PNC FINANCIAL SERVICES GROUP, INC.
Form 10-K
March 01, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

Commission file number 001-09718

THE PNC FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

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

One PNC Plaza

249 Fifth Avenue

Pittsburgh, Pennsylvania 15222-2707

(Address of principal executive offices, including zip code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $5.00	New York Stock Exchange
Depositary Shares Each Representing 1/4,000 Interest in a Share of 9.875% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series L, par value $1.00	New York Stock Exchange
Depositary Shares Each Representing a 1/4,000 Interest in a Share of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series P	New York Stock Exchange
Depositary Shares Each Representing a 1/4,000 Interest in a Share of 5.375% Non-Cumulative Perpetual Preferred Stock, Series Q	New York Stock Exchange

Warrants (expiring December 31, 2018) to purchase Common Stock	New York Stock Exchange

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the registrant s outstanding voting common stock held by nonaffiliates on June 30, 2012, determined using the per share closing price on that date on the New York Stock Exchange of $61.11, was approximately $32.2 billion. There is no non-voting common equity of the registrant outstanding.

Number of shares of registrant s common stock outstanding at February 15, 2013: 528,435,413

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of The PNC Financial Services Group, Inc. to be filed pursuant to Regulation 14A for the 2013 annual meeting of shareholders (Proxy Statement) are incorporated by reference into Part III of this Form 10-K.

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PART I

Forward-Looking Statements: From time to time, The PNC Financial Services Group, Inc. (PNC or the Corporation) has made and may continue to make written or oral forward-looking statements regarding our outlook for earnings, revenues, expenses, capital levels and ratios, liquidity levels, asset levels, asset quality, financial position and other matters regarding or affecting PNC and its future business and operations or the impact of legal, regulatory or supervisory matters on our business operations or performance. This Annual Report on Form 10-K (the Report or Form 10-K) also includes forward-looking statements. With respect to all such forward-looking statements, you should review our Risk Factors discussion in Item 1A, our Risk Management, Critical Accounting Estimates And Judgments, and Cautionary Statement Regarding Forward-Looking Information sections included in Item 7, and Note 23 Legal Proceedings and Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

ITEM 1 BUSINESS

BUSINESS OVERVIEW

Headquartered in Pittsburgh, Pennsylvania, we are one of the largest diversified financial services companies in the United States. We have businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking, providing many of our products and services nationally, as well as products and services in our primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, North Carolina, Florida, Kentucky, Washington, D.C., Delaware, Alabama, Virginia, Georgia, Missouri, Wisconsin and South Carolina. We also provide certain products and services internationally. At December 31, 2012, our consolidated total assets, total deposits and total shareholders equity were $305.1 billion, $213.1 billion and $39.0 billion, respectively.

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

RBC BANK (USA) ACQUISITION

On March 2, 2012, we acquired 100% of the issued and outstanding common stock of RBC Bank (USA), the U.S. retail banking subsidiary of Royal Bank of Canada. As part of the acquisition, PNC also purchased a credit card portfolio from RBC Bank (Georgia), National Association. PNC paid $3.6 billion in cash as the consideration for the acquisition of both RBC Bank (USA) and the credit card portfolio. The transaction added approximately $18.1 billion in deposits, $14.5 billion of loans and $1.1 billion of goodwill and intangible assets to PNC s Consolidated Balance Sheet. Our Consolidated Income Statement includes the impact of business activity associated with the RBC Bank (USA) acquisition subsequent to March 2, 2012.

RBC Bank (USA), based in Raleigh, North Carolina, operated more than 400 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The primary reasons for the acquisition of RBC Bank (USA) were to enhance

shareholder value, to improve PNC s competitive position in the financial services industry, and to further expand PNC s existing branch network in the states where it currently operates as well as expanding into new markets.

SALE OF SMARTSTREET

Effective October 26, 2012, PNC divested certain deposits and assets of the Smartstreet business unit, which was acquired by PNC as part of the RBC Bank (USA) acquisition, to Union Bank, N.A. Smartstreet is a nationwide business focused on homeowner or community association managers and had approximately $1 billion of assets and deposits as of September 30, 2012. The gain on sale was immaterial and we reduced goodwill and core deposit intangibles of $46 million and $13 million, respectively.

FLAGSTAR BRANCH ACQUISITION

Effective December 9, 2011, PNC acquired 27 branches in the northern metropolitan Atlanta, Georgia area from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc. We assumed approximately $210 million of deposits associated with these branches. No loans were acquired in the transaction.

BankAtlantic Branch Acquisition

Effective June 6, 2011, PNC acquired 19 branches in the greater Tampa, Florida area from BankAtlantic, a subsidiary of BankAtlantic Bancorp, Inc. We assumed approximately $324 million of deposits associated with these branches. No loans were acquired in the transaction.

Review Of Business Segments

In addition to the following information relating to our lines of business, we incorporate the information under the captions Business Segment Highlights, Product Revenue, and Business Segments Review in Item 7 of this Report here by reference. Also, we include the financial and other information by business in Note 26 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report here by reference.

Assets, revenue and earnings attributable to foreign activities were not material in the periods presented. Business segment results for periods prior to 2012 have been reclassified to reflect current methodologies and current business and management structure and to present those periods on the same basis. Business segment information does not include PNC Global Investment Servicing Inc. (GIS). Results of operations of GIS through June 30, 2010 and the related after-tax gain on its sale in the third quarter of 2010 are reflected in discontinued operations.

Retail Banking provides deposit, lending, brokerage, investment management and cash management services to consumer and small business customers within our primary geographic markets. Our customers are serviced through our branch network, call centers, online banking and mobile channels. The branch network is principally located in our primary geographical markets.

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

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

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

Asset Management Group includes personal wealth management for high net worth and ultra high net worth clients and institutional asset management. Wealth management products and services include investment and retirement planning, customized investment management, private banking, tailored credit solutions and trust management and administration for individuals and their families. Institutional asset management provides investment management, custody and retirement administration services. Institutional clients include corporations, unions, municipalities, non-profits, foundations and endowments, primarily located in our geographic footprint.

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

Residential Mortgage Banking directly originates primarily first lien residential mortgage loans on a nationwide basis with a significant presence within the retail banking footprint, and also originates loans through majority owned affiliates. Mortgage loans represent loans collateralized by one-to-four-family residential real estate. These loans are typically underwritten to government agency and/or third-party standards, and sold, servicing retained, to secondary mortgage conduits of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks and third-party investors, or are securitized and issued under the Government National Mortgage Association (GNMA) program, as described in more detail in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in Item 8 of this Report and included here by reference. The mortgage servicing operation performs all functions related to servicing mortgage loans, primarily those in first lien position, for various investors and for loans owned by PNC. Certain loan applications are brokered by majority owned affiliates to others.

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

BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. BlackRock provides diversified investment

management services to institutional clients, intermediary and individual investors through various investment vehicles. Investment management services primarily consist of the management of equity, fixed income, multi-asset class, alternative investment and cash management products. BlackRock offers its investment products in a variety of vehicles, including open-end and closed-end mutual funds, *iShares*® exchange-traded funds (ETFs), collective investment trusts and separate accounts. In addition, BlackRock provides market risk management, financial markets advisory and enterprise investment system services to a broad base of clients. Financial markets advisory services include valuation services relating to illiquid securities, dispositions and workout assignments (including long-term portfolio liquidation assignments), risk management and strategic planning and execution.

We hold an equity investment in BlackRock, which is a key component of our diversified revenue strategy. BlackRock is a publicly traded company, and additional information regarding its business is available in its filings with the Securities and Exchange Commission (SEC).

Non-Strategic Assets Portfolio (formerly, Distressed Assets Portfolio) includes a consumer portfolio of mainly residential mortgage and brokered home equity loans and a small commercial loan and lease portfolio. We obtained a significant portion of these non-strategic assets through acquisitions of other companies.

Subsidiaries

Our corporate legal structure at December 31, 2012 consisted of one domestic subsidiary bank, including its subsidiaries, and approximately 141 active non-bank subsidiaries. Our bank subsidiary is PNC Bank, National Association (PNC Bank, N.A.), headquartered in Pittsburgh, Pennsylvania. For additional information on our subsidiaries, see Exhibit 21 to this Report.

Statistical Disclosure By Bank Holding Companies

The following statistical information is included on the indicated pages of this Report and is incorporated herein by reference:

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Average Consolidated Balance Sheet And Net Interest Analysis	237 238
Analysis Of Year-To-Year Changes In Net Interest Income	239
Book Values Of Securities	46 49 and 165 171
Maturities And Weighted-Average Yield Of Securities	170 171
Loan Types	42 45, 145 and 240
Selected Loan Maturities And Interest Sensitivity	242
Nonaccrual, Past Due And Restructured Loans And Other Nonperforming Assets	85 95, 130 131, 146 158 and 240 241
Potential Problem Loans And Loans Held For Sale	49 50 and 86 97
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Assignment Of Allowance For Loan And Lease Losses	95 97 and 242
Average Amount And Average Rate Paid On Deposits	237 238
Time Deposits Of $100,000 Or More	191 and 242
Selected Consolidated Financial Data	29 30

Short-term borrowings not included as average balances during 2012, 2011, and 2010 were less than 30% of total shareholders equity at the end of each period.

European Exposure

For information regarding our exposure to European entities at December 31, 2012 and December 31, 2011, see the European Exposure section included in Item 7 of this Report.

Supervision and Regulation

Overview

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

We are subject to numerous governmental regulations, some of which are highlighted below. See Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, for additional information regarding our regulatory matters. Applicable laws and regulations restrict our permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, investment management and other customers, among other things. They also restrict our ability to repurchase stock or pay dividends, or to receive dividends from our bank subsidiary, and impose capital adequacy requirements. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions.

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

The Consumer Financial Protection Bureau (CFPB), a new agency established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), is responsible for examining PNC Bank, N.A. and its affiliates (including PNC) for compliance with most consumer financial protection laws and for enforcing such laws with respect to PNC Bank, N.A. and its affiliates. This authority previously was exercised by the OCC and the Federal Reserve. The CFPB also now has authority for prescribing rules governing the provision of consumer financial products and services such as credit cards, student and other loans, deposits and residential mortgages. The agency has issued final regulations that impose broad new

requirements relating to our mortgage origination activities and the servicing activities we perform for residential mortgage loans. These regulations include a requirement that residential mortgage lenders, like PNC Bank, make a good faith and reasonable determination at or before the time of consummation of a residential mortgage loan that the prospective borrower has a reasonable ability to repay that loan. The new regulations also include broad new requirements applicable to servicers of residential mortgage loans, like PNC, which include provisions requiring policies and procedures relating to how servicers respond to and manage loans of borrowers who are in default. Most of these regulations are scheduled to take effect in January of 2014. In addition, the CFPB is now considering additional regulations that will modify the application and closing disclosures that must be provided to borrowers in connection with residential mortgage loans.

As a result of Dodd-Frank, after July 21, 2011, subsidiaries of PNC Bank, N.A. are subject to state law and regulation to the same extent as if they were not subsidiaries of a national bank. Additionally, based on Dodd-Frank, state authorities may assert that certain state consumer financial laws that provide different requirements or limitations than Federal law may apply to national banks, including PNC Bank, N.A. Such state laws may be preempted if they meet certain standards set forth in Dodd-Frank or other applicable law. We expect to experience an increase in regulation of our Retail Banking, Asset Management Group and Residential Mortgage Banking businesses and additional compliance obligations, revenue and cost impacts.

We also are subject to regulation by the SEC by virtue of our status as a public company and by the SEC and the Commodity Futures Trading Commission (CFTC) due to the nature of some of our businesses. Our banking and securities businesses with operations outside the United States, including those conducted by BlackRock, are also subject to regulation by appropriate authorities in the foreign jurisdictions in which they do business.

