

WALT DISNEY CO/
Form 10-Q
May 10, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended Commission File Number 1-11605
April 2, 2016

Incorporated in Delaware I.R.S. Employer Identification
No. 95-4545390
500 South Buena Vista Street, Burbank, California 91521
(818) 560-1000

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 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 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 (Check one).

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

Non-accelerated filer (do not check if smaller reporting company) 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

There were 1,622,440,708 shares of common stock outstanding as of May 4, 2016.

PART I. FINANCIAL INFORMATION

Item 1: Financial Statements

THE WALT DISNEY COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited; in millions, except per share data)

	Quarter Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Revenues:				
Services	\$11,171	\$10,552	\$23,793	\$21,279
Products	1,798	1,909	4,420	4,573
Total revenues	12,969	12,461	28,213	25,852
Costs and expenses:				
Cost of services (exclusive of depreciation and amortization)	(5,566)	(5,543)	(12,622)	(11,677)
Cost of products (exclusive of depreciation and amortization)	(1,298)	(1,147)	(2,865)	(2,669)
Selling, general, administrative and other	(2,137)	(2,081)	(4,162)	(4,016)
Depreciation and amortization	(605)	(584)	(1,212)	(1,176)
Total costs and expenses	(9,606)	(9,355)	(20,861)	(19,538)
Restructuring and impairment charges	—	—	(81)	—
Interest income/(expense), net	(67)	8	(91)	(50)
Equity in the income of investees	150	206	624	418
Income before income taxes	3,446	3,320	7,804	6,682
Income taxes	(1,170)	(1,092)	(2,618)	(2,210)
Net income	2,276	2,228	5,186	4,472
Less: Net income attributable to noncontrolling interests	(133)	(120)	(163)	(182)
Net income attributable to The Walt Disney Company (Disney)	\$2,143	\$2,108	\$5,023	\$4,290
Earnings per share attributable to Disney:				
Diluted	\$1.30	\$1.23	\$3.04	\$2.50
Basic	\$1.31	\$1.24	\$3.06	\$2.52
Weighted average number of common and common equivalent shares outstanding:				
Diluted	1,643	1,715	1,655	1,716
Basic	1,633	1,699	1,643	1,700
Dividends declared per share	\$—	\$—	\$0.71	\$1.15
See Notes to Condensed Consolidated Financial Statements				

THE WALT DISNEY COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (unaudited; in millions)

	Quarter Ended		Six Months Ended	
	April 2,	March 28,	April 2,	March 28,
	2016	2015	2016	2015
Net income	\$2,276	\$ 2,228	\$5,186	\$ 4,472
Other comprehensive income/(loss), net of tax:				
Market value adjustments for investments	(1)	(54)	(4)	(70)
Market value adjustments for hedges	(204)	129	(229)	264
Pension and postretirement medical plan adjustments	40	34	82	78
Foreign currency translation and other	54	(84)	(59)	(179)
Other comprehensive income/(loss)	(111)	25	(210)	93
Comprehensive income	2,165	2,253	4,976	4,565
Less: Net income attributable to noncontrolling interests	(133)	(120)	(163)	(182)
Less: Other comprehensive (income)/loss attributable to noncontrolling interests	(19)	12	32	32
Comprehensive income attributable to Disney	\$2,013	\$ 2,145	\$4,845	\$ 4,415
See Notes to Condensed Consolidated Financial Statements				

THE WALT DISNEY COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited; in millions, except per share data)

	April 2, 2016	October 3, 2015
ASSETS		
Current assets		
Cash and cash equivalents	\$5,015	\$4,269
Receivables	8,874	8,019
Inventories	1,352	1,571
Television costs and advances	977	1,170
Deferred income taxes	—	767
Other current assets	781	962
Total current assets	16,999	16,758
Film and television costs	6,484	6,183
Investments	3,247	2,643
Parks, resorts and other property		
Attractions, buildings and equipment	43,577	42,745
Accumulated depreciation	(25,857)	(24,844)
	17,720	17,901
Projects in progress	7,454	6,028
Land	1,247	1,250
	26,421	25,179
Intangible assets, net	7,052	7,172
Goodwill	27,817	27,826
Other assets	2,244	2,421
Total assets	\$90,264	\$88,182
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and other accrued liabilities	\$7,252	\$7,844
Current portion of borrowings	5,755	4,563
Unearned royalties and other advances	4,066	3,927
Total current liabilities	17,073	16,334
Borrowings	15,367	12,773
Deferred income taxes	4,044	4,051
Other long-term liabilities	5,770	6,369
Commitments and contingencies (Note 10)		
Equity		
Preferred stock, \$.01 par value, Authorized – 100 million shares, Issued – none	—	—
Common stock, \$.01 par value, Authorized – 4.6 billion shares, Issued – 2.9 billion shares at April 2, 2016 and 2.8 billion shares at October 3, 2015	35,448	35,122
Retained earnings	62,870	59,028
Accumulated other comprehensive loss	(2,599)	(2,421)
	95,719	91,729
Treasury stock, at cost, 1.2 billion shares	(51,595)	(47,204)
Total Disney Shareholders' equity	44,124	44,525
Noncontrolling interests	3,886	4,130
Total equity	48,010	48,655
Total liabilities and equity	\$90,264	\$88,182

See Notes to Condensed Consolidated Financial Statements

4

THE WALT DISNEY COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited; in millions)

	Six Months Ended	
	April 2, 2016	March 28, 2015
OPERATING ACTIVITIES		
Net income	\$5,186	\$ 4,472
Depreciation and amortization	1,212	1,176
Gains on sales of investments	(27)	(56)
Deferred income taxes	797	202
Equity in the income of investees	(624)	(418)
Cash distributions received from equity investees	383	349
Net change in film and television costs and advances	35	(33)
Equity-based compensation	205	213
Other	124	175
Changes in operating assets and liabilities:		
Receivables	(542)	(208)
Inventories	218	129
Other assets	63	(110)
Accounts payable and other accrued liabilities	(746)	(847)
Income taxes	(522)	(271)
Cash provided by operations	5,762	4,773
INVESTING ACTIVITIES		
Investments in parks, resorts and other property	(2,556)	(1,905)
Sales of investments	42	81
Acquisitions	(400)	—
Other	(124)	(3)
Cash used in investing activities	(3,038)	(1,827)
FINANCING ACTIVITIES		
Commercial paper borrowings, net	709	1,954
Borrowings	3,766	117
Reduction of borrowings	(626)	(1,953)
Dividends	(1,168)	(1,948)
Repurchases of common stock	(4,391)	(1,788)
Proceeds from exercise of stock options	160	235
Contributions from noncontrolling interest holders	—	829
Other	(431)	209
Cash used in financing activities	(1,981)	(2,345)
Impact of exchange rates on cash and cash equivalents	3	(277)
Change in cash and cash equivalents	746	324
Cash and cash equivalents, beginning of period	4,269	3,421
Cash and cash equivalents, end of period	\$5,015	\$ 3,745
See Notes to Condensed Consolidated Financial Statements		

THE WALT DISNEY COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
 (unaudited; in millions)

	Quarter Ended April 2, 2016			March 28, 2015		
	Disney Shareholders	Non- controlling Interests	Total Equity	Disney Shareholders	Non- controlling Interests	Total Equity
Beginning balance	\$43,958	\$ 4,240	\$48,198	\$44,165	\$ 3,628	\$47,793
Comprehensive income	2,013	152	2,165	2,145	108	2,253
Equity compensation activity	194	—	194	244	—	244
Common stock repurchases	(2,039)	—	(2,039)	(485)	—	(485)
Contributions	—	—	—	—	478	478
Distributions and other	(2)	(506)	(508)	(31)	(515)	(546)
Ending balance	\$44,124	\$ 3,886	\$48,010	\$46,038	\$ 3,699	\$49,737

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
 (unaudited; in millions)

	Six Months Ended			March 28, 2015		
	April 2, 2016					
	Disney	Non-	Total	Disney	Non-	Total
	Shareholders	controlling	Equity	Shareholders	controlling	Equity
		Interests			Interests	
Beginning balance	\$44,525	\$ 4,130	\$48,655	\$44,958	\$ 3,220	\$48,178
Comprehensive income	4,845	131	4,976	4,415	150	4,565
Equity compensation activity	322	—	322	423	—	423
Dividends	(1,168)	—	(1,168)	(1,948)	—	(1,948)
Common stock repurchases	(4,391)	—	(4,391)	(1,788)	—	(1,788)
Contributions	—	—	—	—	829	829
Distributions and other	(9)	(375)	(384)	(22)	(500)	(522)
Ending balance	\$44,124	\$ 3,886	\$48,010	\$46,038	\$ 3,699	\$49,737

See Notes to Condensed Consolidated Financial Statements

THE WALT DISNEY COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited; tabular dollars in millions, except for per share data)

1. Principles of Consolidation

These Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. We believe that we have included all normal recurring adjustments necessary for a fair presentation of the results for the interim period. Operating results for the six months ended April 2, 2016 are not necessarily indicative of the results that may be expected for the year ending October 1, 2016. Certain reclassifications have been made in the prior-year financial statements to conform to the current-year presentation.

These financial statements should be read in conjunction with the Company's 2015 Annual Report on Form 10-K. The Company enters into relationships or investments with other entities that may be a variable interest entity (VIE). A VIE is consolidated in the financial statements if the Company has the power to direct activities that most significantly impact the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE (as defined by ASC 810-10-25-38). Disneyland Paris, Hong Kong Disneyland Resort (HKDL) and Shanghai Disney Resort (collectively the International Theme Parks) are VIEs. Company subsidiaries (the Management Companies) have management agreements with the International Theme Parks, which provide the Management Companies, subject to certain protective rights of joint venture partners, with the ability to direct the day-to-day operating activities and the development of business strategies that we believe most significantly impact the economic performance of the International Theme Parks. In addition, the Management Companies receive management fees under these arrangements that we believe could be significant to the International Theme Parks. Therefore, the Company has consolidated the International Theme Parks in its financial statements.

The terms "Company," "we," "us," and "our" are used in this report to refer collectively to the parent company and the subsidiaries through which our various businesses are actually conducted.

2. Segment Information

The operating segments reported below are the segments of the Company for which separate financial information is available and for which segment results are evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance. Fiscal 2015 segment financial information has been restated to reflect the combination of the Consumer Products and Interactive segments into a single segment effective at the beginning of fiscal 2016.

Segment operating results reflect earnings before corporate and unallocated shared expenses, restructuring and impairment charges, interest income/(expense), income taxes and noncontrolling interests. Segment operating income includes equity in the income of investees. Corporate and unallocated shared expenses principally consist of corporate functions, executive management and certain unallocated administrative support functions.

Equity in the income of investees is included in segment operating income as follows:

	Quarter Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Media Networks				
Cable Networks	\$175	\$ 223	\$389	\$ 465
Broadcasting	(24)	(18)	(96)	(47)
Equity in the income of investees included in segment operating income	151	205	\$293	\$ 418
Vice Gain	—	—	332	—

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Other	(1) 1	(1) —
Total equity in the income of investees	\$150 \$ 206	\$624 \$ 418

During the six months ended April 2, 2016, the Company recognized its share of a net gain recorded by A&E Television Networks (A&E), a joint venture owned 50% by the Company, in connection with A&E's acquisition of an interest in Vice

8

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

Group Holding, Inc. (Vice) (Vice Gain). The Company's \$332 million share of the Vice Gain is recorded in "Equity in the income of investees" in the Condensed Consolidated Statement of Income but is not included in segment operating income. See Note 3 for further discussion of the transaction.

	Quarter Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Revenues ⁽¹⁾ :				
Media Networks	\$5,793	\$ 5,810	\$12,125	\$ 11,670
Parks and Resorts	3,928	3,760	8,209	7,670
Studio Entertainment	2,062	1,685	4,783	3,543
Consumer Products & Interactive Media	1,186	1,206	3,096	2,969
	\$12,969	\$ 12,461	\$28,213	\$ 25,852
Segment operating income ⁽¹⁾ :				
Media Networks	\$2,299	\$ 2,101	\$3,711	\$ 3,596
Parks and Resorts	624	566	1,605	1,371
Studio Entertainment	542	427	1,556	971
Consumer Products & Interactive Media	357	388	1,217	1,089
	\$3,822	\$ 3,482	\$8,089	\$ 7,027

⁽¹⁾ Studio Entertainment segment revenues and operating income include an allocation of Consumer Products & Interactive Media revenues, which is meant to reflect royalties on sales of merchandise based on certain film properties. The increase to Studio Entertainment revenues and operating income and corresponding decrease to Consumer Products & Interactive Media revenues and operating income totaled \$180 million and \$133 million for the quarters ended April 2, 2016 and March 28, 2015, respectively, and \$442 million and \$278 million for the six months ended April 2, 2016 and March 28, 2015, respectively.

A reconciliation of segment operating income to income before income taxes is as follows:

	Quarter Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Segment operating income	\$3,822	\$ 3,482	\$8,089	\$ 7,027
Corporate and unallocated shared expenses	(162)	(170)	(298)	(295)
Restructuring and impairment charges	—	—	(81)	—
Interest income/(expense), net	(67)	8	(91)	(50)
Vice Gain	—	—	332	—
Infinity Charge ⁽¹⁾	(147)	—	(147)	—
Income before income taxes	\$3,446	\$ 3,320	\$7,804	\$ 6,682

⁽¹⁾ For the quarter ended April 2, 2016, the Company recorded charges related to the discontinuation of our self-published console games business, principally Infinity (Infinity Charge). The Infinity Charge was primarily due to an inventory write-down. The charge also included severance and other asset impairments. The charge was reported in Cost of products in the Condensed Consolidated Statement of Income.

THE WALT DISNEY COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited; tabular dollars in millions, except for per share data)

3. Acquisitions

Vice/A&E

Vice is a media company targeting a millennial audience through news and pop culture content and creative brand integration. During the first quarter of fiscal 2016, A&E acquired an 8% interest in Vice in exchange for a 49.9% interest in one of A&E's cable channels, H2, which has been rebranded as Viceland and programmed with Vice content. As a result of this exchange, A&E recognized a net non-cash gain based on the estimated fair value of H2. The Company's share of the Vice Gain totaled \$332 million and was recorded in "Equity in the income of investees" in the Condensed Consolidated Statement of Income for the six months ended April 2, 2016. At April 2, 2016, A&E had a 20% interest in Vice.

In addition, during the first quarter of fiscal 2016, the Company acquired an 11% interest in Vice for \$400 million of cash.

The Company accounts for its interests in A&E and Vice as equity method investments.

Maker Studios

On May 7, 2014, the Company acquired Maker Studios, Inc. (Maker), a leading network of online video content, for approximately \$500 million of cash consideration. Maker shareholders were eligible to receive up to \$450 million of additional cash upon Maker's achievement of certain performance targets for calendar years 2014 and 2015. At the date of the acquisition, the Company recorded a \$198 million liability for the fair value of the contingent consideration (determined by a probability weighting of potential payouts). In fiscal 2015, the Company paid \$105 million, and in January 2016, the Company made a final payment of \$70 million for the contingent consideration.

4. Borrowings

During the six months ended April 2, 2016, the Company's borrowing activity was as follows:

	October 3, 2015	Borrowings	Payments	Other Activity	April 2, 2016
Commercial paper with original maturities less than three months ⁽¹⁾	\$ 2,330	\$ —	\$(1,221)	\$ 4	\$ 1,113
Commercial paper with original maturities greater than three months	100	3,630	(1,700)	1	2,031
U.S. medium-term notes	13,873	2,987	(500)	9	16,369
Foreign currency denominated debt and other ⁽²⁾	714	160	(126)	43	791
International Theme Parks borrowings ⁽³⁾	319	607	—	(108)	818
Total	\$ 17,336	\$ 7,384	\$(3,547)	\$(51)	\$ 21,122

⁽¹⁾ Borrowings and payments are reported net.

⁽²⁾ The other activity is primarily market value adjustments for debt with qualifying hedges.

⁽³⁾ The other activity is primarily the conversion of HKDL debt into equity. See Note 5 for further discussion of the transaction.

The Company has bank facilities with a syndicate of lenders to support commercial paper borrowings. The following is a summary of the bank facilities at April 2, 2016:

	Committed Capacity	Capacity Used	Unused Capacity
Facility expiring March 2017	\$ 1,500	\$ —	—\$ 1,500
Facility expiring March 2019	2,250	—	2,250
Facility expiring March 2021	2,250	—	2,250
Total	\$ 6,000	\$ —	—\$ 6,000

The Company had bank facilities for \$1.5 billion and \$2.25 billion, which were expiring in March 2016 and June 2017, respectively. These facilities were refinanced in the second quarter of fiscal 2016 and the maturities were

extended to March 2017 and 2021, respectively. All of the above bank facilities allow for borrowings at LIBOR-based rates plus a spread depending on the credit default swap spread applicable to the Company's debt, subject to a cap and floor that vary with the Company's debt rating assigned by Moody's Investors Service and Standard and Poor's. The spread above LIBOR can range

10

THE WALT DISNEY COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited; tabular dollars in millions, except for per share data)

from 0.23% to 1.63%. The Company also has the ability to issue up to \$800 million of letters of credit under the facility expiring in March 2019, which if utilized, reduces available borrowings under this facility. As of April 2, 2016, \$192 million of letters of credit were outstanding, of which none were issued under this facility. The facilities contain only one financial covenant, relating to interest coverage, which the Company met on April 2, 2016 by a significant margin, and specifically exclude certain entities, including the International Theme Parks, from any representations, covenants, or events of default.

Interest income/(expense), net

Interest and investment income and interest expense are reported net in the Condensed Consolidated Statements of Income and consist of the following (net of capitalized interest):

	Quarter Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Interest expense	\$(81)	\$(66)	\$(147)	\$(135)
Interest and investment income	14	74	56	85
Interest income/(expense), net	\$(67)	\$ 8	\$(91)	\$(50)

Interest and investment income includes gains and losses on the sale of publicly and non-publicly traded investments, investment impairments and interest earned on cash and cash equivalents and certain receivables.

Realized net gains on publicly and non-publicly traded investments are as follows:

	Quarter Ended	Six Months Ended
	April 2, 2016	March 28, 2015
Publicly traded	\$—	\$ 48
Non-publicly traded	7	26
Realized net gains	\$—	\$ 55

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

5. International Theme Park Investments

At April 2, 2016, the Company had an 81% effective ownership interest in the operations of Disneyland Paris, a 47% ownership interest in the operations of HKDL and a 43% ownership interest in the operations of Shanghai Disney Resort, all of which are VIEs consolidated in the Company's financial statements. See Note 1 for the Company's policy on consolidating VIEs.

The following tables present summarized balance sheet information for the Company as of April 2, 2016 and October 3, 2015, reflecting the impact of consolidating the International Theme Parks balance sheets.

	As of April 2, 2016		
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	\$4,129	\$ 886	\$5,015
Other current assets	11,701	283	11,984
Total current assets	15,830	1,169	16,999
Investments/Advances	8,016	(4,769)	3,247
Parks, resorts and other property	17,586	8,835	26,421
Other assets	43,521	76	43,597
Total assets	\$84,953	\$ 5,311	\$90,264
Current portion of borrowings	\$5,755	\$ —	\$5,755
Other current liabilities	10,124	1,194	11,318
Total current liabilities	15,879	1,194	17,073
Borrowings	14,549	818	15,367
Deferred income taxes and other long-term liabilities	9,591	223	9,814
Equity	44,934	3,076	48,010
Total liabilities and equity	\$84,953	\$ 5,311	\$90,264
	As of October 3, 2015		
	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash and cash equivalents	\$3,488	\$ 781	\$4,269
Other current assets	12,237	252	12,489
Total current assets	15,725	1,033	16,758
Investments/Advances	7,505	(4,862)	2,643
Parks, resorts and other property	17,431	7,748	25,179
Other assets	43,540	62	43,602
Total assets	\$84,201	\$ 3,981	\$88,182
Current portion of borrowings	\$4,562	\$ 1	\$4,563
Other current liabilities	11,331	440	11,771
Total current liabilities	15,893	441	16,334

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Borrowings	12,454	319	12,773
Deferred income taxes and other long-term liabilities	10,225	195	10,420
Equity	45,629	3,026	48,655
Total liabilities and equity	\$84,201	\$ 3,981	\$88,182

12

THE WALT DISNEY COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited; tabular dollars in millions, except for per share data)

The following table presents summarized income statement information of the Company for the six months ended April 2, 2016, reflecting the impact of consolidating the International Theme Parks income statements.

	Before International Theme Parks Consolidation ⁽¹⁾	International Theme Parks and Adjustments	Total
Revenues	\$ 27,313	\$ 900	\$28,213
Cost and expenses	(19,680)	(1,181)	(20,861)
Restructuring and impairment charges	(81)	—	(81)
Interest expense, net	(68)	(23)	(91)
Equity in the income of investees	412	212	624
Income before income taxes	7,896	(92)	7,804
Income taxes	(2,618)	—	(2,618)
Net income	\$ 5,278	\$ (92)	\$5,186

In the six months ended April 2, 2016, royalty and management fees from the International Theme Parks totaling ⁽¹⁾ \$65 million are included in Revenues, and our share of the net income/(loss) of the International Theme Parks is included in Equity in the income of investees.

The following table presents summarized cash flow statement information of the Company for the six months ended April 2, 2016, reflecting the impact of consolidating the International Theme Parks cash flow statements.

	Before International Theme Parks Consolidation	International Theme Parks and Adjustments	Total
Cash provided by operations	\$ 5,654	\$ 108	\$5,762
Investments in parks, resorts and other property	(1,384)	(1,172)	(2,556)
Cash (used in)/provided by other investing activities	(1,043)	561	(482)
Cash (used in)/provided by financing activities	(2,588)	607	(1,981)
Impact of exchange rates on cash and cash equivalents	2	1	3
Change in cash and cash equivalents	641	105	746
Cash and cash equivalents, beginning of period	3,488	781	4,269
Cash and cash equivalents, end of period	\$ 4,129	\$ 886	\$5,015

Disneyland Paris

During calendar 2015, Disneyland Paris completed a recapitalization consisting of the following:

A €0.4 billion equity rights offering of which the Company funded €0.2 billion in February 2015. The Company purchased shares that were unsubscribed by other Disneyland Paris shareholders, which increased the Company's effective ownership by approximately four percentage points.

In February 2015, the Company converted €0.6 billion of its loans to Disneyland Paris into equity at a conversion price of €1.25 per share. The conversion increased the Company's effective ownership by an additional 23 percentage points. In addition, Disneyland Paris repaid €0.3 billion that was outstanding under then existing lines of credit from the Company. These lines of credit have been replaced by a new €0.4 billion line of credit from the Company bearing interest at EURIBOR plus 2% and maturing in 2023. There is no outstanding balance under the new line of credit at April 2, 2016. As of April 2, 2016, the total outstanding balance of loans provided by the Company to Disneyland Paris was €1.0 billion.

•

In September 2015, the Company completed a mandatory tender offer to the other Disneyland Paris shareholders and acquired €0.1 billion in shares at €1.25 per share, which increased the Company's effective ownership by an additional eight percentage points.

13

THE WALT DISNEY COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited; tabular dollars in millions, except for per share data)

Following the completion of the mandatory tender offer and to offset the dilution caused by the loan conversion, in November 2015 certain Disneyland Paris shareholders purchased €0.05 billion in shares from the Company at €1.25 per share, which decreased the Company's effective ownership by four percentage points.

As of April 2, 2016, the Company had an 81% effective ownership interest in Disneyland Paris.

Hong Kong Disneyland Resort

At April 2, 2016, the Government of the Hong Kong Special Administrative Region (HKSAR) and the Company had 53% and 47% equity interests in HKDL, respectively. HKSAR holds a right to receive additional shares over time to the extent HKDL exceeds certain return on asset performance targets. The amount of additional shares HKSAR can receive is capped on both an annual and cumulative basis and could decrease the Company's equity interest by up to an additional 7 percentage points over a period no shorter than 16 years.

HKDL is building a third hotel at the resort, which is expected to open in 2017 and cost approximately \$550 million. To fund the construction, the Company contributed \$219 million of equity and HKSAR converted an equal amount of its outstanding loan to HKDL into equity. Additionally, the Company and HKSAR will provide shareholder loans of up to approximately \$149 million and \$104 million, respectively. The loans will mature on dates from fiscal 2022 through fiscal 2025 and bear interest at a rate of three month HIBOR plus 2%. To date, the outstanding balances of these loans provided by the Company and HKSAR to HKDL were \$17 million and \$11 million, respectively.

Shanghai Disney Resort

The Company and Shanghai Shendi (Group) Co., Ltd (Shendi) are constructing a Disney Resort (Shanghai Disney Resort) in the Pudong district of Shanghai that initially includes a theme park, two hotels and a retail, dining and entertainment complex. The park opening is planned for June 16, 2016.

The investment in Shanghai Disney Resort will be funded in accordance with each shareholder's ownership percentage, with approximately 67% from equity contributions and 33% from shareholder loans. As of April 2, 2016, the outstanding balance of loans provided by the Company and Shendi to Shanghai Disney Resort were 3.8 billion yuan (\$585 million) and 5.0 billion yuan (\$774 million), respectively. The Company and Shendi have committed to fund an additional 1.1 billion yuan (\$164 million) and 1.4 billion yuan (\$218 million) of loans, respectively. Shanghai Disney Resort is owned through two joint venture companies, in which Shendi owns 57% and the Company owns 43%. A management company, in which the Company has a 70% interest and Shendi a 30% interest, is responsible for designing, constructing and operating Shanghai Disney Resort.

6. Pension and Other Benefit Programs

The components of net periodic benefit cost are as follows:

	Pension Plans				Postretirement Medical Plans			
	Quarter Ended		Six Months Ended		Quarter Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Service costs	\$79	\$83	\$159	\$166	\$3	\$3	\$6	\$7
Interest costs	114	131	229	262	15	17	30	34
Expected return on plan assets	(186)	(178)	(374)	(356)	(11)	(9)	(22)	(19)
Amortization of prior-year service costs	4	4	7	8	—	(1)	—	(1)
Recognized net actuarial loss	60	61	121	123	2	2	4	5
Net periodic benefit cost	\$71	\$101	\$142	\$203	\$9	\$12	\$18	\$26

During the six months ended April 2, 2016, the Company made \$521 million of contributions to its pension and postretirement medical plans. The Company expects total pension and postretirement medical plan contributions in

fiscal 2016 of approximately \$900 million to \$950 million. Final minimum pension plan funding requirements for fiscal 2016 will be

14

THE WALT DISNEY COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited; tabular dollars in millions, except for per share data)

determined based on our January 1, 2016 funding actuarial valuation, which will be available in the fourth quarter of fiscal 2016.

7. Earnings Per Share

Diluted earnings per share amounts are based upon the weighted average number of common and common equivalent shares outstanding during the period and are calculated using the treasury stock method for equity-based compensation awards (Awards). A reconciliation of the weighted average number of common and common equivalent shares outstanding and Awards excluded from the diluted earnings per share calculation, as they were anti-dilutive, are as follows:

	Quarter Ended		Six Months Ended	
	April 2, 2016	March 28, 2015	April 2, 2016	March 28, 2015
Shares (in millions):				
Weighted average number of common and common equivalent shares outstanding (basic)	1,633	1,699	1,643	1,700
Weighted average dilutive impact of Awards	10	16	12	16
Weighted average number of common and common equivalent shares outstanding (diluted)	1,643	1,715	1,655	1,716
Awards excluded from diluted earnings per share	12	5	8	7

8. Equity

The Company paid the following dividends in fiscal 2016 and 2015:

Per Share	Total Paid	Payment Timing	Related to Fiscal Period
\$0.71	\$1.2 billion	Second Quarter of Fiscal 2016	Second Half 2015
\$0.66	\$1.1 billion	Fourth Quarter of Fiscal 2015	First Half 2015
\$1.15	\$1.9 billion	Second Quarter of Fiscal 2015	2014

During the six months ended April 2, 2016, the Company repurchased 42 million shares of its common stock for \$4.4 billion. As of April 2, 2016, the Company had remaining authorization in place to repurchase approximately 314 million additional shares. The repurchase program does not have an expiration date.

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

The following table summarizes the changes in each component of accumulated other comprehensive income (loss) (AOCI) including our proportional share of equity method investee amounts, net of 37% estimated tax:

	Market Value Adjustments		Unrecognized Pension and Postretirement Medical Expense	Foreign Currency Translation and Other	AOCI
	Investments, net	Cash Flow Hedges			
Balance at January 2, 2016	\$ 10	\$ 309	\$ (2,455)	\$ (333)	\$(2,469)
Quarter Ended April 2, 2016:					
Unrealized gains (losses) arising during the period	(1)	(162)	(2)	35	(130)
Reclassifications of net (gains) losses to net income	—	(42)	42	—	—
Balance at April 2, 2016	\$ 9	\$ 105	\$ (2,415)	\$ (298)	\$(2,599)
Balance at December 27, 2014	\$ 84	\$ 339	\$ (2,152)	\$ (151)	\$(1,880)
Quarter Ended March 28, 2015:					
Unrealized gains (losses) arising during the period	(24)	183	(9)	(72)	78
Reclassifications of net (gains) losses to net income	(30)	(54)	43	—	(41)
Balance at March 28, 2015	\$ 30	\$ 468	\$ (2,118)	\$ (223)	\$(1,843)
Balance at October 3, 2015	\$ 13	\$ 334	\$ (2,497)	\$ (271)	\$(2,421)
Six Months Ended April 2, 2016:					
Unrealized gains (losses) arising during the period	(4)	(121)	(2)	(27)	(154)
Reclassifications of net (gains) losses to net income	—	(108)	84	—	(24)
Balance at April 2, 2016	\$ 9	\$ 105	\$ (2,415)	\$ (298)	\$(2,599)
Balance at September 27, 2014	\$ 100	\$ 204	\$ (2,196)	\$ (76)	\$(1,968)
Six Months Ended March 28, 2015:					
Unrealized gains (losses) arising during the period	(40)	359	(9)	(147)	163
Reclassifications of net (gains) losses to net income	(30)	(95)	87	—	(38)
Balance at March 28, 2015	\$ 30	\$ 468	\$ (2,118)	\$ (223)	\$(1,843)

THE WALT DISNEY COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited; tabular dollars in millions, except for per share data)

Details about AOCI components reclassified to net income are as follows:

	Affected line item in the Condensed Consolidated Statements of Income:	Quarter Ended		Six Months Ended	
		April 2016	March 28, 2015	April 2016	March 28, 2015
Gains/(losses) in net income:					
Investments, net	Interest income/(expense), net	\$ —	\$ 48	\$ —	\$ 48
Estimated tax	Income taxes	—	(18)	—	(18)
		—	30	—	30
Cash flow hedges	Primarily revenue	67	86	172	151
Estimated tax	Income taxes	(25)	(32)	(64)	(56)
		42	54	108	95
Pension and postretirement medical expense	Costs and expenses	(67)	(68)	(134)	(138)
Estimated tax	Income taxes	25	25	50	51
		(42)	(43)	(84)	(87)
Total reclassifications for the period		\$ —	\$ 41	\$ 24	\$ 38

At April 2, 2016 and October 3, 2015, the Company held available-for-sale investments in unrecognized gain positions totaling \$18 million and \$21 million, respectively, and no investments in significant unrecognized loss positions.

9. Equity-Based Compensation

Compensation expense related to stock options, stock appreciation rights and restricted stock units (RSUs) is as follows:

	Quarter Ended		Six Months Ended	
	April 2016	March 28, 2015	April 2016	March 28, 2015
Stock options/rights ⁽¹⁾	\$ 23	\$ 27	\$ 46	\$ 52
RSUs	76	83	159	162
Total equity-based compensation expense ⁽²⁾	\$ 99	\$ 110	\$ 205	\$ 214
Equity-based compensation expense capitalized during the period	\$ 19	\$ 14	\$ 34	\$ 29

⁽¹⁾ Includes stock appreciation rights.

Equity-based compensation expense is net of capitalized equity-based compensation and excludes amortization of previously capitalized equity-based compensation costs. During the quarter and six months ended April 2, 2016,

⁽²⁾ amortization of previously capitalized equity-based compensation totaled \$17 million and \$34 million, respectively. During the quarter and six months ended March 28, 2015, amortization of previously capitalized equity-based compensation totaled \$9 million and \$18 million, respectively.

Unrecognized compensation cost related to unvested stock options/rights and RSUs totaled approximately \$199 million and \$697 million, respectively, as of April 2, 2016.

The weighted average grant date fair values of options issued during the six months ended April 2, 2016 and March 28, 2015 were \$31.16 and \$22.64, respectively.

During the six months ended April 2, 2016, the Company made equity compensation grants consisting of 3.8 million stock options and 3.2 million RSUs.

THE WALT DISNEY COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (unaudited; tabular dollars in millions, except for per share data)

10. Commitments and Contingencies

Legal Matters

Beef Products, Inc. v. American Broadcasting Companies, Inc. On September 13, 2012, plaintiffs filed an action in South Dakota state court against certain subsidiaries and employees of the Company and others, asserting claims for defamation arising from alleged false statements and implications, statutory and common law product disparagement and tortious interference with existing and prospective business relationships. The claims arise out of ABC News reports published in March and April 2012 about a product, Lean Finely Textured Beef, that was included in ground beef and hamburger meat. Plaintiffs' complaint sought actual and consequential damages in excess of \$400 million (which in March 2016 they asserted could be as much as \$1.9 billion), statutory damages (including treble damages) pursuant to South Dakota's Agricultural Food Products Disparagement Act, and punitive damages. Trial is set for June 2017. At this time, the Company is not able to predict the ultimate outcome of this matter, nor can it estimate the range of possible loss.

The Company, together with, in some instances, certain of its directors and officers, is a defendant or codefendant in various other legal actions involving copyright, breach of contract and various other claims incident to the conduct of its businesses.

Management does not believe that the Company has incurred a probable material loss by reason of any of the above actions.

Contractual Guarantees

The Company has guaranteed bond issuances by the Anaheim Public Authority that were used by the City of Anaheim to finance construction of infrastructure and a public parking facility adjacent to the Disneyland Resort. Revenues from sales, occupancy and property taxes from the Disneyland Resort and non-Disney hotels are used by the City of Anaheim to repay the bonds. In the event of a debt service shortfall, the Company will be responsible to fund the shortfall. As of April 2, 2016, the remaining debt service obligation guaranteed by the Company was \$321 million, of which \$56 million was principal. To the extent that tax revenues exceed the debt service payments in subsequent periods, the Company would be reimbursed for any previously funded shortfalls. To date, tax revenues have exceeded the debt service payments for these bonds.

Long-Term Receivables and the Allowance for Credit Losses

2,233

Total borrowed funds

39,488 39,261

Total

\$222,878 \$226,183

Total funding sources decreased \$3.3 billion at December 31, 2010 compared with December 31, 2009.

Total deposits decreased \$3.5 billion at December 31, 2010 compared with December 31, 2009. Deposits decreased in the comparison primarily due to declines in retail certificates of deposit, time deposits in foreign offices and money market deposits, partially offset by an increase in demand deposits.

Interest-bearing deposits represented 73% of total deposits at December 31, 2010 compared with 76% at December 31, 2009.

Total borrowed funds increased \$.2 billion since December 31, 2009. Other borrowed funds increased in the comparison primarily due to the consolidation of Market Street and a credit card securitization trust. Additionally, bank notes and senior debt increased since December 31, 2009 due to net issuances. These increases were partially offset in the comparison by a decline of Federal Home Loan Bank borrowings.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

PNC issued \$3.25 billion of senior notes in 2010 as described further in the Liquidity Risk Management section of this Item 7, which also describes other actions we took in 2010 that impacted our borrowed funds balances.

Capital

We manage our capital position by making adjustments to our balance sheet size and composition, issuing debt, equity or hybrid instruments, executing treasury stock transactions, managing dividend policies and retaining earnings. PNC increased common equity during 2010 as outlined below.

Table of Contents

Total shareholders' equity increased \$.3 billion, to \$30.2 billion, at December 31, 2010 compared with December 31, 2009 and included the impact of the following:

The first quarter 2010 issuance of 63.9 million shares of common stock in an underwritten offering at \$54 per share resulted in a \$3.4 billion increase in total shareholders' equity,

An increase of \$2.7 billion to retained earnings, and

A \$1.5 billion decline in accumulated other comprehensive loss largely due to decreases in net unrealized securities losses as more fully described in the Investment Securities portion of this Consolidated Balance Sheet Review.

The factors above were mostly offset by a decline of \$7.3 billion in capital surplus-preferred stock in connection with our February 2010 redemption of the Series N (TARP) Preferred Stock as explained further in Note 18 Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Common shares outstanding were 526 million at December 31, 2010 and 462 million at December 31, 2009. Our first quarter 2010 common stock offering referred to above drove this increase.

Since our acquisition of National City on December 31, 2008, we have increased total common shareholders' equity by \$12.1 billion, or 69%. We expect to continue to increase our common equity as a proportion of total capital, primarily through growth in retained earnings. Further, we believe that we have ample capital capacity to support growth in our businesses and to consider increases in the amount of capital we return to our shareholders, subject to obtaining necessary regulatory approvals.

Our current common stock repurchase program permits us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital, regulatory and contractual limitations, and the potential impact on our credit ratings. We did not purchase any shares in 2010 under this program and were restricted from doing so under the TARP Capital Purchase Program prior to our February 2010 redemption of the Series N Preferred Stock. See *Supervision And Regulation* in Item 1 of this Report for further information concerning restrictions on dividends and stock repurchases, including the impact of the Federal Reserve's current supervisory assessment of capital adequacy.

Risk-Based Capital

	Dec. 31	Dec. 31
Dollars in millions	2010	2009
Capital components		
Shareholders' equity		
Common	\$ 29,596	\$ 21,967
Preferred	646	7,975
Trust preferred capital securities	2,907	2,996
Noncontrolling interests	1,351	1,611
Goodwill and other intangible assets	(9,053)	(10,652)
Eligible deferred income taxes on goodwill and other intangible assets	461	738
Pension, other postretirement benefit plan adjustments	380	542
Net unrealized securities losses, after-tax	550	1,575
Net unrealized losses (gains) on cash flow hedge derivatives, after-tax	(522)	(166)
Other	(224)	(63)
Tier 1 risk-based capital	26,092	26,523
Subordinated debt	4,899	5,356
Eligible allowance for credit losses	2,733	2,934
Total risk-based capital	\$ 33,724	\$ 34,813
Tier 1 common capital		
Tier 1 risk-based capital	\$ 26,092	\$ 26,523
Preferred equity	(646)	(7,975)
Trust preferred capital securities	(2,907)	(2,996)

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Noncontrolling interests	(1,351)	(1,611)
Tier 1 common capital	\$ 21,188	\$ 13,941
Assets		
Risk-weighted assets, including off- balance sheet instruments and market risk equivalent assets	\$ 216,283	\$ 232,257
Adjusted average total assets	254,693	263,103
Capital ratios		
Tier 1 common	9.8%	6.0%
Tier 1 risk-based	12.1	11.4
Total risk-based	15.6	15.0
Leverage	10.2	10.1

Federal banking regulators have stated that they expect all bank holding companies to have a level and composition of Tier 1 capital well in excess of the 4% regulatory minimum, and they have required the largest US bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet credit needs of their customers through the economic downturn. They have also stated their view that common equity should be the dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels, although this metric is not provided for in the regulations. We seek to manage our capital consistent with these regulatory principles, and believe that our December 31, 2010 capital levels were aligned with them.

Table of Contents

Dodd-Frank requires the Federal Reserve Board to establish capital requirements that would, among other things, eliminate the Tier 1 treatment of trust preferred securities following a phase-in period expected to begin in 2013. Accordingly, PNC will evaluate its alternatives, including the potential for early redemption of some or all of its trust preferred securities, based on such considerations it may consider relevant, including dividend rates, the specifics of the future capital requirements, capital market conditions and other factors. PNC is also subject to replacement capital covenants with respect to certain of its trust preferred securities as discussed 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.

Our Tier 1 common capital ratio was 9.8% at December 31, 2010, an increase of 380 basis points compared with 6.0% at December 31, 2009. Our Tier 1 risk-based capital ratio increased 70 basis points to 12.1% at December 31, 2010 from 11.4% at December 31, 2009. Increases in both ratios were attributable to retention of earnings in 2010, the first quarter 2010 equity offering, the third quarter 2010 sale of GIS, and lower risk-weighted assets. The increases in the Tier 1 risk-based capital ratio noted above were offset by the impact of the \$7.6 billion first quarter 2010 redemption of the Series N (TARP) Preferred Stock. See Note 18 Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information regarding the Series N Preferred Stock redemption.

At December 31, 2010, PNC Bank, N.A., our domestic bank subsidiary, was considered well capitalized based on US regulatory capital ratio requirements. To qualify as well-capitalized, regulators currently require banks to maintain capital ratios of at least 6% for tier 1 risk-based, 10% for total risk-based, and 5% for leverage. See the Supervision And Regulation section of Item 1 of this Report and Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information. We believe PNC Bank, N.A. will continue to meet these requirements during 2011.

The access to, and cost of, funding for new business initiatives including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends, the level of deposit insurance costs, and the level and nature of regulatory oversight depend, in part, on a financial institution's capital strength.

OFF-BALANCE SHEET

ARRANGEMENTS AND

VARIABLE INTEREST ENTITIES

We engage in a variety of activities that involve unconsolidated entities or that are otherwise not reflected in our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. Additional information on these types of activities is included in the following sections of this Report:

Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Financial Review,

Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements included in Item 8 of this Report,

Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements included in Item 8 of this Report, and

Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

On January 1, 2010, we adopted ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This guidance removes the scope exception for qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity (VIE) and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. VIEs are assessed for consolidation under Topic 810 when we hold variable interests in these entities. PNC consolidates VIEs when we are deemed to be the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Effective January 1, 2010, we consolidated Market Street, a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments. We recorded consolidated assets of \$4.2 billion, consolidated liabilities of \$4.2 billion, and an after-tax cumulative effect adjustment to retained earnings of \$92 million upon adoption.

Table of Contents

The following provides a summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements, as of December 31, 2010 and December 31, 2009, respectively.

Consolidated VIEs Carrying Value (a)

December 31, 2010 In millions	Market Street	Credit Card Securitization Trust	Tax Credit	
			Investments (b)	Total
Assets				
Cash and due from banks			\$ 2	\$ 2
Interest-earning deposits with banks		\$ 284	4	288
Investment securities	\$ 192			192
Loans	2,520	2,125		4,645
Allowance for loan and lease losses		(183)		(183)
Equity investments			1,177	1,177
Other assets	271	9	396	676
Total assets	\$ 2,983	\$ 2,235	\$ 1,579	\$ 6,797
Liabilities				
Other borrowed funds	\$ 2,715	\$ 523	\$ 116	\$ 3,354
Accrued expenses		9	79	88
Other liabilities	268		188	456
Total liabilities	\$ 2,983	\$ 532	\$ 383	\$ 3,898

(a) Amounts represent carrying value on PNC's Consolidated Balance Sheet.

(b) Amounts reported primarily represent LIHTC investments.

Consolidated VIEs

In millions	Aggregate	
	Assets	Liabilities
December 31, 2010		
Market Street	\$ 3,584	\$ 3,588
Credit Card Securitization Trust	2,269	1,004
Tax Credit Investments (a)	1,590	420
December 31, 2009		
Tax Credit Investments (a)	\$ 1,933	\$ 808
Credit Risk Transfer Transaction	860	860

(a) Amounts reported primarily represent LIHTC investments.

Aggregate assets and aggregate liabilities differ from the consolidated carrying value of assets and liabilities due to elimination of intercompany assets and liabilities held by the consolidated VIE.

Non-Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk	Carrying	Carrying
-------------	------------------	-----------------------	----------	----------	----------

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

			of Loss	Value of Assets	Value of Liabilities
December 31, 2010					
Tax Credit Investments (a)	\$ 4,086	\$ 2,258	\$ 782	\$ 782(c)	\$ 301(d)
Commercial Mortgage-Backed					
Securitizations (b)	79,142	79,142	2,068	2,068(e)	
Residential Mortgage-Backed					
Securitizations (b)	42,986	42,986	2,203	2,199(e)	4(d)
Collateralized Debt Obligations	18		1	1(c)	
Total	\$ 126,232	\$ 124,386	\$ 5,054	\$ 5,050	\$ 305

			PNC Risk of Loss
In millions	Aggregate Assets	Aggregate Liabilities	
December 31, 2009			
Market Street	\$ 3,698	\$ 3,718	\$ 6,155(f)
Tax Credit Investments (a)	1,786	1,156	743
Collateralized Debt Obligations	23		2
Total	\$ 5,507	\$ 4,874	\$ 6,900

(a) Amounts reported primarily represent LIHTC investments. Aggregate assets and aggregate liabilities represent estimated balances due to limited availability of financial information associated with certain acquired partnerships.

(b) Amounts reported reflect involvement with securitization SPEs where PNC transferred to and/or services loans for a SPE and we hold securities issued by that SPE. We also invest in other mortgage and asset-backed securities issued by third-party VIEs with which we have no continuing involvement. Further information on these securities is included in Note 7 Investment Securities in the Notes to Consolidated Financial Statements in Item 8 of this Report and values disclosed represent our maximum exposure to loss for those securities holdings.

Table of Contents

- (c) Included in Equity investments on our Consolidated Balance Sheet.
 (d) Included in Other liabilities on our Consolidated Balance Sheet.
 (e) Included in Trading securities, Investment securities, Other intangible assets, and Other assets on our Consolidated Balance Sheet.
 (f) PNC's risk of loss consisted of off-balance sheet liquidity commitments to Market Street of \$5.6 billion and other credit enhancements of \$.6 billion at December 31, 2009.

Market Street

Market Street is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street's activities primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets or loans by issuing commercial paper and is supported by pool-specific credit enhancements, liquidity facilities and program-level credit enhancement. Generally, Market Street mitigates its potential interest rate risk by entering into agreements with its borrowers that reflect interest rates based upon its weighted average commercial paper cost of funds. During 2009 and 2010, Market Street met all of its funding needs through the issuance of commercial paper.

Market Street commercial paper outstanding was \$2.7 billion at December 31, 2010 and \$3.1 billion at December 31, 2009. The weighted average maturity of the commercial paper was 36 days at December 31, 2010 and December 31, 2009.

During 2009, PNC Capital Markets LLC, acting as a placement agent for Market Street, held a maximum daily position in Market Street commercial paper of \$135 million with an average balance of \$19 million. PNC Capital Markets LLC owned no Market Street commercial paper at December 31, 2010 and December 31, 2009. PNC Bank, N.A. made no purchases of Market Street commercial paper during 2010.

