolio. US government agency residential mortgage-backed securities represented 53% of the investment securities portfolio at December 31, 2008.

During 2008, we recorded other-than-temporary impairment charges totaling $312 million, of which $151 million related to residential mortgage-backed securities, $87 million related to asset-backed securities collateralized by first- and second-lien residential mortgage loans and $74 million related to our investment in preferred securities of FHLMC and FNMA.

At least quarterly we conduct a comprehensive security-level impairment assessment. Our process and methods have evolved as market conditions have deteriorated and as more research and other analyses have become available. We expect that our process and methods will continue to evolve. Our assessment considers the security structure, recent security collateral performance metrics, our judgment and expectations of future performance, and relevant industry research and analysis. We also consider the magnitude of the impairment and the amount 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, Balance Sheet Risk Management, and Credit Policy. The senior management team considers the results of the assessments, as well as other factors, in determining whether the impairment is other-than-temporary.

One of the key inputs into our impairment assessment process is the level of delinquencies (i.e., 60 days and more) for any given security. In February 2009, we received updated delinquency information through January 31, 2009 for our residential mortgage-backed and asset-backed securities positions collateralized by first- and second-lien residential mortgage loans. Delinquencies have generally increased in the January 2009 versus December 2008 month-over-month comparison and, based upon our evaluation of these updated delinquency statistics, we currently expect that we will record additional other-than-temporary impairment charges in the first quarter of 2009. We currently do not expect that these charges will be material to our capital position.

If the current issues affecting the US housing market were to continue for the foreseeable future or worsen, or if market volatility and illiquidity were to continue or worsen, or if market interest rates were to increase appreciably, the valuation of our available for sale securities portfolio could continue to be adversely affected. See Note 7 Investment Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders equity as accumulated other comprehensive income or loss, net of tax. 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 expected weighted-average life of investment securities (excluding corporate stocks and other) was 3 years and 1 month at December 31, 2008 and 3 years and 6 months at December 31, 2007.

We estimate that at December 31, 2008 the effective duration of investment securities was 3.7 years for an immediate 50 basis points parallel increase in interest rates and 3.1 years for

Table of Contents

an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2007 were 2.8 years and 2.5 years, respectively.

Loans Held For Sale

December 31 - in millions	2008	2007
Commercial mortgage	$ 2,158	$ 2,116
Residential mortgage	1,962	117
Education		1,525
Other	246	169
Total	$ 4,366	$ 3,927

The acquisition of National City added approximately $2.2 billion of loans held for sale, primarily 1-4 family conforming residential mortgages. The residential mortgage loans held for sale will be accounted for at fair value.

PNC adopted SFAS 159 beginning January 1, 2008 and elected to account for certain commercial mortgage loans held for sale at fair value. The balance of these assets was $1.4 billion at December 31, 2008. We stopped originating these types of loans during the first quarter of 2008. We intend to continue pursuing opportunities to reduce our commercial mortgage loans held for sale position at appropriate prices. We sold and/or securitized $.6 billion of commercial mortgage loans held for sale carried at fair value in 2008. Losses of $197 million on commercial mortgage loans held for sale, net of hedges, were included in other noninterest income for 2008 compared with gains of $3 million in 2007. Net interest income on commercial mortgage loans held for sale was $76 million in 2008 compared with $15 million in 2007. The non-cash losses reflected illiquid market conditions which began in the latter part of 2007.

We previously classified substantially all of our education loans as loans held for sale as we sold education loans to issuers of asset-backed paper when the loans were placed into repayment status. During 2008, the secondary markets for education loans have been impacted by liquidity issues similar to those for other asset classes. In February 2008, given this outlook and the economic and customer relationship value inherent in this product, we transferred these loans at lower of cost or market value from held for sale to the loan portfolio. We did not sell education loans during the remainder of 2008 and do not anticipate sales of these transferred loans in the foreseeable future.

Funding and Capital Sources

Details Of Funding Sources

December 31 - in millions	2008	2007
Deposits		
Money market	$ 67,678	$ 32,785
Demand	43,212	20,861
Retail certificates of deposit	58,315	16,939
Savings	6,056	2,648
Other time	13,620	2,088
Time deposits in foreign offices	3,984	7,375
Total deposits	192,865	82,696
Borrowed funds		
Federal funds purchased and repurchase agreements	5,153	9,774
Federal Home Loan Bank borrowings	18,126	7,065
Bank notes and senior debt	13,664	6,821
Subordinated debt	11,208	4,506
Other	4,089	2,765
Total borrowed funds	52,240	30,931
Total	$ 245,105	$ 113,627

Total funding sources increased $131.5 billion at December 31, 2008 compared with the balance at December 31, 2007.

Deposits totaled $192.9 billion at December 31, 2008, including $104 billion from the National City acquisition, compared with $82.7 billion at December 31, 2007. Interest-bearing deposits represented 81% of total deposits at December 31, 2008 compared with 76% at December 31, 2007. The change in deposit composition reflected the higher proportion of certificates of deposit and other interest-bearing deposits associated with National City. Borrowed funds totaled $52.2 billion at December 31, 2008 compared with $30.9 billion at December 31, 2007. Borrowed funds at December 31, 2008 included $18.2 billion of National City obligations and $2.9 billion of senior notes guaranteed under the FDIC s TLGP-Debt Guarantee Program that PNC issued in December 2008.

The Liquidity Risk Management section of this Item 7 contains further details regarding actions we have taken which impacted our borrowed funds balances during 2008.

Table of Contents

Capital

We manage our capital position by making adjustments to our balance sheet size and composition, issuing debt, equity or hybrid instruments, executing treasury stock transactions, managing dividend policies and retaining earnings. On March 1, 2009, we took a proactive step to build capital and further strengthen our balance sheet as the Board of Directors decided to reduce PNC s quarterly common stock dividend from $0.66 to $0.10 per share.

Total shareholders equity increased $10.6 billion, to $25.4 billion, at December 31, 2008 compared with December 31, 2007 and reflected the following:

- The December 2008 issuance of $7.6 billion of preferred stock and a common stock warrant to the US Department of Treasury under the TARP Capital Purchase Program,
- The December 2008 issuance of $5.6 billion of common stock in connection with the National City acquisition,
- The May 2008 issuance of $500 million of Series K preferred stock,
- The April 2008 issuance of $312 million of common stock in connection with the Sterling acquisition, and
- The December 2008 issuance of $150 million of Series L preferred stock in connection with the National City acquisition.

These factors were partially offset by the $3.8 billion increase from December 31, 2007 in accumulated other comprehensive loss which included $3.5 billion of net unrealized securities losses. The Investment Securities section of this Consolidated Balance Sheet Review includes additional information regarding these unrealized losses.

Common shares outstanding were 443 million at December 31, 2008 and 341 million at December 31, 2007. PNC issued approximately 95 million common shares in December 2008 and 4.6 million common shares in April 2008 in connection with the closings of the National City and Sterling acquisitions, respectively.

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 2008 under this program. During 2007, we purchased 11 million common shares under our current and prior common stock repurchase programs at a total cost of approximately $800 million.

Under the TARP Capital Purchase Program, there are restrictions on dividends and common share repurchases associated with the preferred stock that we issued to the US Treasury in accordance with that program. As is typical with

cumulative preferred stock, dividend payments for this preferred stock must be current before dividends can be paid on junior shares, including our common stock, or junior shares can be repurchased or redeemed. Also, the US Treasury s consent will be required for any increase in common dividends per share above the most recent level prior to October 14, 2008 until the third anniversary of the preferred stock issuance as long as the US Treasury continues to hold any of the preferred stock. Further, during that same period, the US Treasury s consent will be required, unless the preferred stock is no longer held by the US Treasury, for any share repurchases with limited exceptions, most significantly purchases of common shares in connection with any benefit plan in the ordinary course of business consistent with past practice.

Risk-Based Capital

December 31 - dollars in millions	**2008**	2007
Capital components		
Shareholders equity		
Common	**$ 17,490**	$ 14,847
Preferred	**7,932**	7
Trust preferred capital securities	**2,898**	572
Minority interest	**1,506**	985
Goodwill and other intangible assets	**(9,800)**	(8,853)
Eligible deferred income taxes on goodwill and other intangible assets	**594**	119
Pension, other postretirement benefit plan adjustments	**666**	177
Net unrealized securities losses, after-tax	**3,618**	167

Net unrealized losses (gains) on cash flow hedge derivatives, after-tax	**(374)**	(175)
Other	**(243)**	(31)
Tier 1 risk-based capital	**24,287**	7,815
Subordinated debt	**5,676**	3,024
Eligible allowance for credit losses	**3,153**	964
Total risk-based capital	**$ 33,116**	$ 11,803
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	**$ 251,106**	$ 115,132
Adjusted average total assets	**138,689**	126,139
Capital ratios		
Tier 1 risk-based	**9.7%**	6.8%
Total risk-based	**13.2**	10.3
Leverage	**17.5**	6.2
Tangible common equity		
Common shareholders equity	**$ 17,490**	$ 14,847
Goodwill and other intangible assets	**(9,800)**	(8,853)
Total deferred income taxes on goodwill and other intangible assets (a)	**594**	119
Tangible common equity	**$ 8,284**	$ 6,113
Total assets excluding goodwill and other intangible assets, net of deferred income taxes	**$ 281,874**	$ 130,185
Tangible common equity ratio	**2.9%**	4.7%

(a) As of December 31, 2008, deferred taxes on taxable combinations were added to eligible deferred income taxes for non-taxable combinations that are used in the calculation of the tangible common equity ratio.

Table of Contents

PNC s Tier 1 risk-based capital ratio was 9.7% at December 31, 2008 compared with 6.8% at December 31, 2007. The increase in the ratio from December 31, 2007 included the issuance of Tier 1 eligible securities during the first half of 2008 totaling $1.3 billion, including REIT preferred, noncumulative perpetual preferred, and trust preferred securities. The Perpetual Trust Securities and PNC Capital Trust E Trust Preferred Securities portions of the Off-Balance Sheet Arrangements and VIEs section of this Item 7 and Note 19 Shareholders Equity in Item 8 of this Report have additional information regarding these securities.

In addition, $7.6 billion of preferred stock and a common stock warrant was issued to the US Department of the Treasury under the TARP Capital Purchase Program on December 31, 2008. Tier 1 risk-based capital further increased as a result of $5.6 billion of common stock issued in the National City acquisition and PNC s assumption of $2.6 billion of Tier 1 qualifying capital securities previously issued by National City. These increases in capital were partially offset by the deduction of higher acquisition-related intangible assets. The positive effect on the Tier 1 ratio of the net increase in capital was somewhat offset by an increase in risk-weighted assets primarily related to acquisitions, including National City.

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

PNC s tangible common equity ratio was 2.9% at December 31, 2008 compared with 4.7% at December 31, 2007. The decrease in the ratio from the prior year was the result of the decline in the value of the securities available for sale portfolio and the value of assets in our pension plan. We expect PNC s tangible common equity ratio to be less sensitive to the impact of widening credit spreads on accumulated other comprehensive loss going forward primarily due to the composition of the securities available for sale portfolio acquired from National City and a substantially higher level of common equity in the combined company.

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.

At December 31, 2008 and December 31, 2007, each of our domestic bank subsidiaries was considered well capitalized based on US regulatory capital ratio requirements. See the Supervision And Regulation section of Item 1 of this Report

and Note 23 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information. We believe our bank subsidiaries will continue to meet these requirements in 2009.

Off-Balance Sheet Arrangements And VIEs

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. The following sections of this Report provide further information on these types of activities:

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

The following provides a summary of variable interest entities (VIEs), including those that we have consolidated and those in which we hold a significant variable interest but have not consolidated into our financial statements as of December 31, 2008 and December 31, 2007.

Consolidated VIEs PNC Is Primary Beneficiary

In millions	Aggregate Assets	Aggregate Liabilities
Partnership interests in low income housing projects (a)		

December 31, 2008	**$ 1,499**	**$ 1,455**
December 31, 2007	$ 1,108	$ 1,108
Credit Risk Transfer Transaction (b)		
December 31, 2008	**$ 1,070**	**$ 1,070**

(a) Amounts for December 31, 2008 include National City, which PNC acquired on that date.

(b) National City-related transaction.

Non-Consolidated VIEs Significant Variable Interests

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
December 31, 2008			
Market Street	**$ 4,916**	**$ 5,010**	**$ 6,965(a)**
Collateralized debt obligations	**20**		**2**
Partnership interests in tax credit investments (b) (c) (d)	**1,095**	**652**	**920**
Total (c)	**$ 6,031**	**$ 5,662**	**$ 7,887**
December 31, 2007			
Market Street	$ 5,304	$ 5,330	$ 9,019(a)
Collateralized debt obligations	255	177	6
Partnership interests in low income housing projects	298	184	155
Total	$ 5,857	$ 5,691	$ 9,180

(a) PNC s risk of loss consists of off-balance sheet liquidity commitments to Market Street of $6.4 billion and other credit enhancements of $.6 billion at December 31, 2008. The comparable amounts were $8.8 billion and $.2 billion at December 31, 2007. These liquidity commitments are included in the Net Unfunded Credit Commitments table in the Consolidated Balance Sheet Review section of this Report.
(b) Amounts reported primarily represent low income housing projects.
(c) Amounts include the impact of National City.
(d) Aggregate assets and aggregate liabilities at December 31, 2008 represent approximate balances due to limited availability of financial information associated with the acquired National City partnerships that we did not sponsor.

Market Street

Market Street Funding LLC (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 by Standard & Poor s and Moody s, 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 2007 and 2008, Market Street met all of its funding needs through the issuance of commercial paper.

Market Street commercial paper outstanding was $4.4 billion at December 31, 2008 and $5.1 billion at December 31, 2007. The weighted average maturity of the commercial paper was 24 days at December 31, 2008 compared with 32 days at December 31, 2007.

Effective October 28, 2008, Market Street was approved to participate in the Federal Reserve s CPFF authorized under Section 13(3) of the Federal Reserve Act. The CPFF commitment to purchase up to $5.4 billion of three-month Market Street commercial paper expires on October 30, 2009. As of December 31, 2008, Market Street s participation in this program totaled $445 million. These trades matured at the end of January 2009 and were replaced with commercial paper sold to investors.

In the ordinary course of business during 2008, PNC Capital Markets, acting as a placement agent for Market Street, held a maximum daily position in Market Street commercial paper of $75 million with an average of $12 million. This compares with a maximum daily position of $113 million with an average of $27 million for the year ended December 31, 2007. PNC Capital Markets owned no Market Street commercial paper at December 31, 2008 and owned less than $1 million of such commercial paper at December 31, 2007. PNC Bank, National Association (PNC Bank, N.A.) purchased overnight maturities of Market Street commercial paper on two days during September 2008 in the amounts of $197 million and $531 million and one day during October 2008 in

the amount of $278 million due to illiquidity in the commercial paper market. We considered these transactions as part of our evaluation of Market Street described below to determine that we are not the primary beneficiary. PNC made no other purchases of Market Street commercial paper during 2007 or 2008.

PNC Bank, N.A. provides certain administrative services, the program-level credit enhancement and 99% of liquidity facilities to Market Street in exchange for fees negotiated based on market rates. PNC recognized program administrator fees and commitment fees related to PNC s portion of the liquidity facilities of $21 million and $4 million, respectively, for the year ended December 31, 2008. The comparable amounts were $13 million and $4 million for the year ended December 31, 2007.

The commercial paper obligations at December 31, 2008 and December 31, 2007 were effectively collateralized by Market Street s assets. While PNC may be obligated to fund under the $6.4 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 or another third party in the form of deal-specific credit enhancement, such as by the over collateralization of the assets. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of expected losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. In addition, PNC would be required to fund $1.0 billion of the liquidity facilities if the underlying assets are in default. See Note 25 Commitments And Guarantees included in the Notes To Consolidated Financial Statements of this Report for additional information.

PNC provides program-level credit enhancement to cover net losses in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities. PNC provides 100% of the enhancement in the form of a cash collateral account funded by a loan facility. This facility expires in March 2013. Until November 25, 2008, PNC provided only 25% of the enhancement in the form of a cash collateral account funded by a loan facility and provided a liquidity facility for the remaining 75% of program-level enhancement.

Market Street has entered into a Subordinated Note Purchase Agreement (Note) with an unrelated third party. The Note provides first loss coverage whereby the investor absorbs losses up to the amount of the Note, which was $6.6 million as of December 31, 2008. Proceeds from the issuance of the Note are held by Market Street in a first loss reserve account that will be used to reimburse any losses incurred by Market Street, PNC Bank, N.A. or other providers under the liquidity facilities and the credit enhancement arrangements.

Table of Contents

Assets of Market Street Funding LLC

In millions	Outstanding	Commitments	Weighted Average Remaining Maturity In Years
December 31, 2008 (a)			
Trade receivables	**$ 1,516**	**$ 3,370**	**2.34**
Automobile financing	**992**	**992**	**3.94**
Collateralized loan obligations	**306**	**405**	**1.58**
Credit cards	**400**	**400**	**.19**
Residential mortgage	**14**	**14**	**27.00**
Other	**1,168**	**1,325**	**1.76**
Cash and miscellaneous receivables	**520**		
Total	**$ 4,916**	**$ 6,506**	**2.34**
December 31, 2007 (a)			
Trade receivables	$ 1,375	$ 2,865	2.63
Automobile financing	1,387	1,565	4.06
Collateralized loan obligations	519	1,257	2.54
Credit cards	769	775	.26
Residential mortgage	37	720	.90
Other	1,031	1,224	1.89
Cash and miscellaneous receivables	186		
Total	$ 5,304	$ 8,406	2.41

(a) Market Street did not recognize an asset impairment charge or experience any material rating downgrades during 2007 or 2008.

Market Street Commitments by Credit Rating (a)

	December 31, 2008	December 31, 2007
AAA/Aaa	**19%**	19%
AA/Aa	**6**	6
A/A	**72**	72
BBB/Baa	**3**	3
Total	**100%**	100%

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

We evaluated the design of Market Street, its capital structure, the Note, and relationships among the variable interest holders under the provisions of FASB Interpretation No. 46, (Revised 2003) Consolidation of Variable Interest Entities (FIN 46R). Based on this analysis, we are not the primary beneficiary as defined by FIN 46R and therefore the assets and liabilities of Market Street are not reflected in our Consolidated Balance Sheet.

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

Based on current accounting guidance, we are not required to consolidate Market Street into our consolidated financial statements. However, if PNC would be determined to be the primary beneficiary under FIN 46R, we would consolidate the commercial paper conduit at that time. Based on current accounting guidance, to the extent that the par value of the assets in Market Street exceeded the fair value of the assets upon consolidation, the difference would be recognized by PNC as a loss in our Consolidated Income Statement in that period. Based on the fair value of the assets held by Market Street at December 31, 2008, the consolidation of Market Street would not have had a material impact on our risk-based capital ratios or debt covenants.

Low Income Housing Projects

We make certain equity investments in various limited partnerships that sponsor affordable housing projects utilizing the Low Income Housing Tax Credit (LIHTC) pursuant to Sections 42 and 47 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing product offerings and to assist us in achieving goals associated with the Community Reinvestment Act. The primary activities of the limited partnerships 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.

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 and sell limited partnership interests to third parties, and in some cases may also purchase a limited partnership interest in the fund. The purpose of this business is to generate income from the syndication of these funds and to generate servicing fees by managing the funds. General partner activities include selecting, evaluating, structuring, negotiating, and closing the fund investments in operating limited partnerships, as well as oversight of the ongoing operations of the fund portfolio.

We evaluate our interests and third party interests in the limited partnerships in determining whether we are the primary beneficiary. The primary beneficiary determination is based on which party absorbs a majority of the variability. The primary sources of variability in LIHTC investments are the tax credits, tax benefits of losses on the investments and development and operating cash flows. We have consolidated LIHTC investments in which we absorb a majority of the variability and thus are considered the primary beneficiary. The assets are primarily included in Equity Investments and Other Assets on our Consolidated Balance Sheet with the liabilities primarily classified in Other Liabilities and Minority

Interest. Neither creditors nor equity investors in the LIHTC investments have any recourse to our general credit. The consolidated aggregate assets and liabilities of these LIHTC investments are provided in the Consolidated VIEs PNC Is Primary Beneficiary table and reflected in the Other business segment.

We also have LIHTC investments in which we are not the primary beneficiary, but are considered to have a significant variable interest based on our interests in the partnership. These investments are disclosed in the Non-Consolidated VIEs Significant Variable Interests table. The table also reflects our maximum exposure to loss. Our maximum exposure to loss is equal to our legally binding equity commitments adjusted for recorded impairment and partnership results. We use the equity and cost methods to account for our investment in these entities with the investments reflected in Equity Investments on our Consolidated Balance Sheet. In addition, we increase our recognized investments and recognize a liability for all legally binding unfunded equity commitments. These liabilities are reflected in Other Liabilities on our Consolidated Balance Sheet.

Credit Risk Transfer Transaction

National City Bank (NCB) sponsored a special purpose entity (SPE) trust and concurrently entered into a credit risk transfer agreement with an independent third-party to mitigate credit losses on a pool of nonconforming mortgage loans originated by its former First Franklin business unit. The SPE was formed with a small contribution from NCB and was structured as a bankruptcy-remote entity so that its creditors have no recourse to NCB. In exchange for a perfected security interest in the cash flows of the nonconforming mortgage loans, the SPE issued to NCB asset-backed securities in the form of senior, mezzanine, and subordinated equity notes. NCB has incurred credit losses equal to the subordinated equity notes. NCB currently holds the right to put the mezzanine notes to the independent third-party at par. As of December 31, 2008, the value of the mezzanine notes was $169 million. NCB holds the senior notes and will be responsible for credit losses in excess of this amount.

The SPE was deemed to be a VIE as its equity was not sufficient to finance its activities. NCB was determined to be the primary beneficiary of the SPE as it would absorb the majority of the expected losses of the SPE through its holding of all of the asset-backed securities. Accordingly, this SPE was consolidated and all of the entity s assets, liabilities, and equity are intercompany balances and are eliminated in consolidation. Nonconforming mortgage loans, including foreclosed properties, pledged as collateral to the SPE remain on the balance sheet and totaled $719 million at December 31, 2008 reflecting the impact of fair value adjustments recorded by PNC in conjunction with the acquisition.

In January 2009, cumulative credit losses in the mortgage loan pool surpassed the principal balance of subordinated equity notes, giving PNC the right to put the first mezzanine note to the independent third party in accordance with the credit risk transfer agreement. In February 2009, PNC exercised its put option and received $16 million for the mezzanine note. Prior to this reconsideration event, management evaluated what impact this transaction would have on determining whether we would remain the primary beneficiary of the SPE. Management concluded, through reassessment of the expected losses and residual returns of the SPE, that we would remain the primary beneficiary and accordingly should continue to consolidate the SPE.

Perpetual Trust Securities

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

In February 2008, PNC Preferred Funding LLC (the LLC), one of our indirect subsidiaries, sold $375 million of 8.700% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities of PNC Preferred Funding Trust III (Trust III) to third parties in a private placement. In connection with the private placement, Trust III acquired $375 million of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Securities of the LLC (the LLC Preferred Securities). The sale was similar to the March 2007 private placement by the LLC of $500 million of 6.113% Fixed-to-Floating Rate Non-Cumulative Exchangeable Trust Securities (the Trust II Securities) of PNC Preferred Funding Trust II (Trust II) in which Trust II acquired $500 million of LLC Preferred Securities and to the December 2006 private placement by PNC REIT Corp. of $500 million of 6.517% Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities (the Trust I Securities) of PNC Preferred Funding Trust I (Trust I) in which Trust I acquired $500 million of LLC Preferred Securities.

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

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

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

As of December 31, 2008, each of the Trust RCC and the Trust II RCC are for the benefit of holders of our $200 million of Floating Rate Junior Subordinated Notes issued in June 1998. We filed a copy of each of the Trust RCC and the Trust II RCC with the SEC as Exhibit 99.1 to PNC s Form 8-K filed on December 8, 2006 and as Exhibit 99.1 to PNC s Form 8-K filed on March 30, 2007, respectively.

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

PNC Bank, N.A. has contractually committed to Trust I that if full dividends are not paid in a dividend period on the Trust I Securities, LLC Preferred Securities or any other parity equity securities issued by the LLC, neither PNC Bank, N.A. nor its subsidiaries will declare or pay dividends or other

distributions with respect to, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its equity capital securities during the next succeeding period (other than to holders of the LLC Preferred Securities and any parity equity securities issued by the LLC) except: (i) in the case of dividends payable to subsidiaries of PNC Bank, N.A., to PNC Bank, N.A. or another wholly-owned subsidiary of PNC Bank, N.A. or (ii) in the case of dividends payable to persons that are not subsidiaries of PNC Bank, N.A., to such persons only if, (A) in the case of a cash dividend, PNC has first irrevocably committed to contribute amounts at least equal to such cash dividend or (B) in the case of in-kind dividends payable by PNC REIT Corp., PNC has committed to purchase such in-kind dividend from the applicable PNC REIT Corp. holders in exchange for a cash payment representing the market value of such in-kind dividend, and PNC has committed to contribute such in-kind dividend to PNC Bank, N.A.

PNC Capital Trust E Trust Preferred Securities

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

In connection with the closing of the Trust E Securities sale, we agreed that, if we have given notice of our election to defer interest payments on the JSNs or a related deferral period is continuing, then PNC would be subject during such period to restrictions on dividends and other provisions protecting the status of the JSN debenture holder similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described above. PNC Capital Trusts C and D have similar protective provisions with respect to $500 million in principal amount of junior subordinated debentures. Also, in connection with the closing of the Trust E Securities sale, we entered into a replacement capital covenant, a copy of which was attached as Exhibit 99.1 to PNC s Form 8-K filed on February 13, 2008 and which is described in Note 14 Capital Securities of Subsidiary Trusts in Item 8 of this Report.

Acquired Entity Trust Preferred Securities

As a result of the National City acquisition, we assumed obligations with respect to $2.4 billion in principal amount of junior subordinated debentures issued by the acquired entity. As a result of the Mercantile, Yardville and Sterling acquisitions, we assumed obligations with respect to $158 million in principal amount of junior subordinated debentures issued by the acquired entities. Under the terms of these debentures, if there is an event of default under the debentures or PNC exercises its right to defer payments on the related trust preferred securities issued by the statutory trusts or there is a default under PNC s guarantee of such payment

Table of Contents

obligations, PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described above.

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

FAIR VALUE MEASUREMENTS AND FAIR VALUE OPTION

We adopted SFAS 157, *Fair Value Measurements* (SFAS 157), and SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159), on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Under SFAS 159, we elected to fair value certain commercial mortgage loans classified as held for sale and certain customer resale agreements and bank notes to align the accounting for the changes in the fair value of these financial instruments with the changes in the value of their related hedges. See Note 8 Fair Value in the Notes To Consolidated Financial Statements under Item 8 of this Report for further information.