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

We anticipate new legislative and regulatory initiatives over the next several years, focused specifically on banking and other financial services in which we are engaged. These initiatives would be in addition to the actions already taken by Congress and the regulators, including the Credit Card Accountability, Responsibility, and Disclosure Act of 2009

(Credit CARD Act), the Secure and Fair Enforcement for Mortgage Licensing Act (the SAFE Act), and Dodd-Frank, as well as changes to the regulations implementing the Real Estate Settlement Procedures Act, the Federal Truth in Lending Act, and the Electronic Fund Transfer Act, including the new rules set forth in Regulation E related to overdraft charges.

Dodd-Frank, which was signed into law on July 21, 2010, comprehensively reforms the regulation of financial institutions, products and services. Dodd-Frank requires various federal regulatory agencies to implement numerous new rules and regulations. Because the federal agencies are granted broad discretion in drafting these rules and regulations, and many implementing rules either have not yet been issued or have only been issued in proposed form, many of the details and much of the impact of Dodd-Frank may not be known for many months or years. Among other things, Dodd-Frank provides for new capital standards that eliminate the treatment of trust preferred securities as Tier 1 regulatory capital; requires that deposit insurance assessments be calculated based on an insured depository institution s assets rather than its insured deposits; raises the minimum Designated Reserve Ratio (the balance in the Deposit Insurance Fund divided by estimated insured deposits) to 1.35%; establishes a comprehensive regulatory regime for the derivatives activities of financial institutions; limits proprietary trading and owning or sponsoring hedge funds and private equity funds by banking entities; requires the Federal Reserve to establish a variety of enhanced prudential standards for bank holding companies with $50 billion or more in total assets; places limitations on the interchange fees charged for debit card transactions; and establishes new minimum mortgage underwriting standards for residential mortgages.

Dodd-Frank established the 10-member inter-agency Financial Stability Oversight Council (FSOC), which is charged with identifying systemic risks and strengthening the regulation of financial holding companies and certain non-bank companies deemed to be systemically important and could, in extraordinary cases and in conjunction with the Federal Reserve, break up financial firms that are deemed to present a grave threat to the financial stability of the United States. Dodd-Frank also requires the Federal Reserve to establish prudential standards for bank holding companies with total consolidated assets equal to or greater than $50 billion that are more stringent than the standards and requirements applicable to bank holding companies with assets below this threshold, and that increase in stringency for bank holding companies that present heightened risk to the financial system. Additional information concerning these enhanced prudential standards is provided in Item 1A Risk Factors of this Report. The FSOC may make recommendations to the Federal Reserve concerning the establishment and refinement of these prudential standards and reporting and disclosure requirements.

Legislative and regulatory developments to date, as well as those that come in the future, have had and are likely to continue to have an impact on the conduct of our business. The more detailed description of the significant regulations to which we are subject included in this Report is based on the current regulatory environment and is subject to potentially material change. See also the additional information included in Item 1A of this Report under the risk factors discussing the impact of financial regulatory reform initiatives, including Dodd-Frank and regulations promulgated to implement it, on the regulatory environment for PNC and the financial services industry.

Among other areas that have been receiving a high level of regulatory focus over the last several years are compliance with anti-money laundering laws and the protection of confidential customer information. In addition, at least in part driven by the current economic and financial situation, there is an increased focus on fair lending and other issues related to the mortgage industry. Ongoing mortgage-related regulatory reforms include measures aimed at reducing mortgage foreclosures.

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

There are numerous rules governing the regulation of financial services institutions and their holding companies. Accordingly, the following discussion is general in nature and does not purport to be complete or to describe all of the laws and regulations that apply to us. To a substantial extent, the purpose of the regulation and supervision of financial services institutions and their holding companies is not to protect our shareholders and our non-customer creditors, but rather to protect our customers (including depositors) and the financial markets in general.

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B ANKING R EGULATION AND S UPERVISION

Capital Regulations. PNC and PNC Bank, N.A. are subject to the regulatory capital requirements established by the Federal Reserve and the OCC, respectively. In addition, PNC is subject to the Federal Reserve s capital plan rule and annual capital stress testing and Comprehensive Capital Analysis and Review (CCAR) process. As part of this annual capital planning process, the Federal Reserve undertakes a supervisory assessment of the capital adequacy of bank holding companies (BHCs), including PNC, that have $50 billion or more in total consolidated assets. This capital adequacy assessment is based on a review of a comprehensive capital plan submitted by each participating BHC to the Federal Reserve that describes the company s planned capital actions during the nine quarter review period, as well as the results of stress tests conducted by both the company and the Federal Reserve under different hypothetical macro-economic scenarios, including a severely stressed scenario provided by the Federal Reserve (supervisory severely adverse scenario). In evaluating a BHC s capital plan, the Federal Reserve considers a number of factors, including the company s risk profile, the strength of the company s internal capital assessment process, and whether the company s projected pro forma Basel I Tier 1 common capital ratio under the hypothetical supervisory severely adverse scenario would remain above 5 percent throughout the nine quarter planning horizon even if the company continued with the capital distributions proposed under a baseline scenario. In addition, the Federal Reserve evaluates a company s projected path towards compliance with the proposed Basel III regulatory capital framework. After completing its review, the Federal Reserve may object or not object to the firm s proposed capital actions, such as plans to pay or increase common stock dividends, reinstate or increase common stock repurchase programs, or redeem preferred stock or other regulatory capital instruments.

In connection with the 2013 CCAR, PNC filed its capital plan and stress testing results using financial data as of September 30, 2012 with the Federal Reserve on January 7, 2013. PNC expects to receive the Federal Reserve s response (either a non-objection or objection) to the capital plan submitted as part of the 2013 CCAR by March 15, 2013. The Federal Reserve also has announced that it intends to publish on this date the results of its assessments, including the Federal Reserve s estimates of the Basel I capital ratios for each of the largest 19 BHCs participating in the 2013 reviews, including PNC, during the review period under the Federal Reserve s severely adverse macro-economic scenario and applying the firm s proposed base case capital distributions. Prior to this release, the Federal Reserve will release on March 7, 2013 its estimate of the Basel I capital ratios, as well as its estimate of certain revenue and loss information, for such BHCs under the same supervisory severely adverse scenario but applying the common assumptions concerning capital distributions by firms established by the Federal Reserve for the stress tests required by Dodd-Frank (Dodd-

Frank capital action assumptions). PNC also is required to publicly disclose, in March 2013, its estimates of certain capital, revenue and loss information under the same hypothetical supervisory severely adverse macro-economic scenario and applying the Dodd-Frank capital action assumptions. Federal Reserve regulations also require that PNC and other large bank holding companies conduct a separate mid-year stress test using financial data as of March 31st and three company-derived macro-economic scenarios (base, adverse and severely adverse) and publish a summary of the results under the severely adverse scenario in September.

The Federal banking agencies have requested comment on proposed rules to implement the Basel III capital framework in the United States. These rules have not yet been finalized and remain subject to change. For additional information on these proposed rules, see Recent Market and Industry Developments in Item 7 and Item 1A Risk Factors in this Report. PNC s estimated pro forma Basel III Tier 1 common ratio was 7.5% at December 31, 2012, excluding the benefits of the transitional phase-in periods provided by Basel III. This estimate is based on management s understanding of the Basel III proposed rules issued by the U.S. banking agencies in June 2012 and on available data and information as of December 31, 2012. It also reflects our estimates of PNC s risk-weighted assets under Basel II (with the modifications proposed in June 2012) and application of the Basel II.5 market risk rules that became effective on January 1, 2013. Both our Basel II and Basel III estimates are point in time estimates and are subject to further regulatory guidance and clarity, as well as the development, refinement, validation and regulatory approval of internal models.

Parent Company Liquidity and Dividends. The principal source of our liquidity at the parent company level is dividends from PNC Bank, N.A. PNC Bank, N.A. is subject to various federal restrictions on its ability to pay dividends to PNC Bancorp, Inc., its direct parent. PNC Bank, N.A. is also subject to federal laws limiting extensions of credit to its parent holding company and non-bank affiliates as discussed in Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report. Further information on bank level liquidity and parent company liquidity and on certain contractual restrictions is also available in the Liquidity Risk Management portion of the Risk Management section and the Trust Preferred Securities portion of the Off-Balance Sheet Arrangements And Variable Interest Entities section of Item 7 of this Report, and in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Federal Reserve rules provide that a bank holding company is expected to serve as a source of financial strength to its subsidiary banks and to commit resources to support such banks if necessary. Consistent with the source of strength

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policy for subsidiary banks, the Federal Reserve has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the corporation s capital needs, asset quality and overall financial condition. Further, in providing guidance to the large BHCs participating in the 2013 CCAR, discussed above, the Federal Reserve stated that it expects capital plans submitted in 2013 will reflect conservative dividend payout ratios and net share repurchase programs, and that requests that imply common dividend payout ratios above 30% of projected after-tax net income available to common shareholders will receive particularly close scrutiny. The Federal Reserve also has stated that it expects BHCs that meet the minimum capital ratio requirements under Basel III during the transition periods provided by Basel III, but that do not meet the fully-phased in Basel III minimum plus capital conservation buffer ratio of 7 percent Tier 1 common (plus any applicable capital surcharge for globally systemically important banks), to maintain prudent earnings retention policies with a view to meeting this standard in accordance with the phase-in schedule included in the agencies proposed Basel III rules.

Additional Powers Under the GLB Act. The Gramm Leach Bliley Act (GLB Act) permits a qualifying bank holding company to become a financial holding company and thereby engage in, or affiliate with financial companies engaging in, a broader range of activities than would otherwise be permitted for a bank holding company. Permitted affiliates include securities underwriters and dealers, insurance companies and companies engaged in other activities that are determined by the Federal Reserve, in consultation with the Secretary of the Treasury, to be financial in nature or incidental thereto or are determined by the Federal Reserve unilaterally to be complementary to financial activities. We became a financial holding company as of March 13, 2000. In order to be and remain a financial holding company, a bank holding company and its subsidiary depository institutions must be well capitalized and well managed. In addition, a financial holding company generally may not engage in a new financial activity if any of its insured depository institutions received a less than Satisfactory rating at its most recent evaluation under the Community Reinvestment Act (CRA).

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

As subsidiaries of a financial holding company under the GLB Act, our non-bank subsidiaries are generally allowed to conduct new financial activities, and PNC is generally permitted to acquire non-bank financial companies that have less than $10 billion in assets, with after-the-fact notice to the Federal Reserve. In addition, our non-bank subsidiaries (and any financial subsidiaries of subsidiary banks) are permitted to engage in certain activities that were not permitted for bank holding companies and banks prior to enactment of the GLB Act, and to engage on less restrictive terms in certain activities that were previously permitted. Among other activities, we currently rely on our status as a financial holding company to conduct merchant banking activities and securities underwriting and dealing activities.

In addition, the GLB Act permits national banks, such as PNC Bank, N.A., to engage in expanded activities through the formation of a financial subsidiary. PNC Bank, N.A. has filed a financial subsidiary certification with the OCC and currently engages in insurance agency activities through financial subsidiaries. PNC Bank, N.A. may also generally engage through a financial subsidiary in any activity that is determined to be financial in nature or incidental to a financial activity by the Secretary of the Treasury, in consultation with the Federal Reserve. Certain activities, however, are impermissible for a financial subsidiary of a national bank, including certain insurance underwriting activities, insurance company investment activities, real estate investment or development, and merchant banking.