Assets of Market Street (a)

In millions	Outstanding	Commitments	Weighted Average Remaining Maturity In Years
December 31, 2009			
Trade receivables	\$ 1,551	\$ 4,105	2.0
Automobile financing	480	480	4.2
Auto fleet leasing	412	543	.9
Collateralized loan obligations	126	150	.4
Residential mortgage	13	13	26.0
Other	534	567	1.7
Cash and miscellaneous receivables	582		
Total	\$ 3,698	\$ 5,858	2.1

(a) Market Street did not recognize an asset impairment charge or experience any material rating downgrades during 2009.

Market Street Commitments by Credit Rating (a)

	December 31, 2010	December 31, 2009
AAA/Aaa	26%	14%
AA/Aa	60	50
A/A	13	34
BBB/Baa	1	2
Total	100%	100%

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

PNC Capital Trust E Trust Preferred Securities

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

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

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

Acquired Entity Trust Preferred Securities

As a result of the National City acquisition, we assumed obligations with respect to \$2.4 billion in principal amount of junior subordinated debentures issued by the acquired entity. As a result of the Mercantile, Yardville and Sterling acquisitions, we assumed obligations with respect to \$158 million in principal amount of junior subordinated debentures issued by the acquired entities. As described in Note 13

Table of Contents

Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report, in September 2010 and October 2010 we redeemed \$71 million and \$10 million, respectively, in principal amounts related to the junior subordinated debentures issued by the acquired entities. Under the terms of the outstanding debentures, if there is an event of default under the debentures or PNC exercises its right to defer payments on the related trust preferred securities issued by the statutory trusts or there is a default under PNC's guarantee of such payment obligations, PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreements with Trust II and Trust III, as described in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

As more fully described in our 2009 Form 10-K, we were subject to replacement capital covenants with respect to four tranches of junior subordinated debentures inherited from National City as well as a replacement capital covenant with respect to our Series L Preferred Stock. As a result of a successful consent solicitation of the holders of our 6.875% Subordinated Notes due May 15, 2019, we terminated the replacement capital covenants with respect to these four tranches of junior subordinated debentures and our Series L Preferred Stock on November 5, 2010. Termination of the replacement capital covenants allows PNC to call such junior subordinated debt and the Series L Preferred Stock at our discretion, subject to any required regulatory approval.

FAIR VALUE MEASUREMENTS

In addition to the following, see Note 8 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report for further information regarding fair value.

Assets recorded at fair value represented 27% and 23% of total assets at December 31, 2010 and December 31, 2009, respectively. The increase in the percentage compared with the prior year end was primarily due to increases in securities available for sale and financial derivatives. Liabilities recorded at fair value represented 3% and 2% of total liabilities at December 31, 2010 and December 31, 2009, respectively.

The following table includes the assets and liabilities measured at fair value and the portion of such assets and liabilities that are classified within Level 3 of the valuation hierarchy.

In millions	Dec. 31, 2010		Dec. 31, 2009	
	Total Fair Value	Level 3	Total Fair Value	Level 3
Assets				
Securities available for sale	\$ 57,310	\$ 8,583	\$ 50,798	\$ 9,933
Financial derivatives	5,757	77	3,916	50
Residential mortgage loans held for sale	1,878		1,012	
Trading securities	1,826	69	2,124	89
Residential mortgage servicing rights	1,033	1,033	1,332	1,332
Commercial mortgage loans held for sale	877	877	1,050	1,050
Equity investments	1,384	1,384	1,188	1,188
Customer resale agreements	866		990	
Loans	116	2	107	
Other assets	853	403	716	509
Total assets	\$ 71,900	\$ 12,428	\$ 63,233	\$ 14,151
Level 3 assets as a percentage of total assets at fair value		17%		22%
Level 3 assets as a percentage of consolidated assets		5%		5%
Liabilities				
Financial derivatives	\$ 4,935	\$ 460	\$ 3,839	\$ 506
Trading securities sold short	2,530		1,344	
Other liabilities	6		6	
Total liabilities	\$ 7,471	\$ 460	\$ 5,189	\$ 506
Level 3 liabilities as a percentage of total liabilities at fair value		6%		10%
Level 3 liabilities as a percentage of consolidated liabilities		<1%		<1%

The majority of Level 3 assets represent non-agency residential mortgage-backed and asset-backed securities in the available for sale securities portfolio for which there was a lack of observable trading activity.

During 2010, no significant transfers of assets or liabilities between the hierarchy levels occurred.

Table of Contents***BUSINESS SEGMENTS REVIEW***

We have six reportable business segments:

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

Once we entered into an agreement to sell GIS, it was no longer a reportable business segment. We sold GIS on July 1, 2010.

Business segment results, including inter-segment revenues, and a description of each business are included in Note 25 Segment Reporting included in the Notes To Consolidated Financial Statements of Item 8 this Report. Certain amounts included in this Item 7 differ from those amounts shown in Note 25 primarily due to the presentation in this Item 7 of business net interest revenue on a taxable-equivalent basis.

Results of individual businesses are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our individual businesses are not necessarily comparable with similar information for any other company. We refine our methodologies from time to time as our management accounting practices are enhanced and our businesses and management structure change. Certain prior period amounts have been reclassified to reflect current methodologies and our current business and management structure. Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis. We have aggregated the business results for certain similar operating segments for financial reporting purposes.

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product maturities, duration and other factors. Capital is intended to cover unexpected losses and is assigned to the banking and servicing businesses using our risk-based economic capital model. We have assigned capital equal to 6% of funds to Retail Banking to reflect the capital required for well-capitalized domestic banks and to approximate market comparables for this business.

We have allocated the ALLL and unfunded loan commitments and letters of credit based on our assessment of risk inherent in the business segment loan portfolios. Our allocation of the costs incurred by operations and other shared support areas

not directly aligned with the businesses is primarily based on the use of services.

Total business segment financial results differ from total consolidated results from continuing operations before noncontrolling interests, which itself excludes the earnings and revenue attributable to GIS through June 30, 2010 and the related after-tax gain on sale in third quarter 2010 that are reflected in discontinued operations. The impact of these differences is reflected in the Other category. Other for purposes of this Business Segments Review and the Business Segment Highlights in the Executive Summary includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions including LTIP share distributions and obligations, integration costs, asset and liability management activities including net securities gains or losses and certain trading activities, exited businesses, equity management activities, alternative investments, intercompany eliminations, most corporate overhead, and differences between business segment performance reporting and financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests.

Period-end Employees

	Dec. 31	Dec. 31
	2010	2009
Full-time employees		
Retail Banking	20,925	21,416
Corporate & Institutional Banking	3,756	3,746
Asset Management Group	3,001	2,969

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Residential Mortgage Banking	3,539	3,267
Distressed Assets Portfolio	167	175
Other		
Operations & Technology	8,712	9,249
Staff Services and other (a)	4,717	8,939
Total Other	13,429	18,188
Total full-time employees	44,817	49,761
Retail Banking part-time employees	4,965	4,737
Other part-time employees	987	1,322
Total part-time employees	5,952	6,059
Total	50,769	55,820

(a) Includes employees of GIS 4,450 at December 31, 2009. We sold GIS effective July 1, 2010.

Employee data as reported by each business segment in the table above reflects staff directly employed by the respective businesses and excludes operations, technology and staff services employees reported in the Other segment. Total employees have decreased since December 31, 2009 primarily as a result of the sale of GIS.

Table of Contents**Results Of Businesses Summary***(Unaudited)*

Year ended December 31- in millions	Income (Loss)		Revenue		Average Assets (a)	
	2010	2009	2010	2009	2010	2009
Retail Banking (b)	\$ 140	\$ 136	\$ 5,376	\$ 5,721	\$ 67,024	\$ 65,320
Corporate & Institutional Banking	1,770	1,190	4,908	5,266	77,467	84,689
Asset Management Group	141	105	890	919	7,022	7,320
Residential Mortgage Banking	275	435	1,003	1,328	9,247	8,420
BlackRock	351	207	462	262	5,428	6,249
Distressed Assets Portfolio	(64)	84	1,125	1,153	17,517	22,844
Total business segments	2,613	2,157	13,764	14,649	183,705	194,842
Other (b) (c) (d)	411	201	1,412	1,579	81,197	82,034
Income from continuing operations before noncontrolling interests (e)	\$ 3,024	\$ 2,358	\$ 15,176	\$ 16,228	\$ 264,902	\$ 276,876

(a) Period-end balances for BlackRock.

(b) Amounts for 2009 include the results of the 61 branches prior to their divestiture in early September 2009.

(c) For our segment reporting presentation in this Financial Review, Other earnings and revenue for 2010 include a \$102 million after-tax (\$160 million pretax) gain related to our gain on the sale of a portion of our investment in BlackRock stock as part of a BlackRock secondary common stock offering in November 2010 and Other earnings for 2010 also includes \$251 million of after-tax (\$387 million pretax) integration costs primarily related to National City. Other earnings and revenue for 2009 include a \$687 million after-tax (\$1.076 billion pretax) gain related to the BlackRock/BGI transaction and Other earnings for 2009 also includes \$274 million of after-tax (\$421 million pretax) integration costs primarily related to National City.

(d) Other average assets include investment securities associated with asset and liability management activities.

(e) Amounts are presented on a continuing operations basis and therefore exclude the earnings, revenue, and assets of GIS, including the third quarter 2010 gain on sale of GIS.

Table of Contents**RETAIL BANKING***(Unaudited)*

Year ended December 31

Dollars in millions	2010 (a)	2009 (b)
INCOME STATEMENT		
Net interest income	\$ 3,433	\$ 3,522
Noninterest income		
Service charges on deposits	681	930
Brokerage	212	245
Consumer services	912	886
Other	138	138
Total noninterest income	1,943	2,199
Total revenue	5,376	5,721
Provision for credit losses	1,103	1,330
Noninterest expense	4,054	4,169
Pretax earnings	219	222
Income taxes	79	86
Earnings	\$ 140	\$ 136
AVERAGE BALANCE SHEET		
Loans		
Consumer		
Home equity	\$ 26,450	\$ 27,403
Indirect	3,973	4,036
Education	8,497	5,625
Credit cards	3,938	2,239
Other consumer	1,804	1,791
Total consumer	44,662	41,094
Commercial and commercial real estate	11,208	12,306
Floor plan	1,336	1,264
Residential mortgage	1,599	2,064
Total loans	58,805	56,728
Goodwill and other intangible assets	5,861	5,842
Other assets	2,358	2,750
Total assets	\$ 67,024	\$ 65,320
Deposits		
Noninterest-bearing demand	\$ 17,223	\$ 16,308
Interest-bearing demand	19,776	18,357
Money market	40,125	39,394
Total transaction deposits	77,124	74,059
Savings	6,938	6,610
Certificates of deposit	41,539	53,145
Total deposits	125,601	133,814
Other liabilities and borrowings	1,477	51
Capital	8,132	8,497
Total liabilities and equity	\$ 135,210	\$ 142,362
PERFORMANCE RATIOS		
Return on average capital	2%	2%
Return on average assets	.21	.21
Noninterest income to total revenue	36	38
Efficiency	75	73

OTHER INFORMATION (c)
Credit-related statistics:

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Commercial nonperforming assets	\$ 297	\$ 324
Consumer nonperforming assets	422	284
Total nonperforming assets (d)	\$ 719	\$ 608
Impaired loans (e)	\$ 895	\$ 1,056
Commercial lending net charge-offs	\$ 330	\$ 415
Credit card lending net charge-offs	316	209
Consumer lending (excluding credit card) net charge-offs	424	402
Total net charge-offs	\$ 1,070	\$ 1,026

At December 31

Dollars in millions, except as noted	2010 (a)	2009(b)
OTHER INFORMATION (CONTINUED) (c)		
Commercial lending net charge-off ratio	2.63%	3.06%
Credit card net charge-off ratio	8.02%	9.33%
Consumer lending (excluding credit card) net charge-off ratio	1.00%	.98%
Total net charge-off ratio	1.82%	1.81%
<u>Other statistics:</u>		
ATMs	6,673	6,473
Branches (f)	2,470	2,513
<u>Home equity portfolio credit statistics:</u>		
% of first lien positions (g)	36%	35%
Weighted average loan-to-value ratios (g)	73%	74%
Weighted average FICO scores (h)	726	727
Net charge-off ratio	.90%	.75%
Loans 30 - 59 days past due	.49%	.49%
Loans 60 - 89 days past due	.30%	.29%
Loans 90 days past due	1.02%	.76%
<u>Customer-related statistics:</u>		
Retail Banking checking relationships (i)	5,465,000	5,390,000
Retail online banking active customers	3,057,000	2,743,000
Retail online bill payment active customers	977,000	780,000
<u>Brokerage statistics:</u>		
Financial consultants (j)	694	704
Full service brokerage offices	34	40
Brokerage account assets (billions)	\$ 33	\$ 32

(a) Information for 2010 reflects the impact of the consolidation in our financial statements for the securitized credit card portfolio of approximately \$1.6 billion of credit card loans as of January 1, 2010.

(b) PNC completed the required divestiture of 61 branches in early September 2009. Amounts for periods prior to the divestitures include the impact of those branches.

(c) Presented as of December 31 except for net charge-offs and net charge-off ratios, which are for the year ended.

(d) Includes nonperforming loans of \$694 million at December 31, 2010 and \$597 million at December 31, 2009.

(e) Recorded investment of purchased impaired loans related to acquisitions.

(f) Excludes certain satellite branches that provide limited products and/or services.

(g) Includes loans from acquired portfolios for which lien position and loan-to-value information is not available.

(h) Represents the most recent FICO scores we have on file.

(i) Retail checking relationships for prior periods have been adjusted to be consistent with the current period presentation. The prior amounts were refined subsequent to completion of application system conversion activities related to the National City acquisition.

(j) Financial consultants provide services in full service brokerage offices and PNC traditional branches.

Retail Banking earned \$140 million for 2010 compared with \$136 million in 2009. Earnings were primarily driven by a decrease in the provision for credit losses due to improved credit quality and lower noninterest expense from acquisition cost savings. These factors were partially offset by a decline in revenue related to the implementation of Regulation E rules related to overdraft fees and the impact of the low interest rate environment. Retail Banking continued to maintain its focus on growing customers and deposits, improving customer and

Table of Contents

employee satisfaction, investing in the business for future growth, and disciplined expense management during this period of market and economic uncertainty.

Information for 2010 reflects the impact of the consolidation in our financial statements of the securitized credit card portfolio of approximately \$1.6 billion of credit card loans as of January 1, 2010. This consolidation impacted primarily the loan, borrowings, and other liabilities categories on the balance sheet and nearly all major categories of our income statement.

In January 2011, PNC reached a definitive agreement to acquire 19 branches and the associated deposits from BankAtlantic Bancorp, Inc. located in the Tampa, Florida area. The transaction is expected to close in June 2011, subject to regulatory approval and customary closing conditions. PNC will convert the branches and customer accounts to the PNC brand and systems at that time. This transaction is expected to provide Retail Banking with the opportunity to establish a foothold in the Tampa area and leverage those branches to help grow other business activities, such as wealth management and corporate banking.

Highlights of Retail Banking's performance for 2010 include the following:

PNC successfully completed the conversion of customers at over 1,300 branches across nine states from National City Bank to PNC, providing further growth opportunities throughout our expanded footprint.

Success in implementing Retail Banking's deposit strategy resulted in growth in average demand deposits of \$2.3 billion, or 7%, over the prior year. Excluding approximately \$0.7 billion of average demand deposits from 2009 balances related to the 61 required branch divestitures completed in early September 2009, average demand deposits increased \$3.0 billion, or 9%, over the prior year.

For the second consecutive year, the Retail Bank was named a Gallup Great Workplace Award Winner. PNC was the only U.S. Bank to be recognized. This recognition reflects our commitment to having an engaged workforce and a unified culture.

Implementing the business model in the acquired markets and building on strengths in the core franchise resulted in the growth of 75,000 checking relationships in 2010, a solid gain considering the first half of the year was dominated by the customer conversion process and 2010 was a difficult environment. The majority of this growth came in the second half of the year as strength in customer retention from the converted markets was coupled with sales momentum in channels and products such as Workplace and University Banking and Virtual Wallet. Our investment in online banking capabilities continued to pay off as active online bill payment customers grew by 25% in 2010.

PNC's expansive branch footprint covers nearly one-third of the U.S. population with a network of 2,470 branches and 6,673 ATM machines at December 31, 2010. We continued to invest in the branch network. In 2010, we opened 21 traditional and 27 in-store branches, and consolidated 91 branches. The decrease in branches was primarily driven by acquisition-related branch consolidations.

Total revenue for 2010 was \$5.4 billion compared with \$5.7 billion in 2009. Net interest income of \$3.4 billion declined \$89 million compared with 2009. Net interest income was negatively impacted by lower interest credits assigned to deposits, reflective of the rate environment, and benefited from the consolidation of the securitized credit card portfolio, higher transaction deposits, and increased education loans.

Noninterest income for 2010 was \$1.9 billion, a decline of \$256 million over the prior year. The decrease was due to a decrease in service charges on deposits related to lower overdraft fees, the negative impact of the consolidation of the securitized credit card portfolio, lower brokerage fees, and the impact of the required branch divestitures partially offset by, higher transaction volume-related fees within consumer services.

In 2010, Retail Banking revenues were negatively impacted by the implementation of new federal regulations. These regulations include: 1) the new rules set forth in Regulation E related to overdraft fees, 2) the Credit CARD Act of 2009, and 3) the education lending portions of the Health Care and Education Reconciliation Act of 2010 (HCERA).

The negative impact of Regulation E on revenue for 2010 was approximately \$145 million. Additionally, the Credit CARD Act had a negative impact on revenue of approximately \$75 million, largely in net interest income. These estimates do not include additional impacts to revenue for other changes that were made in 2010 responding to market conditions, or other/additional regulatory requirements, or any offsetting impact of changes to products and/or pricing.

The education lending business was adversely impacted by provisions of HCERA that went into effect on July 1, 2010. The law essentially eliminates the Federal Family Education Loan Program (FFELP), the federally guaranteed portion of this business available to private lenders. We originated \$2.6 billion of federally guaranteed loans under FFELP in 2009 and \$1.0 billion in 2010, the majority of which were originated in the first half of the year. We plan to continue to provide private education loans as another source of funding for students and families.

Additionally, in 2011 Retail Banking revenue is expected to continue to be negatively impacted by the rules set forth in

Table of Contents

Regulation E related to overdraft fees and to be negatively impacted by the potential limits related to interchange rates on debit card transactions proposed in Dodd-Frank. The incremental negative impact of these two aspects of regulatory reform on fees may be approximately \$400 million in 2011 if limits to interchange rates are implemented consistent with rules currently proposed by the Federal Reserve Board. Changes in the proposed interchange rules could impact this estimate. Further, this estimate does not include any additional impact to revenue of other or additional regulatory requirements. There could be other aspects of regulatory reform that further impact these or other areas of our business as regulatory agencies, including the new CFPB, issue proposed and final regulations pursuant to Dodd-Frank and other legislation. See additional information regarding legislative and regulatory developments in the Executive Summary section of this Item 7.

The provision for credit losses was \$1.1 billion in 2010 compared with \$1.3 billion in 2009. Net charge-offs were \$1.1 billion in 2010 and essentially flat when compared with the same period last year. These comparisons both benefited from overall improved credit quality which was partially offset by the previously mentioned consolidation of \$1.6 billion in credit card loans as of January 1, 2010. Credit quality has shown signs of stabilization during 2010 with a declining net charge-off trend in each of the last four quarters. The improvement in net charge-off trends was predominately driven by the small business commercial lending and credit card portfolios. The increase in non-performing assets over the prior year was primarily due to an increase in modified loans reflecting continued efforts to work with borrowers experiencing financial difficulties.

Noninterest expense for the year declined \$115 million from the same period last year. Expenses were well-managed as continued investments in distribution channels were more than offset by acquisition cost savings and the required branch divestitures.

Growing core checking deposits as a lower-cost funding source and as the cornerstone product to build customer relationships is the primary objective of our deposit strategy. Furthermore, core checking accounts are critical to our strategy of expanding our payments business. The deposit strategy of Retail Banking is to remain disciplined on pricing, target specific products and markets for growth, and focus on the retention and growth of balances for relationship customers.

In 2010, average total deposits decreased \$8.2 billion, or 6%, compared with 2009.

Average demand deposits increased \$2.3 billion, or 7%, over 2009. The increase was primarily driven by customer growth and customer preferences for liquidity.

Average money market deposits increased \$731 million, or 2%, from 2009. The increase was primarily due to core money market growth as customers generally prefer more liquid deposits in a low rate environment.

In 2010, average certificates of deposit decreased \$11.6 billion from last year. This decline is expected to continue in 2011, although at a slower pace, due to the continued run off of higher rate certificates of deposit that were primarily obtained through the National City acquisition.

Currently, we plan to maintain our focus on a relationship-based lending strategy that targets specific customer sectors (mass consumers, homeowners, students, small businesses and auto dealerships) and our moderate risk lending approach. In 2010, average total loans were \$58.8 billion, an increase of \$2.1 billion, or 4%, over last year.

Average education loans grew \$2.9 billion compared with 2009 primarily due to increases in federal loan volumes as a result of non-bank competitors exiting from the business, portfolio purchases, and the impact of our current strategy of holding education loans on the balance sheet. As previously noted, the federally guaranteed portion of this business was essentially eliminated going forward beginning July 1, 2010 due to HCERA.

Average credit card balances increased \$1.7 billion over 2009. The increase was primarily the result of the consolidation of the securitized credit card portfolio effective January 1, 2010.

Average home equity loans declined \$953 million over 2009. Consumer loan demand remained soft in the current economic climate. The decline is driven by loan demand being outpaced by paydowns, refinancings, and charge-offs. Retail Banking's home equity loan portfolio is relationship based, with 96% of the portfolio attributable to borrowers in our primary geographic footprint. The nonperforming assets and charge-offs that we have experienced are within our expectations given current market conditions.

Average commercial and commercial real estate loans declined \$1.1 billion compared with 2009. The decline was primarily due to loan demand being outpaced by refinancings, paydowns, charge-offs and the required branch divestitures (approximately \$0.2 billion of the decline on average).

Table of Contents**CORPORATE & INSTITUTIONAL BANKING***(Unaudited)*

Year ended December 31

Dollars in millions except as noted	2010 (a)	2009
INCOME STATEMENT		
Net interest income	\$ 3,545	\$ 3,833
Noninterest income		
Corporate service fees	961	915
Other	402	518
Noninterest income	1,363	1,433
Total revenue	4,908	5,266
Provision for credit losses	303	1,603
Noninterest expense	1,817	1,800
Pretax earnings	2,788	1,863
Income taxes	1,018	673
Earnings	\$ 1,770	\$ 1,190
AVERAGE BALANCE SHEET		
Loans		
Commercial	\$ 32,717	\$ 37,426
Commercial real estate	16,466	19,195
Commercial real estate related	3,076	3,772
Asset-based lending	6,318	6,344
Equipment lease financing	5,484	5,390
Total loans	64,061	72,127
Goodwill and other intangible assets	3,613	3,583
Loans held for sale	1,473	1,679
Other assets	8,320	7,300
Total assets	\$ 77,467	\$ 84,689
Deposits		
Noninterest-bearing demand	\$ 24,713	\$ 19,948
Money market	12,153	9,697
Other	6,980	7,911
Total deposits	43,846	37,556
Other liabilities	11,949	9,118
Capital	7,598	7,837
Total liabilities and equity	\$ 63,393	\$ 54,511

Corporate & Institutional Banking earned a record \$1.8 billion in 2010 compared with \$1.2 billion 2009. The increase in earnings primarily resulted from a decrease in the provision for credit losses somewhat offset by lower net interest income driven mainly by lower loan balances. We continued to focus on adding new clients and increased our cross selling to serve our clients needs, particularly in the western markets, and remained committed to strong expense discipline.

Year ended December 31

Dollars in millions except as noted	2010 (a)	2009
PERFORMANCE RATIOS		
Return on average capital	23%	15%
Return on average assets	2.28	1.41
Noninterest income to total revenue	28	27
Efficiency	37	34
COMMERCIAL MORTGAGE SERVICING PORTFOLIO		

(in billions)

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Beginning of period	\$ 287	\$ 270
Acquisitions/additions	35	50
Repayments/transfers	(56)	(33)
End of period	\$ 266	\$ 287
OTHER INFORMATION		
Consolidated revenue from: (b)		
Treasury Management	\$ 1,225	\$ 1,137
Capital Markets	\$ 618	\$ 533
Commercial mortgage loans held for sale (c)	\$ 58	\$ 205
Commercial mortgage loan servicing (d)	204	280
Total commercial mortgage banking activities	\$ 262	\$ 485
Total loans (e)	\$ 63,609	\$ 66,206
Net carrying amount of commercial mortgage servicing rights (e)	\$ 665	\$ 921
Credit-related statistics:		
Nonperforming assets (e) (f)	\$ 2,594	\$ 3,167
Impaired loans (e) (g)	\$ 714	\$ 1,075
Net charge-offs	\$ 1,074	\$ 1,052

(a) Information as of year ended December 31, 2010 reflects the impact of the consolidation in our financial statements of Market Street effective January 1, 2010. Includes \$1.5 billion of loans, net of eliminations, and \$2.6 billion of commercial paper borrowings included in Other liabilities.

(b) Represents consolidated PNC amounts.

(c) Includes valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.

(d) Includes net interest income and noninterest income from loan servicing and ancillary services and commercial mortgage servicing rights valuations.

(e) At December 31.

(f) Includes nonperforming loans of \$2.4 billion at December 31, 2010 and \$3.0 billion at December 31, 2009.

(g) Recorded investment of purchased impaired loans related to acquisitions.

Table of Contents

Highlights of Corporate & Institutional Banking performance during 2010 include:

Achieved record client growth as new customers were added at approximately twice the pace of any previous year. We added more than 1,100 new clients.

Successfully completed the conversion of over 12,000 customers which resulted in a significant increase in cross sales opportunities, particularly in the western markets.

Treasury Management delivered record revenue for the year and grew favorably when compared to the industry average.

Some of the largest Capital Markets transactions in the history of PNC were recorded in 2010 which contributed to a record year in revenue earned for this business.

Midland Loan Services, one of the leading third-party providers of servicing for the commercial real estate industry, received the highest US servicer and special servicer ratings from Fitch Ratings and Standard & Poor's and is in its 11th consecutive year of achieving these ratings.

Midland was the number one servicer of FNMA and FHLMC loans and was the second leading servicer of commercial and multifamily loans by volume as of December 31, 2010 according to Mortgage Bankers Association.

Greenwich Associates awarded PNC the 2010 Excellence Awards in Middle Market Banking for Financial Stability and in Treasury Management for Customer Service.

Net interest income for 2010 was \$3.5 billion, a decrease of \$288 million from 2009, due to a decrease in average loans and lower interest credits assigned to deposits.

Corporate service fees were \$961 million for 2010, an increase of \$46 million over 2009 primarily due to higher merger and acquisition advisory and ancillary commercial mortgage servicing fees. This increase was partially offset by a reduction in the value of commercial mortgage servicing rights driven by lower interest rates. The major components of corporate service fees are treasury management, corporate finance fees and commercial mortgage servicing revenue.

Our Treasury Management business, which is ranked in the top ten nationally, continued to invest in markets, products and infrastructure as well as major initiatives such as healthcare. The healthcare initiative is designed to help provide our customers opportunities to reduce operating costs. Healthcare-related revenues in 2010 increased over 25% from 2009.

Harris Williams is one of the nation's largest and most successful mergers and acquisitions advisory teams focused exclusively on the middle markets. Revenues increased over \$80 million in 2010 compared with 2009 on higher deal activity driven by the improved financing environment. Harris Williams established its first overseas operation in London during 2010.

Other noninterest income was \$402 million for 2010, a decrease of \$116 million from 2009 primarily due to a decline in the income associated with commercial mortgage loans held for sale, net of hedges, and the sale of the duplicative agency servicing operation in the second quarter of 2010.

The provision for credit losses was \$303 million in 2010 compared with \$1.6 billion in 2009. The decline reflected improvements in portfolio credit quality along with lower loan and commitment levels. Net charge-offs for 2010 of \$1.1 billion increased 2% compared with 2009. Nonperforming assets were \$2.6 billion in 2010, down from \$3.2 billion in 2009.

Noninterest expense was \$1.8 billion for both 2010 and 2009. Increases in compensation costs related to revenue and credit-related expenses were essentially offset by the impact of the sale of the duplicative agency servicing operation in the second quarter of 2010.

Average loans were \$64 billion for 2010 compared with \$72 billion in 2009. Excluding the impact of the 2010 Market Street consolidation, which contributed \$2 billion to average loans in 2010, average loans decreased \$10 billion or 13% compared with 2009. The decrease was due to exits of certain client relationships combined with continued soft new loan originations and utilization rates.

PNC Real Estate provides commercial real estate and real-estate related lending and is one of the industry's largest providers of both conventional and affordable multifamily financing. Commercial real estate loans declined in 2010 due to reduced demand, paydowns and charge-offs.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Business Credit is one of the largest asset-based lenders in the country. It expanded its operations with the acquisition of an asset-based lending group in the United Kingdom which was completed in November 2010. Total loans acquired were approximately \$300 million.

PNC Equipment Finance is the 6th largest bank-affiliated leasing company with over \$9 billion in equipment finance assets. Average loans and leases declined approximately \$.2 billion for 2010 compared with 2009 due to runoff and sales of non-strategic portfolios more than offsetting portfolio acquisitions and improved origination volumes within our middle market customer base.

Table of Contents

Average deposits were \$43.8 billion for 2010, an increase of \$6.3 billion, or 17%, compared with 2009. During 2010, customers continued to move balances to noninterest-bearing demand deposits to maintain liquidity.

The commercial mortgage servicing portfolio was \$266 billion at December 31, 2010 compared with \$287 billion at December 31, 2009. The decrease was driven by the sale during the second quarter of 2010 of a duplicative agency servicing operation acquired with National City.

See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities on page 32.

ASSET MANAGEMENT GROUP

(Unaudited)

Year ended December 31

Dollars in millions except as noted	2010	2009
INCOME STATEMENT		
Net interest income	\$ 263	\$ 308
Noninterest income	627	611
Total revenue	890	919
Provision for credit losses	20	97
Noninterest expense	647	654
Pretax earnings	223	168
Income taxes	82	63
Earnings	\$ 141	\$ 105
AVERAGE BALANCE SHEET		
Loans		
Consumer	\$ 4,026	\$ 3,957
Commercial and commercial real estate	1,501	1,639
Residential mortgage	850	1,078
Total loans	6,377	6,674
Goodwill and other intangible assets	399	407
Other assets	246	239
Total assets	\$ 7,022	\$ 7,320
Deposits		
Noninterest-bearing demand	\$ 1,324	\$ 1,091
Interest-bearing demand	1,835	1,582
Money market	3,283	3,208
Total transaction deposits	6,442	5,881
Certificates of deposit and other	748	1,076
Total deposits	7,190	6,957
Other liabilities	89	104
Capital	534	569
Total liabilities and equity	\$ 7,813	\$ 7,630
PERFORMANCE RATIOS		
Return on average capital	26%	18%
Return on average assets	2.01	1.43
Noninterest income to total revenue	70	66
Efficiency	73	71
OTHER INFORMATION		
Total nonperforming assets (a) (b)	\$ 90	\$ 155
Impaired loans (a) (c)	\$ 146	\$ 198
Total net charge-offs	\$ 42	\$ 63
Year ended December 31	2010	2009

Dollars in millions except as noted

ASSETS UNDER ADMINISTRATION

(in billions) (a) (d)

Personal	\$ 99	\$ 94
Institutional	113	111
Total	\$ 212	\$ 205
<i>Asset Type</i>		
Equity	\$ 115	\$ 100
Fixed Income	63	58
Liquidity/Other	34	47
Total	\$ 212	\$ 205
<u>Discretionary assets under management</u>		
Personal	\$ 69	\$ 67
Institutional	39	36
Total	\$ 108	\$ 103
<i>Asset Type</i>		
Equity	\$ 55	\$ 49
Fixed Income	36	34
Liquidity/Other	17	20
Total	\$ 108	\$ 103
<u>Nondiscretionary assets under administration</u>		
Personal	\$ 30	\$ 27
Institutional	74	75
Total	\$ 104	\$ 102
<i>Asset Type</i>		
Equity	\$ 60	\$ 51
Fixed Income	27	24
Liquidity/Other	17	27
Total	\$ 104	\$ 102

(a) As of December 31.

(b) Includes nonperforming loans of \$82 million at December 31, 2010 and \$149 million at December 31, 2009.

(c) Recorded investment of purchased impaired loans related to acquisitions.

(d) Excludes brokerage account assets.

Asset Management Group earned \$141 million for 2010 compared with \$105 million for 2009. The increase reflected a lower provision for credit losses due to improved credit quality and increased noninterest income from higher equity markets and new client growth. These increases were partially offset by lower net interest income from lower loan yields. The business delivered strong performance in 2010 as it remained focused on new client acquisition, client asset growth and expense discipline.

Highlights of Asset Management Group's performance during 2010 include the following:

- Successfully executed its National City trust system and banking conversions while maintaining high client satisfaction and retention,
- Achieved exceptional new sales and client acquisition levels for the Group,
- Improved credit quality and performance, and
- Exceeded expense management targets while investing in strategic growth initiatives.

Table of Contents

Assets under administration of \$212 billion at December 31, 2010 increased \$7 billion compared with the balance at December 31, 2009. Discretionary assets under management of \$108 billion at December 31, 2010 increased \$5 billion or 5 percent compared with the balance at December 31, 2009 due to higher equity markets and strong sales performance. Nondiscretionary assets under administration of \$104 billion increased \$2 billion or 2 percent from 2009.

Total revenue for 2010 was \$890 million compared with \$919 million for 2009. Net interest income for 2010 decreased \$45 million compared with 2009, primarily due to a reduction in higher yield loans. Noninterest income of \$627 million for 2010 increased \$16 million compared with 2009 as the impacts of strong sales results and the improved equity markets were partially offset by the strategic exit of noncore businesses.

The provision for credit losses was \$20 million for 2010 compared with \$97 million for 2009. Net charge-offs were \$42 million for 2010 and \$63 million for the 2009. Credit quality showed signs of stabilization in 2010.

Noninterest expense of \$647 million in 2010 decreased slightly from 2009. The decline is attributable to disciplined expense management and integration-related initiatives partially offset by strategic investments in the business.

Total average deposits for 2010 increased \$233 million, or 3%, from 2009 as a 10% increase in transaction deposits more than offset the strategic exit of higher rate certificates of deposit. Total average loans decreased \$297 million, or 4%, from 2009 as growth in consumer loans was more than offset by a decline in other loan categories.

Table of Contents**RESIDENTIAL MORTGAGE BANKING***(Unaudited)*

Year ended December 31

Dollars in millions, except as noted	2010	2009
INCOME STATEMENT		
Net interest income	\$ 267	\$ 332
Noninterest income		
Loan servicing revenue		
Servicing fees	242	222
Net MSR hedging gains	245	355
Loan sales revenue	231	435
Other	18	(16)
Total noninterest income	736	996
Total revenue	1,003	1,328
Provision for (recoveries of) credit losses	5	(4)
Noninterest expense	565	632
Pretax earnings	433	700
Income taxes	158	265
Earnings	\$ 275	\$ 435
AVERAGE BALANCE SHEET		
Portfolio loans	\$ 2,649	\$ 1,957
Loans held for sale	1,322	2,204
Mortgage servicing rights (MSR)	1,017	1,297
Other assets	4,259	2,962
Total assets	\$ 9,247	\$ 8,420
Deposits	\$ 2,716	\$ 4,135
Borrowings and other liabilities	2,823	2,924
Capital	1,200	1,359
Total liabilities and equity	\$ 6,739	\$ 8,418
PERFORMANCE RATIOS		
Return on average capital	23%	32%
Return on average assets	2.97	5.17
Noninterest income to total revenue	73	75
Efficiency	56	48
RESIDENTIAL MORTGAGE		
SERVICING PORTFOLIO		
(in billions)		
Beginning of period	\$ 145	\$ 173
Acquisitions/additions	10	20
Repayments/transfers	(30)	(40)
Servicing sale		(8)
End of period	\$ 125	\$ 145
Servicing portfolio statistics: (a)		
Fixed rate	89%	88%
Adjustable rate/balloon	11%	12%
Weighted average interest rate	5.62%	5.82%
MSR capitalized value (in billions)	\$ 1.0	\$ 1.3
MSR capitalization value (in basis points)	82	91
Weighted average servicing fee (in basis points)	30	30
OTHER INFORMATION		

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Loan origination volume (in billions)	\$ 10.5	\$ 19.1
Percentage of originations represented by:		
Agency and government programs	99%	97%
Refinance volume	74%	72%
Total nonperforming assets (a) (b)	\$ 349	\$ 370
Impaired loans (a) (c)	\$ 161	\$ 369

(a) As of December 31.

(b) Includes nonperforming loans of \$109 million at December 31, 2010 and \$215 million at December 31, 2009.

(c) Recorded investment of purchased impaired loans related to acquisitions.

Residential Mortgage Banking earned \$275 million for 2010 compared with \$435 million in 2009. The decline in earnings was driven by a decrease in loan sales revenue from lower origination volumes and lower net hedging gains on mortgage servicing rights.

Residential Mortgage Banking overview:

Total loan originations were \$10.5 billion for 2010 compared with \$19.1 billion for 2009. Lower mortgage rates in the first half of 2009 resulted in higher loan origination volumes. Loans continued to be primarily originated through direct channels under FNMA, FHLMC and FHA/Veterans Administration (VA) agency guidelines.

Investors may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable representations. At December 31, 2010, the liability for estimated losses on loan indemnification and repurchase claims for the Residential Mortgage Banking business segment was \$144 million compared with \$229 million at December 31, 2009. See the Recourse and Repurchase Obligations section of this Item 7 and Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information.

Residential mortgage loans serviced for others totaled \$125 billion at December 31, 2010 compared with \$145 billion at December 31, 2009. Payoffs continued to outpace new direct loan origination volume during 2010.

Net interest income was \$267 million for 2010 compared with \$332 million for 2009. The decrease resulted from lower escrow deposit balances and residential mortgage loans held for sale.

Noninterest income was \$736 million in 2010 compared with \$996 million in 2009. The decline was due to reduced loan sales revenue, net of additional repurchase reserves, reflective of strong loan origination refinance volume in 2009, and lower net hedging gains on mortgage servicing rights.

Noninterest expense declined to \$565 million in 2010 compared with \$632 million in 2009 as lower loan origination volume drove a reduction in expense, partially offset by higher foreclosure costs in 2010.

The fair value of mortgage servicing rights was \$1.0 billion at December 31, 2010 compared with \$1.3 billion at December 31, 2009. The decline in fair value resulted from lower mortgage rates at December 31, 2010 and a smaller servicing portfolio.

Table of Contents**BLACKROCK***(Unaudited)*

Information related to our equity investment in BlackRock follows:

Year ended December 31

Dollars in millions	2010	2009
Business segment earnings (a)	\$ 351	\$ 207
PNC's economic interest in BlackRock (b)	20%	24%

(a) Includes PNC's share of BlackRock's reported GAAP earnings and additional income taxes on those earnings incurred by PNC.
(b) At December 31.

	Dec. 31	Dec. 31
In billions	2010	2009
Carrying value of PNC's investment in BlackRock (c)	\$ 5.1	\$5.8
Market value of PNC's investment in BlackRock (d)	6.9	10.1

(c) The December 31, 2010 amount is comprised of our equity investment of \$5.0 billion and \$0.1 billion of goodwill and accumulated other comprehensive income related to our BlackRock investment. The comparable amounts at December 31, 2009 were \$5.7 billion and \$0.1 billion. PNC accounts for its investment in BlackRock under the equity method of accounting. The investment amounts above are exclusive of a related \$1.8 billion deferred tax liability at December 31, 2010 and \$1.9 billion deferred tax liability at December 31, 2009.
(d) Does not include liquidity discount.

BLACKROCK SECONDARY COMMON STOCK OFFERING

During November 2010, BlackRock completed a secondary offering of 58.7 million shares of its common stock at a price per share of \$163.00. Of the shares offered, 51.2 million common shares were offered by another BlackRock shareholder and 7.5 million common shares were offered by PNC. The shares offered by PNC were common shares issuable upon conversion of shares of BlackRock's Series B Preferred Stock. PNC recognized a pretax gain of \$160 million in noninterest income during the fourth quarter of 2010 related to our sale of shares of BlackRock common stock in this offering. Also in connection with this offering, PNC converted an additional 11.1 million shares of BlackRock's Series B Preferred Stock to common stock. Although we elected to adjust our stake in BlackRock, we continue to consider our investment in BlackRock a key component of our diversified revenue strategy.

BLACKROCK/BARCLAYS GLOBAL INVESTORS TRANSACTION

On December 1, 2009, BlackRock acquired BGI from Barclays Bank PLC in exchange for approximately \$6.65 billion in cash and 37,566,771 shares of BlackRock common

and participating preferred stock. In connection with the BGI transaction, BlackRock entered into a stock purchase agreement with PNC in which we purchased 3,556,188 shares of BlackRock's Series D Preferred Stock at a price of \$140.60 per share, or \$500 million, to partially finance the transaction. On January 31, 2010, the Series D Preferred Stock was converted to Series B Preferred Stock.

BLACKROCK LTIP AND EXCHANGE AGREEMENTS

PNC's noninterest income for 2009 included a pretax gain of \$98 million related to our BlackRock LTIP shares obligation. This gain represented the mark-to-market adjustment related to our remaining BlackRock LTIP common shares obligation and resulted from the decrease in the market value of BlackRock common shares in that period. Additional information regarding our BlackRock LTIP shares obligation and the Exchange Agreements entered into on December 26, 2008 is included in Note 15 Stock-Based Compensation Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

On February 27, 2009, PNC's remaining obligation to deliver BlackRock common shares was replaced with an obligation to deliver shares of BlackRock's new Series C Preferred Stock. PNC acquired 2.9 million shares of Series C Preferred Stock from BlackRock in exchange for common shares on that same date. PNC accounts for its BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock.

The fair value amount of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 8 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report.

PNC accounts for its remaining investment in BlackRock under the equity method of accounting. Our percentage ownership of BlackRock common stock (approximately 25% at December 31, 2010) is higher than our overall share of BlackRock's equity and earnings. The transactions related to the Exchange Agreements do not affect our right to receive dividends declared by BlackRock.

Table of Contents**DISTRESSED ASSETS PORTFOLIO***(Unaudited)*

Year ended December 31

Dollars in millions, except as noted	2010	2009
INCOME STATEMENT		
Net interest income	\$ 1,217	\$ 1,079
Noninterest income	(92)	74
Total revenue	1,125	1,153
Provision for credit losses	976	771
Noninterest expense	250	246
Pretax earnings (loss)	(101)	136
Income taxes (benefit)	(37)	52
Earnings (loss)	\$ (64)	\$ 84
AVERAGE BALANCE SHEET		
COMMERCIAL LENDING:		
Commercial/Commercial real estate (a)	\$ 2,240	\$ 3,384
Lease financing	781	818
Total commercial lending	3,021	4,202
CONSUMER LENDING:		
Consumer (b)	6,240	7,101
Residential real estate	7,585	9,813
Total consumer lending	13,825	16,914
Total portfolio loans	16,846	21,116
Other assets	671	1,728
Total assets	\$ 17,517	\$ 22,844
Deposits	\$ 64	\$ 39
Other liabilities	90	92
Capital	1,321	1,574
Total liabilities and equity	\$ 1,475	\$ 1,705
PERFORMANCE RATIOS		
Return on average capital	(5)%	5%
Return on average assets	(.37)	.37
OTHER INFORMATION		
Nonperforming assets (c) (d)	\$ 1,243	\$ 1,787
Impaired loans (c) (e)	\$ 5,879	\$ 7,577
Net charge-offs (f)	\$ 677	\$ 544
Net charge-off ratio (f)	4.02%	2.58%
LOANS (c)		
COMMERCIAL LENDING		
Commercial/Commercial real estate (a)	\$ 1,684	\$ 2,561
Lease financing	764	805
Total commercial lending	2,448	3,366
CONSUMER LENDING		
Consumer (b)	5,769	6,673
Residential real estate	6,564	8,467
Total consumer lending	12,333	15,140
Total loans	\$ 14,781	\$ 18,506

(a) Primarily commercial residential development loans.

(b) Primarily brokered home equity loans.

(c) As of December 31.

(d) Includes nonperforming loans of \$.9 billion at December 31, 2010 and \$1.5 billion at December 31, 2009.

(e) Recorded investment of purchased impaired loans related to acquisitions. At December 31, 2010, this segment contained 76% of PNC's purchased impaired loans.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

(f) For the year ended December 31.

This business segment consists primarily of assets acquired through acquisitions and had a loss of \$64 million for 2010 compared with earnings of \$84 million for 2009. The decrease was primarily driven by a higher provision for credit losses.

Distressed Assets Portfolio overview:

Average loans declined to \$16.8 billion in 2010 compared with \$21.1 billion in 2009. The decline was due to portfolio management activities including loan sales, efforts to encourage customers to refinance or pay off loan balances, and charge-offs.

Sales of residential mortgage loans and brokered home equity loans with unpaid principal balances of approximately \$1.6 billion and carrying value of \$0.6 billion closed during the third quarter of 2010. The sales were structured to minimize potential repurchase risk, and we do not have any continuing servicing involvement.

Net interest income was \$1.2 billion in 2010 compared with \$1.1 billion for 2009. The increase was driven by improved cash collection results on impaired loans which more than offset the decline in average loans.

Noninterest income was a loss of \$92 million for 2010 compared with revenue of \$74 million for 2009 due to an increase in repurchase liability for potential repurchases of brokered home equity loans sold during 2005-2007. Additionally, loan sale gains were higher in 2009 than 2010.

The provision for credit losses was \$976 million in 2010 compared with \$771 million in 2009. The provision for 2010 included \$109 million recognized on the third quarter sales of residential mortgage loans and brokered home equity loans.

Noninterest expense for 2010 was \$250 million, up slightly from \$246 million in 2009.

Nonperforming loans decreased \$.6 billion, to \$.9 billion, at December 31, 2010 compared with December 31, 2009. The consumer lending portfolio comprised 52% of the nonperforming loans at December 31, 2010. Similar to other banks, PNC elected to delay foreclosures on residential mortgages. Nonperforming consumer loans decreased \$.3 billion.

Net charge-offs were \$677 million for 2010 and \$544 million for 2009. The increase was driven by \$75 million of net charge-offs related to the residential mortgage loan sales in the third quarter and deterioration in the residential construction portfolio.

Certain loans in this business segment may require special servicing given current loan performance and market conditions. Consequently, the business activities of this segment are focused on maximizing the value of the portfolio assigned to it while mitigating risk. Business intent drives the inclusion of assets in this business segment. Not all impaired

Table of Contents

loans are included in this business segment, nor are all of the loans included in this business segment considered impaired.

The \$14.8 billion of loans held in this portfolio at December 31, 2010 are stated inclusive of a fair value adjustment on purchased impaired loans at acquisition. Taking the adjustment and the ALLL into account, the net carrying basis of this loan portfolio is 80% of customer outstandings.

