PNC FINANCIAL SERVICES GROUP INC
Form 10-Q
August 10, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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

incorporation or organization)

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

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

Yes x No ¨

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

Yes x No ¨

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

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

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

Yes ¨ No x

As of July 31, 2009, there were 461,402,998 shares of the registrant s common stock ($5 par value) outstanding.

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The PNC Financial Services Group, Inc.

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FINANCIAL REVIEW

CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended June 30 **2009 (a)**	 2008	Six months ended June 30 **2009 (a)**	 2008
FINANCIAL PERFORMANCE (b)				
Revenue				
Net interest income	**$ 2,182**	$ 977	**$ 4,487**	$ 1,831
Noninterest income	**1,805**	1,062	**3,371**	2,029
Total revenue	**3,987**	2,039	**7,858**	3,860
Noninterest expense	**2,658**	1,103	**4,986**	2,138
Pretax, pre-provision earnings	**$ 1,329**	$ 936	**$ 2,872**	$ 1,722
Provision for credit losses	**$ 1,087**	$ 186	**$ 1,967**	$ 337
Net income	**$ 207**	$ 517	**$ 737**	$ 901
Net income attributable to common shareholders	**$ 65**	$ 505	**$ 525**	$ 882
Diluted earnings per common share	**$ .14**	$ 1.45	**$ 1.16**	$ 2.54
Cash dividends declared per common share	**$ .10**	$ .66	**$ .76**	$ 1.29
Total preferred dividends declared	**$ 119**		**$ 170**	
TARP Capital Purchase Program preferred dividends	**$ 95**		**$ 142**	
Impact of TARP Capital Purchase Program preferred dividends per common share	**$ .21**		**$ .32**	
SELECTED RATIOS				
Net interest margin (c)	**3.60%**	3.47%	**3.70%**	3.28%
Noninterest income to total revenue	**45**	52	**43**	53
Efficiency (d)	**67**	54	**63**	55
Return on:				
Average common shareholders equity	**1.52%**	14.33%	**5.72%**	12.59%
Average assets	**.30**	1.47	**.53**	1.29

See page 56 for a glossary of certain terms used in this Report.

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

(a) Results for the three months ended and six months ended June 30, 2009 include the impact of National City, which we acquired on December 31, 2008.
(b) The Executive Summary and Consolidated Income Statement Review portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.
(c) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from Federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under GAAP in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended June 30, 2009 and June 30, 2008 were $16 million and $10 million, respectively. The taxable-equivalent adjustments to net interest income for the six months ended June 30, 2009 and June 30, 2008 were $31 million and $19 million, respectively.
(d) Calculated as noninterest expense divided by total revenue.

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CONSOLIDATED FINANCIAL HIGHLIGHTS (CONTINUED) (a)

Unaudited	June 30 2009 (b)	December 31 2008 (b)	June 30 2008
BALANCE SHEET DATA (dollars in millions, except per share data)			
Assets	**$ 279,754**	$ 291,081	$ 142,771
Loans	**165,009**	175,489	73,040
Allowance for loan and lease losses	**4,569**	3,917	988
Investment securities	**49,969**	43,473	31,032
Loans held for sale	**4,662**	4,366	2,288
Goodwill and other intangible assets	**12,890**	11,688	9,928
Equity investments	**8,168**	8,554	6,376
Deposits	**190,439**	192,865	84,689
Borrowed funds	**44,681**	52,240	32,472
Shareholders equity	**27,294**	25,422	15,108
Common shareholders equity	**19,363**	17,490	14,602
Accumulated other comprehensive loss	**3,101**	3,949	1,227
Book value per common share	**42.00**	39.44	42.17
Common shares outstanding (millions)	**461**	443	346
Loans to deposits	**87%**	91%	86%
ASSETS ADMINISTERED (billions)			
Managed	**$ 98**	$ 103	$ 67
Nondiscretionary	**124**	125	110
FUND ASSETS SERVICED (billions)			
Accounting/administration net assets	**$ 774**	$ 839	$ 988
Custody assets	**399**	379	471
CAPITAL RATIOS			
Tier 1 risk-based (c)	**10.5%**	9.7%	8.2%
Tier 1 common	**5.3**	4.8	5.7
Total risk-based (c)	**14.1**	13.2	11.9
Leverage (c) (d)	**9.1**	17.5	7.3
Common shareholders equity to assets	**6.9**	6.0	10.2
ASSET QUALITY RATIOS			
Nonperforming loans to total loans	**2.44%**	.95%	.95%
Nonperforming assets to total loans and foreclosed and other assets	**2.74**	1.24	1.00
Nonperforming assets to total assets	**1.62**	.75	.51
Net charge-offs to average loans (for the three months ended)	**1.89**	1.09	.62
Allowance for loan and lease losses to total loans	**2.77**	2.23	1.35
Allowance for loan and lease losses to nonperforming loans	**113**	236	142

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

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

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

(d) The ratio as of December 31, 2008 did not reflect any impact of National City on PNC s adjusted average total assets.

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FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2008 Annual Report on Form 10-K (2008 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business and regulatory risks, see the Risk Management section in this Financial Review and Items 1A and 7 of our 2008 Form 10-K and Item 1A included in Part II of this Report. Also, see the Cautionary Statement Regarding Forward-Looking Information and Critical Accounting Policies And Judgments sections in this Financial Review for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and those anticipated in the forward-looking statements included in this Report. See Note 19 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis.

Effective July 1, 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. (SFAS) 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (FASB ASC 105-10, Generally Accepted Accounting Principles). The FASB Accounting Standards Codification™ (FASB ASC) will be the single source of authoritative nongovernmental US GAAP. The FASB ASC will be effective for financial statements that cover interim and annual periods ending after September 15, 2009. Other than resolving certain minor inconsistencies in current GAAP, the FASB ASC is not intended to change GAAP, but rather to make it easier to review and research GAAP applicable to a particular transaction or specific accounting issue. Technical references to GAAP included in this Report are provided under the new FASB ASC structure with the prior terminology included parenthetically the first time it appears.

EXECUTIVE SUMMARY

THE PNC FINANCIAL SERVICES GROUP, INC.

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

As further described in Note 2 Acquisitions and Divestitures in our 2008 Form 10-K, on December 31, 2008, PNC acquired National City Corporation (National City). Our consolidated financial statements for the second quarter and first half of 2009 reflect the impact of National City.

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

We expect to incur total merger and integration costs of approximately $1.2 billion pretax in connection with the acquisition of National City. This total includes $575 million pretax recognized in the fourth quarter of 2008 and $176 million pretax recognized in the first six months of 2009, including $125 million pretax in the second quarter. 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.

We are in the process of integrating the businesses and operations of National City with those of PNC.

KEY STRATEGIC GOALS

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

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

We are focused on our strategies for quality growth. We are committed to returning to a moderate risk profile characterized by disciplined credit management and limited

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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, strong liquidity and investment flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

We also continue to be focused on building capital in the current environment characterized by economic and regulatory uncertainty. See the Funding and Capital Sources section of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this Financial Review regarding certain restrictions on dividends and common share repurchases resulting from PNC s participation on December 31, 2008 in the US Department of the Treasury s Troubled Asset Relief Program (TARP) Capital Purchase Program and other regulatory restrictions on dividend capacity.

On March 1, 2009, our board of directors decided to reduce PNC s quarterly common stock dividend from $.66 to $.10 per share. Accordingly, the board of directors declared a quarterly common stock cash dividend of $.10 per share in April and July 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 by approximately $1 billion annually, further strengthen our balance sheet and enable us to continue to serve our customers.

Supervisory Capital Assessment Program

(Stress tests)

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

Recent Market and Industry Developments

Since the middle of 2007 and with a heightened level of activity during the past 12 months, 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 Capital Purchase Program, the FDIC s Temporary Liquidity Guarantee Program (TLGP) and the Federal Reserve s Commercial Paper Funding Facility (CPFF).

These programs, some of which are further described in Item 7 of our 2008 Form 10-K, include the following:

<u>TARP Capital Purchase Program</u> 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. 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 its issuance. After December 31, 2013, if these shares are still outstanding, the annual dividend rate will increase to 9% per year. We plan to redeem the US Treasury s investment as soon as appropriate in a shareholder-friendly manner, subject to approval by our banking regulators. We do not contemplate exchanging any of the shares of preferred stock issued to the US Treasury under the TARP Capital Purchase Program for shares of mandatorily convertible preferred stock.

Further information on these securities is included in Note 19 Shareholders Equity included in our Notes to Consolidated Financial Statements within Item 8 of our 2008 Form 10-K.

FDIC Temporary Liquidity Guarantee Program (TLGP) In December 2008, PNC Funding Corp issued fixed and floating rate senior notes totaling $2.9 billion under the FDIC s TLGP-Debt Guarantee Program. In March 2009, PNC Funding Corp issued floating rate senior notes totaling $1.0 billion under this program. Each of these series of senior notes is guaranteed by the FDIC and is backed by the full faith and credit of the United States through June 30, 2012.

Since October 14, 2008, both PNC Bank, National Association (PNC Bank, N.A.) and National City Bank have participated 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

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under this program is in addition to, and separate from, the coverage available under the FDIC s general deposit insurance rules.

Federal Reserve Commercial Paper Funding Facility (CPFF) Effective October 28, 2008, Market Street Funding LLC (Market Street) was approved to participate in the Federal Reserve s CPFF. The CPFF commitment to purchase up to $5.4 billion of three-month Market Street commercial paper expires on October 30, 2009. Market Street had no borrowings under this facility at June 30, 2009. On June 25, 2009, the CPFF program was extended to February 1, 2010.

Public-Private Investment Fund Programs (PPIFs) On March 23, 2009, the US Treasury and the FDIC announced that they will establish the Legacy Loans Program (LLP) to remove troubled loans and other assets from banks. The FDIC will provide oversight for the formation, funding, and operation of new PPIFs that will purchase loans and other assets from depository institutions. The LLP will attract private capital through an FDIC debt guarantee and Treasury equity co-investment. All FDIC-insured depository institutions will be eligible to participate in the program.

On March 23, 2009, the US Treasury also announced the establishment of the Legacy Securities PPIFs, which are designed to address issues raised by troubled assets. These Legacy Securities PPIFs are specifically focused on legacy securities and are part of a plan that directs both equity capital and debt financing into the market for legacy assets. This program is designed to draw in private capital to these markets by providing matching equity capital from the US Treasury and debt financing from the Federal Reserve via the Term Asset-Backed Loan Facility (TALF) and the US Treasury.

PNC is in the process of determining to what extent, if any, it will participate in these programs.

Home Affordable Modification Program (HAMP) As part of its effort to stabilize the US housing market, in March 2009 the Obama Administration published detailed guidelines implementing the Home Affordable Modification Program (HAMP), and authorized servicers to begin loan modifications. PNC began participating in the HAMP for all GSE mortgages in May, and for non-GSE mortgages in July, and plans to evaluate participation in the Second Lien Program as the US Treasury announces additional details.

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

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

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

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, such as the Federal government initiatives 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 and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment, and
- The impact of market credit spreads on asset valuations.

