

PNC FINANCIAL SERVICES GROUP, INC.

Form 10-K/A

March 14, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K/A**

**AMENDMENT NO. 1**

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

For the fiscal year ended December 31, 2011

Commission file number 001-09718

**THE PNC FINANCIAL SERVICES GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**

(State or other jurisdiction of incorporation or organization)

**25-1435979**

(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:

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

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8.000% Trust Preferred Securities (issued by National City Capital Trust IV)	New York Stock Exchange
6.125% Capital Securities (issued by PNC Capital Trust D)	New York Stock Exchange
7 <sup>3</sup> / <sub>4</sub> % Trust Preferred Securities (issued by PNC Capital Trust E)	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 ☒ 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 ☒

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 ☒ 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 ☒ No ☐

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

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

Large accelerated filer ☒ 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 ☒

The aggregate market value of the registrant's outstanding voting common stock held by nonaffiliates on June 30, 2011, determined using the per share closing price on that date on the New York Stock Exchange of \$59.61, was approximately \$31.3 billion. There is no non-voting common equity of the registrant outstanding.

Number of shares of registrant's common stock outstanding at February 17, 2012: 527,568,487

### 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 2012 annual meeting of shareholders (Proxy Statement) are incorporated by reference into Part III of this Form 10-K.

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<b>EXPLANATORY NOTE</b>	

The PNC Financial Services Group, Inc. is filing this Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed with the Securities and Exchange Commission on February 29, 2011, to amend and restate Item 1 Business and Item 1A Risk Factors to correct typographical errors in these two Items. Each of these typographical errors involved text being inadvertently moved from one location to another in these Items by our outside printer shortly before filing. This Amendment No. 1 restores the inadvertently misplaced text to the proper locations and otherwise makes no changes to the Form 10-K.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, this Amendment No. 1 includes new certifications by our principal executive officer and principal financial officer.

## **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 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 22 Legal Proceedings and Note 23 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 and others in our primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, Kentucky, Florida, Washington, D.C., Delaware, Virginia, Missouri, Wisconsin and Georgia. We also provide certain products and services internationally. At December 31, 2011, our consolidated total assets, deposits and total shareholders' equity were \$271.2 billion, \$188.0 billion and \$34.1 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.

### **PENDING ACQUISITION OF RBC BANK (USA)**

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On June 19, 2011, we entered into a definitive agreement with Royal Bank of Canada and RBC USA Holdco Corporation to acquire RBC Bank (USA), the US retail banking subsidiary of Royal Bank of Canada, for \$3.45 billion. The purchase price is subject to certain adjustments, including adjustments based on the closing date tangible net asset value of RBC Bank (USA), as defined in the definitive agreement. RBC Bank (USA) has approximately \$25 billion in proforma assets as reflected in the definitive agreement to be included in the transaction and more than 400 branches in North Carolina, Florida, Alabama, Georgia, Virginia and South Carolina. The transaction is expected to close in March 2012, subject to remaining customary closing conditions.

### **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

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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 25 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 2011 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 and online banking 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. 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 its customers is driven by providing a broad range of competitive and high quality products and services by a team fully committed to delivering the comprehensive resources of PNC to help each client succeed. Corporate & Institutional Banking's primary goals are to achieve market share growth and enhanced returns by means of expansion and retention of customer relationships and prudent risk and expense management.

**Asset Management Group** includes personal wealth management for high net worth and ultra high net worth clients and institutional asset management. Wealth management products and services include financial 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 planning services. The institutional clients include corporations, unions, municipalities, non-profits, foundations and endowments located primarily 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 advice and investment management 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 its clients, grow its business and deliver solid financial performance with prudent risk and expense management.

**Residential Mortgage Banking** directly originates primarily first lien residential mortgage loans on a nationwide basis with a significant presence within 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 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 loans originated through majority owned affiliates are sold to others.

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Residential Mortgage Banking is focused on adding value to the PNC franchise by building stronger customer relationships, providing quality investment loans, and

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delivering acceptable returns under a moderate risk profile. Our national distribution capability provides volume that drives economies of scale, risk dispersion, and cost-effective extension of the retail banking footprint for cross-selling opportunities.