Commercial Lending within the Distressed Assets Portfolio business segment is comprised of \$1.7 billion in residential development assets (i.e. condominiums, townhomes, developed and undeveloped land) primarily acquired from National City and \$.8 billion of performing cross-border leases. This commercial lending portfolio has declined 27% since December 31, 2009. For the residential development portfolio, a team of asset managers actively deploy workout strategies on this portfolio through reducing unfunded loan exposure, refinancing, customer payoffs, foreclosures and loan sales. The overall credit quality of this portfolio is considered to be moderately better at December 31, 2010 compared with the beginning of 2010 based upon continuing dispositions of credits, improved economic conditions and increased activity in several markets. The cross-border portfolio continues to demonstrate good credit quality.

The performance of the Consumer Lending portfolio is dependent upon economic growth, unemployment rates, the housing market recovery and the interest rate environment. The portfolio's credit quality performance has stabilized through actions taken by management over the last two years. Approximately 78% of customers have been current with principal and interest payments for the past 12 months. Currently, the portfolio yields over 7%. Consumer Lending consists of residential real estate mortgages and consumer or brokered home equity loans.

Residential real estate mortgages are primarily legacy National City originate-for-sale programs that have been discontinued and acquired portfolios. The residential real estate mortgage portfolio is composed of jumbo and ALT-A first lien mortgages, non-prime first and second lien mortgages and to a lesser extent, residential construction loans. We have implemented internal and external programs to proactively explore refinancing opportunities that would allow the borrower to qualify for a conforming mortgage loan which would be originated and sold by PNC or originated by a third-party originator. Also, loss mitigation programs have been developed to help manage risk and assist borrowers to maintain homeownership, when possible.

Home equity loans include second liens and brokered home equity lines of credit. We have implemented several modification programs to assist the loss mitigation teams that manage this risk. Additionally,

we have initiated several voluntary and involuntary programs to reduce and/or block line availability on home equity lines of credit.

When loans are sold, investors may request PNC to indemnify them against losses or to repurchase loans that they believe do not comply with applicable representations. From 2005 to 2007, home equity loans were sold with such representations. At December 31, 2010, the liability for estimated losses on repurchase and indemnification claims for the Distressed Assets Portfolio business segment was \$150 million. We recognized \$47 million of additional reserves in the fourth quarter of 2010. See the Recourse and Repurchase Obligations section of this Item 7 and Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report for additional information.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Fair Value Measurements

We must use estimates, assumptions, and judgments when assets and liabilities are required to be recorded at, or adjusted to reflect, fair value.

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 either quoted market prices or are provided by independent third-party sources, including appraisers and valuation specialists, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact our future financial condition and results of operations.

Effective January 1, 2008, PNC adopted Fair Value Measurements and Disclosures (Topic 820). This guidance defines fair value as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. This guidance established a three level

Table of Contents

hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable.

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

Fair Value Measurements included within this Item 7, and

Note 8 Fair Value included in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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

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

Probability of default,

Loss given default,

Exposure at date of default,

Amounts and timing of expected future cash flows,

Value of collateral, and

Qualitative factors such as changes in economic conditions that may not be reflected in historical results.

In determining the adequacy of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans. We also allocate reserves to provide coverage for probable losses incurred in the portfolio at the balance sheet date based upon current market conditions, which may not be reflected in historical loss data. While allocations are made to specific loans and pools of loans, the total reserve is available for all credit losses.

Commercial lending is the largest category of credits and is the most sensitive to changes in assumptions and judgments underlying the determination of the ALLL. We have allocated approximately \$2.6 billion, or 53%, of the ALLL at December 31, 2010 to the commercial lending category. Consumer lending allocations are made based on historical loss experience adjusted for recent activity. Approximately \$2.3 billion, or 47%, of the ALLL at December 31, 2010 have been allocated to these consumer lending categories.

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

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

Estimated Cash Flows on Purchased Impaired Loans

ASC Sub-Topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly SOP 03-3) provides the GAAP guidance for accounting for certain loans. These loans have experienced a deterioration of credit quality from origination to acquisition for which it is probable that the investor will be unable to collect all contractually required payments receivable, including both principal and interest.

In our assessment of credit quality deterioration, we must make numerous assumptions, interpretations and judgments, using internal and third-party credit quality information to determine whether it is probable that we will be able to collect all contractually required payments. This point in time assessment is inherently subjective due to the nature of the available information and judgment involved.

Those loans that qualify under Sub-Topic 310-30 are recorded at fair value at acquisition, which involves estimating the expected cash flows to be received. Measurement of the fair value of the loan is based on the provisions of Topic 820. Also, GAAP prohibits the carryover or establishment of an allowance for loan losses on the acquisition date.

Subsequent to the acquisition of the loan, GAAP requires that we continue to estimate cash flows expected to be collected over the life of the loan. The measurement of expected cash flows involves assumptions and judgments as to credit risk, interest rate risk, prepayment risk, default

rates, loss severity, payment speeds and collateral values. All of these factors are inherently subjective and can result in significant changes in the cash flow estimates over the life of the loan. Such changes in expected cash flows could increase future earnings volatility due to increases or decreases in the accretable yield (i.e., the difference between the undiscounted expected cash flows and the recorded investment in the loan). The accretable yield is recognized as interest income on a constant effective yield method over the life of the loan. In addition, changes in expected cash flows could result in the recognition of impairment through provision for credit losses if the decline in

Table of Contents

expected cash flows is attributable to a decline in credit quality.

Goodwill

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

As such, the value of goodwill is ultimately supported by earnings, which is driven by transaction volume and, for certain businesses, the market value of assets under administration or for which processing services are provided. Lower earnings resulting from a lack of growth or our inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could result in a current period charge to earnings. At least annually, in the fourth quarter, management reviews the current operating environment and strategic direction of each reporting unit taking into consideration any events or changes in circumstances that may have an effect on the unit. A reporting unit is defined as an operating segment or one level below an operating segment. This input is then used to calculate the fair value of the reporting unit, which is compared to its carrying value. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit is not considered impaired. However, if the fair value of the reporting unit is less than its carrying amount, the reporting unit's goodwill would be evaluated for impairment.

The fair values of our reporting units are determined using a discounted cash flow valuation model with assumptions based upon market comparables. Based on the results of our analysis, there have been no impairment charges related to goodwill in 2010, 2009 or 2008. See Note 9 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Lease Residuals

We provide financing for various types of equipment, aircraft, energy and power systems, and rolling stock through a variety of lease arrangements. Direct financing leases are carried at the sum of lease payments and the estimated residual value of the leased property, less unearned income. Residual value insurance or guarantees by governmental entities provide support for a significant portion of the residual value. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in

economic and market conditions and the financial viability of the residual guarantors and insurers. Residual values are derived from historical remarketing experience, secondary market contacts, and industry publications. To the extent not guaranteed or assumed by a third party, or otherwise insured against, we bear the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the residual value, which could result in an impairment charge and reduce earnings in the future. Residual values are reviewed for impairment on a quarterly basis.

Revenue Recognition

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

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

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

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

Residential Mortgage Servicing Rights

In conjunction with the acquisition of National City, PNC acquired servicing rights for residential real estate loans. We have elected to measure these mortgage servicing rights (MSRs) at fair value. MSRs are established and valued using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and numerous other factors.

PNC employs a risk management strategy designed to protect the value of MSRs from changes in interest rates and related market factors. MSR values are economically hedged with

Table of Contents

securities and a portfolio of derivatives, including interest-rate swaps, options, and forward mortgage-backed and futures contracts. As interest rates change, these financial instruments are expected to have changes in fair value which are negatively correlated to the change in fair value of the hedged MSR portfolio. The hedge relationships are actively managed in response to changing market conditions over the life of the MSR assets. Selecting appropriate financial instruments to hedge this risk requires significant management judgment to assess how mortgage rates and prepayment speeds could affect the future values of MSRs. Hedging results can frequently be volatile in the short term, but over longer periods of time are expected to protect the economic value of the MSR portfolio.

The fair value of residential MSRs and significant inputs to the valuation model as of December 31, 2010 are shown in the table below. The expected and actual rates of mortgage loan prepayments are the most significant factors driving the fair value. Management uses a third party model to estimate future loan prepayments. This model has been refined based on historical performance of PNC's managed portfolio, as adjusted for current market conditions. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied forward interest rates to estimate the future direction of mortgage and discount rates. The forward rates utilized are derived from the current yield curve for U.S. dollar interest rate swaps and are consistent with pricing of capital markets instruments. Changes in the shape and slope of the forward curve in future periods may result in volatility in the fair value estimate.

Dollars in millions	Dec. 31, 2010	Dec. 31 2009
Fair value	\$ 1,033	\$ 1,332
Weighted-average life (in years) (a)	5.8	4.5
Weighted-average constant prepayment rate (a)	12.61%	19.92%
Spread over forward interest rate swap rates	12.18%	12.16%

(a) Changes in weighted-average life and weighted-average constant prepayment rate reflect the cumulative impact of changes in rates, prepayment expectations and model changes.

A sensitivity analysis of the hypothetical effect on the fair value of MSRs to adverse changes in key assumptions is presented below. These sensitivities do not include the impact of the related hedging activities. Changes in fair value generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in mortgage interest rates, which drive changes in prepayment rate estimates, could result in changes in the interest rate spread), which could either magnify or counteract the sensitivities.

Dollars in millions	Dec. 31, 2010	Dec. 31, 2009
Prepayment rate:		
Decline in fair value from 10% adverse change	\$ 34	\$ 56
Decline in fair value from 20% adverse change	\$ 65	\$ 109
Spread over forward interest rate swap rates:		
Decline in fair value from 10% adverse change	\$ 43	\$ 55
Decline in fair value from 20% adverse change	\$ 83	\$ 106

Income Taxes

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

We evaluate and assess the relative risks and merits of the appropriate tax treatment of transactions, filing positions, filing methods and taxable income calculations after considering statutes, regulations, judicial precedent, and other information, and maintain tax accruals consistent with our evaluation of these relative risks and merits. The result of our evaluation and assessment is by its nature an estimate. We and our subsidiaries are routinely subject to audit and challenges from taxing authorities. In the event we resolve a challenge for an amount different than amounts previously accrued, we will account for the difference in the period in which we resolve the matter.

Proposed Accounting Standards

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

The Financial Accounting Standards Board (FASB) issued several Exposure Drafts for comment during 2010 as well as the beginning of 2011, including, in May 2010, the Proposed Accounting Standards Update *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities - Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)*. Under the original proposal, most financial instruments (including loans and securities) would be measured at fair value with changes in fair value recognized in either net income or other comprehensive income. Additional aspects of this proposal included modifications for recognizing credit impairments, changes to hedge accounting requirements, and disclosures of both fair value and amortized cost information on the face of the financial statements. At a recent FASB meeting, it was tentatively decided that both the characteristics of the financial asset and an entity's business strategy should be used as criteria in determining the classification and measurement of financial assets as follows: 1.) Fair value measurement with all changes in fair value recognized in net income; 2.) Fair value measurement with qualifying changes in fair value recognized in other comprehensive income; and 3.) Amortized Cost. See the discussion below related to the Supplementary Document issued by the FASB for further updates to this Exposure Draft related to credit impairments.

Table of Contents

In July 2010, the FASB issued Proposed Accounting Standards Update *Contingencies (Topic 450) Disclosure of Certain Loss Contingencies*. Under the proposal, additional disclosures would be required, including for remote loss contingencies with a potentially severe impact and a tabular reconciliation of accrued loss contingencies. Changes to the proposed ASU, are scheduled to be re-deliberated and a final standard is currently expected in the second half of 2011.

In August 2010, the FASB issued Proposed Accounting Standards Update *Leases (Topic 840)*. Under the proposal, lessees and lessors would apply a right-of-use model in accounting for most leases, including subleases. A lessee would recognize an asset representing its right to use the leased asset for the lease term and a liability to make lease payments and a lessor would recognize an asset representing its right to receive lease payments and recognize a lease liability while continuing to recognize the underlying asset or a residual asset representing its rights to the underlying asset at the end of the lease term. The exposure draft also proposes disclosures about the amounts recognized in the financial statements arising from leases and the amount, timing and uncertainty of cash flows arising from those contracts.

In October 2010, the FASB issued Proposed Accounting Standards Update *Receivables (Topic 310-30) Clarification to Accounting for Troubled Debt Restructurings by Creditors*. The proposed ASU would preclude a creditor from using only an effective rate test in its evaluation of whether a restructuring constitutes a troubled debt restructuring. Furthermore, guidance would be clarified to indicate 1) If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be below a market rate and therefore should be considered a troubled debt restructuring, 2) A restructuring that results in a temporary or permanent increase in the contractual interest rate cannot be presumed to be at a rate that is at or above market, 3) A borrower that is not currently in default may still be considered to be experiencing financial difficulty when payment default is considered probable in the foreseeable future and 4) A restructuring that results in an insignificant delay in contractual cash flows may still be considered a troubled debt restructuring. Under the proposal, additional disclosures (including comparative information) would be required.

In November 2010, the FASB issued Proposed Accounting Standards Update *Transfers and Servicing (Topic 860) Reconsideration of Effective Control for Repurchase Agreements*. The objective of this proposed ASU is to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to

repurchase or redeem financial assets before their maturity. This proposed update would remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) implementation guidance related to the criterion.

In December 2010, the FASB issued Proposed Accounting Standards Update *Receivables (Topic 310-30) Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20*. Under the proposal, the effective date requiring the additional disclosures about troubled debt restructurings in ASU 2010-20 would be delayed indefinitely. This delay will allow the Board to complete deliberations on Proposed ASU *Receivables (Topic 310-30) Clarifications to Accounting for Troubled Debt Restructurings by Creditors*. This proposal was finalized and issued in January 2011 as Accounting Standards Update 2011-01.

In January 2011, the FASB issued Proposed Accounting Standards Update *Balance Sheet Offsetting*. Under the proposal, balance sheet netting/offsetting would be required if: 1.) the right of set-off is enforceable at all times, including in default and bankruptcy; and 2.) the ability to exercise this right is unconditional; and 3.) the entities involved must intend to settle the amounts due with a single payment, or simultaneously.

In January 2011, the FASB issued Supplementary Document *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities Impairment*. The Supplementary Document proposes that impairment would be measured based on expected credit losses for the life of the instrument. For specific instruments where collectability becomes so uncertain that the entity's credit risk management objective changes from receiving regular principal and interest payments to recovery of the collateral, the financial asset will be classified in a bad book. For these instruments, impairment will be recognized immediately. All other instruments will be classified by portfolio in a good book. For these instruments, impairment will be recognized at the greater of (1) the expected credit losses proportionally over the life of the portfolio or (2) the expected credit losses within the foreseeable future (but not less than 12 months).

Recent Accounting Pronouncements

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report for information on new accounting pronouncements that were effective in 2009, 2010 or became effective on January 1, 2011.

Table of Contents**STATUS OF QUALIFIED DEFINED BENEFIT PENSION PLAN**

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are a percentage of eligible compensation. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. Consistent with our investment strategy, plan assets are primarily invested in equity investments and fixed income instruments. Plan fiduciaries determine and review the plan's investment policy, which is described more fully in Note 14 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report.

We calculate the expense associated with the pension plan and the assumptions and methods that we use include a policy of reflecting trust assets at their fair market value. On an annual basis, we review the actuarial assumptions related to the pension plan. The primary assumptions used to measure pension obligations and costs are the discount rate, compensation increase and expected long-term return on assets. Among these, the compensation increase assumption does not significantly affect pension expense.

The discount rate used to measure pension obligations is determined by comparing the expected future benefits that will be paid under the plan with yields available on high quality corporate bonds of similar duration. In lower interest rate environments, the sensitivity of pension expense to the assumed discount rate increases. The impact on pension expense of a 0.5% decrease in discount rate in the current environment is \$19 million. In contrast, the sensitivity to the same change in discount rate in a higher interest rate environment is less significant.

The expected long-term return on assets assumption also has a significant effect on pension expense. The expected return on plan assets is a long-term assumption established by considering historical and anticipated returns of the asset classes invested in by the pension plan and the asset allocation policy currently in place. For purposes of setting and reviewing this assumption, "long term" refers to the period over which the plan's projected benefit obligations will be disbursed. We review this assumption at each measurement date and adjust it if warranted. Our selection process references certain historical data and the current environment, but primarily utilizes qualitative judgment regarding future return expectations. Accordingly, we generally do not change the assumption unless we modify our investment strategy or identify events that would alter our expectations of future returns.

To evaluate the continued reasonableness of our assumption, we examine a variety of viewpoints and data. Various studies have shown that portfolios comprised primarily of US equity securities have returned approximately 10% annually over long periods of time, while US debt securities have returned approximately 6% annually over long periods. Application of these historical returns to the plan's allocation ranges for equities and bonds produces a result between 7.25% and 8.75% and is one point of reference, among many other factors, that is taken into consideration. We also examine the plan's actual historical returns over various periods. Recent experience is considered in our evaluation with appropriate consideration that, especially for short time periods, recent returns are not reliable indicators of future returns. While annual returns can vary significantly (rates of return for 2010, 2009, and 2008 were +14.87%, +20.61%, and -32.91%, respectively), the selected assumption represents our estimated long-term average prospective returns.

Acknowledging the potentially wide range for this assumption, we also annually examine the assumption used by other companies with similar pension investment strategies, so that we can ascertain whether our determinations markedly differ from others. In all cases, however, this data simply informs our process, which places the greatest emphasis on our qualitative judgment of future investment returns, given the conditions existing at each annual measurement date.

Taking into consideration all of these factors, the expected long-term return on plan assets for determining net periodic pension cost for 2010 was 8.00%, down from 8.25% for 2009 to reflect a decrease during 2010 in the midpoint of the plan's target allocation range for equities by approximately five percentage points. After considering the views of both internal and external capital market advisors, particularly with regard to the effects of the recent economic environment on long-term prospective fixed income returns, we are reducing our expected long-term return on assets to 7.75% for determining pension cost for 2011, down from 8.00% in 2010.

Under current accounting rules, the difference between expected long-term returns and actual returns is accumulated and amortized to pension expense over future periods. Each one percentage point difference in actual return compared with our expected return causes expense in subsequent years to change by up to \$9 million as the impact is amortized into results of operations.

Table of Contents

The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2011 estimated expense as a baseline.

	Estimated Increase to 2011 Pension Expense
	(In millions)
Change in Assumption (a)	
.5% decrease in discount rate	\$ 19
.5% decrease in expected long-term return on assets	\$ 19
.5% increase in compensation rate	\$ 3

(a) The impact is the effect of changing the specified assumption while holding all other assumptions constant.

We currently estimate a pretax pension expense of \$11 million in 2011 compared with pretax expense of \$46 million in 2010. This year-over-year expected reduction is primarily due to the amortization impact of the favorable 2010 investment returns as compared with the expected long-term return assumption, which has been established by considering the time over which the Plan's obligations are expected to be paid.

Our pension plan contribution requirements are not particularly sensitive to actuarial assumptions. Investment performance has the most impact on contribution requirements and will drive the amount of permitted contributions in future years. Also, current law, including the provisions of the Pension Protection Act of 2006, sets limits as to both minimum and maximum contributions to the plan. We do not expect to be required by law to make any contributions to the plan during 2011.

We maintain other defined benefit plans that have a less significant effect on financial results, including various nonqualified supplemental retirement plans for certain employees.

RECOURSE AND REPURCHASE OBLIGATIONS

As discussed in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Item 8 of this Report, PNC has sold commercial mortgage and residential mortgage loans directly or indirectly in securitizations and whole-loan sale transactions with continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets in these transactions.

Commercial Mortgage Recourse Obligations

We originate, close, and service certain commercial mortgage loans which are sold to FNMA under FNMA's Delegated Underwriting and Servicing (DUS) program. We have similar arrangements with FHLMC.

Under these programs, we generally assume up to a one-third pari passu risk of loss on unpaid principal balances through a loss share arrangement. At December 31, 2010 and 2009, the unpaid principal balance outstanding of loans sold under these programs was \$13.2 billion and \$19.7 billion, respectively. At December 31, 2010 and 2009, the potential maximum exposure under the loss share arrangements was \$4.0 billion and \$6.0 billion, respectively. We maintain a reserve based upon these potential losses. The reserve for losses under these programs totaled \$54 million and \$71 million as of December 31, 2010 and 2009, respectively, and is included in Other liabilities on our Consolidated Balance Sheet. If payment is required under these programs, we would not have a contractual interest in the collateral underlying the mortgage loans on which losses occurred, although the value of the collateral is taken into account in determining our share of such losses. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment.

Analysis of Commercial Mortgage Recourse Obligations

In millions	2010	2009
January 1	\$ 71	\$ 79

Reserve adjustments, net	9	(3)
Losses — loan repurchases and settlements	(2)	(5)
Loan sales (a)	(24)	
December 31	\$ 54	\$ 71

(a) Primarily due to the sale of a duplicative agency servicing operation.

Residential Mortgage Loan Repurchase Obligations

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to situations where PNC is alleged to have breached certain origination covenants and representations and warranties made to purchasers of the loans in the respective purchase and sale agreements. Residential mortgage loans covered by these loan repurchase obligations include first and second-lien mortgage loans we have sold through Agency securitizations, Non-Agency securitizations, and whole-loan sale transactions. As discussed in Note 3 in the Notes To Consolidated Financial Statements in Item 8 of this Report, Agency securitizations consist of mortgage loan sale transactions with FNMA, FHLMC, and GNMA, while Non-Agency securitizations and whole-loan sale transactions consist of mortgage loan sale transactions with private investors. Our exposure and activity associated with these loan repurchase obligations is reported in the Residential Mortgage Banking segment. In addition, PNC's residential mortgage loan repurchase obligations include certain brokered home equity loans/lines that were sold to private investors by National City prior to our acquisition. PNC is no longer engaged in the business of originating and selling brokered home equity loans/lines, and our exposure under these loan repurchase obligations is reported in the Distressed Assets Portfolio segment.

Table of Contents

Loan covenants and representations and warranties are established through loan sale agreements with various investors to provide assurance that PNC has sold loans to investors of sufficient investment quality. Key aspects of such covenants and representations and warranties include the loan's compliance with any applicable loan criteria established by the investor, including underwriting standards, delivery of all required loan documents to the investor or its designated party, sufficient collateral valuation, and the validity of the lien securing the loan. As a result of alleged breaches of these contractual obligations, investors may request PNC to indemnify them against losses on certain loans or to repurchase loans. Indemnifications for loss or loan repurchases typically occur when, after review of the claim, we agree insufficient evidence exists to dispute the investor's claim that a breach of a loan covenant and representation and warranty has occurred, such breach has not been cured, and the effect of such breach is deemed to have had a material and adverse effect on the value of the transferred loan. Depending on the sale agreement and upon proper notice from the investor, we typically respond to such indemnification and repurchase requests within 60 days, although final resolution of the claim may take a longer period of time. With the exception of the sales agreements associated with the Agency securitizations, most sale agreements do not provide for penalties or other remedies if we do not respond timely to investor indemnification or repurchase requests.

Investor indemnification or repurchase claims are typically settled on an individual loan basis through make-whole

payments or loan repurchases; however, on occasion we may negotiate pooled settlements with investors. The table below details the unpaid principal balance of our unresolved indemnification and repurchase claims at December 31, 2010 and 2009.

Analysis of Unresolved Asserted Indemnification and Repurchase Claims

As of December 31 in millions	2010	2009
Residential mortgages:		
Agency securitizations	\$ 110	\$ 76
Private investors (a)	100	68
Home equity loans/lines:		
Private investors (b)	299	315
Total unresolved claims	\$ 509	\$ 459

(a) Activity relates to loans sold through Non-Agency securitization and whole-loan sale transactions.

(b) Activity relates to brokered home equity loans/lines sold through whole-loan sale transactions which occurred during 2005-2007.

To mitigate losses associated with indemnification and repurchase claims, we have established quality assurance programs designed to ensure loans sold meet specific underwriting and origination criteria provided for in the investor sale agreements. In addition, we investigate every investor claim on a loan by loan basis to ensure the existence of a legitimate claim, and that all other conditions for indemnification or repurchase have been met prior to the settlement with an investor.

The table below details our indemnification and repurchase claim settlement activity during 2010 and 2009. Any repurchased loan is appropriately considered in our nonperforming loan disclosures and statistics.

Analysis of Indemnification and Repurchase Claim Settlement Activity

Year ended December 31 in millions	2010			2009		
	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
Agency securitizations	\$ 358	\$ 151	\$ 150	\$ 410	\$ 182	\$ 182
Private investors (e)	127	54	31	199	119	63

Home equity loans/lines:

Private investors - Repurchases (f) (g)	28	25	3	56	47	9
Total indemnification and repurchase settlements	\$ 513	\$ 230	\$ 184	\$ 665	\$ 348	\$ 254

- (a) Represents unpaid principal balance of loans at the indemnification or repurchase date.
- (b) Represents both i) amounts paid for indemnification payments and ii) the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability.
- (c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification payments are made to investors.
- (d) Repurchase activity associated with insured loans, government-guaranteed loans, and loans repurchased through the exercise of our removal of account provision (ROAP) option are excluded from this table. Refer to Note 3 in the Notes To Consolidated Financial Statements in Item 8 of this Report for further discussion of ROAPs.
- (e) Activity relates to loans sold through Non-Agency securitizations and whole-loan sale transactions.
- (f) Activity relates to brokered home equity loans/lines sold through whole-loan sale transactions which occurred during 2005-2007.
- (g) Excludes payments of \$10 million in 2010 and \$4 million in 2009 associated with pooled brokered home equity loan indemnification settlements on future claims.

Table of Contents

During 2010 and 2009, unresolved and settled investor indemnification and repurchase claims were primarily related to one of the following alleged breaches in representations and warranties: 1) misrepresentation of income, assets or employment; 2) property evaluation or status issues (e.g., appraisal, title, etc.); or 3) underwriting guideline violations. Additionally during these years, the frequency and timing of unresolved and settled investor indemnification and repurchase claims increased as a result of higher loan delinquencies which have been impacted by the deterioration in the overall economy and the prolonged weak residential housing sector. The increased volume of claims was also reflective of an industry trend where investors implemented certain strategies to aggressively reduce their exposure to losses on purchased loans.

For the first and second-lien mortgage balances of unresolved and settled claims contained in the tables above, a significant amount of these claims were associated with sold loans originated through correspondent lender and broker origination channels. For the home equity loans/lines sold portfolio, all unresolved and settled claims relate to loans originated through the broker origination channel. In certain instances when indemnification or repurchase claims are settled for these types of sold loans, we have recourse back to the correspondent lenders, brokers and other third-parties (e.g., contract underwriting companies, closing agents, appraisers, etc.). Depending on the underlying reason for the investor claim, we determine our ability to pursue recourse with these parties and file claims with them accordingly. Our historical recourse recovery rate has been insignificant as our efforts have been impacted by the inability of such parties to reimburse us for their recourse obligations (e.g., their capital availability or whether they remain in business) or contractual limitations that limit our ability to pursue recourse with these parties (e.g., loss caps, statutes of limitations, etc.). All of these factors are considered in the determination of our estimated indemnification and repurchase liability detailed below.

Origination and sale of residential mortgages is an ongoing business activity and, accordingly, management continually

assesses the need for indemnification and repurchase liabilities pursuant to the associated investor sale agreements. We establish indemnification and repurchase liabilities for estimated losses on sold first and second-lien mortgages and home equity loans/lines for which indemnification is expected to be provided or for loans that are expected to be repurchased. For the first and second-lien mortgage sold portfolio, we have established an indemnification and repurchase liability pursuant to investor sale agreements based on claims made and our estimate of future claims on a loan by loan basis. These relate primarily to loans originated during 2006-2008. For the home equity loans/lines sold portfolio, we have established indemnification and repurchase liabilities based upon this same methodology for loans sold during 2005-2007.

Indemnification and repurchase liabilities are initially recognized when loans are sold to investors and are subsequently evaluated for adequacy by management. Initial recognition and subsequent adjustments to the indemnification and repurchase liability for the first and second-lien mortgage sold portfolio are recognized in Residential mortgage revenue on the Consolidated Income Statement. Since PNC is no longer engaged in the brokered home equity lending business, only subsequent adjustments are recognized to the home equity loans/lines indemnification and repurchase liability. These adjustments are recognized in other noninterest income on the Consolidated Income Statement.

Management's subsequent evaluation of these indemnification and repurchase liabilities is based upon trends in indemnification and repurchase requests, actual loss experience, known and inherent risks in the underlying serviced loan portfolios, and current economic conditions. As part of its evaluation, management considers estimated loss projections over the life of the subject loan portfolio. At December 31, 2010 and 2009, the total indemnification and repurchase liability for estimated losses on indemnification and repurchase claims totaled \$294 million and \$270 million, respectively, and was included in Other liabilities on the Consolidated Balance Sheet. An analysis of the changes in this liability during 2010 and 2009 follows:

Analysis of Indemnification and Repurchase Liability for Asserted and Unasserted Claims

In millions	2010			2009		
	Residential Mortgages (a)	Home Equity Loans/Lines (b)	Total Mortgages (a)	Residential Mortgages (a)	Home Equity Loans/Lines (b)	Total
January 1	\$ 229	\$ 41	\$ 270	\$ 300	\$ 101	\$ 401
Reserve adjustments, net (c)	120	144	264	230	(9)	221
Losses loan repurchases and settlements	(205)	(35)	(240)	(301)	(51)	(352)
December 31	\$ 144	\$ 150	\$ 294	\$ 229	\$ 41	\$ 270

(a) Repurchase obligation associated with sold loan portfolios of \$139.8 billion and \$157.2 billion at December 31, 2010 and December 31, 2009, respectively.

(b)

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Repurchase obligation associated with sold loan portfolios of \$6.5 billion and \$7.5 billion at December 31, 2010 and December 31, 2009, respectively. PNC is no longer engaged in the brokered home equity business which was acquired with National City.

- (c) Includes \$157 million in 2009 for residential mortgages related to the final purchase price allocation associated with the National City acquisition.

Table of Contents

The decrease in the residential mortgages indemnification and repurchase liability in 2010 and 2009 was reflective of lower actual repurchase and indemnification losses driven primarily by higher claim rescission rates. This decrease resulted despite higher levels of investor indemnification and repurchase claim activity as described above. The 2009 decrease in the home equity loans/lines indemnification and repurchase liability resulted primarily from the reduction in loss exposure associated with pooled settlement activity. Conversely, the 2010 increase in this liability was attributable to management's estimate that higher anticipated losses will result from higher forecasted volumes of asserted and unasserted indemnification and repurchase claims.

We believe our indemnification and repurchase liabilities adequately reflect the estimated losses on anticipated investor indemnification and repurchase claims at December 31, 2010 and 2009. However, actual losses could be more or less than our established indemnification and repurchase liability. Factors that could affect our estimate include the timing and frequency of investor claims driven by investor strategies and behavior, our ability to successfully negotiate claims with investors, the housing markets which drive the estimates made for loan indemnification and repurchase losses, and other economic conditions. Accordingly, if we assumed an adverse change of 10% for the indemnification and repurchase claims, claim rescission rates, and indemnification and repurchase loss assumptions in our indemnification and repurchase liability model, this liability would increase to \$334 million at December 31, 2010.

RISK MANAGEMENT

We encounter risk as part of the normal course of our business and we design risk management processes to help manage these risks. This Risk Management section describes our risk management philosophy, principles, governance and various aspects of our corporate-level risk management program. We also provide an analysis of our primary areas of risk: credit, operational, liquidity, and market. The discussion of market risk is further subdivided into interest rate, trading, and equity and other investment risk areas. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the Risk Management section of this Item 7. In appropriate places within this section, historical performance is also addressed.

Risk Management Philosophy

PNC's risk management philosophy is to manage to an overall moderate level of risk to capture opportunities and optimize shareholder value. We dynamically set our strategies and make distinct risk taking decisions with consideration for the impact to our aggregate risk profile. While, due to the National City acquisition and the overall state of the economy, our enterprise risk profile does not currently meet our desired moderate risk level, we have made substantial progress in returning to that level in 2009 and 2010.

Risk Management Principles

- Designed to only take risks consistent with our strategy and within our capability to manage,
- Limit risk-taking by a set of boundaries,
- Practice disciplined capital and liquidity management,
- Help ensure that risks and earnings volatility are appropriately understood, measured and rewarded,
- Avoid excessive concentrations, and
- Help support external stakeholder confidence in PNC.

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

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

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

Corporate-Level Risk Management Program

The corporate risk management organization has the following key roles:

- Facilitate the identification, assessment and monitoring of risk across PNC,
- Provide support and oversight to the businesses,

Help identify and implement risk management best practices, as appropriate, and
Work with the lines of business to shape and define PNC's business risk limits.

Risk Measurement

We conduct risk measurement activities specific to each area of risk. The primary vehicle for aggregation of enterprise-wide risk is a comprehensive risk management methodology that is based on economic capital. This primary risk aggregation measure is supplemented with secondary measures of risk to arrive at an estimate of enterprise-wide risk. The economic capital framework is a measure of potential losses above and beyond expected losses. Potential one year losses are capitalized to a level commensurate with a financial institution with an A rating by the credit rating agencies. Economic capital incorporates risk associated with potential credit losses (Credit Risk), fluctuations of the estimated market value of financial instruments (Market Risk), failure of people, processes or systems (Operational Risk), and losses associated with declining volumes, margins and/or fees, and the fixed cost structure of the business. We estimate credit and market

Table of Contents

risks at pool and exposure levels while we estimate the remaining risk types at an institution or business segment level. We routinely compare the output of our economic capital model with industry benchmarks.

Risk Control Strategies

Risk management is not about eliminating risks, but about identifying and accepting risks and then working to effectively manage them so as to optimize shareholder value.

We centrally manage policy development and exception approval and oversight through corporate-level risk management. Some of these policies express our risk appetite through limits to the acceptable level of risk. We are in excess of certain limits and are progressively managing to bring our risks within policy. We are also reviewing and revising certain policies to better reflect our larger and more complex organization. Corporate risk management is authorized to take action to either prevent or mitigate unapproved exceptions to policies and is responsible for monitoring compliance with risk management policies. The Corporate Audit function performs an independent assessment of the internal control environment. Corporate Audit plays a critical role in risk management, testing the operation of the internal control system and reporting findings to management and to the Audit Committee of the Board.

Risk Monitoring

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

CREDIT RISK MANAGEMENT

Credit risk represents the possibility that a customer, counterparty or issuer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers, purchasing securities, and entering into financial derivative transactions and certain guarantee contracts. Credit risk is one of our most significant risks.

Approved risk tolerances, in addition to credit policies and procedures, set portfolio objectives for the level of credit risk. We have established guidelines for problem loans, acceptable levels of total borrower exposure, and other credit measures. We seek to achieve our credit portfolio objectives by maintaining a customer base that is diverse in borrower exposure and industry types. We use loan sales and syndications and the purchase of credit derivatives to reduce risk concentrations. Corporate Credit personnel also participate in loan underwriting and approval processes to help ensure that newly approved loans meet policy and portfolio objectives.

The credit granting businesses maintain direct responsibility for monitoring credit risk within PNC. The Corporate Credit Policy area provides independent oversight to the measurement, monitoring and reporting of our credit risk and reports to the Chief Risk Officer. Corporate Audit also provides an independent assessment of the effectiveness of the credit risk management process. We also manage credit risk in accordance with regulatory guidance.

NONPERFORMING ASSETS, TROUBLED DEBT RESTRUCTURINGS AND LOAN DELINQUENCIES

Credit quality showed signs of improvement during 2010 and delinquency measures improved compared with prior periods. During 2010, we continued to see an improvement in credit migration for performing loans and a reduction in overall credit exposure.

Nonperforming assets decreased \$1.0 billion to \$5.3 billion at December 31, 2010 compared with \$6.3 billion at December 31, 2009. Nonperforming loans decreased \$1.2 billion to \$4.5 billion since December 31, 2009 while foreclosed and other assets increased \$190 million to \$835 million. The decrease in nonperforming loans was primarily due to improvements in our commercial lending and residential real estate portfolios, partially offset by increases in our consumer home equity portfolio. These consumer home equity nonperforming loan increases were largely due to increases in troubled debt restructurings (TDRs), as discussed in more detail below. Our foreclosed and other assets levels remained elevated as additions exceeded the ongoing high level of asset sales and other reductions. As of year-end, approximately 58% of our foreclosed and other assets are composed of single family residential properties. Nonperforming assets fell to 3.50% of total loans and foreclosed and other assets at December 31, 2010 compared with 3.99% at December 31, 2009. Loans held for sale are excluded from nonperforming loans.

Nonperforming assets at December 31, 2010 declined in the Corporate & Institutional Banking, Asset Management Group, Residential Mortgage Banking, and Distressed Assets Portfolio business segments compared with the balances at December 31, 2009 and increased 18% in the Retail Banking business segment. Increases in Retail Banking nonperforming assets largely reflect the addition of consumer TDRs.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

At December 31, 2010, our largest nonperforming asset was \$35 million in the Accommodation and Food Services Industry and our average nonperforming loan associated with commercial lending was approximately \$1 million.

Purchased impaired loans are excluded from nonperforming loans. These loans are considered performing, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans. The accretable yield represents the excess of the

Table of Contents

expected cash flows on the loans at the measurement date over the recorded investment. Any decrease, other than for prepayments or interest rate decreases for variable rate notes, in the net present value of expected cash flows of individual commercial or pooled consumer purchased impaired loans would result in an impairment charge to the provision for loan losses in the period in which the change is deemed probable. Any increase in the net present value of expected cash flows of purchased impaired loans would first result in a recovery of previously recorded allowance for loan losses, to the extent applicable, and then an increase to accretable yield for the remaining life of the purchased impaired loans. See Note 6 Purchased Impaired Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Additionally, most consumer loans and lines of credit, not secured by residential real estate, are charged off after 120 to 180 days past due, are not placed on nonaccrual status, and are excluded from nonperforming loans.

The amount of nonperforming loans that was current as to remaining principal and interest was \$1.0 billion at December 31, 2010 and \$1.7 billion at December 31, 2009, or 22% and 30% of total nonperforming loans, respectively.

The portion of the ALLL allocated to commercial lending nonperforming loans was 28% at December 31, 2010 and 29% at December 31, 2009. Approximately 76% of total nonperforming loans are secured by collateral that is expected to reduce credit losses and require less reserves in the event of default.

Nonperforming Assets By Type

	Dec. 31	Dec. 31
In millions	2010	2009
Nonperforming loans		
Commercial		
Retail/wholesale	\$ 197	\$ 231
Manufacturing	250	423
Real estate related (a)	263	419
Financial services	16	117
Health care	50	41
Other	477	575
Total commercial	1,253	1,806
Commercial real estate		
Real estate projects	1,422	1,754
Commercial mortgage	413	386
Total commercial real estate	1,835	2,140
Equipment lease financing	77	130
TOTAL COMMERCIAL LENDING	3,165	4,076
Consumer		
Home equity	448	356
Residential real estate		
Residential mortgage	764	955
Residential construction	54	248
Other	35	36
TOTAL CONSUMER LENDING	1,301	1,595
Total nonperforming loans	4,466	5,671
Foreclosed and other assets		
Commercial lending	353	266
Consumer lending	482	379
Total foreclosed and other assets	835	645
Total nonperforming assets	\$ 5,301	\$ 6,316

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

Change In Nonperforming Assets

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

In millions	2010	2009
January 1	\$ 6,316	\$ 2,181
Transferred from accrual	5,279	8,501
Charge-offs and valuation adjustments	(2,071)	(1,770)
Principal activity including payoffs	(1,316)	(1,127)
Asset sales and transfers to held for sale	(1,446)	(798)
Returned to performing-TDRs	(543)	
Returned to performing-Other	(918)	(671)
December 31	\$ 5,301	\$ 6,316

Total nonperforming loans and nonperforming assets in the tables above are significantly lower than they would have been due to the accounting treatment for purchased impaired loans. This treatment also results in lower ratios of nonperforming loans to total loans and ALLL to nonperforming loans. We recorded purchased impaired loans at estimated fair value, including life of loan credit losses, of \$12.7 billion at December 31, 2008. See Note 6 Purchased Impaired Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on those loans.

Table of Contents**Loan Modifications and Troubled Debt Restructurings**

We modify loans under government and PNC-developed programs based upon our commitment to help eligible homeowners avoid foreclosure, where appropriate. Initially, a borrower is evaluated for a modification under a government program. If a borrower does not qualify under a government program, the borrower is evaluated under a PNC program. PNC programs utilize both temporary and permanent modifications and typically reduce the interest rate, extend the term and/or defer or forgive principal. Temporary and permanent modifications under programs involving a contractual change to loan terms are classified as TDRs, regardless of the period of time for which the modified terms apply, as discussed in more detail below.

A temporary modification, with a term between three and 60 months, involves a change in original loan terms for a period of time and reverts to original loan terms as of a specific date or the occurrence of an event, such as a failure to pay in accordance with the terms of the modification. Typically, these modifications are for a period of up to 24 months after which the interest rate reverts to the original loan rate. A permanent modification, with a term greater than 60 months, is one in which the terms of the original loan are changed, but could revert back to the original loan terms. Permanent modifications primarily include the government-created Home

Affordable Modification Program (HAMP) or PNC-developed HAMP-like modification programs.

For consumer loan programs (e.g., residential mortgages, home equity loans and lines, etc.), PNC will enter into a temporary modification when the borrower has indicated a temporary hardship and a willingness to bring current the delinquent loan balance. Examples of this situation often include delinquency due to illness or death in the family, or a loss of employment. Permanent modifications are entered into when it is confirmed that the borrower does not possess the income necessary to continue making loan payments at the current amount, but our expectation is that payments at lower amounts can be made.

Home equity loans and lines have been modified with changes in contractual terms for up to 60 months, although the majority involve periods of 3 to 24 months. The change to terms may include a reduced interest rate and/or an extension of the amortization period. Additionally, certain residential construction and non-prime loans have been modified by changing payment terms from principal and interest to interest-only for a period of up to two years before reverting back to the original terms. As of August 2010, such interest-only modifications have been discontinued.

The following table provides the number and unpaid principal balance of modified consumer loans.

Active Bank-Owned Loss Mitigation Consumer Loan Modifications

Dollars in millions	December 31, 2010		December 31, 2009	
	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Conforming Mortgages				
Permanent Modifications	5,517	\$ 1,137	1,517	\$ 267
Non-Prime Mortgages				
Permanent Modifications	3,405	441	2,714	313
Residential Construction				
Permanent Modifications	470	235	30	20
Home Equity				
Temporary Modifications	12,643	1,151	4,340	421
Permanent Modifications	163	17	59	7
Total Home Equity	12,806	1,168	4,399	428

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Total Active Bank-Owned Loss Mitigation Consumer Loan Modifications	22,198	\$ 2,981	8,660	\$ 1,028
---	---------------	-----------------	-------	----------

We monitor the success rates/delinquency status of our modification programs to assess their effectiveness in serving our customers' needs while mitigating credit losses. The following table provides the number and unpaid principal balance of modified loans that were 60 days or more past due as of six months, nine months and 12 months after the modification date.

Table of Contents**Bank-Owned Consumer Residential Loan Modification Re-Default by Vintage**

	Six Months		Nine Months		12 Months		December 31,
	Number of Accounts	% of Vintage Modified	Number of Accounts	% of Vintage Modified	Number of Accounts	% of Vintage Modified	2010 Unpaid Principal Balance
Dollars in millions							
Permanent							
Conforming Mortgages							
Second Quarter 2010	354	23.9%					\$ 57
First Quarter 2010	312	23.3	468	35.0%			70
Fourth Quarter 2009	242	26.7	333	36.7	420	46.3%	62
Non-Prime Mortgages							
Second Quarter 2010	104	23.5					15
First Quarter 2010	68	20.0	80	23.5			11
Fourth Quarter 2009	133	19.7	205	30.3	216	32.0	22
Residential Construction (a)							
Second Quarter 2010	38	13.6					12
First Quarter 2010	5	12.5	6	15.0			4
Home Equity							
Second Quarter 2010 (b)	2	12.5					
First Quarter 2010 (b)	1	2.3	5	11.6			
Fourth Quarter 2009 (b)			1	9.1	3	27.3	
Temporary							
Home Equity							
Second Quarter 2010	169	7.6%					\$ 14
First Quarter 2010	243	8.3	402	13.8%			30
Fourth Quarter 2009	199	8.7	334	14.5	432	18.8%	30

(a) No re-defaults for the fourth quarter of 2009.

(b) Unpaid principal balance totals less than \$1 million.

In addition to temporary modifications, PNC may make available to a borrower a payment plan or a HAMP trial payment period. Under a payment plan or a HAMP trial payment period, there is no change to the loan's contractual terms so the borrower remains legally responsible for payment of the loan under its original terms. A payment plan involves the borrower making payments that differ from the contractual payment amount for a short period of time, generally three months. PNC's motivation is to allow for repayment of an outstanding past due amount through payment of additional amounts over the short period of time. These payment plans are generally for three months during which time a borrower is brought current. Due to the short term of the payment plan and the expectation that all contractual principal and interest will be collected, there is a minimal impact to the ALLL.

Under a HAMP trial payment period, we allow a borrower to demonstrate successful payment performance before contractually establishing an alternative payment amount. Subsequent to successful borrower performance under a HAMP trial payment period, we will change a loan's contractual terms and the loan would be classified as a TDR. Additionally, we note that a borrower often is already delinquent at the time he/she begins participating in the HAMP trial payment period. As such, upon successful completion, there is not a significant increase in the ALLL. If the trial payment period is unsuccessful, the loan will be charged-off, at the end of the trial payment period, to its

estimated fair value of the underlying collateral less costs to sell. As of December 31, 2010 and 2009, 1,027 or \$262 million and 42 or \$15 million, respectively, of residential real estate loans have been modified under the HAMP and were still outstanding on our balance sheet.

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under PNC developed programs, which in some cases may operate similar to HAMP. These programs require first, a reduction of the interest rate, followed by an extension of term and, if appropriate, deferral or forgiveness of principal payments. In October 2010, we signed a Service Provider Agreement for the government-sponsored Second Lien Modification Program and have begun modifying loans under this program. PNC does not re-modify a defaulted modified loan except for subsequent significant life events, as defined by the OCC in Memorandum 2009-7. A re-modified loan continues to be classified as a TDR for the remainder of its term regardless of subsequent

payment performance.

Loan modifications are evaluated and subject to classification as a troubled debt restructuring (TDR) if the borrower is experiencing financial difficulty and we grant a concession to the borrower. TDRs typically result from our loss mitigation activities and could include rate reductions and/or principal forgiveness intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. Total

Table of Contents

nonperforming loans included TDRs of \$784 million at December 31, 2010 and \$440 million at December 31, 2009. Purchased impaired loans are excluded from TDRs.