At December 31, 2008, fair value assets represented 13% of total assets and fair value liabilities represented 2% of total liabilities. Assets and liabilities measured at fair value on a recurring basis, including instruments for which PNC has elected the fair value option, are summarized below. As prescribed by SFAS 157, the assets and liabilities of National City acquired in a purchase business combination on December 31, 2008 were excluded from the table below and related disclosures.

Fair Value Measurements Summary

	December 31, 2008			
In millions	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Securities available for sale	$ 347	$ 21,633	$ 4,837	$ 26,817
Financial derivatives (a)	16	5,582	125	5,723
Trading securities (b)	89	529	73	691
Commercial mortgage loans held for sale (c)			1,400	1,400
Customer resale agreements (d)		1,072		1,072
Equity investments			571	571
Other assets		144	6	150
Total assets	$ 452	$ 28,960	$ 7,012	$ 36,424
Liabilities				
Financial derivatives (e)	$2	$4,387	$22	$4,411
Trading securities sold short (f)	182	207		389
Other liabilities		9		9
Total liabilities	$ 184	$ 4,603	$ 22	$ 4,809

(a) Included in other assets on the Consolidated Balance Sheet.
(b) Included in trading securities on the Consolidated Balance Sheet. Fair value includes net unrealized losses of $27.5 million.
(c) Included in loans held for sale on the Consolidated Balance Sheet. PNC has elected the fair value option under SFAS 159 for certain commercial mortgage loans held for sale.
(d) Included in federal funds sold and resale agreements on the Consolidated Balance Sheet. PNC has elected the fair value option under SFAS 159 for this item.
(e) Included in other liabilities on the Consolidated Balance Sheet.
(f) Included in other borrowed funds on the Consolidated Balance Sheet.

Valuation Hierarchy

The following is an outline of the valuation methodologies used for measuring fair value under SFAS 157 for the major items above. SFAS 157 focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants and establishes a reporting hierarchy to maximize the use of observable inputs. The fair value hierarchy (i.e., Level 1, Level 2, and Level 3) is described in detail in Note 8 Fair Value in the Notes To Consolidated Financial Statements under Item 8 of this Report.

We characterize active markets as those where transaction volumes are sufficient to provide objective pricing information, with reasonably narrow bid/ask spreads and where dealer quotes received do not vary widely. Inactive markets are characterized by low transaction volumes, price quotations which vary substantially among market participants, or in which minimal information is released publicly. We also consider nonperformance risks including credit risk as part of our valuation methodology for all assets measured at fair value. Any models used to determine fair values or to validate dealer quotes based on the descriptions

Table of Contents

below are subject to review and independent testing as part of our model validation and internal control testing processes. Significant models are tested by our Model Validation Committee on at least an annual basis. In addition, we have teams, independent of the traders, verify marks and assumptions used for valuations at each period end.

Securities

Securities include both the available for sale and trading portfolios. We use prices sourced from pricing services, dealer quotes or recent trades to determine the fair value of securities. Approximately 75% of our positions are valued using pricing services provided by the Lehman Index and IDC. Lehman Index prices are set with reference to market activity for highly liquid assets such as agency mortgage-backed securities, and matrix priced for other assets, such as CMBS and asset-backed securities. IDC primarily uses matrix pricing for the instruments we value using this service, such as agency adjustable rate mortgage securities, agency CMOs and municipal bonds. Dealer quotes received are typically non-binding and corroborated with other dealers quotes, by reviewing valuations of comparable instruments, or by comparison to internal valuations. The majority of our securities are classified as Level 2 in the fair value hierarchy. In circumstances where market prices are limited or unavailable, valuations may require significant management judgments or adjustments to determine fair value. In these cases, the securities are classified as Level 3.

The primary valuation technique for securities classified as Level 3 is to identify a proxy security, market transaction or index. The proxy selected generally has similar credit, tenor, duration, pricing and structuring attributes to the PNC position. The price, market spread, or yield on the proxy is then used to calculate an indicative market price for the security. Depending on the nature of the PNC position and its attributes relative to the proxy, management may make additional adjustments to account for market conditions, liquidity, and nonperformance risk, based on various inputs including recent trades of similar assets, single dealer quotes, and/or other observable and unobservable inputs.

	December 31, 2008			
	Agency		**Non-Agency**	
Dollars in millions	Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Other Asset-Back Securities
Fair Value	$ 12,742	$ 7,420	$ 3,419	$ 1,492
<u>% of Fair Value:</u>				
By Vintage				
2008	36%	1%		
2007	24%	15%	10%	15%
2006	23%	23%	31%	30%
2005	5%	35%	12%	31%
2004 and earlier	12%	26%	47%	24%
Total	100%	100%	100%	100%
By Credit rating				
Agency	100%	1%		
AAA		82%	98%	71%
AA		4%	1%	7%
A		5%		2%
BBB		2%		8%
BB		3%		6%
B		1%		2%
Lower than B		2%		4%
No rating			1%	
Total	100%	100%	100%	100%
By FICO Score				
>720		68%		13%
<720 or >660		30%		47%
<660				1%
No FICO score	100%	2%	100%	39%
Total	100%	100%	100%	100%

<u>Residential Mortgage-Backed Securities</u>

At December 31, 2008, our residential mortgage-backed securities portfolio was comprised of $12.7 billion fair value of US government agency-backed securities (substantially all classified as available for sale) and $7.4 billion fair value of private-issuer securities (all classified as available for sale). The agency securities are generally collateralized by 1-4 family, conforming, fixed-rate residential mortgages**.** The private-issuer securities are also generally collateralized by 1-4 family residential mortgages. The mortgage loans underlying the private-issuer 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).

Substantially all of the securities are senior tranches in the subordination structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts. At December 31, 2008, $419 million, or 6%, of private-issuer securities were rated below BBB by at least one national rating agency or not rated.

For eight securities, we recorded other-than-temporary impairment charges of $151 million in 2008.

Commercial Mortgage-Backed Securities

The commercial mortgage-backed securities portfolio was $3.4 billion fair value at December 31, 2008 (all classified as available for sale), and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

At December 31, 2008, $18 million, or 1%, of the commercial mortgage-backed securities were not rated.

We recorded no other-than-temporary impairment charges on commercial mortgage-backed securities in 2008.

Other Asset-Backed Securities

The asset-backed securities portfolio was $1.5 billion fair value at December 31, 2008 (all classified as available for sale), and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including first-lien residential mortgage loans, credit cards, and automobile loans. Substantially all of the securities are senior tranches in the subordination structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

At December 31, 2008, $184 million, or 12%, of the asset-backed securities were rated below BBB by at least one national rating agency or not rated.

For seven asset-backed securities, we recorded other-than-temporary impairment charges totaling approximately $87 million in 2008.

Financial Derivatives

Exchange-traded derivatives are valued using quoted market prices and are classified as Level 1. However, the majority of derivatives that we enter into are executed over-the-counter and are valued using internal techniques. Readily observable market inputs to these models can be validated to external

sources, including industry pricing services, or corroborated through recent trades, dealer quotes, yield curves, implied volatility or other market related data. Certain derivatives, such as total rate of return swaps, are corroborated to the CMBX index. These derivatives are classified as Level 2. Derivatives priced using significant management judgment or assumptions are classified as Level 3. The fair values of our derivatives are adjusted for nonperformance risk including credit risk as appropriate. Our nonperformance risk adjustment is computed using internal assumptions based primarily on historical default and recovery observations. The credit risk adjustment is not currently material to the overall derivatives valuation.

Commercial Mortgage Loans and Commitments Held for Sale

Effective January 1, 2008, we elected to account for commercial mortgage loans classified as held for sale and intended for securitization at fair value under the provisions of SFAS 159. Based on the significance of unobservable inputs, we classify this portfolio as Level 3. As such, a synthetic securitization methodology was used historically to value the loans and the related unfunded commitments on an aggregate basis based upon current commercial mortgage-backed securities (CMBS) market structures and conditions. The election of the fair value option aligns the accounting for the commercial mortgages with the related hedges. It also eliminates the requirements of hedge accounting under SFAS 133. Due to the inactivity in the CMBS securitization market in 2008, we determined the fair value of commercial mortgage loans held for sale by using a whole loan methodology. Based on the significance of unobservable inputs, we classify this portfolio as Level 3. Valuation assumptions included observable inputs based on whole loan sales, both observed in the market and actual sales from our portfolio and new loan origination spreads during the quarter. Adjustments were made to the assumptions to account for uncertainties, including market conditions, and liquidity. Credit risk was included as part of our valuation process for these loans by considering expected rates of return for market participants for similar loans in the marketplace.

Customer Resale Agreements

Effective January 1, 2008, we elected to account for structured resale agreements at fair value, which are economically hedged using free-standing financial derivatives. The fair value for structured resale agreements is determined using a model which includes observable market data as inputs such as interest rates. Readily observable market inputs to this model can be validated to external sources, including yield curves, implied volatility or other market related data.

Equity Investments

The valuation of direct and indirect private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such investments. The carrying values of direct and affiliated partnership interests reflect the expected exit price and are based on various techniques including publicly traded price, multiples of adjusted earnings of the entity, independent appraisals, anticipated financing and sale transactions with third parties, or the pricing used to value the entity in a recent financing transaction. Indirect investments in private equity funds are valued based on the financial statements that we receive from their managers. Due to the time lag in our receipt of the financial information and based on a review of investments and valuation techniques applied, adjustments to the manager provided value are made when available recent portfolio company information or market information indicates a significant change in value from that provided by the manager of the fund. These investments are classified as Level 3.

Level 3 Assets and Liabilities

Under SFAS 157, financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. At December 31, 2008, Level 3 fair value assets of $7.012 billion represented 19% of total assets at fair value and 2% of total assets. Level 3 fair value liabilities of $22 million at December 31, 2008 represented less than 1% of total liabilities at fair value and less than 1% of total liabilities at that date.

During 2008, securities transferred into Level 3 from Level 2 exceeded securities transferred out by $4.3 billion. These primarily related to private issuer asset-backed securities, auction rate securities, residential mortgage-backed securities and corporate bonds and occurred due to reduced volume of recently executed transactions and the lack of corroborating market price quotations for these instruments. Other Level 3 assets include commercial mortgage loans held for sale, private equity investments and other assets.

Total securities measured at fair value at December 31, 2008 included securities available for sale and trading securities consisting primarily of residential and commercial mortgage-backed securities and other asset-backed securities. 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, other-than-temporary impairments on available for sale securities would reduce our regulatory capital ratios.

BUSINESS SEGMENTS REVIEW

In 2008 and 2007, we had four major businesses engaged in providing banking, asset management and global fund processing products and services. Business segment results, including inter-segment revenues, and a description of each business are included in Note 27 Segment Reporting included in the Notes To Consolidated Financial Statements under Item 8 of this Report.

Certain revenue and expense amounts included in this Business Segments Review differ from the amounts shown in Note 27 due to the presentation in this Business Segments Review of business revenue on a taxable-equivalent basis, income statement classification differences related to Global Investment Servicing, the inclusion of the results of Hilliard Lyons, including the March 2008 gain on sale, in the Other category, and the inclusion of 2008 Albridge Solutions and Coates Analytics and 2007 BlackRock/MLIM transaction integration costs in the Other category.

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. Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis. As permitted under GAAP, 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. The capital assigned for Global Investment Servicing reflects its legal entity shareholder s equity.

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.

Table of Contents

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

Employee data as reported by each business segment in the tables that follow reflect PNC legacy staff directly employed by the respective businesses and excludes corporate and shared services employees. National City legacy employees totaling 31,374 at December 31, 2008 are not included in any of PNC s business segment tables.

Beginning in the first quarter of 2009, PNC expects to have three new reportable business segments which are described in Note 28 Subsequent Event included in the Notes To Consolidated Financial Statements under Item 8 of this Report.

Results Of Businesses Summary

	Earnings		Revenue		Average Assets (a)	
Year ended December 31 - in millions	**2008**	2007	**2008**	2007	**2008**	2007
Retail Banking (b)	**$ 429**	$ 876	**$ 3,608**	$ 3,580	**$ 46,578**	$ 41,943
Corporate & Institutional Banking	**225**	432	**1,531**	1,538	**36,994**	29,052
BlackRock	**207**	253	**261**	338	**4,240**	4,259
Global Investment Servicing (c)	**122**	128	**916**	831	**5,278**	2,476
Total business segments	**983**	1,689	**6,316**	6,287	**93,090**	77,730
Other (d) (e)	**(101)**	(222)	**874**	418	**48,930**	45,688
Total consolidated	**$ 882**	$ 1,467	**$ 7,190**	$ 6,705	**$ 142,020**	$ 123,418

(a) Period-end balances for BlackRock and Global Investment Servicing.

(b) Amounts reflect the reclassification of results for Hilliard Lyons, which we sold on March 31, 2008, and the related gain on sale, from Retail Banking to Other.

(c) Global Investment Servicing revenue represents the sum of servicing revenue and nonoperating income (expense) less debt financing costs. Global Investment Servicing income classified as net interest income (expense) in Note 27 Segment Reporting in the Notes To Consolidated Financial Statements included in Item 8 of this Report represents the interest components of nonoperating income (net of nonoperating expense) and debt financing.

(d) Other for 2008 includes $422 million of after-tax integration costs, including conforming provision for credit losses, primarily related to National City. Other for the 2007 includes $99 million of after-tax integration costs and $53 million of after-tax Visa indemnification costs.

Other also includes results related to our cross-border lease portfolio for both 2008 and 2007. However, 2006 results for this item are included in Corporate & Institutional Banking in Note 27 Segment Reporting in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

(e) Other average assets are comprised primarily of investment securities and residential mortgage loans associated with asset and liability management activities.

Table of Contents

RETAIL BANKING (a)

Year ended December 31

Dollars in millions except as noted	2008	2007
INCOME STATEMENT		
Net interest income	**$1,992**	$2,062
Noninterest income		
Asset management	**420**	445
Service charges on deposits	**362**	339
Brokerage	**153**	134
Consumer services	**419**	392
Other	**262**	208
Total noninterest income	**1,616**	1,518
Total revenue	**3,608**	3,580
Provision for credit losses	**612**	138
Noninterest expense	**2,284**	2,045
Pretax earnings	**712**	1,397
Income taxes	**283**	521
Earnings	**$429**	$876
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	**$14,678**	$14,209
Indirect	**2,050**	1,897
Education	**2,012**	110
Other consumer	**1,761**	1,487
Total consumer	**20,501**	17,703
Commercial and commercial real estate	**14,677**	12,534
Floor plan	**997**	978
Residential mortgage	**2,362**	1,992
Other	**67**	70
Total loans	**38,604**	33,277
Goodwill and other intangible assets	**6,132**	4,920
Loans held for sale	**329**	1,564
Other assets	**1,513**	2,182
Total assets	**$46,578**	$41,943
Deposits		
Noninterest-bearing demand	**$10,860**	$10,513
Interest-bearing demand	**9,583**	8,876
Money market	**19,677**	16,786
Total transaction deposits	**40,120**	36,175
Savings	**2,701**	2,678
Certificates of deposit	**16,397**	16,637
Total deposits	**59,218**	55,490
Other liabilities	**329**	417
Capital	**3,773**	3,481
Total funds	**$63,320**	$59,388
PERFORMANCE RATIOS		
Return on average capital	**11%**	25%
Noninterest income to total revenue	**45**	42
Efficiency	**63**	57
OTHER INFORMATION (b) (c)		
Credit-related statistics:		
Commercial nonperforming assets	**$540**	$187
Consumer nonperforming assets	**79**	38
Total nonperforming assets (d)	**$619**	$225
Commercial net charge-offs	**$239**	$71
Consumer net charge-offs	**129**	60
Total net charge-offs	**$368**	$131
Commercial net charge-off ratio	**1.52%**	.52%

Consumer net charge-off ratio	**.56%**	.30%
Total net charge-off ratio	**.95%**	.39%

At December 31

Dollars in millions except as noted	**2008**	2007
OTHER INFORMATION CONTINUED (b) (c)		
Other statistics:		
Full-time employees	**11,481**	11,022
Part-time employees	**2,363**	2,298
ATMs	**4,041**	3,900
Branches (e)	**1,148**	1,109
ASSETS UNDER ADMINISTRATION (in billions) (f)		
Assets under management		
Personal	**$38**	$49
Institutional	**19**	20
Total	**$57**	$69
Asset Type		
Equity	**$26**	$40
Fixed income	**19**	17
Liquidity/other	**12**	12
Total	**$57**	$69
Nondiscretionary assets under administration		
Personal	**$23**	$30
Institutional	**64**	82
Total	**$87**	$112
Asset Type		
Equity	**$34**	$49
Fixed income	**19**	27
Liquidity/other	**34**	36
Total	**$87**	$112
Home equity portfolio credit statistics:		
% of first lien positions	**38%**	39%
Weighted average loan-to-value ratios (g)	**73%**	73%
Weighted average FICO scores (h)	**727**	727
Annualized net charge-off ratio	**.52%**	.20%
Loans 90 days past due	**.58%**	.37%
Checking-related statistics:		
Retail Banking checking relationships	**2,432,000**	2,272,000
Consumer DDA households using online banking	**1,238,000**	1,091,000
% of consumer DDA households using online banking	**57%**	54%
Consumer DDA households using online bill payment	**882,000**	667,000
% of consumer DDA households using online bill payment	**41%**	33%
Small business loans and managed deposits:		
Small business loans	**$13,483**	$13,049
Managed deposits:		
On-balance sheet		
Noninterest-bearing demand (i)	**$8,319**	$5,994
Interest-bearing demand	**2,157**	1,873
Money market	**3,638**	3,152
Certificates of deposit	**880**	1,068
Off-balance sheet (j)		
Small business sweep checking	**3,140**	2,780
Total managed deposits	**$18,134**	$14,867
Brokerage statistics:		
Financial consultants (k)	**414**	364
Full service brokerage offices	**23**	24
Brokerage account assets (billions)	**$15**	$19

(a) Information for all periods presented excludes the impact of National City, which PNC acquired on December 31, 2008, and Hilliard Lyons, which was sold on March 31, 2008, and whose results have been reclassified to Other.

(b) Presented as of December 31 except for net charge-offs and net charge-off ratio.

(c) Amounts as of and for the year ended December 31, 2008 include the impact of Yardville. Amounts subsequent to April 4, 2008 include the impact of Sterling.

Table of Contents

(d) Includes nonperforming loans of $605 million at December 31, 2008 and $215 million at December 31, 2007.
(e) Excludes certain satellite branches that provide limited products and service hours.
(f) Excludes brokerage account assets.
(g) Calculated as of origination date.
(h) Represents the most recent FICO scores that we have on file.
(i) The increase at December 31, 2008 compared with December 31, 2007 reflected large customer deposit activity in the last few days of December 2008.
(j) Represents small business balances. These balances are swept into liquidity products managed by other PNC business segments, the majority of which are off-balance sheet.
(k) Financial consultants provide services in full service brokerage offices and PNC traditional branches.

The acquisition of National City on December 31, 2008 added 1,441 branches, including 61 branches that we committed to divest, and 2,191 ATMs to our distribution network. Including the impact of National City, our network grew to 2,589 branches and 6,232 ATM machines, giving PNC one of the largest distribution networks among US banks. The acquisition also added $53 billion of assets under management to give the combined company $110 billion in assets under management.

All other Retail Banking business segment disclosures in this Item 7 exclude any impact of National City.

Retail Banking s earnings were $429 million for 2008 compared with $876 million for 2007. The decline in earnings over the prior year was primarily driven by increases in the provision for credit losses and noninterest expense. The 2008 revenue growth was negatively impacted by a lower interest credit attributed to deposits in the declining rate environment and was therefore not reflective of the solid growth in customers and deposits.

Highlights of Retail Banking s performance during 2008 include the following:

- Retail Banking expanded the number of customers it serves and grew checking relationships. Total checking relationships increased by a net 160,000 since December 31, 2007, which includes both the conversion of Yardville and Sterling accounts as well as the addition of new relationships through organic growth. Excluding relationships added from acquisitions, net new consumer and business checking relationships grew by 72,000 in 2008 compared with 32,000 a year earlier.
- Average deposit balances increased $3.7 billion or 7% primarily as a result of strong money market deposit growth and the benefits of the acquisitions.
- Our investment in online banking capabilities continued to pay off. Since December 31, 2007, the percentage of consumer checking households using online bill payment increased from 33% to 41%. We continue to seek customer growth by expanding our use of technology, such as the recent launch of our Virtual Wallet online banking product. Recently, Virtual Wallet received a Best of the Web award for 2008 from *Online Banking Report*.
- Retail Banking continued to invest in the branch network. During 2008, we opened 19 new branches, consolidated 45 branches, and acquired 65 branches for a total of 1,148 branches at December 31, 2008. We continue to work to optimize our network by opening new branches in high growth areas, relocating branches to areas of higher market opportunity, and consolidating branches in areas of declining opportunity. We relocated 8 branches during 2008.

In October 2008 we announced an exclusive agreement under which we will provide banking services in Giant Food LLC supermarket locations across Virginia, Maryland, Delaware and the District of Columbia. In 2009, we expect to open approximately 40 new in-store branches and install approximately 180 ATMs. Additional locations are expected to open in subsequent years.

Total revenue for 2008 was $3.608 billion, a 1% increase compared with $3.580 billion for 2007. Net interest income of $1.992 billion decreased $70 million, or 3%, compared with 2007. This decline was primarily driven by a lower value attributed to deposits in the declining rate environment partially offset by benefits from earlier acquisitions.

Noninterest income increased $98 million, or 6%, compared with 2007. This growth was attributed primarily to the following:

- A gain of $95 million from the redemption of a portion of our Visa Class B common shares related to Visa s March 2008 initial public offering,
- The Mercantile, Yardville and Sterling acquisitions,
- Increased volume-related consumer fees including debit card, credit card, and merchant revenue, and
- Increased brokerage account activities.

These increases were partially offset by lower asset management fees as a result of lower equity markets and by other business gains in the prior year.

The Market Risk Management Equity and Other Investment Risk section of this Financial Review includes further information regarding Visa.

The provision for credit losses for 2008 was $612 million compared to $138 million for 2007. Net charge-offs were $368 million for 2008 and $131 million in 2007. Asset quality continued to migrate at an accelerated pace in the very challenging economic and credit environment. The increases in provision and net charge-offs were primarily a result of the following:

- Downward credit migration of residential real estate development and related sectors, commercial real estate, and commercial and industrial loan portfolios, and
- Increased levels of consumer and commercial charge-offs given the current credit environment.

Based upon the current environment and the acquisition of National City, we believe the provision and nonperforming assets will continue to increase in 2009 versus 2008 levels.

Noninterest expense for 2008 totaled $2.284 billion, an increase of $239 million compared with 2007. Approximately 76% of this increase was attributable to acquisitions and continued investments in the business such as the branch network and innovation.

Full-time employees at December 31, 2008 totaled 11,481, an increase of 459 over the prior year. Part-time employees have increased by 65 since December 31, 2007. The increase in full-time and part-time employees was primarily the result of the Yardville and Sterling acquisitions.

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. Average total deposits increased $3.7 billion, or 7%, compared with 2007.

- Average money market deposits increased $2.9 billion, and average certificates of deposits declined $.2 billion. Money market deposits experienced core growth and both deposit categories benefited from the acquisitions. The decline in certificates of deposits was a result of a focus on relationship customers rather than pursuing higher-rate single service customers. The deposit strategy of Retail Banking is to remain disciplined on pricing, target specific products and markets for growth, and focus on the retention and growth of balances for relationship customers.
- Average demand deposit growth of $1.1 billion, or 5%, was primarily driven by acquisitions as organic growth was impacted by current economic conditions, such as lower average balances per account.

Currently, we are focused on a relationship-based lending strategy that targets specific customer sectors (homeowners, students, small businesses and auto dealerships) while seeking a moderate risk profile for the loans that we originate.

- Average commercial and commercial real estate loans grew $2.1 billion, or 17%, compared with 2007. The increase was primarily attributable to acquisitions. Organic loan growth reflecting the strength of increased small business loan demand from existing customers and the acquisition of new relationships through our sales efforts was also a factor in the increase. At December 31, 2008, commercial and commercial real estate loans totaled $14.6 billion. This portfolio included $3.2 billion of commercial real estate loans, of which approximately $2.4 billion were related to our expansion from earlier acquisitions into the greater Maryland and Washington, DC markets. Approximately $.4 billion of the commercial real estate loans were in residential real estate development.
- Average home equity loans grew $469 million, or 3%, compared with 2007 primarily due to acquisitions. Our home equity loan portfolio is relationship based, with 93% of the portfolio attributable to borrowers in our primary geographic footprint. We monitor this portfolio closely and the nonperforming assets and charge-offs that we have experienced are within our expectations given current market conditions.
- Average education loans grew $1.9 billion compared with 2007. The increase was primarily the result of the transfer of approximately $1.8 billion of education loans previously held for sale to the loan portfolio during the first quarter of 2008. The Loans Held For Sale portion of the Consolidated Balance Sheet Review section of this Financial Review includes additional information related to this transfer.
- Average residential mortgage loans increased $370 million primarily due to the addition of loans from acquisitions.

Assets under management of $57 billion at December 31, 2008 decreased $12 billion compared with the balance at December 31, 2007. The decline in assets under management was primarily due to comparatively lower equity markets partially offset by the Sterling acquisition and positive net inflows. New business sales efforts and new client acquisition and growth were ahead of our expectations.

Nondiscretionary assets under administration of $87 billion at December 31, 2008 decreased $25 billion compared with the balance at December 31, 2007. This decline was primarily driven by comparatively lower equity markets and net outflows resulting from the reduction in several significant relationships.

Table of Contents

Corporate & Institutional Banking (a)

Year ended December 31 Dollars in millions except as noted	2008	2007
Income Statement		
Net interest income	**$1,037**	$818
Noninterest income		
Corporate service fees	**545**	564
Other	**(51)**	156
Noninterest income	**494**	720
Total revenue	**1,531**	1,538
Provision for credit losses	**366**	125
Noninterest expense	**882**	818
Pretax earnings	**283**	595
Income taxes	**58**	163
Earnings	**$225**	$432
Average Balance Sheet		
Loans		
Corporate (b)	**$12,485**	$9,930
Commercial real estate	**5,631**	4,408
Commercial real estate related	**3,022**	2,390
Asset-based lending	**5,274**	4,595
Total loans (b)	**26,412**	21,323
Goodwill and other intangible assets	**2,247**	1,919
Loans held for sale	**2,053**	1,319
Other assets	**6,282**	4,491
Total assets	**$36,994**	$29,052
Deposits		
Noninterest-bearing demand	**$7,598**	$7,301
Money market	**5,216**	4,784
Other	**2,286**	1,325
Total deposits	**15,100**	13,410
Other liabilities	**5,479**	3,347
Capital	**2,616**	2,152
Total funds	**$23,195**	$18,909
Performance Ratios		
Return on average capital	**9%**	20%
Noninterest income to total revenue	**32**	47
Efficiency	**58**	53
Commercial Mortgage Servicing Portfolio (in billions)		
Beginning of period	**$243**	$200
Acquisitions/additions	**31**	88
Repayments/transfers	**(25)**	(45)
End of period	**$249**	$243
Other Information		
Consolidated revenue from (c):		
Treasury management	**$545**	$476
Capital markets	**$336**	$290
Commercial mortgage loan sales and valuations (d)	**$(115)**	$19
Commercial mortgage loan servicing (e)	**180**	233
Commercial mortgage banking activities	**$65**	$252
Total loans (f)	**$28,996**	$23,861
Nonperforming assets (f) (g)	**$749**	$243
Net charge-offs	**$168**	$70

Full-time employees (f)	**2,294**	2,290
Net carrying amount of commercial mortgage servicing rights (f)	**$654**	$694

(a) Information for all periods presented excludes the impact of National City, which PNC acquired on December 31, 2008.
(b) Includes lease financing.
(c) Represents consolidated PNC amounts.
(d) Includes valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(e) Includes net interest income and noninterest income from loan servicing and ancillary services.
(f) At December 31.
(g) Includes nonperforming loans of $747 million at December 31, 2008 and $222 million at December 31, 2007.