**BlackRock** is 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. Our investment in BlackRock is a key component of our diversified revenue strategy. BlackRock's ability to increase revenue, earnings and shareholder value over time is predicated on its ability to generate new business in investment management and *BlackRock Solutions* products and services. New business efforts are dependent on BlackRock's ability to achieve clients investment objectives in a manner consistent with their risk preferences and to deliver excellent client service. All of these efforts require the commitment and contributions of BlackRock employees. Accordingly, the ability to attract and retain talented professionals is critical to BlackRock's long-term success.

**Non-Strategic Assets Portfolio** (formerly, Distressed Assets Portfolio) includes commercial residential development loans, cross-border leases, consumer brokered home equity loans, retail mortgages, non-prime mortgages, and residential construction loans. We obtained the majority of these non-strategic assets through acquisitions of other companies, and they fall outside of our core business strategy.

## SUBSIDIARIES

Our corporate legal structure at December 31, 2011 consisted of one domestic subsidiary bank, including its subsidiaries, and approximately 122 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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Short-term borrowings not included as average balances during 2011, 2010 and 2009  
were less than 30% of total shareholders equity at the end of each period.



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### **EUROPEAN EXPOSURE**

As of December 31, 2011, our loans, leases, securities, derivatives, letters of credit, unfunded contractual commitments and other direct financial exposure ( exposure ) with European entities totaled \$2.1 billion of which \$1.6 billion or .59% of our total assets represent outstanding balances. European entities are defined as supranational, sovereign, financial institutions and non-financial entities within the countries that comprise the European Union, European Union candidate countries and other European countries. Of the \$2.1 billion in direct financial exposure, \$357 million are securities issued by AAA-rated sovereigns, \$625 million represents cross-border leases in support of national infrastructure and supported by letters of credit having trigger mechanisms that require collateral in the form of cash or United States Treasury securities, and \$440 million of unfunded contractual commitments primarily to United Kingdom local office commitments for Business Credit corporate customers on a secured basis. There was no individual country where the exposure was greater than .75% of total assets.

We also track other European financial exposures where PNC is appointed as a fronting bank by our clients and we elect to assume the joint probability of default risk. For PNC to incur a loss in these types of indirect exposures, the obligor and the financial counterparty participating bank would need to default. As of December 31, 2011, PNC had \$2.0 billion of indirect exposure where PNC is the fronting bank.

Foreign exposure underwriting and approvals are centralized. Country exposures are monitored and reported on a regular basis. We actively monitor sovereign risk, banking system health, and market conditions and adjust limits as appropriate. We rely on information from internal and external sources including international financial institutions, economists and analysts, industry trade organizations, rating agencies, econometric data analytical service providers, and geopolitical news analysis services.

Among the regions and nations that PNC monitors, we have identified eight countries for which we are more closely monitoring their economic and financial situation. The basis for the increased monitoring includes, but is not limited to, sovereign debt burden, near term financing risk, political instability, GDP trends, balance of payments, market confidence, banking system distress and/or holdings of stressed sovereign debt. The countries identified are: Greece, Ireland, Italy, Portugal, Spain (collectively GIIPS ), Belgium, France and Turkey. Direct and indirect exposure to entities in the GIIPS countries totaled \$181 million as of December 31, 2011 of which \$118 million is direct exposure in the form of cross-border leases within Portugal and indirect exposure primarily composed of \$48 million from letters of credit with strong underlying obligors and \$15 million of unfunded commitments to Spain. Direct and indirect exposure to entities in Belgium, France, and Turkey totaled \$924 million as of December 31, 2011 of which, there is direct exposure of \$75 million in the form of cross-border leases

within Belgium, and \$11 million of 90% Overseas Private Investment Corporation ( OPIC ) guaranteed Turkish loans and indirect exposure primarily composed of \$770 million in letters of credit with strong underlying obligors in France and Belgium.