Other Federal Reserve and OCC Regulation and Supervision. The federal banking agencies possess broad powers to take corrective action as deemed appropriate for an insured depository institution and its holding company. In some cases, the extent of these powers depends upon whether the institution in question is considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. Generally, the smaller an institution s capital base in relation to its risk-weighted or total assets, the greater the scope and severity of the agencies powers, ultimately permitting the agencies to appoint a receiver for the institution. Business activities may also be influenced by an institution s capital classification. For instance, only a well capitalized depository institution may accept brokered deposits without prior regulatory approval and an adequately capitalized depository institution may accept brokered deposits only with prior regulatory approval. At December 31, 2012, PNC Bank, N.A. exceeded the required ratios for classification as well capitalized. For additional discussion of capital adequacy requirements, we refer you to the Funding and Capital Sources portion of the Consolidated Balance Sheet Review section of Item 7 of this Report and to Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Laws and regulations limit the scope of our permitted activities and investments. National banks (such as PNC Bank,

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N.A.) and their operating subsidiaries generally may engage only in any activities that are determined by the OCC to be part of or incidental to the business of banking, although a financial subsidiary may engage in a broader range of activities as described above.

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

The Federal Reserve s prior approval is required whenever we propose to acquire all or substantially all of the assets of any bank or thrift, to acquire direct or indirect ownership or control of more than 5% of any class of voting shares of any bank or thrift, or to merge or consolidate with any other bank holding company or thrift holding company. The BHC Act enumerates the factors the Federal Reserve must consider when reviewing the merger of bank holding companies or the acquisition of banks. These factors include the competitive effects of the proposal in the relevant geographic markets; the financial and managerial resources and future prospects of the companies and banks involved in the transaction; the effect of the transaction on financial stability of the United States; the organizations compliance with anti-money laundering laws and regulations; the convenience and needs of the communities to be served; and the records of performance under the CRA of the insured depository institutions involved in the transaction. In cases involving interstate bank acquisitions, the Federal Reserve also must consider the concentration of deposits nationwide and in certain individual states. OCC prior approval is required for PNC Bank, N.A. to acquire another insured bank or thrift by merger. In deciding whether to approve such a transaction, the OCC is required to consider factors similar to those that must be considered by the Federal Reserve. Our ability to grow through acquisitions could be limited by these approval requirements.

At December 31, 2012, PNC Bank, N.A. was rated Outstanding with respect to CRA.

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

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

evaluation by the FDIC or a bank s primary federal banking regulator could increase the costs to a bank and result in an aggregate cost of deposit funds higher than that of competing banks in a lower risk category. Under Dodd-Frank, in April 2011, the deposit insurance base calculation shifted from deposits to average assets less Tier 1 capital. This methodology change did not materially impact the premiums due to the FDIC for PNC.

CFPB Regulation and Supervision. Dodd-Frank gives the CFPB authority to examine PNC and PNC Bank, N.A. for compliance with a broad range of federal consumer financial laws and regulations, including the laws and regulations that relate to credit card, deposit, mortgage and other consumer financial products and services we offer. In addition, Dodd-Frank gives the CFPB broad authority to take corrective action against PNC Bank, N.A. and PNC as it deems appropriate. The CFPB also has powers that it was assigned in Dodd-Frank to issue regulations and take enforcement actions to prevent and remedy acts and practices relating to consumer financial products and services that it deems to be unfair, deceptive or abusive. The agency also has authority to impose new disclosure requirements for any consumer financial product or service. These authorities are in addition to the authority the CFPB assumed on July 21, 2011 under existing consumer financial law governing the provision of consumer financial products and services.

Securities and Derivatives Regulation

Our registered broker-dealer and investment adviser subsidiaries are subject to rules and regulations promulgated by the SEC.

Several of our subsidiaries are registered with the SEC as investment advisers and may provide investment advisory services to clients, other PNC affiliates or related entities, including registered investment companies. Certain of these advisers are registered as investment advisers to private equity funds under rules adopted under Dodd-Frank.

Broker-dealer subsidiaries are subject to the requirements of the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder. The Financial Industry Regulatory Authority (FINRA) is the primary self-regulatory organization (SRO) for our registered broker-dealer subsidiaries. Investment adviser subsidiaries are subject to the requirements of the Investment Advisers Act of 1940, as amended, and the regulations thereunder. An investment adviser to a registered investment company is also subject to the requirements of the Investment Company Act of 1940, as amended, and the regulations thereunder. Our broker-dealer and investment adviser subsidiaries also are subject to additional regulation by states or local jurisdictions.

Over the past several years, the SEC and other regulatory agencies have increased their focus on the mutual fund and broker-dealer industries. Congress and the SEC have adopted regulatory reforms and are considering additional reforms that have increased, and are likely to continue to increase, the extent of regulation of the mutual fund and broker-dealer industries and impose additional compliance obligations and costs on our subsidiaries involved with those industries. Under provisions of the federal securities laws applicable to broker-dealers, investment advisers and registered investment companies and their service providers, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in fines, restitution, a limitation on permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations can also affect a public company in its timing and ability to expeditiously issue new securities into the capital markets. In addition, certain changes in the activities of a broker-dealer require approval from FINRA, and FINRA takes into account a variety of considerations in acting upon applications for such approval, including internal controls, capital levels, management experience and quality, prior enforcement and disciplinary history and supervisory concerns.

Title VII of Dodd-Frank imposes new comprehensive and significant regulations on the activities of financial institutions that are active in the U.S. over-the-counter (OTC) derivatives and foreign exchange markets. Title VII was enacted to (i) address systemic risk issues, (ii) bring greater transparency to the derivatives markets, (iii) provide enhanced disclosures and protection to customers, and (iv) promote market integrity. Among other things, Title VII: (i) requires the registration of both swap dealers and major swap participants with one or both of the Commodity Futures Trading Commission (CFTC) (in the case of non security-based swaps) and the SEC (in the case of security-based swaps); (ii) requires that most standardized swaps be centrally cleared through a regulated clearing house and traded on a centralized exchange or swap execution facility; (iii) subjects swap dealers and major swap participants to capital and margin requirements in excess of historical practice; (iv) subjects swap dealers and major swap participants to comprehensive new recordkeeping and real-time public reporting requirements; (v) subjects swap dealers and major swap participants to new business conduct requirements (including the providing of daily marks to counterparties and disclosing to counterparties (pre-execution) the material risks associated with their swap and of material incentives and any conflicts of interest associated with their swap); and (vi) imposes special duties on swap dealers and major swap participants when transacting a swap with a special entity (e.g., governmental agency (federal, state or local) or political subdivision thereof, pension plan or endowment).

Based on the definition of a swap dealer under Title VII, PNC Bank, N.A. registered with the CFTC as a swap dealer on January 31, 2013. As a result thereof, PNC Bank, N.A. is subject to all of the above-described regulations and

requirements imposed on registered swap dealers, and the CFTC will have a meaningful supervisory role with respect to PNC Bank, N.A. s derivatives and foreign exchange businesses. Because of the limited volume of our security-based swap activities, we have not registered with the SEC as a security-based swap dealer. The above described requirements will collectively impose implementation and ongoing compliance burdens on PNC Bank, N.A. and will introduce additional legal risks (including as a result of newly applicable antifraud and anti-manipulation provisions and private rights of action).

In addition, an investment adviser to private funds or to registered investment companies may be required to register with the CFTC as a commodity pool operator. Registration could impose significant new regulatory compliance burdens. Presently, we expect our subsidiaries that serve as investment advisers to such entities to be eligible for exemptions from registration as a commodity pool operator.

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

Competition

We are subject to intense competition from various financial institutions and from non-bank entities that can offer a number of similar products and services without being subject to bank regulatory supervision and restrictions.

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

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

- Other commercial banks,

Savings banks,
Savings and loan associations,
Credit unions,
Treasury management service companies,
Insurance companies, and

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Issuers of commercial paper and other securities, including mutual funds.

Our various non-bank businesses engaged in investment banking and alternative investment activities compete with:

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

In providing asset management services, our businesses compete with:

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

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

EMPLOYEES

Employees totaled 56,285 at December 31, 2012. This total includes 50,947 full-time and 5,338 part-time employees, of which 23,331 full-time and 4,563 part-time employees were employed by our Retail Banking business.

SEC REPORTS AND CORPORATE GOVERNANCE INFORMATION

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

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

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

We also make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge on our internet website as soon as

reasonably practicable after we electronically file such material with, or furnish it to, the SEC. PNC s corporate internet address is www.pnc.com and you can find this information at www.pnc.com/secfilings. Shareholders and bondholders may also obtain copies of these filings without charge by contacting Shareholder Services at 800-982-7652 or via the online contact form at www.computershare.com/contactus for copies without exhibits, and by contacting Shareholder Relations at 800-843-2206 or via e-mail at investor.relations@pnc.com for copies of exhibits, including financial statement and schedule exhibits where applicable. The interactive data file (XBRL) exhibit is only available electronically.

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

Shareholders who would like to request printed copies of the PNC Code of Business Conduct and Ethics or our Corporate Governance Guidelines or the charters of our Board s Audit, Nominating and Governance, Personnel and Compensation, or Risk Committees (all of which are posted on the PNC corporate website) may do so by sending their requests to George P. Long, III, Chief Governance Counsel and Corporate

Secretary, at corporate headquarters at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707. Copies will be provided without charge to shareholders.

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

Internet Information

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

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Starting in 2013, PNC will be required to provide additional public disclosure regarding estimated income, losses and pro forma regulatory capital ratios under a supervisory hypothetical severely adverse economic scenario in March of each year and under a PNC-developed hypothetical severely adverse economic scenario in September of each year, as well as information concerning its capital stress testing processes, pursuant to the stress testing regulations adopted by the Federal Reserve and the OCC. Under these regulations, PNC may be able to satisfy at least a portion of these requirements through postings on its website, and PNC may elect to do so

without also providing disclosure of this information through filings with the Securities and Exchange Commission.

You can also find the SEC reports and corporate governance information described in the sections above in the Investor Relations section of our website.

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

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ITEM 1A RISK FACTORS

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

There are risks that are known to exist at the outset of a transaction. For example, every loan transaction presents credit risk (the risk that the borrower may not perform in accordance with contractual terms) and market risk (a potential loss in earnings or economic value due to adverse movement in market interest rates or credit spreads), with the nature and extent of these risks principally depending on the financial profile of the borrower and overall economic conditions. We focus on lending that is within the boundaries of our risk framework, and manage these risks by adjusting the terms and structure of the loans we make and through our oversight of the borrower relationship, as well as through management of our deposits and other funding sources.

Risk management is an important part of our business model. The success of our business is dependent on our ability to identify, understand and manage the risks presented by our business activities so that we can appropriately balance revenue generation and profitability. These risks include, but are not limited to, credit risk, market risk, liquidity risk, operational risk, model risk, technology, compliance and legal risk, and strategic and reputation risk. We discuss our principal risk management processes and, in appropriate places, related historical performance in the Risk Management section included in Item 7 of this Report.

The following are the key risk factors that affect us. Any one or more of these risk factors could have a material adverse impact on our business, financial condition, results of operations or cash flows, in addition to presenting other possible adverse consequences, which are described below. These risk factors and other risks are also discussed further in other sections of this Report.

The possibility of the moderate economic recovery returning to recessionary conditions or of turmoil or volatility in the financial markets would likely have an adverse effect on our business, financial position and results of operations.

Although the United States economy has shown modest improvement recently, economic conditions continue to pose a risk to financial institutions, including PNC. The economic recovery, although continuing, did so only at a pace in 2012 below trend for other recent recoveries from recessions. Job growth has not yet been sufficient to significantly reduce high unemployment in the United States. Consumer and business confidence is improving but remains in the cautious zone.

There continues to be concern regarding the possibility of a return to recessionary conditions, as well as regarding the possibility of increased turmoil or volatility in financial markets.