TDRs returned to performing (accrual) status totaled \$543 million at December 31, 2010 and are excluded from nonperforming loans. These loans have demonstrated a period of at least six months of performance under the modified terms. Approximately \$25 million of TDRs previously returned to performing status are no longer current under their modified terms and are now reported as nonperforming.

In addition, credit cards and certain small business and consumer credit agreements whose terms have been modified primarily through interest rate reductions totaling \$331 million at December 31, 2010 are TDRs. However, these loans are excluded from nonperforming loans since our policy is to exempt these loans from being placed on nonaccrual status as permitted by regulatory guidance. As such, generally under modified terms, these loans are directly charged off in the period that they become 120 to 180 days past due. At December 31, 2010 and 2009, remaining commitments to lend additional funds to debtors whose terms have been modified in a commercial or consumer TDR were immaterial.

Modifications of terms for commercial loans are based on individual facts and circumstances. Commercial loan modifications may involve reduction of the interest rate, extension of the term of the loan and/or forgiveness of principal. Due to the nature of commercial loan relationships, PNC had not utilized modification programs for commercial loans prior to 2010. Beginning in 2010, PNC established select commercial loan modification programs for small business loans under \$250,000, Small Business Administration loans, and investment real estate loans. As of December 31, 2010, approximately \$90 million in unpaid principal balance had been modified.

Loan Delinquencies

We regularly monitor the level of loan delinquencies and believe these levels to be an indicator of loan portfolio credit quality. Measurement of delinquency and past due status are based on the contractual terms of each loan. Loans that are 30 days or more past due in terms of payment are considered delinquent. Loan delinquencies exclude loans held for sale, purchase impaired loans and loans that are government insured/guaranteed.

Table of Contents

The following table displays the delinquency status of our loans at December 31, 2010 and 2009.

Age Analysis of Past Due Accruing Loans

In millions	Current	Accruing			Total past due	Nonperforming loans	Total loans
		30-59 days past due	60-89 days past due	90 days or more past due			
December 31, 2010 (a)							
Commercial	\$ 53,522	\$ 251	\$ 92	\$ 59	\$ 402	\$ 1,253	\$ 55,177
Commercial real estate	15,866	128	62	43	233	1,835	17,934
Equipment lease financing	6,276	37	2	1	40	77	6,393
Home equity	33,354	159	91	174	424	448	34,226
Residential real estate	14,688	226	107	160	493	818	15,999
Credit card	3,765	46	32	77	155		3,920
Other consumer	16,756	95	32	28	155	35	16,946
Total	\$ 144,227	\$ 942	\$ 418	\$ 542	\$ 1,902	\$ 4,466	\$ 150,595
December 31, 2009 (b)							
Commercial	\$ 52,141	\$ 488	\$ 195	\$ 188	\$ 871	\$ 1,806	\$ 54,818
Commercial real estate	20,176	461	204	150	815	2,140	23,131
Equipment lease financing	5,938	106	22	6	134	130	6,202
Home equity	35,243	149	82	117	348	356	35,947
Residential real estate	17,821	308	164	314	786	1,203	19,810
Credit card	2,450	40	28	51	119		2,569
Other consumer	14,830	94	48	58	200	36	15,066
Total	\$ 148,599	\$ 1,646	\$ 743	\$ 884	\$ 3,273	\$ 5,671	\$ 157,543

	Current	Accruing			Total past due	Nonperforming loans
		30-59 days past due	60-89 days past due	90 days or more past due		
December 31, 2010 (a)						
Commercial	97.00%	.45%	.17%	.11%	.73%	2.27%
Commercial real estate	88.47	.71	.35	.24	1.30	10.23
Equipment lease financing	98.17	.58	.03	.02	.63	1.20
Home equity	97.45	.47	.26	.51	1.24	1.31
Residential real estate	91.81	1.41	.67	1.00	3.08	5.11
Credit card	96.05	1.17	.82	1.96	3.95	
Other consumer	98.88	.56	.19	.16	.91	.21
Total	95.77%	.62%	.28%	.36%	1.26%	2.97%
December 31, 2009 (b)						
Commercial	95.12%	.89%	.36%	.34%	1.59%	3.29%
Commercial real estate	87.23	1.99	.88	.65	3.52	9.25
Equipment lease financing	95.74	1.71	.35	.10	2.16	2.10
Home equity	98.04	.41	.23	.33	.97	.99
Residential real estate	89.96	1.55	.83	1.59	3.97	6.07
Credit card	95.37	1.56	1.09	1.98	4.63	
Other consumer	98.43	.62	.32	.39	1.33	.24
Total	94.32%	1.05%	.47%	.56%	2.08%	3.60%

(a) Past due loan amounts exclude government insured / guaranteed, primarily residential mortgages, totaling \$2.6 billion at December 31, 2010. These loans are included in the Current category. Past due loan amounts also exclude purchased impaired loans totaling \$7.8 billion at December 31, 2010. These loans are excluded as they are considered performing loans due to accretion of interest income. These loans are also included in the Current category.

(b)

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Past due loan amounts exclude government insured / guaranteed, primarily residential mortgages, totaling \$2.0 billion at December 31, 2009. These loans are included in the Current category. Past due loan amounts also exclude purchased impaired loans totaling \$10.3 billion at December 31, 2009. These loans are excluded as they are considered performing loans due to accretion of interest income. These loans are also included in the Current category.

Table of Contents

Commercial lending portfolio early stage delinquencies (accruing loans past due 30 to 89 days) decreased substantially from December 31, 2009 to December 31, 2010, generally due to the improved economic environment and active portfolio management. Consumer lending portfolio early stage delinquencies improved modestly from December 31, 2009 to December 31, 2010, due to declines in residential real estate delinquencies.

Accruing loans past due 90 days or more are referred to as late stage delinquencies and totaled \$542 million at December 31, 2010, compared to \$884 million at December 31, 2009, reflecting the same factors as early stage delinquencies noted above. These loans are not included in nonperforming loans because they are well secured by collateral and in the process of collection.

Additional information regarding accruing loans past due is included in Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Our Special Asset Committee closely monitors loans that are not included in nonperforming or past due categories and for which we are uncertain about the borrower's ability to comply with existing repayment terms over the next six months. These loans totaled \$574 million at December 31, 2010 and \$811 million at December 31, 2009.

ALLOWANCES FOR LOAN AND LEASE LOSSES AND UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

We maintain an ALLL to absorb losses from the loan portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan portfolio. While we make allocations to specific loans and pools of loans, the total reserve is available for all loan and lease losses. There were no significant changes during 2010 to the process and procedures we follow to determine our ALLL.

The ALLL was \$4.9 billion at December 31, 2010 and \$5.1 billion at December 31, 2009. The allowance as a percent of nonperforming loans was 109% at December 31, 2010 and 89% at December 31, 2009. The allowance as a percent of total loans was 3.25% at December 31, 2010 and 3.22% at December 31, 2009.

We establish specific allowances for loans considered impaired using a method prescribed by GAAP. All impaired loans are subject to individual analysis, except leases and large groups of smaller-balance homogeneous loans which may include but are not limited to credit card, residential mortgage, and consumer installment loans. Specific allowances for individual loans are determined by our Special Asset Committee based on an analysis of the present value of

expected future cash flows from the loans discounted at their effective interest rate, observable market price, or the fair value of the underlying collateral.

Allocations to commercial loan classes (pool reserve methodology) are assigned to pools of loans as defined by our business structure and are based on internal probability of default and loss given default credit risk ratings.

Key elements of the pool reserve methodology include:

- Probability of default (PD), which is primarily based on historical default analyses and is derived from the borrower's internal PD credit risk rating;

- Exposure at default (EAD), which is derived from historical default data; and

- Loss given default (LGD), which is based on historical loss data, collateral value and other structural factors that may affect our ultimate ability to collect on the loan and is derived from the loan's internal LGD credit risk rating.

Our pool reserve methodology is sensitive to changes in key risk parameters such as PDs, LGDs and EADs. In general, a given change in any of the major risk parameters will have a corresponding change in the pool reserve allocations for non-impaired commercial loans. Our commercial loans are the largest category of credits and are most sensitive to changes in the key risk parameters and pool reserve loss rates. To illustrate, if we increase the pool reserve loss rates by 5% for all categories of non-impaired commercial loans, then the aggregate of the ALLL and allowance for unfunded loan commitments and letters of credit would increase by \$69 million. Additionally, other factors such as the rate of migration in the severity of problem loans will contribute to the final pool reserve allocations.

The majority of the commercial portfolio is secured by collateral, including loans to asset-based lending customers that continue to show demonstrably lower loss given default. Further, the large investment grade or equivalent portion of the loan portfolio has performed well and has not been subject to significant deterioration. Additionally, guarantees on loans greater than \$1 million and owner guarantees for small business loans do not significantly impact our ALLL.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Allocations to consumer loan classes are based upon a roll-rate model based on statistical relationships, calculated from historical data that estimate the movement of loan outstandings through the various stages of delinquency and ultimately charge-off. In general, the estimated rates at which loan outstandings roll from one stage of delinquency to another are dependent on various factors such as FICO, LTV ratios, the current economic environment, and geography.

The ALLL is significantly lower than it would have been otherwise due to the accounting treatment for purchased

Table of Contents

impaired loans. This treatment also results in a lower ratio of ALLL to total loans. Loan loss reserves on the purchased impaired loans were not carried over on the date of acquisition. In addition, these loans were recorded net of \$9.2 billion of fair value adjustments as of December 31, 2008. As of December 31, 2010, we have reserves of \$.9 billion for purchased impaired loans.

Excluding the allowance for purchased impaired loans and consumer loans and lines of credit, not secured by residential real estate, which are excluded from nonperforming loans, of \$1.4 billion at December 31, 2010, the allowance as a percent of nonperforming loans was 77% at that date. Comparable information at December 31, 2009 was \$1.0 billion and 72%.

A portion of the ALLL related to qualitative and measurement factors has been assigned to loan categories based on the relative specific and pool allocation amounts to provide coverage for specific and pool reserve methodologies. These factors include, but are not limited to, the following:

- industry concentrations and conditions
- credit quality trends
- recent loss experience in particular sectors of the portfolio
- changes in risk selection and underwriting standards and
- timing of available information.

In addition to the ALLL, we maintain an allowance for unfunded loan commitments and letters of credit. We report this allowance as a liability on our Consolidated Balance Sheet. We determine this amount using estimates of the probability of the ultimate funding and losses related to those credit exposures. This methodology is similar to the one we use for determining the adequacy of our ALLL.

We refer you to Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 6 Purchased Impaired Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report regarding changes in the ALLL and in the allowance for unfunded loan commitments and letters of credit. Also see the Allocation Of Allowance For Loan And Lease Losses table in the Statistical Information (Unaudited) section of Item 8 of this Report for additional information included herein by reference.

Charge-Offs And Recoveries

Year ended December 31

Dollars in millions	Charge-offs	Recoveries	Net Charge-offs	Percent of Average Loans
2010				
Commercial	\$ 1,227	\$ 294	\$ 933	1.72%
Commercial real estate	670	77	593	2.90
Equipment lease financing	120	56	64	1.02
Consumer	1,069	110	959	1.74
Residential real estate	406	19	387	2.19
Total	\$ 3,492	\$ 556	\$ 2,936	1.91
2009				
Commercial	\$ 1,276	\$ 181	\$ 1,095	1.79%
Commercial real estate	510	38	472	1.91
Equipment lease financing	149	27	122	1.97
Consumer	961	105	856	1.63
Residential real estate	259	93	166	.79
Total	\$ 3,155	\$ 444	\$ 2,711	1.64

Total net charge-offs are significantly lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. Customer balances related to these purchased impaired loans were reduced by the fair value adjustments of \$9.2 billion as of December 31, 2008. However, as a result of further credit deterioration on purchased impaired commercial loans, we recorded \$232 million of net charge-offs during 2010. Net charge-offs were not recorded on purchased impaired consumer pools.

CREDIT DEFAULT SWAPS

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

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

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

We approve counterparty credit lines for all of our CDS activities. Counterparty credit lines are approved based on a review of credit quality in accordance with our traditional credit quality standards and credit policies. The credit risk of

Table of Contents

our counterparties is monitored in the normal course of business. In addition, all counterparty credit lines are subject to collateral thresholds and exposures above these thresholds are secured.

CDSs are included in the Derivatives not designated as hedging instruments under GAAP table in the Financial Derivatives section of this Risk Management discussion.

OPERATIONAL RISK MANAGEMENT

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

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

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

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

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

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

governance model is designed to help assure transparent management reporting.

The operational risk in connection with the National City integration has been effectively managed. Our integration objectives have been successfully met and integration-related risk issues have been proactively identified, assessed and mitigated. Post-integration, our operational risk management focus has shifted to continued stabilization, the increased complexities driven by our size and several external environmental factors impacting our business model.

We will continue to execute our rigorous risk management processes and evaluate the effectiveness of key processes, technologies and controls to help ensure performance at expected levels. We also view Basel II as an opportunity to continue to enhance risk management practices, and we have dedicated a significant amount of resources to this initiative.

In summary, we believe that our current operational risk level is in line with a moderate risk profile.

Insurance

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

PNC, through a subsidiary company, Alpine Indemnity Limited, provides insurance coverage for its general liability, automobile liability, management liability, fidelity, workers' compensation, property and terrorism programs. PNC's risks associated with its participation as an insurer

for these programs are mitigated through policy limits and annual aggregate limits. Risks in excess of Alpine's policy limits and annual aggregates are mitigated through the purchase of direct coverage provided by various insurers up to limits established by PNC's Corporate Insurance Committee.

LIQUIDITY RISK MANAGEMENT

Liquidity risk has two fundamental components. The first is the potential loss if we were unable to meet our funding requirements at a reasonable cost. The second is the potential inability to operate our businesses because adequate contingent liquidity is not available in a stressed environment. We manage liquidity risk at the bank and parent company levels to help ensure that we can obtain cost-effective funding to meet current and future obligations under both normal business as usual and stressful circumstances and to help ensure that we maintain an appropriate level of contingent liquidity.

Spot and forward funding gap analyses are the primary metrics used to measure and monitor bank liquidity risk. Funding gaps represent the difference in projected sources of

Table of Contents

liquidity available to offset projected uses. We calculate funding gaps for the overnight, thirty-day, ninety-day, one hundred eighty-day and one-year time intervals. Risk limits are established within our Liquidity Risk Policy. Management's Asset and Liability Committee regularly reviews compliance with the established limits.

Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet our parent company obligations over the succeeding 24-month period. Risk limits for parent company liquidity are established within our Enterprise Capital Management Policy. The Board of Directors' Risk Committee regularly reviews compliance with the established limits.

Bank Level Liquidity Uses

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. At the bank level, primary contractual obligations include funding loan commitments, satisfying deposit withdrawal requests and maturities and debt service related to bank borrowings. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary.

As of December 31, 2010, there were approximately \$5.3 billion of bank borrowings with maturities of less than one year.

Bank Level Liquidity Sources

Our largest source of bank liquidity on a consolidated basis is the deposit base that comes from our retail and commercial businesses. Liquid assets and unused borrowing capacity from a number of sources are also available to maintain our liquidity position. Borrowed funds come from a diverse mix of short and long-term funding sources.

At December 31, 2010, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities, and interest-earning deposits with banks) totaling \$7.1 billion and securities available for sale totaling \$57.3 billion. Of our total liquid assets of \$64.4 billion, we had \$28.0 billion pledged as collateral for borrowings, trust, and other commitments. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and active balance sheet management.

In addition to the customer deposit base, which has historically provided the single largest source of relatively stable and low-cost funding and liquid assets, the bank also obtains liquidity through the issuance of traditional forms of funding including long-term debt (senior notes and subordinated debt and Federal Home Loan Bank (FHLB)

advances) and short-term borrowings (Federal funds purchased, securities sold under repurchase agreements, commercial paper issuances, and other short-term borrowings).

PNC Bank, N.A. has the ability to offer up to \$20 billion in senior and subordinated unsecured debt obligations with maturities of more than nine months. Through December 31, 2010, PNC Bank, N.A. had issued \$6.9 billion of debt under this program. Total senior and subordinated debt declined to \$5.5 billion at December 31, 2010 from \$7.4 billion at December 31, 2009 due to maturities.

PNC Bank, N.A. is a member of the FHLB-Pittsburgh and as such has access to advances from FHLB-Pittsburgh secured generally by residential mortgage and other mortgage-related loans. At December 31, 2010, our unused secured borrowing capacity was \$13.0 billion with FHLB-Pittsburgh. Total FHLB borrowings declined to \$6.0 billion at December 31, 2010 from \$10.8 billion at December 31, 2009 due to maturities.

PNC Bank, N.A. has the ability to offer up to \$3.0 billion of its commercial paper. As of December 31, 2010, there were no issuances outstanding under this program. Commercial paper included in Other borrowed funds on our Consolidated Balance Sheet is issued by Market Street as described in Off-Balance Sheet Arrangements and Variable Interest Entities in this Financial Review.

PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland's (Federal Reserve Bank) discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by securities and commercial loans. At December 31, 2010, our unused secured borrowing capacity was \$24.7 billion with the Federal Reserve Bank.

Parent Company Liquidity Uses

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. The parent company's contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. Additionally, the parent company maintains adequate liquidity to fund discretionary activities such as paying dividends to PNC shareholders, share repurchases, and acquisitions.

As of December 31, 2010, there were approximately \$2.3 billion of parent company borrowings with maturities of less than one year.

Table of Contents

Parent Company Liquidity Sources

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

- Bank-level capital needs,
- Laws and regulations,
- Corporate policies,
- Contractual restrictions, and
- Other factors.

The amount available for dividend payments by PNC Bank, N.A. to the parent company without prior regulatory approval was approximately \$1.1 billion at December 31, 2010. There are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. See Note 21 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report for a further discussion of these limitations. Dividends may also be impacted by the bank's capital needs and by contractual restrictions. We provide additional information on certain contractual restrictions under the "PNC Capital Trust E Trust Preferred Securities" and "Acquired Entity Trust Preferred Securities" sections of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review 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.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and short-term investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of December 31, 2010, the parent company had approximately \$7.2 billion in funds available from its cash and short-term investments.

We can also generate liquidity for the parent company and PNC's non-bank subsidiaries through the issuance of debt securities and equity securities, including certain capital securities, in public or private markets and commercial paper.

We have effective shelf registration statements pursuant to which we can issue additional debt and equity securities, including certain hybrid capital instruments. Total senior and subordinated debt and hybrid capital instruments increased to \$17.3 billion at December 31, 2010 from \$14.9 billion at December 31, 2009 due to net year-to-date issuances.

PNC Funding Corp issued the following securities in 2010:

- \$1 billion of senior notes issued February 8, 2010 and due February 2015. Interest is paid semiannually at a fixed rate of 3.625%,
- \$1 billion of senior notes issued February 8, 2010 and due February 2020. Interest is paid semiannually at a fixed rate of 5.125%,
- \$500 million of senior notes issued May 19, 2010 and due May 2014. Interest is paid semiannually at a fixed rate of 3.00%, and
- \$750 million of senior notes issued August 11, 2010 and due August 2020. Interest is paid semiannually at a fixed rate of 4.375%.

The parent company, through its subsidiary PNC Funding Corp, has the ability to offer up to \$3.0 billion of commercial paper to provide additional liquidity. As of December 31, 2010, there were no issuances outstanding under this program.

During the first quarter of 2010 we raised \$3.4 billion in new common equity through the issuance of 63.9 million shares of common stock in an underwritten offering of \$54 per share.

As further described in the Business Segments Review section of this Item 7, BlackRock completed a secondary offering of its common stock in November 2010, including 7.5 million shares of its common stock offered by PNC at a per share price of \$163.00. This transaction resulted in net proceeds to PNC of \$1.2 billion and a pretax gain of \$160 million during the fourth quarter of 2010.

Note 18 Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report describes the December 31, 2008 issuance of 75,792 shares of our Fixed Rate Cumulative Perpetual Preferred Shares, Series N (Series N Preferred Stock), related issuance discount and the issuance of a related common stock warrant to the US Treasury under the TARP Capital Purchase Program. In addition, Note 18 describes our February 2010 redemption of the Series N Preferred Stock, the acceleration of the accretion of the remaining issuance discount on the Series N Preferred Stock in the first quarter of 2010, and the exchange by the US Treasury of the TARP warrant into warrants sold by the US Treasury in a secondary public offering. These common stock warrants will expire December 31, 2018.

Status of Credit Ratings

The cost and availability of short- and long-term funding, as well as collateral requirements for certain derivative instruments, is influenced by debt ratings.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current legislative and regulatory environment, including implied government support. In addition, rating agencies themselves have been subject to scrutiny arising from the financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in Dodd-Frank. Potential changes in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above, could impact our liquidity and financial condition. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect liquidity and financial condition.

Table of Contents

Credit ratings as of December 31, 2010 for PNC and PNC Bank, N.A. follow:

	Moody's	Standard & Poor's	Fitch
The PNC Financial Services Group, Inc.			
Senior debt	A3	A	A+
Subordinated debt	Baa1	A-	A
Preferred stock	Baa3	BBB	A
PNC Bank, N.A.			
Subordinated debt	A3	A	A
Long-term deposits	A2	A+	AA-
Short-term deposits	P-1	A-1	F1+

On November 1, 2010, Moody's announced that they had downgraded the ratings of 10 large US regional banks after reducing its government support assumptions for these

entities. The ratings for these companies, which had been placed on review for possible downgrade on July 27, 2010, had benefitted from Moody's support assumptions since 2009. The reduction in the support assumption resulted in a one-notch downgrade of PNC's bank-level debt and long-term deposits ratings. The ratings of PNC's holding company were not on review and were affirmed. Moody's indicated that the firm continues to ascribe support in the case of PNC, but at a reduced level. The ongoing assumption of support for PNC is primarily due to our importance in the payment system and significant national deposit share. However, the assumed level of support does not provide any lift to the bank's current stand-alone ratings. At the same time, the ratings outlook on PNC was changed to positive from stable reflecting its improving credit metrics and strengthened capital profile. The ratings in the table above were the same on November 1 and December 31, 2010.

Commitments

The following tables set forth contractual obligations and various other commitments as of December 31, 2010 representing required and potential cash outflows.

Contractual Obligations

December 31, 2010 - in millions	Total	Payment Due By Period			
		Less than one year	One to three years	Four to five years	After five years
Remaining contractual maturities of time deposits (a)	\$ 41,400	\$ 27,868	\$ 11,334	\$ 1,533	\$ 665
Borrowed funds (a)	39,488	14,680	8,750	5,360	10,698
Minimum annual rentals on noncancellable leases	2,400	325	567	410	1,098
Nonqualified pension and postretirement benefits	572	69	123	117	263
Purchase obligations (b)	698	270	273	147	8
Total contractual cash obligations	\$ 84,558	\$ 43,212	\$ 21,047	\$ 7,567	\$ 12,732

(a) Includes purchase accounting adjustments.

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

At December 31, 2010, the liability for uncertain tax positions, excluding associated interest and penalties, was \$238 million. This liability represents an estimate of tax positions that we have taken in our tax returns which ultimately may not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the contractual obligations table. See Note 20 Income Taxes in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Our contractual obligations totaled \$97.6 billion at December 31, 2009. The decline in the comparison is primarily attributable to the decrease of remaining contractual maturities of time deposits at December 31, 2010.

Other Commitments (a)

December 31, 2010 - in millions	Total Amounts Committed	Amount Of Commitment Expiration By Period			
		Less than one year	One to three years	Four to five years	After five years
Net unfunded credit commitments	\$ 95,805	\$ 52,431	\$ 35,611	\$ 7,465	\$ 298
Standby letters of credit (b)	10,143	4,500	5,290	264	89
Reinsurance agreements	4,543	832	119	72	3,520
Other commitments (c)	684	347	234	91	12
Total commitments	\$ 111,175	\$ 58,110	\$ 41,254	\$ 7,892	\$ 3,919

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of participations, assignments and syndications.

(b) Includes \$6.8 billion of standby letters of credit that support remarketing programs for customers' variable rate demand notes.

(c) Includes unfunded commitments related to private equity investments of \$319 million and other investments of \$11 million which are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of \$316 million and other direct equity investments of \$38 million which are included in other liabilities on the Consolidated Balance Sheet.

Table of Contents**MARKET RISK MANAGEMENT OVERVIEW**

Market risk is the risk of a loss in earnings or economic value due to adverse movements in market factors such as interest rates, credit spreads, foreign exchange rates, and equity prices. We are exposed to market risk primarily by our involvement in the following activities, among others:

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

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

MARKET RISK MANAGEMENT INTEREST RATE RISK

Interest rate risk results primarily from our traditional banking activities of gathering deposits and extending loans. Many factors, including economic and financial conditions, movements in interest rates, and consumer preferences, affect the difference between the interest that we earn on assets and the interest that we pay on liabilities and the level of our noninterest-bearing funding sources. Due to the repricing term mismatches and embedded options inherent in certain of these products, changes in market interest rates not only affect expected near-term earnings, but also the economic values of these assets and liabilities.

Asset and Liability Management centrally manages interest rate risk within limits and guidelines set forth in our risk management policies approved by management's Asset and Liability Committee and the Risk Committee of the Board.

Sensitivity results and market interest rate benchmarks for the fourth quarters of 2010 and 2009 follow:

Interest Sensitivity Analysis

	Fourth Quarter 2010	Fourth Quarter 2009
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	1.4%	1.1%
100 basis point decrease (a)	(1.4)%	(2.0)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	4.1%	1.4%
100 basis point decrease (a)	(4.8)%	(6.0)%
Duration of Equity Model (a)		
Base case duration of equity (in years):	(.5)	(1.2)
Key Period-End Interest Rates		
One-month LIBOR	.26%	.23%
Three-year swap	1.28%	2.06%

(a) Given the inherent limitations in certain of these measurement tools and techniques, results become less meaningful as interest rates approach zero.

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. The following Net Interest Income Sensitivity to Alternative Rate Scenarios table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist's most likely rate forecast, (ii) implied market forward rates, and (iii) a Two-Ten Slope decrease (a 200 basis point decrease between two-year and ten-year rates superimposed on current base rates) scenario.

Net Interest Income Sensitivity to Alternative Rate Scenarios (Fourth Quarter 2010)

	PNC Economist	Market Forward	Two-Ten Slope	
First year sensitivity	.4%	.4%		%
Second year sensitivity	3.1%	3.1%	(1.0)%	

All changes in forecasted net interest income are relative to results in a base rate scenario where current market rates are assumed to remain unchanged over the forecast horizon.

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business, and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in the above table. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates. We also consider forward projections of purchase accounting accretion when forecasting net interest income.

Table of Contents

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

The fourth quarter 2010 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

MARKET RISK MANAGEMENT TRADING RISK

Our trading activities are primarily customer-driven trading in fixed income securities, equities, derivatives, and foreign exchange contracts. They also include the underwriting of fixed income and equity securities. Proprietary trading positions were essentially eliminated by the end of the second quarter of 2010.

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in trading activities. The Risk Committee of the Board establishes an enterprise-wide VaR limit on our trading activities.

During 2010, our VaR ranged between \$2.3 million and \$8.8 million, averaging \$5.4 million. During 2009, our VaR ranged between \$5.8 million and \$10.4 million, averaging \$7.7 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. Over a typical business cycle, we would expect an average of two to three instances a year in which actual losses exceeded the prior day VaR measure at the enterprise-wide level. There were no such instances during 2010 or 2009, as the trading markets have moved into a period of relatively low pricing volatility.

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

Total trading revenue was as follows:

Trading Revenue

In millions	2010	2009	2008
Net interest income	\$ 55	\$ 61	\$ 72
Noninterest income	183	170	(55)
Total trading revenue	\$ 238	\$ 231	\$ 17
Securities underwriting and trading (a)	\$ 94	\$ 75	\$ (17)
Foreign exchange	76	73	73
Financial derivatives	68	83	(39)
Total trading revenue (b)	\$ 238	\$ 231	\$ 17

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

(b) Product trading revenue includes related hedged activity.

Trading revenue excludes the impact of economic hedging activities, which relate primarily to residential mortgage servicing rights, and residential and held-for-sale commercial real estate loans.

Trading revenue increased \$7 million in 2010 compared with 2009 primarily due to higher underwriting and derivative client sales revenue, partially offset by reduced proprietary and customer related trading results. Proprietary trading positions were essentially eliminated by the end of the second quarter of 2010. Lower trading revenue in 2008 was primarily related to our proprietary trading activities and reflected the negative impact of a very illiquid market on the assets that we held in early 2008.

MARKET RISK MANAGEMENT EQUITY AND OTHER INVESTMENT RISK

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Equity investment risk is the risk of potential losses associated with investing in both private and public equity markets. In addition to extending credit, taking deposits, and underwriting and trading financial instruments, we make and manage direct investments in a variety of transactions, including management

Table of Contents

buyouts, recapitalizations, and growth financings in a variety of industries. We also have investments in affiliated and non-affiliated funds that make similar investments in private equity and in debt and equity-oriented hedge funds. The economic and/or book value of these investments and other assets such as loan servicing rights are directly affected by changes in market factors.

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

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

A summary of our equity investments follows:

	Dec. 31	Dec. 31
In millions	2010	2009
BlackRock	\$ 5,017	\$5,736
Tax credit investments	2,054	2,510
Private equity	1,375	1,184
Visa	456	456
Other	318	368
Total	\$ 9,220	\$ 10,254

BlackRock

PNC owned approximately 36 million common stock equivalent shares of BlackRock equity at December 31, 2010, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Item 7 includes additional information about BlackRock.

Tax Credit Investments

Included in our equity investments are tax credit investments which are mostly accounted for under the equity method.

These investments, as well as equity investments held by consolidated partnerships, totaled \$2.1 billion at December 31, 2010 and \$2.5 billion at December 31, 2009.

Private Equity

The private equity portfolio is an illiquid portfolio comprised of equity and mezzanine investments that vary by industry, stage and type of investment. Private equity investments are reported at fair value. Changes in the values of private equity investments are reflected in our results of operations. Due to

the nature of the investments, the valuations incorporate assumptions as to future performance, financial condition, liquidity, availability of capital, and market conditions, among other factors, to determine the estimated fair value of the investments. Market conditions and actual performance of the investments could differ from these assumptions. Accordingly, lower valuations may occur that could adversely impact earnings in future periods. Also, the valuations may not represent amounts that will ultimately be realized from these investments. See Note 1 Accounting Policies and Note 8 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Private equity investments carried at estimated fair value totaled \$1.4 billion at December 31, 2010 and \$1.2 billion at December 31, 2009. As of December 31, 2010, \$749 million was invested directly in a variety of companies and \$626 million was invested indirectly through various private equity funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The noncontrolling interests of these funds totaled \$236 million as of December 31, 2010. The indirect private equity funds

are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee.

Our unfunded commitments related to private equity totaled \$319 million at December 31, 2010 compared with \$453 million at December 31, 2009.

Visa

At December 31, 2010, our investment in Visa Class B common shares totaled approximately 23 million shares. In May 2010, Visa funded \$500 million to their litigation escrow account and reduced the conversion ratio of Visa B to A shares. We consequently recognized our estimated \$47 million share of the \$500 million as a reduction of our previously established indemnification liability and a reduction of noninterest expense. In October 2010, Visa funded \$800 million to their litigation escrow account and further reduced the conversion ratio of Visa B to A shares. We consequently recognized our estimated \$76 million share of the \$800 million as an additional reduction of our previously established indemnification liability and a reduction of noninterest expense. Considering the adjustments to the conversion ratio, the Class B shares would convert to approximately 11.9 million of publicly traded Visa Class A common shares.

As of December 31, 2010, we had recognized \$456 million of our Visa ownership, which we acquired with National City, on our Consolidated Balance Sheet. Based on the December 31, 2010 closing price of \$70.38 for the Visa Class A shares, the market value of our investment was \$837 million. The Visa Class B common shares we own generally will not be transferable, except under limited circumstances, until they can be converted into shares of the publicly traded class of

Table of Contents

stock, which cannot happen until the later of March 25, 2011, or settlement of all of the specified litigation. It is expected that Visa will continue to adjust the conversion ratio of Visa Class B to Class A shares in connection with any settlements in excess of any amounts then in escrow for that purpose and will also reduce the conversion ratio to the extent that it adds any funds to the escrow in the future.

Note 23 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report has further information on our Visa indemnification obligation.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At December 31, 2010, other investments totaled \$318 million compared with \$368 million at December 31, 2009. We recognized net gains related to these investments of \$43 million during 2010 compared with net losses of \$43 million during 2009.

Given the nature of these investments, if market conditions affecting their valuation were to worsen, we could incur future losses.

Our unfunded commitments related to other investments totaled \$11 million at December 31, 2010 and \$66 million at December 31, 2009.

IMPACT OF INFLATION

Our assets and liabilities are primarily monetary in nature. Accordingly, future changes in prices do not affect the obligations to pay or receive fixed and determinable amounts of money. During periods of inflation, monetary assets lose

value in terms of purchasing power and monetary liabilities have corresponding purchasing power gains. The concept of purchasing power, however, is not an adequate indicator of the effect of inflation on banks because it does not take into account changes in interest rates, which are an important determinant of our earnings.

FINANCIAL DERIVATIVES

We use a variety of financial derivatives as part of the overall asset and liability risk management process to help manage interest rate, market and credit risk inherent in our business activities. Substantially all such instruments are used to manage risk related to changes in interest rates. Interest rate and total return swaps, interest rate caps and floors, swaptions, options, forwards and futures contracts are the primary instruments we use for interest rate risk management.

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. For interest rate swaps and total return swaps, options and futures contracts, only periodic cash payments and, with respect to options, premiums are exchanged. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments.

Further information on our financial derivatives is presented in Note 1 Accounting Policies and Note 16 Financial Derivatives in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated here by reference.

Not all elements of interest rate, market and credit risk are addressed through the use of financial or other derivatives, and such instruments may be ineffective for their intended purposes due to unanticipated market changes, among other reasons.

Table of Contents

The following table provides the notional or contractual amounts and estimated net fair value of financial derivatives at December 31, 2010 and December 31, 2009.

<i>Financial Derivatives</i>	December 31, 2010		December 31, 2009	
	Notional/ Contractual Amount	Estimated Net Fair Value	Notional/ Contractual Amount	Estimated Net Fair Value
In millions				
Derivatives designated as hedging instruments under GAAP				
Interest rate contracts (a)				
Asset rate conversion				
Receive fixed swaps	\$ 14,452	\$ 332	\$ 13,055	\$ (64)
Pay fixed swaps	1,669	12		
Liability rate conversion				
Receive fixed swaps	9,803	834	13,048	707
Forward purchase commitments	2,350	(8)	350	1
Total interest rate risk management	28,274	1,170	26,453	644
Total derivatives designated as hedging instruments (b)	\$ 28,274	\$ 1,170	\$ 26,453	\$ 644
Derivatives not designated as hedging instruments under GAAP				
<u>Derivatives used for residential mortgage banking activities:</u>				
Interest rate contracts				
Swaps	\$ 83,421	\$ 63	\$ 38,596	\$ (152)
Caps/floors Purchased			5,200	50
Futures	51,699		41,609	
Future options	31,250	21	18,580	28
Swaptions	11,040	28	24,145	(22)
Commitments related to residential mortgage assets	16,652	47	9,565	6
Total residential mortgage banking activities	\$ 194,062	\$ 159	\$ 137,695	\$ (90)
<u>Derivatives used for commercial mortgage banking activities:</u>				
Interest rate contracts				
Swaps (c)	\$ 1,744	\$ (41)	\$ 1,948	\$ (15)
Commitments related to commercial mortgage assets	1,966	5	1,733	8
Credit contracts				
Credit default swaps	210	8	460	52
Total commercial mortgage banking activities	\$ 3,920	\$ (28)	\$ 4,141	\$ 45
<u>Derivatives used for customer-related activities:</u>				
Interest rate contracts				
Swaps (c)	\$ 92,248	\$ (104)	\$ 91,090	\$ (54)
Caps/floors				
Sold	3,207	(15)	3,457	(15)
Purchased	2,528	14	2,115	14
Swaptions	2,165	13	1,996	11
Futures	2,793		2,271	
Foreign exchange contracts	7,913	(6)	8,002	14
Equity contracts	334	(3)	351	
Credit contracts				
Risk participation agreements	2,738	3	2,819	1
Total customer-related	\$ 113,926	\$ (98)	\$ 112,101	\$ (29)
<u>Derivatives used for other risk management activities:</u>				
Interest rate contracts				
Swaps	\$ 3,021	\$ 6	\$ 4,667	\$ 3
Swaptions	100	4	720	(9)
Futures	298		145	
Future options				
Commitments related to residential mortgage assets	1,100	1	50	
Foreign exchange contracts (c)	32	(4)	41	1
Credit contracts				

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Credit default swaps	551	8	1,128	(2)
Other contracts (d)	209	(396)	211	(486)
Total other risk management	\$ 5,311	\$ (381)	\$ 6,962	\$ (493)
Total derivatives not designated as hedging instruments	\$ 317,219	\$ (348)	\$ 260,899	\$ (567)
Total Gross Derivatives	\$ 345,493	\$ 822	\$ 287,352	\$ 77

- (a) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 58% were based on 1-month LIBOR and 42% on 3-month LIBOR at December 31, 2010 compared with 57% and 43%, respectively, at December 31, 2009.
- (b) Fair value amount includes net accrued interest receivable of \$132 million at December 31, 2010 and \$162 million at December 31, 2009.
- (c) The increases in the negative fair values from December 31, 2009 to December 31, 2010 for interest rate contracts, foreign exchange, equity contracts and other contracts were due to the changes in fair values of the existing contracts along with new contracts entered into during 2010 and contracts terminated.
- (d) Includes PNC's obligation to fund a portion of certain BlackRock LTIP programs.

Table of Contents

2009 VERSUS 2008

On December 31, 2008, PNC acquired National City. This acquisition had a substantial impact on the comparison of 2009 to 2008.

CONSOLIDATED INCOME STATEMENT REVIEW

Summary Results

Net income for 2009 was \$2.4 billion or \$4.36 per diluted share and for 2008 was \$.9 billion or \$2.44 per diluted share.

Net Interest Income

Net interest income was \$9.1 billion for 2009 compared with \$3.9 billion for 2008, an increase of \$5.2 billion, or 136%. Higher net interest income for 2009 compared with 2008 reflected the increase in average interest-earning assets due to National City and the improvement in the net interest margin.

The net interest margin was 3.82% in 2009 and 3.37% for 2008, an increase of 45 basis points.

Noninterest Income

Summary

Noninterest income was \$7.1 billion for 2009 and \$2.4 billion for 2008.

Noninterest income for 2009 included the following:

- The gain on BlackRock/BGI transaction of \$1.076 billion,
- Net credit-related other-than-temporary impairments (OTTI) on debt and equity securities of \$577 million,
- Net gains on sales of securities of \$550 million,
- Gains on hedging of residential mortgage servicing rights of \$355 million,
- Valuation and sale income related to our commercial mortgage loans held for sale, net of hedges, of \$107 million,
- Gains of \$103 million related to our BlackRock LTIP shares adjustment in the first quarter, and net losses on private equity and alternative investments of \$93 million.

Noninterest income for 2008 included the following:

- Net OTTI on debt and equity securities of \$312 million,
- Gains of \$246 million related to the mark-to-market adjustment on our BlackRock LTIP shares obligation,
- Valuation and sale losses related to our commercial mortgage loans held for sale, net of hedges, of \$197 million,
- Impairment and other losses related to private equity and alternative investments of \$180 million,
- Income from Hilliard Lyons totaling \$164 million, including the first quarter gain of \$114 million from the sale of this business,
- Net gains on sales of securities of \$106 million, and
- A gain of \$95 million related to the redemption of a portion of our Visa Class B common shares related to Visa's March 2008 initial public offering.

Apart from the impact of these items, noninterest income increased \$3.1 billion in 2009 compared with 2008.

Additional analysis

Asset management revenue increased \$172 million to \$858 million in 2009, compared with \$686 million in 2008. This increase reflected improving equity markets, new business generation and a shift in assets into higher yielding equity investments during the second half of 2009. Assets managed totaled \$103 billion at both December 31, 2009 and 2008, including the impact of National City.

Consumer services fees totaled \$1.290 billion in 2009 compared with \$623 million in 2008. Service charges on deposits totaled \$950 million for 2009 and \$372 million for 2008. Both increases were primarily driven by the impact of the National City acquisition. Reduced consumer spending, given economic conditions, hindered PNC legacy growth during 2009 in both categories.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Corporate services revenue totaled \$1.021 billion in 2009 compared with \$704 million in 2008. Corporate services fees include treasury management fees which increased \$221 million in 2009 compared with 2008.

Residential mortgage fees totaled \$990 million in 2009. Fees from strong mortgage refinancing volumes, especially in the first quarter, and \$355 million of net hedging gains from mortgage servicing rights contributed to this total.

Other noninterest income totaled \$987 million for 2009 compared with \$263 million for 2008. Other noninterest income for 2009 included trading income of \$170 million, valuation and sale income related to our commercial mortgage loans held for sale, net of hedges, of \$107 million, other gains of \$103 million related to our equity investment in BlackRock and net losses on private equity and alternative investments of \$93 million.

Other noninterest income for 2008 included the \$114 million gain from the sale of Hilliard Lyons, the \$95 million Visa gain, gains of \$246 million related to our equity investment in BlackRock, and losses related to our commercial mortgage loans held for sale, net of hedges, of \$197 million.

Provision For Credit Losses

The provision for credit losses totaled \$3.9 billion for 2009 compared with \$1.5 billion for 2008. The provision for credit losses for 2009 was in excess of net charge-offs of \$2.7 billion primarily due to required increases to our ALLL reflecting continued deterioration in the credit markets and the resulting increase in nonperforming loans.

Table of Contents***Noninterest Expense***

Noninterest expense for 2009 was \$9.1 billion compared with \$3.7 billion in 2008. The increase was substantially related to National City. We also recorded a special FDIC assessment of \$133 million in the second quarter of 2009, which was intended to build the FDIC's Deposit Insurance Fund.

Integration costs included in noninterest expense totaled \$421 million in 2009 compared with \$122 million in 2008.

Our quarterly run rate of acquisition cost savings related to National City increased to \$300 million in the fourth quarter of 2009, or \$1.2 billion per year. Acquisition cost savings totaled \$800 million in 2009.

Effective Tax Rate

Our effective tax rate was 26.9% for 2009 and 27.2% for 2008.

CONSOLIDATED BALANCE SHEET REVIEW***Loans***

Loans decreased \$17.9 billion, or 10%, as of December 31, 2009 compared with December 31, 2008. Loans represented 58% of total assets at December 31, 2009 and 60% of total assets at December 31, 2008. The decline in loans during 2009 was driven primarily by lower utilization levels for commercial lending among middle market and large corporate clients, although this trend in utilization rates appeared to have eased in the fourth quarter of 2009.

Commercial lending represented 53% of the loan portfolio and consumer lending represented 47% at December 31, 2009. Commercial lending declined 17% at December 31, 2009 compared with December 31, 2008. Commercial loans, which comprised 65% of total commercial lending, declined 21% due to reduced demand for new loans, lower utilization levels and paydowns as clients continued to deleverage their balance sheets. Total consumer lending decreased slightly at December 31, 2009 from December 31, 2008.

Investment Securities

Total investment securities at December 31, 2009 were \$56.0 billion compared with \$43.5 billion at December 31, 2008. Securities represented 21% of total assets at December 31, 2009 compared with 15% of total assets at December 31, 2008. The increase in securities of \$12.6 billion since December 31, 2008 primarily reflected the purchase of US Treasury and government agency securities as well as price appreciation in the available for sale portfolio, partially offset by maturities, prepayments and sales.

At December 31, 2009, the securities available for sale portfolio included a net unrealized loss of \$2.3 billion, which represented the difference between fair value and amortized cost. The comparable amount at December 31, 2008 was a net unrealized loss of \$5.4 billion. The expected weighted-average life of investment securities (excluding corporate stocks and

other) was 4.1 years at December 31, 2009 and 3.1 years at December 31, 2008.

Loans Held For Sale

Loans held for sale totaled \$2.5 billion at December 31, 2009 compared with \$4.4 billion at December 31, 2008. We stopped originating commercial mortgage loans held for sale designated at fair value during the first quarter of 2008 and intend to continue pursuing opportunities to reduce these positions at appropriate prices. For commercial mortgages held for sale carried at the lower of cost or market, strong origination volumes partially offset sales to government agencies during 2009. Residential mortgage loans held for sale decreased during 2009 despite strong refinancing volumes, especially in the first quarter.

Asset Quality

Nonperforming assets increased \$4.1 billion to \$6.3 billion at December 31, 2009 compared with \$2.2 billion at December 31, 2008. The increase resulted from recessionary conditions in the economy and reflected a \$2.6 billion increase in commercial lending nonperforming loans and a \$1.4 billion increase in consumer lending nonperforming loans. The increase in nonperforming commercial lending was primarily from

real estate, including residential real estate development and commercial real estate exposure; manufacturing; and service providers. The increase in nonperforming consumer lending was mainly due to residential mortgage loans. While nonperforming assets increased across all applicable business segments during 2009, the largest increases were \$2.0 billion in Corporate & Institutional Banking and \$854 million in Distressed Assets Portfolio.

At December 31, 2009, our largest nonperforming asset was approximately \$49 million and our average nonperforming loan associated with commercial lending was approximately \$1 million.

Goodwill and Other Intangible Assets

Goodwill increased \$637 million and other intangible assets increased \$584 million at December 31, 2009 compared with December 31, 2008. During 2009, adjustments were made to the estimated fair values of assets acquired and liabilities assumed as part of the National City acquisition. This resulted in the recognition of \$451 million of core deposit and other relationship intangibles at December 31, 2009. In addition, the purchase price allocation for the National City acquisition was completed as of December 31, 2009 with goodwill of \$647 million recognized.

Funding Sources

Total funding sources were \$226.2 billion at December 31, 2009 and \$245.1 billion at December 31, 2008. Funding sources decreased \$18.9 billion, driven by declines in other time deposits, retail certificates of deposit and Federal Home Loan Bank borrowings, partially offset by increases in money market and demand deposits.

Table of Contents

Total deposits decreased \$5.9 billion at December 31, 2009 compared with December 31, 2008. Relationship-growth driven increases in money market, demand and savings deposits were more than offset by declines in other time deposits, reflecting a planned run-off of brokered certificates of deposits, and non-relationship retail certificates of deposits.

The \$13.0 billion decline in borrowed funds since December 31, 2008 primarily resulted from repayments of Federal Home Loan Bank borrowings along with decreases in all other borrowed fund categories.

In March 2009, PNC issued \$1.0 billion of floating rate senior notes guaranteed by the FDIC under the FDIC's TLGP-Debt Guarantee Program (TLGP). In addition, PNC issued \$1.5 billion of senior notes during the second and third quarters of 2009, which were not issued under the TLGP.

