

June 17, 2009

Research Update:

PNC Financial Services Group Ratings Affirmed At 'A/A-1', Off Watch; Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Research

Ratings List

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Overview

- Industry risk is higher than we had reflected in the past, and we expect earnings performance to deteriorate.
- We affirmed our ratings on PNC Financial Services Group and its subsidiaries.
- PNC enjoys the earnings and capital strength to absorb expected increases in credit losses.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services affirmed its 'A/A-1' counterparty credit rating on PNC Financial Services Group Inc. and those on PNC's subsidiaries, including its 'A+/A-1' counterparty credit rating on PNC Bank N.A., Pittsburgh, PA, the lead bank. The ratings are removed from CreditWatch Negative, where they were placed May 4, 2009. The outlook is stable.

Rationale

Asset quality that, despite cyclical weakening, remains among the best in its peer group supports our current rating on PNC. However, we expect continued asset-quality deterioration through 2010, particularly in commercial real estate and PNC's distressed residential real estate and home equity portfolios. Net charge-offs (NCOs) of about 1% of average loans (annualized) for first-quarter 2009 are much higher than in the past, but still below those of peers. We expect NCOs and provisioning to remain elevated, reflecting environmental weakness. Recent capital raising in excess of \$600 million somewhat mitigates this concern.

Earnings performance has proven resilient and we expect improvement from 2008 levels despite pressures emanating from increased credit losses. Longer term, we expect incremental earnings improvements as PNC realizes cross-sell opportunities in its newly entered Midwest markets.

Although current capital levels do not distinguish PNC from peers, credit-risk management and earning strength enhance capital generation capacity. In addition, PNC's loan portfolio is fully core-funded, resulting in reduced funding and liquidity risks. Finally, PNC's strong business risk profile, which incorporates solid regional and strong revenue diversification, supports current ratings.

Outlook

The stable outlook incorporates our base-case scenario and expectation that PNC's asset quality will continue to deteriorate through 2009, but the bank will remain profitable on a quarterly basis. If, contrary to our current assumptions, housing markets deteriorate to the extent that outsize provisioning or other charges generate operating losses, or if NPAs increase materially relative to tangible common equity, we would likely lower the ratings or revise the outlook to negative. Although we expect the bank to emerge from the credit cycle relatively unscathed and quite possibly in a better competitive position, we do not see any ratings upgrade potential at this time.

Related Research

- "Credit Stress Testing For Financial Institutions," April 29, 2009
- "Risk-Adjusted Capital Framework For Financial Institutions," April 21, 2009
- "Stress Testing U.S. Financial Institutions," April 29, 2009

Ratings List

Ratings Affirmed

PNC Funding Corp.
Senior Unsecured

AAA

Ratings Affirmed; CreditWatch/Outlook Action

PNC Financial Services Group
PNC Funding Corp.

To

From

Counterparty Credit Rating

A/Stable/A-1

A/Watch Neg/A-1

National City Bank, Cleveland, OH

UnitedTrust Bank

PNC Bank, Delaware

PNC Bank N.A., Pittsburgh, PA

Counterparty Credit Rating

A+/Stable/A-1

A+/Watch Neg/A-1

National City Bank, Cleveland, OH

PNC Bank, Delaware

PNC Bank N.A., Pittsburgh, PA

Certificate Of Deposit

Local Currency

A+/A-1

A+/Watch Neg/A-1

PNC Financial Services Group

Senior Unsecured

A

A/Watch Neg

Subordinated

A-

A-/Watch Neg

Preferred Stock

BBB

BBB/Watch Neg

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Commercial Paper	A-1	A-1/Watch Neg
National City Bank, Cleveland, OH		
Senior Unsecured	A+	A+/Watch Neg
Subordinated	A	A/Watch Neg
National City Capital Trust IV		
Junior Subordinated	BBB	BBB/Watch Neg
PFGI Capital Corp.		
Preferred Stock	BBB+	BBB+/Watch Neg
PNC Bank N.A., Pittsburgh, PA		
Senior Unsecured	A+	A+/Watch Neg
Subordinated	A	A/Watch Neg
Commercial Paper	A-1	A-1/Watch Neg
PNC Capital Trust C		
PNC Capital Trust D		
PNC Capital Trust E		
PNC Institutional Capital Trust B		
PNC Preferred Funding Trust I		
PNC Preferred Funding Trust III		
UNB Capital Trust I		
Preferred Stock	BBB	BBB/Watch Neg
PNC Funding Corp.		
Senior Unsecured	A	A/Watch Neg
Subordinated	A-	A-/Watch Neg
Commercial Paper	A-1	A-1/Watch Neg
PNC Institutional Capital Trust A		
Preferred Stock	BBB+	BBB+/Watch Neg

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