The recent global recession and disruption of the financial markets has led to concerns over the solvency of certain Eurozone states, including Greece, Ireland, Italy, Portugal and Spain, affecting these countries capital markets access, as well as market perception of financial institutions that have significant direct or indirect exposure to these countries creditworthiness. Certain of the major rating agencies have downgraded the sovereign credit ratings of Greece, Portugal and Ireland to below investment grade. The sovereign credit ratings of France, Italy and Spain have also been downgraded. These ratings downgrades, uncertainties surrounding the implementation of reform programs, the effect of economic contraction, and the Eurozone s financial inter-linkages increase the risk of financial distress spreading to other Eurozone states. If measures to address sovereign debt and financial sector problems in Europe are inadequate, they may result in a delayed economic recovery, the exit of one or more member states from the Eurozone, or more severe recessionary conditions. If realized, these risk scenarios could contribute to severe financial market stress or a global recession, likely affecting the economy and capital markets in the United States as well.

Although the so-called fiscal cliff was averted in early 2013, Congress and the President still need to resolve issues with respect to the U.S. government s debt ceiling and other budgetary and spending matters. Uncertainty as to whether these issues can be resolved or how effective a resolution might be increases the risk of slower economic growth. The nature and ultimate resolution of these issues, or a failure to achieve a timely and effective resolution, may further adversely affect the U.S. economy through possible consequences including downgrades in the ratings for U.S. Treasury securities, government shutdowns, or substantial spending cuts resulting from sequestration.

Current economic conditions have had an adverse effect on our business and financial performance and may not improve in the near future. We expect these conditions to continue to have an ongoing negative impact on us and a worsening of conditions would likely aggravate the adverse effects of these difficult economic and market conditions on us and on others in the financial services industry.

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

Investors may have less confidence in the equity markets in general and in financial services industry stocks in particular, which could place downward pressure on PNC s stock price and resulting market valuation.

Economic and market developments, in the United States, Europe or elsewhere, may further affect

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consumer and business confidence levels and may cause declines in credit usage and adverse changes in payment patterns, causing increases in delinquencies and default rates.

The continuation of the current very low interest rate environment, which is expected to continue at least through mid-year 2015 based on statements by the Chairman of the Federal Reserve Board, could affect consumer and business behavior in ways that are adverse to us and could also hamper our ability to increase our net interest income.

Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors.

The process we use to estimate losses in our credit exposures requires difficult, subjective and complex judgments, including with respect to economic conditions and how economic conditions might impair the ability of our borrowers to repay their loans. At any point in time or for any length of time, such losses may no longer be capable of accurate estimation, which may, in turn, adversely impact the reliability of the process for estimating losses and, therefore, the establishment of adequate reserves for those losses.

We could suffer decreases in customer desire to do business with us, whether as a result of a decreased demand for loans or other financial products and services or decreased deposits or other investments in accounts with PNC.

Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions, or otherwise.

A continuation or deterioration of current economic trends may lead to declines in the values of our businesses potentially resulting in goodwill impairments.

A lessening of confidence in the creditworthiness of the United States or other governments whose securities we hold could impact the value of those holdings.

Increased regulation of compensation at financial services companies as part of government efforts to reform the industry may hinder our ability to attract, retain and incentivize well-qualified individuals in key positions.

Investors in mortgage loans and other assets that we sell or sold are more likely to seek indemnification from us against losses or otherwise seek to have us share in such losses or to request us to repurchase loans that they believe do not comply with applicable representations and warranties or other contractual provisions.

We may be subject to additional fees and taxes as the government seeks to recover some of the costs of its recovery efforts, reduce the national debt or pay for additional government programs, in particular from the financial services industry.

The regulatory environment for the financial services industry is being significantly impacted by financial regulatory reform initiatives in the United States and elsewhere, including Dodd-Frank and regulations promulgated to implement it.

The United States and other governments have undertaken major reform of the regulatory oversight structure of the financial services industry, including engaging in new efforts to impose requirements designed to reduce systemic risks and protect consumers and investors. We expect to face further increased regulation of our industry as a result of current and future initiatives intended to provide economic stimulus, financial market stability and enhanced regulation of financial services companies and to enhance the liquidity and solvency of financial institutions and markets. We also expect in many cases more intense scrutiny from our bank supervisors in the examination process and more aggressive enforcement of laws and regulations on both the federal and state levels. Compliance with regulations and other supervisory initiatives will likely increase our costs and reduce our revenue, and may limit our ability to pursue certain desirable business opportunities.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) mandates the most wide-ranging overhaul of financial industry regulation in decades. Dodd-Frank was signed into law on July 21, 2010. Many parts of the law are now in effect and others are now in the implementation stage, which is likely to continue for several years. The law requires that regulators, some of which are new regulatory bodies created by Dodd-Frank, draft, review and approve more than 300 implementing regulations and conduct numerous studies that are likely to lead to more regulations, a process that, while well underway, is proceeding somewhat slower than originally anticipated, thus extending the uncertainty surrounding the ultimate impact of Dodd-Frank on us.

A number of reform provisions are likely to significantly impact the ways in which banks and bank holding companies, including PNC, do business.

Newly created regulatory bodies include the Consumer Financial Protection Bureau (CFPB) and the Financial Stability Oversight Council (FSOC). The CFPB has been given authority to regulate consumer financial products and services sold by banks and non-bank companies and to supervise banks with assets of more than $10 billion and their affiliates for compliance with Federal consumer protection laws. The FSOC has been charged with

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identifying systemic risks, promoting stronger financial regulation and identifying those non-bank companies that are systemically important and thus should be subject to regulation by the Federal Reserve. In addition, in extraordinary cases and together with the Federal Reserve, the FSOC could break up financial firms that are deemed to present a grave threat to the financial stability of the United States.

Dodd-Frank (through provisions commonly known as the Volcker Rule) prohibits banks and their affiliates from engaging in some types of proprietary trading and restricts the ability of banks and their affiliates to sponsor, invest in or have other financial relationships with private equity or hedge funds. In October 2011, four of the five agencies with authority for rulemaking issued proposed rules to implement the Volcker Rule. In January 2012, the fifth agency issued substantially similar proposed rules. The rules set forth a complex and detailed compliance, reporting and monitoring program for large banks, and seek comments on numerous questions. Although the comment deadline expired in February 2012 on the four agency proposals (and later in 2012 on the single agency proposal), the agencies have not yet issued final rules. The timing and content of the final rules remain uncertain. The manner in which the questions posed by the proposed rules are addressed by the agencies will have an important influence on the impact of the final rules on PNC.

Although PNC no longer has a designated proprietary trading operation, the proposed rules broadly define what constitutes potentially prohibited proprietary trading, thereby making the scope of the statutory and regulatory exemptions for trading activities, including the exemptions for hedging activities and customer trading, all the more important. Until more is known about how the final rules will define proprietary trading and the scope of permissible trading activities, it is not possible to determine the impact to PNC of the proprietary trading prohibition. However, any meaningful limitation on PNC s ability to hedge its risks in the ordinary course or to trade on behalf of customers would likely be adverse to PNC s business and results of operations. In addition, the proposed rules contain extensive compliance and recordkeeping requirements related to permissible trading activities. Such requirements, if included in a final rule, could increase the costs of hedging or other types of permissible transactions and potentially result in PNC not engaging in certain transactions, or types of transactions, in which we would otherwise engage.

With respect to the restrictions on private equity and hedge fund activities, as of December 31, 2012, PNC held interests in such funds likely to be covered totaling approximately $859 million including three

sponsored funds with total invested capital of approximately $389 million. PNC expects that over time it will need to eliminate these investments and cease sponsoring these funds, although it is likely that at least some of these amounts will reduce over time in the ordinary course before compliance is required, and the Volcker Rule also permits extensions of the compliance date under some circumstances. A forced sale of some of these investments due to the Volcker Rule could result in PNC receiving less value than it would otherwise have received. Depending on the provisions of the final rule, it is possible that other structures through which PNC conducts business, such as operating subsidiaries, joint ventures or securitization vehicles, but that are not typically referred to as private equity or hedge funds, could be restricted, with an impact that cannot now be evaluated.

Pursuant to Dodd-Frank, in December 2011 the Federal Reserve requested comment on proposed rules that would establish enhanced prudential standards governing U.S. bank holding companies with $50 billion or more in consolidated total assets (covered companies). The proposed enhanced prudential standards would include, among other things, heightened liquidity risk management standards; new standards governing oversight by a covered company s board of directors and board-level risk committee; and new limits on the aggregate amount of credit exposure a covered company may have to any single customer or counterparty. These proposed rules also would establish an early remediation regime for covered companies, under which the Federal Reserve would be required to take increasingly stringent actions against a covered company as its financial condition or risk management deteriorated as reflected by the company s current or projected post-stress capital levels, compliance with supervisory liquidity and risk management standards and, in some instances, market-based indicators, such as credit default swap spreads. The comment period on the proposed rules closed in March 2012. Final rules, however, have not been issued, and as such the impact of these rules cannot now be evaluated.

In addition, the relevant regulatory agencies have proposed rules to implement the Dodd-Frank provisions requiring retention of risk by certain securitization participants through holding interests in the securitization vehicles, but the rules are not yet finalized or effective. As a result, the ultimate impact of these Dodd-Frank provisions on PNC remains unpredictable. That impact on PNC could be direct, by requiring PNC to hold interests in a securitization vehicle or other assets that represent a portion of the credit risk of the assets held by the securitization vehicle, or indirect, by impacting markets in which

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PNC participates and increasing the costs associated with mortgage assets that we originate. Since the beginning of the financial crisis, there has been and continues to be substantially less private (that is, non-government backed) securitization activity than had previously been the case. It is unclear at present whether and to what extent the private securitization markets will rebound. In recent years, PNC has only engaged to a limited extent in securitization transactions under circumstances where we might expect to be required to retain additional risk on our balance sheet as a result of implementation of these Dodd-Frank provisions. If the market for private securitizations rebounds and PNC decides to increase its participation in that market, we would likely be required under the regulations to retain more risk than would otherwise have been the case, and as a result could be required to consolidate certain securitization vehicles on our balance sheet, with currently an uncertain financial impact.

On the indirect impact side, PNC originates loans of a variety of types, including residential and commercial mortgages, credit card, auto, and student, that historically have commonly been securitized, and PNC is also a significant servicer of residential and commercial mortgages held by others, including securitization vehicles. PNC anticipates that the risk retention requirements will impact the market for loans of types that historically have been securitized, potentially affecting the volumes of loans securitized, the types of loan products made available, the terms on which loans are offered, consumer and business demand for loans, and the need for third-party loan servicers. It should be noted that the risk retention rules themselves could have the effect of slowing the rebound in the securitization markets. One effect of having substantially reduced opportunities to securitize loans would likely be a reduction in the willingness of banks, including PNC, to make loans due to balance sheet management requirements. Any of these potential impacts of the Dodd-Frank risk retention rules could affect the way in which PNC conducts its business, including its product offerings, and could also affect PNC s revenue and profitability, although, as noted above, not in ways that are currently predictable.