Corporate & Institutional Banking earned $225 million in 2008 compared with $432 million in 2007. The 48% decline in earnings over 2007 was primarily driven by an increase in the provision for credit losses and by higher valuation losses on commercial mortgage loans held for sale, net of hedges.

Net interest income grew $219 million, or 27%, in 2008 compared with 2007. The increase over the prior year was primarily a result of an increase in commercial mortgage loans held for sale, organic loan growth and acquisitions.

Corporate service fees decreased $19 million compared with 2007 to $545 million. The fourth quarter of 2008 included a $35 million impairment charge on commercial mortgage servicing rights due to the effect of lower interest rates. Increases in treasury management, structured finance and syndication fees more than offset declines in commercial mortgage servicing fees, net of amortization, and merger and acquisition advisory fees.

Other noninterest income was negative $51 million for 2008 compared with income of $156 million in 2007. Losses of $197 million on commercial mortgage loans held for sale, net of hedges, were included in other noninterest income for 2008 compared with gains of $3 million in 2007. These non-cash valuation losses reflected illiquid market conditions which began in the latter part of 2007.

PNC adopted SFAS 159 beginning January 1, 2008 and elected to account for its loans held for sale and intended for securitization at fair value. We stopped originating these loans during the first quarter of 2008. We intend to continue pursuing opportunities to reduce our loans held for sale position at appropriate prices. We sold and/or securitized $.6 billion of commercial mortgage loans held for sale carried at fair value in 2008 reducing these fair value assets to $1.4 billion at December 31, 2008.

The provision for credit losses was $366 million in 2008 compared with $125 million in 2007. The increase in the provision was primarily due to credit quality migration mainly related to residential real estate development and related sectors along with growth in total credit exposure. Nonperforming assets increased $506 million in the comparison. The largest component of the increase was in commercial real estate and commercial real estate related loans. Based upon the current environment and the acquisition of National City, we believe the provision will continue to increase in 2009 versus 2008 levels.

Noninterest expense increased $64 million, or 8%, compared with 2007. The increase was primarily due to the impact of the 2007 ARCS Commercial Mortgage and Mercantile acquisitions, expenses associated with revenue-related activities, growth initiatives mainly in treasury management, higher passive losses associated with low income housing tax credit investments, and write-downs of other real estate owned.

Average loan balances increased $5.1 billion, or 24%, compared with 2007. The increase in corporate and commercial real estate loans resulted from higher utilization of credit facilities, organic growth from new and existing clients, and the impact of the Mercantile and Yardville acquisitions.

Average deposit balances increased $1.7 billion, or 13%, compared with 2007. The increase resulted primarily from higher time deposits and the impact of acquisitions.

The commercial mortgage servicing portfolio was $249 billion at December 31, 2008, an increase of $6 billion from December 31, 2007. Servicing portfolio additions were modest during 2008 due to the declining volumes in the commercial mortgage securitization market.

Average other assets and other liabilities increased $1.8 billion and $2.1 billion, respectively. These increases were due to customer driven trading and related hedging transactions. In addition, an increase in customer driven money management activities contributed to the higher other liabilities balance.

See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities on pages 29 and 30.

Table of Contents

BlackRock

Our BlackRock business segment earned $207 million in 2008 and $253 million in 2007. These results reflect our approximately 33% share of BlackRock s reported GAAP earnings and the additional income taxes on these earnings incurred by PNC.

PNC s investment in BlackRock was $4.2 billion at December 31, 2008 and $4.1 billion at December 31, 2007. The book value per share was $98.32 at December 31, 2008.

BlackRock LTIP Programs and Exchange Agreements

BlackRock adopted the 2002 LTIP program to help attract and retain qualified professionals. At that time, PNC agreed to transfer up to four million of the shares of BlackRock common stock then held by us to help fund the 2002 LTIP and future programs approved by BlackRock s board of directors, subject to certain conditions and limitations. Prior to 2006, BlackRock granted awards of approximately $233 million under the 2002 LTIP program, of which approximately $208 million were paid on January 30, 2007. The award payments were funded by 17% in cash from BlackRock and approximately one million shares of BlackRock common stock transferred by PNC and distributed to LTIP participants. We recognized a pretax gain of $82 million in the first quarter of 2007 from the transfer of BlackRock shares. The gain was included in other noninterest income and reflected the excess of market value over book value of the one million shares transferred in January 2007. Additional BlackRock shares were distributed to LTIP participants during the first quarter of 2008, resulting in a $3 million pretax gain in other noninterest income, and during January 2009, resulting in a $1 million pretax gain.

BlackRock granted awards in 2007 under an additional LTIP program, all of which are subject to achieving earnings performance goals prior to the vesting date of September 29, 2011. Of the shares of BlackRock common stock that we have agreed to transfer to fund their LTIP programs, approximately 1.6 million shares have been committed to fund the awards vesting in 2011 and the amount remaining would then be available for future awards.

PNC s noninterest income for 2008 included a $243 million pretax gain related to our commitment to fund additional BlackRock LTIP programs. This gain represented the mark-to-market adjustment related to our remaining BlackRock LTIP common shares obligation as of December 31, 2008 and resulted from the decrease in the market value of BlackRock common shares for 2008. PNC s noninterest income for 2007 included a pretax charge of $209 million for an increase in the market value of BlackRock common shares for that period.

As further described in PNC s Current Report on Form 8-K filed December 30, 2008, PNC entered into an Exchange Agreement with BlackRock on December 26, 2008. The transactions contemplated by this agreement will restructure PNC s ownership of BlackRock equity without altering, to any meaningful extent, PNC s economic interest in BlackRock. PNC will continue to be subject to the limitations on its voting rights in its existing agreements with BlackRock. These transactions will also allow PNC to reduce its net income volatility associated with the quarterly marking-to-market of obligations related to PNC s delivery of BlackRock stock under the BlackRock LTIP.

Also on December 26, 2008, BlackRock entered into an Exchange Agreement with Merrill Lynch in anticipation of the consummation of the merger of Bank of America Corporation and Merrill Lynch which was completed on January 1, 2009. The PNC and Merrill Lynch Exchange Agreements restructured PNC s and Merrill Lynch s respective ownership of BlackRock common and preferred equity. The exchange was completed on February 27, 2009.

PNC will continue to account for its investment in BlackRock under the equity method of accounting, with its share of BlackRock s earnings reduced from approximately 33% to 31%, solely as a result of the exchange of 2.9 million of its shares of BlackRock common stock for new BlackRock Series C Preferred Stock. The Series C Preferred Stock will not be taken into consideration in determining PNC s share of BlackRock earnings under the equity method. PNC s percentage ownership of BlackRock common stock is expected to increase from approximately 36.5% to 46.5%. The increase will result from a substantial exchange of Merrill Lynch s BlackRock common stock for BlackRock preferred stock. As a result of the BlackRock preferred stock currently held by Merrill Lynch and the new BlackRock preferred stock being issued to Merrill Lynch and PNC under the Exchange Agreements, PNC s share of BlackRock common stock has been, and will continue to be, higher than its overall share of BlackRock s equity and earnings.

On February 27, 2009, PNC s obligation to deliver BlackRock common shares was replaced with an obligation to deliver shares of BlackRock s new Series C Preferred Stock. PNC will account for these preferred shares at fair value as permitted under SFAS 159, which will offset the impact of marking-to-market the liability to deliver these shares to BlackRock.

The transactions related to the Exchange Agreements will not affect our right to receive dividends declared by BlackRock.

Table of Contents

QUELLOS TRANSACTION

On October 1, 2007, BlackRock acquired the fund of funds business of Quellos Group, LLC (Quellos). The combined fund of funds platform operates under the name BlackRock Alternative Advisors and is one of the largest fund of funds platforms in the world. In connection with the acquisition, BlackRock paid $562 million in cash to Quellos and placed 1.2 million shares of BlackRock common stock into an escrow account. The shares of BlackRock common stock will be held in the escrow account for up to three years and will be

available to satisfy certain indemnification obligations of Quellos under the asset purchase agreement. In April 2008, 280,519 common stock shares were released to Quellos in accordance with the Quellos asset purchase agreement, which resulted in an adjustment to the recognized purchase price. In addition, Quellos may be entitled to receive two contingent payments upon achieving certain investment advisory base and performance fee measures through December 31, 2010, totaling up to an additional $969 million in a combination of cash and stock.

Table of Contents

Global Investment Servicing

Year ended December 31

Dollars in millions except as noted	2008	2007
Income Statement		
Servicing revenue (a)	**$947**	$863
Operating expense (a)	**728**	637
Operating income	**219**	226
Debt financing	**34**	38
Nonoperating income (b)	**3**	6
Pretax earnings	**188**	194
Income taxes	**66**	66
Earnings	**$122**	$128
Period-end Balance Sheet		
Goodwill and other intangible assets	**$1,301**	$1,315
Other assets	**3,977**	1,161
Total assets	**$5,278**	$2,476
Debt financing	**$850**	$989
Other liabilities	**3,737**	865
Shareholder s equity	**691**	622
Total funds	**$5,278**	$2,476
Performance Ratios		
Return on average equity	**18%**	23%
Operating margin (c)	**23**	26
Servicing Statistics (at December 31)		
Accounting/administration net fund assets (in billions) (d)		
Domestic	**$764**	$869
Offshore	**75**	121
Total	**$839**	$990
Asset type (in billions)		
Money market	**$431**	$373
Equity	**227**	390
Fixed income	**103**	123
Other	**78**	104
Total	**$839**	$990
Custody fund assets (in billions)	**$379**	$500
Shareholder accounts (in millions)		
Transfer agency	**14**	19
Subaccounting	**58**	53
Total	**72**	72
Other information		
Full-time employees (at December 31)	**4,934**	4,784

(a) Certain out-of-pocket expense items which are then client billable are included in both servicing revenue and operating expense above, but offset each other entirely and therefore have no effect on operating income. Distribution revenue and expenses which relate to 12b-1 fees that are received from certain fund clients for payment of marketing, sales and service expenses also entirely offset each other, but are netted for presentation purposes above.
(b) Net of nonoperating expense.
(c) Total operating income divided by total servicing revenue.
(d) Includes alternative investment net assets serviced.

Global Investment Servicing earned $122 million for 2008 and $128 million for 2007. Results for 2008 were negatively impacted by declines in asset values and fund redemptions as a result of severe deterioration of the financial markets during the fourth quarter.

Highlights of Global Investment Servicing s performance for 2008 included:

- Initiatives in the offshore arena resulted in a 13% increase in offshore servicing revenue. This included the start up of a new servicing location in Poland which employed 69 individuals at year end. Assets serviced, however, decreased by 38% as a direct result of the unsettled global equity markets and the resultant high redemption activity in the latter part of the year.
- Subaccounting shareholder accounts rose by 5 million, or 9%, to 58 million, as existing clients continued to convert additional fund families to this platform. Global Investment Servicing remains a leading provider of subaccounting services. A prominent new client was won during 2008 due to the combined subaccounting services and wealth reporting capabilities that Global Investment Servicing can now provide as a result of its acquisition of Albridge Solutions in December 2007.
- Total accounting/administration funds serviced increased 7% over the prior year. However, assets serviced decreased 15% due to declines in asset values and fund outflows resulting from market conditions, primarily in the fourth quarter of 2008.

Servicing revenue for 2008 reached $947 million, an increase of $84 million, or 10%, over 2007. This increase resulted primarily from the acquisitions of Albridge Solutions and Coates Analytics, LP in December 2007, growth in offshore operations, and increased securities lending activities afforded by the volatility in the markets.

Operating expense increased $91 million, or 14%, to $728 million, in 2008 compared with 2007. Investments in technology, a larger employee base to support business growth, and costs related to the acquisitions made in December 2007 drove the higher expense level.

Debt financing costs and nonoperating income were both lower than prior year levels due to the much lower interest rate environment and principal payments on debt during the year.

Global Investment Servicing s balance sheet was also impacted by the market turmoil at year end as clients chose to leave cash balances uninvested.

Total assets serviced by Global Investment Servicing totaled $2.0 trillion at December 31, 2008 compared with $2.5 trillion at December 31, 2007. The decline in assets serviced was a direct result of global market declines.

Table of Contents

CRITICAL ACCOUNTING

ESTIMATES AND JUDGMENTS

Our consolidated financial statements are prepared by applying certain accounting policies. Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report describes the most significant accounting policies that we use. Certain of these policies require us to make estimates and strategic or economic assumptions that may prove inaccurate or be subject to variations that may significantly affect our reported results and financial position for the period or in future periods.

Fair Value Measurements

We must use estimates, assumptions, and judgments when assets and liabilities are required to be recorded at, or adjusted to reflect, fair value. This includes the initial measurement at fair value of the assets acquired and liabilities assumed in acquisitions qualifying as business combinations under SFAS 141 or SFAS 141(R), Business Combinations. The valuation of both financial and nonfinancial assets and liabilities in these transactions require numerous assumptions and estimates and the use of third-party sources including appraisers and valuation specialists.

Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Assets and liabilities measured at fair value on a recurring basis, including those elected under SFAS 159, include available for sale and trading securities, financial derivatives, certain commercial and residential mortgage loans held for sale, customer resale agreements, private equity investments, and residential mortgage servicing rights. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by other independent third-party sources, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact our future financial condition and results of operations.

Effective January 1, 2008, PNC adopted SFAS 157. SFAS 157 defines fair value as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. SFAS 157 established a three level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable.

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

- Fair Value Measurements and Fair Value Option included within this Item 7, and
- Note 8 Fair Value included in Notes to Consolidated Financial Statements in Item 8 of this Report.

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

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

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

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

Commercial lending is the largest category of credits and is the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan and lease losses. We have allocated approximately $2.6 billion, or 67%, of the allowance for loan and lease losses at December 31, 2008 to the commercial lending category. Consumer and residential mortgage loan allocations are made at a total portfolio level based on historical loss experience adjusted for portfolio activity. Approximately $1.2 billion, or 32%, of the allowance for loan and lease losses at December 31, 2008 have been allocated to these consumer lending categories. The remainder of the allowance is allocated to the other loans category.

Table of Contents

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

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

Estimated Cash Flows on Impaired Loans

AICPA Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3) provides guidance for accounting for certain loans that have experienced a deterioration of credit quality at the time of acquisition for which it is probable that the investor will be unable to collect all contractually required payments. The application of this guidance requires a two-step process: the determination of which loans qualify due to credit quality deterioration and the determination of fair value and undiscounted expected cash flows for the loans that are in the scope of SOP 03-3. SOP 03-3 prohibits carrying over or creation of an allowance for loan losses in the initial accounting of all loans in scope.

In our assessment of credit quality deterioration, we must make numerous assumptions, interpretations and judgments, based on internal and third-party credit quality information and ultimately determine whether we believe it is probable that we will not be able to collect all amounts due, including both principal and interest, according to the contractual terms of the loans. This is a point in time assessment and inherently subjective due to the nature of the available information and judgment involved.

For those loans that qualify under SOP 03-3, the valuation process involves estimating the fair value of each loan at acquisition and determining the undiscounted expected cash flows to be realized from the loan both at acquisition and periodically throughout the life of the loan. Measurement of the fair value of the loan is based on the provisions of SFAS 157 as discussed above.

The measurement of undiscounted expected cash flows involves assumptions and judgments as to credit risk, interest rate risk, prepayment risk, default rates, loss severity, payment speeds and collateral values. All of these factors are inherently subjective and can result in significant changes in the cash flow estimates over the life of the loan. Such changes increase

future earnings volatility due to increases or decreases in the accretable yield (i.e., difference between the undiscounted expected cash flows and the fair value) recognized on the loan or the requirement to record a provision for credit losses if the decline in expected cash flows is attributable to a decline in credit quality.

Goodwill

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

As such, the value of goodwill is ultimately supported by earnings, which is driven by transaction volume and, for certain businesses, the market value of assets under administration or for which processing services are provided. Lower earnings resulting from a lack of growth or our inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could result in a current period charge to earnings. At least annually, management reviews the current operating environment and strategic direction of each reporting unit taking into consideration any events or changes in circumstances that may have an effect on the unit. A reporting unit is defined as an operating segment or one level below an operating segment. This input is then used to calculate the fair value of the reporting unit, including goodwill, which is compared to its carrying value. If the fair value of the reporting unit exceeds its carrying amount, then the goodwill of that reporting unit is not considered impaired. During the fourth quarter 2008, and the first quarter of 2009, PNC considered whether the decline in the fair value of our market capitalization due to market conditions is an indicator of declines in the fair value of the reporting units. Although the fair values of the reporting units decreased, their estimated fair values are still considered to be in excess of their respective carrying values. Based on the results of our analysis, there have been no impairment charges related to goodwill. See Note 9 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Lease Residuals

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

Revenue Recognition

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

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

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

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

Income Taxes

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

We evaluate and assess the relative risks and merits of the appropriate tax treatment of transactions, filing positions, filing methods and taxable income calculations after considering statutes, regulations, judicial precedent, and other

information, and maintain tax accruals consistent with our evaluation of these relative risks and merits. The result of our evaluation and assessment is by its nature an estimate. We and our subsidiaries are routinely subject to audit and challenges from taxing authorities. In the event we resolve a challenge for an amount different than amounts previously accrued, we will account for the difference in the period in which we resolve the matter.

RECENT ACCOUNTING

PRONOUNCEMENTS

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on the following recent accounting pronouncements that are relevant to our business, including a description of each new pronouncement, the required date of adoption, our planned date of adoption, and the expected impact on our consolidated financial statements.

The following were issued in 2008:

- FASB Staff Position No. (FSP) EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20

FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets
FSP FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities
FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active
FSP FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161
FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities
FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)
SFAS 163, Accounting for Financial Guarantee Insurance Contracts an Interpretation of FASB Statement No. 60
SFAS 162, The Hierarchy of Generally Accepted Accounting Principles
FSP FAS 142-3, Determination of the Useful Life of Intangible Assets
SFAS 161, Disclosures about Derivative Instruments and Hedging Activities
FSP FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions

The following were issued in 2007:

- SFAS 141(R), Business Combinations
- SFAS 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51
- SEC Staff Accounting Bulletin No. 109
- FIN 46(R) 7, Application of FASB Interpretation No. 46(R) to Investment Companies
- FSP FIN 48-1, Definition of Settlement in FASB Interpretation (FIN) No. 48
- SFAS 159

The following were issued in 2006 with an effective date in 2008:

- SFAS 157
- The Emerging Issues Task Force (EITF) of the FASB issued EITF Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements

Status Of Defined Benefit Pension Plan

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are derived from a cash balance formula based on compensation levels, age and length of service. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. Consistent with our investment strategy, plan assets are primarily invested in equity investments and fixed income instruments. Plan fiduciaries determine and review the plan s investment policy.

We calculate the expense associated with the pension plan in accordance with SFAS 87, *Employers Accounting for Pensions,* and we use assumptions and methods that are compatible with the requirements of SFAS 87, including 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. The expected long-term return on plan assets for determining net periodic pension cost for 2008 was 8.25%, unchanged from 2007. 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 $7 million as the impact is amortized into results of operations.

The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2009 estimated expense as a baseline.

Change in Assumption	Estimated Increase to 2009 Pension Expense (In millions)
.5% decrease in discount rate	(a)
.5% decrease in expected long-term return on assets	$ 16
.5% increase in compensation rate	$ 2

(a) De minimis.

We currently estimate a pretax pension expense of $124 million in 2009 compared with a pretax benefit of $32 million in 2008. The 2009 values and sensitivities shown above include the qualified defined benefit plan maintained by National City that we merged into the PNC plan as of December 31, 2008. The expected increase in pension cost is attributable not only to the National City acquisition, but also to the significant variance between 2008 actual investment returns and long-term expected returns.

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 expect that the minimum required contributions under the law will be zero for 2009.

We maintain other defined benefit plans that have a less significant effect on financial results, including various nonqualified supplemental retirement plans for certain employees. See Note 15 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Risk Management

We encounter risk as part of the normal course of our business and we design risk management processes to help manage these risks. This Risk Management section first provides an overview of the risk measurement, control strategies, and monitoring aspects of our corporate-level risk management processes. Following that discussion is an analysis of the risk management process for what we view as our primary areas of risk: credit, operational, liquidity, and market. The discussion of market risk is further subdivided into interest rate, trading, and equity and other investment risk areas. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the Risk Management section of this Item 7. In appropriate places within this section, historical performance is also addressed.

Overview

As a financial services organization, we take a certain amount of risk in every business decision. For example, every time we open an account or approve a loan for a customer, process a payment, hire a new employee, or implement a new computer system, we incur a certain amount of risk. As an organization, we must balance revenue generation and profitability with the risks associated with our business activities. Risk management is not about eliminating risks, but about identifying and accepting risks and then effectively managing them so as to optimize shareholder value.

The key to effective risk management is to be proactive in identifying, measuring, evaluating, and monitoring risk on an ongoing basis. Risk management practices support decision-making, improve the success rate for new initiatives, and strengthen the market s confidence in an organization.

We manage risk toward an overall moderate risk profile. The current economic environment, combined with our acquisition of National City, has increased our risk profile above that desired level. We remain committed to a moderate risk profile and are working to return to that level of overall risk.

Corporate-level Risk Management Overview

We support risk management through a governance structure involving the Board, senior management and a corporate risk management organization.

Although our Board as a whole is responsible generally for oversight of risk management, committees of the Board provide oversight to specific areas of risk with respect to the level of risk and risk management structure.

We use management level risk committees to help ensure that business decisions are executed within our desired risk profile. The Executive Committee (EC), consisting of senior management executives, provides oversight for the establishment and implementation of new comprehensive risk management initiatives, reviews enterprise level risk profiles and discusses key risk issues.

The corporate risk management organization has the following key roles:

- Facilitate the identification, assessment and monitoring of risk across PNC,
- Provide support and oversight to the businesses, and
- Identify and implement risk management best practices, as appropriate.

Risk Measurement

We conduct risk measurement activities specific to each area of risk. The primary vehicle for aggregation of enterprise-wide risk is a comprehensive risk management methodology that is based on economic capital. This primary risk aggregation measure is supplemented with secondary measures of risk to arrive at an estimate of enterprise-wide risk. The economic

capital framework is a measure of potential losses above and beyond expected losses. Potential one year losses are capitalized to a level commensurate with a financial institution with an A rating by the credit rating agencies. Economic capital incorporates risk associated with potential credit losses (Credit Risk), fluctuations of the estimated market value of financial instruments (Market Risk), failure of people, processes or systems (Operational Risk), and income losses associated with declining volumes, margins and/or fees, and the fixed cost structure of the business (Business Risk). We estimate credit and market risks at an exposure level while we estimate the remaining risk types at an institution or business segment level. We routinely compare the output of our economic capital model with industry benchmarks.

Risk Control Strategies

We centrally manage policy development and exception oversight through corporate-level risk management. Corporate risk management is authorized to take action to either prevent or mitigate exceptions to policies and is responsible for monitoring compliance with risk management policies. The Corporate Audit function performs an independent assessment of the internal control environment. Corporate Audit plays a critical role in risk management, testing the operation of the internal control system and reporting findings to management and to the Audit Committee of the Board.

Risk Monitoring

Corporate risk management reports on a regular basis to our Board regarding the enterprise risk profile of the Corporation. These reports aggregate and present the level of risk by type of risk and communicate significant risk issues, including performance relative to risk tolerance limits. Both the Board and the EC provide guidance on actions to address key risk issues as identified in these reports.

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.

Approved risk tolerances, in addition to credit policies and procedures, set portfolio objectives for the level of credit risk. We have established guidelines for problem loans, acceptable levels of total borrower exposure, and other credit measures. We seek to achieve our credit portfolio objectives by maintaining a customer base that is diverse in borrower exposure and industry types. We use loan participations with third parties, loan sales and syndications, and the purchase of credit derivatives to reduce risk concentrations.

The credit granting businesses maintain direct responsibility for monitoring credit risk within PNC. The Corporate Credit

Table of Contents

Policy area provides independent oversight to the measurement, monitoring and reporting of our credit risk and reports to the Chief Administrative Officer. Corporate Audit also provides an independent assessment of the effectiveness of the credit risk management process.

Nonperforming, Past Due And Potential Problem Assets

See the Nonperforming Assets And Related Information table in the Statistical Information (Unaudited) section of Item 8 of this Report and included here by reference for details of the types of nonperforming assets that we held at December 31 of each of the past five years. In addition, certain performing assets have interest payments that are past due or have the potential for future repayment problems.

Credit quality migration reflected a rapidly weakening economy during 2008, but remained manageable as we were able to maintain a strong capital position and generate positive operating leverage. We remained focused on returning to a moderate risk profile.

Nonperforming Assets by Type

	Dec. 31	Dec. 31
In millions	**2008 (a)**	2007
Nonaccrual loans		
Commercial		
Retail/wholesale	**$ 88**	$ 39
Manufacturing	**141**	35
Other service providers	**114**	48
Real estate related (b)	**151**	45
Financial services	**23**	15
Health care	**37**	4
Other	**22**	7
Total commercial	**576**	193
Commercial real estate		
Real estate projects	**659**	184
Commercial mortgage	**107**	28
Total commercial real estate	**766**	212
Equipment lease financing	**97**	3
TOTAL COMMERCIAL LENDING	**1,439**	408
Consumer		
Home equity	**66**	16
Other	**4**	1
Total consumer	**70**	17
Residential real estate		
Residential mortgage (c)	**139**	26
Residential construction	**14**	1
Total residential real estate (c)	**153**	27
TOTAL CONSUMER LENDING (c)	**223**	44
Total nonaccrual loans (c)	**1,662**	452
Restructured loans		2
Total nonperforming loans (c)	**1,662**	454
Foreclosed and other assets		
Commercial lending	**34**	23
Consumer	**11**	8
Residential real estate	**458**	10
Total foreclosed and other assets	**503**	41
Total nonperforming assets (c)(d)(e)	**$ 2,165**	$ 495

(a) Amounts at December 31, 2008 include $722 million of nonperforming assets related to National City. Nonperforming assets of National City are comprised of $250 million of nonperforming loans, including $154 million related to commercial lending and $96 million related to consumer lending, and $472 million of foreclosed and other assets.