### **SUPERVISION AND REGULATION**

#### **OVERVIEW**

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

We are subject to numerous governmental regulations, some of which are highlighted below. You should also read Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, included here by reference, for additional information regarding our regulatory matters. Applicable laws and regulations restrict 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 bank subsidiaries, and impose capital adequacy requirements. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions.

In addition, we are subject to comprehensive examination and supervision by, among other regulatory bodies, the Board of Governors of the Federal Reserve System (Federal Reserve) and the Office of the Comptroller of the Currency (OCC), which results in examination reports and ratings (which are not publicly available) that can impact the conduct and growth of our businesses. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity, and various other factors. 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.

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We also are subject to regulation by the Securities and Exchange Commission (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

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appropriate authorities in the foreign jurisdictions in which they do business.

Effective as of July 21, 2011, the Consumer Financial Protection Bureau (CFPB), a new agency established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), assumed responsibility for examining PNC Bank, N.A. and its affiliates (including PNC) for compliance with consumer financial protection laws and enforcing such laws with respect to PNC Bank, N.A. and its affiliates. This authority previously was exercised by the OCC and Federal Reserve. Starting July 21, 2011, the CFPB also assumed 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. After this date, the subsidiaries of PNC Bank, N.A. are generally subject to state consumer protection laws. Additionally, new provisions concerning the applicability of state consumer protection laws to national banks became effective on July 21, 2011. Questions may arise as to whether certain state consumer financial laws may be preempted with respect to PNC Bank, N.A. after this date. We expect to experience an increase in regulation of our retail banking business and additional compliance obligations, revenue and costs impacts.

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, SEC, and other domestic and foreign regulators have broad enforcement powers, and powers to approve, deny, or refuse to act upon our applications or notices to conduct new activities, acquire or divest businesses or assets and deposits, or reconfigure existing operations. Dodd-Frank provides the CFPB with broad enforcement powers over PNC Bank, N.A. and its affiliates with respect to compliance with consumer financial protection laws. The CFPB also has the ability to issue rules that affect a wide range of the consumer financial products and services that we provide.

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 Emergency Economic Stabilization Act of 2008 (EESA), the American Recovery and Reinvestment Act of 2009 (Recovery Act), 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 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, and 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 we can charge for debit card transactions; and establishes new minimum mortgage underwriting standards for residential mortgages.

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 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

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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.

### **BANKING REGULATION AND SUPERVISION**

On November 22, 2011, the Federal Reserve adopted a final rule implementing an annual capital plan review process for domestic bank holding companies (BHCs) that have \$50 billion or more in total consolidated assets. In addition, on that date, the Federal Reserve launched its annual review process, referred to as the Comprehensive Capital Analysis and Review (CCAR), for 2012. In connection with the 2012 CCAR, and as part of the annual capital planning process in future years, the Federal Reserve will undertake a supervisory assessment of the capital adequacy of the BHCs, including PNC, that have \$50 billion or more in total consolidated assets. This capital adequacy assessment will be based on a review of a comprehensive capital plan submitted by each participating BHC to the Federal Reserve. In connection with the 2012 CCAR, PNC filed its capital plan with the Federal Reserve on January 9, 2012.

The Federal Reserve will evaluate PNC's capital plan based on PNC's risk profile and the strength of PNC's internal capital assessment process under the regulatory capital standards currently applicable and in accordance with PNC's plans to address proposed revisions to the regulatory capital framework developed by the Basel Committee on Banking Supervision (Basel III) and as set forth in relevant provisions of Dodd-Frank. The Federal Reserve's evaluation will take into consideration any capital distribution plans, such as plans to pay or increase common stock dividends or to reinstate or increase common stock repurchase programs. In conducting this analysis, the Federal Reserve will consider the projected capital adequacy and performance of PNC under base case and adverse economic scenarios developed by both PNC and the Federal Reserve. After completing its review, the Federal Reserve may object or not object to the firm's proposed capital actions. The Federal Reserve has stated that, after completion of the 2012 CCAR exercise, it expects to publish the Federal Reserve's estimates of certain capital, revenue and loss information under the Federal Reserve's own supervisory stress scenario for each of the largest 19 BHCs participating in the 2012 reviews, including PNC.