Shareholders' Equity

Total shareholders' equity increased \$4.5 billion, to \$29.9 billion, at December 31, 2009 compared with December 31, 2008 primarily due to the following:

A decline of \$2.0 billion in accumulated other comprehensive loss primarily as a result of decreases in net unrealized securities losses,

An increase of \$1.7 billion in retained earnings, and

An increase of \$.6 billion in capital surplus-common stock and other, primarily due to the May 2009 common stock issuance.

Regulatory capital ratios at December 31, 2009 were 10.1% for leverage, 11.4% for Tier 1 risk-based and 15.0% for total risk-based capital. At December 31, 2008, the regulatory capital ratios were 17.5% for leverage, 9.7% for Tier 1 risk-based and 13.2% for total risk-based capital.

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

GLOSSARY OF TERMS

Accretable net interest (Accretable yield) The excess of cash flows expected to be collected on a purchased impaired loan over the carrying value of the loan. The accretable net interest is recognized into interest income over the remaining life of the loan using the constant effective yield method.

Adjusted average total assets Primarily comprised of total average quarterly (or annual) assets plus (less) unrealized losses (gains) on investment securities, less goodwill and certain other intangible assets (net of eligible deferred taxes).

Annualized Adjusted to reflect a full year of activity.

Assets under management Assets over which we have sole or shared investment authority for our customers/clients. We do not include these assets on our Consolidated Balance Sheet.

Basis point One hundredth of a percentage point.

Cash recoveries Cash recoveries used in the context of purchased impaired loans represent cash payments from customers that exceeded the recorded investment of the designated impaired loan.

Charge-off Process of removing a loan or portion of a loan from our balance sheet because it is considered uncollectible. We also record a charge-off when a loan is transferred from portfolio holdings to held for sale by reducing the loan carrying amount to the fair value of the loan, if fair value is less than carrying amount.

Common shareholders' equity to total assets Common shareholders' equity divided by total assets. Common shareholders' equity equals total shareholders' equity less the liquidation value of preferred stock.

Credit derivatives Contractual agreements, primarily credit default swaps, that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

Credit spread The difference in yield between debt issues of similar maturity. The excess of yield attributable to credit spread is often used as a measure of relative creditworthiness, with a reduction in the credit spread reflecting an improvement in the borrower's perceived creditworthiness.

Derivatives Financial contracts whose value is derived from changes in publicly traded securities, interest rates, currency exchange rates or market indices. Derivatives cover a wide assortment of financial contracts, including but not limited to forward contracts, futures, options and swaps.

Duration of equity An estimate of the rate sensitivity of our economic value of equity. A negative duration of equity is associated with asset sensitivity (*i.e.*, positioned for rising interest rates), while a positive value implies liability sensitivity (*i.e.*, positioned for declining interest rates). For example, if the duration of equity is +1.5 years, the economic value of equity declines by 1.5% for each 100 basis point increase in interest rates.

Earning assets Assets that generate income, which include: Federal funds sold; resale agreements; trading securities;

Table of Contents

interest-earning deposits with banks; loans held for sale; loans; investment securities; and certain other assets.

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

Effective duration A measurement, expressed in years, that, when multiplied by a change in interest rates, would approximate the percentage change in value of on- and off- balance sheet positions.

Efficiency Noninterest expense divided by total revenue.

Fair value The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

FICO score A credit bureau-based industry standard score created by Fair Isaac Co. which predicts the likelihood of borrower default. We use FICO scores both in underwriting and assessing credit risk in our consumer lending portfolio. Lower FICO scores indicate likely higher risk of default, while higher FICO scores indicate likely lower risk of default. FICO scores are updated on a periodic basis.

Foreign exchange contracts Contracts that provide for the future receipt and delivery of foreign currency at previously agreed-upon terms.

Funds transfer pricing A management accounting methodology designed to recognize the net interest income effects of sources and uses of funds provided by the assets and liabilities of a business segment. We assign these balances LIBOR-based funding rates at origination that represent the interest cost for us to raise/invest funds with similar maturity and repricing structures.

Futures and forward contracts Contracts in which the buyer agrees to purchase and the seller agrees to deliver a specific financial instrument at a predetermined price or yield. May be settled either in cash or by delivery of the underlying financial instrument.

GAAP Accounting principles generally accepted in the United States of America.

Interest rate floors and caps Interest rate protection instruments that involve payment from the protection seller to

the protection buyer of an interest differential, which represents the difference between a short-term rate (e.g., three-month LIBOR) and an agreed-upon rate (the strike rate) applied to a notional principal amount.

Interest rate swap contracts Contracts that are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Interest rate swap contracts are exchanges of interest rate payments, such as fixed-rate payments for floating-rate payments, based on notional principal amounts.

Intrinsic value The amount by which the fair value of an underlying stock exceeds the exercise price of an option on that stock.

Investment securities Collectively, securities available for sale and securities held to maturity.

Leverage ratio Tier 1 risk-based capital divided by adjusted average total assets.

LIBOR Acronym for London InterBank Offered Rate. LIBOR is the average interest rate charged when banks in the London wholesale money market (or interbank market) borrow unsecured funds from each other. LIBOR rates are used as a benchmark for interest rates on a global basis.

Loan-to-value ratio (LTV) A calculation of a loan's collateral coverage that is used both in underwriting and assessing credit risk in our lending portfolio. LTV is the sum total of loan obligations secured by collateral divided by the market value of that same collateral. Market values of the collateral are based on an independent valuation of the collateral. For example, an LTV of less than 90% is better secured and has less credit risk than an LTV of greater than or equal to 90%. Our real estate market values are updated on an annual basis but may be updated more frequently for select loans.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Loss Given Default (LGD) An estimate of recovery based on collateral type, collateral value, loan exposure, or the guarantor(s) quality and guaranty type (full or partial). Each loan has its own LGD. The LGD risk rating measures the percentage of exposure of a specific credit obligation that we expect to lose if default occurs. LGD is net of recovery, through either liquidation of collateral or deficiency judgments rendered from foreclosure or bankruptcy proceedings. The LGD rating is updated with the same frequency as the borrower's PD rating, and should be done more frequently than the PD if the collateral values and amounts change often.

Net interest income from loans and deposits A management accounting assessment, using funds transfer pricing methodology, of the net interest contribution from loans and deposits.

Table of Contents

Net interest margin Annualized taxable-equivalent net interest income divided by average earning assets.

Nonaccretable difference Contractually required payments receivable on a purchased impaired loan in excess of the cash flows expected to be collected.

Nondiscretionary assets under administration Assets we hold for our customers/clients in a non-discretionary, custodial capacity. We do not include these assets on our Consolidated Balance Sheet.

Nonperforming assets Nonperforming assets include nonaccrual loans, certain troubled debt restructured loans, foreclosed assets and other assets. We do not accrue interest income on assets classified as nonperforming.

Nonperforming loans Loans for which we do not accrue interest income. Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, consumer, and residential mortgage customers and construction customers as well as certain troubled debt restructured loans. Nonperforming loans do not include loans held for sale or foreclosed and other assets. Nonperforming loans do not include purchased impaired loans as we are currently accreting interest income over the expected life of the loans.

Notional amount A number of currency units, shares, or other units specified in a derivative contract.

Operating leverage The period to period dollar or percentage change in total revenue (GAAP basis) less the dollar or percentage change in noninterest expense. A positive variance indicates that revenue growth exceeded expense growth (*i.e.*, positive operating leverage) while a negative variance implies expense growth exceeded revenue growth (*i.e.*, negative operating leverage).

Options Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or sell the associated financial instrument at a set price during a specified period or at a specified date in the future.

Other-than-temporary impairment (OTTI) When the fair value of a security is less than its amortized cost basis, an assessment is performed to determine whether the impairment is other-than-temporary. If we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment is considered to have occurred. In such cases, an other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. Further, if we do not expect to recover the entire amortized cost of the security, an other-than-temporary impairment is considered to have

occurred. However for debt securities, if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before its recovery, the other-than-temporary loss is separated into (a) the amount representing the credit loss, and (b) the amount related to all other factors. The other-than-temporary impairment related to credit losses is recognized in earnings while the amount related to all other factors is recognized in other comprehensive income, net of tax.

Pretax, pre-provision earnings from continuing operations Total revenue less noninterest expense, both from continuing operations.

Probability of Default (PD) An internal risk rating that indicates the likelihood that a credit obligor will enter into default status.

Purchase accounting accretion Accretion of the discounts and premiums on acquired assets and liabilities. The purchase accounting accretion is recognized in net interest income over the weighted average life of the financial instruments using the constant effective yield method.

Purchased impaired loans Acquired loans determined to be credit impaired under FASB ASC 310-30 (AICPA SOP 03-3). Loans are determined to be impaired if there is evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected.

Recorded investment The initial investment of a purchased impaired loan plus interest accretion and less any cash payments and writedowns to date. The recorded investment excludes any valuation allowance which is included in our allowance for loan and lease losses.

Recovery Cash proceeds received on a loan that we had previously charged off. We credit the amount received to the allowance for loan and lease losses.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Residential development loans Project-specific loans to commercial customers for the construction or development of residential real estate including land, single family homes, condominiums and other residential properties. This would exclude loans to commercial customers where proceeds are for general corporate purposes whether or not such facilities are secured.

Residential mortgage servicing rights hedge gains / (losses), net We have elected to measure acquired or originated residential mortgage servicing rights (MSRs) at fair value under GAAP. We employ a risk management strategy designed to protect the economic value of MSRs from changes in interest rates. This strategy utilizes securities and a portfolio of derivative instruments to hedge changes in the fair value of MSRs arising from changes in interest rates. These financial

Table of Contents

instruments are expected to have changes in fair value which are negatively correlated to the change in fair value of the MSR portfolio. Net MSR hedge gains/ (losses) represent the change in the fair value of MSRs, exclusive of changes due to time decay and payoffs, combined with the change in the fair value of the associated securities and derivative instruments.

Return on average assets Annualized net income divided by average assets.

Return on average capital Annualized net income divided by average capital.

Return on average common shareholders' equity Annualized net income less preferred stock dividends, including preferred stock discount accretion and redemptions, divided by average common shareholders' equity.

Risk-weighted assets Computed by the assignment of specific risk-weights (as defined by the Board of Governors of the Federal Reserve System) to assets and off-balance sheet instruments.

Securitization The process of legally transforming financial assets into securities.

Servicing rights An intangible asset or liability created by an obligation to service assets for others. Typical servicing rights include the right to receive a fee for collecting and forwarding payments on loans and related taxes and insurance premiums held in escrow.

Swaptions Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to enter into an interest rate swap agreement during a specified period or at a specified date in the future.

Taxable-equivalent interest The interest income earned on certain assets is completely or partially exempt from Federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of yields and margins for all interest-earning assets, we use interest income on a taxable-equivalent basis in calculating average yields and net interest margins by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on other taxable investments. This adjustment is not permitted under GAAP on the Consolidated Income Statement.

Tier 1 common capital Tier 1 risk-based capital, less preferred equity, less trust preferred capital securities, and less noncontrolling interests.

Tier 1 common capital ratio Tier 1 common capital divided by period-end risk-weighted assets.

Tier 1 risk-based capital Total shareholders' equity, plus trust preferred capital securities, plus certain noncontrolling

interests that are held by others; less goodwill and certain other intangible assets (net of eligible deferred taxes relating to taxable and nontaxable combinations), less equity investments in nonfinancial companies less ineligible servicing assets and less net unrealized holding losses on available for sale equity securities. Net unrealized holding gains on available for sale equity securities, net unrealized holding gains (losses) on available for sale debt securities and net unrealized holding gains (losses) on cash flow hedge derivatives are excluded from total shareholders' equity for Tier 1 risk-based capital purposes.

Tier 1 risk-based capital ratio Tier 1 risk-based capital divided by period-end risk-weighted assets.

Total equity Total shareholders' equity plus noncontrolling interests.

Total return swap A non-traditional swap where one party agrees to pay the other the total return of a defined underlying asset (e.g., a loan), usually in return for receiving a stream of LIBOR-based cash flows. The total returns of the asset, including interest and any default shortfall, are passed through to the counterparty. The counterparty is therefore assuming the credit and economic risk of the underlying asset.

Total risk-based capital Tier 1 risk-based capital plus qualifying subordinated debt and trust preferred securities, other noncontrolling interest not qualified as Tier 1, eligible gains on available for sale equity securities and the allowance for loan and lease losses, subject to certain limitations.

Total risk-based capital ratio Total risk-based capital divided by period-end risk-weighted assets.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Transaction deposits The sum of interest-bearing money market deposits, interest-bearing demand deposits, and noninterest-bearing deposits.

Troubled debt restructuring A restructuring of a loan whereby the lender for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that the lender would not otherwise consider.

Value-at-risk (VaR) A statistically-based measure of risk which describes the amount of potential loss which may be incurred due to severe and adverse market movements. The measure is of the maximum loss which should not be exceeded on 99 out of 100 days.

Watchlist A list of criticized loans, credit exposure or other assets compiled for internal monitoring purposes. We define criticized exposure for this purpose as exposure with an internal risk rating of other assets especially mentioned, substandard, doubtful or loss.

Yield curve A graph showing the relationship between the yields on financial instruments or market indices of the same

Table of Contents

credit quality with different maturities. For example, a normal or positive yield curve exists when long-term bonds have higher yields than short-term bonds. A flat yield curve exists when yields are the same for short-term and long-term bonds. A steep yield curve exists when yields on long-term bonds are significantly higher than on short-term bonds. An inverted or negative yield curve exists when short-term bonds have higher yields than long-term bonds.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

We make statements in this Report, and we may from time to time make other statements, regarding our outlook or expectations for earnings, revenues, expenses, capital levels, liquidity levels, asset quality and/or other matters regarding or affecting PNC that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as believe, plan, expect, anticipate, intend, outlook, estimate, forecast, will, should, project, goal and other similar

Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made. We do not assume any duty and do not undertake to update our forward-looking statements. Actual results or future events could differ, possibly materially, from those that we anticipated in our forward-looking statements, and future results could differ materially from our historical performance.

Our forward-looking statements are subject to the following principal risks and uncertainties. We provide greater detail regarding some of these factors elsewhere in this Report, including in the Risk Factors and Risk Management sections. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

Our businesses and financial results are affected by business and economic conditions, both generally and specifically in the principal markets in which we operate. In particular, our businesses and financial results may be impacted by:

Changes in interest rates and valuations in the debt, equity and other financial markets.

Disruptions in the liquidity and other functioning of financial markets, including such disruptions in the markets for real estate and other assets commonly securing financial products.

Actions by the Federal Reserve and other government agencies, including those that impact money supply and market interest rates.

Changes in our customers', suppliers' and other counterparties' performance in general and their creditworthiness in particular.

A slowing or failure of the moderate economic recovery that began in mid-2009 and continued throughout 2010.

Continued effects of the aftermath of recessionary conditions and the uneven spread of the positive impacts of the recovery on the economy in general and our customers in particular, including adverse impact on loan utilization rates as well as delinquencies, defaults and customer ability to meet credit obligations.

Changes in levels of unemployment.

Changes in customer preferences and behavior, whether as a result of changing business and economic conditions, climate-related physical changes or legislative and regulatory initiatives, or other factors.

Turbulence in significant portions of the US and global financial markets could impact our performance, both directly by affecting our revenues and the value of our assets and liabilities and indirectly by affecting our counterparties and the economy generally.

We will be impacted by the extensive reforms provided for in Dodd-Frank and ongoing reforms impacting the financial institutions industry generally. Further, as much of that Act will require the adoption of implementing regulations by a number of different regulatory bodies, the precise nature, extent and timing of many of these reforms and the impact on us is still uncertain.

Financial industry restructuring in the current environment could also impact our business and financial performance as a result of changes in the creditworthiness and performance of our counterparties and by changes in the competitive and regulatory landscape. Our results depend on our ability to manage current elevated levels of impaired assets.

Given current economic and financial market conditions, our forward-looking financial statements are subject to the risk that these conditions will be substantially different than we are currently expecting. These statements are based on our current view that the moderate economic recovery that began in mid-2009 and continued throughout 2010 will slowly gather enough momentum in 2011 to lower the unemployment rate amidst continued low interest rates.

Legal and regulatory developments could have an impact on our ability to operate our businesses or our financial condition or results of operations or our competitive position or reputation. Reputational impacts, in turn, could affect matters such as business generation and retention, our ability to attract and retain management,

Table of Contents

liquidity, and funding. These legal and regulatory developments could include:

Changes resulting from legislative and regulatory responses to the current economic and financial industry environment.

Other legislative and regulatory reforms, including broad-based restructuring of financial industry regulation (such as those under the Dodd-Frank Act) as well as changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other aspects of the financial institution industry.

Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries.

In addition to matters relating to PNC's business and activities, such matters may also include proceedings, claims, investigations, or inquiries relating to pre-acquisition business and activities of acquired companies, such as National City.

The results of the regulatory examination and supervision process, including our failure to satisfy the requirements of agreements with governmental agencies.

Changes in accounting policies and principles.

Changes resulting from legislative and regulatory initiatives relating to climate change that have or may have a negative impact on our customers' demand for or use of our products and services in general and their creditworthiness in particular.

Changes to regulations governing bank capital, including as a result of the Dodd-Frank Act and of the Basel III initiatives.

Our business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through the effective use of third-party insurance, derivatives, and capital management techniques, and by our ability to meet evolving regulatory capital standards.

The adequacy of our intellectual property protection, and the extent of any costs associated with obtaining rights in intellectual property claimed by others, can impact our business and operating results.

Our ability to anticipate and respond to technological changes can have an impact on our ability to respond to customer needs and to meet competitive demands.

Our ability to implement our business initiatives and strategies could affect our financial performance over the next several years.

Competition can have an impact on customer acquisition, growth and retention, as well as on our credit spreads and product pricing, which can affect market share, deposits and revenues.

Our business and operating results can also be affected by widespread disasters, terrorist activities or international hostilities, either as a result of the impact on the economy and capital and other financial markets generally or on us or on our customers, suppliers or other counterparties specifically.

Also, risks and uncertainties that could affect the results anticipated in forward-looking statements or from historical performance relating to our equity interest in BlackRock, Inc. are discussed in more detail in BlackRock's filings with the SEC, including in the Risk Factors sections of BlackRock's reports. BlackRock's SEC filings are accessible on the SEC's website and on or through BlackRock's website at www.blackrock.com. This material is referenced for informational purposes only and should not be deemed to constitute a part of this Report.

We grow our business in part by acquiring from time to time other financial services companies, financial services assets and related deposits. Acquisitions present us with risks in addition to those presented by the nature of the business acquired. These include risks and uncertainties related both to the acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing.

Acquisitions may be substantially more expensive to complete (including unanticipated costs incurred in connection with the integration of the acquired company) and the anticipated benefits (including anticipated cost savings and strategic gains) may be significantly harder or take longer to achieve than expected. Acquisitions may involve our entry into new businesses or new geographic or other markets, and these situations also present risks resulting from our inexperience in those new areas.

As a regulated financial institution, our pursuit of attractive acquisition opportunities could be negatively impacted due to regulatory delays or other regulatory issues. In addition, regulatory and/or legal issues relating to the pre-acquisition operations of an acquired business may cause reputational harm to PNC following the acquisition and integration of the acquired business into ours and may result in additional future costs or regulatory limitations arising as a result of those issues.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Table of Contents

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of The PNC Financial Services Group, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in equity, and cash flows present fairly, in all material respects, the financial position of The PNC Financial Services Group, Inc. and its subsidiaries (the Company) at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for other-than-temporary impairments on debt securities classified as either available for sale or held to maturity in 2009.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania

March 1, 2011

Table of Contents**CONSOLIDATED INCOME STATEMENT**

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except per share data	Year ended December 31		
	2010	2009	2008
Interest Income			
Loans	\$ 8,276	\$ 8,919	\$ 4,138
Investment securities	2,389	2,688	1,746
Other	485	479	417
Total interest income	11,150	12,086	6,301
Interest Expense			
Deposits	963	1,741	1,485
Borrowed funds	957	1,262	962
Total interest expense	1,920	3,003	2,447
Net interest income	9,230	9,083	3,854
Noninterest Income			
Asset management	1,054	858	686
Consumer services	1,261	1,290	623
Corporate services	1,082	1,021	704
Residential mortgage	699	990	
Service charges on deposits	705	950	372
Net gains on sales of securities	426	550	106
Other-than-temporary impairments	(608)	(1,935)	(312)
Less: Noncredit portion of other-than-temporary impairments (a)	(283)	(1,358)	
Net other-than-temporary impairments	(325)	(577)	(312)
Gains on BlackRock transactions	160	1,076	
Other	884	987	263
Total noninterest income	5,946	7,145	2,442
Total revenue	15,176	16,228	6,296
Provision For Credit Losses			
	2,502	3,930	1,517
Noninterest Expense			
Personnel	3,906	4,119	1,766
Occupancy	730	713	331
Equipment	668	695	280
Marketing	266	233	123
Other	3,043	3,313	1,185
Total noninterest expense	8,613	9,073	3,685
Income from continuing operations before income taxes and noncontrolling interests	4,061	3,225	1,094
Income taxes	1,037	867	298
Income from continuing operations before noncontrolling interests	3,024	2,358	796
Income from discontinued operations (net of income taxes of \$338, \$54 and \$63)	373	45	118
Net income	3,397	2,403	914
Less: Net income (loss) attributable to noncontrolling interests	(15)	(44)	32
Preferred stock dividends	146	388	21
Preferred stock discount accretion and redemptions	255	56	
Net income attributable to common shareholders	\$ 3,011	\$ 2,003	\$ 861
Earnings Per Common Share			
From continuing operations			
Basic	\$ 5.08	\$ 4.30	\$ 2.15
Diluted	\$ 5.02	\$ 4.26	\$ 2.10
From net income			
Basic	\$ 5.80	\$ 4.40	\$ 2.49
Diluted	\$ 5.74	\$ 4.36	\$ 2.44
Average Common Shares Outstanding			

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Basic	517	454	344
Diluted	520	455	346

(a) Included in accumulated other comprehensive loss.
See accompanying Notes To Consolidated Financial Statements.

Table of Contents**CONSOLIDATED BALANCE SHEET**

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except par value	December 31 2010	December 31 2009
Assets		
Cash and due from banks (December 31, 2010 includes \$2 for VIEs) (a)	\$ 3,297	\$ 4,288
Federal funds sold and resale agreements (includes \$866 and \$990 measured at fair value) (b)	3,704	2,390
Trading securities	1,826	2,124
Interest-earning deposits with banks (December 31, 2010 includes \$288 for VIEs) (a)	1,610	4,488
Loans held for sale (includes \$2,755 and \$2,062 measured at fair value) (b)	3,492	2,539
Investment securities (December 31, 2010 includes \$192 for VIEs) (a)	64,262	56,027
Loans (December 31, 2010 includes \$4,645 for VIEs) (includes \$116 and \$88 measured at fair value) (a) (b)	150,595	157,543
Allowance for loan and lease losses (December 31, 2010 includes \$(183) for VIEs) (a)	(4,887)	(5,072)
Net loans	145,708	152,471
Goodwill	8,149	9,505
Other intangible assets	2,604	3,404
Equity investments (December 31, 2010 includes \$1,177 for VIEs) (a)	9,220	10,254
Other (December 31, 2010 includes \$676 for VIEs) (includes \$396 and \$486 measured at fair value) (a) (b)	20,412	22,373
Total assets	\$ 264,284	\$ 269,863
Liabilities		
Deposits		
Noninterest-bearing	\$ 50,019	\$ 44,384
Interest-bearing	133,371	142,538
Total deposits	183,390	186,922
Borrowed funds		
Federal funds purchased and repurchase agreements	4,144	3,998
Federal Home Loan Bank borrowings	6,043	10,761
Bank notes and senior debt	12,904	12,362
Subordinated debt	9,842	9,907
Other (December 31, 2010 includes \$3,354 for VIEs) (a)	6,555	2,233
Total borrowed funds	39,488	39,261
Allowance for unfunded loan commitments and letters of credit	188	296
Accrued expenses (December 31, 2010 includes \$88 for VIEs) (a)	3,188	3,590
Other (December 31, 2010 includes \$456 for VIEs) (a)	5,192	7,227
Total liabilities	231,446	237,296
Equity		
Preferred stock (c)		
Common stock \$5 par value		
Authorized 800 shares, issued 536 and 471 shares	2,682	2,354
Capital surplus preferred stock	647	7,974
Capital surplus common stock and other	12,057	8,945
Retained earnings	15,859	13,144
Accumulated other comprehensive loss	(431)	(1,962)
Common stock held in treasury at cost: 10 and 9 shares	(572)	(513)
Total shareholders equity	30,242	29,942
Noncontrolling interests	2,596	2,625
Total equity	32,838	32,567
Total liabilities and equity	\$ 264,284	\$ 269,863

(a) Amounts represent the assets or liabilities of consolidated variable interest entities (VIEs).

(b) Amounts represent items for which the Corporation has elected the fair value option.

(c) Par value less than \$.5 million at each date.

See accompanying Notes To Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions	Shares Outstanding Common	Common Stock	Capital Surplus - Preferred Stock	Shareholders Capital Surplus - Common Stock and Other	Equity Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at December 31, 2007 (a)	341	\$ 1,764		\$ 2,618	\$ 11,497	\$ (147)	\$ (878)	\$ 1,654	\$ 16,508
Net effect of adopting FASB ASC 715-60					(12)				(12)
Net effect of adopting FASB ASC 820 and FASB ASC 825-10					17				17
Balance at January 1, 2008	341	\$ 1,764		\$ 2,618	\$ 11,502	\$ (147)	\$ (878)	\$ 1,654	\$ 16,513
Net income					882			32	914
Other comprehensive income (loss), net of tax									
Net unrealized securities losses						(3,459)			(3,459)
Net unrealized gains on cash flow hedge derivatives						199			199
Pension, other postretirement and postemployment benefit plan adjustments						(490)			(490)
Other						(52)			(52)
Comprehensive income (loss)								32	(2,888)
Cash dividends declared									
Common						(902)			(902)
Preferred						(21)			(21)
Common stock activity acquisition	99	497		5,419					5,916
Treasury stock activity	3			(110)			281		171
Preferred stock issuance Series K			\$ 493						493
Preferred stock issuance Series L			150						150
Preferred stock issuance Series N (b)			7,275						7,275
TARP Warrant (b)				304					304
Tax benefit of stock option plans				17					17
Stock options granted				22					22
Effect of BlackRock equity transactions				43					43
Restricted stock/unit and incentive/ performance unit share transactions				15					15
Other								540	540
Balance at December 31, 2008 (a)	443	\$ 2,261	\$ 7,918	\$ 8,328	\$ 11,461	\$ (3,949)	\$ (597)	\$ 2,226	\$ 27,648
Cumulative effect of adopting FASB ASC 320-10 (c)					110	(110)			
Balance at January 1, 2009	443	\$ 2,261	\$ 7,918	\$ 8,328	\$ 11,571	\$ (4,059)	\$ (597)	\$ 2,226	\$ 27,648
Net income (loss)					2,447			(44)	2,403
Other comprehensive income (loss), net of tax									
Net unrealized losses on other-than- temporary impaired debt securities						(706)			(706)
Net unrealized securities gains						2,866			2,866
Net unrealized losses on cash flow hedge derivatives						(208)			(208)
Pension, other postretirement and postemployment benefit plan adjustments						125			125

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Other					20				20
Comprehensive income (loss)								(44)	4,500
Cash dividends declared									
Common					(430)				(430)
Preferred					(388)				(388)
Preferred stock discount accretion			56		(56)				
Supervisory Capital Assessment Program									
issuance	15	75		549					624
Common stock activity	4	18		147					165
Treasury stock activity (d)				(158)		84			(74)
Other				79				443	522
Balance at December 31, 2009 (a)	462	\$ 2,354	\$ 7,974	\$ 8,945	\$ 13,144	\$ (1,962)	\$ (513)	\$ 2,625	\$ 32,567

(continued on following page)

Table of Contents**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

THE PNC FINANCIAL SERVICES GROUP, INC.

(continued from previous page)

In millions	Shares Outstanding Common Stock	Common Stock	Capital Surplus - Preferred Stock	Shareholders Capital Surplus - Common Stock and Other	Equity Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Total Equity
Cumulative effect of adopting ASU 2009-17					(92)	(13)			(105)
Balance at January 1, 2010	462	\$ 2,354	\$ 7,974	\$ 8,945	\$ 13,052	\$ (1,975)	\$ (513)	\$ 2,625	\$ 32,462
Net income					3,412			(15)	3,397
Other comprehensive income (loss), net of tax									
Net unrealized gains on other-than- temporary impaired debt securities						170			170
Net unrealized securities gains						868			868
Net unrealized gains on cash flow hedge derivatives						356			356
Pension, other postretirement and postemployment benefit plan adjustments						162			162
Other						(12)			(12)
Comprehensive income (loss)								(15)	4,941
Cash dividends declared									
Common					(204)				(204)
Preferred					(146)				(146)
Redemption of preferred stock and noncontrolling interest									
Series N (TARP)			(7,579)						(7,579)
Preferred stock discount accretion			252		(252)				
Other				(1)	(3)				(4)
Common stock activity (e)	65	328		3,113					3,441
Treasury stock activity	(1)			(62)			(59)		(121)
Other				62				(14)	48
Balance at December 31, 2010 (a)	526	\$ 2,682	\$ 647	\$ 12,057	\$ 15,859	\$ (431)	\$ (572)	\$ 2,596	\$ 32,838

(a) The par value of our preferred stock outstanding was less than \$.5 million at each date and, therefore, is excluded from this presentation.

(b) Issued to the US Department of Treasury on December 31, 2008 under the TARP Capital Purchase Program.

(c) Retained earnings at January 1, 2009 was increased \$110 million representing the after-tax noncredit portion of other-than-temporary impairment losses recognized in net income during 2008 that has been reclassified to accumulated other comprehensive income (loss).

(d) Net treasury stock activity totaled .5 million shares issued.

(e) Includes 63.9 million common shares issuance, the net proceeds of which were used together with other available funds to redeem the Series N (TARP) Preferred Stock, for a \$3.4 billion net increase in total equity.

See accompanying Notes To Consolidated Financial Statements.

Table of Contents**CONSOLIDATED STATEMENT OF CASH FLOWS**

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions	Year ended December 31		
	2010	2009	2008
Operating Activities			
Net income	\$ 3,397	\$ 2,403	\$ 914
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for credit losses	2,502	3,930	1,517
Depreciation and amortization	1,059	978	463
Deferred income taxes (benefit)	1,019	932	(261)
Net gains on sales of securities	(426)	(550)	(106)
Net other-than-temporary impairments	325	577	312
Gain on sale of PNC Global Investment Servicing	(639)		
Gains on BlackRock transactions	(160)	(1,076)	
Net gains related to BlackRock LTIP shares adjustment		(103)	(246)
Undistributed earnings of BlackRock	(291)	(144)	(129)
Visa redemption gain			(95)
Excess tax benefits from share-based payment arrangements	(1)	(1)	(13)
Net change in			
Trading securities and other short-term investments	468	61	1,459
Loans held for sale	(1,154)	1,110	303
Other assets	753	5,485	(1,974)
Accrued expenses and other liabilities	(1,571)	(8,118)	5,140
Other	(470)	269	130
Net cash provided by operating activities	4,811	5,753	7,414
Investing Activities			
Sales			
Securities available for sale	23,343	18,861	10,283
BlackRock stock via secondary common stock offering	1,198		
Visa shares			95
Loans	1,868	644	76
Repayments/maturities			
Securities available for sale	7,730	7,291	4,225
Securities held to maturity	2,433	495	21
Purchases			
Securities available for sale	(36,653)	(34,078)	(19,381)
Securities held to maturity	(1,296)	(2,367)	(101)
Loans	(4,275)	(970)	(249)
Net change in			
Federal funds sold and resale agreements	(1,313)	(560)	1,301
Interest-earning deposits with banks	2,684	10,237	(6,302)
Loans	7,855	13,863	(4,595)
Net cash received from (paid for) acquisition and divestiture activity	2,202	(3,396)	2,761
Purchases of corporate and bank-owned life insurance	(800)		(350)
Other (a)	753	(541)	(770)
Net cash provided (used) by investing activities	5,729	9,479	(12,986)

(continued on following page)

Table of Contents**CONSOLIDATED STATEMENT OF CASH FLOWS**

THE PNC FINANCIAL SERVICES GROUP, INC.

(continued from previous page)

In millions	Year ended December 31		
	2010	2009	2008
Financing Activities			
Net change in			
Noninterest-bearing deposits	\$ 5,872	\$ 7,169	\$ 1,719
Interest-bearing deposits	(8,844)	(9,849)	2,065
Federal funds purchased and repurchase agreements	152	(1,173)	(8,081)
Federal Home Loan Bank short-term borrowings	(280)	280	(2,000)
Other short-term borrowed funds	380	(1,726)	840
Sales/issuances			
Federal Home Loan Bank long-term borrowings		2,092	5,050
Bank notes and senior debt	3,230	2,461	3,626
Subordinated debt			759
Other long-term borrowed funds	4,820	234	96
Perpetual trust securities			369
Preferred stock - TARP			7,275
Preferred stock - Other			492
TARP Warrant			304
Supervisory Capital Assessment Program - common stock		624	
Common and treasury stock	3,486	247	375
Repayments/maturities			
Federal Home Loan Bank long-term borrowings	(4,373)	(9,671)	(1,158)
Bank notes and senior debt	(2,808)	(3,887)	(3,815)
Subordinated debt	(257)	(1,000)	(140)
Other long-term borrowed funds	(4,677)	(211)	(156)
Preferred stock - TARP	(7,579)		
Redemption of noncontrolling interest and other preferred stock	(100)		
Excess tax benefits from share-based payment arrangements	1	1	13
Acquisition of treasury stock	(204)	(188)	(234)
Preferred stock cash dividends paid	(146)	(388)	(21)
Common stock cash dividends paid	(204)	(430)	(902)
Net cash provided (used) by financing activities	(11,531)	(15,415)	6,476
Net Increase (Decrease) In Cash And Due From Banks	(991)	(183)	904
Cash and due from banks at beginning of period	4,288	4,471	3,567
Cash and due from banks at end of period	\$ 3,297	\$ 4,288	\$ 4,471
Supplemental Disclosures			
Interest paid	\$ 1,871	\$ 3,151	\$ 2,145
Income taxes paid	752	66	797
Income taxes refunded	54	718	91
Non-cash Investing and Financing Items			
Issuance of stock for acquisitions			6,066
Transfer from (to) loans to (from) loans held for sale, net	890	(172)	(1,763)
Transfer from trading securities to investment securities			599
Transfer from loans to foreclosed assets	1,218	1,012	45

(a) Includes the impact of the consolidation of variable interest entities as of January 1, 2010.

See accompanying Notes To Consolidated Financial Statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE PNC FINANCIAL SERVICES GROUP, INC.

BUSINESS

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

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

NOTE 1 ACCOUNTING POLICIES

BASIS OF FINANCIAL STATEMENT PRESENTATION

Our consolidated financial statements include the accounts of the parent company and its subsidiaries, most of which are wholly owned, and certain partnership interests and variable interest entities.

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform with the 2010 presentation. These reclassifications did not have a material impact on our consolidated financial condition or results of operations.

See Note 2 Divestiture regarding our July 1, 2010 sale of PNC Global Investment Servicing Inc. The Consolidated Income Statement for all periods presented and related Notes To Consolidated Financial Statements reflect the global investment servicing business as discontinued operations.

We have considered the impact on these consolidated financial statements of subsequent events.

USE OF ESTIMATES

We prepared these consolidated financial statements using financial information available at the time, which requires us to make estimates and assumptions that affect the amounts reported. Our most significant estimates pertain to our fair value measurements, allowances for loan and lease losses and unfunded loan commitments and letters of credit, purchased impaired loans, revenue recognition and residential mortgage servicing rights. Actual results may differ from the estimates and the differences may be material to the consolidated financial statements.

INVESTMENT IN BLACKROCK, INC.

We account for our investment in the common stock and Series B Preferred Stock of BlackRock (deemed to be in-substance common stock) under the equity method of accounting. On January 31, 2010, the Series D Preferred Stock was converted to Series B Preferred Stock. The investment in BlackRock is reflected on our Consolidated Balance Sheet in Equity investments, while our equity in earnings of BlackRock is reported on our Consolidated Income Statement in Asset management revenue.

On February 27, 2009, PNC's obligation to deliver BlackRock common shares in connection with BlackRock's long-term incentive plan programs was replaced with an obligation to deliver shares of BlackRock's new Series C Preferred Stock. The 2.9 million shares of Series C Preferred Stock were acquired from BlackRock in exchange for common shares on that same date. Since these preferred shares were not deemed to be in substance common stock, we elected to account for these preferred shares at fair value and the changes in fair value will offset the impact of marking-to-market the obligation to deliver these shares to BlackRock. Our investment in the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in Other assets.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

As noted above, we mark-to-market our obligation to transfer BlackRock shares related to certain BlackRock long-term incentive plan (LTIP) programs. This obligation is classified as a derivative not designated as a hedging instrument under GAAP as disclosed in Note 16 Financial Derivatives.

BUSINESS COMBINATIONS

We record the net assets of companies that we acquire at their estimated fair value at the date of acquisition and we include the results of operations of the acquired companies on our Consolidated Income Statement from the date of acquisition. We recognize, as goodwill, the excess of the acquisition price over the estimated fair value of the net assets acquired.

SPECIAL PURPOSE ENTITIES

Special purpose entities (SPEs) are defined as legal entities structured for a particular purpose. We use special purpose entities in various legal forms to conduct normal business activities. We review the structure and activities of special purpose entities for possible consolidation under the applicable GAAP guidance.

Table of Contents

A variable interest entity (VIE) is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets that either:

Does not have equity investors with voting rights that can directly or indirectly make decisions about the entity's activities through those voting rights or similar rights, or

Has equity investors that do not provide sufficient equity for the entity to finance its activities without additional subordinated financial support.

A VIE often holds financial assets, including loans or receivables, real estate or other property.

We consolidate a VIE if we are its primary beneficiary. The primary beneficiary absorbs the majority of the expected losses from the VIE's activities, is entitled to receive a majority of the entity's residual returns, or both. Upon consolidation of a VIE, we recognize all of the VIE's assets, liabilities and noncontrolling interests on our Consolidated Balance Sheet. See Note 3 Loan Sale and Servicing Activities and Variable Interest Entities for information about VIEs that we do not consolidate but in which we hold a significant variable interest.

On January 1, 2010, we adopted Accounting Standard Update (ASU) 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This guidance amends current GAAP to require that an enterprise perform a qualitative analysis as opposed to a quantitative analysis to determine if it is the primary beneficiary of a VIE. The qualitative analysis considers the purpose and the design of the VIE as well as the risks that the VIE was designed to either create or pass through to variable interest holders. See Recent Accounting Pronouncements in this Note 1 for further details.

REVENUE RECOGNITION

We earn interest and noninterest income from various sources, including:

Lending,
Securities portfolio,
Asset management,
Customer deposits,
Loan sales and servicing,
Brokerage services, and
Securities and derivatives trading activities, including foreign exchange.

We also earn revenue from selling loans and securities, and we recognize income or loss from certain private equity activities.

We earn fees and commissions from:

Issuing loan commitments, standby letters of credit and financial guarantees,
Selling various insurance products,
Providing treasury management services,
Providing merger and acquisition advisory and related services, and
Participating in certain capital markets transactions.

Revenue earned on interest-earning assets including unearned income and the accretion of discounts recognized on acquired or purchased loans is recognized based on the constant effective yield of the financial instrument.

Asset management fees are generally based on a percentage of the fair value of the assets under management. This caption also includes any performance fees which are generally based on a percentage of the returns on such assets and are recorded as earned. The caption Asset Management also includes our share of the earnings of BlackRock recognized under the equity method of accounting.

Service charges on deposit accounts are recognized when earned. Brokerage fees and gains and losses on the sale of securities and certain derivatives are recognized on a trade-date basis.

We record private equity income or loss based on changes in the valuation of the underlying investments or when we dispose of our interest.

We recognize gain/(loss) on changes in the fair value of certain financial instruments where we have elected the fair value option. These financial instruments include certain commercial and residential mortgage loans originated for sale, certain residential mortgage portfolio loans, structured resale agreements and our investment in BlackRock Series C preferred stock. We also recognize gain/(loss) on changes in the fair value of residential mortgage servicing rights, which are measured at fair value.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

We recognize revenue from servicing residential mortgages, commercial mortgages and other consumer loans as earned based on the specific contractual terms. We recognize revenue from securities, derivatives and foreign exchange trading as well as securities underwriting activities as these transactions occur or as services are provided. We recognize gains from the sale of loans upon receipt of cash.

When appropriate, revenue is reported net of associated expenses in accordance with GAAP.

CASH AND CASH EQUIVALENTS

Cash and due from banks are considered cash and cash equivalents for financial reporting purposes.

Table of Contents**INVESTMENTS**

We hold interests in various types of investments. The accounting for these investments is dependent on a number of factors including, but not limited to, items such as:

- Ownership interest,
- Our plans for the investment, and
- The nature of the investment.

Debt Securities

Debt securities are recorded on a trade-date basis. We classify debt securities as held to maturity and carry them at amortized cost if we have the positive intent and ability to hold the securities to maturity. Debt securities that we purchase for short-term appreciation or other trading purposes are carried at fair value and classified as trading securities and other assets on our Consolidated Balance Sheet. Realized and unrealized gains and losses on trading securities are included in Other noninterest income.

Debt securities not classified as held to maturity or trading are designated as securities available for sale and carried at fair value with unrealized gains and losses, net of income taxes, reflected in Accumulated other comprehensive income (loss).

We review all debt securities that are in an unrealized loss position for other-than-temporary impairment (OTTI). We evaluate outstanding available for sale and held to maturity securities for other-than-temporary impairment on at least a quarterly basis. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. Amortized cost includes adjustments (if any) made to the cost basis of an investment for accretion, amortization, previous other-than-temporary impairments and hedging gains and losses. After an investment security is determined to be impaired, we evaluate whether the decline in value is other-than-temporary. As part of this evaluation, we take into consideration whether we intend to sell the security or whether it is more likely than not that we will be required to sell the security before expected recovery of its amortized cost. We also consider whether or not we expect to receive all of the contractual cash flows from the investment based on factors that include, but are not limited to: the creditworthiness of the issuer and, in the case of securities collateralized by consumer and commercial loan assets, the historical and projected performance of the underlying collateral; and the length of time and extent that fair value has been less than amortized cost. In addition, we may also evaluate the business and financial outlook of the issuer, as well as broader industry and sector performance indicators. Declines in the fair value of available for sale debt securities that are deemed other-than-temporary and are attributable to credit deterioration are recognized on our Consolidated Income Statement in the period in which the determination is made. Declines in fair value which are deemed other-than-temporary and attributable to factors other than credit deterioration are recognized in Accumulated other comprehensive income (loss) on our Consolidated Balance Sheet.

We include all interest on debt securities, including amortization of premiums and accretion of discounts on available for sale securities, in Net interest income using the constant effective yield method. We compute gains and losses realized on the sale of available for sale debt securities on a specific security basis. These securities gains/ (losses) are included in the caption Net gains on sales of securities on the Consolidated Income Statement.

In certain situations, management may elect to transfer certain debt securities from the securities available for sale to the held to maturity classification. In such cases, any unrealized gain or loss at the date of transfer included in Accumulated other comprehensive income (loss) is amortized over the remaining life of the security as a yield adjustment. This amortization effectively offsets or mitigates the effect on interest income of the amortization of the premium or accretion of the discount on the security.

Equity Securities and Partnership Interests

We account for equity securities and equity investments other than BlackRock and private equity investments under one of the following methods:

Marketable equity securities are recorded on a trade-date basis and are accounted for based on the securities' quoted market prices from a national securities exchange. Dividend income on these securities is recognized in Net interest income. Those purchased with the intention of recognizing short-term profits are classified as trading and included in trading securities and other assets on our Consolidated Balance Sheet. Both realized and unrealized gains and losses on trading securities are included in Noninterest income. Marketable equity securities not classified as trading are designated as securities available for sale with unrealized gains and losses, net of income taxes, reflected in Accumulated other comprehensive income (loss). Any unrealized losses that we have determined to be other-than-temporary on securities classified as available for sale are recognized in current period earnings.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

For investments in limited partnerships, limited liability companies and other investments that are not required to be consolidated, we use either the cost method or the equity method of accounting. We use the cost method for investments in which we are not considered to have significant influence over the operations of the investee and when cost appropriately reflects our economic interest in the underlying investment. Under the cost method, there is no change to the cost basis unless there is an other-than-temporary decline in value. If the decline is determined to be other-than-temporary, we write down the cost basis of the investment to a new cost basis that represents realizable value. The amount of the write-down is accounted for as a loss included in

Table of Contents

Other noninterest income. Distributions received from the income of an investee on cost method investments are included in interest income or noninterest income depending on the type of investment. We use the equity method for all other general and limited partner ownership interests and limited liability company investments. Under the equity method, we record our equity ownership share of net income or loss of the investee in noninterest income. Investments described above are included in the caption Equity investments on the Consolidated Balance Sheet.

Private Equity Investments

We report private equity investments, which include direct investments in companies, affiliated partnership interests and indirect investments in private equity funds, at estimated fair value. These estimates are based on available information and may not necessarily represent amounts that we will ultimately realize through distribution, sale or liquidation of the investments. Fair value of publicly traded direct investments are determined using quoted market prices and are subject to various discount factors for legal or contractual sales restrictions, when appropriate. The valuation procedures applied to direct investments in private companies include techniques such as multiples of adjusted earnings of the entity, independent appraisals, anticipated financing and sale transactions with third parties, or the pricing used to value the entity in a recent financing transaction. We value affiliated partnership interests based on the underlying investments of the partnership using procedures consistent with those applied to direct investments. In September 2009, the Financial Accounting Standards Board (FASB) issued ASU 2009-12 Fair Value Measurements and Disclosures (Topic 820) Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Based on the guidance, we value indirect investments in private equity funds based on net asset value as provided in the financial statements that we receive from their managers. Due to the time lag in our receipt of the financial information and based on a review of investments and valuation techniques applied, adjustments to the manager-provided value are made when available recent portfolio company information or market information indicates a significant change in value from that provided by the manager of the fund. We include all private equity investments on the Consolidated Balance Sheet in the caption Equity investments. Changes in the fair value of private equity investments are recognized in noninterest income.

We consolidate private equity investments when we are the general partner in a limited partnership and have determined that we have control of the partnership or are the primary beneficiary of the VIE. The portion we do not own is reflected in the caption Noncontrolling interests on the Consolidated Balance Sheet.

LOANS

Loans are classified as held for investment when management has both the intent and ability to hold the loan for the foreseeable future, or until maturity or payoff. Management's intent and view of the foreseeable future may change based on changes in business strategies, the economic environment, market conditions and the availability of government programs.

Measurement of delinquency and past due status are based on the contractual terms of each loan. Loans that are 30 days or more past due in terms of payment are considered delinquent.