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

(c) We have adjusted the December 31, 2007 amounts to be consistent with the current methodology for recognizing nonaccrual residential mortgage loans serviced under master servicing arrangements.
(d) Excludes equity management assets carried at estimated fair value of $42 million at December 31, 2008 and $4 million at December 31, 2007.
(e) Excludes loans held for sale carried at lower of cost or market value of $78 million at December 31, 2008 (amount includes troubled debt restructured assets of $5 million) and $25 million at December 31, 2007.

Nonperforming loans at December 31, 2008 included $537 million related to the distressed loan portfolio, of which $103 million were attributable to National City. Details of these nonperforming loans follow.

Nonperforming Loans - Distressed Loan Portfolio

In millions	Dec. 31, 2008
Commercial real estate real estate projects	$ 445
Consumer home equity	29
Residential real estate	
Residential mortgage	50
Residential construction	13
Total residential real estate	63
Total nonperforming loans distressed portfolio	$ 537

Change In Nonperforming Assets

In millions	2008	2007
January 1	$ 495	$ 184
National City acquisition	722	
Other acquisitions (a)	9	37
Transferred from accrual	1,981	653
Charge-offs and valuation adjustments	(491)	(167)
Principal activity including payoffs	(381)	(179)
Returned to performing	(127)	(23)
Asset sales	(43)	(10)
December 31	$ 2,165	$ 495

(a) Sterling in 2008; Mercantile and Yardville in 2007.

Total nonperforming assets at December 31, 2008 increased $1.670 billion, to $2.165 billion, from the balance at December 31, 2007. Our nonperforming assets represented .74% of total assets at December 31, 2008 compared with .36% at December 31, 2007. The increase in nonperforming assets reflected higher nonaccrual residential real estate development loans and loans in related sectors, and the addition of $722 million of nonperforming assets related to National City.

Nonperforming assets added with the National City acquisition exclude those loans that we impaired in accordance with SOP 03-3.

Table of Contents

We recorded such loans at estimated fair value and considered them to be performing, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), since certain purchase accounting adjustments will be accreted to interest income over time. The accretion will represent the discount associated with the difference between the expected cash flows and estimated fair value of the loans. This accounting treatment resulted in the return to performing status of $3.2 billion of loans previously classified as nonperforming by National City. The purchase accounting adjustments were estimated as of December 31, 2008 and such estimates may be refined during the first quarter of 2009.

At December 31, 2008, our largest nonperforming asset was approximately $36 million and our average nonperforming loan associated with commercial lending was less than $1 million.

The amount of nonperforming loans that was current as to principal and interest was $555 million at December 31, 2008 and $178 million at December 31, 2007.

Accruing Loans Past Due 90 Days Or More- Summary

	Amount		Percent of Total Outstandings	
Dollars in millions	**Dec. 31 2008 (a)**	Dec. 31 2007	**Dec. 31 2008 (a)**	Dec. 31 2007
Commercial	**$ 97**	$ 14	**.14%**	.05%
Commercial real estate	**723**	18	**2.81**	.20
Equipment lease financing	**2**		**.03**	
Consumer	**419**	49	**.80**	.27
Residential real estate	**2,011**	43	**9.32**	.45
Other	**7**	12	**.37**	2.91
Total	**$ 3,259**	$ 136	**1.86%**	.20%

(a) Amounts include the impact of National City.

Loans that are not included in nonperforming or past due categories but cause us to be uncertain about the borrower s ability to comply with existing repayment terms over the next six months totaled $745 million at December 31, 2008, compared with $134 million at December 31, 2007.

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 probable estimated losses inherent 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.

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 in the Notes To Consolidated Financial Statements in Item 8 of this Report regarding changes in the allowance for loan and lease losses and in the allowance for unfunded loan commitments and letters of credit. Also see the Allocation Of Allowance For Loan And Lease Losses table in the Statistical Information (Unaudited) section of Item 8 of this Report for additional information included herein by reference.

We establish specific allowances for loans considered impaired using a method prescribed by SFAS 114, Accounting by Creditors for Impairment of a Loan. All impaired loans except leases and large groups of smaller-balance homogeneous loans which may include but are not limited to credit card, residential mortgage, and consumer installment loans are subject to SFAS 114 analysis. Specific allowances for individual loans over a set dollar threshold are determined by our Special Asset Committee based on an analysis of the present value of expected future cash flows from the loans discounted at their effective interest rate, observable market price, or the fair value of the underlying collateral. We establish specific allowance on all other impaired loans based on the loss given default credit risk rating.

Allocations to non-impaired commercial and commercial real estate loans (pool reserve allocations) are assigned to pools of loans as defined by our business structure and are based on internal probability of default and loss given default credit risk ratings.

Key elements of the pool reserve methodology include:

- Probability of default (PD), which is primarily based on historical default analyses and is derived from the borrower s internal PD credit risk rating;
- Exposure at default (EAD), which is derived from historical default data; and
- Loss given default (LGD), which is based on historical loss data, collateral value and other structural factors that may affect our ultimate ability to collect on the loan and is derived from the loan s internal LGD credit risk rating.

Our pool reserve methodology is sensitive to changes in key risk parameters such as PDs, LGDs and EADs. In general, a given change in any of the major risk parameters will have a corresponding change in the pool reserve allocations for non-impaired commercial loans. Our commercial loans are the largest category of credits and are most sensitive to changes in the key risk parameters and pool reserve loss rates. To illustrate, if we increase the pool reserve loss rates by 5% for all categories of non-impaired commercial loans, then the aggregate of the allowance for loan and lease losses and allowance for unfunded loan commitments and letters of credit would increase by $128 million. Additionally, other factors such as the rate of migration in the severity of problem loans will contribute to the final pool reserve allocations.

We make consumer (including residential mortgage) loan allocations at a total portfolio level by consumer product line based on historical loss experience. We compute a four-quarter average loss rate from net charge-offs for the prior four quarters as a percentage of the average loans outstanding in those quarters. We apply this loss rate to loans outstanding at the end of the current period and make certain qualitative adjustments to determine the consumer loan allocation.

The provision for credit losses totaled $1.517 billion for 2008 compared with $315 million for 2007. Of the total 2008 provision, $990 million was recorded in the fourth quarter, including $504 million of additional provision recorded at December 31, 2008 to conform the National City loan reserving methodology with ours. The differences in methodology include granularity of loss computations, statistical and quantitative factors rather than qualitative assessment, and the extent of current appraisals and risk assessments.

In addition to the impact of National City, the higher provision in 2008 compared with the prior year was driven by general credit quality migration, including residential real estate development and commercial real estate exposure, an increase in net charge-offs, and growth in nonperforming loans. Growth in our total credit exposure also contributed to the higher provision amounts in both comparisons.

In addition, the provision for credit losses for 2008 and the evaluation of the allowances for loan and lease losses and unfunded loan commitments and letters of credit as of December 31, 2008 reflected loan and total credit exposure growth, changes in loan portfolio composition, and other changes in asset quality. The provision includes amounts for probable losses on loans and credit exposure related to unfunded loan commitments and letters of credit.

With a deteriorating economy, we expect credit migration will continue throughout 2009 as credit quality improvements will lag any economic turnaround.

The allowance as a percent of nonperforming loans was 236% and as a percent of total loans was 2.23% at December 31, 2008. These percentages excluding the impact of the National City acquisition were 95% and 1.77%, respectively. We provide a reconciliation of these percentages excluding the National City impact to the GAAP-basis percentages in the Statistical Information (Unaudited) section in Item 8 of this Report. The comparable percentages at December 31, 2007 were 183% and 1.21%. We expect to continue to increase our allowance as a percent of total loans as the market and our credit quality migration dictates.

Charge-Offs And Recoveries

Year ended December 31 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2008				
Commercial	**$ 301**	**$ 53**	**$ 248**	**.80%**
Commercial real estate	**165**	**10**	**155**	**1.65**
Equipment lease financing	**3**	**1**	**2**	**.08**
Consumer	**143**	**15**	**128**	**.62**
Residential real estate	**6**		**6**	**.07**
Total	**$ 618**	**$ 79**	**$ 539**	**.74**
2007				
Commercial	$ 156	$ 30	$ 126	.49%
Commercial real estate	16	1	15	.20
Consumer	73	14	59	.33
Total	$ 245	$ 45	$ 200	.32

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.

The amount of reserves for these qualitative factors is assigned to loan categories and to business segments primarily based on the relative specific and pool allocation amounts. The amount of reserve allocated for qualitative factors represented 1.76% of the total allowance and .04% of total loans at December 31, 2008.

Credit Default Swaps

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

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

Table of Contents

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.

Credit default swaps are included in the Free-Standing Derivatives table in the Financial Derivatives section of this Risk Management discussion. Net gains from credit default swaps for proprietary trading positions, reflected in other noninterest income in our Consolidated Income Statement, totaled $45 million for 2008 and $38 million for 2007.

Operational Risk Management

Operational risk is defined as the risk of financial loss or other damage to us resulting from inadequate or failed internal processes or systems, human factors, or from external events. Operational risk may occur in any of our business activities and manifests itself in various ways, including but not limited to the following:

- Errors related to transaction processing and systems,
- Breaches of the system of internal controls and compliance requirements, and
- Business interruptions and execution of unauthorized transactions and fraud by employees or third parties.

Operational losses may arise from legal actions due to operating deficiencies or noncompliance with contracts, laws or regulations.

To monitor and control operational risk, we maintain a comprehensive framework including policies and a system of internal controls that is designed to manage risk and to provide management with timely and accurate information about the operations of PNC. Management at each business unit is primarily responsible for its operational risk management program, given that operational risk management is integral to direct business management and most easily effected at the business unit level. Corporate Operational Risk Management oversees day-to-day operational risk management activities.

Technology Risk

The technology risk management program is a significant component of the operational risk framework. We have an integrated security and technology risk management framework designed to help ensure a secure, sound, and compliant infrastructure for information management. The technology risk management process is aligned with the strategic direction of the businesses and is integrated into the technology management culture, structure and practices. The application of this framework across the enterprise helps to support comprehensive and reliable internal controls.

Our business resiliency program manages the organization s capabilities to provide services in the case of an event that results in material disruption of business activities. Prioritization of investments in people, processes, technology and facilities is based on different types of events, business risk and criticality. Comprehensive testing validates our resiliency capabilities on an ongoing basis, and an integrated governance model is designed to help assure transparent management reporting.

Insurance

As a component of our risk management practices, we purchase insurance designed to protect us against accidental loss or losses which, in the aggregate, may significantly affect personnel, property, financial objectives, or our ability to continue to meet our responsibilities to our various stakeholder groups.

PNC, through subsidiary companies, Alpine Indemnity Limited and Advent Guaranty Corporation, provides insurance coverage for its general liability, automobile liability, management liability, fidelity, employment practices liability, special crime, workers compensation, property and terrorism programs. PNC s risks associated with its participation as an insurer for these programs are mitigated through policy limits and annual aggregate limits. Risks in excess of Alpine and Advent policy limits and annual aggregates are mitigated through the purchase of direct coverage provided by various insurers up to limits established by PNC s Corporate Insurance Committee.

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 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 and institutional banking activities. 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, interest-earning deposits with banks, and other short-term investments) and securities available for sale. At December 31, 2008, our liquid assets totaled $59.6 billion, with $22.5 billion pledged as collateral for borrowings, trust, and other commitments.

Bank Level Liquidity

PNC Bank, N.A. and National City Bank 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

Table of Contents

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 December 31, 2008, we maintained significant unused borrowing capacity from the Federal Reserve Bank discount window and FHLB-Pittsburgh under current collateral requirements. In addition, National City Bank is a member of FHLB Cincinnati.

Information regarding amounts pledged, for the ability to borrow if necessary, and borrowings related to the Federal Reserve Bank, FHLB Pittsburgh and FHLB Cincinnati are as follows:

In billions	**Dec. 31, 2008**	Dec. 31, 2007
Pledged to Federal Reserve Bank		
Loans	**$ 32.9**	$ 1.6
Securities	**$ 11.0**	$ 18.8
Combined collateral value	**$ 35.4**	$ 18.2
Pledged to FHLB-Pittsburgh		
Loans	**$ 27.1**	$ 33.5
Securities	**$ 5.3**	$ 4.3
Combined collateral value	**$ 16.7**	$ 23.5
Pledged to FHLB-Cincinnati		
Loans	**$ 22.3**	
Securities	**$ 1.1**	
Combined collateral value	**$ 6.5**	
Outstanding borrowings		
Federal Reserve Bank	**$ 2.0**	
FHLB Pittsburgh	**$ 8.8**	$ 6.8
FHLB Cincinnati	**$ 6.5**	
Total	**$ 17.3**	$ 6.8
Unused borrowing capacity		
Federal Reserve Bank	**$ 33.4**	$ 18.2
FHLB Pittsburgh	**$ 7.9**	16.7
FHLB Cincinnati		
Total	**$ 41.3**	$ 34.9

Total FHLB borrowings were $18.1 billion at December 31, 2008 compared with $7.1 billion at December 31, 2007. We increased total FHLB borrowings during 2008 which provided us with additional liquidity at relatively attractive rates.

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 December 31, 2008, 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 December 31, 2008, $327 million of commercial paper was outstanding under this program.

As of December 31, 2008, there were $3.1 billion of PNC Bank, N.A. and $4.8 billion of National City Bank short- and long-term debt issuances, including commercial paper, 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.

See the Funding and Capital Sources section of the Consolidated Balance Sheet Review section of this Report regarding certain restrictions on dividends and common share repurchases related to PNC s participation in the US Treasury s TARP Capital Purchase Program.

Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet these requirements over the succeeding 12-month period. In managing parent company liquidity we consider funding sources, such as expected dividends to be received from our subsidiaries and potential debt issuance, and discretionary funding uses, the most significant of which is the external dividend to be paid on PNC s stock. On March 1, 2009, the Board decided to reduce PNC s quarterly common stock dividend from $0.66 to $0.10 per share. This action will reduce the cash requirement for annual external dividends by approximately $1.0 billion.

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

- 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 this Report 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 $351 million at December 31, 2008. National City Bank had no statutory dividend capacity as of December 31, 2008.

Table of Contents

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 December 31, 2008, the parent company had approximately $4.2 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.

In December 2008, PNC Funding Corp issued the following securities totaling $2.9 billion under the FDIC s Temporary Liquidity Guarantee Program-Debt Guarantee Program:

- $2 billion of fixed rate senior notes due June 2012. These notes pay interest semiannually at a fixed rate of 2.3%.
- $500 million of fixed rate senior notes due June 2011. These notes pay interest semiannually at a fixed rate of 1.875%.
- $400 million of floating rate senior notes due June 2011. Interest will be reset quarterly to 3-month LIBOR plus 28 basis points and interest will be paid quarterly.

Each of these series of senior notes is guaranteed by the parent company and by the FDIC and is backed by the full faith and credit of the United States through June 30, 2012.

See the Executive Summary section of this Financial Review and Note 19 Shareholders Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report for information regarding PNC s December 31, 2008 issuance of $7.6 billion of preferred stock and related common stock warrant to the US Treasury under the TARP Capital Purchase Program.

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 December 31, 2008, $99 million of commercial paper was outstanding under this program.

We have effective shelf registration statements which enable us to issue additional debt and equity securities, including certain hybrid capital instruments. As of December 31, 2008, there were $1.4 billion of parent company contractual obligations, including commercial paper, with maturities of less than one year.

We also provide tables showing contractual obligations and various other commitments representing required and potential cash outflows as of December 31, 2008 under the heading Commitments below.

Commitments

The following tables set forth contractual obligations and various other commitments representing required and potential cash outflows as of December 31, 2008.

Contractual Obligations

		Payment Due By Period			
December 31, 2008 - in millions	Total	Less than one year	One to three years	Four to five years	After five years
Remaining contractual maturities of time deposits	**$ 75,919**	**$ 44,877**	**$ 17,758**	**$ 9,011**	**$ 4,273**
Federal Home Loan Bank borrowings	**18,126**	**5,058**	**7,887**	**4,694**	**487**
Other borrowed funds	**34,114**	**13,533**	**6,730**	**4,129**	**9,722**
Minimum annual rentals on noncancellable leases	**2,615**	**329**	**579**	**459**	**1,248**
Nonqualified pension and postretirement benefits	**567**	**62**	**124**	**117**	**264**
Purchase obligations (a)	**1,145**	**398**	**472**	**215**	**60**
Total contractual cash obligations	**$ 132,486**	**$ 64,257**	**$ 33,550**	**$ 18,625**	**$ 16,054**

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

Other Commitments (a)

December 31, 2008 - in millions	Total Amounts Committed	Amount Of Commitment Expiration By Period Less than one year	One to three years	Four to five years	After five years
Other unfunded loan commitments	**$ 62,665**	**$ 27,260**	**$ 22,317**	**$ 12,358**	**$ 730**
Home equity lines of credit	**23,195**	**14,342**	**8,853**		
Consumer credit card lines	**19,028**	**17,549**	**1,479**		
Standby letters of credit (b)	**10,317**	**3,855**	**3,916**	**2,352**	**194**
Other commitments (c)	**1,408**	**595**	**390**	**302**	**121**
Total commitments	**$ 116,613**	**$ 63,601**	**$ 36,955**	**$ 15,012**	**$ 1,045**

(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 $5.1 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 $540 million and other investments of $178 million which are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $690 million which are included in other liabilities on the Consolidated Balance Sheet.

Table of Contents

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. We are exposed to market risk primarily by our involvement in the following activities, among others:

- Traditional banking activities of taking deposits and extending loans,
- Private equity and other investments and activities whose economic values are directly impacted by market factors, and
- Trading in fixed income products, equities, derivatives, and foreign exchange, as a result of customer activities, underwriting, and proprietary trading.

We have established enterprise-wide policies and methodologies to identify, measure, monitor, and report market risk. Market Risk Management provides independent oversight by monitoring compliance with these limits and guidelines, and reporting significant risks in the business to the Risk Committee of the Board.

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 the Asset and Liability Committee and the Risk Committee of the Board.

Sensitivity results and market interest rate benchmarks for the fourth quarters of 2008 and 2007 follow:

Interest Sensitivity Analysis

	Fourth Quarter 2008	Fourth Quarter 2007
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	**(0.7)%**	(2.8)%
100 basis point decrease	**(0.5)%**	2.9%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	**1.9%**	(6.4)%
100 basis point decrease	**(3.1)%**	4.4%
Duration of Equity Model		
Base case duration of equity (in years):	**NM(a)**	2.1
Key Period-End Interest Rates		
One month LIBOR	**.44%**	4.60%
Three-year swap	**1.76%**	3.91%

(a) NM = not meaningful. 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.

Table of Contents

Net Interest Income Sensitivity To Alternative Rate Scenarios (Fourth Quarter 2008)

	PNC Economist	Market Forward	Two-Ten Inversion
First year sensitivity	**0.5%**	**(0.2)%**	**2.3%**
Second year sensitivity	**4.9%**	**2.4%**	**2.3%**

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 market rates.

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

The results of the fourth quarter 2008 interest sensitivity analyses reflect our current best estimates of the impact of integrating National City s balance sheet, including the preliminary effects of purchase accounting, balance sheet repositioning, and deposit pricing strategies. Going forward as these estimates and strategies are finalized or revised, the results of our analyses may change. The fourth quarter 2008 analyses also reflect the impact of the rapid decline in market interest rates that occurred during that quarter, in which period-end one-month LIBOR and three-year swap rates declined 349 basis points and 197 basis points, respectively.

The fourth quarter 2008 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 2008, our VaR ranged between $5.4 million and $18.4 million, averaging $10.8 million. During 2007, our VaR ranged between $6.1 million and $12.8 million, averaging $8.5 million. The increase in VaR compared with 2007 reflected ongoing market volatility.

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. As a result of increased volatility in certain markets, there were 10 such instances during 2008 compared with two such instances in 2007.

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

Total trading revenue for the past three years was as follows:

Year end December 31 in millions	**2008**	2007	2006
Net interest income (expense)	**$ 72**	$ 7	$ (6)
Noninterest income	**(55)**	104	183
Total trading revenue	**$ 17**	$ 111	$ 177
Securities underwriting and trading (a)	**$ (17)**	$ 41	$ 38
Foreign exchange	**73**	58	55
Financial derivatives	**(39)**	12	84
Total trading revenue	**$ 17**	$ 111	$ 177

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

Table of Contents

The decline in total trading revenue for 2008 primarily related to losses sustained in our proprietary trading activities. These decreases reflected the negative impact of significant widening of market credit spreads in extremely illiquid markets. We took the following steps during 2008 to reduce our proprietary trading positions:

- Sold Hilliard Lyons on March 31, 2008, including their proprietary trading positions;
- Significantly reduced the PNC Capital Markets municipal bond arbitrage book during the first half of 2008, closing it completely by August 2008;
- Reduced significantly proprietary risk taking within the customer-focused equity derivatives book during 2008;
- Reduced convertible arbitrage book positions during 2008 from close to $225 million face value of bonds to close to $100 million;
- Terminated all derivative positions hedging municipal bond exposure in tender option bond trusts, terminated the trusts, and transferred the remaining long municipal bond position (approximately $300 million face value) to the available for sale portfolio. This transfer occurred in the fourth quarter of 2008;
- Sold down approximately 80% of the positions in the non-agency mortgage-backed securities and commercial mortgage-backed securities proprietary trading books during 2008. The remaining positions (market value of approximately $300 million) were transferred to the available for sale portfolio after terminating swap hedges. This transfer occurred in the fourth quarter of 2008; and
- Significantly reduced all other proprietary trading positions including interest rate swaps, futures, swap options and credit default swaps.

Trading securities at December 31, 2008 totaled $1.7 billion, including $1 billion from National City, compared with $3.6 billion at December 31, 2007 and reflected our risk management actions outlined above.

Average trading assets and liabilities for the past three years consisted of the following:

Year ended - in millions	**2008**	2007	2006
Assets			
Securities (a)	**$ 2,387**	$ 2,708	$ 1,712
Resale agreements (b)	**1,794**	1,133	623
Financial derivatives (c)	**2,389**	1,378	1,148
Loans at fair value (c)	**83**	166	128
Total assets	**$ 6,653**	$ 5,385	$ 3,611
Liabilities			
Securities sold short (d)	**$ 1,294**	$ 1,657	$ 965
Repurchase agreements and other borrowings (e)	**756**	520	833
Financial derivatives (f)	**2,423**	1,384	1,103
Borrowings at fair value (f)	**22**	39	31
Total liabilities	**$ 4,495**	$ 3,600	$ 2,932

(a) Included in Interest-earning assets-Other on the Average Consolidated Balance Sheet And Net Interest Analysis.
(b) Included in Federal funds sold and resale agreements.
(c) Included in Noninterest-earning assets-Other.
(d) Included in Other borrowed funds.
(e) Included in Repurchase agreements and Other borrowed funds.
(f) Included in Accrued expenses and other liabilities.

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. In addition to extending credit, taking deposits, and underwriting and trading financial instruments, we make and manage direct investments in a variety of transactions, including management buyouts, recapitalizations, and later-stage growth financings in a variety of industries. We also have investments in affiliated and non-affiliated funds that make similar investments in private equity and in debt and equity-oriented hedge funds. The economic and/or book value of these investments and other assets such as loan servicing rights are directly affected by changes in market factors.

The primary risk measurement for equity and other investments is economic capital. Economic capital is a common measure of risk for credit, market and operational risk. It is an estimate of the worst-case value depreciation over one year within a 99.9% confidence level. Given the illiquid nature of many of these types of investments, it can be a challenge to determine their fair values. Market Risk Management and Finance provide independent oversight of the valuation process.

Various PNC business units manage our private equity and other investment activities. Our businesses are responsible for making investment decisions within the approved policy limits and associated guidelines.

BlackRock

PNC owns approximately 43 million shares of BlackRock common stock, accounted for under the equity method. Our total investment in BlackRock was $4.2 billion at December 31, 2008 compared with $4.1 billion at December 31, 2007. The market value of our investment in BlackRock was $5.8 billion at December 31, 2008. The primary risk measurement, similar to other equity investments, is economic capital.

The discussion of BlackRock within the Business Segments Review section of this Item 7 includes information about changes in our ownership structure of BlackRock in 2009.

Tax Credit Investments

Included in our equity investments are limited partnerships that sponsor tax credit investments. These investments, consisting of partnerships as well as equity investments held by consolidated partnerships, totaled $2.3 billion at December 31, 2008. Investments accounted for under the

Table of Contents

equity method totaled $1.7 billion while investments accounted for under the cost method totaled $648 million at December 31, 2008. These investments totaled $1.0 billion at December 31, 2007, all of which were accounted for under the equity method.

Visa

At December 31, 2008, our remaining investment in Visa Class B common shares totaled approximately 23.2 million shares, including 19.7 million shares acquired in connection with our National City acquisition. The Visa B shares owned by National City were recorded by PNC at fair value (including a liquidity discount) as part of our acquisition. The PNC-owned Visa B shares are recorded at zero book value. Considering the expected reduction in the IPO conversion ratio due to settled litigation reported by Visa, these shares would convert to approximately 14.6 million of the publicly traded Visa Class A common shares. Based on the December 31, 2008 closing price of $52.45 for the Visa shares, our remaining investment had an unrecognized pretax value of approximately $312 million at that date. The Visa Class B common shares we own generally will not be transferable 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. As stated above, 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 25 Commitments and Guarantees in our Notes To Consolidated Financial Statements included in Item 8 of this Report has further information on our Visa indemnification obligation.

Private Equity

The private equity portfolio is comprised of equity and mezzanine investments that vary by industry, stage and type of investment. Private equity investments are reported at fair value. Changes in the values of private equity investments are reflected in our results of operations. Due to the nature of the investments, the valuations incorporate assumptions as to future performance, financial condition, liquidity, availability of capital, and market conditions, among other factors, to determine the estimated fair value of the investments. Market conditions and actual performance of the investments could differ from these assumptions. Accordingly, lower valuations may occur that could adversely impact earnings in future periods. Also, the valuations may not represent amounts that will ultimately be realized from these investments. See Note 1 Accounting Policies in Item 8 for additional information.

At December 31, 2008, private equity investments carried at estimated fair value totaled $1.2 billion compared with $561 million at December 31, 2007. As of December 31, 2008, $620 million was invested directly in a variety of companies and $566 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 minority and noncontrolling interests of these funds totaled $142 million as of December 31, 2008. Our unfunded commitments related to private equity totaled $540 million at December 31, 2008 compared with $270 million at December 31, 2007.

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 December 31, 2008, other investments totaled $853 million compared with $384 million at December 31, 2007. We recognized losses related to these investments of $156 million during 2008 including $76 million in the fourth quarter. Given the nature of these investments and if current market conditions affecting their valuation were to continue or worsen, we could incur future losses.