PNC expects to receive the Federal Reserve's response (either a non-objection or objection) to the capital plan submitted as part of the 2012 CCAR by the end of the first quarter 2012.

The Basel III capital framework has yet to be finalized by the Federal banking agencies and is therefore subject to further change. Using management's assumptions relevant to calculation of ratios under Basel III, PNC expects its proforma Tier 1 common ratio under Basel III to reach about 8.0 to 8.5 percent during 2013. This estimate is based on available data and information as of December 31, 2011 and on the phase-in of Basel III rules. It also represents our assumptions and interpretations regarding the Basel II advanced measurement approaches regarding the calculation of risk-weighted assets related to credit, operational and market risk. Both our Basel II and Basel III estimates are point in time estimates and will be subject to both further regulatory guidance and clarity, and the refinement of internal estimates and methodologies.

As a result of Dodd-Frank, subsidiaries of PNC Bank, N.A. will be 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.

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 be too big to fail. 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 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.

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

Parent Company Liquidity and Dividends. The principal source of our liquidity at the parent company level is

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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 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated herein by reference. Further information on bank level liquidity and parent company liquidity and on certain contractual restrictions is also available in Liquidity Risk Management in the Risk Management section and Trust Preferred Securities in the Off-Balance Sheet Arrangements and VIEs section of Item 7 of this Report, and in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Under Federal Reserve policy, 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. Consistent with the source of strength policy for subsidiary banks, the Federal Reserve has stated that, as a matter of prudent banking, a bank holding company generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the corporation's capital needs, asset quality and overall financial condition. Further, in providing guidance to the large BHCs participating in the 2012 CCAR, discussed above, the Federal Reserve stated that it expects plans submitted in 2012 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 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 ratio of 7 percent Tier 1 common equity (plus any applicable capital surcharge for globally systemically important banks), to maintain prudent earnings retention policies with a view to meeting the fully-phased in requirement as soon as reasonably possible.

**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 managers, investment companies, insurance companies and banks, also subject to the jurisdiction of various federal and state functional regulators with normal regulatory responsibility for companies in their lines of business.

As subsidiaries of a financial holding company under the GLB Act, our non-bank subsidiaries are 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 financial in nature or incidental to a financial activity. Certain activities, however, are impermissible for a financial subsidiary of a national bank, including insurance underwriting, insurance 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

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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, 2011, PNC Bank, N.A. exceeded the required ratios for classification as well capitalized. For additional discussion of capital adequacy requirements, we refer you to Funding and Capital Sources in the Consolidated Balance Sheet Review section of Item 7 of this Report and to Note 21 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. In addition to the activities that would be permitted to be conducted by a financial subsidiary, national banks (such as PNC Bank, N.A.) and their operating subsidiaries may engage in any activities that are determined by the OCC to be part of or incidental to the business of banking.

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

The Federal Reserve's prior approval is required whenever we propose to acquire all or substantially all of the assets of any bank or thrift, to acquire direct or indirect ownership or control of more than 5% of 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 Board 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; 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 Board 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, 2011, PNC Bank, N.A. was rated Outstanding with respect to CRA.

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

**CFPB Regulation and Supervision.** The Dodd-Frank Act 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**

The SEC is the functional regulator of our registered broker-dealer and investment advisor subsidiaries. The registered broker-dealer subsidiaries are also subject to rules and regulations promulgated by the Financial Industry Regulatory Authority (FINRA), among others.

Several of our subsidiaries are registered with the SEC as investment advisers and provide services to clients, other PNC

affiliates and related entities, including registered investment companies. Under rules adopted under Dodd-Frank, we have been required to register additional subsidiaries as investment advisors to private equity funds. Broker-dealer subsidiaries are subject to the requirements of the Securities Exchange Act of 1934, as amended, and the regulations thereunder. Investment advisor subsidiaries are subject to the requirements of

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the Investment Advisers Act of 1940, as amended, and the

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regulations thereunder. An investment advisor to registered investment companies is also subject to the requirements of the Investment Company Act of 1940, as amended, and the regulations thereunder.