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

Further success in the acquisition, growth and retention of customers,
Progress toward integrating the National City acquisition,
Continued development of the geographic markets related to our recent acquisitions, including full deployment of our product offerings,
Revenue growth,
A sustained focus on expense management, including achieving our cost savings targets associated with our National City integration, and creating positive pre-tax, pre-provision earnings,

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- Managing the distressed assets portfolio and other impaired assets,
- Maintaining our overall asset quality and continuing to meet evolving regulatory capital standards,
- Continuing to maintain our 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.

SUMMARY FINANCIAL RESULTS

	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
Net income, in millions	**$ 207**	$ 517	**$ 737**	$ 901
Diluted earnings per common share	**$ .14**	$ 1.45	**$ 1.16**	$ 2.54
Return on:				
Average common shareholders equity	**1.52%**	14.33%	**5.72%**	12.59%
Average assets	**.30%**	1.47%	**.53%**	1.29%

Highlights of the second quarter of 2009 included the following:

- We grew retail customer accounts and increased average transaction deposits by $6.6 billion during the quarter, further strengthening our liquidity position and core funding level to an 87% loan to deposit ratio at June 30, 2009. We reduced brokered certificates of deposit as reflected in the $5.4 billion decline in average other time deposits, substantially reducing the overall cost of deposit funding.
- We remain committed to responsible lending, essential to economic recovery. Loans and commitments of approximately $29 billion were originated and renewed during the second quarter as we continued to make credit available.
- We raised $624 million in new common equity at market prices through the issuance of 15 million shares of common stock in May 2009.
- Capital levels continued to strengthen. During the quarter we added 50 basis points to the Tier 1 risk-based capital ratio, which was 10.5% at June 30, 2009, and added 40 basis points to the Tier 1 common equity ratio, which was 5.3% at June 30, 2009.
- Pretax, pre-provision earnings of $1.3 billion exceeded credit costs of $1.1 billion. Total revenue was $4.0 billion for the quarter, reflecting the diversification of our revenue streams and the strength of noninterest income sources. Expenses remained well controlled and increased primarily due to a special FDIC assessment and integration costs related to the National City acquisition.
- As expected, credit quality continued to deteriorate during the second quarter reflecting the weakened economy, but at a slower rate. We increased credit loss reserves by $261 million, strengthening the allowance for loan and lease losses to $4.6 billion at June 30, 2009 and the ratio of allowance for loan and lease losses to total loans to 2.77% at that date. Net charge-offs to average loans increased to 1.89% for the second quarter of 2009. The increase in net charge-offs was anticipated given the $2.8 billion of reserves for expected losses established for National City loans on acquisition date.
- The acquisition of National City continued to exceed expectations.
  - The transaction was accretive to first half earnings and is expected to be accretive for full year 2009.
  - Cost savings in the first half of 2009 reached an annualized level of approximately $500 million, ahead of plan and tracking to achieve the two-year goal of reducing combined company annualized noninterest expense by $1.2 billion.
  - Plans are in place for the required divestiture of 61 branches in the third quarter of 2009.
  - Integration activities are proceeding on schedule. National City customers will begin to be converted to the PNC platform in November 2009.
  - The combined company remains focused on delivering the PNC brand for client and business growth.

Our Consolidated Income Statement Review section of this Financial Review describes in greater detail the various items that impacted our results for the second quarter and first half of 2009 and 2008.

AVERAGE CONSOLIDATED BALANCE SHEET HIGHLIGHTS

Various seasonal and other factors impact our period-end balances whereas average balances are generally more indicative of underlying business trends apart from the impact of recent acquisitions.

Our Average Consolidated Balance Sheet for the first six months of 2009 included the impact of National City, which was the primary driver of increases compared with the first six months of 2008. The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at June 30, 2009 compared with December 31, 2008.

Total average assets were $280.9 billion for the first half of 2009 compared with $141.0 billion for the first half of 2008. Total average assets for the first six months of 2009 included $133.0 billion related to National City.

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Average interest-earning assets were $243.7 billion for the first six months of 2009, including $121.6 billion related to National City, compared with $112.3 billion in the first six months of 2008. An increase of $100.3 billion in loans, including $96.5 billion related to National City, and a $15.9 billion increase in securities available for sale, including $12.4 billion related to National City, were reflected in the increase in average interest-earning assets. In addition, securities held to maturity, including those transferred by PNC in the fourth quarter of 2008 from the available for sale portfolio, averaged $3.6 billion in the first six months of 2009.

Average noninterest-earning assets totaled $37.1 billion in the first half of 2009 compared with $28.7 billion in the prior year first half. For the first half of 2009, average noninterest-earning assets related to National City totaled $11.5 billion.

The increase in average total loans, which includes the impact of National City as indicated above, reflected growth in commercial loans of $35.1 billion, consumer loans of $32.5 billion, commercial real estate loans of $16.4 billion and residential mortgage loans of $12.6 billion. Loans represented 70% of average interest-earning assets for the first six months of 2009 and 63% for the first six months of 2008.

Average residential mortgage-backed securities increased $14.2 billion compared with the first half of 2008. Average US Treasury and government agencies securities increased $2.6 billion and average state and municipal securities increased $.8 billion in the comparison. These increases were largely as a result of the National City acquisition and were partially offset by declines of $1.2 billion in average commercial mortgage-backed securities and $1.1 billion in average asset-backed securities compared with the prior year first half. Investment securities comprised 21% of average interest-earning assets for the first half of 2009 and 27% for the first half of 2008.

Average total deposits were $192.5 billion for the first six months of 2009, including $104.0 billion related to National City, compared with $82.8 billion for the first six months of 2008. Average deposits grew from the prior year period primarily as a result of increases in retail certificates of deposit, money market balances, and demand and other noninterest-bearing deposits. Average total deposits represented 69% of average total assets for the first six months of 2009 and 59% for the first six months of 2008.

Average transaction deposits were $116.8 billion for the first half of 2009, including $51.4 billion related to National City, compared with $54.1 billion for the first half of 2008.

Average borrowed funds were $47.0 billion for the first six months of 2009, including $19.7 billion related to National City, compared with $31.6 billion for the first six months of 2008.

Business Segment Highlights

In the first quarter of 2009, we made changes to our business organization structure and management reporting in conjunction with the acquisition of National City. As a result, we now have seven reportable business segments which include:

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

Business segment results for the second quarter and first half of 2008 have been reclassified to reflect current methodologies and current business and management structure and present prior periods on the same basis.

Total business segment earnings were $1.193 billion for the first six months of 2009 and $665 million for the first six months of 2008. Second quarter 2009 business segment earnings totaled $488 million compared with $376 million for the second quarter of 2008. Highlights of results for the second quarter and first half of 2009 and 2008 are included below. The Business Segments Review section of this Financial Review includes further analysis of our business segment results over these periods.

We provide a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis in Note 19 Segment Reporting.

Retail Banking

Retail Banking s earnings were $110 million for the first six months of 2009 compared with $218 million for the same period in 2008. For the second quarter of 2009, Retail Banking s earnings were $60 million compared with $81 million for the second quarter of 2008. Results for 2009 include revenues and expenses associated with business acquired with National City. Results were challenged in this environment by ongoing credit deterioration, a lower value assigned to our deposits, reduced consumer spending and increased FDIC insurance costs. Retail Banking continues to maintain its focus on customer and deposit growth, employee and customer satisfaction, investing in the business for future growth, as well as disciplined expense management during this period of market and economic uncertainty.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $470 million in the first six months of 2009, including $111 million in the second quarter, compared with $184 million and $159 million, respectively, for the same periods in 2008. Results for 2009 included revenues and expenses associated with business acquired with National City. For the first half of 2009, total revenue of $2.6 billion was strong, driven primarily by net

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interest income. Noninterest expense was tightly managed, and earnings were impacted by the provision for credit losses, indicative of deteriorating credit quality and the weakened economy. For second quarter 2009, the increase in the provision for credit losses drove the decline in earnings.

Asset Management Group

Asset Management Group s earnings were $47 million for the first six months of 2009 compared with $71 million for the same period in 2008. The 34% decline in earnings over the prior year was driven by an increased provision for credit losses. Despite the significant earnings impact from the increased provision for credit losses, the business remained focused on client sales and service, expense management and the National City integration resulting in pretax, pre-provision earnings growth of 20% over the first half of 2008.

Earnings for the Asset Management Group totaled $8 million for the second quarter of 2009 compared with $34 million for the second quarter of 2008. An increase of $45 million in the provision for credit losses drove the decline in earnings.

Residential Mortgage Banking

Residential Mortgage Banking earned $309 million for the six months ended June 30, 2009, including $88 million in the second quarter, driven by strong loan origination activity and net mortgage servicing rights hedging gains. This business segment consists primarily of activities acquired with National City.

BlackRock

Our BlackRock business segment earned $77 million in the first six months of 2009 and $129 million in the first six months of 2008. Second quarter 2009 business segment earnings from BlackRock were $54 million compared with $69 million in the second quarter of 2008. Lower equity markets in 2009, particularly in the first quarter, impacted BlackRock s results.

Global Investment Servicing

Global Investment Servicing earned $22 million for the first six months of 2009 compared with $63 million for the same period of 2008. For the second quarter of 2009, Global Investment Servicing earned $12 million compared with $33 million for the second quarter of 2008. Results for 2009 were negatively impacted by declines in asset values, fund redemptions, and account closures as a result of the deterioration of the financial markets and the establishment of a legal contingency reserve.

Distressed Assets Portfolio

This business segment consists primarily of assets acquired with National City. The Distressed Assets Portfolio had earnings of $158 million for the first six months of 2009, including $155 million in the second quarter.

Earnings for the first half of 2009 included net interest income of $626 million which was driven by higher yielding loans from the National City acquisition. The provision for credit losses was $289 million, which reflected general credit quality deterioration, although the consumer portfolio experienced some stabilization during the second quarter. Noninterest expense was $135 million for the first six months of 2009, comprised primarily of costs associated with foreclosed assets and servicing costs.

Other

Other reported a net loss of $456 million for the first half of 2009 compared with earnings of $236 million for the first half of 2008. The loss for 2009 included the after-tax impact of other-than-temporary impairment charges and alternative investment writedowns, integration costs related primarily to the National City acquisition, a special FDIC assessment, and equity management losses. These items were somewhat offset by a gain related to PNC s BlackRock LTIP shares obligation in the first quarter and net gains on sales of securities. Our discussion of BlackRock in the Business Segments Review section of this Report describes our investment in BlackRock s new Series C Preferred Stock, the accounting for which offsets the impact of the gains or losses related to PNC s BlackRock LTIP shares obligation beginning February 27, 2009. Earnings for 2008 reflected net securities gains and the partial reversal of the Visa indemnification liability, partially offset by trading losses.

Other reported a net loss of $281 million for the second quarter of 2009 compared with earnings of $141 million for the second quarter of 2008. The net loss in the 2009 quarter was primarily due to the special FDIC assessment and National City integration costs.

CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for the first six months of 2009 was $737 million and for the first six months of 2008 was $901 million. Net income for the second quarter of 2009 was $207 million compared with net income of $517 million for the second quarter of 2008. Our Consolidated Income Statement for the second quarter and first six months of 2009 includes operating results of National City. As a result, the substantial increase in all income statement comparisons to the comparable 2008 periods, except as noted, are primarily due to the operating results of National City.

Total revenue for the first six months of 2009 was $7.9 billion compared with $3.9 billion for the first six months of 2008. Total revenue for the second quarter of 2009 increased 3% to $4.0 billion from $3.9 billion for the first quarter of 2009.

NET INTEREST INCOME AND NET INTEREST MARGIN

Dollars in millions	Three months ended June 30 2009	Three months ended June 30 2008	Six months ended June 30 2009	Six months ended June 30 2008
Net interest income	**$ 2,182**	$ 977	**$ 4,487**	$ 1,831
Net interest margin	**3.60%**	3.47%	**3.70%**	3.28%

In addition to the impact of National City during 2009, changes in net interest income and margin result from the interaction of the volume and composition of interest-earning assets and related yields, interest-bearing liabilities and related rates paid, and noninterest-bearing sources of funding. See the Statistical Information Average Consolidated Balance Sheet And Net Interest Analysis section of this Report for additional information.

The increase in net interest income for the second quarter and first six months of 2009 compared with the respective 2008 periods reflected the increase in average interest-earning assets due to National City and the improvement in the net interest margin described below.

We expect net interest income and net interest margin for the remainder of 2009 to be flat to down compared with the first six months of 2009 as the effect of the maturities and paydowns of higher-yielding assets will be partially offset by interest-bearing deposit re-pricing, assuming our current expectations for interest rates and economic conditions. We include our current economic assumptions underlying our forward-looking statements in the Cautionary Statement Regarding Forward-Looking Information section of this Financial Review.

The net interest margin was 3.70% for the first half of 2009 and 3.28% for the first half of 2008. The following factors impacted the comparison:

- A decrease in the rate paid on interest-bearing liabilities of 104 basis points. The rate paid on interest-bearing deposits, the largest component, decreased 115 basis points.
- These factors were partially offset by a 55 basis point decrease in the yield on interest-earning assets. The yield on loans, which represented a larger portion of our earning assets in the first six months of 2009, decreased 49 basis points.
- In addition, the impact of noninterest-bearing sources of funding decreased 7 basis points due to lower interest rates and a lower proportion of noninterest-bearing sources of funding to interest-earning assets.

The net interest margin was 3.60% for the second quarter of 2009 and 3.47% for the second quarter of 2008. The following factors impacted the comparison:

- A decrease in the rate paid on interest-bearing liabilities of 82 basis points. The rate paid on interest-bearing deposits, the largest component, decreased 95 basis points.
- These factors were partially offset by a 65 basis point decrease in the yield on interest-earning assets. The yield on loans, which represented a larger portion of our earning assets in the second quarter of 2009, decreased 54 basis points.
- In addition, the impact of noninterest-bearing sources of funding decreased 4 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, the average Federal funds rate was .18% for the first half of 2009 compared with 2.62% for the first half of 2008. The average Federal funds rate was .18% for the second quarter of 2009 compared with 2.09% for the second quarter of 2008.

NONINTEREST INCOME

Summary

Noninterest income totaled $3.4 billion for the first six months of 2009, including $1.9 billion related to National City, compared with $2.0 billion for the first six months of 2008. Our noninterest income streams are well diversified and grew 15% in the second quarter of 2009 compared with the first quarter of 2009.

Noninterest income for the first half of 2009 included the following:

- Net credit-related other-than-temporary impairments on debt and equity securities of $304 million,
- Gains on hedges of residential mortgage servicing rights of $260 million,
- Net gains on sales of securities of $238 million.
- Net losses on private equity and alternative investments of $151 million, and

- Gains of $103 million related to our BlackRock LTIP shares adjustment in the first quarter.

Noninterest income for the first half of 2008 included the impact of the following:

- Income from Hilliard Lyons totaling $164 million, including the first quarter gain of $114 million from the sale of this business,
- Valuation and sale losses related to our commercial mortgage loans held for sale, net of hedges, of $138 million,
- Gains of $120 million related to our BlackRock LTIP shares adjustment, and
- 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.

Noninterest income totaled $1.8 billion for the second quarter of 2009, including $.9 billion related to National City, compared with $1.1 billion for the second quarter of 2008. The second quarter of 2009 included net gains on sales of

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securities of $182 million and net credit-related other-than-temporary impairments on debt and equity securities of $155 million. The second quarter of 2008 included a gain of $80 million related to our BlackRock LTIP shares adjustment.

Additional Analysis

Fund servicing fees totaled $392 million in the first six months of 2009 compared with $462 million in the first six months of 2008. For the second quarter of 2009, fund servicing fees were $193 million compared with $234 million in the second quarter of 2008. Asset management revenue was $397 million in the first half of 2009 compared with $409 million in the first half of 2008. Asset management revenue was $208 million in the second quarter of 2009 compared with $197 million in the second quarter of 2008.

Fund servicing fees and asset management revenue were negatively impacted by declines in asset values associated with the lower equity markets during the first six months of 2009, particularly during the first quarter.

Assets managed at June 30, 2009 totaled $98 billion, including National City assets under management, compared with $67 billion at June 30, 2008.

Global Investment Servicing provided fund accounting/ administration services for $774 billion of net fund investment assets and provided custody services for $399 billion of fund investment assets at June 30, 2009, compared with $988 billion and $471 billion, respectively, at June 30, 2008. The decrease in assets serviced in the comparison was due to declines in asset values and fund outflows resulting from market conditions.

For the first six months of 2009, consumer services fees totaled $645 million compared with $319 million in the first six months of 2008. Consumer service fees were $329 million for the second quarter of 2009 compared with $149 million for the second quarter of 2008. Consumer service fees in the 2009 periods reflected the impact of National City which more than offset reduced merchant and brokerage transaction volumes related to the economy.

Corporate services revenue totaled $509 million in the first half of 2009 and $349 million in the first half of 2008. For the second quarter of 2009, corporate services revenue totaled $264 million compared with $185 million for the second quarter of 2008. Corporate services fees include treasury management fees, which continued to be a strong contributor to revenue.

Residential mortgage fees totaled $676 million in the first six months of 2009, including $245 million in the second quarter. Strong mortgage refinancing volumes, especially in the first quarter, and $260 million of net hedging gains of mortgage servicing rights occurred in the first six months of 2009. Net hedging gains were $58 million in the second quarter. It is

unlikely that we will repeat this strong six-month performance in future periods, particularly the servicing rights hedging gains and loan origination volumes. Additionally, we do not expect refinance and application volumes to be as strong in the second half of 2009 compared with the first half of 2009.

Service charges on deposits totaled $466 million for the first half of 2009 and $174 million for the first half of 2008. Service charges on deposits totaled $242 million for the second quarter of 2009 compared with $92 million for the second quarter of 2008. In both comparisons, service charges on deposits held firm as checking account growth offset declining customer transaction amounts and volumes.

Net gains on sales of securities totaled $238 million for the first six months of 2009 and $49 million for the first six months of 2008. Second quarter net gains on sales of securities were $182 million in 2009 and $8 million in 2008. Second quarter 2009 securities gains related primarily to sales of agency residential mortgage-backed securities.

The net credit component of other-than-temporary impairments of securities recognized in earnings was a loss of $304 million in the first half of 2009, including $155 million in the second quarter.

Other noninterest income totaled $352 million for the first six months of 2009 compared with $276 million for the first six months of 2008.

Other noninterest income for the first six months of 2009 included gains of $103 million related to our equity investment in BlackRock and net losses on private equity and alternative investments of $151 million as referred to above. Other noninterest income for the first six months of 2008 included gains of $120 million related to our equity investment in BlackRock, the $114 million gain from the sale of Hilliard Lyons, and the $95 million Visa gain referred to in the Summary section above. The impact of these items more than offset losses related to our commercial mortgage loans held for sale, net of hedges, of $138 million in the 2008 period.

Other noninterest income for the second quarter of 2009 totaled $297 million compared with $206 million for the second quarter of 2008. The second quarter of 2008 included an $80 million gain related to our BlackRock LTIP shares adjustment.

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

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Product Revenue

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

Treasury management revenue, which includes fees as well as net interest income from customer deposit balances, totaled $559 million for the first half of 2009 and $274 million for the first half of 2008. For the second quarter of 2009, treasury management revenue was $285 million compared with $137 million for the second quarter of 2008. In addition to the impact of National City, these increases were primarily related to deposit growth and continued growth in legacy offerings such as purchasing cards and services provided to the Federal government and healthcare customers.

Revenue from capital markets-related products and services totaled $190 million in the first six months of 2009 compared with $180 million in the first six months of 2008. Second quarter 2009 revenue was $148 million compared with $104 million for the second quarter of 2008. The impact of National City-related revenue in both comparisons helped to offset declines in merger and acquisition revenues reflecting the difficult financing environment.

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

Commercial mortgage banking activities resulted in revenue of $233 million in the first half of 2009 compared with $11 million in the first half of 2008. For the second quarter of 2009, revenue from commercial mortgage banking activities totaled $139 million compared with $105 million for the second quarter of 2008. The first six months of 2009 included gains of $34 million on commercial mortgage loans held for sale, net of hedges. Losses of $138 million on commercial mortgage loans held for sale, net of hedges, reduced revenue for the first six months of 2008.

Provision For Credit Losses

The provision for credit losses totaled $2.0 billion for the first six months of 2009 compared with $337 million for the first six months of 2008. For the second quarter of 2009, the provision for credit losses totaled $1.1 billion compared with $186 million for the second quarter of 2008. The provisions for credit losses for the first half and second quarter of 2009 were in excess of net charge-offs of $1.2 billion and $795 million, respectively, due to required increases to our allowance for loan and lease losses reflecting continued deterioration in the credit markets and the resulting increase in nonperforming loans.

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

Noninterest Expense

Noninterest expense for the first six months of 2009 was $5.0 billion compared with $2.1 billion in the first six months of 2008. Noninterest expense totaled $2.7 billion in the second quarter of 2009 compared with $1.1 billion in the second quarter of 2008. The increases in both comparisons were substantially related to National City. We also recorded a special FDIC assessment of $133 million in the second quarter of 2009. This assessment was intended to build the FDIC s Deposit Insurance Fund.

Integration costs totaled $177 million in the first half of 2009 compared with $27 million in the first half of 2008. Integration costs in the second quarter of 2009 totaled $125 million compared with $13 million in the second quarter of 2008.

Annualized National City acquisition cost savings of approximately $500 million were realized by the second quarter of 2009, on track to achieve our $600 million goal for 2009 and the $1.2 billion two-year goal of reducing combined company annualized noninterest expense.

Effective Tax Rate

Our effective tax rate was 18.6% for the first half of 2009 and 34.9% for the first half of 2008. For the second quarter of 2009, our effective tax rate was 14.5% compared with 31.1% for the second quarter of 2008. Both 2009 effective tax rates were significantly lower than the statutory rate due to the relationship of pretax income to tax credits and earnings that are not subject to tax.