Except as described below, loans held for investment are stated at the principal amounts outstanding, net of unearned income, unamortized deferred fees and costs on originated loans, and premiums or discounts on purchased loans. Interest on performing loans is accrued based on the principal amount outstanding and recorded in interest income as earned using the constant effective yield method. Loan origination fees, direct loan origination costs, and loan premiums and discounts are deferred and accreted or amortized into net interest income, over periods not exceeding the contractual life of the loan.

When loans are redesignated from held for investment to held for sale, specific reserves and allocated pooled reserves included in the allowance for loan and lease losses (ALLL) are charged-off to reduce the basis of the loans to the lower of cost or estimated fair value less cost to sell.

In addition to originating loans, we also acquire loans through portfolio purchases or acquisitions of other financial services companies. For certain acquired loans that have experienced a deterioration of credit quality, we follow the guidance contained in ASC Sub Topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality. Under this guidance, acquired purchased impaired loans are to be recorded at fair value without the carryover of any existing valuation allowances. Evidence of credit quality deterioration may include information and statistics regarding bankruptcy events, borrower credit scores, such as Fair Isaac Corporation scores (FICO), past due status, and current loan-to-value (LTV) ratio. We review the loans acquired for evidence of credit quality deterioration and determine if it is probable that we will be unable to collect all contractual amounts due, including both principal and interest. When both conditions exist, we estimate the amount and timing of undiscounted expected cash flows at acquisition for each loan either individually or on a pool basis. We estimate the cash flows expected to be collected using internal models that incorporate management's best estimate of current key assumptions, such as default rates, loss severity and payment speeds. Collateral values are also incorporated into cash flow estimates. Late fees, which are contractual but not expected to be collected, are excluded from expected future cash flows.

Table of Contents

The accretable yield is calculated based upon the difference between the undiscounted expected future cash flows of the loans and the recorded investment in the loans. This amount is accreted into income over the life of the loan or pool using the constant effective yield method. Subsequent decreases in expected cash flows that are attributable, at least in part, to credit quality are recognized as impairments through a charge to the provision for credit losses resulting in an increase in the ALLL. Subsequent increases in expected cash flows are recognized as a recovery of previously recorded ALLL or prospectively through an adjustment of the loans or pools yield over its remaining life.

The nonaccretable yield represents the difference between the expected undiscounted cash flows of the loans and the total contractual cash flows (including principal and future interest payments) at acquisition and throughout the remaining lives of the loans.

LEASES

We provide financing for various types of equipment, aircraft, energy and power systems, and rolling stock and automobiles through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property, less unearned income. Leveraged leases, a form of financing lease, are carried net of nonrecourse debt. We recognize income over the term of the lease using the constant effective yield method. Lease residual values are reviewed for other-than-temporary impairment on a quarterly basis. Gains or losses on the sale of leased assets are included in Other noninterest income while valuation adjustments on lease residuals are included in Other noninterest expense.

LOAN SALES, LOAN SECURITIZATIONS AND RETAINED INTERESTS

We recognize the sale of loans or other financial assets when the transferred assets are legally isolated from our creditors and the appropriate accounting criteria are met. We have sold mortgage, credit card and other loans through securitization transactions. In a securitization, financial assets are transferred into trusts or to SPEs in transactions to effectively legally isolate the assets from PNC. Where the transferor is a depository institution, legal isolation is accomplished through compliance with specific rules and regulations of the relevant regulatory authorities. Where the transferor is not a depository institution, legal isolation is accomplished through utilization of a two-step securitization structure.

In December 2009, the FASB issued ASU 2009-16 Transfers and Servicing (Topic 860) Accounting For Transfers of Financial Assets which requires a true sale legal analysis to be obtained to address several relevant factors, such as the nature and level of recourse to the transferor, and the amount and nature of retained interests in the loans sold. The analytical conclusion as to a true sale is never absolute

and unconditional, but contains qualifications based on the inherent equitable powers of a bankruptcy court, as well as the unsettled state of the common law. Once the legal isolation test has been met, other factors concerning the nature and extent of the transferor's control over the transferred assets are taken into account in order to determine whether derecognition of assets is warranted.

In a securitization, the trust or SPE issues beneficial interests in the form of senior and subordinated securities backed or collateralized by the assets sold to the trust. The senior classes of the asset-backed securities typically receive investment grade credit ratings at the time of issuance. These ratings are generally achieved through the creation of lower-rated subordinated classes of asset-backed securities, as well as subordinated or residual interests. In certain cases, we may retain a portion or all of the securities issued, interest-only strips, one or more subordinated tranches, servicing rights and, in some cases, cash reserve accounts. Securitized loans are removed from the balance sheet and a net gain or loss is recognized in noninterest income at the time of initial sale, and each subsequent sale for revolving securitization structures. Gains or losses recognized on the sale of the loans depend on the allocation of carrying value between the loans sold and the retained interests, based on their relative fair market values at the date of sale. We generally estimate the fair value of the retained interests based on the present value of future expected cash flows using assumptions as to discount rates, interest rates, prepayment speeds, credit losses and servicing costs, if applicable.

Our loan sales and securitizations are generally structured without recourse to us and with no restrictions on the retained interests with the exception of loan sales to certain US government chartered entities.

When we are obligated for loss-sharing or recourse in a sale, our policy is to record such liabilities at fair value upon sale based on the guidance contained in applicable GAAP.

We originate, sell and service mortgage loans under the Federal National Mortgage Association (FNMA) Delegated Underwriting and Servicing (DUS) program. Under the provisions of the DUS program, we participate in a loss-sharing arrangement with FNMA. We participate in a similar program with the Federal Home Loan Mortgage Corporation (FHLMC). Refer to Note 23 Commitments and Guarantees for more information about our obligations related to sales of loans under these programs.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

On January 1, 2010, we adopted ASU 2009-16 Transfers and Servicing (Topic 860) Accounting For Transfers of Financial Assets which is a codification of guidance issued in June 2009. This revised guidance removes the concept of a qualifying special-purpose entity from existing GAAP and removes the exception from applying FASB ASC 810-10, *Consolidation*, to qualifying special purpose entities. The

Table of Contents

amended standard clarifies that an entity must consider all arrangements or agreements made contemporaneously with or in contemplation of a transfer even if not entered into at the time of the transfer when applying surrender of control conditions. See Recent Accounting Pronouncements in this Note 1 for further details.

LOANS HELD FOR SALE

We designate loans as held for sale when we have the intent to sell them. We transfer loans to the Loans held for sale category at the lower of cost or estimated fair value less cost to sell. At the time of transfer, write-downs on the loans are recorded as charge-offs. We establish a new cost basis upon transfer. Any subsequent lower-of-cost-or-market adjustment is determined on an individual loan basis and is recognized as a valuation allowance with any charges included in Other noninterest income. Gains or losses on the sale of these loans are included in Other noninterest income when realized.

We have elected to account for certain commercial mortgage loans held for sale at fair value. The changes in the fair value of these loans are measured and recorded in Other noninterest income each period. See Note 8 Fair Value for additional information. Also, we elected to account for residential real estate loans held for sale and securitizations acquired from National City, which were not purchased impaired loans, at fair value.

Interest income with respect to loans held for sale classified as performing is accrued based on the principal amount outstanding using a constant effective yield method.

In certain circumstances, loans designated as held for sale may be transferred to held for investment based on a change in strategy. We transfer these loans at the lower of cost or estimated fair value; however, any loans held for sale and designated at fair value will remain at fair value for the life of the loan.

NONPERFORMING ASSETS

Nonperforming assets include:

- Nonaccrual loans,
- Troubled debt restructurings, and
- Foreclosed assets.

Nonperforming loans are those loans that have deteriorated in credit quality to the extent that full collection of original contractual principal and interest is doubtful. When a loan is determined to be nonperforming (and as a result is impaired), the accrual of interest is ceased and the loan is classified as nonaccrual. The current year accrued and uncollected interest is reversed out of net interest income.

A loan acquired and accounted for under ASC Sub-Topic 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality is reported as an accruing loan and a performing asset.

We generally classify Commercial Lending (Commercial, Commercial Real Estate, and Equipment Lease Financing) loans as nonaccrual (and therefore nonperforming) when we determine that the collection of interest or principal is doubtful or when delinquency of interest or principal payments has existed for 90 days or more and the loans are not well-secured and in the process of collection. A loan is considered well-secured when the collateral in the form of liens on (or pledges of) real or personal property, including marketable securities, has a realizable value sufficient to discharge the debt in full, including accrued interest. Such factors that would lead to nonperforming status and subject to an impairment test would include, but are not limited to, the following:

- Deterioration in the financial position of the borrower resulting in the loan moving from accrual to cash basis,
- The collection of principal or interest is 90 days or more past due unless the asset is both well-secured and in the process of collection,
- Reasonable doubt exists as to the certainty of the future debt service ability, whether 90 days have passed or not,
- Customer has filed or will likely file for bankruptcy,
- The bank advances additional funds to cover principal or interest,
- We are in the process of liquidation of a commercial borrower, or
- We are pursuing remedies under a guaranty.

We charge off commercial nonaccrual loans based on the facts and circumstances of the individual loans.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Additionally, in general, small business commercial term loans of less than \$1 million and small business commercial revolving loans are placed on nonaccrual status at 90 days past due and charged off at 120 and 180 days past due, respectively.

Home equity installment loans and lines of credit, as well as residential real estate loans, that are well secured are classified as nonaccrual at 180 days past due. A consumer loan is considered well-secured when the collateral in the form of liens on (or pledges of) real or personal property, including marketable securities, have a realizable value sufficient to discharge the debt in full, including accrued interest.

Home equity installment loans and lines of credit and residential real estate loans that are not well secured and/or are in the process of collection are charged off at 180 days past due to the estimated fair value of the collateral less cost to sell. The remaining portion of the loan is placed on nonaccrual status.

Table of Contents

Subprime mortgage loans for first liens with a LTV ratio of equal to or greater than 90% and second liens are classified as nonaccrual at 90 days past due. These loans are charged off as discussed above.

Most consumer loans and lines of credit, not secured by residential real estate, are charged off after 120 to 180 days past due. Generally, they are not placed on nonaccrual status as permitted by regulatory guidance.

If payment is received on a nonperforming loan, the payment is first applied to the past due principal; once this principal obligation has been fulfilled, payments are applied to recover any partial charge-off related to the impaired loan that might exist. Finally, if both past due principal and any partial charge-off have been recovered, then the payment will result in the recognition and recording of interest income. This process is followed for impaired loans with the exception of performing troubled debt restructurings (TDRs). Payments received on performing TDRs and other modified loans will be applied in accordance with the terms of the modified loan.

A loan is categorized as a TDR if a concession is granted due to deterioration in the financial condition of the borrower. TDRs may include certain modifications of terms of loans, receipts of assets from debtors in partial or full satisfaction of loans, or a combination thereof. Modified loans classified as TDRs are included in nonperforming loans until returned to performing status through the fulfilling of contractual terms for a reasonable period of time (generally 6 months).

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional TDR information.

Nonperforming loans are generally not returned to performing status until the obligation is brought current and the borrower has performed in accordance with the contractual terms for a reasonable period of time and collection of the contractual principal and interest is no longer in doubt.

Foreclosed assets are comprised of any asset seized or property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Other real estate owned is comprised principally of commercial real estate and residential real estate properties obtained in partial or total satisfaction of loan obligations. When legal proceedings are initiated, and no remedies arise from the legal proceedings, the property will be sold. When we acquire the deed, we transfer the loan to other real estate owned included in Other assets on our Consolidated Balance Sheet. Property obtained in satisfaction of a loan is recorded at the lower of recorded investment or estimated fair value less cost to sell. We estimate fair values primarily based on appraisals, when available, or quoted market prices on liquid assets. Anticipated recoveries and government guarantees are also considered in evaluating the potential impairment of loans at

the date of transfer. If the estimated fair value less cost to sell is less than the recorded investment, a charge-off is recognized against the ALLL.

Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or estimated fair value less cost to sell. Valuation adjustments on these assets and gains or losses realized from disposition of such property are reflected in Other noninterest expense.

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

ALLOWANCE FOR LOAN AND LEASE LOSSES

We maintain the ALLL at a level that we believe to be adequate to absorb estimated probable credit losses incurred in the loan portfolio as of the balance sheet date. Our determination of the adequacy of the allowance is based on periodic evaluations of the loan and lease portfolios and other relevant factors. This evaluation is inherently subjective as it requires material estimates, all of which may be susceptible to significant change, including, among others:

- Probability of default (PD),
- Loss given default (LGD),
- Exposure at date of default (EAD),
- Amounts and timing of expected future cash flows,
- Value of collateral, and
- Qualitative factors such as changes in economic conditions that may not be reflected in historical results.

While our reserve methodologies strive to reflect all relevant risk factors, there continues to be uncertainty associated with, but not limited to, potential imprecision in the estimation process due to the inherent time lag of obtaining information and normal variations between estimates and actual outcomes. We provide additional reserves that are designed to provide coverage for losses attributable to such risks. The ALLL also

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

includes factors which may not be directly measured in the determination of specific or pooled reserves. Such qualitative factors include:

- Recent Credit quality trends,
- Recent Loss experience in particular portfolios,
- Recent Macro economic factors, and
- Changes in risk selection and underwriting standards.

In determining the adequacy of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans. We also allocate reserves to provide coverage for probable losses incurred in the portfolio at the balance sheet date based upon current market conditions, which may not be reflected in historical loss data. While allocations are made to specific loans and pools of loans, the total reserve is available for all credit losses.

Nonperforming loans are considered impaired under ASC 310-Receivables and are allocated a specific reserve.

Table of Contents

Specific reserve allocations are determined as follows:

For nonperforming loans greater than or equal to a defined dollar threshold and TDRs, specific reserves are based on an analysis of the present value of the loan's expected future cash flows, the loan's observable market price or the fair value of the collateral.

For nonperforming loans below the defined dollar threshold, the loans are aggregated for purposes of measuring specific reserve impairment using the applicable loan's LGD percentage multiplied by the balance of the loans.

When applicable, this process is applied across all the loan classes in a similar manner. However, as previously discussed, certain consumer loans and lines of credit, not secured by residential real estate, are charged off instead of being classified as nonperforming.

Our credit risk management policies, procedures and practices are designed to promote sound and fair lending standards while achieving prudent credit risk management. We have policies, procedures and practices that address financial statement requirements, collateral review and appraisal requirements, advance rates based upon collateral types, appropriate levels of exposure, cross-border risk, lending to specialized industries or borrower type, guarantor requirements, and regulatory compliance.

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is adequate to absorb estimated probable losses related to these unfunded credit facilities. We determine the adequacy of the allowance based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors, and the terms and expiration dates of the unfunded credit facilities. The allowance for unfunded loan commitments and letters of credit is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the allowance for unfunded loan commitments and letters of credit are included in the provision for credit losses.

The reserve for unfunded loan commitments is estimated in a manner similar to the methodology used for determining reserves for similar funded exposures. However, there is one important distinction. This distinction lies in the estimation of the amount of these unfunded commitments that will become funded. This is determined using a cash conversion factor or loan equivalency factor, which is a statistical estimate of the amount of an unfunded commitment that will fund over a given period of time. Once the future funded amount is

estimated, the calculation of the allowance follows similar methodologies to those employed for on-balance sheet exposure.

See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

MORTGAGE AND OTHER SERVICING RIGHTS

We provide servicing under various loan servicing contracts for commercial, residential and other consumer loans. These contracts are either purchased in the open market or retained as part of a loan securitization or loan sale. All newly acquired or originated servicing rights are initially measured at fair value. Fair value is based on the present value of the expected future cash flows, including assumptions as to:

- Deposit balances and interest rates for escrow and reserve earnings,
- Discount rates,
- Stated note rates,
- Estimated prepayment speeds, and
- Estimated servicing costs.

For subsequent measurements of these assets, we have elected to utilize either the amortization method or fair value measurement based upon the asset class and our risk management strategy for managing these assets. For commercial mortgage loan servicing rights, we use the amortization method. This election was made based on the unique characteristics of the commercial mortgage loans underlying these servicing rights with regard to market inputs used in determining fair value and how we manage the risks inherent in the commercial mortgage servicing rights assets. Specific risk characteristics of commercial mortgages include loan type, currency or exchange rate, interest rates, expected cash flows and changes in the cost of servicing. We record these servicing assets as Other intangible assets and amortize them over their estimated lives based on estimated net servicing income. On a quarterly basis, we test the assets for impairment by categorizing the pools of assets underlying the servicing rights into various strata. If the estimated fair value of the assets is less than the carrying value, an impairment loss is recognized and a valuation reserve is established.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

For servicing rights related to residential real estate loans, we apply the fair value method. This election was made to be consistent with our risk management strategy to hedge changes in the fair value of these assets. We manage this risk by hedging the fair value of this asset with derivatives and securities which are expected to increase in value when the value of the servicing right declines. The fair value of these servicing rights is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors which are determined based on current market conditions. Expected

Table of Contents

mortgage loan prepayment assumptions are derived from an internal proprietary model and consider empirical data drawn from the historical performance of our managed portfolio and adjusted for current market conditions. On a quarterly basis, management obtains market value quotes from two independent brokers that reflect current conditions in the secondary market and any recently executed servicing transactions. Management compares its valuation to the information received from independent brokers and other market data to determine if its estimated fair value is reasonable in comparison to market participant valuations.

Revenue from the various loan servicing contracts for commercial, residential and other consumer loans is reported on the Consolidated Income Statement in line items Consumer services, Corporate services and Residential mortgage.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments and the methods and assumptions used in estimating fair value amounts and financial assets and liabilities for which fair value was elected based on the fair value guidance are detailed in Note 8 Fair Value.

GOODWILL AND OTHER INTANGIBLE ASSETS

We assess goodwill for impairment at least annually, in the fourth quarter, or when events or changes in circumstances indicate the assets might be impaired. Finite-lived intangible assets are amortized to expense using accelerated or straight-line methods over their respective estimated useful lives. We review finite-lived intangible assets for impairment when events or changes in circumstances indicate that the asset's carrying amount may not be recoverable from undiscounted future cash flows or that it may exceed its fair value.

DEPRECIATION AND AMORTIZATION

For financial reporting purposes, we depreciate premises and equipment, net of salvage value, principally using the straight-line method over their estimated useful lives.

We use estimated useful lives for furniture and equipment ranging from one to 10 years, and depreciate buildings over an estimated useful life of up to 40 years. We amortize leasehold improvements over their estimated useful lives of up to 15 years or the respective lease terms, whichever is shorter.

We purchase, as well as internally develop and customize, certain software to enhance or perform internal business functions. Software development costs incurred in the planning and post-development project stages are charged to noninterest expense. Costs associated with designing software configuration and interfaces, installation, coding programs and testing systems are capitalized and amortized using the straight-line method over periods ranging from one to seven years.

REPURCHASE AND RESALE AGREEMENTS

Repurchase and resale agreements are treated as collateralized financing transactions and are carried at the amounts at which the securities will be subsequently reacquired or resold, including accrued interest, as specified in the respective agreements. Our policy is to take possession of securities purchased under agreements to resell. We monitor the market value of securities to be repurchased and resold and additional collateral may be obtained where considered appropriate to protect against credit exposure. We have elected to account for structured resale agreements at fair value.

OTHER COMPREHENSIVE INCOME

Other comprehensive income consists, on an after-tax basis, primarily of unrealized gains or losses, excluding OTTI attributable to credit deterioration, on investment securities classified as available for sale, derivatives designated as cash flow hedges, and changes in pension, other postretirement and postemployment benefit plan liability adjustments. Details of each component are included in Note 19 Other Comprehensive Income.

TREASURY STOCK

We record common stock purchased for treasury at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on the first-in, first-out basis.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We use a variety of financial derivatives as part of our overall asset and liability risk management process to help manage interest rate, market and credit risk inherent in our business activities. Interest rate and total return swaps, swaptions, interest rate caps and floors and futures contracts are the primary instruments we use for interest rate risk management.

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. We manage these risks as part of our asset and liability management process and through credit policies and procedures. We seek to minimize counterparty credit risk by entering into transactions with only high-quality institutions, establishing credit limits, and generally requiring bilateral netting and collateral agreements.

We recognize all derivative instruments at fair value as either Other assets or Other liabilities on the Consolidated Balance Sheet and the related cash flows in the Operating Activities section of the Consolidated Statement of Cash Flows. Adjustments for counterparty credit risk are included in the determination of their fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship. For derivatives not designated as an accounting hedge, changes in fair value are recognized in noninterest income.

Table of Contents

We utilize a net presentation for derivative instruments on the Consolidated Balance Sheet taking into consideration the effects of legally enforceable master netting agreements. Cash collateral exchanged with counterparties is also netted against the applicable derivative exposures by offsetting obligations to return or rights to reclaim cash collateral against the fair values of the net derivatives being collateralized.

For those derivative instruments that are designated and qualify as accounting hedges, we designate the hedging instrument, based on the exposure being hedged, as either a fair value hedge or a cash flow hedge. We have no derivatives that hedge the net investment in a foreign operation.

We formally document the relationship between the hedging instruments and hedged items, as well as the risk management objective and strategy, before undertaking an accounting hedge. To qualify for hedge accounting, the derivatives and related hedged items must be designated as a hedge at inception of the hedge relationship. For accounting hedge relationships, we formally assess, both at the inception of the hedge and on an ongoing basis, if the derivatives are highly effective in offsetting designated changes in the fair value or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective, hedge accounting is discontinued.

For derivatives that are designated as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability attributable to a particular risk, such as changes in LIBOR), changes in the fair value of the hedging instrument are recognized in earnings and offset by recognizing changes in the fair value of the hedged item attributable to the hedged risk. To the extent the change in fair value of the derivative does not offset the change in fair value of the hedged item, the difference or ineffectiveness is reflected in the Consolidated Income Statement in the same financial statement category as the hedged item.

For derivatives designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows), the effective portions of the gain or loss on derivatives are reported as a component of Accumulated other comprehensive income (loss) and subsequently reclassified to interest income in the same period or periods during which the hedged transaction affects earnings. The change in fair value of any ineffective portion of the hedging instrument is recognized immediately in noninterest income.

We discontinue hedge accounting when it is determined that the derivative no longer qualifies as an effective hedge; the derivative expires or is sold, terminated or exercised; or the derivative is de-designated as a fair value or cash flow hedge or, for a cash flow hedge, it is no longer probable that the forecasted transaction will occur by the end of the originally specified time period. If we determine that the derivative no longer qualifies as a fair value or cash flow hedge and hedge

accounting is discontinued, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings. For a discontinued fair value hedge, the previously hedged item is no longer adjusted for changes in fair value.

When hedge accounting is discontinued because it is no longer probable that a forecasted transaction will occur, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings, and the gains and losses in Accumulated other comprehensive income (loss) will be recognized immediately into earnings. When we discontinue hedge accounting because the hedging instrument is sold, terminated or no longer designated, the amount reported in Accumulated other comprehensive income (loss) up to the date of sale, termination or de-designation continues to be reported in Other comprehensive income or loss until the forecasted transaction affects earnings. We did not terminate any cash flow hedges in 2010, 2009 or 2008 due to a determination that a forecasted transaction was no longer probable of occurring.

We occasionally purchase or originate financial instruments that contain an embedded derivative. At the inception of the transaction, we assess if the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the host contract, whether the hybrid financial instrument that embodied both the embedded derivative and the host contract are measured at fair value with changes in fair value reported in earnings, and whether a separate instrument with the same terms as the embedded instrument would not meet the definition of a derivative. If the embedded derivative does not meet these three conditions, the embedded derivative would qualify as a derivative and be recorded apart from the host contract and carried at fair value with changes recorded in current earnings unless we elect to account for the hybrid financial instrument at fair value.

We have elected fair value measurement for certain hybrid financial instruments on an instrument-by-instrument basis.

We enter into commitments to originate loans for sale. We also enter into commitments to purchase or sell commercial and residential real estate loans. These commitments are accounted for as free-standing derivatives which are recorded at fair value in Other assets or Other liabilities on the Consolidated Balance Sheet. Any gain or loss from the change in fair value after the inception of the commitment is recognized in noninterest income.

INCOME TAXES

We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that we expect will apply at the time when we believe the differences will reverse. The

Table of Contents

realization of deferred tax assets requires an assessment to determine the realization of such assets. Realization refers to the incremental benefit achieved through the reduction in future taxes payable or refunds receivable from the deferred tax assets, assuming that the underlying deductible differences and carryforwards are the last items to enter into the determination of future taxable income. We establish a valuation allowance for tax assets when it is more likely than not that they will not be realized, based upon all available positive and negative evidence.

EARNINGS PER COMMON SHARE

Basic earnings per common share is calculated using the two-class method to determine income attributable to common shareholders. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities under the two-class method. Income attributable to common shareholders is then divided by the weighted-average common shares outstanding for the period.

Diluted earnings per common share is calculated under the more dilutive of either the treasury method or the two-class method. For the diluted calculation, we increase the weighted-average number of shares of common stock outstanding by the assumed conversion of outstanding convertible preferred stock and debentures from the beginning of the year or date of issuance, if later, and the number of shares of common stock that would be issued assuming the exercise of stock options and warrants and the issuance of incentive shares using the treasury stock method. These adjustments to the weighted-average number of shares of common stock outstanding are made only when such adjustments will dilute earnings per common share. See Note 17 Earnings Per Share for additional information.

RECENT ACCOUNTING PRONOUNCEMENTS

On January 1, 2010, we adopted ASU 2009-16 Transfers and Servicing (Topic 860) Accounting For Transfers of Financial Assets which is a codification of guidance issued in June 2009. This guidance removes the concept of a qualifying special-purpose entity. The guidance also establishes conditions for accounting and reporting of a transfer of a portion of a financial asset, modifies the asset sale/derecognition criteria, and changes how retained interests are initially measured.

On January 1, 2010, we adopted ASU 2009-17 Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This guidance removes the scope exception for qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity (VIE) and increases the frequency of required reassessments to determine whether an entity is the primary beneficiary of a VIE. This guidance also amends current GAAP to require that an enterprise perform a qualitative

analysis as opposed to a quantitative analysis to determine if it is the primary beneficiary of a VIE. The qualitative analysis considers the purpose and the design of the VIE as well as the risks that the VIE was designed to either create or pass through to variable interest holders. VIEs are assessed for consolidation under Topic 810 when we hold variable interests in these entities. A VIE is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets that either: (1) Does not have either investors that have sufficient equity at risk for the legal entity to finance its activities without additional subordinated finance support, or (2) As a group, the holders of the equity investment at risk lack any one of the following three characteristics: a.) The power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity's economic performance, b.) The obligation to absorb the expected losses of the legal entity, or c.) The right to receive the expected residual returns of the legal entity. A VIE often holds financial assets, including loans or receivables, real estate or other property. PNC consolidates VIEs when we are deemed to be the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that meets both of the following criteria: (1) has the power to make decisions that most significantly affect the economic performance of the VIE and (2) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE. Effective January 1, 2010, we consolidated Market Street Funding LLC (Market Street), a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments. We recorded consolidated assets of \$4.2 billion, consolidated liabilities of \$4.2 billion, and an after-tax cumulative effect adjustment to retained earnings of \$92 million upon adoption (see Note 3 Loan Sale and Servicing Activities and Variable Interest Entities).

In January 2010, the FASB issued ASU 2010-6, Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures About Fair Value Measurements. This guidance requires new disclosures as follows: (1) transfers in and out of Levels 1 and 2 and the reasons for the transfers, (2) additional breakout of asset and liability categories and (3) purchases, sales, issuances and settlements to be reported separately in the Level 3 rollforward. This guidance was effective for PNC for first quarter 2010 reporting with the exception of item 3 which is effective beginning with first quarter 2011 reporting.

In April 2010, the FASB issued ASU 2010-18, Receivables (Sub Topic 310-30), Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset. This ASU amends the accounting guidance related to loans that are accounted for within a pool under

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

ASC 310-30. The new guidance clarifies that modifications of such loans do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. The amended guidance continues to require that an entity consider whether the pool of assets in

Table of Contents

which the loan is included is impaired if expected cash flows for the pool change. No additional disclosures are required as a result of this ASU. ASU 2010-18 is effective for modifications of loans accounted for within pools under ASC 310-30 occurring in the first interim or annual period ending on or after July 15, 2010 with early adoption permitted. PNC accounts for loans within pools consistent with the guidance in this ASU.

In July 2010, the FASB issued ASU 2010-20 Receivables (Topic 310) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This ASU requires additional disclosures related to an entity's allowance for credit losses and the credit quality of its financing receivables (e.g., loans). Certain disclosures were effective December 31, 2010 and others will be beginning in the first quarter of 2011. See Note 5 Asset Quality and Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

NOTE 2 DIVESTITURE*SALE OF PNC GLOBAL INVESTMENT SERVICING*

On July 1, 2010, we sold PNC Global Investment Servicing Inc. (GIS), a leading provider of processing, technology and business intelligence services to asset managers, broker-dealers and financial advisors worldwide, for \$2.3 billion in cash pursuant to a definitive agreement entered into on February 2, 2010. This transaction resulted in a pretax gain of \$639 million, net of transaction costs. The after-tax amount of the gain of \$328 million is included within Income from discontinued operations on our Consolidated Income Statement.

Results of operations of GIS through June 30, 2010 are presented as Income from discontinued operations, net of income taxes, on our Consolidated Income Statement for all periods presented. Income taxes related to discontinued operations for 2009 include \$18 million of deferred income taxes provided on the difference in the stock investment and tax basis of GIS, previously a US subsidiary of PNC.

As part of the sale agreement, PNC has agreed to provide certain transitional services on behalf of GIS until completion of related systems conversion activities, which may cover a period of up to three years from the date of sale.

Asset and liabilities of GIS at December 31, 2009 follow.

Investment in Discontinued Operations

	December 31,
In millions	2009
Interest-earning deposits with banks	\$ 255
Goodwill	1,243
Other intangible assets	51
Other	359
Total assets	\$ 1,908
Interest-bearing deposits	\$ 93
Accrued expenses	266
Other	1,009
Total liabilities	\$ 1,368
Net assets	\$ 540

NOTE 3 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES*LOAN SALE AND SERVICING ACTIVITIES*

We have transferred residential and commercial mortgage loans in securitization or sales transactions in which we have continuing involvement. These transfers have occurred through Agency securitization, Non-Agency securitization, and whole-loan sale transactions. Agency securitizations consist of securitization transactions with FNMA, FHLMC, and Government National Mortgage Association (GNMA) (collectively, the Agencies). FNMA and FHLMC generally securitize our transferred loans into mortgage-backed securities for sale into the secondary market through SPEs they sponsor. We, as an authorized GNMA issuer/servicer, pool loans into mortgage-backed securities for sale into the secondary market. In Non-Agency securitizations, we have transferred loans into securitization SPEs. In other instances third-party

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

investors have purchased (in whole-loan sale transactions) and subsequently sold our loans into securitization SPEs. Third-party investors have also purchased our loans in whole-loan sale transactions. Securitization SPEs, which are legal entities that are utilized in the Agency and Non-Agency securitization transactions, are VIEs.

Our continuing involvement in the Agency securitizations, Non-Agency securitizations, and whole-loan sale transactions generally consists of servicing, repurchases of previously transferred loans and loss share arrangements, and, in limited circumstances, holding of mortgage-backed securities issued by the securitization SPEs.

Depending on the transaction, we may act as the master, primary, and/or special servicer to the securitization SPEs or third-party investors. Servicing responsibilities typically consist of collecting and remitting monthly borrower principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and, in certain instances, funding of servicing advances. Servicing

Table of Contents

advances, which are reimbursable, are recognized in Other assets at cost and are made for principal and interest and collateral protection.

We earn servicing and other ancillary fees for our role as servicer and depending on the contractual terms of the servicing arrangement, we can be terminated as servicer with or without cause. At the consummation date of each type of loan transfer, we recognize a servicing asset at fair value. Servicing assets are recognized in Other intangible assets on our Consolidated Balance Sheet and are classified within Level 3 of the fair value hierarchy. See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further discussion of our residential and commercial servicing assets.

Certain loans transferred to the Agencies contain removal of account provisions (ROAPs). Under these ROAPs, we hold an option to repurchase at par individual delinquent loans that meet certain criteria. When we have the unilateral ability to repurchase a delinquent loan, effective control over the loan has been regained and we recognize the loan and a corresponding liability on the balance sheet regardless of our intent to repurchase the loan. At December 31, 2010 and December 31, 2009, the balance of our ROAP asset and liability totaled \$336 million and \$577 million, respectively.

We generally do not retain mortgage-backed securities issued by the Agency and Non-Agency securitization SPEs at the inception of the securitization transactions. Rather, our limited holdings of these securities occur through subsequent purchases in the secondary market. PNC does not retain any

credit risk on its Agency mortgage-backed security positions as FNMA, FHLMC, and the US Government (for GNMA) guarantee losses of principal and interest on the underlying mortgage loans. We generally hold a senior class of Non-Agency mortgage-backed securities.

We also have involvement with certain Agency and Non-Agency commercial securitization SPEs where we have not transferred commercial mortgage loans. These SPEs were sponsored by independent third-parties and the loans held by these entities were purchased exclusively from other third-parties. Generally, our involvement with these SPEs is as servicer with servicing activities consistent with those described above. In certain instances, we can be terminated as servicer in these commercial securitization structures without cause by the controlling class of mortgage-backed security holders of the SPE.

We recognize a liability for our loss exposure associated with contractual obligations to repurchase previously transferred loans due to breaches of representations and warranties and also for loss sharing arrangements (recourse obligations) with the Agencies. Other than providing temporary liquidity under servicing advances and our loss exposure associated with our repurchase and recourse obligations, we have not provided nor are we required to provide any type of credit support, guarantees, or commitments to the securitization SPEs or third-party investors in these transactions. See Note 23 Commitments and Guarantees for further discussion of our repurchase and recourse obligations.

Certain Financial Information and Cash Flows Associated with Loan Sale and Servicing Activities

In millions			Home Equity
	Residential Mortgages	Commercial Mortgages (a)	Loans/ Lines (b)
FINANCIAL INFORMATION December 31, 2010			
Servicing portfolio (c)	\$ 125,806	\$ 162,514	\$ 6,041
Carrying value of servicing assets (d)	1,033	665	2
Servicing advances	533	415	21
Servicing deposits	2,661	3,537	61
Repurchase and recourse obligations (e)	144	54	150
Carrying value of mortgage-backed securities held (f)	2,171	1,875	
FINANCIAL INFORMATION December 31, 2009			
Servicing portfolio (c)	\$ 146,050	\$ 185,167	\$ 6,796
Carrying value of servicing assets (d)	1,332	921	4

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Servicing advances	599	383	23
Servicing deposits	3,118	3,774	61
Repurchase and recourse obligations (e)	229	71	41
Carrying value of mortgage-backed securities held (f)	2,011	1,905	

In millions	Year Ended		
	December 31, 2010		
	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/ Lines (b)
CASH FLOWS			
Sales of loans (g)	\$ 9,951	\$ 2,413	
Repurchases of previously transferred loans (h)	2,283		\$ 28
Contractual servicing fees received	413	224	26
Servicing advances recovered/(funded), net	66	(32)	2
Cash flows on mortgage-backed securities held (f)	588	510	

Table of Contents

- (a) Represents financial and cash flow information associated with both commercial mortgage loan transfer and servicing activities.
- (b) These activities were part of an acquired brokered home equity business that PNC is no longer engaged in. See Note 23 Commitments and Guarantees for further information.
- (c) For our continuing involvement with residential mortgages and home equity loan/line transfers, amount represents outstanding balance of loans transferred and serviced. For commercial mortgages, amount represents the portion of the overall servicing portfolio in which loans have been transferred by us or third parties to VIEs. It does not include loans serviced by us that were originated by third parties and have not been transferred to a VIE.
- (d) See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further information.
- (e) Represents liability for our loss exposure associated with loan repurchases for breaches of representations and warranties and our commercial mortgage loss share arrangements for our Residential Mortgage Banking, Corporate & Institutional Banking, and Distressed Assets Portfolio segments, respectively. See Note 23 Commitments and Guarantees for further information.
- (f) Represents securities held where PNC transferred to and/or serviced loans for a securitization SPE and we hold securities issued by that SPE.
- (g) There were no gains or losses recognized on the transaction date for sales of residential mortgage and certain commercial mortgage loans as these loans are recognized on the balance sheet at fair value. For transfers of commercial loans not recognized on the balance sheet at fair value, gains/losses recognized on sales of these loans were insignificant for 2010.
- (h) Includes repurchases of insured loans, government guaranteed loans, and loans repurchased through the exercise of our ROAP option.

VARIABLE INTEREST ENTITIES (VIEs)

We are involved with various entities in the normal course of business that are deemed to be VIEs. We assess VIEs for consolidation based upon the accounting policies described in Note 1 and effective January 1, 2010, we consolidated Market Street, a credit card securitization trust, and certain Low Income Housing Tax Credit (LIHTC) investments as a result of adopting ASU 2009-17 Consolidations (Topic 810).

The following provides a summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements as of December 31, 2010 and December 31, 2009, respectively.

Consolidated VIEs Carrying Value (a)

In millions	December 31, 2010			Total
	Market Street	Credit Card Securitization Trust	Tax Credit Investments (b)	
Assets				
Cash and due from banks			\$ 2	\$ 2
Interest-earning deposits with banks		\$ 284	4	288
Investment securities	\$ 192			192
Loans	2,520	2,125		4,645
Allowance for loan and lease losses		(183)		(183)
Equity investments			1,177	1,177
Other assets	271	9	396	676
Total assets	\$ 2,983	\$ 2,235	\$ 1,579	\$ 6,797
Liabilities				
Other borrowed funds	\$ 2,715	\$ 523	\$ 116	\$ 3,354
Accrued expenses		9	79	88
Other liabilities	268		188	456
Total liabilities	\$ 2,983	\$ 532	\$ 383	\$ 3,898

(a) Amounts represent carrying value on PNC's Consolidated Balance Sheet.

(b) Amounts reported primarily represent LIHTC investments.

Consolidated VIEs

In millions	December 31, 2010	
	Aggregate Assets	Aggregate Liabilities
Market Street	\$ 3,584	\$ 3,588
Credit Card Securitization Trust	2,269	1,004

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Tax Credit Investments (a)	1,590	420
----------------------------	--------------	------------

December 31, 2009

Tax Credit Investments (a)	\$ 1,933	\$ 808
Credit Risk Transfer Transaction	860	860

(a) Amounts reported primarily represent LIHTC investments.

Aggregate assets and aggregate liabilities differ from the consolidated carrying value of assets and liabilities due to elimination of intercompany assets and liabilities held by the consolidated VIE.

Table of Contents**Non-Consolidated VIEs**

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss	Carrying Value of Assets	Carrying Value of Liabilities
December 31, 2010					
Tax Credit Investments (a)	\$ 4,086	\$ 2,258	\$ 782	\$ 782(c)	\$ 301(d)
Commercial Mortgage-Backed Securitizations (b)	79,142	79,142	2,068	2,068(e)	
Residential Mortgage-Backed Securitizations (b)	42,986	42,986	2,203	2,199(e)	4(d)
Collateralized Debt Obligations	18		1	1(c)	
Total	\$ 126,232	\$ 124,386	\$ 5,054	\$ 5,050	\$ 305

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss
December 31, 2009			
Market Street	\$ 3,698	\$ 3,718	\$ 6,155(f)
Tax Credit Investments (a)	1,786	1,156	743
Collateralized Debt Obligations	23		2
Total	\$ 5,507	\$ 4,874	\$ 6,900

(a) Amounts reported primarily represent LIHTC investments. Aggregate assets and aggregate liabilities represent estimated balances due to limited availability of financial information associated with certain acquired partnerships.

(b) Amounts reported reflect involvement with securitization SPEs where PNC transferred to and/or services loans for a SPE and we hold securities issued by that SPE. We also invest in other mortgage and asset-backed securities issued by third-party VIEs with which we have no continuing involvement. Further information on these securities is included in Note 7 Investment Securities and values disclosed represent our maximum exposure to loss for those securities holdings.

(c) Included in Equity investments on our Consolidated Balance Sheet.

(d) Included in Other liabilities on our Consolidated Balance Sheet.

(e) Included in Trading securities, Investment securities, Other intangible assets, and Other assets on our Consolidated Balance Sheet.

(f) PNC's risk of loss consisted of off-balance sheet liquidity commitments to Market Street of \$5.6 billion and other credit enhancements of \$0.6 billion at December 31, 2009.

MARKET STREET

Market Street is a multi-seller asset-backed commercial paper conduit that is owned by an independent third party. Market Street's activities primarily involve purchasing assets or making loans secured by interests in pools of receivables from US corporations that desire access to the commercial paper market. Market Street funds the purchases of assets or loans by issuing commercial paper and is supported by pool-specific credit enhancements, liquidity facilities and program-level credit enhancement. Generally, Market Street mitigates its potential interest rate risk by entering into agreements with its borrowers that reflect interest rates based upon its weighted average commercial paper cost of funds. During 2010 and 2009, Market Street met all of its funding needs through the issuance of commercial paper.

PNC Bank, N.A. provides certain administrative services, the program-level credit enhancement and all of the liquidity facilities to Market Street in exchange for fees negotiated based on market rates. Through these arrangements, PNC has the power to direct the activities of the SPE that most significantly affect its economic performance and these arrangements expose PNC to expected losses or residual returns that are significant to Market Street.

The commercial paper obligations at December 31, 2010 and December 31, 2009 were supported by Market Street's assets. While PNC may be obligated to fund under the \$5.7 billion of liquidity facilities for events such as commercial paper market disruptions, borrower bankruptcies, collateral deficiencies or covenant violations, our credit risk under the liquidity facilities is secondary to the risk of first loss provided by the

borrower such as by the over-collateralization of the assets or by another third party in the form of deal-specific credit enhancement. Deal-specific credit enhancement that supports the commercial paper issued by Market Street is generally structured to cover a multiple of expected losses for the pool of assets and is sized to generally meet rating agency standards for comparably structured transactions. In addition, PNC would be required to fund \$658 million of the liquidity facilities if the underlying assets are in default. Market Street creditors have no direct recourse to PNC.

PNC provides program-level credit enhancement to cover net losses in the amount of 10% of commitments, excluding explicitly rated AAA/Aaa facilities. PNC provides 100% of the enhancement in the form of a cash collateral account funded by a loan facility. This facility expires in June 2015. At December 31, 2010, \$601 million was outstanding on this facility. This amount was eliminated in PNC's Consolidated Balance Sheet as of December 31, 2010 due to the consolidation of Market Street. We are not required to nor have we provided additional financial support to the SPE.

CREDIT CARD SECURITIZATION TRUST

We are the sponsor of several credit card securitizations facilitated through a trust. This bankruptcy-remote SPE or VIE was established to purchase credit card receivables from the sponsor and to issue and sell asset-backed securities created by it to independent third-parties. The SPE was financed primarily through the sale of these asset-backed securities. These transactions were originally structured as a form of liquidity and to afford favorable capital treatment. At December 31, 2010, Series 2006-1, 2007-1, and 2008-3 issued

Table of Contents

by the SPE were outstanding. Series 2005-1 was paid off during the third quarter of 2010.

Our continuing involvement in these securitization transactions consists primarily of holding certain retained interests and acting as the primary servicer. For each securitization series, our retained interests held are in the form of a pro-rata undivided interest, or sellers' interest, in the transferred receivables, subordinated tranches of asset-backed securities, interest-only strips, discount receivables, and subordinated interests in accrued interest and fees in securitized receivables. We consolidated the SPE as of January 1, 2010 as we are deemed the primary beneficiary of the entity based upon our level of continuing involvement. Our role as primary servicer gives us the power to direct the activities of the SPE that most significantly affect its economic performance and our holding of retained interests gives us the obligation to absorb or receive expected losses or residual returns that are significant to the SPE. Accordingly, all retained interests held in the credit card SPE are eliminated in consolidation. The underlying assets of the consolidated SPE are restricted only for payment of the beneficial interest issued by the SPE. We are not required to nor have we provided additional financial support to the SPE. Additionally, creditors of the SPE have no direct recourse to PNC.

TAX CREDIT INVESTMENTS

We make certain equity investments in various limited partnerships or limited liability companies (LLCs) that sponsor affordable housing projects utilizing the LIHTC pursuant to Sections 42 and 47 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing product offerings and to assist us in achieving goals associated with the Community Reinvestment Act. The primary activities of the investments include the identification, development and operation of multi-family housing that is leased to qualifying residential tenants. Generally, these types of investments are funded through a combination of debt and equity. We typically invest in these partnerships as a limited partner or non-managing member. We make similar investments in other types of tax credit investments.

Also, we are a national syndicator of affordable housing equity (together with the investments described above, the LIHTC investments). In these syndication transactions, we create funds in which our subsidiaries are the general partner or managing member and sell limited partnership or non-managing member interests to third parties, and in some cases may also purchase a limited partnership or non-managing member interest in the fund and/or provide mezzanine financing to the fund. The purpose of this business is to generate income from the syndication of these funds, generate servicing fees by managing the funds, and earn tax credits to reduce our tax liability. General partner or managing member activities include selecting, evaluating, structuring, negotiating, and closing the fund investments in operating

limited partnerships, as well as oversight of the ongoing operations of the fund portfolio.

Typically, the general partner or managing member will be the party that has the right to make decisions that will most significantly impact the economic performance of the entity. However, certain partnership or LLC agreements provide the limited partner or non-managing member the ability to remove the general partner or managing member without cause. This results in the limited partner or non-managing member being the party that has the right to make decisions that will most significantly impact the economic performance of the entity. The primary sources of losses and benefits in LIHTC investments are the tax credits, tax benefits due to passive losses on the investments, and development and operating cash flows. We have consolidated LIHTC investments in which we are the general partner or managing member and have a limited partnership interest or non-managing member interest that could potentially absorb losses or receive benefits that are significant. The assets are primarily included in Equity investments and Other assets on our Consolidated Balance Sheet with the liabilities classified in Other liabilities and third party investors' interests included in the Equity section as Noncontrolling interests. Neither creditors nor equity investors in the LIHTC investments have any recourse to our general credit. There are no terms or conditions that have required or could require us, as the primary beneficiary, to provide financial support. Also, we have not provided nor do we intend to provide financial or other support to the limited partnership or LLC that we are not contractually obligated to provide. The consolidated aggregate assets and liabilities of these LIHTC investments are provided in the Consolidated VIEs table and reflected in the Other business segment.

For tax credit investments in which we do not have the right to make decisions that will most significantly impact the economic performance of the entity, we are not the primary beneficiary and thus they are not consolidated. These investments are disclosed in the Non-Consolidated VIEs table. The table also reflects our maximum exposure to loss. Our maximum exposure to loss is equal to our legally binding equity commitments adjusted for recorded impairment and partnership results. We use the equity method to account for our investment in these entities with the investments reflected in Equity investments on our Consolidated Balance Sheet. In addition, we increase our recognized investments and recognize a liability for all legally binding unfunded equity commitments. These liabilities are reflected in Other liabilities on our Consolidated Balance Sheet.