Title VII of Dodd-Frank imposes new comprehensive and significant restrictions on the activities of financial institutions that are active in the U.S. over-the-counter (OTC) derivatives and foreign exchange markets. Title VII (i) requires the registration of both swap dealers and major swap participants with one or both of the Commodity Futures Trading Commission (CFTC) (in the case of non security-based swaps) and the Securities Exchange Commission (SEC) (in the case of security-based swaps); (ii) requires that most standardized swaps be centrally cleared through a regulated clearing house and traded on a centralized exchange or swap execution facility; (iii) subjects swap dealers and major swap participants to capital and margin requirements in excess of current practice; (iv) subjects swap dealers and major swap participants to comprehensive new recordkeeping and real-time public reporting requirements; (v) subjects swap dealers and major swap participants to new business conduct requirements (including an obligation to provide daily marks to counterparties and to disclose to counterparties (pre-execution) the material risks associated with a swap and material incentives and conflicts of interest associated with the swap); and (vi) imposes special duties on swap dealers and major swap participants when transacting a swap with a special entity (e.g., governmental agency (federal, state or local) or political subdivision thereof, pension plan or endowment). Based on the definition of a swap dealer under Title VII, PNC Bank, N.A. registered with the CFTC as a swap dealer effective January 31, 2013. As a result, PNC Bank, N.A. will be subject to all of the above-described restrictions and the CFTC will have a meaningful supervisory role with respect to PNC Bank, N.A. s derivatives and foreign exchange businesses.

The above described requirements will collectively impose potentially significant implementation and ongoing compliance burdens on PNC and will introduce additional legal risk (including as a result of newly applicable antifraud and anti-manipulation provisions and private rights of action).

New provisions under Dodd-Frank concerning the applicability of state consumer protection laws to national banks, such as PNC Bank, N.A., became effective in 2011. Questions may arise as to whether certain state consumer financial laws that may have previously been preempted by federal law are no longer preempted as a result of the effectiveness of these new provisions. Depending on how such questions are resolved, we may experience an increase in state-level regulation of our retail banking business and additional compliance obligations, revenue impacts and costs. In addition, provisions under Dodd-Frank that also took effect in 2011 permit state attorneys general to bring civil actions against national banks, such as PNC Bank, N.A., for violations of law, as well as regulations issued by the CFPB.

Dodd-Frank requires bank holding companies that have $50 billion or more in assets, such as PNC, to periodically submit to the Federal Reserve, the FDIC and the FSOC a resolution plan that includes, among other things, an analysis of how the company could be resolved in a rapid and orderly fashion if the company were to fail or experience material financial

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distress. The Federal Reserve and the FDIC may jointly impose restrictions on PNC, including additional capital requirements or limitations on growth, if the agencies jointly determine that the company s plan is not credible or would not facilitate a rapid and orderly resolution of PNC under the U.S. Bankruptcy Code, and additionally could require PNC to divest assets or take other actions if we did not submit an acceptable resolution plan within two years after any such restrictions were imposed. The FDIC also has adopted a rule that requires large insured depository institutions, including PNC Bank, N.A., to periodically submit a resolution plan to the FDIC that includes, among other things, an analysis of how the institution could be resolved under the Federal Deposit Insurance Act (FDI Act) in a manner that protects depositors and limits losses or costs to creditors of the bank in accordance with the FDI Act. PNC and PNC Bank, N.A. must file their first plans under these rules by December 31, 2013. Depending on how the agencies conduct their review of the resolution plans submitted by PNC and PNC Bank, N.A., it is possible that these requirements could affect the ways in which PNC structures and conducts its business and result in higher compliance and operating costs.

Other provisions of Dodd-Frank will affect regulatory oversight, holding company capital requirements, and residential mortgage products.

While much of how the Dodd-Frank and other financial industry reforms will change our current business operations depends on the specific regulatory promulgations and interpretations, many of which have yet to be released or finalized, it is clear that the reforms, both under Dodd-Frank and otherwise, will have a significant effect on our entire industry. Although Dodd-Frank and other reforms will affect a number of the areas in which we do business, it is not clear at this time the full extent of the adjustments that will be required and the extent to which we will be able to adjust our businesses in response to the requirements. Although it is difficult to predict the magnitude and extent of these effects at this stage, we believe compliance with Dodd-Frank and its implementing regulations and other initiatives will continue to negatively impact revenue, at least to some extent, and increase the cost of doing business, both in terms of transition expenses and on an ongoing basis, and may also limit our ability to pursue certain desirable business opportunities.

New capital and liquidity standards will result in banks and bank holding companies needing to maintain more and higher quality capital and greater liquidity than has historically been the case.

New and evolving capital and liquidity standards will have a significant effect on banks and bank holding companies, including PNC. These evolving standards include the

proposals issued by the U.S. banking agencies in June 2012 to implement the Basel III capital framework in the United States and revise the framework for the risk-weighting of assets under Basel I. The Basel III proposed rules would, among other things, narrow the definition of regulatory capital, require the phase-out of trust preferred securities from Tier 1 regulatory capital, establish a new Tier 1 common capital requirement for banking organizations and revise the capital levels at which a bank would be subject to prompt corrective action. As of December 31, 2012, PNC had $331 million of trust preferred securities included in Tier 1 capital which, under these rules and Dodd-Frank, will no longer qualify as Tier 1 capital over time to the extent they remain outstanding. The proposed rules also would require that unconsolidated investments in financial entities (potentially including PNC s investment in BlackRock), as well as mortgage servicing rights and deferred tax assets, above certain thresholds be deducted from regulatory capital and significantly limit the extent to which minority interests in consolidated subsidiaries (including minority interests in the form of REIT preferred securities) may be included in regulatory capital. As of December 31, 2012, PNC had approximately $1.4 billion of REIT preferred securities outstanding. PNC has submitted the necessary redemption notice to redeem $375 million of this amount on March 15, 2013, as discussed further in the Capital and Liquidity Actions portion of the Executive Summary section in Item 7 of this Report. In addition, the proposed rules would remove the filter that currently excludes unrealized gains and losses (other than those resulting from other-than-temporary impairments) on available for sale debt securities from affecting regulatory capital, which could increase the volatility of regulatory capital of banking organizations, including PNC. When fully phased-in on January 1, 2019, the Basel III rules would require that banking organizations maintain a minimum Tier 1 common ratio of 4.5%, a Tier 1 capital ratio of 6.0%, a total capital ratio of 8.0% and a leverage ratio of 4%. Moreover, the proposed rules, when fully phased-in, would require banking organizations, including PNC, to maintain a minimum Tier 1 common ratio of 7.0%, a Tier 1 capital ratio of 8.5%, and a total capital ratio of 10.5% to avoid limitations on capital distributions (including common stock dividends and share repurchases) and certain discretionary incentive compensation payments. For banking organizations subject to the Basel II advanced approaches (such as PNC), these levels could be supplemented by an additional countercyclical capital buffer of up to an additional 2.5% during periods of excessive credit growth, although this buffer is proposed to initially be set at zero in the United States. Such organizations would also be subject to a new supplementary leverage ratio that would take into account certain off-balance sheet items.

The proposed rules issued in June 2012 that would revise the Basel I risk-weighting framework (referred to as the standardized approach) and the Basel II risk-weighting framework (referred to as the advanced approaches) would replace the use of credit ratings with alternative

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methodologies for assessing creditworthiness and establish a new framework (referred to as the Simplified Supervisory Framework Approach) for risk-weighting securitization exposures (such as privately issued mortgage-backed securities and asset-backed securities). The standardized approach also would, among other things, significantly revise the risk weight assigned to residential mortgages (with risk weights changing from between 50% to 100% to between 35% and 200%) and increase the risk weight applicable to certain types of commercial real estate loans under Basel I. The advanced approaches rule would, among other things, significantly alter the methodology for determining counterparty credit risk weights, including the establishment of a credit valuation adjustment for counterparty risk in over-the-counter (OTC) derivative transactions, under Basel II.

The Basel III framework adopted by the Basel Committee also includes new short-term liquidity standards (the Liquidity Coverage Ratio) and long-term funding standards (the Net Stable Funding Ratio). The Liquidity Coverage Ratio, which is scheduled to begin to take effect on January 1, 2015 and be fully phased in by January 1, 2019, is designed to ensure that banking organizations maintain an adequate level of cash, or other high quality and unencumbered liquid assets that can readily be converted to cash, to meet estimated liquidity needs in a stress scenario lasting 30 days. The Basel Committee has defined the types of assets that would qualify as high quality liquid assets, and also has established various assumptions regarding cash outflows and inflows during the 30-day stress period, for purposes of the Liquidity Coverage Ratio. The Net Stable Funding Ratio is designed to promote a stable maturity structure of assets and liabilities of banking organizations over a one-year time horizon. The Net Stable Funding Ratio is scheduled to take effect by January 1, 2018 but continues to undergo review by the Basel Committee.

In November 2011, the Basel Committee also adopted a framework that would require globally systemically important banks (G-SIBs) to maintain additional Tier 1 common capital ranging between 1.0% to 2.5% of risk-weighted assets, with the actual required amount varying based on the firm s global systemic importance as determined using five criteria (size, interconnectedness, lack of substitutability, cross-jurisdictional activity, and complexity). The Federal Reserve has indicated that it expects to propose a capital surcharge in the United States based on the Basel Committee s G-SIB framework. While these rules have not yet been proposed, and the identity of the banking organizations that would be subject to a surcharge as a G-SIB definitively determined, PNC believes that it is unlikely to be deemed a G-SIB based on the criteria included in the Basel Committee s framework. Dodd-Frank directs the Federal Reserve to establish heightened risk-based and leverage capital requirements and liquidity requirements for bank holding companies, like PNC, that have $50 billion or more in assets. The Basel Committee also has adopted an analytical framework for national jurisdictions to use in determining whether to apply a capital surcharge to

firms that may be systemically important on a domestic basis (D-SIBs), but that are not G-SIBs. The Federal Reserve has stated that it is still considering whether to impose an additional capital surcharge on bank holding companies that have $50 billion or more in consolidated total assets, but that are not subject to a G-SIB surcharge.

Because proposals by the U.S. agencies to implement the Basel III capital standards and revise the Basel I risk-weighting framework have not been finalized, and any additional heightened capital or liquidity standards that may be established by the Federal Reserve under Basel III or Dodd-Frank (such as, for example, a D-SIB surcharge) remain subject to rulemaking in the U.S., the full effect of these standards on PNC s regulatory capital and liquidity, both during and after any applicable phase-in periods, is uncertain at this time.

The need to maintain more and higher quality capital, as well as greater liquidity, going forward than historically has been required could limit PNC s business activities, including lending, and its ability to expand, either organically or through acquisitions. It could also result in PNC taking steps to increase its capital that may be dilutive to shareholders or being limited in its ability to pay dividends or otherwise return capital to shareholders, or selling or refraining from acquiring assets, the capital requirements for which are inconsistent with the assets underlying risks. In addition, the new liquidity standards could require PNC to increase its holdings of highly liquid short-term investments, thereby reducing PNC s ability to invest in longer-term or less liquid assets even if more desirable from a balance sheet management perspective. Moreover, although these new requirements are being phased in over time, U.S. federal banking agencies have been taking into account expectations regarding the ability of banks to meet these new requirements, including under stressed conditions, in approving actions that represent uses of capital, such as dividend increases, share repurchases and acquisitions.

Our lending and servicing businesses and the value of the loans and debt securities we hold may be adversely affected by economic conditions, including a reversal or slowing of the current moderate recovery. Downward valuation of debt securities could also negatively impact our capital position.

Given the high percentage of our assets represented directly or indirectly by loans, and the importance of lending to our overall business, weak economic conditions are likely to have a negative impact on our business and our results of operations. This could adversely impact loan utilization rates as well as delinquencies, defaults and customer ability to meet obligations under the loans. This is particularly the case during the period in which the aftermath of recessionary conditions continues and the positive effects of economic recovery appear to be slow to materialize and unevenly spread among our customers.