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CONSOLIDATED BALANCE SHEET REVIEW

SUMMARIZED BALANCE SHEET DATA

In millions	**June 30 2009**	Dec. 31 2008
Assets		
Loans	**$ 165,009**	$ 175,489
Investment securities	**49,969**	43,473
Cash and short-term investments	**18,620**	23,936
Loans held for sale	**4,662**	4,366
Equity investments	**8,168**	8,554
Goodwill	**9,206**	8,868
Other intangible assets	**3,684**	2,820
Other	**20,436**	23,575
Total assets	**$ 279,754**	$ 291,081
Liabilities		
Deposits	**$ 190,439**	$ 192,865
Borrowed funds	**44,681**	52,240
Other	**15,167**	18,328
Total liabilities	**250,287**	263,433
Total shareholders equity	**27,294**	25,422
Noncontrolling interests	**2,173**	2,226
Total equity	**29,467**	27,648
Total liabilities and equity	**$ 279,754**	$ 291,081

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

The decline in total assets at June 30, 2009 compared with December 31, 2008 was primarily due to weak loan demand and lower cash and short-term investments, somewhat offset by an increase in lower risk investment securities.

An analysis of changes in selected balance sheet categories follows.

LOANS

A summary of the major categories of loans outstanding follows. Outstanding loan balances reflect unearned income, unamortized discount and premium, and purchase discounts and premiums totaling $3.4 billion at June 30, 2009 and $4.1 billion at December 31, 2008, respectively.

Loans decreased $10.5 billion, or 6%, as of June 30, 2009 compared with December 31, 2008. Loans represented 59% of total assets at June 30, 2009 and 60% of total assets at December 31, 2008.

Commercial lending represented 55% of the loan portfolio and consumer lending represented 45% at June 30, 2009. Commercial lending declined 10% at June 30, 2009 compared with December 31, 2008. Commercial loans, which comprised 66% of total commercial lending, declined due to reduced demand for new loans, lower utilization levels and paydowns as clients continued to deleverage their balance sheets. Consumer lending decreased slightly at June 30, 2009 from

December 31, 2008. Increases in education and residential mortgage loans were more than offset by a decline in home equity installment loans and residential construction loans.

Details Of Loans

In millions	June 30 2009	Dec. 31 2008
Commercial		
Retail/wholesale	**$ 10,141**	$ 11,482
Manufacturing	**11,595**	13,263
Other service providers	**8,491**	9,038
Real estate related (a)	**8,346**	9,107
Financial services	**5,078**	5,194
Health care	**3,045**	3,201
Other	**13,898**	17,935
Total commercial	**60,594**	69,220
Commercial real estate		
Real estate projects	**16,542**	17,176
Commercial mortgage	**8,323**	8,560
Total commercial real estate	**24,865**	25,736
Equipment lease financing	**6,092**	6,461
TOTAL COMMERCIAL LENDING	**91,551**	101,417
Consumer		
Home equity		
Lines of credit	**24,373**	24,024
Installment	**12,346**	14,252
Education	**5,340**	4,211
Automobile	**1,784**	1,667
Credit card and other unsecured lines of credit	**3,261**	3,163
Other	**4,833**	5,172
Total consumer	**51,937**	52,489
Residential real estate		
Residential mortgage	**19,342**	18,783
Residential construction	**2,179**	2,800
Total residential real estate	**21,521**	21,583
TOTAL CONSUMER LENDING	**73,458**	74,072
Total loans (b)	**$ 165,009**	$ 175,489

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

(b) Includes FASB ASC 310-30, *Receivables Loans and Debt Securities Acquired with Deteriorated Credit Quality* (AICPA SOP 03-3), purchased impaired loans related to National City, adjusted to reflect additional loan impairments effective December 31, 2008, amounting to $12.5 billion at June 30, 2009 and $12.9 billion at December 31, 2008.

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.

Our home equity lines and installment loans outstanding totaled $36.7 billion at June 30, 2009. In this portfolio, we consider the higher risk loans to be those with a recent FICO credit score of less than or equal to 660 and a loan-to-value ratio greater than or equal to 90%. We had $1.2 billion or approximately 3% of the total portfolio in this grouping at June 30, 2009.

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In our $19.3 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 $1.8 billion and comprised approximately 9% of this portfolio at June 30, 2009.

Commercial lending is the largest category and is the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan and lease losses. We have allocated $3.2 billion, or 70%, of the total allowance for loan and lease losses at June 30, 2009 to these loans. We allocated $1.4 billion, or 30%, of the remaining allowance at that date to consumer lending. This allocation also considers other relevant factors such as:

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

Valuation of FASB ASC 310-30 (SOP 03-3) Purchased Impaired Loans

	Original		Revised	
	December 31, 2008		December 31, 2008	
Dollars in billions	Balance	Fair Value Mark	Balance	Fair Value Mark
Commercial and commercial real estate loans:				
Unpaid principal balance	$ 4.0		$ 6.3	
Fair value mark	(2.2)	(55)%	(3.4)	(54)%
Net investment	1.8		2.9	
Consumer and residential mortgage loans:				
Unpaid principal balance	15.3		15.6	
Fair value mark	(5.2)	(34)%	(5.6)	(36)%
Net investment	10.1		10.0	
Total FASB ASC 310-30 purchased impaired loans:				
Unpaid principal balance	19.3		21.9	
Fair value mark	(7.4)	(38)%	(9.0)	(41)%
Net investment	$ 11.9		$ 12.9	

Subsequent to December 31, 2008, an additional $2.6 billion of acquired National City loans were identified as impaired under FASB ASC 310-30. A total fair value mark of $1.6 billion was recorded, resulting in a $1.0 billion net investment. These impairments were effective December 31, 2008 based on additional information regarding the borrowers and credit conditions that existed as of the acquisition date. The net investment of $12.9 billion above differs from the $12.5 billion net investment at June 30, 2009 footnoted on page 12 due to payoffs, accretion and other adjustments during the first six months of 2009.

Purchase Accounting Accretion

In millions	Three months ended June 30 2009	Six months ended June 30 2009
Performing loans	**$ 168**	**$ 490**
Impaired loans	**259**	**516**
Reversal of contractual interest on impaired loans	**(194)**	**(417)**
Net impaired loans	**65**	**99**
Securities	**41**	**72**
Deposits	**264**	**576**
Borrowings	**(52)**	**(137)**
Total	**$ 486**	**$ 1,100**

Accretable Interest

In billions	December 31 2008	**June 30 2009**
Performing loans	$ 2.4	**$ 1.9**
Impaired loans	3.7	**3.5**
Total loans (gross)	6.1	**5.4**
Securities	.2	**.1**
Deposits	2.1	**1.5**
Borrowings	(1.8)	**(1.3)**
Total	$ 6.6	**$ 5.7**

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

Net unfunded credit commitments are comprised of the following:

Net Unfunded Credit Commitments

In millions	**June 30 2009**	Dec 31 2008
Commercial and commercial real estate	**$ 59,816**	$ 60,020
Home equity lines of credit	**21,599**	23,195
Consumer credit card lines	**19,210**	19,028
Other	**2,433**	2,645
Total	**$ 103,058**	$ 104,888

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 $9.4 billion at June 30, 2009 and $8.6 billion at December 31, 2008.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $7.0 billion at June 30, 2009 and

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December 31, 2008 and are included in the preceding table primarily within the Commercial and commercial real estate category.

In addition to credit commitments, our net outstanding standby letters of credit totaled $10.1 billion at June 30, 2009 and $10.3 billion at December 31, 2008. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

INVESTMENT SECURITIES

Details Of Investment Securities

In millions	Amortized Cost	Fair Value
June 30, 2009		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	**$ 5,371**	**$ 5,283**
Residential mortgage-backed		
Agency	**21,951**	**22,285**
Non-Agency	**12,008**	**9,014**
Commercial mortgage-backed		
Agency	**1,037**	**1,037**
Non-Agency	**4,198**	**3,658**
Asset-backed	**1,931**	**1,404**
State and municipal	**1,374**	**1,335**
Other debt	**1,575**	**1,573**
Corporate stocks and other	**400**	**416**
Total securities available for sale	**$ 49,845**	**$ 46,005**
SECURITIES HELD TO MATURITY		
Debt securities		
Commercial mortgage-backed (non-Agency)	**$ 2,006**	**$ 2,121**
Asset-backed	**1,949**	**2,023**
Other debt	**9**	**10**
Total securities held to maturity	**$ 3,964**	**$ 4,154**
December 31, 2008		
SECURITIES AVAILABLE FOR SALE		
Debt securities		
US Treasury and government agencies	$ 738	$ 739
Residential mortgage-backed		
Agency	22,744	23,106
Non-Agency	13,205	8,831
Commercial mortgage-backed (non-Agency)	4,305	3,446
Asset-backed	2,069	1,627
State and municipal	1,326	1,263
Other debt	563	559
Corporate stocks and other	575	571
Total securities available for sale	$ 45,525	$ 40,142
SECURITIES HELD TO MATURITY		
Debt securities		
Commercial mortgage-backed (non-Agency)	$ 1,945	$ 1,896
Asset-backed	1,376	1,358
Other debt	10	10
Total securities held to maturity	$ 3,331	$ 3,264

Investment securities totaled $50.0 billion at June 30, 2009 and $43.5 billion at December 31, 2008. The increase in securities of $6.5 billion since year-end reflected primarily the purchase of US Treasury and government agency securities and agency commercial mortgage-backed securities, partially offset by maturities and prepayments. Securities represented 18% of total assets at June 30, 2009 and 15% of total assets at December 31, 2008.

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.

At June 30, 2009, the securities available for sale balance included a net unrealized loss of $3.8 billion, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2008 was a net unrealized loss of $5.4 billion. The fair value of investment securities is impacted by interest rates, credit spreads, and market volatility and illiquidity. The improvement in the unrealized pretax loss from year-end was primarily the result of improving fair values in non-agency residential mortgage-backed and non-agency commercial mortgage-backed securities. The net unrealized losses at June 30, 2009 did not reflect significant credit quality concerns with the underlying assets which are primarily investment grade. Overall, we consider the portfolio to be well-diversified and high quality. US Treasury and government agencies, agency residential mortgage-backed securities and agency commercial mortgage-backed securities collectively represented 57% of the investment securities portfolio at June 30, 2009. The Fair Value Measurements And Fair Value Option section of this Financial Review provides further detail on the composition of our securities portfolio, including vintage, credit rating, and FICO score, where applicable.

FASB ASC 320-10, *Investments Debt and Equity Securities* (FSP FAS 115-2 and FAS 124-4, Recognition and Presentation of Other-Than-Temporary Impairments), was issued in April 2009 and amended other-than-temporary impairment (OTTI) guidance for debt securities regarding recognition and disclosure. The major change in the guidance was the requirement to recognize only the credit portion of OTTI charges in current earnings for those debt securities where there is no intent to sell or it is more likely than not the entity would not be required to sell the security prior to expected recovery. The remaining portion of OTTI charges is included in accumulated other comprehensive loss.