CREDIT RISK TRANSFER TRANSACTION

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

National City Bank (which merged into PNC Bank, N.A. in November 2009) sponsored an SPE and concurrently entered into a credit risk transfer agreement with an independent third party to mitigate credit losses on a pool of nonconforming residential mortgage loans originated by its former First

Table of Contents

Franklin business unit. The SPE or VIE was formed with a small equity contribution and was structured as a bankruptcy-remote entity so that its creditors had no recourse to the sponsor. In exchange for a perfected security interest in the cash flows of the nonconforming mortgage loans, the SPE issued asset-backed securities to the sponsor in the form of senior, mezzanine, and subordinated equity notes.

The SPE was deemed to be a VIE as its equity was not sufficient to finance its activities. We were determined to be the primary beneficiary of the SPE as we would absorb the majority of the expected losses of the SPE through our holding of the asset-backed securities. Accordingly, this SPE was consolidated and all of the entity's assets, liabilities, and equity associated with the note tranches held by us were intercompany balances and were eliminated in consolidation. In October 2010, the governing documents were amended to give us the option to unilaterally terminate the SPE. On October 28, 2010, we exercised this option. The dissolution of the SPE did not have any impact on the statement of financial condition, liquidity, or cash flows of PNC. At December 31, 2009, nonconforming mortgage loans and foreclosed properties associated with the consolidated SPE had a net carrying value of \$587 million.

In connection with the credit risk transfer agreement, we held the right to put the mezzanine notes to the independent third-party once credit losses in the mortgage loan pool exceeded the principal balance of the subordinated equity notes. During 2009, cumulative credit losses in the mortgage loan pool surpassed the principal balance of the subordinated equity notes which resulted in us exercising our put option on two of the subordinate mezzanine notes. Cash proceeds received from the third party for the exercise of these put options totaled \$36 million. In addition, during 2009 we entered into an agreement with the third party to terminate each party's rights and obligations under the credit risk transfer agreement for the remaining mezzanine notes. We agreed to terminate our contractual right to put the remaining mezzanine notes to the third party for a cash payment of \$126 million. A pretax gain of \$10 million was recognized in noninterest income as a result of these transactions. The foregoing events did not have any impact on our consolidation assessment of the SPE.

RESIDENTIAL AND COMMERCIAL MORTGAGE-BACKED SECURITIZATIONS

In connection with each Agency and Non-Agency securitization discussed above, we evaluate each SPE utilized in these transactions for consolidation. In performing these assessments, we evaluate our level of continuing involvement in these transactions as the magnitude of our involvement ultimately determines whether or not we hold a variable interest and/or are the primary beneficiary of the SPE. Factors we consider in our consolidation assessment include the significance of (1) our role as servicer, (2) our holdings of mortgage-backed securities issued by the securitization SPE, and (3) the rights of third-party variable interest holders.

Our first step in our assessment is to determine whether we hold a variable interest in the securitization SPE. We hold a variable interest in an Agency and Non-Agency securitization SPE through our holding of mortgage-backed securities issued by the SPE and/or our repurchase and recourse obligations. Each SPE in which we hold a variable interest is evaluated to determine whether we are the primary beneficiary of the entity. For Agency securitization transactions, our contractual role as servicer does not give us the power to direct the activities that most significantly affect the economic performance of the SPEs. Thus, we are not the primary beneficiary of these entities. For Non-Agency securitization transactions, we would be the primary beneficiary to the extent our servicing activities give us the power to direct the activities that most significantly affect the economic performance of the SPE and we hold a more than insignificant variable interest in the entity. At December 31, 2010, our level of continuing involvement in Non-Agency securitization SPEs did not result in PNC being deemed the primary beneficiary of any of these entities. Details about the Agency and Non-Agency securitization SPEs where we hold a variable interest and are not the primary beneficiary are included in the table above. Our maximum exposure to loss as a result of our involvement with these SPEs is the carrying value of the mortgage-backed securities, servicing assets, servicing advances, and our liabilities associated with our repurchase and recourse obligations. Creditors of the securitization SPEs have no recourse to PNC's assets or general credit.

NOTE 4 LOANS AND COMMITMENTS TO EXTEND CREDIT

Loans outstanding were as follows:

LOANS OUTSTANDING

	Dec. 31	Dec. 31
In millions	2010	2009
Commercial lending		
Commercial	\$ 55,177	\$ 54,818
Commercial real estate	17,934	23,131

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Equipment lease financing	6,393	6,202
TOTAL COMMERCIAL LENDING	79,504	84,151
Consumer lending		
Home equity	34,226	35,947
Residential real estate	15,999	19,810
Credit card	3,920	2,569
Other	16,946	15,066
TOTAL CONSUMER LENDING	71,091	73,392
Total loans (a) (b)	\$ 150,595	\$ 157,543

(a) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling \$2.7 billion and \$3.2 billion at December 31, 2010 and December 31, 2009, respectively.

(b) Future accretable yield related to purchased impaired loans is not included in loans outstanding.

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of

Table of Contents

counterparties whose aggregate exposure is material in relation to our total credit exposure. At December 31, 2010, no specific industry concentration exceeded 6% of total commercial lending loans outstanding.

We originate interest-only loans to commercial borrowers. This is usually to match our borrowers' asset conversion to cash expectations (i.e., working capital lines, revolvers). These products are standard in the financial services industry and are considered during the underwriting process to mitigate the increased risk that may result in borrowers not being able to make interest and principal payments when due. We do not believe that these product features create a concentration of credit risk.

In the normal course of business, we originate or purchase loan products with contractual features, when concentrated, that may increase our exposure as a holder of those loan products. Possible product features that may create a concentration of credit risk would include a high LTV ratio, terms that may expose the borrower to future increases in repayments above increases in market interest rates, below-market interest rates and interest-only loans, among others. We also originate home equity loans and lines of credit that are concentrated in our primary geographic markets.

At December 31, 2010, we pledged \$12.6 billion of loans to the Federal Reserve Bank and \$32.4 billion of loans to the Federal Home Loan Bank as collateral for the contingent ability to borrow, if necessary. The comparable amounts at December 31, 2009 were \$18.8 billion and \$32.6 billion, respectively.

Certain loans are accounted for at fair value with changes in the fair value reported in current period earnings. The fair value of these loans was \$116 million, or less than 1% of the total loan portfolio, at December 31, 2010 compared with \$107 million, or less than 1% of the total loan portfolio, at December 31, 2009.

Net Unfunded Credit Commitments

In millions	December 31 2010	December 31 2009
Commercial and commercial real estate	\$ 59,256	\$ 60,143
Home equity lines of credit	19,172	20,367
Consumer credit card lines	14,725	17,558
Other	2,652	2,727
Total	\$ 95,805	\$ 100,795

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. At December 31, 2010, commercial commitments reported above exclude \$16.7 billion of syndications, assignments and participations, primarily to financial institutions. The comparable amount at December 31, 2009 was \$13.2 billion.

Commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer's credit quality deteriorates. Based on our historical experience, most commitments expire unfunded, and therefore cash requirements are substantially less than the total commitment.

NOTE 5 ASSET QUALITY AND ALLOWANCES FOR LOAN AND LEASE LOSSES AND UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT**ALLOWANCE FOR LOAN AND LEASE LOSSES**

We maintain the ALLL at a level that we believe to be adequate to absorb estimated probable credit losses incurred in the loan portfolio as of the balance sheet date.

One of the key factors for determining the performing status of a loan is delinquency. The measurement of delinquency is based on the contractual terms of each loan. Loans that are 30 days or more past due in terms of payment are considered delinquent.

See Note 1 Accounting Policies - Nonperforming Assets for additional delinquency, nonaccrual, and charge-off information.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

The following table displays the delinquency status of our loans at December 31, 2010.

Age Analysis of Past Due Accruing Loans

In millions	Accruing				Total past due	Nonperforming loans (c)	Total loans
	Current	30-59 days past due	60-89 days past due	90 days or more past due (b)			
December 31, 2010 (a)							
Commercial	\$ 53,522	\$ 251	\$ 92	\$ 59	\$ 402	\$ 1,253	\$ 55,177
Commercial real estate	15,866	128	62	43	233	1,835	17,934
Equipment lease financing	6,276	37	2	1	40	77	6,393
Home equity	33,354	159	91	174	424	448	34,226
Residential real estate	14,688	226	107	160	493	818	15,999
Credit card	3,765	46	32	77	155		3,920
Other consumer	16,756	95	32	28	155	35	16,946
Total	\$ 144,227	\$ 942	\$ 418	\$ 542	\$ 1,902	\$ 4,466	\$ 150,595

Table of Contents

	Current	Accruing			Total past due	Nonperforming loans (c)
		30-59 days past due	60-89 days past due	90 days or more past due (b)		
December 31, 2010 (a)						
Commercial	97.00%	.45%	.17%	.11%	.73%	2.27%
Commercial real estate	88.47	.71	.35	.24	1.30	10.23
Equipment lease financing	98.17	.58	.03	.02	.63	1.20
Home equity	97.45	.47	.26	.51	1.24	1.31
Residential real estate	91.81	1.41	.67	1.00	3.08	5.11
Credit card	96.05	1.17	.82	1.96	3.95	
Other consumer	98.88	.56	.19	.16	.91	.21
Total	95.77%	.62%	.28%	.36%	1.26%	2.97%

(a) Past due loan amounts exclude government insured / guaranteed, primarily residential mortgages, totaling \$2.6 billion at December 31, 2010. These loans are included in the Current category. Past due loan amounts also exclude purchased impaired loans totaling \$7.8 billion at December 31, 2010. These loans are excluded as they are considered performing loans due to accretion of interest income. These loans are also included in the Current category.

(b) At December 31, 2009, accruing loans 90 days or more past due totaled \$884 million.

(c) At December 31, 2009, nonperforming loans totaled \$5,671 million.

Nonperforming assets include nonaccrual loans, troubled debt restructurings, and foreclosed assets. See Note 1 Accounting Policies Nonperforming Assets for additional information.

The following amounts exclude purchased impaired loans acquired in connection with the December 31, 2008 National City acquisition. See Note 6 Purchased Impaired Loans for further information.

Nonperforming Assets

	December 31, 2010	December 31, 2009
Dollars in millions		
Nonaccrual loans		
Commercial	\$ 1,253	\$ 1,806
Commercial real estate	1,835	2,140
Equipment lease financing	77	130
TOTAL COMMERCIAL LENDING	3,165	4,076
Consumer (a)		
Home equity	448	356
Residential real estate	818	1,203
Other	35	36
TOTAL CONSUMER LENDING	1,301	1,595
Total nonperforming loans	4,466	5,671
Foreclosed and other assets		
Commercial lending	353	266
Consumer lending	482	379
Total foreclosed and other assets	835	645
Total nonperforming assets	\$ 5,301	\$ 6,316
Nonperforming loans to total loans	2.97%	3.60%
Nonperforming assets to total loans and foreclosed and other assets	3.50	3.99
Nonperforming assets to total assets	2.01	2.34
Interest on nonperforming loans		
Computed on original terms	\$ 329	\$ 302
Recognized prior to nonperforming status	53	90

(a) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonaccrual status.

Loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties are considered TDRs. See Note 1 Accounting Policies Nonperforming Assets for additional information. TDRs typically result from our loss

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

mitigation activities and could include rate reductions, principal forgiveness, forbearance and other actions intended to

minimize the economic loss and to avoid foreclosure or repossession of collateral. Total nonperforming loans in the table above include TDRs of \$784 million at December 31, 2010 and \$440 million at December 31, 2009.

TDRs returned to performing (accrual) status totaled \$543 million at December 31, 2010 and are excluded from

Table of Contents

nonperforming loans. These loans have demonstrated a period of at least six months of performance under the modified terms.

In addition, credit cards and certain small business and consumer credit agreements whose terms have been modified totaled \$331 million at December 31, 2010 and are TDRs. However, since our policy is to exempt these loans from being placed on nonaccrual status as permitted by regulatory guidance, these loans are excluded from nonperforming loans. As such, generally under the modified terms, these loans are directly charged off in the period that they become 120 to 180 days past due.

Portfolio Segments

PNC develops and documents the Commercial Lending and Consumer Lending ALLL under separate methodologies as further discussed below.

Allowance for Loan and Lease Losses Components

For purchased non-impaired loans, the ALLL is the sum of three components: asset specific/individual impaired reserves, quantitative (formulaic or pooled) reserves, and qualitative (judgmental) reserves. See Note 6 Purchased Impaired Loans for additional ALLL information. There were no significant changes to our ALLL methodology during 2010.

Asset Specific Component

Nonperforming loans are considered impaired under ASC Topic 310-Receivables and are allocated a specific reserve. See Note 1 Accounting Policies – Allowance for Loan and Lease Losses for additional information.

Commercial Lending Quantitative Component

The estimates of the quantitative component of ALLL for exposure within the commercial lending portfolio segment is determined through a statistical loss model utilizing PD, LGD and EAD. Based upon loan risk ratings we assign PDs and LGDs. Each of these statistical parameters is determined based on historical data and observable factors including those

pertaining to specific borrowers that have proven to be statistically significant in the estimation of incurred losses. PD is influenced by such factors as liquidity, industry, obligor financial structure, access to capital, and cash flow. LGD is influenced by collateral type, LTV, and guarantees by related parties.

Consumer Lending Quantitative Component

Quantitative estimates within the consumer lending portfolio segment are calculated using a roll-rate model based on statistical relationships, calculated from historical data that estimate the movement of loan outstandings through the various stages of delinquency and ultimately charge-off. In general, the estimated rates at which loan outstandings roll from one stage of delinquency to another are dependent on various factors such as FICO, LTV ratios, the current economic environment, and geography. Within the consumer lending portfolio segment, PNC Asset and Liability Management manages \$3.9 billion of purchased mortgage loans that are serviced by third parties. Asset and Liability Management uses a loan loss reserve methodology that uses delinquent balances and a loss severity assumption to calculate the level of pooled loan loss reserves to be held against the portfolio.

Qualitative Component

While our quantitative reserve methodologies strive to reflect all risk factors, there continues to be a certain element of uncertainty associated with, but not limited to, potential imprecision in the estimation process due to the inherent time lag of obtaining information and normal variations between estimates and actual outcomes. We adjust the ALLL in consideration of these factors. The ALLL also includes factors which may not be directly measured in the determination of specific or pooled reserves. Such qualitative factors include:

- Credit quality trends,
- Loss experience in particular portfolios,
- Macro economic factors, and
- Changes in risk selection and underwriting standards.

Table of Contents**Rollforward of Allowance for Loan and Lease Losses and Other Loan Data 2010 and 2009**

In millions	Commercial Lending	Consumer Lending	Total
December 31, 2010			
<u>Allowance for Loan and Lease Losses</u>			
January 1	\$ 3,345	\$ 1,727	\$ 5,072
Charge-offs	(2,017)	(1,475)	(3,492)
Recoveries	427	129	556
Net charge-offs	(1,590)	(1,346)	(2,936)
Provision for credit losses	704	1,798	2,502
Adoption of ASU 2009-17, <i>Consolidations</i>		141	141
Net change in allowance for unfunded loan commitments and letters of credit	108		108
December 31	\$ 2,567	\$ 2,320	\$ 4,887
Collectively evaluated for impairment	\$ 1,419	\$ 1,227	\$ 2,646
Individually evaluated for impairment	859	485	1,344
Purchased impaired loans	289	608	897
December 31	\$ 2,567	\$ 2,320	\$ 4,887
<u>Loans</u>			
Collectively evaluated for impairment	\$ 75,014	\$ 63,291	\$ 138,305
Individually evaluated for impairment	3,088	1,422	4,510
Purchased impaired loans	1,402	6,378	7,780
December 31	\$ 79,504	\$ 71,091	\$ 150,595
Ratio of the allowance for loan and lease losses to total Loans	3.23%	3.26%	3.25%
December 31, 2009			
<u>Allowance for Loan and Lease Losses</u>			
January 1	\$ 2,680	\$ 1,237	\$ 3,917
Charge-offs	(1,935)	(1,220)	(3,155)
Recoveries	246	198	444
Net charge-offs	(1,689)	(1,022)	(2,711)
Provision for credit losses	2,418	1,512	3,930
Acquired allowance National City	(112)		(112)
Net change in allowance for unfunded loan commitments and letters of credit	48		48
December 31	\$ 3,345	\$ 1,727	\$ 5,072
Collectively evaluated for impairment	\$ 1,973	\$ 1,395	\$ 3,368
Individually evaluated for impairment	1,148		1,148
Purchased impaired loans	224	332	556
December 31	\$ 3,345	\$ 1,727	\$ 5,072
<u>Loans</u>			
Collectively evaluated for impairment	\$ 78,038	\$ 65,272	\$ 143,310
Individually evaluated for impairment	3,946		3,946
Purchased impaired loans	2,167	8,120	10,287
December 31	\$ 84,151	\$ 73,392	\$ 157,543
Ratio of the allowance for loan and lease losses to total loans	3.97%	2.35%	3.22%

Table of Contents**Rollforward of Allowance for Loan and Lease Losses and Other Loan Data 2008**

In millions	2008
Allowance for Loan and Lease Losses	
January 1	\$ 830
Charge-offs	(618)
Recoveries	79
Net charge-offs	(539)
Provision for credit losses	1,517
Acquired allowance National City	2,224
Acquired allowance other	20
Net change in allowance for unfunded loan commitments and letters of credit	(135)
December 31	\$ 3,917
Loans	
Collectively evaluated for impairment	\$ 161,438
Individually evaluated for impairment	1,342
Purchased impaired loans	12,709
December 31	\$ 175,489
Ratio of the allowance for loan and lease losses to total loans	3.23%

ORIGINATED IMPAIRED LOANS

Originated impaired loans exclude leases and smaller balance homogeneous type loans as well as purchased impaired loans, but include acquired loans that are impaired subsequent to acquisition. We did not recognize any interest income on originated impaired loans, including TDRs that have not returned to performing status, while they were impaired in 2010, 2009 or 2008. The following table provides further detail on originated impaired loans individually evaluated for reserves and the associated ALLL:

Originated Impaired Loans (a)

In millions	December 31, 2010			
	Unpaid Principal Balance	Recorded Investment	Associated Allowance (b)(c)	Average Recorded Investment (d)(e)
Impaired loans with an associated allowance				
Commercial	\$ 1,769	\$ 1,178	\$ 410	\$ 1,533
Commercial real estate	1,927	1,446	449	1,732
Home equity	622	622	207	448
Residential real estate	521	465	122	309
Credit card	301	301	149	275
Other consumer	34	34	7	30
Total impaired loans with an associated allowance	\$ 5,174	\$ 4,046	\$ 1,344	\$ 4,327
Impaired loans without an associated allowance				
Commercial	\$ 87	\$ 75		\$ 90
Commercial real estate	525	389		320
Total impaired loans without an associated allowance	\$ 612	\$ 464		\$ 410
Total impaired loans (f)	\$ 5,786	\$ 4,510	\$ 1,344	\$ 4,737

(a) Purchased impaired loans are excluded from this table and are discussed in Note 6 Purchased Impaired Loans.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

- (b) Amounts include \$509 million at December 31, 2010 for TDRs.
- (c) At December 31, 2009, the associated allowance for originated impaired loans was \$1,148 million.
- (d) Average for year ended.
- (e) The average recorded investment for 2009 was \$2,909 million and for 2008 was \$674 million.
- (f) At December 31, 2009, the recorded investment was \$3,946 million (including \$3,475 million with an associated allowance and \$471 million without an associated allowance).

Table of Contents

Net interest income less the provision for credit losses was \$6.7 billion for 2010 compared with \$5.1 billion for 2009 and \$2.3 billion for 2008.

PORTFOLIO CLASSES

Each PNC portfolio segment is comprised of one or more classes. Classes are characterized by similarities in initial measurement, risk attributes (credit quality indicators) and the manner in which we monitor and assess credit risk.

Commercial Class

We monitor the performance of the borrower in a disciplined and regular manner based upon the level of credit risk inherent in the loan. To evaluate the level of credit risk, we assign an internal risk rating reflecting the borrower's PD and LGD. This two-dimensional credit risk rating methodology provides risk granularity in the monitoring process on an ongoing basis. We adjust our risk-rating process through updates based on actual experience. The combination of the PD and LGD ratings assigned to a commercial loan, capturing both the combination of expectations of default and loss severity, thus reflects the relative estimated likelihood of loss for that loan at the reporting date. Loans with low PD and LGD have the lowest likelihood of loss. Conversely, loans with high PD and LGD have the highest likelihood of loss.

Based upon the amount of the lending arrangement and of the credit risk described above, we follow a formal schedule of periodic review. Generally, for higher risk loans this occurs on a quarterly basis, although we have established practices to review such credit risk more frequently if appropriate.

Commercial Real Estate Class

We manage credit risk associated with our commercial real estate projects and commercial mortgage activities. Similar to the commercial class, we analyze PD and LGD. However, due to the nature of the collateral, commercial real estate projects and commercial mortgages, the LGDs tend to be significantly lower than those seen in the commercial class. Additionally, commercial real estate projects and commercial mortgage activities risks tend to be correlated to the loan structure and collateral location, project progress and business environment. As a result, these attributes are also monitored and utilized in assessing credit risk.

As with the commercial class, a quarterly overview is performed to assess geographic, product and loan type concentrations, in addition to industry risk and market and economic concerns. Often as a result of these overviews, more in-depth reviews and increased scrutiny is placed on areas of higher risk, adverse changes in risk ratings, deteriorating operating trends, and/or areas that concern management. The goal of these reviews is to assess risk and take actions to mitigate our exposure to such risks.

Equipment Lease Financing Class

Similar to the other classes of loans within Commercial Lending, loans within the equipment lease financing class undergo a rigorous underwriting process. During this process, a PD and LGD are assigned based on the credit risk.

Based upon the dollar amount of the lease and of the level of credit risk, we follow a formal schedule of periodic review. Generally, this occurs on a quarterly basis, although we have established practices to review such credit risk more frequently if appropriate. Our review process entails analysis of the following factors: equipment value/residual value, exposure levels, jurisdiction risk, industry risk, guarantor requirements, and regulatory compliance.

Commercial Purchased Impaired Loans Class

The credit impacts of purchased impaired loans are primarily determined through the estimation of expected cash flows. Commercial cash flow estimates are influenced by a number of credit related items which include but are not limited to changes in estimated collateral value, receipt of additional collateral, secondary trading prices, circumstances of possible and/or ongoing liquidation, capital availability, business operations and payment patterns.

We attempt to proactively manage these factors by using various procedures that are customized to the risk of a given loan. Among these procedures are: review by PNC's Special Asset Committee (SAC), ongoing outreach, contact, and assessment of obligor financial conditions, collateral inspection and appraisal.

See Note 6 Purchased Impaired Loans for additional information.

Table of Contents**Credit Quality Indicators Commercial Lending**

In millions	Pass (a)	Special Mention (b)	Substandard (c)	Doubtful (d)	Total Loans
December 31, 2010					
Commercial	\$ 48,556	\$ 1,926	\$ 3,883	\$ 563	\$ 54,928
Commercial real estate	11,014	1,289	3,914	564	16,781
Equipment lease financing	6,121	64	162	46	6,393
Purchased impaired loans (e)	106	35	883	378	1,402
Total commercial lending	\$ 65,797	\$ 3,314	\$ 8,842	\$ 1,551	\$ 79,504
December 31, 2009					
Commercial	\$ 44,591	\$ 3,060	\$ 5,711	\$ 925	\$ 54,287
Commercial real estate	13,834	1,782	5,113	766	21,495
Equipment lease financing	5,778	44	342	38	6,202
Purchased impaired loans (e)	283	28	857	999	2,167
Total commercial lending	\$ 64,486	\$ 4,914	\$ 12,023	\$ 2,728	\$ 84,151

- (a) Assets in this category include loans not classified as Special Mention, Substandard, or Doubtful.
- (b) Assets in this category have a potential weakness that deserves management's close attention. If left uncorrected these potential weaknesses may result in deterioration of repayment prospects at some future date. These assets do not expose PNC to sufficient risk to warrant adverse classification at this time.
- (c) Assets in this category have a well-defined weakness or weaknesses that jeopardize the collection or liquidation of debt. They are characterized by the distinct possibility that PNC will sustain some loss if the deficiencies are not corrected.
- (d) Assets in this category possess all the inherent weaknesses of a Substandard asset with the additional characteristics that the weakness makes collection or liquidation in full improbable due to existing facts, conditions, and values.
- (e) It is probable that these amounts will be collected.

Residential Real Estate and Home Equity Classes

We use several credit quality indicators, including credit scores, LTV ratios, delinquency rates, loan types and geography to monitor and manage credit risk within the residential real estate and home equity classes. We evaluate mortgage loan performance by source originators and loan servicers. A summary of credit quality indicators follows:

Credit Scores: We use a national third-party provider to update FICO credit scores for residential real estate and home equity loans on at least an annual basis. The updated scores are incorporated into a series of credit monitoring reports and the statistical models that estimate the individual loan risk values.

LTV: We regularly update the property values of real estate collateral and calculate a LTV ratio. This ratio updates our statistical models that estimate individual and class/segment level risk. The LTV ratio tends to indicate potential loss on a given loan and the borrower's likelihood to make payment according to the contractual obligations.

Delinquency Rates: We monitor levels of delinquency rates for residential real estate and home equity loans.

Geography: Geographic concentrations are monitored to evaluate and manage exposures. Loan purchase programs are sensitive to, and focused within, certain regions to manage geographic exposures and associated risks.

The combination of FICO scores, LTV ratios and geographic location assigned to residential real estate and home equity loans are used to estimate the likelihood of loss for that loan at the reporting date. Loans with high FICO scores and low LTVs tend to have the lower likelihood of loss. Conversely, loans with low FICO scores, high LTVs, and in certain geographic locations tend to have a higher likelihood of loss.

At least annually, we obtain an updated property valuation on the real estate secured loans. For open credit lines secured by real estate or facilities in regions experiencing significant declines in property values, more frequent valuations may occur. The property values are monitored

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

to determine LTV migration and those LTV migrations are stratified within various markets. Trends are analyzed to establish appropriate lending criteria to fit within our desired moderate risk profile.

Table of Contents**Credit Quality Indicators Consumer Real Estate Secured**

In millions	Higher Risk Loans (a)		All Other Loans % of Total		Total Loans	Loans with LTV > 100% % of Total	
	Amount	% of Total Loans	Amount	Loans	Amount	Amount	Loans
December 31, 2010							
Home equity (b)	\$ 1,203	4%	\$ 33,023	96%	\$ 34,226	\$ 285	1%
Residential real estate (c)	651	4%	15,348	96%	15,999	1,331	8%
Total (d)	\$ 1,854	4%	\$ 48,371	96%	\$ 50,225	\$ 1,616	3%
December 31, 2009							
Home equity (b)	\$ 1,198	3%	\$ 34,749	97%	\$ 35,947	\$ 306	1%
Residential real estate (c)	826	4%	18,984	96%	19,810	2,385	12%
Total (d)	\$ 2,024	4%	\$ 53,733	96%	\$ 55,757	\$ 2,691	5%

- (a) Loans with a recent FICO credit score of less than or equal to 660 and a LTV ratio greater than or equal to 90% at December 31, 2010, and a LTV ratio greater than 90% at December 31, 2009.
- (b) Within the higher risk home equity class at December 31, 2010, approximately 10% were in some stage of delinquency and 6% were in late stage (90+ days) delinquency status. These higher risk loans were concentrated with 28% in Pennsylvania, 13% in Ohio, 11% in New Jersey, 7% in Illinois, 6% in Michigan and 5% in Kentucky, with the remaining loans dispersed across several other states. At December 31, 2009, approximately 10% were in some stage of delinquency and 5% were in late stage (90+ days) delinquency status. These higher risk loans were concentrated with 28% in Pennsylvania, 14% in Ohio, 11% in New Jersey, 7% in Illinois, 6% in Michigan and 5% in Kentucky, with the remaining loans dispersed across several other states.
- (c) Within the higher risk residential real estate class at December 31, 2010, approximately 48% were in some stage of delinquency and 36% were in late stage (90+ days) delinquency status. These higher risk loans were concentrated with 24% in California, 11% in Florida, 11% in Illinois, 8% in Maryland, 4% in Pennsylvania, 4% in New Jersey, and 4% in Ohio, with the remaining loans dispersed across several other states. At December 31, 2009, approximately 61% were in some stage of delinquency and 49% were in late stage (90+ days) delinquency status. These higher risk loans were concentrated with 22% in California, 13% in Florida, 10% in Illinois, 8% in Maryland, 5% in Pennsylvania, and 5% in New Jersey, with the remaining loans dispersed across several other states.
- (d) Includes purchased impaired loans of \$5.9 billion at December 31, 2010 and \$8.0 billion at December 31, 2009.

Credit Card and Other Consumer (Education, Automobile, and Other Secured and Unsecured Lines and Loans) Classes

We monitor a variety of credit quality information in the management of the credit card and other consumer loan classes. Along with the trending of delinquencies and losses for each class, FICO score updates are obtained at least annually, as well as a variety of credit bureau attributes.

The combination of FICO scores and delinquency status are used to estimate the likelihood of loss for consumer exposure at the reporting date. Loans with high FICO scores tend to have a lower likelihood of loss. Conversely, loans with low FICO scores tend to have a higher likelihood of loss.

Credit Quality Indicators Credit Card and Other Consumer Classes

Current FICO Score Range	Credit Card (a)	Other Consumer
December 31, 2010		
≥ 720	48%	58%
650 to 719	29	28
620 to 649	5	4
< 620	11	9
Unscored (b)	7	1

Total loan balance	100%	100%
Weighted average current FICO score (c)	709	713

- (a) At December 31, 2010, PNC has \$70 million of credit card loans that are high risk (i.e., loans with FICO scores less than 660 and greater than 90 day delinquency). Within the high risk credit card portfolio, 20% are located in Ohio, 14% in Michigan, 14% in Pennsylvania, 8% in Illinois and 7% in Indiana, with the remaining loans dispersed across several other states.
- (b) Credit card unscored refers to new accounts issued to borrowers with limited credit history, accounts for which we cannot get an updated FICO (e.g., recent profile changes), cards issued with a business name, and/ or collateral secured cards for which FICO scores were not available or required. Management proactively assesses the risk and size of unscored loans and, when necessary, takes actions to mitigate credit risk.
- (c) Weighted average current FICO score excludes accounts with no score.

Consumer Purchased Impaired Loans Class

Estimates of the expected cash flows primarily determine the credit impacts of consumer purchased impaired loans. Consumer cash flow estimates are influenced by a number of credit related items which include, but are not limited to, estimated real estate values, payment patterns, FICO scores, economic environment, LTV ratios and time of origination. These key drivers are monitored regularly to help ensure that concentrations of risk are mitigated and cash flows are maximized.

See Note 6 Purchased Impaired Loans for additional information.

ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is adequate to absorb estimated probable losses related to these unfunded credit facilities.

See Note 1 Accounting Policies Allowance For Unfunded Loan Commitments and Letters of Credit for additional information.

Table of Contents**Rollforward of Allowance for Unfunded Loan****Commitments and Letters of Credit**

In millions	2010	2009	2008
January 1	\$ 296	\$ 344	\$ 134
Acquired allowance			75
Net change in allowance for unfunded loan commitments and letters of credit	(108)	(48)	135
December 31	\$ 188	\$ 296	\$ 344

NOTE 6 PURCHASED IMPAIRED LOANS

At December 31, 2008, we identified certain loans related to the National City acquisition, for which there was evidence of credit quality deterioration since origination and it was probable that we would be unable to collect all contractually required principal and interest payments. Evidence of credit quality deterioration included statistics such as past due status, declines in current borrower FICO credit scores, geographic concentration and increases in current LTV ratios. GAAP requires these loans to be recorded at fair value at acquisition date and prohibits the carrying over or the creation of valuation allowances in the initial accounting for such loans acquired in a transfer.

GAAP allows purchasers to aggregate purchased impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. With respect to the National City acquisition, we aggregated homogeneous consumer and residential real estate loans into pools with common risk characteristics. We account for commercial and commercial real estate loans individually.

Purchased Impaired Loans

In millions	December 31, 2010		December 31, 2009	
	Recorded Investment	Outstanding Balance	Recorded Investment	Outstanding Balance
Commercial	\$ 249	\$ 408	\$ 531	\$ 921
Commercial real estate	1,153	1,391	1,636	2,600
Consumer	3,024	4,121	3,457	5,097
Residential real estate	3,354	3,803	4,663	6,620
Total	\$ 7,780	\$ 9,723	\$ 10,287	\$ 15,238

During 2010, the recorded investment of purchased impaired loans decreased by a net \$2.5 billion as a result of payments and other exit activities partially offset by accretion.

The excess of cash flows expected over the estimated fair value at acquisition is referred to as the accretable yield and is recognized in interest income over the remaining life of the

loans using the constant effective yield method. The difference between contractually required payments and the undiscounted cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Changes in the actual or expected cash flows of individual commercial or pooled consumer purchased impaired loans from the date of acquisition will either impact the accretable yield or result in an impairment charge to the provision for credit losses in the period in which the changes are deemed probable. Subsequent decreases to the net present value of expected cash flows will generally result in an impairment charge to the provision for credit losses, resulting in an increase to the ALLL, and a reclassification from accretable yield to nonaccretable difference. Subsequent increases in the net present value of cash flows will result in a recovery of any previously recorded ALLL, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield, which is recognized prospectively over the remaining lives of the loans.

Purchased impaired commercial and commercial real estate loans are charged off when the entire customer loan balance is deemed uncollectible. As purchased impaired consumer and residential real estate loans are accounted for in pools, uncollectible amounts on individual loans remain in the pools and are not reported as charge-offs. Any required charge-off of a pool level recorded investment will occur at the end of the life of the pool. Prepayments and interest rate decreases for variable rate notes are treated as a reduction of cash flows expected to be collected and a

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

reduction of projections of contractual cash flows such that the nonaccretable difference is not affected. Thus, for decreases in cash flows expected to be collected resulting from prepayments and interest rate decreases for variable rate notes, the effect will be to reduce the yield prospectively. Disposals of loans, which may include sales of loans or foreclosures, result in removal of the loan from the purchased impaired loan portfolio at its carrying amount.

During 2010, \$573 million of provision and \$232 million of charge-offs were recorded on purchased impaired loans. As of December 31, 2010, decreases in the net present value of expected cash flows of purchased impaired loans resulted in an ALLL of \$897 million on \$7.2 billion of the purchased impaired loans while the remaining \$.6 billion of purchased impaired loans required no allowance as the net present value of expected cash flows improved or remained the same.

Activity for the accretable yield for 2010 follows.

Accretable Yield

In millions	2010
January 1	\$ 3,502
Accretion (including cash recoveries)	(1,368)
Net reclassifications to accretable from non- accretable	285
Disposals	(234)
December 31	\$ 2,185

Table of Contents**NOTE 7 INVESTMENT SECURITIES***Investment Securities Summary*

In millions	Amortized Cost (a)	Unrealized		Fair Value
		Gains	Losses	
December 31, 2010				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
US Treasury and government agencies	\$ 5,575	\$ 157	\$ (22)	\$ 5,710
Residential mortgage-backed				
Agency	31,697	443	(420)	31,720
Non-agency	8,193	230	(1,190)	7,233
Commercial mortgage-backed				
Agency	1,763	40	(6)	1,797
Non-agency	1,794	73	(11)	1,856
Asset-backed	2,780	40	(238)	2,582
State and municipal	1,999	30	(72)	1,957
Other debt	3,992	102	(17)	4,077
Total debt securities	57,793	1,115	(1,976)	56,932
Corporate stocks and other	378			378
Total securities available for sale	\$ 58,171	\$ 1,115	\$ (1,976)	\$ 57,310
SECURITIES HELD TO MATURITY				
Debt securities				
Commercial mortgage-backed (non-agency)	\$ 4,316	\$ 178	\$ (4)	\$ 4,490
Asset-backed	2,626	51	(1)	2,676
Other debt	10	1		11
Total securities held to maturity	\$ 6,952	\$ 230	\$ (5)	\$ 7,177
December 31, 2009				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
US Treasury and government agencies	\$ 7,548	\$ 20	\$ (48)	\$ 7,520
Residential mortgage-backed				
Agency	24,076	439	(77)	24,438
Non-agency	10,419	236	(2,353)	8,302
Commercial mortgage-backed				
Agency	1,299	10	(12)	1,297
Non-agency	4,028	42	(222)	3,848
Asset-backed	2,019	30	(381)	1,668
State and municipal	1,346	58	(54)	1,350
Other debt	1,984	38	(7)	2,015
Total debt securities	52,719	873	(3,154)	50,438
Corporate stocks and other	360			360
Total securities available for sale	\$ 53,079	\$ 873	\$ (3,154)	\$ 50,798
SECURITIES HELD TO MATURITY				
Debt securities				
Commercial mortgage-backed (non-agency)	\$ 2,030	\$ 195		\$ 2,225
Asset-backed	3,040	109	(13)	3,136
Other debt	159	1		160
Total securities held to maturity	\$ 5,229	\$ 305	\$ (13)	\$ 5,521

Table of Contents

In millions	Amortized Cost (a)	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2008				
SECURITIES AVAILABLE FOR SALE				
Debt securities				
US Treasury and government agencies	\$ 738	\$ 1		\$ 739
Residential mortgage-backed				
Agency	22,744	371	\$ (9)	23,106
Non-agency	13,205		(4,374)	8,831
Commercial mortgage-backed (non-agency)	4,305		(859)	3,446
Asset-backed	2,069	4	(446)	1,627
State and municipal	1,326	13	(76)	1,263
Other debt	563	11	(15)	559
Total debt securities	44,950	400	(5,779)	39,571
Corporate stocks and other	575		(4)	571
Total securities available for sale	\$ 45,525	\$ 400	\$ (5,783)	\$ 40,142
SECURITIES HELD TO MATURITY				
Debt securities				
Commercial mortgage-backed (non-agency)	\$ 1,945	\$ 10	\$ (59)	\$ 1,896
Asset-backed	1,376	7	(25)	1,358
Other debt	10			10
Total securities held to maturity	\$ 3,331	\$ 17	\$ (84)	\$ 3,264

(a) The amortized cost for debt securities for which an OTTI was recorded prior to January 1, 2009 was adjusted for the \$110 million pretax cumulative effect adjustment recorded under new GAAP that we adopted as of that date.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. Net unrealized gains and losses in the securities available for sale portfolio are included in shareholders' equity as accumulated other comprehensive income or loss, net of tax, unless credit-related.

In March 2010, we transferred \$2.2 billion of available for sale commercial mortgage-backed non-agency securities to the held to maturity portfolio. The reclassification was made at fair value at the date of transfer. Net pretax unrealized gains in accumulated other comprehensive loss totaled \$92 million at the transfer date and will be accreted over the remaining life of the related securities as an adjustment of yield in a manner consistent with the amortization of the premium on the same transferred securities, resulting in no impact on net income.

The gross unrealized loss on debt securities held to maturity was \$5 million at December 31, 2010 and \$13 million at December 31, 2009 with \$675 million and \$388 million of positions in a continuous loss position for less than 12 months at December 31, 2010 and 2009, respectively.

The following table presents gross unrealized loss and fair value of securities available for sale at December 31, 2010 and December 31, 2009. The securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more based on the point in time the fair value declined below the amortized cost basis. The table includes debt securities where a portion of OTTI has been recognized in accumulated other comprehensive loss.

Table of Contents**Gross Unrealized Loss and Fair Value of Securities Available for Sale**

In millions	Unrealized loss position less than 12 months		Unrealized loss position 12 months or more		Total	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
December 31, 2010						
Debt securities						
US Treasury and government agencies	\$ (22)	\$ 398			\$ (22)	\$ 398
Residential mortgage-backed						
Agency	(406)	17,040	\$ (14)	\$ 186	(420)	17,226
Non-agency	(17)	345	(1,173)	5,707	(1,190)	6,052
Commercial mortgage-backed						
Agency	(6)	344			(6)	344
Non-agency	(8)	184	(3)	84	(11)	268
Asset-backed	(5)	441	(233)	776	(238)	1,217
State and municipal	(22)	931	(50)	247	(72)	1,178
Other debt	(14)	701	(3)	13	(17)	714
Total	\$ (500)	\$ 20,384	\$ (1,476)	\$ 7,013	\$ (1,976)	\$ 27,397
December 31, 2009						
Debt securities						
US Treasury and government agencies	\$ (48)	\$ 4,015			\$ (48)	\$ 4,015
Residential mortgage-backed						
Agency	(76)	6,960	\$ (1)	\$ 56	(77)	7,016
Non-agency	(7)	79	(2,346)	7,223	(2,353)	7,302
Commercial mortgage-backed						
Agency	(12)	779			(12)	779
Non-agency	(3)	380	(219)	1,353	(222)	1,733
Asset-backed	(1)	142	(380)	1,153	(381)	1,295
State and municipal	(1)	49	(53)	285	(54)	334
Other debt	(3)	299	(4)	18	(7)	317
Total	\$ (151)	\$ 12,703	\$ (3,003)	\$ 10,088	\$ (3,154)	\$ 22,791

EVALUATING INVESTMENTS FOR OTHER-THAN-TEMPORARY IMPAIRMENTS

For the securities in the above table, as of December 31, 2010 we do not intend to sell and have determined it is not more likely than not we will be required to sell the securities prior to recovery of the amortized cost basis.

On at least a quarterly basis, we conduct a comprehensive security-level assessment on all securities in an unrealized loss position to determine if OTTI exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. An OTTI loss must be recognized for a debt security in an unrealized loss position if we intend to sell the security or it is more likely than not we will be required to sell the security prior to recovery of its amortized cost basis. In this situation, the amount of loss recognized in income is equal to the difference between the fair value and the amortized cost basis of the security. Even if we do not expect to sell the security, we must evaluate the expected cash flows to be received to determine if we believe a credit loss has occurred. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in income. This credit loss amount is equal to the difference between the security's amortized cost basis and the present value of its expected future cash flows discounted at the security's effective yield. The portion of the unrealized loss relating to other factors, such as liquidity conditions in the

market or changes in market interest rates, is recorded in accumulated other comprehensive loss.

Equity securities are also evaluated to determine whether the unrealized loss is expected to be recoverable based on whether evidence exists to support a realizable value equal to or greater than the cost basis. If it is probable that we will not recover the cost basis, taking into consideration the estimated recovery period and our ability to hold the equity security until recovery, OTTI is recognized in earnings equal to the difference

between the fair value and the cost basis of the security.

The security-level assessment is performed on each security, regardless of the classification of the security as available for sale or held to maturity. Our assessment considers the security structure, recent security collateral performance metrics if applicable, external credit ratings, failure of the issuer to make scheduled interest or principal payments, our judgment and expectations of future performance, and relevant independent industry research, analysis and forecasts. We also consider the severity of the impairment and the length of time the security has been impaired in our assessment. Results of the periodic assessment are reviewed by a cross-functional senior management team representing Asset & Liability Management, Finance, and Market Risk Management. The senior management team considers the results of the

Table of Contents

assessments, as well as other factors, in determining whether the impairment is other-than-temporary.

For debt securities, a critical component of the evaluation for OTTI is the identification of credit-impaired securities, where management does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. The paragraphs below describe our process for identifying credit impairment for our most significant categories of securities not backed by the US government or its agencies.

Non-Agency Residential Mortgage-Backed Securities and Asset-Backed Securities Collateralized by First-Lien and Second-Lien Residential Mortgage Loans

To measure credit losses for these securities, we compile relevant collateral details and performance statistics on a security-by-security basis. The securities are then processed through a series of pre-established filters based upon ratings, collateral performance, projected losses, market prices and judgment to identify bonds that have the potential to be credit impaired.

Securities not passing all of the filters are subjected to further analysis. Cash flows are projected for the underlying collateral and are applied to the securities according to the deal structure using a third-party cash flow allocation model. Collateral cash flows are estimated using assumptions for prepayment rates, future defaults, and loss severity rates. The assumptions are security specific and are based on collateral characteristics, historical performance, and future expected performance. Based on the results of the cash flow analysis, we determine whether we will recover the amortized cost basis of our security.

Credit Impairment Assessment Assumptions – Non-Agency Residential Mortgage-Backed and Asset-Backed Securities (a)

December 31, 2010	Range	Weighted-average (b)
Long-term prepayment rate (annual CPR)		
Prime	7-20%	14%
Alt-A	3-12	5
Remaining collateral expected to default		
Prime	0-51%	19%
Alt-A	0-84	44
Loss severity		
Prime	15-63%	45%
Alt-A	30-80	57

(a) Collateralized by first and second-lien non-agency residential mortgage loans.

(b) Calculated by weighting the relevant assumption for each individual security by the current outstanding cost basis of the security.

Non-Agency Commercial Mortgage-Backed Securities

Credit losses on these securities are measured using property-level cash flow projections and forward-looking property valuations. Cash flows are allocated according to deal structure using a third-party model and are projected using a detailed analysis of net operating income (NOI) by property type which, in turn, is based on the analysis of NOI performance over the past several business cycles combined with PNC's economic outlook for the current cycle. Loss severities are based on property price projections, which are calculated using capitalization rate projections. The capitalization rate projections are based on a combination of historical capitalization rates and expected capitalization rates implied by current market activity, our outlook and relevant independent industry research, analysis and forecast. Securities exhibiting weaker performance within the model are subject to further analysis. This analysis is performed at the loan level, and includes assessing local market conditions, reserves, occupancy, rent rolls and master/special servicer details.

Table of Contents

During 2010 and 2009, the OTTI credit losses recognized in noninterest income related to estimated credit losses on securities that we do not expect to sell were as follows:

Summary of OTTI Credit Losses Recognized in Earnings

In millions	2010	2009
Available for sale securities:		
Non-agency residential mortgage-backed	\$ (242)	\$ (444)
Non-agency commercial mortgage-backed	(5)	(6)
Asset-backed	(78)	(111)
Other debt		(12)
Marketable equity securities		(4)
Total	\$ (325)	\$ (577)

Summary of OTTI Noncredit Losses Recognized in Accumulated Other Comprehensive Loss

In millions	2010	2009
Total	\$ (283)	\$ (1,358)

The following table presents a rollforward of the cumulative OTTI credit losses recognized in earnings for all debt securities for which a portion of an OTTI loss was recognized in accumulated other comprehensive loss:

Rollforward of Cumulative OTTI Credit Losses Recognized in Earnings

In millions	Non-agency residential mortgage-backed	Non-agency commercial mortgage-backed	Asset-backed	Other debt	Total
December 31, 2008 (a)	\$ (35)		\$ (34)		\$ (69)
Loss where impairment was not previously recognized	(223)	\$ (6)	(59)	\$ (9)	(297)
Additional loss where credit impairment was previously recognized	(221)		(52)	(3)	(276)
December 31, 2009 (a)	(479)	(6)	(145)	(12)	(642)
Loss where impairment was not previously recognized	(44)	(3)	(17)		(64)
Additional loss where credit impairment was previously recognized	(198)	(2)	(61)		(261)
Reduction due to credit impaired securities sold	12				12
December 31, 2010	\$ (709)	\$ (11)	\$ (223)	\$ (12)	\$ (955)

(a) Excludes OTTI credit losses related to equity securities totaling \$4 million.