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

We have historically not considered government insured or guaranteed loans to be higher risk loans as defaults are materially mitigated by payments of insurance or guaranteed amounts for approved claims by the applicable government agency. While the level of claim denials by government agencies, including the Department of Housing and Urban Development, has historically been low, if financial conditions prompt government agencies to deny or curtail an increasing number of these claims, we could face additional losses in our lending business. In addition, in the event that submitted claims are denied or curtailed as a result of our failure as a servicer of the loan to adhere to applicable agency servicing guidelines, we will be required to remit the difference between the claims proceeds that should have been received and the claim amounts actually received to the holder of the loan.

A failure to sustain reduced amounts of the provision for credit losses, which has benefitted results of operations in recent periods, could result in decreases in net income.

As was typical in the banking industry, the economic downturn that started in 2007 resulted in PNC experiencing high levels of provision for credit losses. In 2009, PNC reported provision for credit losses totaling $3.9 billion. Subsequently, in part due to improvement in economic conditions, as well as actions taken by PNC to manage its portfolio, PNC s provision for credit losses has declined substantially, to $2.5 billion in 2010, $1.2 billion in 2011 and $1.0 billion in 2012. This decline in provision for credit losses has been a major contributor to PNC s ability to maintain and grow its net income during this period. As the provision for credit losses stabilizes, there may not be as much opportunity as there has been for declining provision to help PNC maintain and grow net income. In addition, if PNC s provision for credit losses were to rise back towards levels experienced during the height of the economic downturn, it would have an adverse effect on PNC s net income and could result in lower levels of net income than PNC has reported in recent periods.

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

Although many of our businesses are national in scope, our retail banking business is concentrated within our retail branch network footprint, located principally in our primary geographic markets. Thus, we are particularly vulnerable to adverse changes in economic conditions in the Mid-Atlantic, Midwest, and Southeast regions.

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

As most of our assets and liabilities are financial in nature, we tend to be particularly sensitive to the performance of the financial markets. Turmoil and volatility in U.S. and global financial markets, such as that experienced during the recent financial crisis, can be a major contributory factor to overall weak economic conditions, leading to some of the risks discussed above, including the impaired ability of borrowers and other counterparties to meet obligations to us. Financial market volatility also can have some of the following adverse effects on PNC and our business and financial performance.

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

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

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

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

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

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

PNC faces legal and regulatory risk arising out of its residential mortgage businesses.

Numerous federal and state governmental, legislative and regulatory authorities are investigating practices in the business of mortgage and home equity loan lending and servicing and in the mortgage-related insurance and reinsurance industries. PNC has received inquiries from governmental, legislative and regulatory authorities on these topics and is responding to these inquiries. These inquiries and investigations could lead to administrative, civil or criminal proceedings, possibly resulting in remedies including fines, penalties, restitution, alterations in our business practices and additional expenses and collateral costs.

In addition to governmental or regulatory inquiries and investigations, PNC, like other companies with residential mortgage and home equity loan origination and servicing operations, faces the risk of class actions, other litigation and claims from: the owners of, investors in, or purchasers of such loans originated or serviced by PNC (or securities backed by such loans), homeowners involved in foreclosure proceedings or various mortgage-related insurance programs, downstream purchasers of homes sold after foreclosure, title insurers, and other potential claimants. Included among these claims are claims from purchasers of mortgage and home equity loans seeking the repurchase of loans where the loans allegedly breached origination covenants and representations and warranties made to the purchasers in the purchase and sale agreements.

At this time PNC cannot predict the ultimate overall cost to or effect upon PNC from governmental, legislative or regulatory actions and private litigation or claims arising out of residential mortgage and home equity loan lending, servicing or reinsurance practices, although such actions, litigation and claims could, individually or in the aggregate, result in significant expense. See Note 23 Legal Proceedings and Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information regarding federal and state governmental, legislative and regulatory inquiries and investigations and additional information regarding potential repurchase obligations relating to mortgage and home equity loans.

Moreover, the CFPB recently issued final regulations that impose new requirements relating to our residential mortgage origination practices and servicing practices. These regulations are not yet in effect, but we are in the processes of implementing them. We cannot predict at this time the overall cost of implementing these requirements, but implementation is likely to result in significant expense.

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The issues described above may affect the value of our ownership interests, direct or indirect, in property subject to foreclosure. In addition, possible delays in the schedule for processing foreclosures may result in an increase in nonperforming loans, additional servicing costs and possible demands for contractual fees or penalties under servicing agreements.

There is also a continuing risk of incurring costs related to further remedial and related efforts required by the consent orders and related to repurchase requests arising out of either the foreclosure process or origination issues. Reputational damage arising out of this industry-wide inquiry could also have an adverse effect upon our existing mortgage and home equity loan business and could reduce future business opportunities.

One or more of the foregoing could adversely affect PNC s business, financial condition, results of operations or cash flows.

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

Acquisitions of other financial services companies, financial services assets and related deposits and other liabilities present risks and uncertainties to PNC in addition to those presented by the nature of the business acquired.

In general, acquisitions may be substantially more expensive to complete than anticipated (including unanticipated costs incurred in connection with the integration of the acquired company). Anticipated benefits (including anticipated cost savings and strategic gains) may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events.

Our ability to achieve anticipated results from acquisitions is often dependent also on the extent of credit losses in the acquired loan portfolios and the extent of deposit attrition, which are, in part, related to the state of economic and financial markets. Also, litigation and governmental investigations that may be filed or commenced, as a result of an acquisition or otherwise, could impact the timing or realization of anticipated benefits to PNC.

Integration of an acquired company s business and operations into PNC, including conversion of the acquired company s different systems and procedures, may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to the acquired company s or PNC s existing businesses. In some cases, acquisitions involve our entry into new businesses or new geographic or other markets, and these situations also present risks and uncertainties in instances where we may be inexperienced in these new areas.

Our ability to analyze the risks presented by prospective acquisitions, as well as our ability to prepare in advance of closing for integration, depends, in part, on the information we can gather with respect to the target, which is more limited than the information we have regarding companies we already own.

As a regulated financial institution, our ability to pursue or complete attractive acquisition opportunities could be negatively impacted by regulatory delays or other regulatory issues. In addition, legal and regulatory or other governmental proceedings, claims, investigations or inquiries relating to pre-acquisition business and activities of acquired companies may result in future monetary judgments or settlements or other remedies, including damages, fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to PNC. The processes of integrating acquired businesses, as well as the deconsolidation of divested businesses, also pose many additional possible risks which could result in increased costs, liability or other adverse consequences to PNC. Note 23 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report describes several legal proceedings related to pre-acquisition activities of companies we have acquired, including National City. Other such legal proceedings may be commenced in the future.

The soundness of other financial institutions could adversely affect us.

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

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

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

In all, the principal bases for competition are pricing (including the interest rates charged on loans or paid on interest-bearing deposits), product structure, the range of products and services offered, and the quality of customer service (including convenience and responsiveness to customer needs and concerns). The ability to access and use technology is an increasingly important competitive factor in the financial services industry, and it is a critically important component to customer satisfaction as it affects our ability to deliver the right products and services.

Another increasingly competitive factor in the financial services industry is the competition to attract and retain talented employees across many of our business and support areas. This competition leads to increased expenses in many business areas and can also cause us to not pursue certain business opportunities.

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

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

Asset management revenue is primarily based on a percentage of the value of the assets and thus is impacted by general changes in market valuations, customer preferences and needs. In addition, investment performance is an important factor influencing the level of assets. Poor investment performance could impair revenue and growth as existing clients might withdraw funds in favor of better performing products. Additionally, the ability to attract funds from existing and new clients might diminish. Overall economic conditions may limit

the amount that customers are able or willing to invest as well as the value of the assets they do invest.

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

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

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

Our businesses are subject to regulation by multiple bank regulatory bodies as well as multiple securities industry regulators. Applicable laws and regulations restrict our ability to repurchase stock or to receive dividends from subsidiaries that operate in the banking and securities businesses and impose capital adequacy requirements. PNC s ability to service its obligations is dependent on the receipt of dividends and advances from its subsidiaries. Applicable laws and regulations also restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, and for the protection of customer information, among other things. We are also subject to laws and regulations designed to combat money laundering, terrorist financing, and transactions with persons, companies or foreign governments designated by U.S. authorities. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions as well as damage to our reputation and businesses.

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

Due to the current economic environment and issues facing the financial services industry, we anticipate that there will be new legislative and regulatory initiatives over the next several years, including many focused specifically on banking and other financial services in which we are engaged. These initiatives will be in addition to the actions already taken by Congress and the regulators, through enactment of the Credit CARD Act, the SAFE Act, and Dodd-Frank, as well as changes to the regulations implementing the Real Estate Settlement Procedures Act, the Federal Truth in Lending Act,

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and the Electronic Fund Transfer Act. Legislative and regulatory initiatives have had and are likely to continue to have an impact on the conduct of our business. This impact could include rules and regulations that affect the nature and profitability of our business activities, how we use our capital, how we compensate and incent our employees, the type and amount of instruments we hold for liquidity purposes, and other matters potentially having a negative effect on our overall business results and prospects.

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

Our ability to pay dividends to shareholders is largely dependent on dividends from our operating subsidiaries, principally PNC Bank, N.A. Banks are subject to regulation that limits and governs the payout of dividends to their holding companies.

We discuss these and other regulatory issues applicable to PNC, including some particular areas of current regulatory focus or concern, in the Supervision and Regulation section included in Item 1 of this Report and in Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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

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

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

period earnings. In some cases, changes may be applied to previously reported disclosures.

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

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

Our asset valuation may include methodologies, estimations and assumptions that are subject to differing interpretations and this, along with market factors such as volatility in one or more markets, could result in changes to asset valuations that may materially adversely affect our results of operations or financial condition.

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

During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be more difficult to value certain of our assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were historically in active markets with significant observable data that rapidly become illiquid due to market volatility, a loss in market confidence or other factors. In such cases, valuations in certain asset classes may require

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more subjectivity and management judgment; valuations may include inputs and assumptions that are less observable or require greater estimation. Further, rapidly changing and unprecedented market conditions in any particular market (e.g. credit, equity, fixed income, foreign exchange) could materially impact the valuation of assets as reported within our consolidated financial statements, and the period-to-period changes in value could vary significantly.

There are risks resulting from the extensive use of models in our business.

PNC relies on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, and calculating regulatory capital levels, as well as to estimate the value of financial instruments and balance sheets items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating models will be adversely affected due to the inadequacy of that information. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our shareholders, could be affected adversely due to their perception that the quality of the models used to generate the relevant information is insufficient. See the Model Risk Management portion of the Risk Management section included in Item 7 of this Report.

We are subject to operational risk.

Like all businesses, we are subject to operational risk, which represents the risk of loss resulting from inadequate or failed internal processes and systems, human error and external events. Operational risk also encompasses technology, compliance and legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards, as well as the risk of our noncompliance with contractual and other obligations. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to perform operational functions necessary to our business. Although we seek to mitigate operational risk through a system of internal controls which we review and update, no system of controls, however well designed and maintained, is infallible. Control weaknesses or failures or other operational risks could result in charges, increased operational costs, harm to our reputation or foregone business opportunities.

We continually encounter technological change and we could falter in our ability to remain competitive in this arena.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our continued success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that satisfy customer demands and create efficiencies in our operations. We may not be able to effectively implement new technology-driven products and services that allow us to remain competitive or be successful in marketing these products and services to our customers.

Our information systems may experience interruptions or breaches in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in disruptions to our accounting, deposit, loan and other systems, and adversely affect our customer relationships. While we have policies, procedures and systems designed to prevent or limit the effect of these possible events, there remains the risk that such a failure, interruption or security breach might occur and, if it does occur, that it might not be sufficiently remediated.