As permitted, PNC adopted this guidance effective January 1, 2009. As a result, we recognized total OTTI in the first half of 2009 of $1.1 billion, comprised of $835 million in accumulated other comprehensive loss on the Consolidated Balance Sheet at June 30, 2009, and $304 million recognized as a reduction of noninterest income in our Consolidated Income Statement. Net OTTI recognized in our Consolidated

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Income Statement for the second quarter of 2009 was $155 million. Note 7 Investment Securities in the Notes To Consolidated Financial Statements of this Report provides further information regarding the credit-related OTTI recognized in the first half and second quarter of 2009.

As required under the new guidance, we also recorded a cumulative effect adjustment of $110 million to retained earnings at January 1, 2009 to reclassify the noncredit component of OTTI recognized in 2008 from retained earnings to accumulated other comprehensive loss.

We also early adopted FASB ASC 820, *Fair Value Measurements and Disclosures* (FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly), during the first quarter of 2009. The Fair Value Measurements And Fair Value Option section of this Financial Review has additional information related to this guidance.

At least quarterly we conduct a comprehensive security-level impairment assessment on all securities in an unrealized loss position to determine if an OTTI exists. 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 severity of the impairment and the length of time that the security has been impaired in our assessment. Results of the periodic assessment are reviewed by a cross-functional senior management team representing Asset & Liability Management, Finance, and Balance Sheet Risk Management. The senior management team considers the results of the assessments, as well as other factors, in determining whether the impairment is other-than-temporary.

If the current issues affecting the US housing market were to continue for the foreseeable future or worsen, if market volatility and illiquidity were to continue or worsen, or if market interest rates were to increase appreciably, the valuation of our available for sale securities portfolio could continue to be adversely affected and we could incur additional OTTI charges that would impact our Consolidated Income Statement.

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 4.5 years at June 30, 2009 and 3.1 years at December 31, 2008.

We estimate that at June 30, 2009 the effective duration of investment securities was 3.0 years for an immediate 50 basis points parallel increase in interest rates and 2.7 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2008 were 3.7 years and 3.1 years, respectively.

Loans Held for Sale

	June 30	Dec. 31
In millions	**2009**	2008
Commercial mortgages at fair value (a)	**$ 1,179**	$ 1,401
Commercial mortgages at lower of cost or market	**352**	747
Total commercial mortgages	**1,531**	2,148
Residential mortgages at fair value (a)	**2,885**	1,824
Residential mortgages at lower of cost or market	**1**	138
Total residential mortgages	**2,886**	1,962
Other	**245**	256
Total	**$ 4,662**	$ 4,366

(a) Balance at December 31, 2008 includes loans held for sale which were acquired from National City and recorded at fair value at the date of acquisition.

We stopped originating certain commercial mortgage loans held for sale at fair value during the first quarter of 2008 and intend to continue pursuing opportunities to reduce these positions at appropriate prices. We recognized net gains of $34 million in the first half of 2009 on the valuation and sale of commercial mortgage loans held for sale, net of hedges, including $35 million in the second quarter. Losses of $138 million on the valuation and sale of commercial mortgage loans held for sale carried at fair value, net of hedges, were recognized in the first half of 2008, while gains of $28 million were recognized in the second quarter of that year. We sold $.2 billion and $.5 billion, respectively, of commercial mortgage loans held for sale carried at fair value in the first half of 2009 and 2008.

Strong origination volumes partially offset sales to government agencies of $3.2 billion of commercial mortgages held for sale at lower of cost or market during the first six months of 2009, including $1.5 billion in the second quarter.

Residential mortgage loans held for sale increased during the first half of 2009 due to strong refinancing volumes, especially in the first quarter. Loan origination volume was $13.3 billion, including $6.4 billion in the second quarter. Substantially all such loans were originated to agency standards. We sold $12.0 billion of this production and recognized related revenue of $327 million during the first half of 2009, of which $152 million occurred in the second quarter.

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Net interest income on residential mortgage loans held for sale was $162 million for the first six months of 2009, including $80 million in the second quarter.

Goodwill and Other Intangible Assets

Goodwill increased $338 million and other intangible assets increased $864 million at June 30, 2009 compared with December 31, 2008. Note 2 National City Acquisition and Note 9 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements of this Report have further details on the National City-related items that were the primary drivers of these increases.

Funding and Capital Sources

Details Of Funding Sources

In millions	June 30 2009	Dec. 31 2008
Deposits		
Money market	**$ 73,916**	$ 67,678
Demand	**46,408**	43,212
Retail certificates of deposit	**56,380**	58,315
Savings	**6,693**	6,056
Other time	**4,048**	13,620
Time deposits in foreign offices	**2,994**	3,984
Total deposits	**190,439**	192,865
Borrowed funds		
Federal funds purchased and repurchase agreements	**3,921**	5,153
Federal Home Loan Bank borrowings	**14,777**	18,126
Bank notes and senior debt	**13,292**	13,664
Subordinated debt	**10,383**	11,208
Other	**2,308**	4,089
Total borrowed funds	**44,681**	52,240
Total	**$ 235,120**	$ 245,105

Total funding sources decreased $10.0 billion at June 30, 2009 compared with December 31, 2008 driven by a $7.6 billion decline in borrowed funds.

Total deposits decreased $2.4 billion at June 30, 2009 compared with December 31, 2008. Relationship-growth driven increases in money market, demand and savings deposits were more than offset by a decline in other time deposits, reflecting a planned run-off of brokered certificates of deposits and retail certificates of deposits which carried a higher price as acquired from recent bank acquisitions. Interest-bearing deposits represented 78% of total deposits at June 30, 2009 compared with 81% at December 31, 2008.

Borrowed funds totaled $44.7 billion at June 30, 2009 compared with $52.2 billion at December 31, 2008. The decline primarily resulted from repayments of Federal Home Loan Bank and other borrowed funds. During the first quarter of 2009, PNC issued $1.0 billion of senior notes guaranteed by the FDIC under the Temporary Liquidity Guarantee Program. In addition, PNC issued $1.0 billion of senior notes during the second quarter of 2009, which were not issued under the Temporary Liquidity Guarantee Program. The Liquidity Risk Management section of this Financial Review contains further details regarding actions we have taken which impacted our borrowed funds balances in 2009.

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. The reduction in our quarterly common stock dividend that began in April 2009 is expected to add $1 billion annually to PNC s common equity and cash positions, resulting in annual improvement in capital ratios of approximately 40 basis points.

Total shareholders equity increased $1.9 billion, to $27.3 billion, at June 30, 2009 compared with December 31, 2008 primarily due to the following:

- A decline of $.8 billion in accumulated other comprehensive loss primarily as a result of decreases in net unrealized securities losses as more fully described in the Investment Securities portion of this Consolidated Balance Sheet Review,
- An increase of $.5 billion in capital surplus-common stock and other, primarily due to the May 2009 common stock issuance, and
- An increase of $.3 billion in retained earnings.

Common shares outstanding were 461 million at June 30, 2009 and 443 million at December 31, 2008. As described in the Executive Summary section of this Financial Review, in May 2009 we raised $624 million in new common equity at market prices through the issuance of 15 million shares of common stock. The offering was related to our plan for increasing common equity following the results of the stress tests conducted under the Supervisory Capital Assessment Program by the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency.

We expect to continue to increase our common equity as a proportion of total capital through growth in retained earnings and will consider other capital opportunities as appropriate. We do not contemplate exchanging any of the shares of preferred stock issued to the US Treasury under the TARP Capital Purchase Program for shares of mandatorily convertible preferred stock.

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

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 may be paid on junior shares, including our common stock, or junior shares can be repurchased or redeemed. Also, under the TARP Capital Purchase Program agreements, the US Treasury s consent will be required for any increase in common dividends per share above $.66 per share quarterly 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. Any increase in our dividends while we remain subject to these restrictions would depend on the status of our efforts to put ourselves into position to redeem the US Treasury s investment in PNC.

Risk-Based Capital

Dollars in millions	**June 30 2009**	Dec. 31 2008
Capital components		
Shareholders equity		
Common	**$ 19,347**	$ 17,490
Preferred	**7,947**	7,932
Trust preferred capital securities	**2,986**	2,898
Noncontrolling interest	**1,512**	1,506
Goodwill and other intangible assets	**(10,531)**	(9,800)
Eligible deferred income taxes on goodwill and other intangible assets	**773**	594
Pension, other postretirement benefit plan adjustments	**631**	666
Net unrealized securities losses, after-tax	**2,601**	3,618
Net unrealized losses (gains) on cash flow hedge derivatives, after-tax	**(151)**	(374)
Other	**(222)**	(243)
Tier 1 risk-based capital	**24,893**	24,287
Subordinated debt	**5,500**	5,676
Eligible allowance for credit losses	**2,989**	3,153
Total risk-based capital	**$ 33,382**	$ 33,116
Tier 1 common capital		
Tier 1 risk-based capital	**$ 24,893**	$ 24,287
Preferred equity	**(7,947)**	(7,932)
Trust preferred capital securities	**(2,986)**	(2,898)
Noncontrolling interest	**(1,512)**	(1,506)
Tier 1 common capital	**$ 12,448**	$ 11,951
Assets		
Risk-weighted assets, including off- balance sheet instruments and market risk equivalent assets	**$ 237,191**	$ 251,106
Adjusted average total assets	**273,298**	138,689
Capital ratios		
Tier 1 risk-based	**10.5%**	9.7%
Tier 1 common	**5.3**	4.8
Total risk-based	**14.1**	13.2
Leverage	**9.1**	17.5

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Capital levels were strengthened during the first half of 2009. Higher capital levels were net of dividend payments including $142 million paid to the US Department of the Treasury during the first six months of 2009, of which $95 million was paid during the second quarter, on $7.6 billion of preferred stock. We plan to redeem the Treasury Department s investment as soon as appropriate in a shareholder-friendly manner, subject to approval by our banking regulators.

PNC s Tier 1 risk-based capital ratio increased by 80 basis points to 10.5% at June 30, 2009 from 9.7% at December 31, 2008. The increase in the ratio was due to higher risk-based capital primarily from retained earnings and the May 2009 common equity issuance coupled with a decline in risk-weighted assets. Our Tier 1 common capital ratio was 5.3% at June 30, 2009.

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

The access to, and cost of, funding new business initiatives including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs, and the level and nature of regulatory oversight depend, in part, on a financial institution s capital strength. At June 30, 2009 and December 31, 2008, each of our domestic bank subsidiaries was considered well capitalized based on US regulatory capital ratio requirements, which are indicated on page 2 of this Report. We believe our bank subsidiaries will continue to meet these requirements during the remainder of 2009. We are currently planning to merge the charters of National City Bank and PNC Bank, Delaware into PNC Bank, N.A. during the second half of 2009.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

We engage in a variety of activities that involve unconsolidated entities or that are otherwise not reflected in our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. 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 Financial Review, and
- Note 10 Loan Sales and Securitizations and Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.
- At June 30, 2009, $2.2 billion of loans were securitized by PNC. The comparable amount was $2.4 billion at December 31, 2008. These securitized loans are not included on our Consolidated Balance Sheet. See additional discussion in Note 1 Accounting Policies under Recent Accounting Pronouncements and in Note 10 Loan Sales and Securitizations in the Notes To Consolidated Financial Statements of this Report regarding new guidance which could impact the accounting for these effective January 1, 2010 and the potential future impact on consolidation of these assets.