Our unfunded commitments related to other investments totaled $178 million at December 31, 2008 compared with $79 million at December 31, 2007.

IMPACT OF INFLATION

Our assets and liabilities are primarily monetary in nature. Accordingly, future changes in prices do not affect the obligations to pay or receive fixed and determinable amounts of money. During periods of inflation, monetary assets lose value in terms of purchasing power and monetary liabilities have corresponding purchasing power gains. The concept of purchasing power, however, is not an adequate indicator of the effect of inflation on banks because it does not take into account changes in interest rates, which are an important determinant of our earnings.

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 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 and Note 17 Financial Derivatives in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Table of Contents

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 characteristics, among other reasons.

The following tables provide the notional or contractual amounts and estimated net fair value of financial derivatives used for risk management and designated as accounting hedges as well as free-standing derivatives at December 31, 2008 and 2007. Weighted-average interest rates presented are based on contractual terms, if fixed, or the implied forward yield curve at each respective date, if floating.

Financial Derivatives 2008

December 31, 2008 - dollars in millions	Notional/ Contractual Amount	Estimated Net Fair Value	Weighted Average Maturity	Weighted-Average Interest Rates Paid	Weighted-Average Interest Rates Received
Accounting Hedges					
Interest rate risk management					
Asset rate conversion					
Interest rate swaps (a)					
Receive fixed	**$ 5,618**	**$ 527**	**3 yrs.**	**2.18%**	**4.76%**
Liability rate conversion					
Interest rate swaps (a)					
Receive fixed	**9,888**	**888**	**3 yrs. 7 mos.**	**2.27%**	**4.73%**
Total interest rate risk management	**15,506**	**1,415**			
Total accounting hedges (b)	**$ 15,506**	**$ 1,415**			
Free-Standing Derivatives					
Customer-related					
Interest rate					
Swaps (c)	**$ 97,337**	**$ (161)**	**4 yrs. 9 mos.**	**3.08%**	**3.07%**
Caps/floors					
Sold (c)	**3,878**	**(12)**	**4 yrs. 4 mos.**	**NM**	**NM**
Purchased	**2,410**	**8**	**2 yrs. 10 mos.**	**NM**	**NM**
Futures	**8,878**		**1 yr. 1 mo.**	**NM**	**NM**
Foreign exchange (c)	**8,877**	**(3)**	**5 mos.**	**NM**	**NM**
Equity	**984**	**(4)**	**1 yr.**	**NM**	**NM**
Swaptions	**3,058**	**160**	**13 yrs. 2 mos.**	**NM**	**NM**
Other	**335**	**12**	**3 yrs. 3 mos.**	**NM**	**NM**
Total customer-related	**125,757**				
Residential mortgage servicing rights	**52,980**	**109**	**5 yrs. 10 mos.**	**NM**	**NM**
Other risk management and proprietary					
Interest rate					
Swaps (d)	**24,481**	**667**	**3 yrs.**	**3.93%**	**2.70%**
Caps/floors					
Sold	**514**		**1 yr. 4 mos.**	**NM**	**NM**
Purchased	**280**	**1**	**4 yrs. 7 mos.**	**NM**	**NM**
Futures	**8,359**		**8 mos.**	**NM**	**NM**
Foreign exchange	**95**		**4 mos.**	**NM**	**NM**
Credit derivatives	**2,937**	**205**	**13 yrs. 8 mos.**	**NM**	**NM**
Risk participation agreements	**3,290**		**3 yrs. 1 mo.**	**NM**	**NM**
Commitments related to mortgage-related assets (c)	**18,853**	**(12)**	**1 mo.**	**NM**	**NM**
Options					
Swaptions	**276**	**17**	**10 yrs. 11 mos.**	**NM**	**NM**
Other (e)	**438**	**44**	**NM**	**NM**	**NM**
Total other risk management and proprietary	**59,523**	**922**			
Total free-standing derivatives	**$ 238,260**	**$ 1,031**			

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 55% were based on 1-month LIBOR and 45% on 3-month LIBOR.
(b) Fair value amount includes net accrued interest receivable of $147 million.
(c) The increases in the negative fair values from December 31, 2007 to December 31, 2008 for interest rate contracts, foreign exchange and commitments related to mortgage-related assets were due to the changes in fair values of the existing contracts along with new contracts entered into during 2008.
(d) Due to the adoption of SFAS 159 as of January 1, 2008, we discontinued hedge accounting for our commercial mortgage banking pay-fixed interest rate swaps; therefore, the fair value of these are now reported in this category.
(e) Relates to PNC s obligation to help fund certain BlackRock LTIP programs. Additional information regarding the BlackRock/MLIM transaction and our BlackRock LTIP shares obligation is included in Note 2 Acquisitions and Divestitures included in the Notes to Consolidated Financial Statements in Item 8 of this Report.
NM Not meaningful

Table of Contents

Financial Derivatives 2007

December 31, 2007- dollars in millions	Notional/ Contractual Amount	Estimated Net Fair Value	Weighted Average Maturity	Weighted-Average Interest Rates Paid	Weighted-Average Interest Rates Received
Accounting Hedges					
Interest rate risk management					
Asset rate conversion					
Interest rate swaps (a)					
Receive fixed	$ 7,856	$ 325	4 yrs. 2 mos.	4.28%	5.34%
Liability rate conversion					
Interest rate swaps (a)					
Receive fixed	9,440	269	4 yrs. 10 mos.	4.12%	5.09%
Total interest rate risk management	17,296	594			
Commercial mortgage banking risk management					
Pay fixed interest rate swaps (a)	1,128	(79)	8 yrs. 8 mos.	5.45%	4.52%
Total accounting hedges (b)	$ 18,424	$ 515			
Free-Standing Derivatives					
Customer-related					
Interest rate					
Swaps	$ 61,768	$ (39)	5 yrs. 4 mos.	4.46%	4.49%
Caps/floors					
Sold	2,837	(5)	6 yrs. 5 mos.	NM	NM
Purchased	2,356	7	3 yrs. 7 mos.	NM	NM
Futures	5,564		8 mos.	NM	NM
Foreign exchange	7,028	8	7 mos.	NM	NM
Equity	1,824	(69)	1 yr. 5 mos.	NM	NM
Swaptions	3,490	40	13 yrs. 10 mos.	NM	NM
Other	200		10 yrs. 6 mos.	NM	NM
Total customer-related	85,067	(58)			
Other risk management and proprietary					
Interest rate					
Swaps	41,247	6	4 yrs. 5 mos.	4.44%	4.47%
Caps/floors					
Sold	6,250	(82)	2 yrs. 1 mo.	NM	NM
Purchased	7,760	117	1 yr. 11 mos.	NM	NM
Futures	43,107		1 yr. 7 mos.	NM	NM
Foreign exchange	8,713	5	6 yrs. 8 mos.	NM	NM
Credit derivatives	5,823	42	12 yrs. 1 mo.	NM	NM
Risk participation agreements	1,183		4 yrs. 6 mos.	NM	NM
Commitments related to mortgage-related assets	3,190	10	4 mos.	NM	NM
Options					
Futures	39,158	(2)	8 mos.	NM	NM
Swaptions	21,800	49	8 yrs. 1 mo.	NM	NM
Other (c)	442	(201)	NM	NM	NM
Total other risk management and proprietary	178,673	(56)			
Total free-standing derivatives	$ 263,740	$ (114)			

(a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of a notional amount, 52% were based on 1-month LIBOR, 43% on 3-month LIBOR and 5% on Prime Rate.

(b) Fair value amounts include net accrued interest receivable of $130 million.

(c) See (e) on page 70.

NM Not meaningful

Table of Contents

2007 VERSUS 2006

CONSOLIDATED INCOME STATEMENT REVIEW

Summary Results

Consolidated net income for 2007 was $1.467 billion or $4.35 per diluted share and for 2006 was $2.595 billion or $8.73 per diluted share.

Net income for 2006 included the after-tax impact of the following items:

- The third quarter gain on the BlackRock/MLIM transaction of $1.3 billion, or $4.36 per diluted share;
- The third quarter securities portfolio rebalancing loss of $127 million, or $.43 per diluted share;
- BlackRock/MLIM transaction integration costs of $47 million, or $.16 per diluted share, and
- The third quarter mortgage loan portfolio repositioning loss of $31 million, or $.10 per diluted share.

The aggregate impact of these items increased 2006 net income by $1.1 billion, or $3.67 per diluted share.

Net Interest Income

Net interest income was $2.915 billion for 2007 and $2.245 billion for 2006, an increase of $670 million, or 30%. This increase was consistent with the $20.3 billion, or 26%, increase in average interest-earning assets during 2007 compared with 2006. The net interest margin was 3.00% in 2007 and 2.92% for 2006, an increase of 8 basis points.

Provision For Credit Losses

The provision for credit losses totaled $315 million for 2007 and $124 million for 2006. Of the total 2007 provision, $188 million was recorded in the fourth quarter, including approximately $45 million related to our Yardville acquisition. The higher provision in 2007 was also impacted by an increase in our real estate portfolio, including residential real estate development exposure, and growth in total credit exposure. Total residential real estate development outstandings were approximately $2.1 billion at December 31, 2007.

Noninterest Income

Summary

Noninterest income was $3.790 billion for 2007 and $6.327 billion for 2006. Noninterest income for 2007 included the impact of an $83 million gain recognized in connection with our transfer of BlackRock shares to satisfy a portion of PNC s LTIP obligation and a $210 million net loss representing the mark-to-market adjustment on our LTIP obligation.

Noninterest income for 2006 included the impact of the following items:

- The gain on the BlackRock/MLIM transaction, which totaled $2.078 billion,
- The effects of our third quarter 2006 balance sheet repositioning activities that resulted in charges totaling $244 million, and
- PNC consolidated BlackRock in its results for the first nine months of 2006 but accounted for BlackRock on the equity method for the fourth quarter of 2006 and all of 2007. Had our BlackRock investment been on the equity method for all of 2006, BlackRock s noninterest income reported by us would have been lower by $943 million for that year.

Apart from the impact of these items, noninterest income increased $367 million, or 10%, in 2007 compared with 2006 largely as a result of the Mercantile acquisition and growth in several fee income categories.

Additional analysis

Fund servicing fees declined $58 million in 2007, to $835 million, compared with $893 million in the prior year. Amounts for 2006 included $117 million of distribution fee revenue at Global Investment Servicing. Effective January 1, 2007, we refined our accounting and reporting of Global Investment Servicing s distribution fee revenue and related expense amounts and present these amounts net on a prospective basis. Prior to 2007, the distribution amounts were shown on a gross basis within fund servicing fees and within other noninterest expense and offset each other entirely with no impact on earnings.

Apart from the impact of the distribution fee revenue included in the 2006 amounts, fund servicing fees increased $59 million in 2007 compared with the prior year. Higher revenue from offshore operations, transfer agency, managed accounts and alternative investments contributed to the increase in 2007, reflecting net new business and growth from existing clients.

Asset management fees totaled $784 million for 2007 and $1.420 billion for 2006. Our equity income from BlackRock has been included in asset management fees beginning with the fourth quarter of 2006. Asset management fees were higher in 2006 as the first nine months of 2006 reflected the impact of BlackRock s revenue on a consolidated basis.

Assets managed at December 31, 2007 totaled $74 billion compared with $54 billion at December 31, 2006. This increase resulted primarily from the Mercantile acquisition.

Consumer services fees increased $81 million, or 13%, to $692 million in 2007 compared with 2006. The increase reflected the impact of Mercantile, higher brokerage fees, higher debit card revenues resulting from higher transaction volumes, and fees from the credit card business that began in the latter part of 2006.

Corporate services revenue was $713 million for 2007, an increase of $87 million, or 14%, over 2006. Higher revenue from commercial mortgage servicing including the impact of the ARCS acquisition, treasury management, third party consumer loan servicing activities and the Mercantile acquisition contributed to the increase in 2007 over the prior year.

Service charges on deposits increased $35 million, or 11%, to $348 million for 2007 compared with 2006. The increase was primarily due to the impact of Mercantile.

Net securities losses totaled $5 million in 2007 and $207 million in 2006. We took actions during the third quarter of 2006 that resulted in the sale of approximately $6 billion of investment securities at an aggregate pretax loss of $196 million during that quarter.

Other noninterest income decreased $170 million, to $423 million, in 2007 compared with 2006. Net losses of $127 million in 2007 representing the net of the mark-to-market adjustment on our LTIP obligation and gain recognized in connection with our transfer of shares to satisfy a portion of our LTIP obligation, compared with a net loss of $12 million on our LTIP shares obligation in 2006, where such obligation was applicable in the fourth quarter. Noninterest revenue from trading activities totaled $104 million in 2007 compared with $183 million in 2006. While customer trading income increased in comparison, total trading revenue declined in 2007 largely due to the lower economic hedging gains associated with commercial mortgage loan activity and economic hedging losses associated with structured resale agreements. Other noninterest income for 2006 included a $48 million loss incurred in the third quarter in connection with the rebalancing of our residential mortgage portfolio.

Noninterest income for 2006 also included the $2.078 billion gain on the BlackRock/MLIM transaction, whereas there was no similar transaction in 2007.

Noninterest Expense

Total noninterest expense was $4.296 billion for 2007, a decrease of $147 million compared with $4.443 billion for 2006.

Noninterest expense for 2007 included the following:

- Acquisition integration costs of $102 million, and
- A charge of $82 million for an indemnification obligation related to certain Visa litigation.

Noninterest expense for 2006 included the following:

- The first nine months of 2006 included $765 million of expenses related to BlackRock, which was still consolidated during that time, and
- BlackRock/MLIM transaction integration costs totaling $91 million.

Apart from the impact of these items, noninterest expense increased $525 million, or 15%, in 2007 compared with 2006.

These increases were largely a result of the acquisition of Mercantile. Investments in growth initiatives were mitigated by disciplined expense management.

Effective Tax Rate

Our effective tax rate was 29.9% for 2007 and 34% for 2006. The lower effective tax rate in 2007 compared with the prior year reflected the impact of the following matters:

- An increase in income taxes related to the gain from, and a $57 million cumulative adjustment to increase deferred income taxes in connection with, the BlackRock/MLIM transaction in 2006, and
- Lower pretax income for the fourth quarter of 2007 had the impact of reducing the effective tax rate for the full year.

Consolidated Balance Sheet Review

Loans

Loans increased $18.2 billion, or 36%, as of December 31, 2007 compared with December 31, 2006. Our Mercantile acquisition added $12.4 billion of loans including $4.9 billion of commercial, $4.8 billion of commercial real estate, $1.6 billion of consumer and $1.1 billion of residential mortgage loans. Our Yardville acquisition added $1.9 billion of loans.

Securities

Total securities at December 31, 2007 were $30.2 billion compared with $23.2 billion at December 31, 2006. Securities represented 22% of total assets at December 31, 2007 and 23% of total assets at December 31, 2006. Our acquisition of Mercantile included approximately $2 billion of securities classified as available for sale. The increase in total securities compared with December 31, 2006 was primarily due to higher balances in residential mortgage-backed, commercial mortgage-backed and asset-backed securities.

At December 31, 2007, the investment securities balance included a net unrealized loss of $265 million, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2006 was a net unrealized loss of $142 million. The expected weighted-average life of investment securities (excluding corporate stocks and other) was 3 years and 6 months at December 31, 2007 and 3 years and 8 months at December 31, 2006.

Loans Held For Sale

Loans held for sale totaled $3.9 billion at December 31, 2007 compared with $2.4 billion at December 31, 2006.

Loans held for sale included commercial mortgage loans intended for securitization totaling $2.1 billion at December 31, 2007 and $.9 billion at December 31, 2006. The balance at December 31, 2007 increased as market conditions were not conducive to completing securitization transactions during the fourth quarter of 2007.

Loans held for sale also included education loans held for sale of $1.5 billion at December 31, 2007 and $1.3 billion at December 31, 2006. Gains on sales of education loans totaled $24 million in 2007 and $33 million for 2006. These gains are reflected in the other noninterest income line item in our Consolidated Income Statement and in the results of the Retail Banking business segment.

Asset Quality

Total nonperforming assets at December 31, 2007 increased $311 million, to $495 million, compared with December 31, 2006. Nonperforming loans, the largest component of nonperforming assets, increased $294 million, to $454 million, at December 31, 2007 compared with December 31, 2006. Of this increase in nonperforming loans, $192 million occurred during the fourth quarter of 2007. The increase was primarily due to higher nonaccrual commercial real estate loans primarily related to residential real estate development exposure. At December 31, 2007, our largest nonperforming asset was approximately $20 million and our average nonperforming loan associated with commercial lending was approximately $0.5 million.

The ratio of nonperforming assets to total assets rose to .36% at December 31, 2007 compared with .18% at December 31, 2006. The allowance for loan and lease losses was $830 million and represented 1.21% of total loans and 183% of nonperforming loans at December 31, 2007. The comparable amounts were $560 million, 1.12% and 350%, respectively, at December 31, 2006.

Goodwill and Other Intangible Assets

The sum of goodwill and other intangible assets increased $5.5 billion at December 31, 2007 compared with the prior year end, to $9.6 billion. We added $4.7 billion of goodwill and other intangible assets in connection with the Mercantile acquisition. In addition, our acquisitions of ARCS, Yardville and Albridge collectively added $.9 billion of goodwill and other intangible assets during 2007.

Funding Sources

Total funding sources were $113.6 billion at December 31, 2007 and $81.3 billion at December 31, 2006. Funding sources increased $32.3 billion in the comparison as total deposits increased $16.4 billion and total borrowed funds increased $15.9 billion. Our acquisition of Mercantile added $12.5 billion of deposits and $2.1 billion of borrowed funds. The Yardville acquisition resulted in $2.0 billion of deposits.

During the first quarter of 2007 we issued borrowings to fund the $2.1 billion cash portion of the Mercantile acquisition. The remaining increase in borrowed funds was the result of growth in loans and securities and the need to fund other net changes in our balance sheet. During the second half of 2007 we substantially increased Federal Home Loan Bank borrowings, which provided us with additional liquidity at relatively attractive rates.

Shareholders Equity

Total shareholders equity increased $4.1 billion, to $14.9 billion, at December 31, 2007 compared with December 31, 2006. In addition to the net impact of earnings and dividends in 2007, this increase reflected a $2.5 billion reduction in treasury stock and a $1.0 billion increase in capital surplus, largely due to the issuance of PNC common shares for the Mercantile and Yardville acquisitions.

Regulatory capital ratios at December 31, 2007 were 6.2% for leverage, 6.8% for Tier 1 risk-based and 10.3% for total risk-based capital. At December 31, 2006, the regulatory capital ratios were 9.3% for leverage, 10.4% for Tier 1 risk-based and 13.5% for total risk-based capital.

Glossary of Terms

Accounting/administration net fund assets - Net domestic and foreign fund investment assets for which we provide accounting and administration services. We do not include these assets on our Consolidated Balance Sheet.

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.

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 carrying amount by the allowance for loan losses associated with such loan or, if the market value is less than its carrying amount, by the amount of that difference.

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.

Custody assets - Investment assets held on behalf of clients under safekeeping arrangements. We do not include these assets on our Consolidated Balance Sheet. Investment assets held in custody at other institutions on our behalf are included in the appropriate asset categories on the Consolidated Balance Sheet as if physically held by us.

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 forward contracts, futures, options and swaps.

Distressed loan portfolio - Includes residential real estate development loans, cross border leases, subprime residential mortgage loans, brokered home equity loans and certain other residential real estate loans. These loans require special servicing and management oversight given current market conditions. The majority of these loans are from acquisitions, primarily National City.

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, net of unearned income; investment securities; and certain other assets.

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

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

Impaired loans - Acquired loans determined to be credit impaired under AICPA Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. 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.

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.

Table of Contents

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.

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.

Other-than-temporary impairment - Impairment occurs when the fair value of a security is less than its cost. The impairment

is considered other-than-temporary when it is probable that the holder will be unable to collect all amounts due according to contractual terms of a debt security at acquisition. A few factors that are considered to determine whether a decline in fair value is other than temporary may include a) the length of the time and the extent to which the market value has been less than cost; b) the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the investment or the discontinuance of a segment of the business that may affect the future earnings potential; or c) the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

Securities determined to be other-than-temporary-impaired are written down to fair value with the loss recognized in income during the period in which the assessment is made. The fair value would take into account credit and liquidity risk.

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.

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 divided by average common shareholders equity.

Return on average tangible common shareholders equity - Annualized net income less preferred stock dividends divided by average common shareholders equity less goodwill and other intangible assets (net of deferred taxes for both taxable and nontaxable combinations), and excluding mortgage servicing rights.

Risk-weighted assets - Primarily 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.

Table of Contents

Tangible common equity ratio - Period-end common shareholders equity less goodwill and other intangible assets (net of deferred taxes), and excluding mortgage servicing rights, divided by period-end assets less goodwill and other intangible assets (net of deferred taxes), and excluding mortgage servicing rights.

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.

Tier 1 risk-based capital - Tier 1 risk-based capital equals: total shareholders equity, plus trust preferred capital securities, plus certain minority 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 fund assets serviced - Total domestic and offshore fund investment assets for which we provide related processing services. We do not include these assets on our Consolidated Balance Sheet.

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 minority 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.

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, expect, anticipate, intend, outlook, estimate, forecast, will, project and other similar words and expressions.

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 elsewhere in this Report, including in the Risk Factors and Risk Management sections. 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 customer preferences and behavior, whether as a result of changing business and economic conditions or other factors.

A continuation of recent 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 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 through 2009 with continued wide market credit spreads, and our view that national economic trends currently point to a continuation of severe recessionary conditions in 2009 followed by a subdued recovery.

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 the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, and other

developments in response to the current economic and financial industry environment, including current and future conditions or restrictions imposed as a result of our participation in the TARP Capital Purchase Program.

Legislative and regulatory reforms generally, including 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 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.

Our issuance of securities to the US Department of the Treasury may limit our ability to return capital to our shareholders and is dilutive to our common shares. If we are unable previously to redeem the shares, the dividend rate increases substantially after five years.

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.

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.

Table of Contents

This material is referenced for informational purposes only and should not be deemed to constitute a part of this report.

In addition, our recent acquisition of National City Corporation (National City) presents us with a number of risks and uncertainties related both to the acquisition transaction itself and to the integration of the acquired businesses into PNC. These risks and uncertainties include the following:

- The transaction may be substantially more expensive to complete (including the required divestitures and the integration of National City s businesses) and the anticipated benefits, including anticipated cost savings and strategic gains, may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events.
- Our ability to achieve anticipated results from this transaction is dependent on the state going forward of the economic and financial markets, which have been under significant stress recently. 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.
- Litigation and governmental investigations currently pending against National City, as well as others that may be filed 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 will include 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 will result 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.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is set forth in the Risk Management section of Item 7 of this Report.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Included below is the report of our current independent registered public accounting firm. The report of our previous independent registered public accounting firm is included under Item 15 of this Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of The PNC Financial Services Group, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders equity, and cash flows present fairly, in all material respects, the financial position of The PNC Financial Services Group, Inc. and its subsidiaries (the Company) at December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and

Table of Contents

evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection

of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management s Report on Internal Control over Financial Reporting, management has excluded National City Corporation from its assessment of internal control over financial reporting as of December 31, 2008 because it was acquired by the Company in a purchase business combination on December 31, 2008. We have also excluded National City Corporation from our audit of internal control over financial reporting. National City Corporation s total assets represented $136 billion of the related consolidated financial statement amount as of December 31, 2008.

/s/ PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
March 2, 2009

Table of Contents

CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

	Year ended December 31		
In millions, except per share data	**2008**	2007	2006
Interest Income			
Loans	**$ 4,138**	$ 4,232	$ 3,203
Investment securities	**1,746**	1,429	1,049
Other	**429**	505	360
Total interest income	**6,313**	6,166	4,612
Interest Expense			
Deposits	**1,485**	2,053	1,590
Borrowed funds	**1,005**	1,198	777
Total interest expense	**2,490**	3,251	2,367
Net interest income	**3,823**	2,915	2,245
Noninterest Income			
Fund servicing	**904**	835	893
Asset management	**686**	784	1,420
Consumer services	**623**	692	611
Corporate services	**704**	713	626
Service charges on deposits	**372**	348	313
Net securities losses	**(206)**	(5)	(207)
Gain on BlackRock/MLIM transaction			2,078
Other	**284**	423	593
Total noninterest income	**3,367**	3,790	6,327
Total revenue	**7,190**	6,705	8,572
Provision for credit losses	**1,517**	315	124
Noninterest Expense			
Personnel	**2,154**	2,140	2,432
Occupancy	**368**	350	310
Equipment	**359**	311	303
Marketing	**125**	115	104
Other	**1,424**	1,380	1,294
Total noninterest expense	**4,430**	4,296	4,443
Income before minority interest and income taxes	**1,243**	2,094	4,005
Minority interest in income of BlackRock			47
Income taxes	**361**	627	1,363
Net income	**$ 882**	$ 1,467	$ 2,595
Earnings Per Common Share			
Basic	**$ 2.50**	$ 4.43	$ 8.89
Diluted	**$ 2.46**	$ 4.35	$ 8.73
Average Common Shares Outstanding			
Basic	**344**	331	292
Diluted	**347**	335	297

See accompanying Notes To Consolidated Financial Statements.

Table of Contents

CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except par value	December 31 2008	2007
Assets		
Cash and due from banks	**$ 4,471**	$ 3,567
Federal funds sold and resale agreements (includes $1,072 measured at fair value at December 31, 2008) (a)	**1,856**	2,729
Trading securities	**1,725**	3,556
Interest-earning deposits with banks	**14,859**	346
Other short-term investments	**1,025**	227
Loans held for sale (includes $1,400 measured at fair value at December 31, 2008) (a)	**4,366**	3,927
Investment securities	**43,473**	30,225
Loans	**175,489**	68,319
Allowance for loan and lease losses	**(3,917)**	(830)
Net loans	**171,572**	67,489
Goodwill	**8,868**	8,405
Other intangible assets	**2,820**	1,146
Equity investments	**8,554**	6,045
Other	**27,492**	11,258
Total assets	**$ 291,081**	$ 138,920
Liabilities		
Deposits		
Noninterest-bearing	**$ 37,148**	$ 19,440
Interest-bearing	**155,717**	63,256
Total deposits	**192,865**	82,696
Borrowed funds		
Federal funds purchased and repurchase agreements	**5,153**	9,774
Federal Home Loan Bank borrowings	**18,126**	7,065
Bank notes and senior debt	**13,664**	6,821
Subordinated debt	**11,208**	4,506
Other	**4,089**	2,765
Total borrowed funds	**52,240**	30,931
Allowance for unfunded loan commitments and letters of credit	**344**	134
Accrued expenses	**3,949**	4,330
Other	**14,035**	4,321
Total liabilities	**263,433**	122,412
Minority and noncontrolling interests in consolidated entities	**2,226**	1,654
Shareholders Equity		
Preferred stock (b)		
Common stock $5 par value		
Authorized 800 shares, issued 452 and 353 shares	**2,261**	1,764
Capital surplus preferred stock	**7,918**	
Capital surplus common stock and other	**8,328**	2,618
Retained earnings	**11,461**	11,497
Accumulated other comprehensive loss	**(3,949)**	(147)
Common stock held in treasury at cost: 9 and 12 shares	**(597)**	(878)
Total shareholders equity	**25,422**	14,854
Total liabilities, minority and noncontrolling interests, and shareholders equity	**$ 291,081**	$ 138,920

(a) Amounts represent items for which the Corporation has elected the fair value option under SFAS 159.