Recently, there have been several well-publicized series of apparently related denial of service attacks on large financial services companies, including PNC. In a denial of service attack, hackers flood commercial websites with extraordinarily high volumes of traffic, with the goal of disrupting the ability of commercial enterprises to process transactions and possibly making their websites unavailable to customers for extended periods of time. The recent attacks against PNC resulted in temporary disruptions in customers ability to access the corporate website and to perform on-line banking transactions, although no customer data was lost or compromised. Furthermore, even if not directed at PNC specifically, attacks on other entities with whom we do business or on whom we otherwise rely or attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of PNC s business.

In addition, there have been increasing efforts on the part of third parties to breach data security at financial institutions or with respect to financial transactions, including through the use of social engineering schemes such as phishing. The ability of our customers to bank remotely, including online and through mobile devices, requires secure transmission of confidential information and increases the risk of data security breaches.

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Because the techniques used to attack financial services company communications and information systems change frequently (and generally increasing in sophistication), often are not recognized until launched against a target, may be supported by foreign governments or other well-financed entities, and may originate from less regulated and remote areas around the world, we may be unable to address these techniques in advance of attacks, including by implementing adequate preventative measures.

Despite temporary disruptions in our ability to provide products and services to our customers, to date these efforts have not had a material impact on PNC. Nonetheless, the occurrence of any such failure, interruption or security breach of our systems, particularly if widespread or resulting in financial losses to our customers, could damage the reputation of PNC, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and financial liability. In addition, the increasing prevalence of cyberattacks and other efforts to breach or disrupt our systems has led, and we expect will continue to lead, to increased costs to PNC with respect to prevention and mitigation of these risks, as well as costs reimbursing customers for losses suffered as a result of these actions. Successful attacks or systems failures at other large financial institutions, whether or not PNC is included, could lead to a general loss of customer confidence in financial institutions with a potential negative impact on PNC s business, additional demands on the part of our regulators, and increased costs to deal with risks identified as a result of the problems affecting others.

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

Many aspects of our business involve substantial risk of legal liability. We have been named or threatened to be named as defendants in various lawsuits arising from our business activities (and in some cases from the activities of companies we have acquired). In addition, we are regularly the subject of governmental investigations and other forms of regulatory inquiry. We also are at risk when we have agreed to indemnify others for losses related to legal proceedings, including litigation and governmental investigations and inquiries, they face, such as in connection with the sale of a business or assets by us. The results of these legal proceedings could lead to significant monetary damages or penalties, restrictions on the way in which we conduct our business, or reputational harm.

Although we establish accruals for legal proceedings when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated, we do not have accruals for all legal proceedings where we face a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, amounts accrued may not represent the ultimate loss to us from the legal proceedings in question. Thus, our ultimate

losses may be higher, and possibly significantly so, than the amounts accrued for legal loss contingencies.

We discuss further the unpredictability of legal proceedings and describe some of our pending legal proceedings in Note 23 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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

Neither the occurrence nor the potential impact of disasters (such as earthquakes, hurricanes, tornadoes, floods, fires, explosions, and other severe weather conditions or catastrophic accidents), terrorist activities and international hostilities can be predicted. However, these occurrences could impact us directly (for example, by causing significant damage to our facilities or preventing us from conducting our business in the ordinary course), or indirectly as a result of their impact on our borrowers, depositors, other customers, suppliers or other counterparties. We could also suffer adverse consequences to the extent that disasters, terrorist activities or international hostilities affect the financial markets or the economy in general or in any particular region. These types of impacts could lead, for example, to an increase in delinquencies, bankruptcies or defaults that could result in our experiencing higher levels of nonperforming assets, net charge-offs and provisions for credit losses.

Our ability to mitigate the adverse consequences of such occurrences is in part dependent on the quality of our resiliency planning, and our ability, if any, to anticipate the nature of any such event that occurs. The adverse impact of disasters or terrorist activities or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon but have no control over.

ITEM 1B UNRESOLVED STAFF COMMENTS

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

ITEM 2 PROPERTIES

Our executive and primary administrative offices are currently located at One PNC Plaza, Pittsburgh, Pennsylvania. The 30-story structure is owned by PNC Bank, N.A.

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

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Improvements in the Notes To Consolidated Financial Statements in Item 8 of this Report.

ITEM 3 LEGAL PROCEEDINGS

See the information set forth in Note 23 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated here by reference.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding each of our executive officers as of February 22, 2013 is set forth below. Executive officers do not have a stated term of office. Each executive officer has held the position or positions indicated or another executive position with the same entity or one of its affiliates for the past five years unless otherwise indicated below.

Name	Age	Position with PNC	Year Employed (a)
James E. Rohr	64	Chairman and Chief Executive Officer (b)	1972
William S. Demchak	50	President (b)	2002
Joseph C. Guyaux	62	Senior Vice Chairman and Chief Risk Officer	1972
Thomas K. Whitford	56	Vice Chairman	1983
Joan L. Gulley	65	Executive Vice President and Chief Human Resources Officer	1986
Neil F. Hall	64	Executive Vice President	1995
Michael J. Hannon	56	Executive Vice President and Chief Credit Officer	1982
Robert F. Hoyt	48	Executive Vice President, General Counsel, and Chief Regulatory Affairs Officer	2009
Richard J. Johnson	56	Executive Vice President and Chief Financial Officer	2002
Michael P. Lyons	42	Executive Vice President	2011
Saiyid Naqvi	63	Executive Vice President	2009
E. William Parsley, III	47	Executive Vice President, Chief Investment Officer, and Treasurer	2003
Robert Q. Reilly	48	Executive Vice President	1987
Steven Van Wyk	54	Executive Vice President	2013
Gregory H. Kozich	49	Senior Vice President and Controller	2010

(a) Where applicable, refers to year employed by predecessor company.
(b) Mr. Rohr and Mr. Demchak also serve as directors. Biographical information for Mr. Rohr and Mr. Demchak is included in Election of Directors (Item 1) in our proxy statement for the 2013 annual meeting of shareholders. See Item 10 of this Report.

Joseph C. Guyaux was appointed Senior Vice Chairman and Chief Risk Officer in February 2012, prior to which he served as President.

Thomas K. Whitford has served as Vice Chairman since February 2009. He was appointed Chief Administrative Officer in May 2007. From April 2002 through May 2007 and then from November 2009 until April 2010, he served as Chief Risk Officer. Mr. Whitford has announced that he intends to retire from PNC in April 2013.

Joan L. Gulley has served as Chief Human Resources Officer since April 2008. She was appointed Senior Vice President in April 2008 and then Executive Vice President in February 2009. She served as Chief Executive Officer for PNC s wealth management business from 2002 to 2006. From 1998 until April 2008, she served as Executive Vice President of PNC Bank, N.A. and was responsible for product and segment management, as well as advertising and brand management for PNC.

Neil F. Hall has been an Executive Vice President since April 2012 and head of PNC s Retail Banking since February 2012. Prior to being named to his current position, Mr. Hall led the delivery of sales and service to PNC s retail and small business customers, directed branch banking, business banking, community development and PNC Investments. Mr. Hall joined PNC in 1995 and has held various positions within retail banking.

Michael J. Hannon has served as Executive Vice President since February 2009, prior to which he served as Senior Vice President. He has served as Chief Credit Officer since November 2009. From February 2009 to November 2009 he also served as Chief Risk Officer and served as Interim Chief Risk Officer from December 2011 to February 2012.

Robert F. Hoyt has served as General Counsel since June 2012 and as PNC s Chief Regulatory Affairs Officer since May 2009. He served as Senior Deputy General Counsel from October 2009 to May 2012 and as director of business planning from May 2009 to November 2011. He was appointed Executive Vice President in November 2011 and was previously Senior Vice President. From December 2006 to January 2009, Mr. Hoyt served as General Counsel of the U.S. Department of the Treasury.

Richard J. Johnson has served as Chief Financial Officer since August 2005. He was appointed Executive Vice President in February 2009 and was previously Senior Vice President.

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Michael P. Lyons has been an Executive Vice President since November 2011 and is head of Corporate and Institutional Banking. Prior to joining PNC in October 2011, from May 2010 until October 2011, Mr. Lyons was head of corporate development and strategic planning for Bank of America. Prior to joining Bank of America, from September 2004 to May 2010, Mr. Lyons held various positions at Maverick Capital, most recently as a principal focused on financial institutions investments.

Saiyid Naqvi has been an Executive Vice President since April 2012 and has served as Chief Executive Officer of PNC Mortgage since he returned to PNC in 2009. Mr. Naqvi had previously served as Chief Executive Officer of PNC Mortgage from 1993 until its sale in 2001. Prior to returning to PNC in 2009, Mr. Naqvi served as president of Harley Davidson Financial Services Inc.

E. William Parsley, III has served as Treasurer and Chief Investment Officer since January 2004. He was appointed Executive Vice President of PNC in February 2009.

Robert Q. Reilly has served as the head of PNC s Asset Management Group since 2005. Previously, he held numerous management roles in both Corporate Banking and Asset Management. He was appointed Executive Vice President in February 2009.

Steven Van Wyk joined PNC as head of Technology and Operations in January 2013. Prior to joining PNC, Mr. Van Wyk served as Global Chief Operating Officer for ING. He was appointed Executive Vice President of PNC in February 2013.

Gregory H. Kozich has served as a Senior Vice President and Corporate Controller of PNC since 2011. Mr. Kozich joined PNC as Senior Vice President of PNC Bank, N.A. in October 2010. Prior to joining PNC, Mr. Kozich was with Fannie Mae from 2005 until late 2010, most recently serving as its corporate controller.

DIRECTORS OF THE REGISTRANT

The name, age and principal occupation of each of our directors as of February 22, 2013, and the year he or she first became a director is set forth below:

Richard O. Berndt, 70, Managing Partner of Gallagher, Evelius & Jones LLP (*law firm*) (2007)
Charles E. Bunch, 63, Chairman and Chief Executive Officer of PPG Industries, Inc. (*coatings, sealants and glass products*) (2007)
Paul W. Chellgren, 70, Operating Partner, Snow Phipps Group, LLC (*private equity*) (1995)
William S. Demchak, 50, President of PNC (2013)
Kay Coles James, 63, President and Founder of The Gloucester Institute (*non-profit*) (2006)
Richard B. Kelson, 66, President and Chief Executive Officer, ServCo, LLC (*strategic sourcing, supply chain management*) (2002)
Bruce C. Lindsay, 71, Chairman and Managing Member of 2117 Associates, LLC (*business consulting firm)* (1995)
Anthony A. Massaro, 68, Retired Chairman and Chief Executive Officer of Lincoln Electric Holdings, Inc. (*manufacturer of welding and cutting products*) (2002)
Jane G. Pepper, 67, Retired President of the Pennsylvania Horticultural Society (*non-profit*) (1997)
James E. Rohr, 64, Chairman and Chief Executive Officer of PNC (1990)
Donald J. Shepard, 66, Retired Chairman of the Executive Board and Chief Executive Officer of AEGON N.V. (*insurance*) (2007)
Lorene K. Steffes, 67, Independent Business Advisor (*technology and technical services*) (2000)
Dennis F. Strigl, 66, Retired President and Chief Operating Officer of Verizon Communications Inc. (*telecommunications*) (2001)
Thomas J. Usher, 70, Non-executive Chairman of Marathon Petroleum Corporation (*oil and gas industry*) (1992)
George H. Walls, Jr., 70, former Chief Deputy Auditor for the State of North Carolina (2006)
Helge H. Wehmeier, 70, Retired Vice Chairman of Bayer Corporation (*healthcare, crop protection, and chemicals*) (1992)

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PART II

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

(a) (1) Our common stock is listed on the New York Stock Exchange and is traded under the symbol PNC. At the close of business on February 15, 2013, there were 75,100 common shareholders of record.