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 June 30, 2009 and December 31, 2008.

Consolidated VIEs PNC Is Primary Beneficiary

In millions	Aggregate Assets	Aggregate Liabilities
Partnership interests in tax credit investments (b)		
June 30, 2009	**$ 1,414**	**$ 798**
December 31, 2008	$ 1,499	$ 863(a)
Credit Risk Transfer Transaction		
June 30, 2009	**$ 946**	**$ 946**
December 31, 2008	$ 1,070	$ 1,070

(a) We have revised this amount due to PNC s adoption of FASB ASC 810-10 (SFAS 160) as noncontrolling interests are no longer classified as aggregate liabilities.

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

Non-Consolidated VIEs Significant Variable Interests

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
June 30, 2009			
Market Street	**$ 4,604**	**$ 4,664**	**$ 6,913(a)**
Partnership interests in tax credit investments (b) (c)	**1,148**	**671**	**833**
Collateralized debt obligations	**20**		**2**
Total	**$ 5,772**	**$ 5,335**	**$ 7,748**
December 31, 2008			
Market Street	$ 4,916	$ 5,010	$ 6,965(a)
Partnership interests in tax credit investments (b) (c)	1,095	652	920
Collateralized debt obligations	20		2
Total	$ 6,031	$ 5,662	$ 7,887

(a) PNC s risk of loss consists of off-balance sheet liquidity commitments to Market Street of $6.3 billion and other credit enhancements of $.6 billion at June 30, 2009. The comparable amounts were $6.4 billion and $.6 billion at December 31, 2008. These liquidity commitments are included in the Net Unfunded Credit Commitments table in the Consolidated Balance Sheet Review section of this Report and are factored into our regulatory capital ratios.

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

(c) Aggregate assets and aggregate liabilities represent approximate balances due to limited availability of financial information associated with the acquired National City partnerships that we did not sponsor.

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Market Street

Market Street is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street s activities primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets or loans by issuing commercial paper which has been rated A1/P1/F1 by Standard & Poor s, Moody s, and Fitch, respectively, and is supported by pool-specific credit enhancements, liquidity facilities and program-level credit enhancement. Generally, Market Street mitigates its potential interest rate risk by entering into agreements with its borrowers that reflect interest rates based upon its weighted average commercial paper cost of funds. During 2008 and the first six months of 2009, Market Street met all of its funding needs through the issuance of commercial paper.

Market Street commercial paper outstanding was $4.0 billion at June 30, 2009 and $4.4 billion at December 31, 2008. The weighted average maturity of the commercial paper was 24 days at both June 30, 2009 and December 31, 2008.

Effective October 28, 2008, Market Street was approved to participate in the Federal Reserve s CPFF authorized under Section 13(3) of the Federal Reserve Act. The CPFF commitment to purchase up to $5.4 billion of three-month Market Street commercial paper expires on February 1, 2010. As of June 30, 2009, Market Street did not have any outstandings in the CPFF.

During the first six months of 2009, PNC Capital Markets, acting as a placement agent for Market Street, held a maximum daily position in Market Street commercial paper of $10 million with an average of $4 million. This compares with a maximum daily position of $75 million with an average of $12 million for the year ended December 31, 2008. PNC Capital Markets owned no Market Street commercial paper at June 30, 2009 and December 31, 2008. PNC Bank, N.A. made no purchases of Market Street commercial paper during the first six months of 2009.

PNC Bank, N.A. provides certain administrative services, the program-level credit enhancement and all of the liquidity facilities to Market Street in exchange for fees negotiated based on market rates. Program administrator fees related to PNC s portion of liquidity facilities were $19 million for the first six months of 2009 and $8 million for the first six months of 2008. Commitment fees related to PNC s portion of the liquidity facilities for the first six months of 2009 and 2008 were insignificant.

The commercial paper obligations at June 30, 2009 and December 31, 2008 were effectively collateralized by Market Street s assets. While PNC may be obligated to fund under the $6.3 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 $.9 billion of the liquidity facilities if the underlying assets are in default. See Note 18 Commitments And Guarantees included in the Notes To Consolidated Financial Statements of this Report for additional information.

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

Market Street has entered into a Subordinated Note Purchase Agreement (Note) with an unrelated third party. The Note provides first loss coverage whereby the investor absorbs losses up to the amount of the Note, which was $8.0 million as of June 30, 2009. Proceeds from the issuance of the Note are held by Market Street in a first loss reserve account that will be used to reimburse any losses incurred by Market Street, PNC Bank, N.A. or other providers under the liquidity facilities and the credit enhancement arrangements.

Assets of Market Street (a)

In millions	Outstanding	Commitments	Weighted Average Remaining Maturity In Years

June 30, 2009			
Trade receivables	**$ 1,667**	**$ 3,855**	**2.26**
Automobile financing	**789**	**789**	**3.50**
Collateralized loan obligations	**246**	**270**	**.96**
Credit cards	**300**	**300**	**.19**
Residential mortgage	**14**	**14**	**26.50**
Other	**991**	**1,178**	**1.92**
Cash and miscellaneous receivables	**597**		
Total	**$ 4,604**	**$ 6,406**	**2.25**
December 31, 2008			
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

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

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Market Street Commitments by Credit Rating (a)

	June 30, 2009	December 31, 2008
AAA/Aaa	**21%**	19%
AA/Aa	**27**	6
A/A	**47**	72
BBB/Baa	**4**	3
BB/Ba	**1**	
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 ASC 810-10, *Consolidation* (FASB Interpretation No. 46 (revised December 2003) Consolidation of Variable Interest Entities). Based on this analysis, we are not the primary beneficiary as defined under GAAP 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, in June 2009, the FASB issued new guidance impacting FASB ASC 810-10, Consolidation (SFAS 167, Amendments to FASB Interpretation No. 46(R)). The new guidance contains revised criteria for determining the primary beneficiary of a VIE and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. Enhanced disclosures would also be required. This guidance will be effective for PNC beginning January 1, 2010. Based on our preliminary analysis of the new guidance, we expect that we would consolidate the commercial paper conduit effective January 1, 2010. Based on this revised accounting guidance, we would recognize the assets, liabilities and noncontrolling interests of Market Street in our Consolidated Balance Sheet based at their respective carrying amounts at that date. In addition, the consolidation of Market Street would have minimal to no impact on our risk-weighted assets, risk-based capital ratios or debt covenants.

Credit Risk Transfer Transaction

PNC s subsidiary, 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.

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 certain of the asset-backed securities. Accordingly, this SPE was consolidated and all of the entity s assets, liabilities, and equity associated with the note tranches held by NCB 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 $631 million at June 30, 2009.

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

Management assessed what impact the reconsideration events above had on determining whether NCB would remain the primary beneficiary of the SPE. Management concluded that NCB 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

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

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

Our 2008 Form 10-K includes additional information regarding the Trust I and Trust II Securities, including descriptions of replacement capital covenants.

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

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

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

PNC Capital Trust E Trust Preferred Securities

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

In connection with the closing of the Trust E Securities sale, we agreed that, if we have given notice of our election to defer interest payments on the JSNs or a related deferral period is continuing, then PNC would be subject during such period to restrictions on dividends and other provisions protecting the status of the JSN debenture holder similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described above. PNC Capital Trusts C and D have similar protective provisions with respect to $500 million in principal amount of junior subordinated debentures. Also, in connection with the closing of the Trust E Securities sale, we entered into a replacement capital covenant as described more fully in our 2008 Form 10-K.

Acquired Entity Trust Preferred Securities

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

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As more fully described in our 2008 Form 10-K, we are subject to replacement capital covenants with respect to four tranches of junior subordinated debentures inherited from National City as well as a replacement capital covenant with respect to our Series L Preferred Stock.

Fair Value Measurements And Fair Value Option

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FASB ASC 825-10, *Financial Instruments,* (SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities), permits entities to choose to measure many financial instruments and certain other items at fair value. See Note 8 Fair Value in the Notes To Consolidated Financial Statements under Part 1, Item 1 of this Report for

further information. In April 2009, new GAAP was issued for estimating fair values when the volume and level of activity for the asset or liability have significantly decreased. It also provides guidance on identifying circumstances that indicate a transaction is not orderly. As permitted, PNC adopted this guidance effective January 1, 2009.

Assets and liabilities measured at fair value on a recurring basis, including instruments for which PNC has elected the fair value option, are summarized below. As prescribed by GAAP, the assets and liabilities acquired from National City on December 31, 2008 are excluded from the following disclosures as of that date, but are included as of and for the six months ended June 30, 2009.

At June 30, 2009, assets recorded at fair value represented 22% of total assets and fair value liabilities represented 2% of total liabilities compared with 13% of total assets and 2% of total liabilities as of December 31, 2008.

Fair Value Measurements Summary

	June 30, 2009				December 31, 2008 (j)			
In millions	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	Level 1	Level 2	Level 3	Total Fair Value
Assets								
Securities available for sale	**$ 4,528**	**$ 27,209**	**$ 14,268**	**$ 46,005**	$ 347	$ 21,633	$ 4,837	$ 26,817
Financial derivatives (a)	**10**	**4,509**	**125**	**4,644**	16	5,582	125	5,723
Residential mortgage loans held for sale (b)		**2,885**		**2,885**				
Trading securities (c)	**888**	**911**	**126**	**1,925**	89	529	73	691
Residential mortgage servicing rights (d)			**1,459**	**1,459**			6	6
Commercial mortgage loans held for sale (b)			**1,179**	**1,179**			1,400	1,400
Equity investments	**1**		**1,160**	**1,161**			571	571
Customer resale agreements (e)		**1,047**		**1,047**		1,072		1,072
Loans (f)		**72**		**72**				
Other assets (g)		**175**	**405**	**580**		144		144
Total assets	**$ 5,427**	**$ 36,808**	**$ 18,722**	**$ 60,957**	$ 452	$ 28,960	$ 7,012	$ 36,424
Liabilities								
Financial derivatives (h)	**$ 5**	**$ 3,843**	**$ 203**	**$ 4,051**	$ 2	$ 4,387	$ 22	$ 4,411
Trading securities sold short (i)	**569**	**94**		**663**	182	207		389
Other liabilities		**5**		**5**		9		9
Total liabilities	**$ 574**	**$ 3,942**	**$ 203**	**$ 4,719**	$ 184	$ 4,603	$ 22	$ 4,809

(a) Included in other assets on the Consolidated Balance Sheet.

(b) Included in loans held for sale on the Consolidated Balance Sheet. PNC elected the fair value option for certain commercial and residential mortgage loans held for sale.

(c) Included in trading securities on the Consolidated Balance Sheet. Fair value includes net unrealized gains of $23 million at June 30, 2009 compared with net unrealized losses of $28 million at December 31, 2008.