(b) Par value less than $.5 million at each date.

See accompanying Notes To Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions	Shares Outstanding Common Stock	Common Stock	Capital Surplus - Preferred Stock	Capital Surplus - Common Stock and Other	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2006 (a)	293	$ 1,764		$ 1,299	$ 9,023	$ (267)	$ (3,256)	$ 8,563
Net income					2,595			2,595
Net unrealized securities losses						149		149
Net unrealized losses on cash flow hedge derivatives						13		13
Additional minimum pension liability under SFAS 87						(1)		(1)
Other						3		3
Comprehensive income								2,759
Cash dividends declared								
Common					(632)			(632)
Preferred					(1)			(1)
BlackRock/MLIM transaction (b)				262				262
Treasury stock activity (c)				(12)			(121)	(133)
Tax benefit of stock option plans				29				29
Stock options granted				31				31
Effect of BlackRock equity transactions				27				27
Restricted stock/unit and incentive/performance unit share transactions				15				15
Net effect of adopting SFAS 158						(132)		(132)
Balance at December 31, 2006 (a)	293	$ 1,764		$ 1,651	$ 10,985	$ (235)	$ (3,377)	$ 10,788
Net income					1,467			1,467
Net unrealized securities losses						(76)		(76)
Net unrealized gains on cash flow hedge derivatives						188		188
Pension, other postretirement and postemployment benefit plan adjustments						(29)		(29)
Other						5		5
Comprehensive income								1,555
Cash dividends declared common					(806)			(806)
Net effect of adopting FSP FAS 13-2					(149)			(149)
Treasury stock issued for acquisitions	56			872			3,147	4,019
Treasury stock activity all other	(8)			(17)			(648)	(665)
Tax benefit of stock option plans				18				18
Stock options granted				28				28
Effect of BlackRock equity transactions				53				53
Restricted stock/unit and incentive/performance unit share transactions				13				13
Balance at December 31, 2007 (a)	341	$ 1,764		$ 2,618	$ 11,497	$ (147)	$ (878)	$ 14,854
Net effect of adopting EITF 06-4					(12)			(12)
Net effect of adopting SFAS 157 and SFAS 159					17			17
Balance at January 1, 2008	341	$ 1,764		$ 2,618	$ 11,502	$ (147)	$ (878)	$ 14,859
Net income					**882**			**882**
Other comprehensive income (loss), net of tax								
Net unrealized securities losses						**(3,459)**		**(3,459)**
Net unrealized gains on cash flow hedge derivatives						**199**		**199**
Pension, other postretirement and postemployment benefit plan adjustments						**(490)**		**(490)**
Other						**(52)**		**(52)**
Comprehensive income (loss)								**(2,920)**
Cash dividends declared								
Common					**(902)**			**(902)**

Preferred					**(21)**			**(21)**
Common stock activity acquisition	**99**	**497**		**5,419**				**5,916**
Treasury stock activity	**3**			**(110)**			**281**	**171**
Preferred stock issuance Series K			**493**					**493**
Preferred stock issuance Series L			**150**					**150**
Preferred stock issuance Series N (d)			**7,275**					**7,275**
TARP Warrant (d)				**304**				**304**
Tax benefit of stock option plans				**17**				**17**
Stock options granted				**22**				**22**
Effect of BlackRock equity transactions				**43**				**43**
Restricted stock/unit and incentive/performance unit share transactions				**15**				**15**
Balance at December 31, 2008 (a)	**443**	**$ 2,261**	**$ 7,918**	**$ 8,328**	**$ 11,461**	**$ (3,949)**	**$ (597)**	**$ 25,422**

(a) The par value of our preferred stock outstanding was less than $.5 million at each date and, therefore, is excluded from this presentation.

(b) Represents the portion of our gain on the BlackRock/MLIM transaction that was credited to capital surplus.

(c) Our net treasury stock activity in 2006 was less than .1 million shares issued.

(d) Issued to the US Department of Treasury on December 31, 2008 under the TARP Capital Purchase Program.

See accompanying Notes To Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

	Year ended December 31		
In millions	**2008**	2007	2006
Operating Activities			
Net income	**$ 882**	$ 1,467	$ 2,595
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for credit losses	**1,517**	315	124
Depreciation, amortization and accretion	**325**	332	345
Deferred income taxes (benefit)	**(261)**	78	752
Net securities losses	**206**	5	207
Loan related valuation adjustments	**253**	24	45
Gain on BlackRock/MLIM transaction			(2,078)
Net losses (gains) related to BlackRock LTIP shares adjustment	**(246)**	127	12
Undistributed earnings of BlackRock	**(129)**	(207)	(39)
Visa redemption gain	**(95)**		
Reversal of legal contingency reserve established in connection with an acquisition due to a settlement	**(61)**		
Excess tax benefits from share-based payment arrangements	**(13)**	(15)	(29)
Net change in			
Trading securities and other short-term investments	**1,459**	(552)	156
Loans held for sale	**50**	(1,465)	435
Other assets	**(1,974)**	37	173
Accrued expenses and other liabilities	**5,140**	(498)	83
Other	**361**	(64)	(622)
Net cash provided (used) by operating activities	**7,414**	(416)	2,159
Investing Activities			
Repayment of investment securities	**4,246**	4,374	3,667
Sales			
Investment securities	**10,283**	6,056	11,102
Visa shares	**95**		
Loans	**76**	329	1,110
Purchases			
Investment securities	**(19,482)**	(15,884)	(15,707)
Loans	**(249)**	(2,747)	(3,072)
Net change in			
Federal funds sold and resale agreements	**1,301**	(1,147)	(1,413)
Loans	**(4,595)**	(2,160)	(278)
Net cash received from divestitures	**377**	59	
Net cash received from (paid for) acquisitions	**2,384**	(2,602)	(58)
Purchases of corporate and bank-owned life insurance	**(350)**	(117)	(425)
Interest-earning deposits with Federal Reserve	**(6,234)**		
Other	**(838)**	(800)	(288)
Net cash used by investing activities	**(12,986)**	(14,639)	(5,362)
Financing Activities			
Net change in			
Noninterest-bearing deposits	**1,719**	230	968
Interest-bearing deposits	**2,065**	1,769	4,940
Federal funds purchased and repurchase agreements	**(8,081)**	4,057	(1,058)
Federal Home Loan Bank short-term borrowings	**(2,000)**	2,000	
Other short-term borrowed funds	**840**	514	239
Sales/issuances			
Federal Home Loan Bank long-term borrowings	**5,050**	4,750	
Bank notes and senior debt	**3,626**	4,523	1,964
Subordinated debt	**759**	943	
Other long-term borrowed funds	**96**	250	279
Perpetual trust securities	**369**	490	489
Preferred stock TARP	**7,275**		
Preferred stock Other	**492**		
TARP Warrant	**304**		

Treasury stock	**375**	253	343
Repayments/maturities			
Federal Home Loan Bank long-term borrowings	**(1,158)**	(232)	(1,124)
Bank notes and senior debt	**(3,815)**	(1,590)	(2,200)
Subordinated debt	**(140)**	(887)	(471)
Other long-term borrowed funds	**(156)**	(217)	(26)
Excess tax benefits from share-based payment arrangements	**13**	15	29
Acquisition of treasury stock	**(234)**	(963)	(531)
Cash dividends paid	**(923)**	(806)	(633)
Net cash provided by financing activities	**6,476**	15,099	3,208
Net Increase In Cash And Due From Banks	**904**	44	5
Cash and due from banks at beginning of period	**3,567**	3,523	3,518
Cash and due from banks at end of period	**$ 4,471**	$ 3,567	$ 3,523
Cash Paid For			
Interest	**$ 2,145**	$ 2,973	$ 2,376
Income taxes	**706**	659	471
Non-cash Items			
Issuance of common stock for acquisitions	**5,916**	4,019	
Issuance of preferred stock for National City acquisition	**150**		
Net increase in investment in BlackRock	**126**	180	3,179
Transfer from (to) loans held for sale to (from) loans, net	**1,763**	(288)	(2,280)
Transfer from trading securities to investment securities	**599**		
Impact of FSP FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction	**15**	252	

See accompanying Notes To Consolidated Financial Statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

As described in Note 2 Acquisitions and Divestitures, on December 31, 2008, PNC acquired National City Corporation (National City), which increased our assets to a total of $291 billion and expanded our total consolidated deposits to $193 billion.

Prior to the acquisition, PNC had businesses engaged in retail banking, corporate and institutional banking, asset management, and global investment servicing, providing many of its products and services nationally and others in PNC s primary geographic markets located in Pennsylvania, New Jersey, Washington DC, Maryland, Virginia, Ohio, Kentucky and Delaware. PNC also provided certain investment servicing internationally.

National City s primary businesses prior to its acquisition by PNC included commercial and retail banking, mortgage financing and servicing, consumer finance and asset management, operating through an extensive network in Ohio, Florida, Illinois, Indiana, Kentucky, Michigan, Missouri, Pennsylvania and Wisconsin. National City also conducted selected consumer lending businesses and other financial services on a nationwide basis.

PNC is now in the process of integrating the business and operations of National City with those of PNC.

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.

On December 31, 2008, we acquired National City. Our Consolidated Balance Sheet as of December 31, 2008 and other consolidated information presented as of that date in the Consolidated Financial Statements includes the impact of National City. See Note 2 Acquisition and Divestitures for additional information.

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform with the 2008 presentation.

These reclassifications did not have a material impact on our consolidated financial condition or results of operations.

Subsequent to the issuance of our 2006 Annual Report on Form 10-K, we determined that the Consolidated Statement of Cash Flows for the year ended December 31, 2006 should be restated. The cash flows related to the 2006 issuance of perpetual trust securities totaling $489 million had previously been classified within the Operating Activities section of the Consolidated Statement of Cash Flows. We concluded that such cash flows should have been classified within the Financing Activities section of the Consolidated Statement of Cash Flows and, accordingly, restated these amounts in Amendment No. 1 thereto on Form 10-K/A dated February 4, 2008. The Consolidated Statement of Cash Flows included in these Consolidated Financial Statements reflects this restatement.

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 and revenue recognition. Actual results may differ from the estimates and the differences may be material to the consolidated financial statements.

Business Combinations

We record the net assets of companies that we acquire at their estimated fair value at the date of acquisition and we include the results of operations of the acquired companies in our consolidated income statement from the date of acquisition. We recognize as goodwill the excess of the acquisition price over the estimated fair value of the net assets acquired. The excess of the estimated fair value of net assets acquired over the acquisition price is allocated on a pro rata basis to reduce the fair value of intangibles and non-current assets acquired.

Subsidiary Stock Transactions

We recognize as income, when appropriate, any gain from the sale or issuance by subsidiaries of their stock to third parties. The gain is the difference between our basis in the stock and the increase in the book value per share of the subsidiaries equity and is recorded in noninterest income in the Consolidated Income Statement. We provide applicable taxes on the gain.

Special Purposes Entities

Special purpose entities (SPEs) are defined as legal entities structured for a particular purpose. We use special purpose entities in various legal forms to conduct normal business activities. We review the structure and activities of special purpose entities for possible consolidation under the guidance contained in Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised 2003), Consolidation of Variable Interest Entities (FIN 46R) and Accounting Research Bulletin No. 51, Consolidated Financial Statements, as appropriate.

A variable interest entity (VIE) is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets that either:

- Does not have equity investors with voting rights that can directly or indirectly make decisions about the entity s activities through those voting rights or similar rights, or
- Has equity investors that do not provide sufficient equity for the entity to finance its activities without additional subordinated financial support.

A VIE often holds financial assets, including loans or receivables, real estate or other property.

Based on the guidance contained in FIN 46R, we consolidate a VIE if we are considered to be its primary beneficiary. The primary beneficiary will absorb the majority of the expected losses from the VIE s activities, is entitled to receive a majority of the entity s residual returns, or both. Upon consolidation of a VIE, we recognize all of the VIE s assets, liabilities and noncontrolling interests on our Consolidated Balance Sheet. See Note 3 Variable Interest Entities for information about VIEs that we do not consolidate but in which we hold a significant variable interest.

Revenue Recognition

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

- Lending,
- Securities portfolio,
- Asset management and fund servicing,
- Customer deposits,
- Loan servicing,
- Brokerage services, and
- Securities and derivatives trading activities, including foreign exchange.

We also earn revenue from selling loans and securities, and we recognize income or loss from certain private equity activities.

We earn fees and commissions from:

- Issuing loan commitments, standby letters of credit and financial guarantees,
- Selling various insurance products,
- Providing treasury management services,
- Providing merger and acquisition advisory and related services, and
- Participating in certain capital markets transactions.

Revenue earned on interest-earning assets including net unearned income and the accretion of purchased loans is recognized based on the constant effective yield of the financial instrument.

Asset management fees are generally based on a percentage of the fair value of the assets under management and performance fees are generally based on a percentage of the returns on such assets. Certain performance fees are earned upon attaining specified investment return thresholds and are recorded as earned. The caption asset management also includes our share of the earnings of BlackRock under the equity method of accounting.

Fund servicing fees are primarily based on a percentage of the fair value of the fund assets and the number of shareholder accounts we service.

Service charges on deposit accounts are recognized when earned. Brokerage fees and gains and losses on the sale of securities and certain derivatives are recognized on a trade-date basis.

We record private equity income or loss based on changes in the valuation of the underlying investments or when we dispose of our interest. Dividend income from private equity investments is generally recognized when received and interest income from subordinated private equity debt investments is recorded on an accrual basis.

We recognize revenue from residential and commercial mortgage and other consumer loan servicing; securities and derivatives and foreign exchange trading; and securities underwriting activities as they are earned based on contractual terms, as transactions occur or as services are provided. We recognize any gains from the sale of loans upon cash settlement of the transaction.

When appropriate, revenue is reported net of associated expenses in accordance with GAAP.

Cash and Cash Equivalents

Cash and due from banks are considered cash and cash equivalents for financial reporting purposes.

Investments

We have interests in various types of investments. The accounting for these investments is dependent on a number of factors including, but not limited to, items such as:

- Ownership interest,
- Our plans for the investment, and
- The nature of the investment.

Debt Securities

Debt securities are recorded on a trade-date basis. We classify debt securities as held to maturity and carry them at amortized cost if we have the positive intent and ability to hold the securities to maturity. Debt securities that we purchase for short-term appreciation or other trading purposes are carried at fair value and classified as trading securities and other short-term investments on our Consolidated Balance Sheet. Realized and unrealized gains and losses on trading securities are included in other noninterest income.

Income earned from trading securities totaled $116 million in 2008, $116 million in 2007, and $62 million in 2006 and is included in Other interest income in the Consolidated Income Statement.

Debt securities not classified as held to maturity or trading are designated as securities available for sale and carried at fair value with unrealized gains and losses, net of income taxes, reflected in accumulated other comprehensive income (loss).

We review all debt securities that are in an unrealized loss position for other-than-temporary impairment. We evaluate outstanding available-for-sale and held-to maturity securities for other-than-temporary impairment on at least a quarterly basis. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, previous other-than-temporary impairments and hedging. After an investment security is determined to be impaired, we evaluate whether the decline in value is other than temporary. When evaluating whether the impairment is other-than-temporary, we take into consideration whether or not we expect to receive all of the contractual cash flows from the investment based on factors that include, but are not limited to: the creditworthiness of the issuer and, in the case of non-agency mortgage-backed securities, the historical and projected performance of the underlying collateral; the length of time and extent that fair value has been less than amortized cost; and our ability and intent to hold the investment for a sufficient amount of time to recover the unrealized losses. In addition, we may also evaluate the business and financial outlook of the issuer, as well as broader industry and sector performance indicators. Declines in the fair value of available for sale debt securities that are deemed other than temporary are recognized on our Consolidated Income Statement in net securities gains / (losses) in the period in which the determination is made. Such impairment charges include the impact of declines in both credit quality and liquidity.

We include all interest on debt securities, including amortization of premiums and accretion of discounts in net interest income using the constant effective yield method. We compute gains and losses realized on the sale of debt securities available for sale on a specific security basis and include them in net securities gains/(losses).

In very limited situations, due to market conditions, management may elect to transfer certain debt securities from the securities available for sale to the held-to-maturity classification. In such cases, any unrealized gain or loss at the date of transfer included in accumulated other comprehensive

income is amortized over the remaining life of the security as a yield adjustment. This amortization effectively offsets or mitigates the effect on interest income of the amortization of the premium or discount on the security on the date of transfer.

Equity Securities and Partnership Interests

We account for equity securities and equity investments other than BlackRock and private equity investments under one of the following methods:

- Marketable equity securities are recorded on a trade-date basis and are accounted for based on the securities quoted market prices from a national securities exchange. Dividend income on these securities is recognized in net interest income. Those purchased with the intention of recognizing short-term profits are classified as trading and included in trading securities and other short-term investments on our Consolidated Balance Sheet. Both realized and unrealized gains and losses on trading securities are included in noninterest income. Marketable equity securities not classified as trading are designated as securities available for sale with unrealized gains and losses, net of income taxes, reflected in accumulated other comprehensive income (loss). Any unrealized losses that we have determined to be other than temporary on securities classified as available for sale are recognized in current period earnings.
- For investments in limited partnerships, limited liability companies and other investments that are not required to be consolidated, we use either the cost method or the equity method of accounting. We use the cost method for investments in which we are not considered to have influence over the operations of the investee and when cost appropriately reflects our economic interest in the underlying investment. Under the cost method, there is no change to the cost basis unless there is an other than temporary decline in value. If the decline is determined to be other than temporary, we write down the cost basis of the investment to a new cost basis that represents realizable value. The amount of the write-down is accounted for as a loss included in other noninterest income. Distributions received from income of investee on cost method investments are included in interest income or noninterest income depending on the type of investment. We use the equity method for all other general and limited partner ownership interests and limited liability company investments. Under the equity method, we record our equity ownership share of net income or loss of the investee in noninterest income. Investments described above are included in the caption Equity investments on the Consolidated Balance Sheet.

Table of Contents

Private Equity Investments

We report private equity investments, which include direct investments in companies, affiliated partnership interests and indirect investments in private equity funds, at estimated fair value. These estimates are based on available information and may not necessarily represent amounts that we will ultimately realize through distribution, sale or liquidation of the investments. Fair value of publicly traded direct investments are determined using quoted market prices and are subject to various discount factors for sales restrictions, when appropriate. The valuation procedures applied to direct investments in private companies include techniques such as multiples of adjusted earnings of the entity, independent appraisals, anticipated financing and sale transactions with third parties, or the pricing used to value the entity in a recent financing transaction. We value affiliated partnership interests based on the underlying investments of the partnership using procedures consistent with those applied to direct investments. Indirect investments in private equity funds are valued based on the financial statements that we receive from their managers. Due to the time lag in our receipt of the financial information and based on a review of investments and valuation techniques applied, adjustments to the manager provided value are made when available recent portfolio company information or market information indicates a significant change in value from that provided by the manager of the fund. We include all private equity investments on the Consolidated Balance Sheet in the caption Equity investments. Changes in the fair value of private equity investments are recognized in noninterest income.

We consolidate private equity investments when we are the general partner in a limited partnership and have determined that we have control of the partnership. The portion we do not own is reflected in the caption Minority and noncontrolling interests in consolidated entities on the Consolidated Balance Sheet.

Investment in BlackRock, Inc.

We deconsolidated the assets and liabilities of BlackRock, Inc. (BlackRock) from our Consolidated Balance Sheet effective September 29, 2006 and now account for our investment in BlackRock under the equity method of accounting. 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.

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 free standing derivative as disclosed in Note 17 Financial Derivatives. As we transfer the shares for payouts under such LTIP programs, we recognize a gain or loss on those shares. The impact of those transactions is shown on a net basis on our Consolidated Income Statement in Other noninterest

income. Our obligation to transfer BlackRock shares related to the LTIP programs and the resulting accounting are described in more detail in Note 2 Acquisitions and Divestitures.

LOANS AND LEASES

Loans are classified as held for investment when management has both the intent and ability to hold the loan for the foreseeable future, or until maturity or payoff. In conjunction with the acquisition of National City, management designated all acquired loans and leases as either held for investment or held for sale based on its current intent and view of the foreseeable future. Management s intent and view of the foreseeable future may change based on changes in business strategies, the economic environment and market conditions.

Except as described below, loans held for investment are stated at the principal amounts outstanding, net of unearned income, unamortized deferred fees and costs on originated loans, and premiums or discounts on loans purchased. Interest on performing loans is accrued based on the principal amount outstanding and recorded in interest income as earned using the constant effective yield method. Loan origination fees, direct loan origination costs, and loan premiums and discounts are deferred and accreted or amortized into net interest income, over periods not exceeding the contractual life of the loan.

Certain loans are accounted for at fair value in accordance with Statement of Financial Accounting Standards No. (SFAS) 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140, with changes in the fair value reported in other noninterest income. The fair value of these loans was $43 million, or less than .5% of the total loan portfolio, at December 31, 2008.

In addition to originating loans, we also acquire loans through portfolio purchases or acquisitions of other financial services companies. For certain acquired loans that have experienced a deterioration of credit quality at the time of acquisition, we follow the guidance contained in AICPA Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer (SOP 03-3). Under SOP 03-3, acquired loans are to be recorded at fair value absent the carry over of any existing valuation allowances. Evidence of credit quality deterioration as of the purchase date may include information and statistics such as bankruptcy events, FICO scores, past due status, current borrower credit scores, and current loan-to-value (LTV). We review the loans acquired for evidence of credit quality deterioration at the date of acquisition and determine if it is probable that we will be unable to collect all amounts due, including both principal and interest, according to the loan s contractual terms. When both conditions exist, we estimate the amount and timing of undiscounted expected cash flows for each loan either individually or on a pool basis. We estimate the cash flows expected to be collected at acquisition using internal and third party models that incorporate management s best estimate of current key assumptions, such as default rates, loss severity and payment speeds. Collateral values are also incorporated into cash flow estimates. Late fees, which are contractual but not expected to be collected, are excluded from expected future cash flows. The accretable yield is calculated based upon the difference between the undiscounted expected future cash flows of the loans and the fair value of the loan as determined under the provisions of SFAS 157, Fair Value Measurement. This amount is accreted into income over the life of the loan on a level yield basis. Subsequent increases in expected cash flows are recognized prospectively through an adjustment of the loan s or pool s yield over its remaining life. Subsequent decreases in expected cash flows that are attributable, at least in part, to credit quality are recognized as impairments through a change to the provision for credit losses resulting in an increase in the allowance for loan and lease losses.

The nonaccretable yield represents the difference between the expected undiscounted cash flows of the loans and the total contractual cash flows (including the principal and interest) at acquisition and throughout the remaining lives of the loans.

We also provide financing for various types of equipment, aircraft, energy and power systems, and rolling stock and automobiles through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property, less unearned income. Leveraged leases, a form of financing lease, are carried net of nonrecourse debt. We recognize income over the term of the lease using the interest method. Lease residual values are reviewed for other than temporary impairment on a quarterly basis. Gains or losses on the sale of leased assets are included in other noninterest income while valuation adjustments on lease residuals are included in other noninterest expense.

When loans are redesignated from held for investment to held for sale, specific reserves and allocated pooled reserves included in the allowance for loan and lease losses are charged-off to reduce the basis of the loans to lower of cost or market value.

Loan Sales, Loan Securitizations and Retained Interests

We recognize the sale of loans or other financial assets when the transferred assets are legally isolated from our creditors and the appropriate accounting criteria are met. We also sell mortgage and other loans through secondary market securitizations. Securitization of financial assets represents a source of funding. In a securitization, financial assets are transferred into trusts or to special-purpose entities (SPEs) in transactions which are effective in legally isolating the assets from PNC. Pools of credit card, automobile, and mortgage loans have been securitized. Where the transferor is a depository institution, legal isolation is accomplished through

compliance with specific rules and regulations of the relevant regulatory authorities. Where the transferor is not a depository institution, legal isolation is accomplished through utilization of a two-step securitization structure.

SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities requires a true sale analysis of the treatment of the transfer under state law as if the transferring equity was a debtor under the bankruptcy code. A true sale legal analysis includes several legally relevant factors, such as the nature and level of recourse to the transferor, and the amount and nature of retained interests in the loans sold. The analytical conclusion as to a true sale is never absolute and unconditional, but contains qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law. Once the legal isolation test has been met under SFAS 140, other factors concerning the nature and extent of the transferor s control over the transferred assets are taken into account in order to determine whether derecognition of assets is warranted, including whether the SPE has complied with rules concerning qualifying special-purpose entities.

In a securitization, the trusts or SPE issues beneficial interests in the form of senior and subordinated asset-backed securities backed or collateralized by the assets sold to the trust. The senior classes of the asset-backed securities typically receive investment grade credit ratings at the time of issuance. These ratings are generally achieved through the creation of lower-rated subordinated classes of asset-backed securities, as well as subordinated interests. In certain cases, we may retain a portion or all of the securities issued, interest-only strips, one or more subordinated tranches, servicing rights and, in some cases, cash reserve accounts.

For credit card securitizations, PNC s continued involvement in the securitized assets includes maintaining an undivided, pro rata interest in all credit card assets that are in the trust, referred to as seller s interest. The seller s interest ranks equally with the investors interests in the trust. As the amount of the assets in the securitized pool fluctuates due to customer payments, purchases, cash advances, and credit losses, the carrying amount of the seller s interest will vary. However, PNC is required to maintain its seller s interest at a minimum level of 5% of the initial invested amount in each series to ensure sufficient assets are available for allocation to the investors interests.

In accordance with SFAS 140, securitized loans are removed from the balance sheet and a net gain or loss is recognized in noninterest income at the time of initial sale, and each subsequent sale for revolving securitization structures. Gains or losses recognized on the sale of the loans depend on the allocation of carrying value between the loans sold and the retained interests, based on their relative fair market values at the date of sale. We generally estimate the fair value of the retained interests based on the present value of future expected

Table of Contents

cash flows using assumptions as to discount rates, interest rates, prepayment speeds, credit losses and servicing costs, if applicable.

Our loan sales and securitizations are generally structured without recourse to us and with no restrictions on the retained interests with the exception of loan sales to certain US government chartered entities.

When we are obligated for loss-sharing or recourse in a sale, our policy is to record such liabilities at fair value upon closing of the transaction based on the guidance contained in FIN 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, or as a contingent liability recognized at inception of the guarantee under SFAS 5, Accounting for Contingencies.