Our broker-dealer and investment advisory subsidiaries also may be subject to state securities laws and regulations. Over the past several years, the SEC and other governmental agencies have been focused on the mutual fund, hedge fund and broker-dealer industries. Congress and the SEC have adopted regulatory reforms and are continuing additional reforms that have increased, and are likely to continue to increase, the extent of regulation of the mutual fund, hedge 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.

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

In addition, Title VII of Dodd-Frank subjects virtually all derivative transactions (swaps) to regulation by either the CFTC (in the case of non security-based swaps) or the SEC (in the case of security-based swaps). This legislation was enacted, among other reasons, to reduce systemic risk, increase transparency, and promote market integrity within the financial system by, among other things: (i) providing for the registration and comprehensive regulation of swap dealers (SDs) and major swap participants (MSPs); (ii) imposing mandatory clearing and trade execution requirements on all standardized swaps, with certain limited exemptions; (iii) creating robust recordkeeping and real-time public data

reporting regimes with respect to swaps; (iv) imposing capital and margin requirements on SDs and MSPs; (v) imposing business conduct requirements on SDs and MSPs in their dealings with counterparties; and (vi) enhancing the CFTC's and SEC's rulemaking and enforcement authorities with respect to SDs and MSPs. Under the rules anticipated under Dodd-Frank, we expect one or more of our subsidiaries to register with the CFTC as a SD for interest rate and foreign exchange swaps and accordingly be subject to all of the new regulations and requirements imposed on a SD with respect to these types of swaps.

## **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
- 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:

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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.

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

### **EMPLOYEES**

Employees totaled 51,891 at December 31, 2011. This total includes 45,940 full-time and 5,951 part-time employees.

### **SEC REPORTS AND CORPORATE GOVERNANCE INFORMATION**

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

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

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

We also make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge on 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](http://www.pnc.com) and you can find this information at [www.pnc.com/secfilings](http://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](http://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](mailto: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](http://www.pnc.com/corporategovernance). Our PNC Code of Business Conduct and Ethics is available on our corporate website at [www.pnc.com/corporategovernance](http://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](http://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 taped audio from such calls or events. When warranted, we will also use our website to expedite public access to time-critical information regarding PNC in advance of distribution of a press release or a filing with the SEC disclosing the same information. You can also find the SEC reports and corporate governance information described in the sections above in the Investor Relations section of our website.

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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.

### **ITEM 1A    ~~RISKS~~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.

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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 credit risk, market risk, liquidity risk, operational risk, model risk, 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 at a slower pace in 2011 than previously anticipated. Job growth has not yet been sufficient to significantly reduce high unemployment in the United States. Consumer and business confidence remains low. 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 global recession and disruption of the financial markets has led to concerns over capital markets access and the solvency of certain European Union member states, including Greece, Portugal, Ireland, Italy and Spain, and of financial institutions that have significant direct or indirect exposure to debt issued by these countries. Certain of the major rating agencies have downgraded the sovereign debt of Greece,

Portugal and Ireland to below investment grade. The sovereign debt of Italy and Spain were also downgraded. These ratings downgrades and implementation of European Union and private sector support programs have increased concerns that other European Union member states could experience similar financial troubles. A failure to adequately address sovereign debt concerns in Europe could hamper economic recovery or contribute to a return to recessionary economic conditions and contribute to severe stress in the financial markets, including in the United States.

On August 5, 2011, Standard & Poors's Rating Services lowered its long term sovereign credit rating on the United States of America from AAA to AA+. It is possible that the downgrade and continued concerns about U.S. fiscal policy and trajectory of the national debt of the U.S. could have severe repercussions on the U.S. and global credit and financial markets, further exacerbate concerns over sovereign debt of other countries and could disrupt economic activity in the U.S. and elsewhere.

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 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 late 2014 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.

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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

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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.

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 from financial abuse. 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 cost and