(d) Included in other intangible assets on the Consolidated Balance Sheet.

(e) Included in Federal funds sold and resale agreements on the Consolidated Balance Sheet. PNC elected the fair value option for this item.
(f) Included in loans on the Consolidated Balance Sheet. PNC elected the fair value option for residential mortgage loans originated for sale. Certain of these loans have been subsequently reclassified into portfolio loans.
(g) Includes BlackRock Preferred Series C Stock.
(h) Included in other liabilities on the Consolidated Balance Sheet.
(i) Included in other borrowed funds on the Consolidated Balance Sheet. These are all debt securities.
(j) Excludes assets and liabilities associated with the acquisition of National City.

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Valuation Hierarchy

The following is an outline of the valuation methodologies used for measuring fair value under FASC ASC 820 for the major items above. GAAP focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants and establishes a reporting hierarchy to maximize the use of observable inputs. The fair value hierarchy (i.e., Level 1, Level 2, and Level 3) is described in detail in Note 8 Fair Value in the Notes To Consolidated Financial Statements under Part I, Item 1 of this Report.

We characterize active markets as those where transaction volumes are sufficient to provide objective pricing information, with reasonably narrow bid/ask spreads and where dealer quotes received do not vary widely and are based on current information. Inactive markets are typically characterized by low transaction volumes, price quotations which vary substantially among market participants or are not based on current information, wide bid/ask spreads, a significant increase in implied liquidity risk premiums, yields, or performance indicators for observed transactions or quoted prices compared to historical periods, a significant decline or absence of a market for new issuance, or any combination of the above factors. We also consider nonperformance risks including credit risk as part of our valuation methodology for all assets and liabilities measured at fair value.

Any models used to determine fair values or to validate dealer quotes based on the descriptions below are subject to review and independent testing as part of our model validation and internal control testing processes. Our Model Validation Committee tests significant models on at least an annual basis. In addition, we have teams, independent of the traders, verify marks and assumptions used for valuations at each period end.

Securities

Securities measured at fair value include both the available for sale and trading portfolios. We use prices obtained from pricing services, dealer quotes or recent trades to determine the fair value of securities. Approximately 50% of our positions are valued using prices obtained from pricing services provided by the Barclay s Capital Index, formerly known as the Lehman Index, and Interactive Data Corp. (IDC) and for approximately 30% more of our positions, we use prices obtained from the pricing services as an input into the valuation process. Barclay s Capital Index prices are set with

reference to market activity for highly liquid assets such as agency mortgage-backed securities, and matrix pricing for other assets, such as CMBS and asset-backed securities. IDC primarily uses pricing models considering adjustments for ratings, spreads, matrix pricing and prepayments for the instruments we value using this service, such as non-agency residential mortgage-backed securities, agency adjustable rate mortgage securities, agency CMOs and municipal bonds. Dealer quotes received are typically non-binding and corroborated with other dealers quotes, by reviewing valuations of comparable instruments, or by comparison to internal valuations. In circumstances where relevant market prices are limited or unavailable, valuations may require significant management judgments or adjustments to determine fair value. In these cases, the securities are classified as Level 3.

The valuation techniques used for securities classified as Level 3 include using a discounted cash flow approach or, in certain instances, identifying a proxy security, market transaction or index. For certain security types, primarily non-agency residential and commercial mortgage-backed securities, the fair value methodology incorporates values obtained from a discounted cash flow model. The modeling process incorporates assumptions management believes willing market participants would use to value the security under current market conditions. The assumptions used include prepayment projections, credit loss assumptions, and discount rates, which include a risk premium due to liquidity and uncertainty, that are based on both observable and unobservable inputs. We use the discounted cash flow analysis, in conjunction with other relevant pricing information obtained from either pricing services or broker quotes to establish the fair value that management believes is representative under current market conditions. For purposes of determining fair value at June 30, 2009, the relevant pricing service information was the predominant input. In the proxy approach, the proxy selected generally has similar credit, tenor, duration, pricing and structuring attributes to the PNC position. The price, market spread, or yield on the proxy is then used to calculate an indicative market price for the security. Depending on the nature of the PNC position and its attributes relative to the proxy, management may make additional adjustments to account for market conditions, liquidity, and nonperformance risk, based on various inputs including recent trades of similar securities, single dealer quotes, and/or other observable and unobservable inputs.

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The following table provides additional information on fair value and ratings of certain available for sale and trading securities.

	June 30, 2009 (a)				
	Agency		Non-Agency		
Dollars in millions	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Other Asset-Backed Securities
Fair Value Available for Sale	**$ 22,285**	**$ 1,037**	**$ 9,014**	**$ 3,658**	**$ 1,404**
Fair Value -Trading	**16**		**10**	**15**	
Total Fair Value	**$ 22,301**	**$ 1,037**	**$ 9,024**	**$ 3,673**	**$ 1,404**
% of Fair Value:					
By Vintage					
2009	**19%**	**82%**			
2008	**29%**	**2%**			**3%**
2007	**10%**	**1%**	**16%**	**11%**	**18%**
2006	**13%**	**1%**	**22%**	**30%**	**26%**
2005 and earlier	**25%**	**14%**	**62%**	**59%**	**52%**
Not available	**4%**				**1%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By Credit Rating					
Agency	**100%**	**100%**			
AAA			**36%**	**99%**	**39%**
AA			**4%**	**1%**	**4%**
A			**6%**		**1%**
BBB			**10%**		**5%**
BB			**8%**		**17%**
B			**14%**		**6%**
Lower than B			**11%**		**21%**
No rating			**11%**		**7%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**
By FICO Score					
>720			**63%**		**8%**
<720 or >660			**26%**		**37%**
<660					**5%**
No FICO score	**N/A**	**N/A**	**11%**	**N/A**	**50%**
Total			**100%**		**100%**

(a) As prescribed by GAAP, the assets and liabilities acquired from National City on December 31, 2008 are excluded from these disclosures as of that date, but are included as of and for the six months ended June 30, 2009.

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Dollars in millions	December 31, 2008 (a) Agency Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Non-Agency Commercial Mortgage-Backed Securities	Other Asset-Backed Securities
Fair Value Available for Sale	$ 12,544	$ 7,420	$ 3,391	$ 1,492
Fair Value -Trading	198		28	
Total Fair Value	$ 12,742	$ 7,420	$ 3,419	$ 1,492
% of Fair Value:				
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%			
AAA		82%	98%	71%
AA		4%	1%	7%
A		6%		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	N/A	2%	N/A	39%
Total		100%		100%

(a) As prescribed by GAAP, the assets and liabilities acquired from National City on December 31, 2008 are excluded from these disclosures as of that date, but are included as of and for the six months ended June 30, 2009.

The following table provides additional information on fair values and net unrealized gains/losses for certain of our available for sale non-Agency securities. See Note 7 Investment Securities in the Notes To Consolidated Financial Statements of this Report regarding our process for assessing OTTI and the results of the most recent assessment.

In millions	**June 30, 2009** Available for Sale Non-Agency Residential Mortgage-Backed Securities Fair Value	Net Unrealized Gain (Loss)	Other Asset-Backed Securities Fair Value	Net Unrealized Gain (Loss)
By Credit Rating				
AAA	**$ 3,201**	**$ (887)**	**$ 550**	**$ (68)**
Other Investment Grade	**1,903**	**(511)**	**144**	**(31)**
Total Investment Grade	**5,104**	**(1,398)**	**694**	**(99)**
BB	**680**	**(393)**	**244**	**(143)**
B	**1,273**	**(811)**	**78**	**(61)**
Lower than B	**1,013**	**(581)**	**290**	**(204)**
No Rating	**944**	**189**	**98**	**(20)**
Total Sub-Investment Grade	**3,910**	**(1,596)**	**710**	**(428)**
Total	**$ 9,014**	**$ (2,994)**	**$ 1,404**	**$ (527)**
Remaining fair value of securities rated sub-investment grade:				

OTTI has been recognized	**$ 1,171**	**$ 237**
No OTTI recognized to date	**2,739**	**473**
	$ 3,910	**$ 710**

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Residential Mortgage-Backed Securities

At June 30, 2009, our residential mortgage-backed securities portfolio was comprised of $22.3 billion fair value of US government agency-backed securities, compared with $12.7 billion fair value at December 31, 2008, and $9.0 billion fair value of private-issuer (non-Agency) securities compared with $7.4 billion fair value at December 31, 2008. 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), or interest rates that are fixed for the term of the loan.

Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts. At June 30, 2009, $3.9 billion, or 43%, of the private-issuer securities were rated below BBB by at least one national rating agency or not rated. 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.

During the first six months of 2009, we recorded OTTI charges of $248 million on non-agency residential mortgage-backed securities, including OTTI charges of $131 million on 63 non-agency residential mortgage-backed securities during the second quarter. Nine of these securities, with remaining fair value of $98 million, were rated investment grade. Of the remaining securities for which we recorded OTTI, four were rated BB-equivalent (remaining fair value of $79 million), 12 were rated B-equivalent (remaining fair value of $270 million), and 38 were rated lower than B-equivalent (remaining fair value $822 million). All positions impaired prior to the second quarter were further impaired during the quarter.

For the sub-investment grade securities for which we have not recorded an OTTI through June 30, 2009, the remaining fair value was $2.7 billion. The results of our security-level assessments indicate that we will recover the entire cost basis of these securities. See Note 7 Investment Securities in the Notes To Consolidated Financial Statements of this Report regarding our process for assessing OTTI and the results of the most recent assessment.

Commercial Mortgage-Backed Securities

The non-Agency commercial mortgage-backed securities portfolio was $3.7 billion fair value at June 30, 2009 compared with $3.4 billion at December 31, 2008 and

consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings, and multi-family housing. The agency commercial mortgage-backed securities portfolio was $1.0 billion fair value at June 30, 2009 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

At June 30, 2009, there were no available for sale commercial mortgage-backed securities that were not rated. At December 31, 2008, $18 million, or 1%, of the commercial mortgage-backed securities were not rated.

During the first six months of 2009, we recorded OTTI charges of $6 million on nine commercial mortgage-backed securities, including OTTI charges of $1 million on six commercial mortgage-backed securities during the second quarter. All of these securities for the second quarter were unrated. The remaining fair value of these securities approximates zero. Prior to the second quarter of 2009, we recorded OTTI charges for three securities, for which we took no further impairment in the second quarter of 2009. The remaining fair value of these securities, all of which are currently rated B-equivalent or lower, approximates zero.

Other Asset-Backed Securities

The asset-backed securities portfolio was $1.4 billion fair value at June 30, 2009 compared with $1.5 billion at December 31, 2008, and consisted of fixed-rate and floating-rate, private-issuer securities collateralized primarily by various consumer credit products, including second-lien residential mortgage loans, credit cards, and automobile loans. Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

At June 30, 2009, $710 million, or 51%, of the asset-backed securities were rated below BBB by at least one national rating agency or not rated. 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.