We originate, sell and service mortgage loans under the Federal National Mortgage Association (FNMA) Delegated Underwriting and Servicing (DUS) program. Under the provisions of the DUS program, we participate in a loss-sharing arrangement with FNMA. We participate in a similar program with the Federal Home Loan Mortgage Corporation (FHLMC). Refer to Note 25 Commitments and Guarantees for more information about our obligations related to sales of loans under these programs.

In securitization transactions, we classify securities retained as debt securities available for sale or other assets, depending on the form of the retained interest. Retained interests that are subject to prepayment risk are reviewed on a quarterly basis for impairment. If the fair value of the retained interests is below its carrying amount and the decline is determined to be other than temporary, then the decline is reflected as a charge in other noninterest income.

Loans held for sale

We designate loans and related unfunded loan commitments as held for sale when we have a positive intent to sell them. We transfer loans to the loans held for sale category at the lower of cost or fair market value. At the time of transfer, write-downs on the loans and related unfunded loan commitments are recorded as charge-offs or as a reduction in the liability for unfunded commitments. We establish a new cost basis upon transfer except for certain residential and commercial mortgages held for sale discussed below. Any subsequent lower of cost or market adjustment is determined on an individual loan and unfunded loan commitment basis and is recognized as a valuation allowance with any charges included in other noninterest income. Gains or losses on the sale of these loans and/or related unfunded loan commitments are included in other noninterest income when realized.

Effective January 1, 2008, we adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 , and

elected to fair value certain commercial mortgage loans held for sale. Under SFAS 159, changes in the fair value of these loans are measured and recorded in other noninterest income each period. See Note 8 Fair Value for additional information. Also, we elected fair value for residential real estate loans held for sale or securitization acquired from National City.

Interest income with respect to loans held for sale classified as performing is accrued based on the principal amount outstanding at a constant effective yield.

In certain circumstances, loans designated as held for sale may be transferred to the loan portfolio based on a change in strategy. We transfer these loans to the portfolio at the lower of cost or fair market value; however, any loans designated under SFAS 159 will remain at fair value.

Nonperforming Assets

Nonperforming assets include:

- Nonaccrual loans,
- Troubled debt restructurings, and
- Foreclosed assets.

Measurement of delinquency and past due status are based on the contractual terms of each loan.

A loan acquired and accounted for under SOP 03-3 is reported as an accruing loan and a performing asset as long as the remaining future expected undiscounted cash flows exceed the carrying value of the loan.

We generally classify commercial loans as nonaccrual when we determine that the collection of interest or principal is doubtful or when a default of interest or principal has existed for 90 days or more and the loans are not well-secured or in the process of collection. When the accrual of interest is discontinued, any accrued but uncollected interest previously included in net interest income is reversed. We charge off small business commercial loans less than $1 million at 120 days after transfer to nonaccrual status. We charge off other nonaccrual loans based on the facts and circumstances of the individual loans.

Subprime mortgage loans for first liens with a loan to value ratio of greater than 90% and second liens are classified as nonaccrual at 90 days past due.

Most consumer loans and lines of credit, not secured by residential real estate, are charged off after 120 to 180 days past due. Generally, they are not placed on non-accrual status.

Home equity installment loans and lines of credit, as well as residential mortgage loans, that are well secured by residential real estate are classified as nonaccrual at 180 days past due or if a partial write-down has occurred, consistent with regulatory guidance. These loans are considered well secured if the fair market value of the property, less 15% to cover

Table of Contents

potential foreclosure expenses, is greater than or equal to the recorded investment in the loan including any superior liens. A fair market value assessment of the property is initiated when the loan becomes 90 to 120 days past due.

Home equity installment loans and lines of credit and residential real estate loans that are not well secured, but are in the process of collection, are charged-off at 180 days past due. This is consistent with the charge-off policy for home equity lines of credit. These loans are recorded at the lower of cost or market value, less liquidation costs, and the unsecured portion of these loans is charged off in accordance with regulatory guidelines. The remaining portion of the loan is placed on nonaccrual status.

Additionally, residential mortgage loans serviced by others under master servicing arrangements and primary-serviced residential loans not in process of foreclosure are also classified as nonaccrual at 180 days past due or if a partial write-down has occurred.

A loan is categorized as a troubled debt restructuring (TDR) if a significant concession is granted due to deterioration in the financial condition of the borrower. TDRs may include certain modifications of terms of loans, receipts of assets from debtors in partial or full satisfaction of loans, or a combination of both. Restructured loans classified as TDRs are accounted for in accordance with SFAS 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings , and SFAS 114, Accounting by Creditors for Impairment of a Loan.

Nonperforming loans are generally not returned to performing status until the obligation is brought current and the borrower has performed in accordance with the contractual terms for a reasonable period of time and collection of the contractual principal and interest is no longer doubtful. Nonaccrual commercial and commercial real estate loans and troubled debt restructurings are designated as impaired loans under SFAS 114.

Foreclosed assets are comprised of any asset seized or property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Other real estate owned (OREO) is comprised principally of commercial and residential real estate properties obtained in partial or total satisfaction of loan obligations. Depending on various state statutes, legal proceedings are initiated on or about the 65^{th} day of delinquency. If no other remedies arise from the legal proceedings, the final outcome will result in the sheriff s sale of the property. When we acquire the deed, the transfer of loans to other real estate owned will be completed. Property obtained in satisfaction of a loan is recorded at the estimated fair value less anticipated selling costs. We estimate market values primarily based on appraisals, when available, or quoted market prices on liquid assets. Anticipated recoveries from private mortgage insurance and government guarantees are also considered in evaluating the potential impairment of loans at the date of transfer. When the anticipated future cash

flows associated with a loan are less than its net carrying value, a charge-off is recognized against the allowance for loan losses.

Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or the current market value less estimated disposition costs. Valuation adjustments on these assets and gains or losses realized from disposition of such property are reflected in noninterest expense.

Allowance for Loan and Lease Losses

We maintain the allowance for loan and lease losses at a level that we believe to be adequate to absorb estimated probable credit losses inherent in the loan portfolio as of the balance sheet date. Our determination of the adequacy of the allowance is based on periodic evaluations of the loan and lease portfolios and other relevant factors. This evaluation is inherently subjective as it requires material estimates, all of which may be susceptible to significant change, including, among others:

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

In determining the adequacy of the allowance for loan and lease losses, we make specific allocations to impaired loans, allocations to pools of watchlist and non-watchlist loans, and allocations to consumer and residential mortgage loans. We also allocate reserves to provide coverage for probable losses inherent in the portfolio at the balance sheet date based upon current market conditions, which may not be reflected in historical loss data. While allocations are made to specific loans and pools of loans, the total reserve is available for all credit losses.

Specific allocations are made to significant individual impaired loans and are determined in accordance with SFAS 114, with impairment measured based on the present value of the loan s expected cash flows, observable market price of the loan or the fair value of collateral. We establish a pooled reserve on all other impaired loans based on their loss given default credit risk ratings.

Allocations to loan pools are developed by product and industry with estimated losses based on probability of default and loss given default credit risk ratings by using historical loss trends and our judgment concerning those trends and other relevant factors. These factors may include, among others:

- Actual versus estimated losses,
- Regional and national economic conditions, and
- Industry and portfolio concentrations.

Table of Contents

Loss factors are based on industry and/or internal experience and may be adjusted for significant factors that, based on our judgment, impact the collectibility of the portfolio as of the balance sheet date. Consumer and residential mortgage loan allocations are made at a total portfolio level based on historical loss experience adjusted for current risk factors.

While our pool reserve methodologies strive to reflect all risk factors, there continues to be a certain element of uncertainty associated with, but not limited to, potential imprecision in the estimation process due to the inherent time lag of obtaining information. We provide additional reserves that are designed to provide coverage for losses attributable to such risks. These reserves also include factors which may not be directly measured in the determination of specific or pooled reserves. Such factors include:

- Credit quality trends,
- Recent loss experience in particular segments of the portfolio,
- Ability and depth of lending management, and
- Changes in risk selection and underwriting standards.

ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is adequate to absorb estimated probable losses related to these unfunded credit facilities. We determine the adequacy of the allowance based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded loan commitments and letters of credit is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the allowance for unfunded loan commitments and letters of credit are included in the provision for credit losses.

MORTGAGE AND OTHER SERVICING RIGHTS

We provide servicing under various loan servicing contracts for commercial, residential, home equity, automobile and credit card loans. These contracts are either purchased in the open market or retained as part of a loan securitization or loan sale. All newly acquired or originated servicing rights are initially measured at fair value. Fair value is based on the present value of the expected future cash flows, including assumptions as to:

- Interest rates for escrow and deposit balance earnings,
- Discount rates,
- Stated note rates,
- Estimated prepayment speeds, and
- Estimated servicing costs.

For subsequent measurements, we have elected to account for our commercial mortgage loan servicing rights as a class of assets and use the amortization method. This election was made based on the unique characteristics of the commercial

mortgage loans underlying these servicing rights with regard to market inputs used in determining fair value and how we manage the risks inherent in the commercial mortgage servicing rights assets. Specific risk characteristics of commercial mortgages include loan type, currency or exchange rate, interest rates, expected cash flows and changes in the cost of servicing. We record these servicing assets as other intangible assets and amortize them over their estimated lives based on estimated net servicing income. On a quarterly basis, we test the assets for impairment by categorizing the pools of assets underlying the servicing rights into various stratum. If the estimated fair value of the assets is less than the carrying value, an impairment loss is recognized and a valuation reserve is established. Subsequent measurement of servicing rights for home equity lines and loans, automobile loans and credit card loans also follow the amortization method.

For subsequent measurement of servicing rights for residential real estate loans, the fair value method is used. This election was made to be consistent with our risk management strategy to hedge the fair value of these assets. We manage this risk by hedging the fair value of this asset with derivatives which are expected to increase in value when the value of the servicing right declines. The fair value of these servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors which are determined based on current market conditions. Expected mortgage loan prepayment assumptions are derived from an internal proprietary model and consider empirical data drawn from the historical performance of PNC s managed portfolio and adjusted for current market conditions. On a quarterly basis, management obtains market value quotes from two independent brokers that reflect current conditions in the secondary market and any recently executed servicing transactions. Management compares its valuation to the quoted range of market values to determine if its estimated fair value is reasonable in comparison to market participant valuations. If the estimated fair value of PNC s residential servicing rights is outside the range, management re-evaluates its model inputs and assumptions to derive a fair value which falls within the range of market observed values.

Servicing fees are recognized as they are earned and are reported net of amortization expense and any impairments in the line item Corporate services on the Consolidated Income Statement.

Fair Value of Financial Instruments

The fair value of financial instruments and the methods and assumptions used in estimating fair value amounts and financial assets and liabilities for which fair value was elected based on the guidance in SFAS 159 are detailed in Note 8 Fair Value.

Goodwill and Other Intangible Assets

We test goodwill and indefinite-lived intangible assets for impairment at least annually, or when events or changes in circumstances indicate the assets might be impaired. Finite-lived intangible assets are amortized to expense using accelerated or straight-line methods over their respective estimated useful lives. We review finite-lived intangible assets for impairment when events or changes in circumstances indicate that the asset s carrying amount may not be recoverable from undiscounted future cash flows or it may exceed its fair value.

Depreciation and Amortization

For financial reporting purposes, we depreciate premises and equipment, net of salvage value, principally using the straight-line method over their estimated useful lives.

We use estimated useful lives for furniture and equipment ranging from one to 10 years, and depreciate buildings over an estimated useful life of up to 40 years. We amortize leasehold improvements over their estimated useful lives of up to 15 years or the respective lease terms, whichever is shorter.

We purchase, as well as internally develop and customize, certain software to enhance or perform internal business functions. Software development costs incurred in the planning and post-development project stages are charged to noninterest expense. Costs associated with designing software configuration and interfaces, installation, coding programs and testing systems are capitalized and amortized using the straight-line method over periods ranging from one to seven years.

Repurchase and Resale Agreements

Generally, repurchase and resale agreements are treated as collateralized financing transactions and are carried at the amounts at which the securities will be subsequently reacquired or resold, including accrued interest, as specified in the respective agreements. Our policy is to take possession of securities purchased under agreements to resell. We monitor the market value of securities to be repurchased and resold and additional collateral may be obtained where considered appropriate to protect against credit exposure.

Effective January 1, 2008, we elected to account for structured resale agreements at fair value. The fair value for structured resale agreements is determined using a model which includes observable market data as inputs.

Other Comprehensive Income

Other comprehensive income consists, on an after-tax basis, primarily of unrealized gains or losses on investment securities classified as available for sale and derivatives designated as cash flow hedges, and changes in pension, other postretirement and postemployment benefit plan liability adjustments. Details of each component are included in Note 20 Other Comprehensive Income.

Treasury Stock

We record common stock purchased for treasury at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the first-in, first-out basis.

Derivative Instruments and Hedging Activities

We use a variety of financial derivatives as part of our overall asset and liability risk management process to help manage interest rate, market and credit risk inherent in our business activities. Interest rate and total return swaps, interest rate caps and floors 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. We manage these risks as part of our asset and liability management process and through credit policies and procedures. We seek to minimize counterparty credit risk by entering into transactions with only high-quality institutions, establishing credit limits, and generally requiring bilateral netting and collateral agreements.

We recognize all derivative instruments at fair value as either other assets or other liabilities on the Consolidated Balance Sheet. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as an accounting hedge, the gain or loss is recognized in noninterest income.

For those derivative instruments that are designated and qualify as accounting hedges, we must designate the hedging instrument, based on the exposure being hedged, as a fair value hedge or a cash flow hedge. We have no derivatives that hedge the net investment in a foreign operation.

We formally document the relationship between the hedging instruments and hedged items, as well as the risk management objective and strategy, before undertaking an accounting hedge. To qualify for hedge accounting, the derivatives and related hedged items must be designated as a hedge at inception of the hedge relationship. For accounting hedge relationships, we formally assess, both at the inception of the hedge and on an ongoing basis, if the derivatives are highly effective in offsetting designated changes in the fair value or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective, hedge accounting is discontinued.

For derivatives that are designated as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability attributable to a particular risk), changes in the fair value of the hedging instrument are recognized in earnings and offset by recognizing changes in the fair value of the hedged item attributable to the hedged risk. To the extent the changes in fair value of the derivative does not offset the change in fair value of the hedged item, the difference or

Table of Contents

ineffectiveness is reflected in the income statement in the same financial statement category as the hedged item.

For derivatives designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows), the effective portions of the gain or loss on derivatives are reported as a component of accumulated other comprehensive income (loss) and subsequently reclassified to interest income in the same period or periods during which the hedged transaction affects earnings. The change in fair value of any ineffective portion of the hedging derivative is recognized immediately in noninterest income.

We discontinue hedge accounting when it is determined that the derivative is no longer qualifying as an effective hedge; the derivative expires or is sold, terminated or exercised; or the derivative is de-designated as a fair value or cash flow hedge or, for a cash flow hedge, it is no longer probable that the forecasted transaction will occur by the end of the originally specified time period. If we determine that the derivative no longer qualifies as a fair value or cash flow hedge and hedge accounting is discontinued, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings. For a discontinued fair value hedge, the previously hedged item is no longer adjusted for changes in fair value.

When hedge accounting is discontinued because it is no longer probable that a forecasted transaction will occur, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings, and the gains and losses in accumulated other comprehensive income (loss) will be recognized immediately into earnings. When we discontinue hedge accounting because the hedging instrument is sold, terminated or no longer designated, the amount reported in accumulated other comprehensive income (loss) up to the date of sale, termination or de-designation, continues to be reported in other comprehensive income or loss until the forecasted transaction affects earnings. We did not terminate any cash flow hedges in 2008, 2007 or 2006 due to a determination that a forecasted transaction was no longer probable of occurring.

We occasionally purchase or originate financial instruments that contain an embedded derivative. At the inception of the transaction, we assess if the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the financial instrument (host contract), whether the financial instrument that embodied both the embedded derivative and the host contract are measured at fair value with changes in fair value reported in earnings, and whether a separate instrument with the same terms as the embedded instrument would not meet the definition of a derivative. If the embedded derivative does not meet these three conditions, the embedded derivative would qualify as a derivative and be recorded apart from the host contract and carried at fair value with changes recorded in current earnings.

On January 1, 2006, we adopted SFAS 155, which, among other provisions, permits a fair value election for hybrid financial instruments requiring bifurcation on an instrument-by-instrument basis. Beginning January 1, 2006, we elected to account for certain previously bifurcated hybrid instruments and certain newly acquired hybrid instruments under this fair value election on an instrument-by-instrument basis. As such, certain previously reported embedded derivatives are reported with their host contracts at fair value in loans or other borrowed funds.

We enter into commitments to make residential real estate loans and loans whereby the interest rate on the loan is set prior to funding (interest rate lock commitments). We also enter into commitments to purchase or sell commercial mortgage loans. Loan commitments and interest rate lock commitments for loans to be classified as held for sale and commitments to buy or sell mortgage loans are accounted for as free-standing derivatives and are recorded at fair value in other assets or other liabilities on the Consolidated Balance Sheet. Any gain or loss from the change in fair value after the inception of the commitment is recognized in noninterest income.

Income Taxes

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that we expect will apply at the time when we believe the differences will reverse. The realization of deferred tax assets requires an assessment to determine the realization of such assets. Realization refers to the incremental benefit achieved through the reduction in future taxes payable or refunds receivable from the deferred tax assets, assuming that the underlying deductible differences and carryforwards are the last items to enter into the determination of future taxable income. We establish a valuation allowance for tax assets when it is more likely than not that they will not be realized, based upon all available positive and negative evidence.

Earnings Per Common Share

We calculate basic earnings per common share by dividing net income adjusted for preferred stock dividends declared by the weighted-average number of shares of common stock outstanding.

Diluted earnings per common share are based on net income available to common stockholders. We increase the weighted-average number of shares of common stock outstanding by the assumed conversion of outstanding convertible preferred stock and debentures from the beginning of the year or date of issuance, if later, and the number of shares of common stock that would be issued assuming the exercise of stock options and warrants and the issuance of incentive shares using the treasury stock method. These adjustments to the weighted-average number of shares of common stock outstanding are made only when such adjustments will dilute earnings per common share.

STOCK-BASED COMPENSATION

In December 2004, the FASB issued SFAS 123R Share-Based Payment, which requires compensation cost related to share-based payments to employees to be recognized in the financial statements based on their fair value. We adopted SFAS 123R effective January 1, 2006, using the modified prospective method of transition, which required the provisions of SFAS 123R be applied to new awards and awards modified, repurchased or cancelled after the effective date. It also required changes in the timing of expense recognition for awards granted to retirement-eligible employees and clarified the accounting for the tax effects of stock awards. The adoption of SFAS 123R did not have a significant impact on our consolidated financial statements.

See Note 16 Stock-Based Compensation Plans for additional information.

RECENT ACCOUNTING PRONOUNCEMENTS

We adopted the guidance in Staff Accounting Bulletin No. (SAB) 109 on January 1, 2008. SAB 109 provides the SEC staff s view that the expected future cash flows related to servicing should be included in the fair value measurement of all written loan commitments that are accounted for at fair value through earnings. The impact of this guidance on our consolidated financial statements has not been significant.

We adopted SFAS 157, Fair Value Measurements on January 1, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The FASB s Financial Staff Position FSP FAS 157-2, Effective Date of FASB Statement No. 157 , defers until January 1, 2009, the application of SFAS 157 to nonfinancial assets and nonfinancial liabilities not recognized or disclosed at least annually at fair value. This includes nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods. See Note 8 Fair Value for additional information.

As noted above, we adopted SFAS 159 on January 1, 2008. SFAS 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value. We elected to fair value certain commercial mortgage loans classified as held for sale and certain other financial instruments. We also elected fair value for residential real estate loans held for sale or securitization acquired from National City. See Note 8 Fair Value for additional information.

As required, we adopted the provisions of Emerging Issues Task Force Issue No. (EITF) 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of

Endorsement Split-Dollar Life Insurance Arrangements, on January 1, 2008. EITF 06-4 requires the recognition of a liability and related compensation costs for endorsement split-dollar life insurance arrangements that provide a benefit to retired employees. The adoption of the guidance resulted in a reduction of retained earnings at January 1, 2008 of approximately $12 million and did not have a material effect on our future results of operations or financial position.

In February 2008, the FASB issued FSP FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. This FSP provides guidance on how the transferor and transferee should separately account for a transfer of a financial asset and a related repurchase financing if certain criteria are met. This guidance will be effective January 1, 2009 for PNC and will impact our accounting for structured repurchase agreements entered into after that date.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities. This standard will require revisions to our derivative disclosures to provide greater transparency as to the use of derivative instruments and hedging activities. This guidance will be effective for interim and annual financial statements beginning with the first quarter 2009 Form 10-Q.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP provides guidance as to factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, Goodwill and Other Intangible Assets. This guidance will be effective January 1, 2009 for PNC. The adoption is not expected to have a material effect on our results of operations or financial position.

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles. This standard formalizes minor changes in prioritizing accounting principles used in the preparation of financial statements that are presented in conformity with GAAP.

In May 2008, the FASB issued SFAS 163, Accounting for Financial Guarantee Insurance Contracts an Interpretation of FASB Statement No. 60. This standard changes the current practice of accounting for financial guarantee insurance contracts by insurance companies including the recognition and measurement of premium revenue, claim liabilities and enhances related disclosure requirements. This guidance will be effective for interim and annual financial statements beginning in 2009. The adoption of this guidance is not expected to have a material effect on our results of operations or financial position.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement). This

FSP clarifies that certain convertible debt instruments should be separately accounted for as liability and equity components. This guidance will be effective beginning with our first quarter 2009 Form 10-Q. We do not expect the adoption of this guidance to have a material effect on our results of operations or financial position.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. This FSP clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities and should be included in the calculation of basic earnings per share using the two-class method prescribed by SFAS 128, Earnings Per Share. This guidance will be effective for disclosure beginning with our first quarter 2009 Form 10-Q with retrospective application required. We do not expect the adoption of this guidance to have a material effect on our earnings per share disclosures.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. This FSP amends FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, to require disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, to require additional disclosure about the payment/performance risk of a guarantee. This guidance was effective December 31, 2008 for PNC. See Note 25 Commitments and Guarantees for additional information.

In September 2008, the FASB issued an Exposure Draft, Proposed Statement, Amendments to FASB Interpretation No. 46(R). This proposed Statement would amend FIN 46R and require ongoing assessments to determine: 1) whether an entity is a variable interest entity and, 2) whether an enterprise is the primary beneficiary of a variable interest entity. The primary beneficiary determination generally would be based on a qualitative analysis based on who has power over the activities of the entity and the rights to receive benefits or absorb losses. Enhanced disclosures would also be required. This proposed guidance would be effective for PNC beginning January 1, 2010. The guidance as proposed could require us to consolidate certain VIEs or securitization trusts if we are deemed the primary beneficiary.

In September 2008, the FASB issued an Exposure Draft, Proposed Statement, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140. This proposed Statement, a revision of a 2005 FASB Exposure Draft, would remove (1) the concept of a qualifying SPE from

FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and (2) the exceptions from applying FIN 46R to qualifying SPEs. This proposed Statement would also revise and clarify the derecognition requirements for transfers of financial assets, establish conditions for transfer of a portion of a financial asset, and requiring the initial measurement of beneficial interests that are received as proceeds in connection with transfers of financial assets at fair value. This proposed guidance would be effective for PNC beginning January 1, 2010.

In October 2008, the FASB issued FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. This FSP clarifies the application of FASB Statement No. 157, Fair Value Measurements, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This guidance was considered in determining the fair value of financial assets beginning September 30, 2008.

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. This FSP amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, and will require additional disclosures about transfers of financial assets. It also amends FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, and requires additional disclosures about involvement with variable interest entities. This guidance was effective December 31, 2008 for PNC. See Note 3 Variable Interest Entities for additional information.

In December 2008, the FASB issued FSP FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. This FSP amends FASB Statement No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. This guidance will be effective December 31, 2009 for PNC.

In January 2009, the FASB issued FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20. This FSP amends the impairment guidance in EITF Issue No. 99-20, Recognition of Interest income and Impairment on Purchased Beneficial Interests and Beneficial Interest That Continue to Be Held by a Transferor in Securitized Financial Assets. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, and other related guidance. This guidance was effective December 31, 2008 for PNC. The adoption of this guidance did not have a material effect on our results of operations or financial position.

In January 2009, the FASB issued proposed FSP FAS 107-b and APB 28-a, Interim Disclosures about Fair Value of Financial Instruments . This FSP would amend FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. This FSP also would amend APB Opinion No. 28, Interim Financial Reporting , to require those disclosures in all interim financial statements. As proposed, the disclosures would be effective for the quarter ended March 31, 2009.

In December 2007, the FASB issued SFAS 141(R), Business Combinations. This statement will require all businesses acquired to be measured at the fair value of the consideration paid as opposed to the cost-based provisions of SFAS 141. It will require an entity to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. SFAS 141(R) requires the value of consideration paid including any future contingent consideration to be measured at fair value at the closing date of the transaction. Also, restructuring costs and acquisition costs are to be expensed rather than included in the cost of the acquisition. This guidance is effective for all acquisitions with closing dates after January 1, 2009.

In December 2007, the FASB issued SFAS 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. This statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest should be reported as equity in the consolidated financial statements. This statement requires expanded disclosures that identify and distinguish between the interests of the parent s owners and the interests of the noncontrolling owners of an entity. This guidance is effective January 1, 2009. We do not expect the adoption to have a material impact on our consolidated financial statements.

In May 2007, the FASB issued FSP FIN 48-1, Definition of Settlement in FASB Interpretation (FIN) No. 48. This FSP amended FIN 48, Accounting for Uncertainty in Income Taxes, to provide guidance as to the determination of whether a tax position is deemed effectively settled for purposes of recognizing previously unrecognized tax benefits under FIN 48. This guidance was adopted effective January 1, 2007 in connection with our adoption of FIN 48. See Note 21 Income Taxes for additional information.

During 2006, the FASB issued the following:

SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This statement affects the accounting and reporting for our qualified pension plan, our nonqualified retirement plans, our postretirement welfare benefit plans and our post employment benefit plan. SFAS 158 required recognition on the balance sheet of the over- or underfunded position of these plans as the difference between the fair value of plan assets and the related benefit obligations previously recognized on the balance sheet. The difference, net of tax, was recorded as part of accumulated other comprehensive income or loss (AOCI) within the shareholders equity section of the balance sheet. This guidance also required the recognition of any unrecognized actuarial gains and losses and unrecognized prior service costs to AOCI, net of tax. SFAS 158 was effective for PNC as of December 31, 2006, with no restatement for prior year-end reporting periods permitted. The impact of adoption of SFAS 158 at December 31, 2006 was a reduction of AOCI of $132 million after tax.