Holders of PNC common stock are entitled to receive dividends when declared by the Board of Directors out of funds legally available for this purpose. Our Board of Directors may not pay or set apart dividends on the common stock until dividends for all past dividend periods on any series of outstanding preferred stock have been paid or declared and set apart for payment. The Board presently intends to continue the policy of paying quarterly cash dividends. The amount of any future dividends will depend on economic and market conditions, our financial condition and operating results, and other factors, including contractual restrictions and applicable government regulations and policies (such as those relating to the ability of bank and non-bank subsidiaries to pay dividends to the parent company and regulatory capital limitations). The amount of our dividend is also currently subject to the results of the Federal Reserve s 2013 Comprehensive Capital Analysis and Review (CCAR) as part of its supervisory assessment of capital adequacy described under Supervision and Regulation in Item 1 of this Report.

The Federal Reserve has the power to prohibit us from paying dividends without its approval. For further information concerning dividend restrictions and restrictions on loans, dividends or advances from bank subsidiaries to the parent company, see Supervision and Regulation in Item 1 of this Report, Funding and Capital Sources in the Consolidated Balance Sheet Review section, Liquidity Risk Management in the Risk Management section, and Trust Preferred Securities in the Off-Balance Sheet Arrangements And Variable Interest Entities section of Item 7 of this Report, and Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities and Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, which we include here by reference.

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

We include here by reference the information regarding our compensation plans under which PNC equity securities are authorized for issuance as of December 31, 2012 in the table (with introductory paragraph and notes) that appears in Item 12 of this Report.

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

Computershare Trust Company, N.A.

250 Royall Street

Canton, MA 02021

800-982-7652

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

(a)(2) None.

(b) Not applicable.

(c) Details of our repurchases of PNC common stock during the fourth quarter of 2012 are included in the following table:
In thousands, except per share data

2012 period (a)	Total shares purchased (b)	Average price paid per share	Total shares purchased as part of publicly announced programs (c)	Maximum number of shares that may yet be purchased under the programs (c)
October 1 31	13	$ 60.05		22,552
November 1 30	750	$ 55.08	750	21,802
December 1 31	292	$ 55.74	251	21,551
Total	1,055	$ 55.32	1,001	

(a) In addition to the repurchases of PNC common stock during the fourth quarter of 2012 included in the table above, PNC redeemed all 5,001 shares of its Series M Preferred Stock on December 10, 2012 as further described below.

As part of the National City transaction, we established the PNC Non-Cumulative Perpetual Preferred Stock, Series M (the Series M Preferred Stock), which mirrored in all material respects the former National City Non-Cumulative Perpetual Preferred Stock, Series E. On December 10, 2012, PNC issued $500.1 million aggregate liquidation amount (5,001 shares) of the Series M Preferred Stock to the National City Preferred Capital Trust I (the Trust) as required pursuant to the settlement of a Stock Purchase Contract Agreement between the Trust and PNC dated as of January 30, 2008. Immediately upon such issuance, PNC redeemed all 5,001 shares of the Series M Preferred Stock from the Trust on December 10, 2012 at a redemption price equal to $100,000 per share.

(b) Includes PNC common stock purchased under the program referred to in note (c) to this table and PNC common stock purchased in connection with our various employee benefit plans. Note 15 Employee Benefit Plans and Note 16 Stock Based Compensation Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report include additional information regarding our employee benefit plans that use PNC common stock.

(c) Our current stock repurchase program allows us to purchase up to 25 million shares on the open market or in privately negotiated transactions. This program was authorized on October 4, 2007 and will remain in effect until fully utilized or until modified, superseded or terminated. 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 capital and regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, and contractual and regulatory limitations, including the impact of the Federal Reserve s supervisory assessment of capital adequacy program.

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COMMON STOCK PERFORMANCE GRAPH

This graph shows the cumulative total shareholder return (i.e., price change plus reinvestment of dividends) on our common stock during the five-year period ended December 31, 2012, as compared with: (1) a selected peer group of our competitors, called the Peer Group; (2) an overall stock market index, the S&P 500 Index; and (3) a published industry index, the S&P 500 Banks. The yearly points marked on the horizontal axis of the graph correspond to December 31 of that year. The stock performance graph assumes that $100 was invested on January 1, 2008 for the five-year period and that any dividends were reinvested. The table below the graph shows the resultant compound annual growth rate for the performance period.

	Base Period	Assumes $100 investment at Close of Market on December 31, 2007 Total Return = Price change plus reinvestment of dividends					5-Year Compound Growth Rate
	Dec. 07	Dec. 08	Dec. 09	Dec. 10	Dec. 11	Dec. 12	
PNC	100	77.82	85.81	99.37	96.33	99.87	(0.03)%
S&P 500 Index	100	63.00	79.68	91.68	93.61	108.59	1.66 %
S&P 500 Banks	100	52.51	49.05	58.78	52.53	65.28	(8.18)%
Peer Group	100	69.81	75.86	96.52	82.36	99.87	(0.03)%

The Peer Group for the preceding chart and table consists of the following companies: BB&T Corporation; Comerica Inc.; Fifth Third Bancorp; KeyCorp; The PNC Financial Services Group, Inc.; SunTrust Banks, Inc.; U.S. Bancorp; Regions Financial Corporation; Wells Fargo & Company; Capital One Financial, Inc.; Bank of America Corporation; M&T Bank; and JP Morgan Chase and Company. This Peer Group was approved by the Board s Personnel and Compensation Committee (the Committee) for 2012. The Committee has approved the same Peer Group for 2013.

Each yearly point for the Peer Group is determined by calculating the cumulative total shareholder return for each company in the Peer Group from December 31, 2007 to December 31 of that year (End of Month Dividend Reinvestment Assumed) and then using the median of these returns as the yearly plot point.

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

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ITEM 6 SELECTED FINANCIAL DATA

	Year ended December 31				
Dollars in millions, except per share data	2012 (a) (b)	2011 (b)	2010 (b)	2009 (b)	2008
SUMMARY OF OPERATIONS					
Interest income	$ 10,734	$ 10,194	$ 11,150	$ 12,086	$ 6,301
Interest expense	1,094	1,494	1,920	3,003	2,447
Net interest income	9,640	8,700	9,230	9,083	3,854
Noninterest income (c)	5,872	5,626	5,946	7,145	2,442
Total revenue	15,512	14,326	15,176	16,228	6,296
Provision for credit losses (d)	987	1,152	2,502	3,930	1,517
Noninterest expense	10,582	9,105	8,613	9,073	3,685
Income from continuing operations before income taxes and noncontrolling interests	3,943	4,069	4,061	3,225	1,094
Income taxes	942	998	1,037	867	298
Income from continuing operations before noncontrolling interests	3,001	3,071	3,024	2,358	796
Income from discontinued operations (net of income taxes of zero, zero, $338, $54 and $63) (e)			373	45	118
Net income	3,001	3,071	3,397	2,403	914
Less: Net income (loss) attributable to noncontrolling interests	(12)	15	(15)	(44)	32
Preferred stock dividends (f)	177	56	146	388	21
Preferred stock discount accretion and redemptions (f)	4	2	255	56	
Net income attributable to common shareholders (f)	$ 2,832	$ 2,998	$ 3,011	$ 2,003	$ 861
PER COMMON SHARE					
Basic earnings					
Continuing operations	$ 5.36	$ 5.70	$ 5.08	$ 4.30	$ 2.15
Discontinued operations (e)			.72	.10	.34
Net income	$ 5.36	$ 5.70	$ 5.80	$ 4.40	$ 2.49
Diluted earnings					
Continuing operations	$ 5.30	$ 5.64	$ 5.02	$ 4.26	$ 2.10
Discontinued operations (e)			.72	.10	.34
Net income	$ 5.30	$ 5.64	$ 5.74	$ 4.36	$ 2.44
Book value	$ 67.05	$ 61.52	$ 56.29	$ 47.68	$ 39.44
Cash dividends declared	$ 1.55	$ 1.15	$ .40	$ .96	$ 2.61

(a) Includes the impact of RBC Bank (USA), which we acquired on March 2, 2012.

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

(c) Amount for 2009 includes recognition of a $1.1 billion pretax gain on our portion of the increase in BlackRock s equity resulting from the value of BlackRock shares issued in connection with BlackRock s acquisition of Barclays Global Investors (BGI) on December 1, 2009.

(d) Amount for 2008 includes the $504 million conforming provision for credit losses related to our National City acquisition.

(e) Includes results of operations for PNC Global Investment Servicing Inc. (GIS) through June 30, 2010 and the related after-tax gain on sale. We sold GIS effective July 1, 2010, resulting in a gain of $639 million, or $328 million after taxes, recognized during the third quarter of 2010. See Sale of PNC Global Investment Servicing in the Executive Summary section of Item 7 and Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information.

(f) We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of $250 million in the first quarter of 2010. This resulted in a noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share. The Series N Preferred Stock was issued on December 31, 2008.

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.

For information regarding certain business, regulatory and legal risks, see Item 1A Risk Factors, the Risk Management section of Item 7 of this Report, and Note 23 Legal Proceedings and Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information. Also, see the Cautionary Statement Regarding Forward-Looking Information and Critical Accounting Estimates And Judgments sections included in Item 7 of this Report for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See also the Executive Summary section in Item 7 of this Report for additional information affecting financial performance.

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Dollars in millions, except as noted	At or for the year ended December 31 2012 (a) (b)	2011 (b)	2010 (b)	2009 (b)	2008 (c)
BALANCE SHEET HIGHLIGHTS					
Assets	$ 305,107	$ 271,205	$ 264,284	$ 269,863	$ 291,081
Loans	185,856	159,014	150,595	157,543	175,489
Allowance for loan and lease losses	4,036	4,347	4,887	5,072	3,917
Interest-earning deposits with banks	3,984	1,169	1,610	4,488	14,859
Investment securities	61,406	60,634	64,262	56,027	43,473
Loans held for sale	3,693	2,936	3,492	2,539	4,366
Goodwill and other intangible assets	10,869	10,144	10,753	12,909	11,688
Equity investments	10,877	10,134	9,220	10,254	8,554
Noninterest-bearing deposits	69,980	59,048	50,019	44,384	37,148
Interest-bearing deposits	143,162	128,918	133,371	142,538	155,717
Total deposits	213,142	187,966	183,390	186,922	192,865
Transaction deposits (d)	176,705	147,637	134,654	126,244	110,997
Borrowed funds (e)	40,907	36,704	39,488	39,261	52,240
Total shareholders equity	39,003	34,053	30,242	29,942	25,422
Common shareholders equity	35,413	32,417	29,596	22,011	17,490
CLIENT ASSETS (billions)					
Discretionary assets under management	$ 112	$ 107	$ 108	$ 103	$ 103
Nondiscretionary assets under management	112	103	104	102	125
Total assets under administration	224	210	212	205	228
Brokerage account assets (f)	38	34	34	32	29
Total client assets	$ 262	$ 244	$ 246	$ 237	$ 257
SELECTED RATIOS					
Net interest margin (g)	3.94%	3.92%	4.14%	3.82%	3.37%
Noninterest income to total revenue	38	39	39	44	39
Efficiency	68	64	57	56	59
Return on					
Average common shareholders equity	8.31	9.56	10.88	9.78	6.52
Average assets	1.02	1.16	1.28	.87	.64
Loans to deposits	87	85	82	84	91
Dividend payout	29.0	20.2	6.8	21.4	104.6
Tier 1 common	9.6	10.3	9.8	6.0	4.8
Tier 1 risk-based	11.6	12.6	12.1	11.4	9.7
Common shareholders equity to total assets	11.6	12.0	11.2	8.2	6.0
Average common shareholders equity to average assets	11.5	11.9	10.4	7.2	9.6
SELECTED STATISTICS					
Employees	56,285	51,891	50,769	55,820	