During the first six months of 2009, we recorded OTTI charges of $42 million on asset-backed securities, including OTTI charges of $23 million on 10 asset-backed securities collateralized by second lien residential mortgage loans during the second quarter of 2009. Substantially all of these 10 securities with a remaining fair value of $203 million were rated lower than B-equivalent. Prior to the first quarter of 2009, we recorded OTTI charges for five securities, for which we took no further impairment in the first or second quarter of 2009. At June 30, 2009, these securities, with a remaining fair value of $34 million, were all rated lower than B-equivalent.

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For the sub-investment grade securities for which we have not recorded an OTTI charge through June 30, 2009, the remaining fair value was $473 million. The results of our security-level assessments indicate that we will recover the entire cost basis of these securities. See Note 7 Investment Securities in the Notes To Consolidated Financial Statements of this Report regarding our process for assessing OTTI and the results of the most recent assessment.

Financial Derivatives

Exchange-traded derivatives are valued using quoted market prices and are classified as Level 1. However, the majority of derivatives that we enter into are executed over-the-counter and are valued using internal techniques. Readily observable market inputs to these models can be validated to external sources, including industry pricing services, or corroborated through recent trades, dealer quotes, yield curves, implied volatility or other market-related data. Certain derivatives, such as total rate of return swaps, are corroborated to the CMBX index. These derivatives are classified as Level 2. Derivatives priced using significant management judgment or assumptions are classified as Level 3. The fair values of our derivatives are adjusted for nonperformance risk including credit risk as appropriate. Our nonperformance risk adjustment is computed using new loan pricing and considers externally available bond spreads, in conjunction with internal historical recovery observations. The credit risk adjustment is not currently material to the overall derivatives valuation.

Commercial Mortgage Loans Held for Sale

We account for certain commercial mortgage loans held for sale at fair value under FASB ASC 825-10. 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 other GAAP. At origination, these loans were intended for securitization. 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. Due to inactivity in the CMBS securitization market in 2008 and 2009, we determine the fair value of commercial mortgage loans held for sale by using a whole loan methodology. Fair value is determined using assumptions that management believes a market participant would use in pricing the loans. When available, valuation assumptions included observable inputs based on whole loan sales in the quarter. Adjustments are made to these assumptions to account for situations when uncertainties exist, including market conditions and liquidity. Based on the significance of unobservable inputs, we classified this portfolio as Level 3.

Customer Resale Agreements

We account for structured resale agreements, which are economically hedged using free-standing financial derivatives, at fair value. The fair value for structured resale agreements is

determined using a model which includes observable market data such as interest rates as inputs. Readily observable market inputs to this model can be validated to external sources, including yield curves, implied volatility or other market-related data.

BlackRock Series C Preferred Stock

Effective February 27, 2009, we elected to account for the approximately 2.9 million shares of the BlackRock Series C Preferred Stock received in a stock exchange with BlackRock at fair value. The Series C Preferred Stock economically hedges the BlackRock LTIP liability that is accounted for as a derivative. The fair value of the Series C Preferred Stock is determined using a third-party modeling approach, which includes both observable and unobservable inputs. This approach considers expectations of a default/liquidation event and the use of liquidity discounts based on our inability to sell the security at a fair, open market price in a timely manner. Due to the significance of unobservable inputs, this security is classified as Level 3.

Residential Mortgage Loans Held for Sale

We account for residential mortgage loans originated for sale on a recurring basis at fair value under FASB ASC 825-10. Residential mortgage loans are valued based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. These loans are regularly traded in active markets and observable pricing information is available from market participants. The prices are adjusted as necessary to include the embedded servicing value in the loans and to take into consideration the specific characteristics of certain loans that are priced based on the pricing of similar loans. These adjustments represent unobservable inputs to the valuation but are not considered significant to the fair value of the loans. Accordingly, residential mortgage loans held for sale are classified as Level 2.

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.

Residential mortgage servicing rights

Residential mortgage servicing rights (MSRs) are carried at fair value on a recurring basis. These residential MSRs do not trade in an active open market with readily observable prices. Although sales of servicing assets do occur, the precise terms and conditions typically would not be available. Accordingly, management determines the fair value of its residential MSRs using a discounted cash flow model incorporating assumptions about loan prepayment rates, discount rates, servicing costs, and other economic factors. Management compares its fair value estimates to third-party valuations on a quarterly basis to assess the reasonableness of the fair values calculated by its internal valuation models. Due to the nature of the valuation inputs, residential MSRs are classified as Level 3.

Level 3 Assets and Liabilities

Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. At June 30, 2009, Level 3 fair value assets of $18.7 billion represented 31% of total assets at fair value and 7% of total assets. At December 31, 2008, Level 3 fair value assets of $7.0 billion represented 19% of total assets at fair value and 2% of total assets. Level 3 fair value liabilities of $203 million at June 30, 2009 represented 4% of total liabilities at fair value and less than 1% of total liabilities at that date. 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 the first six months of 2009, securities transferred into Level 3 from Level 2 exceeded securities transferred out by $8.2 billion. Total securities measured at fair value at June 30, 2009 and December 31, 2008 included securities available for sale and trading securities consisting primarily of non-agency residential and commercial mortgaged-backed securities where management determined that the volume and level of activity for these assets had significantly decreased. The lack of relevant market activity for these securities resulted in management modifying its valuation methodology for the instruments transferred in the first half of 2009. Other Level 3 assets include commercial mortgage loans held for sale, certain equity securities, auction rate securities, corporate debt securities, trading securities, certain private issuer asset-backed securities, private equity investments, residential mortgage servicing rights and other assets.

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

BUSINESS SEGMENTS REVIEW

In the first quarter of 2009, we made changes to our business organization structure and management reporting in conjunction with the acquisition of National City. As a result, we now have seven reportable business segments which include:

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

Business segment results for the first six months of 2008 have been reclassified to present prior periods on the same basis.

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

Results of individual businesses are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our individual businesses are not necessarily comparable with similar information for any other company. We refine our methodologies from time to time as our management accounting practices are enhanced and our businesses and management structure change. Certain prior period amounts have been reclassified to reflect current methodologies and our current business and management structure. 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.

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 related to Hilliard Lyons for the first quarter of 2008, integration costs, asset and liability management activities including net securities gains or losses and certain trading activities, exited businesses, equity management activities, alternative investments, intercompany eliminations, most corporate overhead, and differences between business segment performance reporting and financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests.

Period-end Employees

	June 30 2009 (a)	Dec. 31 2008 (a)	June 30 2008

Full-time employees			
Retail Banking	**22,093**	9,304	9,450
Corporate & Institutional Banking	**4,135**	2,294	2,310
Asset Management Group	**3,150**	1,849	1,853
Residential Mortgage Banking	**3,693**		
Global Investment Servicing	**4,663**	4,934	4,946
Distressed Assets Portfolio	**131**		
Other			
Operations & Technology	**9,255**	4,491	4,572
Staff Services and other	**4,242**	2,441	2,536
Total Other	**13,497**	6,932	7,108
Total full-time employees	**51,362**	25,313	25,667
Retail Banking part-time employees	**5,199**	2,347	2,352
Other part-time employees	**1,509**	561	586
Total part-time employees	**6,708**	2,908	2,938
Total National City legacy employees (a)		31,374	
Total	**58,070**	59,595	28,605

(a) National City s legacy employees are included in total at December 31, 2008 but are included in the individual business segments as appropriate at June 30, 2009.

Employee data as reported by each business segment in the table above reflects staff directly employed by the respective businesses and excludes operations, technology and staff services employees reported in the Other segment. Global Investment Servicing employees are stated on a legal entity basis. In addition to reductions of full-time and part-time employees since the closing of the National City acquisition, we significantly reduced outside contract programmers related to National City systems scheduled for conversion to PNC systems.

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RESULTS OF BUSINESSES SUMMARY

(Unaudited)

Six months ended June 30 in millions	Earnings (Loss) 2009	Earnings (Loss) 2008	Revenue 2009	Revenue 2008	Average Assets (a) 2009	Average Assets (a) 2008
Retail Banking (b)	**$ 110**	$ 218	**$ 2,907**	$ 1,400	**$ 65,397**	$ 32,691
Corporate & Institutional Banking	**470**	184	**2,585**	881	**89,186**	45,943
Asset Management Group	**47**	71	**476**	292	**7,424**	2,887
Residential Mortgage Banking	**309**		**845**		**7,909**	
BlackRock	**77**	129	**93**	171	**4,383**	4,463
Global Investment Servicing (c)	**22**	63	**378**	465	**2,883**	2,606
Distressed Assets Portfolio	**158**		**678**		**24,295**	
Total business segments	**1,193**	665	**7,962**	3,209	**201,477**	88,590
Other (b) (d) (e)	**(456)**	236	**(104)**	651	**79,376**	52,383
Total consolidated	**$ 737**	$ 901	**$ 7,858**	$ 3,860	**$ 280,853**	$ 140,973

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

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

(c) Global Investment Servicing revenue represents the sum of servicing revenue and nonoperating income (expense) less debt financing costs.

(d) For our segment reporting presentation in this Financial Review, Other for the first six months of 2009 includes $177 million of pretax integration costs primarily related to National City while Other for the first six months of 2008 includes $48 million of pretax integration costs attributable to other acquisitions.

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

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RETAIL BANKING

(Unaudited)

Six months ended June 30 Dollars in millions	2009 (a)	2008
INCOME STATEMENT		
Net interest income	**$ 1,823**	$ 800
Noninterest income		
Service charges on deposits	**457**	168
Brokerage	**123**	72
Consumer services	**435**	205
Other	**69**	155
Total noninterest income	**1,084**	600
Total revenue	**2,907**	1,400
Provision for credit losses	**608**	166
Noninterest expense	**2,118**	874
Pretax earnings	**181**	360
Income taxes	**71**	142
Earnings	**$ 110**	$ 218
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	**$ 27,568**	$ 13,149
Indirect	**4,079**	2,048
Education	**5,041**	1,466
Credit cards	**2,138**	242
Other consumer	**1,792**	464
Total consumer	**40,618**	17,369
Commercial and commercial real estate	**12,640**	5,189
Floor plan	**1,444**	1,028
Residential mortgage	**2,183**	2,103
Total loans	**56,885**	25,689
Goodwill and other intangible assets	**5,796**	5,051
Other assets	**2,716**	1,951
Total assets	**$ 65,397**	$ 32,691
Deposits		
Noninterest-bearing demand	**$ 16,115**	$ 9,148
Interest-bearing demand	**18,272**	7,991
Money market	**39,095**	16,376
Total transaction deposits	**73,482**	33,515
Savings	**6,691**	2,684
Certificates of deposit	**56,075**	15,912
Total deposits	**136,248**	52,111
Other liabilities	**60**	388
Capital	**8,584**	3,281
Total funds	**$ 144,892**	$ 55,780
PERFORMANCE RATIOS		
Return on average capital	**3%**	13%
Noninterest income to total revenue	**37%**	43%
Efficiency	**73%**	62%
OTHER INFORMATION (b)		
Credit-related statistics:		
Commercial nonperforming assets	**$ 246**	$ 121

Consumer nonperforming assets	**115**	42