FIN 48 Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, clarifies the accounting for uncertainty in income taxes recognized in the financial statements and sets forth recognition, derecognition and measurement criteria for tax positions taken or expected to be taken in a tax filing. For PNC, this guidance was effective for all tax positions taken or expected to be taken beginning on January 1, 2007. See Note 19 Income Taxes for additional information.

FSP FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction, requires a recalculation of the timing of income recognition for a leveraged lease under SFAS 13, Accounting for Leases, when a change in the timing of income tax deductions directly related to the leveraged lease transaction occurs or is projected to occur. Any tax positions taken regarding the leveraged lease transaction must be recognized and measured in accordance with FIN 48 described above. This guidance was effective for PNC beginning January 1, 2007 with the cumulative effect of applying the provisions of this FSP being recognized through an adjustment to opening retained earnings. Any immediate or future reductions in earnings from the change in accounting would be recovered in subsequent years. Our adoption of the guidance in FSP FAS 13-2 resulted in an after-tax charge to beginning retained earnings at January 1, 2007 of approximately $149 million.

Table of Contents

NOTE 2 ACQUISITIONS AND DIVESTITURES

2008

NATIONAL CITY CORPORATION

On December 31, 2008, we acquired National City for approximately $6.1 billion. The total consideration included approximately $5.6 billion of common stock, representing approximately 95 million shares, $150 million of preferred stock and cash of $379 million paid to warrant holders by National City. The transaction requires no future contingent consideration payments.

National City, based in Cleveland, Ohio, was one of the nation s largest financial services companies. At December 31, 2008, prior to our acquisition, National City had total assets of approximately $153 billion and total deposits of approximately $101 billion. National City operates through an extensive network in Ohio, Florida, Illinois, Indiana, Kentucky, Michigan, Missouri, Pennsylvania and Wisconsin and also conducts selected consumer lending businesses and other financial services on a nationwide basis. Its primary businesses include commercial and retail banking, mortgage financing and servicing, consumer finance and asset management. The primary reasons for the merger with

National City were to enhance shareholder value, to improve PNC s competitive position in the financial services industry and to further expand PNC s existing branch network in states where it currently operates as well as expanding into new markets.

This acquisition was accounted for under the purchase method of accounting. The purchase price was allocated to the National City assets acquired and liabilities assumed using their estimated fair values as of the acquisition date, December 31, 2008. Since the acquisition occurred at year end, no results of operations of National City are included in the Consolidated Income Statement. The summary computation of the purchase price and the allocation of the purchase price to the net assets of National City are presented below. The allocation of the purchase price may be modified through 2009 as more information, such as appraisals, contracts, reviews of legal documentation, and selected key borrower data, is obtained about the fair value of assets acquired and liabilities assumed and may result in goodwill. We also have not yet finalized our plans to exit National City facilities or identified employee terminations. Completion of these plans will likely result in additional liabilities in future periods.

(In millions, except per share data)		
Net assets acquired		
National City stockholders equity	$ 13,432	
Cash paid to certain warrant holders by National City	379	
National City goodwill and other intangibles	(3,275)	
Gross net assets acquired		$ 10,536
Preliminary adjustments to reflect fair value of net assets acquired		
Principal balance of loans (a)	(9,831)	
Allowance for loan losses on impaired loans	2,632	
Other adjustments to loans	433	
Deferred taxes	2,720	
Other assets	331	
Other intangibles, including servicing rights	1,084	
Deposits (a)	(1,930)	
Borrowed funds (a)	2,395	
Accrued expenses and other liabilities	(900)	(3,066)
Adjusted net assets acquired		7,470
Purchase price		
National City common shares outstanding	2,420	
Exchange ratio per share	0.0392	
PNC common stock equivalent	94.86	
Less: Fractional shares	0.06	

PNC common stock issued	94.80	
Average PNC share price over days surrounding announcement (b)	$ 59.09	
Purchase price for National City common shares outstanding		$ 5,601
National City preferred stock converted to PNC preferred stock		150
Value of National City options converted to PNC options		2
Cash paid to certain warrant holders by National City		379
Cash in lieu of fractional shares		1
Total purchase price		6,133
Excess of fair value of adjusted net assets acquired over purchase price (c)		$ 1,337

(a) Amounts include premium, discount and other fair value adjustments.

(b) The value of PNC common stock was determined by averaging its closing price for five trading days, including the announcement date of October 24, 2008.

(c) The fair value of the net assets of National City exceeded the purchase price. In accordance with SFAS 141 Business Combinations , the fair value allocated to premises, equipment and leasehold improvements and other intangibles reduced these balances by $891 million and $446 million, respectively.

Table of Contents

Condensed Statement of National City Net Assets Acquired

The following condensed statement of net assets reflects the preliminary value assigned to National City net assets as of the December 31, 2008 acquisition date. The values are net of the reallocation of the excess value of net assets acquired over the purchase price ($1.337 billion), and the cash paid by National City to its warrant holders ($379 million).

(In millions)	
Assets	
Cash and due from banks	$ 2,144
Federal funds sold and resale agreements	7,335
Trading assets, interest-earning deposits with banks, and other short-term investments	9,249
Loans held for sale	2,185
Investment securities	13,327
Net loans	97,435
Other intangible assets	1,797
Equity investments	2,060
Other assets	12,651
Total assets	$ 148,183
Liabilities	
Deposits	$ 103,639
Federal funds purchased and repurchase agreements	3,501
Other borrowed funds	21,919
Other liabilities	13,370
Total liabilities	142,429
Net assets acquired	$ 5,754

Purchase accounting adjustments include discounts and premiums on interest-earning assets and liabilities as follows:

Discounts on loans of $6.1 billion will be accreted to net interest income using the constant effective yield method over the weighted average life of the loans, estimated to be between two and three years. The weighted average lives could vary depending on prepayments, revised estimated cash flows and other related factors. Of the $6.1 billion of discounts, $3.7 billion relates to loans accounted for under SOP 03-3 and $2.4 billion relates to performing loans. A total of $3.7 billion of the fair value mark on impaired loans is not accretable.

Premiums on interest-earning time deposits of $2.1 billion will be amortized over the weighted average life of the deposits of approximately one year using the constant effective yield method.

Discounts on borrowed funds of $1.8 billion will be accreted over the weighted average life of the borrowings of approximately seven years using the constant effective yield method.

Other intangible assets acquired consisted of the following (in millions):

Intangible Asset	Fair Value	Weighted Life	Amortization Method
Residential mortgage servicing rights	$ 1,003	(a)	(a)
Core deposit (b)	351	12 yrs	Accelerated
Commercial mortgage servicing rights	210	13 yrs	Accelerated
Wealth management customer relationships (b)	203	12 yrs	Straight line

National City brand (b)	15	21 mos	Straight line
Consumer loan servicing rights	15	2 yrs	Accelerated
Total	$ 1,797		

(a) Intangible asset carried at fair value.

(b) Fair value adjusted for the allocation of the excess of fair value of net assets acquired over the purchase price.

See Note 9 Goodwill and Other Intangible Assets for additional information.

Table of Contents

The following table presents the unaudited pro forma combined results of operations of PNC and National City as if the acquisition had been completed as of the beginning of 2008 or 2007. The unaudited pro forma results of operations are presented solely for information purposes and are not intended to represent or be indicative of the consolidated results of operations that PNC would have reported had this transaction been completed as of the dates and for the periods presented, nor are they necessarily indicative of future results.

Unaudited Pro Forma Combined Results

(In millions, except per share data)	2008	2007
Total revenue	$ 15,397	$ 16,709
Net income (loss)	(3,742)	3,695
Per share data		
Earnings (loss) basic	$ (9.58)	$ 7.66
Earnings (loss) diluted	(9.60)	7.55
Average common shares outstanding basic	439	426
Average common shares outstanding diluted	439	431

The unaudited pro forma combined results of operations include the effect of the net amortization/accretion of purchase accounting fair value adjustments based on asset and liability valuations as of the acquisition date. They also reflect the receipt of $7.6 billion from the sale of preferred securities and issuance of a warrant to purchase 16.9 million shares of PNC common stock under the TARP Capital Purchase Program (See Note 19 Shareholders Equity for additional information). During 2008, National City recorded $2.4 billion of nonrecurring charges for goodwill impairments which are included in these pro forma results. These adjustments have been consistently applied to each period presented in the table above.

Sterling Financial Corporation

On April 4, 2008, we acquired Lancaster, Pennsylvania-based Sterling Financial Corporation (Sterling). Sterling shareholders received an aggregate of approximately 4.6 million shares of PNC common stock and $224 million of cash.

J.J.B. Hilliard, W.L. Lyons, LLC

On March 31, 2008, we sold J.J.B. Hilliard, W.L. Lyons, LLC (Hilliard Lyons), a Louisville, Kentucky-based wholly-owned subsidiary of PNC and a full-service brokerage and financial services provider, to Houchens Industries, Inc. We recognized an after-tax gain of $23 million in the first quarter of 2008 in connection with this divestiture.

2007

Albridge Solutions Inc.

On December 7, 2007, we acquired Albridge Solutions Inc. (Albridge), a Lawrenceville, New Jersey-based provider of portfolio accounting and enterprise wealth management

services. Albridge extends PNC Global Investment Servicing s capabilities into the delivery of knowledge-based information services through its relationships with financial institutions and financial advisors.

Coates Analytics, LP

Also on December 7, 2007, we acquired Coates Analytics, LP (Coates Analytics), a Chadds Ford, Pennsylvania-based provider of web-based analytic tools that help asset managers identify wholesaler territories and financial advisor targets, promote products in the marketplace and strengthen competitive intelligence. Coates Analytics complements PNC Global Investment Servicing s business strategy.

Yardville National Bancorp

On October 26, 2007 we acquired Hamilton, New Jersey-based Yardville National Bancorp (Yardville). Yardville shareholders received an aggregate of approximately 3.4 million shares of PNC common stock and $156 million in cash. Total consideration paid was approximately $399 million in stock and cash.

ARCS Commercial Mortgage Co., L.P.

On July 2, 2007, we acquired ARCS Commercial Mortgage Co., L.P. (ARCS), a Calabasas Hills, California-based lender with 10 origination offices in the United States. ARCS has been a leading originator and servicer of agency multifamily loans for the past decade.

Mercantile Bankshares Corporation

Effective March 2, 2007, we acquired Mercantile Bankshares Corporation (Mercantile). Mercantile shareholders received an aggregate of approximately 53 million shares of PNC common stock and $2.1 billion in cash. Total consideration paid was approximately $5.9 billion in stock and cash.

2006

BlackRock/MLIM Transaction

On September 29, 2006, Merrill Lynch contributed its investment management business (MLIM) to BlackRock in exchange for 65 million shares of newly issued BlackRock common and preferred stock. BlackRock accounted for the MLIM transaction under the purchase method of accounting. Immediately following the closing, PNC continued to own 44 million shares of BlackRock common stock representing an ownership interest of 34% of the combined company (as compared with 69% immediately prior to the closing).

We also recorded a liability at September 30, 2006 for deferred taxes of $.9 billion, related to the excess of the book value over the tax basis of our investment in BlackRock, and a liability of $.6 billion related to our obligation to provide shares of BlackRock common stock to help fund certain BlackRock long-term incentive plan (LTIP) programs.

Table of Contents

Beginning with fourth quarter 2006, we recognize gain or loss each quarter-end on our remaining liability to provide shares of BlackRock common stock to help fund certain BlackRock LTIP programs as that liability is marked to market based on changes in BlackRock s common stock price. We recognized a pretax gain of $82 million in the first quarter of 2007 from the transfer of BlackRock shares for certain payouts under one of these programs. Additional BlackRock shares were distributed to LTIP participants in the first quarter of 2008, resulting in a $3 million pretax gain.

The overall balance sheet impact of the BlackRock/MLIM transaction was an increase to our shareholders equity of $1.6 billion. The increase to equity was comprised of an after-tax gain of $1.3 billion, net of the expense associated with the LTIP liability and the deferred taxes, and an after-tax increase to capital surplus of $.3 billion. The recognition of the gain is consistent with our existing accounting policy for the sale or issuance by subsidiaries of their stock to third parties. The gain represents the difference between our basis in BlackRock stock prior to the BlackRock/MLIM transaction and the new book value per share and resulting increase in value of our investment realized from the transaction. The direct increase to capital surplus rather than inclusion in the gain resulted from the accounting treatment required due to existing BlackRock repurchase commitments or programs.

For the nine months ended September 30, 2006, our Consolidated Income Statement included our former 69% 71% ownership interest in BlackRock s net income through the closing date. However, beginning September 30, 2006, our Consolidated Balance Sheet no longer reflected the consolidation of BlackRock s balance sheet but recognized our ownership interest in BlackRock as an investment accounted for under the equity method. Since that date, our share of BlackRock s net income is reported within asset management noninterest income in PNC s Consolidated Income Statement.

NOTE 3 VARIABLE INTEREST ENTITIES

We are involved with various entities in the normal course of business that were deemed to be VIEs. We consolidated certain VIEs as of December 31, 2008 and 2007 for which we were determined to be the primary beneficiary.

Consolidated VIEs PNC Is Primary Beneficiary

In millions	Aggregate Assets	Aggregate Liabilities
Partnership interests in low income housing projects (a)		
December 31, 2008	**$ 1,499**	**$ 1,455**
December 31, 2007	$ 1,108	$ 1,108
Credit Risk Transfer Transaction (b)		
December 31, 2008	**$ 1,070**	**$ 1,070**

(a) Amounts for December 31, 2008 include National City, which PNC acquired on that date.
(b) National City-related transaction.

We hold significant variable interests in VIEs that have not been consolidated because we are not considered the primary beneficiary. Information on these VIEs follows:

Non-Consolidated VIEs Significant Variable Interests

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
December 31, 2008			
Market Street	**$ 4,916**	**$ 5,010**	**$ 6,965(a)**
Collateralized debt obligations	**20**		**2**
Partnership interests in tax credit investments (b) (c) (d)	**1,095**	**652**	**920**
Total (c)	**$ 6,031**	**$ 5,662**	**$ 7,887**
December 31, 2007			

Market Street	$ 5,304	$ 5,330	$ 9,019(a)
Collateralized debt obligations	255	177	6
Partnership interests in low income housing projects	298	184	155
Total	$ 5,857	$ 5,691	$ 9,180

(a) PNC s risk of loss consists of off-balance sheet liquidity commitments to Market Street of $6.4 billion and other credit enhancements of $.6 billion at December 31, 2008. The comparable amounts were $8.8 billion and $.2 billion at December 31, 2007.

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

(c) Amounts include the impact of National City.

(d) Aggregate assets and aggregate liabilities at December 31, 2008 represent approximate balances due to limited availability of financial information associated with the acquired National City partnerships that we did not sponsor.

MARKET STREET

Market Street Funding LLC (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 by Standard & Poor s and Moody s, 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 2007 and 2008, 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 99% of liquidity facilities to Market Street in exchange for fees negotiated based on market rates. PNC recognized program administrator fees and commitment fees related to PNC s portion of the liquidity facilities of $21 million and $4 million, respectively, for the year ended December 31, 2008. The comparable amounts were $13 million and $4 million for the year ended December 31, 2007.

Table of Contents

The commercial paper obligations at December 31, 2008 and December 31, 2007 were effectively collateralized by Market Street s assets. While PNC may be obligated to fund under the $6.4 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 or another third party in the form of deal-specific credit enhancement, such as by the over collateralization of the assets. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of expected losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. In addition, PNC would be required to fund $1.0 billion of the liquidity facilities if the underlying assets are in default. See Note 25 Commitments and Guarantees for additional information.

PNC provides program-level credit enhancement to cover net losses in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities. PNC provides 100% of the enhancement in the form of a cash collateral account funded by a loan facility. This facility expires in March 2013. Until November 25, 2008, PNC provided only 25% of the enhancement in the form of a cash collateral account funded by a loan facility and provided a liquidity facility for the remaining 75% of program-level enhancement.

Market Street has entered into a Subordinated Note Purchase Agreement (Note) with an unrelated third party. The Note provides first loss coverage whereby the investor absorbs losses up to the amount of the Note, which was $6.6 million as of December 31, 2008. Proceeds from the issuance of the Note are held by Market Street in a first loss reserve account that will be used to reimburse any losses incurred by Market Street, PNC Bank, N.A. or other providers under the liquidity facilities and the credit enhancement arrangements.

We evaluated the design of Market Street, its capital structure, the Note and relationships among the variable interest holders under the provisions of FIN 46R. Based on this analysis, we are not the primary beneficiary as defined by FIN 46R and therefore the assets and liabilities of Market Street are not reflected in our Consolidated Balance Sheet.

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

Low Income Housing Projects

We make certain equity investments in various limited partnerships that sponsor affordable housing projects utilizing

the Low Income Housing Tax Credit (LIHTC) pursuant to Sections 42 and 47 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing product offerings and to assist us in achieving goals associated with the Community Reinvestment Act. The primary activities of the limited partnerships 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.

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 and sell limited partnership interests to third parties, and in some cases may also purchase a limited partnership 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 and to generate servicing fees by managing the funds. General partner activities include selecting, evaluating, structuring, negotiating, and closing the fund investments in operating limited partnerships, as well as oversight of the ongoing operations of the fund portfolio.

We evaluate our interests and third party interests in the limited partnerships in determining whether we are the primary beneficiary. The primary beneficiary determination is based on which party absorbs a majority of the variability. The primary sources of variability in LIHTC investments are the tax credits, tax benefits of losses on the investments and development and operating cash flows. We have consolidated LIHTC investments in which we absorb a majority of the variability and thus are considered the primary beneficiary. The assets are primarily included in Equity Investments and Other Assets on our Consolidated Balance Sheet with the liabilities primarily classified in Other Liabilities and Minority Interest. Neither creditors nor equity investors in the LIHTC investments have any recourse to our general credit. The consolidated aggregate assets and liabilities of these LIHTC investments are provided in the Consolidated VIEs PNC Is Primary Beneficiary table and reflected in the Other business segment.

We also have LIHTC investments in which we are not the primary beneficiary, but are considered to have a significant variable interest based on our interests in the partnership. These investments are disclosed in the Non-Consolidated VIEs Significant Variable Interests table. The table also reflects our maximum exposure to loss. Our maximum exposure to loss is equal to our legally binding equity commitments adjusted for recorded impairment and partnership results. We use the equity and cost methods to account for our investment in these entities with the investments reflected in Equity Investments on our

Consolidated Balance Sheet. In addition, we increase our recognized investments and recognize a liability for all legally binding unfunded equity commitments. These liabilities are reflected in Other Liabilities on our Consolidated Balance Sheet.

Credit Risk Transfer Transaction

National City Bank ("NCB") sponsored a special purpose entity ("SPE") trust and concurrently entered into a credit risk transfer agreement with an independent third-party to mitigate credit losses on a pool of nonconforming mortgage loans originated by its former First Franklin business unit. The SPE was formed with a small contribution from NCB and was structured as a bankruptcy-remote entity so that its creditors have no recourse to NCB. In exchange for a perfected security interest in the cash flows of the nonconforming mortgage loans, the SPE issued to NCB asset-backed securities in the form of senior, mezzanine, and subordinated equity notes. NCB has incurred credit losses equal to the subordinated equity notes. NCB currently holds the right to put the mezzanine notes to the independent third-party at par. As of December 31, 2008, the value of the mezzanine notes was $169 million. NCB holds the senior notes and will be responsible for credit losses in excess of this amount.

National City Bank (NCB) sponsored a special purpose entity (SPE) trust and concurrently entered into a credit risk transfer agreement with an independent third party to mitigate credit losses on a pool of nonconforming mortgage loans originated by its former First Franklin business unit. The SPE was formed with a small contribution from NCB and was structured as a bankruptcy-remote entity so that its creditors have no recourse to NCB. In exchange for a perfected security interest in the cash flows of the nonconforming mortgage loans, the SPE issued to NCB asset-backed securities in the form of senior, mezzanine, and subordinated equity notes. NCB has incurred credit losses equal to the subordinated equity notes. NCB currently holds the right to put the mezzanine notes to the independent third-party at par. As of December 31, 2008, the value of the mezzanine notes was $169 million. NCB holds the senior notes and will be responsible for credit losses in excess of this amount.

The SPE was deemed to be a VIE as its equity was not sufficient to finance its activities. NCB was determined to be the primary beneficiary of the SPE as it would absorb the majority of the expected losses of the SPE through its holding of all of the asset-backed securities. Accordingly, this SPE was consolidated and all of the entity s assets, liabilities, and equity are intercompany balances and are eliminated in consolidation. Nonconforming mortgage loans, including foreclosed properties, pledged as collateral to the SPE remain on the balance sheet and totaled $719 million at December 31, 2008 reflecting the impact of fair value adjustments recorded by PNC in conjunction with the acquisition.

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 minority interest on our Consolidated Balance Sheet since we are not the primary beneficiary of Trust I, Trust II and Trust III. This minority interest totaled approximately $1.3 billion at December 31, 2008.

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

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

Table of Contents

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.

NOTE 4 LOANS, COMMITMENTS TO EXTEND CREDIT AND CONCENTRATIONS OF CREDIT RISK

Loans outstanding were as follows:

December 31 - in millions	**2008 (a)**	2007
Commercial	**$ 67,319**	$ 28,539
Commercial real estate	**25,736**	8,903
Consumer	**52,489**	18,393
Residential real estate	**21,583**	9,557
Equipment lease financing	**6,461**	2,514
Other	**1,901**	413
Total loans	**$ 175,489**	$ 68,319

(a) Amounts at December 31, 2008 include $99.7 billion of loans related to National City.

Loans are presented net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $4.1 billion and $990 million at December 31, 2008 and 2007, respectively.

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate exposure is material in relation to our total credit exposure. Loans outstanding and related unfunded commitments are concentrated in our primary geographic markets. At December 31, 2008, no specific industry concentration exceeded 7% of total commercial loans outstanding.

In the normal course of business, we originate or purchase loan products whose contractual features, when concentrated, may increase our exposure as a holder and servicer of those loan products. Possible product terms and features that may create a concentration of credit risk would include loan products whose terms permit negative amortization, a high loan-to-value ratio, features that may expose the borrower to future increases in repayments above increases in market interest rates, below-market interest rates and interest-only loans, among others.

We originate interest-only loans to commercial borrowers. These products are standard in the financial services industry and the features of these products are considered during the underwriting process to mitigate the increased risk of this product feature that may result in borrowers not being able to make interest and principal payments when due. We do not believe that these product features create a concentration of credit risk.

We also originate home equity loans and lines of credit that result in a credit concentration of high loan-to-value ratio loan

products at the time of origination. In addition, these loans are concentrated in our primary geographic markets as discussed above. At December 31, 2008, $6.8 billion of the $38.3 billion of home equity loans (included in Consumer in the table above) had a loan-to-value ratio greater than 90%. These loans are collateralized primarily by 1-4 family residential properties. Included in the residential real estate category in the table above, at December 31, 2008, $5.6 billion of the $18.8 billion of residential mortgage loans were interest-only loans.

We realized a net loss on sales of commercial mortgages of $6 million in 2008, and net gains of $39 million in 2007 and $55 million in 2006. Loans held for sale are reported separately on the Consolidated Balance Sheet and are not included in the table above. Gains on sales of education loans totaled $24 million in 2007 and $33 million in 2006. In February 2008, we transferred education loans from held for sale to the loan portfolio and did not recognize any gains on sales of education loans during 2008. Interest income from total loans held for sale was $166 million for 2008, $184 million for 2007, and $157 million for 2006 and is included in Other interest income in our Consolidated Income Statement.

Net Unfunded Credit Commitments

December 31 - in millions	**2008 (a)**	2007
Commercial and commercial real estate	**$ 59,982**	$ 42,021

Home equity lines of credit	**23,195**	8,680
Consumer credit card lines	**19,028**	969
Other	**2,683**	1,677
Total	**$ 104,888**	$ 53,347

(a) Amounts at December 31, 2008 include $53.9 billion of net unfunded credit commitments related to National City.

Commitments to extend credit represent arrangements to lend funds subject to specified contractual conditions. At December 31, 2008, commercial commitments are reported net of $8.6 billion of participations, assignments and syndications, primarily to financial services companies. The comparable amount at December 31, 2007 was $8.9 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 55% of consumer unfunded credit commitments.

Unfunded credit commitments related to Market Street totaled $6.4 billion at December 31, 2008 and $8.8 billion at December 31, 2007 and are included in the preceding table primarily within the Commercial and Consumer categories.

At December 31, 2008, we pledged $32.9 billion of loans to the Federal Reserve Bank (FRB) and $50.0 billion of loans to the Federal Home Loan Bank (FHLB) as collateral for the contingent ability to borrow, if necessary.

Table of Contents

NOTE 5 ASSET QUALITY

The following table sets forth nonperforming assets and related information:

December 31 - dollars in millions	2008 (a)	2007
Nonaccrual loans		
Commercial	**$ 576**	$ 193
Commercial real estate	**766**	212
Equipment lease financing	**97**	3
TOTAL COMMERCIAL LENDING	**1,439**	408
Consumer		
Home equity	**66**	16
Other	**4**	1
Total consumer	**70**	17
Residential real estate		
Residential mortgage	**139**	26
Residential construction	**14**	1
Total residential real estate	**153**	27
TOTAL CONSUMER LENDING	**223**	44
Total nonaccrual loans	**1,662**	452
Restructured loans		2
Total nonperforming loans	**1,662**	454
Foreclosed and other assets		
Commercial lending	**34**	23
Consumer	**11**	8
Residential real estate	**458**	10
Total foreclosed and other assets	**503**	41
Total nonperforming assets (b) (c)	**$ 2,165**	$ 495
Nonperforming loans to total loans	**.95%**	.66%
Nonperforming assets to total loans and foreclosed assets	**1.23**	.72
Nonperforming assets to total assets	**.74**	.36
Interest on nonperforming loans		
Computed on original terms	**$ 115**	$ 51
Recognized prior to nonperforming status	**60**	32
Past due loans		
Accruing loans past due 90 days or more	**$ 3,259**	$ 136
As a percentage of total loans	**1.86%**	.20%

(a) Amounts at December 31, 2008 include $722 million of nonperforming assets related to National City. Nonperforming assets of National City are comprised of $250 million of nonperforming loans, including $154 million related to commercial lending and $96 million related to consumer lending, and $472 million of foreclosed and other assets. Nonperforming assets added with the National City acquisition excluded those loans that PNC impaired in accordance with SOP 03-3. See Note 6 Certain Loans Acquired in a Transfer for additional information regarding SOP 03-3 loans.

(b) Excludes equity management assets carried at estimated fair value of $42 million at December 31, 2008 and $4 million at December 31, 2007.

(c) Excludes loans held for sale carried at lower of cost or market value of $78 million at December 31, 2008 and $25 million at December 31, 2007, including troubled debt restructured assets of $5 million at December 31, 2008.

Table of Contents

Net interest income less the provision for credit losses was $2.306 billion for 2008 compared with $2.600 billion for 2007 and $2.121 billion for 2006.

Changes in the allowance for loan and lease losses were as follows:

In millions	**2008**	2007