Information relating to gross realized securities gains and losses from the sales of securities is set forth in the following table.

Gains (Losses) on Sales of Securities Available for Sale

Year ended

December 31	Gross Proceeds	Gross Gains	Gross Losses	Net Gains	Tax Expense
In millions	Proceeds	Gains	Losses	Gains	Expense
2010	\$ 23,783	\$ 490	\$ 64	\$ 426	\$ 149
2009	18,901	570	20	550	192
2008	10,283	114	8	106	37

Table of Contents

The following table presents, by remaining contractual maturity, the amortized cost, fair value and weighted-average yield of debt securities at December 31, 2010.

Contractual Maturity of Debt Securities

December 31, 2010	1 Year or Less	After 1 Year through 5 Years	After 5 Years through 10 Years	After 10 Years	Total
Dollars in millions					
SECURITIES AVAILABLE FOR SALE					
US Treasury and government agencies		\$ 2,328	\$ 2,915	\$ 332	\$ 5,575
Residential mortgage-backed					
Agency		36	1,310	30,351	31,697
Non-agency			36	8,157	8,193
Commercial mortgage-backed					
Agency		599	1,063	101	1,763
Non-agency		52		1,742	1,794
Asset-backed	\$ 8	223	383	2,166	2,780
State and municipal	42	144	284	1,529	1,999
Other debt	23	2,680	810	479	3,992
Total debt securities available for sale	\$ 73	\$ 6,062	\$ 6,801	\$ 44,857	\$ 57,793
Fair value	\$ 73	\$ 6,192	\$ 6,983	\$ 43,684	\$ 56,932
Weighted-average yield, GAAP basis	2.75%	2.63%	3.53%	4.17%	3.93%
SECURITIES HELD TO MATURITY					
Commercial mortgage-backed (non-agency)	\$ 144	\$ 62	\$ 73	\$ 4,037	\$ 4,316
Asset-backed	46	1,924	304	352	2,626
Other debt		1	6	3	10
Total debt securities held to maturity	\$ 190	\$ 1,987	\$ 383	\$ 4,392	\$ 6,952
Fair value	\$ 200	\$ 2,036	\$ 390	\$ 4,551	\$ 7,177
Weighted-average yield, GAAP basis	4.72%	2.67%	2.37%	4.86%	4.10%

Based on market implied forward interest rates and expected prepayment speeds, the weighted-average expected maturities of mortgage and other asset-backed debt securities were as follows as of December 31, 2010:

Weighted-Average Expected Maturity of Mortgage and Other Asset-Backed Debt Securities

	December 31, 2010
Agency mortgage-backed securities	4.8 years
Non-agency mortgage-backed securities	5.0 years
Agency commercial mortgage-backed securities	5.9 years
Non-agency commercial mortgage-backed securities	3.5 years
Asset-backed securities	3.3 years

Weighted-average yields are based on historical cost with effective yields weighted for the contractual maturity of each security. At December 31, 2010, there were no securities of a single issuer, other than FNMA and FHLMC, which exceeded 10% of total shareholders equity.

The following table presents the fair value of securities that have been either pledged to or accepted from others to collateralize outstanding borrowings.

Fair Value of Securities Pledged and Accepted as Collateral

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

In millions	December 31, 2010	December 31, 2009
Pledged to others	\$ 27,985	\$ 23,368
Accepted from others:		
Permitted by contract or custom to sell or repledge	3,529	2,357
Permitted amount repledged to others	1,971	1,283

The securities pledged to others include positions held in our portfolio of investment securities, trading securities, and securities accepted as collateral from others that we are permitted by contract or custom to sell or repledge, and were used to secure public and trust deposits, repurchase agreements, and for other purposes. The securities accepted from others that we are permitted by contract or custom to sell or repledge are a component of Federal funds sold and resale agreements on our Consolidated Balance Sheet.

Table of Contents**NOTE 8 FAIR VALUE***FAIR VALUE MEASUREMENT*

Fair value is defined in GAAP as the price that would be received to sell an asset or the price paid to transfer a liability on the measurement date. The standard focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP establishes a fair value reporting hierarchy to maximize the use of observable inputs when measuring fair value and defines the three levels of inputs as noted below.

Level 1

Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities may include debt securities, equity securities and listed derivative contracts that are traded in an active exchange market and certain US government agency securities that are actively traded in over-the-counter markets.

Level 2

Observable inputs other than Level 1 such as: quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability. Level 2 assets and liabilities may include debt securities, equity securities and listed derivative contracts with quoted prices that are traded in markets that are not active, and certain debt and equity securities and over-the-counter derivative contracts whose fair value is determined using a pricing model without significant unobservable inputs. This category generally includes agency residential and commercial mortgage-backed debt securities, asset-backed securities, corporate debt securities, residential mortgage loans held for sale, and derivative contracts.

Level 3

Unobservable inputs that are supported by minimal or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities may include financial instruments whose value is determined using pricing models with internally developed assumptions, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain available for sale and trading securities, commercial mortgage loans held for sale, private equity investments, residential mortgage servicing rights, BlackRock Series C Preferred Stock and certain financial derivative contracts. The available for sale and trading securities within Level 3 include non-agency residential mortgage-backed securities, auction rate securities, certain private-issuer asset-backed securities and corporate debt securities. Nonrecurring items, primarily certain nonaccrual and other loans held for sale, commercial mortgage servicing

rights, equity investments and other assets are also included in this category.

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

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

Securities Available for Sale and Trading Securities

Securities accounted for at fair value include both the available for sale and trading portfolios. We use prices obtained from pricing services, dealer quotes or recent trades to determine the fair value of securities. For 59% of our positions, we use prices obtained from pricing services

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

provided by third party vendors. For an additional 9% of our positions, we use prices obtained from the pricing services as the primary input into the valuation process. One of the vendors' prices are set with reference to market activity for highly liquid assets such as agency mortgage-backed securities, and matrix pricing for other assets, such as CMBS and asset-backed securities. Another vendor primarily uses pricing models considering adjustments for ratings, spreads, matrix pricing and prepayments for the instruments we value using this service, such as non-agency residential mortgage-backed securities, agency adjustable rate mortgage securities, agency CMOs and municipal bonds. Management uses various methods and techniques to corroborate prices obtained from pricing services and dealers, including reference to other dealer or market quotes, by reviewing valuations of comparable instruments, or by comparison to internal valuations. Dealer quotes received are typically non-binding. In circumstances where relevant market prices are limited or unavailable, valuations may require significant management judgments or adjustments to determine fair value. In these cases, the securities are classified as Level 3.

The valuation techniques used for securities classified as Level 3 include using a discounted cash flow approach or, in

Table of Contents

certain instances, identifying a proxy security, market transaction or index. For certain security types, primarily non-agency residential securities, the fair value methodology incorporates values obtained from a discounted cash flow model. The modeling process incorporates assumptions management believes market participants would use to value the security under current market conditions. The assumptions used include prepayment projections, credit loss assumptions, and discount rates, which include a risk premium due to liquidity and uncertainty that are based on both observable and unobservable inputs. We use the discounted cash flow analysis, in conjunction with other relevant pricing information obtained from either pricing services or broker quotes to establish the fair value that management believes is representative under current market conditions. For purposes of determining fair value at December 31, 2010 and December 31, 2009, the relevant pricing service information was the predominant input.

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

Financial Derivatives

Exchange-traded derivatives are valued using quoted market prices and are classified as Level 1. However, the majority of derivatives that we enter into are executed over-the-counter and are valued using internal models. Readily observable market inputs to these models can be validated to external sources, including industry pricing services, or corroborated through recent trades, dealer quotes, yield curves, implied volatility or other market-related data. Certain derivatives, such as total rate of return swaps, are corroborated to the CMBX index. These derivatives are classified as Level 2. Derivatives priced using significant management judgment or assumptions are classified as Level 3.

The fair values of our derivatives are adjusted for nonperformance risk including credit risk as appropriate. Our nonperformance risk adjustment is computed using new loan pricing and considers externally available bond spreads, in conjunction with internal historical recovery observations. The credit risk adjustment is not currently material to the overall derivatives valuation.

Residential Mortgage Loans Held for Sale

We have elected to account for certain residential mortgage loans originated for sale on a recurring basis at fair value. At December 31, 2009, all residential mortgage loans held for sale were at fair value. Residential mortgage loans are valued

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

Residential Mortgage Servicing Rights

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

Commercial Mortgage Loans Held for Sale

We account for certain commercial mortgage loans classified as held for sale at fair value. The election of the fair value option aligns the accounting for the commercial mortgages with the related hedges. At origination, these loans were intended for securitization.

We determine the fair value of commercial mortgage loans held for sale by using a whole loan methodology. Fair value is determined using sale valuation assumptions that management believes a market participant would use in pricing the loans. When available, valuation assumptions included observable inputs based on whole loan sales. Adjustments are made to these assumptions to account for situations when uncertainties

exist, including market conditions and liquidity. Credit risk is included as part of our valuation process for these loans by considering expected rates of return for market participants for similar loans in the marketplace. Based on the significance of unobservable inputs, we classified this portfolio as Level 3.

Equity Investments

The valuation of direct and indirect private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such investments. The carrying values of direct and affiliated partnership interests reflect the expected exit price and are based on various techniques including

Table of Contents

multiples of adjusted earnings of the entity, independent appraisals, anticipated financing and sale transactions with third parties, or the pricing used to value the entity in a recent financing transaction. We value indirect investments in private equity funds based on net asset value as provided in the financial statements that we receive from their managers. Due to the time lag in our receipt of the financial information and based on a review of investments and valuation techniques applied, adjustments to the manager-provided value are made when available recent portfolio company information or market information indicates a significant change in value from that provided by the manager of the fund. These investments are classified as Level 3.

Customer Resale Agreements

We have elected to account for structured resale agreements, which are economically hedged using free-standing financial derivatives, at fair value. The fair value for structured resale agreements is determined using a model which includes observable market data such as interest rates as inputs. Readily observable market inputs to this model can be

validated to external sources, including yield curves, implied volatility or other market-related data. These instruments are classified as Level 2.

BlackRock Series C Preferred Stock

We have elected to account for the 2.9 million shares of the BlackRock Series C Preferred Stock received in a stock exchange with BlackRock at fair value. The Series C Preferred Stock economically hedges the BlackRock LTIP liability that is accounted for as a derivative. The fair value of the Series C Preferred Stock is determined using a third-party modeling approach, which includes both observable and unobservable inputs. This approach considers expectations of a default/liquidation event and the use of liquidity discounts based on our inability to sell the security at a fair, open market price in a timely manner. Although dividends are equal to common shares and other preferred series, significant transfer restrictions exist on our Series C shares for any purpose other than to satisfy the LTIP obligation. Due to the significance of unobservable inputs, this security is classified as Level 3.

Table of Contents

Assets and liabilities measured at fair value on a recurring basis, including instruments for which PNC has elected the fair value option, follow.

Fair Value Measurements Summary

In millions	December 31, 2010				December 31, 2009			
	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets								
Securities available for sale								
US Treasury and government								
Agencies	\$ 5,289	\$ 421		\$ 5,710	\$ 7,026	\$ 494		\$ 7,520
Residential mortgage-backed								
Agency		31,720		31,720		24,433	\$ 5	24,438
Non-agency			\$ 7,233	7,233			8,302	8,302
Commercial mortgage-backed								
Agency		1,797		1,797		1,297		1,297
Non-agency		1,856		1,856		3,842	6	3,848
Asset-backed								
State and municipal		1,537	1,045	2,582		414	1,254	1,668
Other debt		1,729	228	1,957		1,084	266	1,350
Total debt securities	5,289	43,064	8,579	56,932	7,026	33,526	9,886	50,438
Corporate stocks and other	307	67	4	378	230	83	47	360
Total securities available for sale	5,596	43,131	8,583	57,310	7,256	33,609	9,933	50,798
Financial derivatives (a) (b)								
Interest rate contracts		5,502	68	5,570	25	3,630	47	3,702
Other contracts		178	9	187	2	209	3	214
Total financial derivatives		5,680	77	5,757	27	3,839	50	3,916
Residential mortgage loans held for sale (c)		1,878		1,878		1,012		1,012
Trading securities (d) (e)								
Debt (f)	1,348	367	69	1,784	1,690	299	89	2,078
Equity	42			42	46			46
Total trading securities	1,390	367	69	1,826	1,736	299	89	2,124
Residential mortgage servicing rights (g)			1,033	1,033			1,332	1,332
Commercial mortgage loans held for sale (c)			877	877			1,050	1,050
Equity investments								
Direct investments			749	749			595	595
Indirect investments (h)			635	635			593	593
Total equity investments			1,384	1,384			1,188	1,188
Customer resale agreements (i)		866		866		990		990
Loans (j)		114	2	116		107		107
Other assets								
BlackRock Series C Preferred Stock (k)			396	396			486	486
Other		450	7	457		207	23	230
Total other assets		450	403	853		207	509	716
Total assets	\$ 6,986	\$ 52,486	\$ 12,428	\$ 71,900	\$ 9,019	\$ 40,063	\$ 14,151	\$ 63,233
Liabilities								
Financial derivatives (b) (l)								
Interest rate contracts		\$ 4,302	\$ 56	\$ 4,358	\$ 2	\$ 3,185	\$ 18	\$ 3,205
BlackRock LTIP			396	396			486	486
Other contracts		173	8	181		146	2	148
Total financial derivatives		4,475	460	4,935	2	3,331	506	3,839
Trading securities sold short (m)								
Debt (f)	\$ 2,514	16		2,530	1,288	42		1,330

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Equity					14			14
Total trading securities sold short	2,514	16	2,530	1,302	42			1,344
Other liabilities		6	6		6			6
Total liabilities	\$ 2,514	\$ 4,497	\$ 460	\$ 7,471	\$ 1,304	\$ 3,379	\$ 506	\$ 5,189

(a) Included in Other assets on our Consolidated Balance Sheet.

(b) Amounts at December 31, 2010 and December 31, 2009 are presented gross and are not reduced by the impact of legally enforceable master netting agreements that allow PNC to net positive and negative positions and cash collateral held or placed with the same counterparty. At December 31, 2010 and December 31, 2009, respectively, the net asset amounts were \$1.9 billion and \$2.0 billion and the net liability amounts were \$1.1 billion and \$1.7 billion.

Table of Contents

- (c) Included in Loans held for sale on our Consolidated Balance Sheet. PNC has elected the fair value option for certain commercial and residential mortgage loans held for sale.
 - (d) Fair value includes net unrealized losses of \$17 million at December 31, 2010 and net unrealized gains of \$9 million at December 31, 2009.
 - (e) Interest income earned from trading securities totaled \$40 million for 2010, \$61 million for 2009, and \$116 million for 2008. These amounts are included in other interest income on the Consolidated Income Statement.
 - (f) Approximately 74% of these securities are US Treasury and government agencies securities at December 31, 2010.
 - (g) Included in Other intangible assets on our Consolidated Balance Sheet.
 - (h) The indirect equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee.
 - (i) Included in Federal funds sold and resale agreements on our Consolidated Balance Sheet. PNC has elected the fair value option for these items.
 - (j) Included in Loans on our Consolidated Balance Sheet.
 - (k) PNC has elected the fair value option for these shares.
 - (l) Included in Other liabilities on our Consolidated Balance Sheet.
 - (m) Included in Other borrowed funds on our Consolidated Balance Sheet.
- Reconciliations of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for 2010 and 2009 follow.

Year Ended December 31, 2010

Level 3 Instruments Only	December 31, 2009	Included in earnings (*)	Included in other comprehensive income	Total realized / unrealized gains or losses (a)	Purchases, issuances, and settlements, net	Transfers into Level 3 (b)	Transfers out of Level 3 (b)	December 31, 2010	(*) Attributable to unrealized gains or losses related to assets and liabilities held at December 31, 2010
In millions									
Assets									
Securities available for sale									
Residential mortgage-backed agency	\$ 5				\$ (5)				
Residential mortgage-backed non-agency	8,302	\$ (269)	\$ 1,218		(2,016)		\$ (2)	\$ 7,233	\$ (241)
Commercial mortgage-backed non-agency	6					\$ 2	(8)		
Asset-backed	1,254	(77)	180		(312)			1,045	(78)
State and municipal	266	5	(24)		(20)	1		228	
Other debt	53		6		(15)	29		73	
Corporate stocks and other	47		(1)		(42)			4	
Total securities available for sale	9,933	(341)	1,379		(2,410)	32	(10)	8,583	(319)
Financial derivatives	50	36			(10)	1		77	43
Trading securities Debt	89	(2)			(18)			69	(4)
Residential mortgage servicing rights	1,332	(209)			(90)			1,033	(194)
Commercial mortgage loans held for sale	1,050	16			(189)			877	20
Equity investments									
Direct investments	595	157			(3)			749	102
Indirect investments	593	92			(50)			635	74
Total equity investments	1,188	249			(53)			1,384	176
Loans					2			2	
Other assets									
BlackRock Series C Preferred Stock	486	(86)			(4)			396	(86)
Other	23		(4)		(12)			7	

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Total other assets	509	(86)	(4)	(16)			403	(86)
Total assets	\$ 14,151	\$ (337)	\$ 1,375	\$ (2,784)	\$ 33	\$ (10)	\$ 12,428	\$ (364)
Total liabilities (c)	\$ 506	\$ (71)		\$ 23	\$ 2		\$ 460	\$ (73)

Table of Contents

Year Ended December 31, 2009

Level 3 Instruments Only	Dec. 31, 2008	National City Acquisition	Balance, January 1, 2009	Included in earnings comprehensive income (*)	Total realized / unrealized gains or losses (a)	Included in other	Purchases, issuances, and settlements, net	Transfers into Level 3, net (b)	December 31, 2009	December 31, 2009	(*) Attributable to unrealized gains or losses related to assets and liabilities held at
Level 3 Instruments Only											
In millions											
Assets											
Securities available for sale											
Residential mortgage- backed agency		\$ 7	\$ 7		\$ (2)				\$ 5		
Residential mortgage- backed non-agency	\$ 3,304	899	4,203	\$ (444)	616	\$ (713)	\$ 4,640	8,302	\$ (444)		
Commercial mortgage- backed non-agency	337		337	(6)	627	(253)	(699)	6	(6)		
Asset-backed	833	59	892	(104)	(22)	(37)	525	1,254	(104)		
State and municipal	271	50	321		(2)	(23)	(30)	266			
Other debt	34	48	82	(9)	4	(19)	(5)	53	(9)		
Corporate stocks and Other	58		58		(6)	(5)		47			
Total securities available for sale	4,837	1,063	5,900	(563)	1,215	(1,050)	4,431	9,933	(563)		
Financial derivatives	125	35	160	116		(206)	(20)	50	11		
Trading securities											
Debt	56	26	82	(3)		8	2	89			
Equity	17	6	23	1		(20)	(4)				
Total trading securities	73	32	105	(2)		(12)	(2)	89			
Residential mortgage servicing rights	6	1,019	1,025	384		(77)		1,332	351		
Commercial mortgage loans held for sale	1,400	1	1,401	(68)		(283)		1,050	(61)		
Equity investments											
Direct investments	322	287	609	(24)		10		595	(33)		
Indirect investments	249	323	572	(20)		41		593	(19)		
Total equity											
investments	571	610	1,181	(44)		51		1,188	(52)		
Other assets											
BlackRock Series C Preferred Stock				275		211		486	275		
Other		40	40	(7)	(12)	2		23	(7)		
Total other assets		40	40	268	(12)	213		509	268		
Total assets	\$ 7,012	\$ 2,800	\$ 9,812	\$ 91	\$ 1,203	\$ (1,364)	\$ 4,409	\$ 14,151	\$ (46)		
Total liabilities (c)	\$ 22	\$ 16	\$ 38	\$ 278		\$ 190		\$ 506	\$ 276		

(a) Losses for assets are bracketed while losses for liabilities are not.

(b) PNC's policy is to recognize transfers in and transfers out as of the end of the reporting period.

(c) Financial derivatives.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Net losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities were \$266 million for 2010 compared with \$187 million for 2009. These amounts included net unrealized losses of \$291 million and \$322 million for 2010 and 2009, respectively. These amounts were included in noninterest income on the Consolidated Income Statement.

During 2010, no significant transfers of assets or liabilities between the hierarchy levels occurred.

During 2009, securities transferred into Level 3 from Level 2 exceeded securities transferred out by \$4.4 billion. These primarily related to non-agency residential mortgage-backed securities where management determined that the volume and level of market activity for these assets had significantly

Table of Contents

decreased. Other Level 3 assets include commercial mortgage loans held for sale, certain equity securities, auction rate securities, corporate debt securities, certain private-issuer asset-backed securities, private equity investments, certain derivative instruments, residential mortgage servicing rights and other assets.

Nonrecurring Fair Value Changes

We may be required to measure certain other financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower-of-cost-or-fair value accounting or write-downs of individual assets due to impairment. The amounts below for nonaccrual loans represent the carrying value of loans for which adjustments are primarily based on the appraised value of collateral or the net book value of the collateral from the borrower's most recent financial statements if no appraisal is available. If the net book value is utilized, loss given default (LGD) collateral recovery rates are employed, by collateral type, in calculating disposition costs to arrive at an adjusted

fair value. If an appraisal is outdated due to changed project or market conditions, values based on the LGD recovery rates are used pending receipt of an updated appraisal. The amounts below for loans held for sale represent the carrying value of loans for which adjustments are based on the appraised value of collateral which often results in significant management assumptions and input with respect to the determination of fair value, or based on an observable market price. The fair value determination of the equity investment resulting in an impairment loss included below was based on observable market data for other comparable entities as adjusted for internal assumptions and unobservable inputs. The amounts below for commercial mortgage servicing rights reflect an impairment of three strata at December 31, 2010 while no strata were impaired at December 31, 2009. The fair value of commercial mortgage servicing rights is estimated by using an internal valuation model. The model calculates the present value of estimated future net servicing cash flows considering estimates of servicing revenue and costs, discount rates and prepayment speeds.

Fair Value Measurements – Nonrecurring (a)

In millions	Gains (Losses)			
	Fair Value		Year ended	
	December 31 2010	December 31 2009	December 31 2010	December 31 2009
Assets				
Nonaccrual loans	\$ 429	\$ 939	\$ 81	\$ (365)
Loans held for sale	350	168	(93)	4
Equity investments (b)	3	154	(3)	(64)
Commercial mortgage servicing rights	644		(40)	
Other intangible assets	1	1		
Foreclosed and other assets	245	108	(103)	(41)
Long-lived assets held for sale	25	30	(30)	(9)
Total assets	\$ 1,697	\$ 1,400	\$ (188)	\$ (475)

(a) All Level 3 except \$5 million in loans held for sale which were Level 2 at December 31, 2009.

(b) Includes LIHTC and other equity investments.

FAIR VALUE OPTION

Refer to the Fair Value Measurement section of this Note 8 regarding the fair value of commercial mortgage loans held for sale, residential mortgage loans held for sale, customer resale agreements, and BlackRock Series C Preferred Stock.

Commercial Mortgage Loans Held for Sale

Interest income on these loans is recorded as earned and reported on the Consolidated Income Statement in other interest income. The impact on earnings of offsetting economic hedges is not reflected in these amounts. Changes in

fair value due to instrument-specific credit risk for 2010 and 2009 were not material.

Residential Mortgage Loans Held for Sale

Interest income on these loans is recorded as earned and reported on the Consolidated Income Statement in other interest income. Throughout 2010 and 2009, certain residential mortgage loans for which we elected the fair value option were subsequently reclassified to portfolio loans. Changes in fair value due to instrument-specific credit risk for 2010 and 2009 were not material. These loans continue to be accounted for at fair value.

Table of Contents**CUSTOMER RESALE AGREEMENTS**

Interest income on structured resale agreements is reported on the Consolidated Income Statement in other interest income. Changes in fair value due to instrument-specific credit risk for 2010 and 2009 were not material.

The changes in fair value included in noninterest income for items for which we elected the fair value option follow.

Fair Value Option Changes in Fair Value (a)

In millions	2010	Gains (Losses) 2009	2008
Assets			
Customer resale agreements	\$ 1	\$ (26)	\$ 69
Commercial mortgage loans held for sale	16	(68)	(251)
Residential mortgage loans held for sale	280	405	
Residential mortgage loans portfolio		1	
BlackRock Series C Preferred Stock	(86)	275	

(a) The impact on earnings of offsetting hedged items or hedging instruments is not reflected in these amounts.

Fair values and aggregate unpaid principal balances of items for which we elected the fair value option follow.

Fair Value Option Fair Value and Principal Balances

In millions	Fair Value	Aggregate Unpaid Principal Balance	Difference
December 31, 2010			
Customer resale agreements	\$ 866	\$ 806	\$ 60
Residential mortgage loans held for sale			
Performing loans	1,844	1,839	5
Loans 90 days or more past due	33	41	(8)
Nonaccrual loans	1	2	(1)
Total	1,878	1,882	(4)
Commercial mortgage loans held for sale (a)			
Performing loans	847	990	(143)
Nonaccrual loans	30	49	(19)
Total	877	1,039	(162)
Residential mortgage loans portfolio			
Performing loans	36	44	(8)
Loans 90 days or more past due	64	67	(3)
Nonaccrual loans	16	31	(15)
Total	\$ 116	\$ 142	\$ (26)
December 31, 2009			
Customer resale agreements	\$ 990	\$ 925	\$ 65
Residential mortgage loans held for sale			
Performing loans	971	977	(6)
Loans 90 days or more past due	40	50	(10)
Nonaccrual loans	1	9	(8)
Total	1,012	1,036	(24)
Commercial mortgage loans held for sale (a)			
Performing loans	1,023	1,235	(212)
Nonaccrual loans	27	41	(14)
Total	1,050	1,276	(226)
Residential mortgage loans portfolio			

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Performing loans	25	27	(2)
Loans 90 days or more past due	51	54	(3)
Nonaccrual loans	12	23	(11)
Total	\$ 88	\$ 104	\$ (16)

(a) There were no loans 90 days or more past due within this category at December 31, 2010 or December 31, 2009.

Table of Contents**ADDITIONAL FAIR VALUE INFORMATION RELATED TO FINANCIAL INSTRUMENTS**

In millions	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and short-term assets	\$ 9,711	\$ 9,711	\$ 12,248	\$ 12,248
Trading securities	1,826	1,826	2,124	2,124
Investment securities	64,262	64,487	56,027	56,319
Loans held for sale	3,492	3,492	2,539	2,597
Net loans (excludes leases)	139,316	141,431	146,270	145,014
Other assets	4,664	4,664	4,883	4,883
Mortgage and other loan servicing rights	1,698	1,707	2,253	2,352
Financial derivatives				
Designated as hedging instruments under GAAP	1,255	1,255	739	739
Not designated as hedging instruments under GAAP	4,502	4,502	3,177	3,177
Liabilities				
Demand, savings and money market deposits	141,990	141,990	132,645	132,645
Time deposits	41,400	41,825	54,277	54,534
Borrowed funds	39,821	41,273	39,621	39,977
Financial derivatives				
Designated as hedging instruments under GAAP	85	85	95	95
Not designated as hedging instruments under GAAP	4,850	4,850	3,744	3,744
Unfunded loan commitments and letters of credit	173	173	290	290

The aggregate fair values in the table above do not represent the total market value of PNC's assets and liabilities as the table excludes the following:

- real and personal property,
- lease financing,
- loan customer relationships,
- deposit customer intangibles,
- retail branch networks,
- fee-based businesses, such as asset management and brokerage, and
- trademarks and brand names.

We used the following methods and assumptions to estimate fair value amounts for financial instruments.

GENERAL

For short-term financial instruments realizable in three months or less, the carrying amount reported on our Consolidated Balance Sheet approximates fair value. Unless otherwise stated, the rates used in discounted cash flow analyses are based on market yield curves.

CASH AND SHORT-TERM ASSETS

The carrying amounts reported on our Consolidated Balance Sheet for cash and short-term investments approximate fair values primarily due to their short-term nature. For purposes of this disclosure only, short-term assets include the following:

- due from banks,
- interest-earning deposits with banks,
- federal funds sold and resale agreements,
- cash collateral,

customers' acceptances, and
accrued interest receivable.

SECURITIES

Securities include both the investment securities (comprised of available for sale and held to maturity securities) and trading portfolios. We use prices obtained from pricing services, dealer quotes or recent trades to determine the fair value of securities. For 60% of our positions, we use prices obtained from pricing services provided by third party vendors. For an additional 8% of our positions, we use prices obtained from the pricing services as the primary input into the valuation process. One of the vendors' prices are set with reference to market activity for highly liquid assets such as agency mortgage-backed securities, and matrix pricing for other assets, such as CMBS and asset-backed securities. Another vendor primarily uses pricing models considering adjustments for ratings, spreads, matrix pricing and prepayments for the instruments we value using this service, such as non-agency residential mortgage-backed securities, agency adjustable rate mortgage securities, agency CMOs and municipal bonds. Management uses various methods and techniques to corroborate prices obtained from pricing services and dealers, including reference to other dealers' quotes, by reviewing valuations of comparable instruments, or by comparison to internal valuations. Dealer quotes received are typically non-binding.

NET LOANS AND LOANS HELD FOR SALE

Fair values are estimated based on the discounted value of expected net cash flows incorporating assumptions about prepayment rates, net credit losses and servicing fees. For purchased impaired loans, fair value is assumed to equal

Table of Contents

PNC's recorded investment, which represents the present value of expected future principal and interest cash flows, as adjusted for any ALLL recorded for these loans. See Note 6 Purchased Impaired Loans for additional information. For revolving home equity loans and commercial credit lines, this fair value does not include any amount for new loans or the related fees that will be generated from the existing customer relationships. Non-accrual loans are valued at their estimated recovery value. Also refer to the Fair Value Measurement and Fair Value Option sections of this Note 8 regarding the fair value of commercial and residential mortgage loans held for sale. Loans are presented net of the ALLL and do not include future accretable discounts related to purchased impaired loans.

OTHER ASSETS

Other assets as shown in the accompanying table include the following:

FHLB and FRB stock,
equity investments carried at cost and fair value, and
BlackRock Series C Preferred Stock.

Investments accounted for under the equity method, including our investment in BlackRock, are not included in the accompanying table.

See the Investment in BlackRock, Inc. and Private Equity Investments sections of Note 1 Accounting Policies for additional information.

Fair value of the noncertificated interest-only strips is estimated based on the discounted value of expected net cash flows. The aggregate carrying value of our investments that are carried at cost and FHLB and FRB stock was \$2.4 billion at December 31, 2010 and \$2.6 billion as of December 31, 2009, both of which approximate fair value at each date.

MORTGAGE AND OTHER LOAN SERVICING ASSETS

Fair value is based on the present value of the estimated future cash flows, incorporating assumptions as to prepayment speeds, discount rates, escrow balances, interest rates, cost to service and other factors.

The key valuation assumptions for commercial and residential mortgage loan servicing assets at December 31, 2010 and

December 31, 2009 are included in Note 9 Goodwill and Other Intangible Assets.

CUSTOMER RESALE AGREEMENTS

Refer to the Fair Value Measurement section of this Note 8 regarding the fair value of customer resale agreements.

DEPOSITS

The carrying amounts of noninterest-bearing demand and interest-bearing money market and savings deposits approximate fair values. For time deposits, which include foreign deposits, fair values are estimated based on the discounted value of expected net cash flows assuming current interest rates.

BORROWED FUNDS

The carrying amounts of Federal funds purchased, commercial paper, repurchase agreements, proprietary trading short positions, cash collateral, other short-term borrowings, acceptances outstanding and accrued interest payable are considered to be their fair value because of their short-term nature. For all other borrowed funds, fair values are estimated primarily based on dealer quotes or discounted cash flow analysis.

UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

The fair value of unfunded loan commitments and letters of credit is determined from a market participant's view including the impact of changes in interest rates, credit and other factors. Because the interest rate on substantially all unfunded loan commitments and letters of credit varies with changes in market rates, these instruments are subject to little fluctuation in fair value due to changes in interest rates. We establish a liability on these facilities related to their creditworthiness.

FINANCIAL DERIVATIVES

For exchange-traded contracts, fair value is based on quoted market prices. For nonexchange-traded contracts, fair value is based on dealer quotes, pricing models or quoted prices for instruments with similar characteristics.

Amounts for financial derivatives are presented on a gross basis.

Table of Contents**NOTE 9 GOODWILL AND OTHER INTANGIBLE ASSETS**

Changes in goodwill by business segment during 2009 and 2010 follow:

Changes in Goodwill by Business Segment (a)

In millions	Asset						Other (b)	Total
	Retail Banking	Corporate & Institutional Banking	Management Group	Black-Rock	Residential Mortgage Banking			
December 31, 2008	\$ 5,056	\$ 2,521	\$ 14	\$ 44			\$ 1,233	\$ 8,868
Acquisition-related	313	235	54			\$ 43	10	655
Other (c)					(18)			(18)
December 31, 2009	5,369	2,756	68	26	43		1,243	9,505
Sale of GIS							(1,232)	(1,232)
Other (c)	(67)	(28)	(6)	(12)			(11)	(124)
December 31, 2010	\$ 5,302	\$ 2,728	\$ 62	\$ 14	\$ 43	\$	\$	\$ 8,149

(a) The Distressed Assets Portfolio business segment does not have any goodwill allocated to it.

(b) Includes goodwill related to GIS prior to the sale of GIS on July 1, 2010.

(c) Includes BlackRock.

Changes in goodwill and other intangible assets during 2010 follow:

Summary of Changes in Goodwill and Other Intangible Assets

In millions	Goodwill	Customer-Related	Servicing Rights
Additions/adjustments:			
Sale of GIS	(1,232)	(49)	
Other	(124)	4	
Mortgage and other loan servicing rights			(216)
Sale of servicing rights			(192)
Impairment charge			(40)
Amortization		(197)	(110)
December 31, 2010	\$ 8,149	\$ 903	\$ 1,701

See Note 2 Divestiture regarding our July 1, 2010 sale of GIS.

We conduct a goodwill impairment test on our reporting units at least annually or more frequently if any adverse triggering events occur. Based on the results of our analysis, there were no impairment charges related to goodwill recognized in 2010, 2009 or 2008. The fair value of our reporting units is determined by using discounted cash flow and market comparability methodologies.

The purchase price allocation for the National City acquisition was completed as of December 31, 2009 with goodwill of \$647 million recognized.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Our investment in BlackRock changes when BlackRock repurchases its shares in the open market or issues shares for an acquisition or pursuant to its employee compensation plans. We adjust goodwill when BlackRock repurchases its shares at an amount greater (or less) than book value per share which results in an increase (or decrease) in our percentage ownership interest.

The gross carrying amount, accumulated amortization and net carrying amount of other intangible assets by major category consisted of the following:

Other Intangible Assets

	December 31	December 31
In millions	2010	2009
Customer-related and other intangibles		
Gross carrying amount	\$ 1,524	\$ 1,742
Accumulated amortization	(621)	(597)
Net carrying amount	\$ 903	\$ 1,145
Mortgage and other loan servicing rights		
Gross carrying amount	\$ 2,293	\$ 2,729
Valuation allowance	(40)	
Accumulated amortization	(552)	(470)
Net carrying amount	\$ 1,701	\$ 2,259
Total	\$ 2,604	\$ 3,404

While certain of our other intangible assets have finite lives and are amortized primarily on a straight-line basis, certain core deposit intangibles are amortized on an accelerated basis.

For customer-related and other intangibles, the estimated remaining useful lives range from less than one year to 10 years, with a weighted-average remaining useful life of 9 years.

Table of Contents

Amortization expense on existing intangible assets, net of impairment reversal (charge) follows:

Amortization Expense on Existing Intangible Assets (a)

In millions	
2008	\$ 210
2009	296
2010	264
<u>Estimated:</u>	
2011	256
2012	218
2013	205
2014	197
2015	186

(a) Net of impairment reversal (charge).

Changes in commercial mortgage servicing rights follow:

Commercial Mortgage Servicing Rights

In millions	2010	2009
January 1	\$ 921	\$ 864
Additions (a)	83	121
Acquisition adjustment		1
Sale of servicing rights	(192)	
Impairment (charge) reversal	(40)	35
Amortization expense	(107)	(100)
December 31	\$ 665	\$ 921

(a) Additions for 2010 included \$45 million from loans sold with servicing retained and \$38 million from purchases of servicing rights from third parties.

Comparable amounts for 2009 were \$92 million and \$29 million.

We recognize as an other intangible asset the right to service mortgage loans for others. Commercial mortgage servicing rights are purchased in the open market and originated when loans are sold with servicing retained. Commercial mortgage servicing rights are initially recorded at fair value. These rights are subsequently accounted for using the amortization method. Accordingly, the commercial mortgage servicing rights are substantially amortized in proportion to and over the period of estimated net servicing income over a period of 5 to 10 years.

Commercial mortgage servicing rights are periodically evaluated for impairment. For purposes of impairment, the commercial mortgage servicing rights are stratified based on asset type, which characterizes the predominant risk of the underlying financial asset. If the carrying amount of any individual stratum exceeds its fair value, a valuation reserve is established with a corresponding charge to Corporate services on our Consolidated Income Statement.

The fair value of commercial mortgage servicing rights is estimated by using an internal valuation model. The model calculates the present value of estimated future net servicing

cash flows considering estimates on servicing revenue and costs, discount rates and prepayment speeds.

Changes in the residential mortgage servicing rights follow:

Residential Mortgage Servicing Rights

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

In millions	2010	2009
January 1	\$ 1,332	\$ 1,008
Additions:		
From loans sold with servicing retained	95	261
Sales		(74)
Changes in fair value due to:		
Time and payoffs (a)	(185)	(264)
Purchase accounting adjustments		17
Other (b)	(209)	384
December 31	\$ 1,033	\$ 1,332
Unpaid principal balance of loans serviced for others at December 31	\$ 125,806	\$ 146,050

(a) Represents decrease in mortgage servicing rights value due to passage of time, including the impact from both regularly scheduled loan principal payments and loans that paid down or paid off during the period.

(b) Represents mortgage servicing rights value changes resulting primarily from market-driven changes in interest rates.

We recognize mortgage servicing right assets on residential real estate loans when we retain the obligation to service these loans upon sale and the servicing fee is more than adequate compensation. Residential mortgage servicing rights are accounted for using the fair value method. Mortgage servicing rights are subject to declines in value principally from actual or expected prepayment of the underlying loans and defaults. We manage this risk by economically hedging the fair value of mortgage servicing rights with securities and derivative instruments which are expected to increase in value when the value of mortgage servicing rights declines.

The fair value of residential mortgage servicing rights is estimated by using third party software with internal valuation assumptions. The software calculates the present value of estimated future net servicing cash flows considering estimates on servicing revenue and costs, discount rates, prepayment speeds and future mortgage rates.

The fair value of residential and commercial MSRs and significant inputs to the valuation model as of December 31, 2010 are shown in the tables below. The expected and actual rates of mortgage loan prepayments are significant factors driving the fair value. Management uses a third party model to estimate future residential mortgage loan prepayments and internal proprietary models to estimate future commercial mortgage loan prepayments. These models have been refined based on historical performance of PNC's managed portfolio, as adjusted for current market conditions. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied forward interest rates to estimate the future direction of mortgage and discount rates. Changes in the shape and slope of the forward curve in future

Table of Contents

periods may result in volatility in the fair value estimate.

A sensitivity analysis of the hypothetical effect on the fair value of MSRs to adverse changes in key assumptions is presented below. These sensitivities do not include the impact of the related hedging activities. Changes in fair value generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in mortgage interest rates, which drive changes in prepayment rate estimates, could result in changes in the interest rate spread), which could either magnify or counteract the sensitivities.

The following tables set forth the sensitivity analysis of the hypothetical effect on the fair value of MSRs to immediate adverse changes of 10% and 20% in those assumptions:

Commercial Mortgage Loan Servicing Assets Key Valuation Assumptions

Dollars in millions	Dec. 31,	
	2010	2009
Fair value	\$674	\$1,020
Weighted-average life (years)	6.3	7.8
Weighted-average constant prepayment rate	10%-24%	6%-19%
Decline in fair value from 10% adverse change in prepayment rate	\$8.3	\$9.7
Decline in fair value from 20% adverse change in prepayment rate	\$15.9	\$18.8
Spread over forward interest rate swap rates	7%-9%	7%-9%
Decline in fair value from 10% adverse change in interest rate	\$12.8	\$24.6
Decline in fair value from 20% adverse change in interest rate	\$25.6	\$49.3

Residential Mortgage Loan Servicing Assets Key Valuation Assumptions

Dollars in millions	Dec. 31,	
	2010	2009
Fair value	\$1,033	\$1,332
Weighted-average life (years) (a)	5.8	4.5
Weighted-average constant prepayment rate (a)	12.61%	19.92%
Decline in fair value from 10% adverse change in prepayment rate	\$34	\$56
Decline in fair value from 20% adverse change in prepayment rate	\$65	\$109
Spread over forward interest rate swap rates	12.18%	12.16%
Decline in fair value from 10% adverse change in interest rate	\$43	\$55
Decline in fair value from 20% adverse change in interest rate	\$83	\$106

(a) Changes in weighted-average life and weighted-average constant prepayment rate reflect the cumulative impact of changes in rates, prepayment expectations and model changes.

Revenue from mortgage and other loan servicing comprised of contractually specified servicing fees, late fees, and ancillary fees follows:

Revenue from Mortgage and Other Loan Servicing

In millions	2010	2009	2008
Revenue from mortgage and other loan servicing	\$ 692	\$ 825	\$ 148

We also generate servicing revenue from fee-based activities provided to others.

Revenue from commercial mortgage servicing rights, residential mortgage servicing rights and other loan servicing are reported on our Consolidated Income Statement in the line items Corporate services, Residential mortgage, and Consumer services, respectively.

NOTE 10 PREMISES, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Premises, equipment and leasehold improvements, stated at cost less accumulated depreciation and amortization, were as follows:

Premises, Equipment and Leasehold Improvements

December 31 - in millions	2010	2009
Land	\$ 659	\$ 733
Buildings	1,644	1,692
Equipment	3,335	3,423
Leasehold improvements	593	626
Total	6,231	6,474
Accumulated depreciation and amortization	(2,172)	(2,277)
Net book value	\$ 4,059	\$ 4,197

Depreciation expense on premises, equipment and leasehold improvements and amortization expense, primarily for capitalized internally developed software, was as follows:

Depreciation and Amortization Expense

Year ended December 31

in millions	2010	2009	2008
<u>Continuing operations:</u>			
Depreciation	\$ 455	\$ 466	\$ 194
Amortization	45	79	19
<u>Discontinued operations:</u>			
Depreciation	12	29	31
Amortization	11	26	25

Table of Contents

We lease certain facilities and equipment under agreements expiring at various dates through the year 2067. We account for these as operating leases. Rental expense on such leases was as follows:

Lease Rental Expense

Year ended December 31

in millions	2010	2009	2008
Continuing operations	\$ 379	\$ 372	\$ 184
Discontinued operations	10	16	18

Required minimum annual rentals that we owe on noncancelable leases having initial or remaining terms in excess of one year totaled \$2.4 billion at December 31, 2010. Future minimum annual rentals are as follows:

2011: \$325 million,
2012: \$301 million,
2013: \$266 million,
2014: \$227 million,
2015: \$183 million, and
2016 and thereafter: \$1.1 billion.

NOTE 11 TIME DEPOSITS

The aggregate amount of time deposits with a denomination of \$100,000 or more was \$15.5 billion at December 31, 2010 and \$20.4 billion at December 31, 2009.

Total time deposits of \$41.4 billion at December 31, 2010 have future contractual maturities, including related purchase accounting adjustments, as follows:

2011: \$27.9 billion,
2012: \$9.3 billion,
2013: \$2.0 billion,
2014: \$0.7 billion,
2015: \$0.8 billion, and
2016 and thereafter: \$0.7 billion.

NOTE 12 BORROWED FUNDS

Bank notes along with senior and subordinated notes consisted of the following:

Bank Notes, Senior Debt and Subordinated Debt

December 31, 2010

Dollars in millions	Outstanding	Stated Rate	Maturity
Bank notes	\$ 821	zero 5.70%	2011-2043
Senior debt	12,083	.43 6.70%	2011-2020
Bank notes and senior debt	\$ 12,904		
Subordinated debt			
Junior	\$ 2,932	.87 10.18%	2028-2068
Other	6,910	.65 8.11%	2011-2019
Subordinated debt	\$ 9,842		

Included in outstandings for the senior and subordinated notes in the table above are basis adjustment of \$176 million and \$368 million, respectively, related to fair value accounting hedges as of December 31, 2010.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Total borrowed funds of \$39.5 billion at December 31, 2010 have scheduled or anticipated repayments, including related purchase accounting adjustments, as follows:

2011: \$14.7 billion,
2012: \$5.3 billion,
2013: \$3.4 billion,
2014: \$2.6 billion,
2015: \$2.8 billion, and
2016 and thereafter: \$10.7 billion.

Included in borrowed funds are FHLB borrowings of \$6.0 billion at December 31, 2010, which are collateralized by a blanket lien on residential mortgage and other real estate-related loans. FHLB advances of \$1.1 billion have scheduled maturities of less than one year. The remainder of the FHLB borrowings have balances that will mature from 2012 to 2030, with interest rates ranging from zero to 7.33%.

As part of the National City acquisition, PNC assumed a liability for the payment at maturity or earlier of \$1.4 billion of convertible senior notes with a fixed interest rate of 4.0% payable semiannually. The notes matured and were paid off on February 1, 2011 except for notes that were converted prior to the maturity date. Prior to November 15, 2010, holders were entitled to convert the notes, at their option, under certain circumstances, none of which were satisfied. After November 15, 2010, the holders were entitled to convert their notes at any time through the third scheduled trading date preceding the maturity date, and certain holders did elect to convert a de minimis amount of notes. Upon conversion, PNC paid cash related to the principal amount of such notes. PNC was not required to issue any shares of its common stock for any conversion value.

Table of Contents

The \$2.9 billion of junior subordinated debt included in the above table represents debt redeemable prior to maturity. The call price and related premiums are discussed in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities.

NOTE 13 CAPITAL SECURITIES OF SUBSIDIARY TRUSTS AND PERPETUAL TRUST SECURITIES

At December 31, 2010, capital securities totaling \$3.4 billion represented non-voting preferred beneficial interests in the assets of the following Trusts:

Capital Securities of Subsidiary Trusts

Trust	Date Formed	Description of Capital Securities	Redeemable
PNC Capital Trust C	June 1998	\$200 million due June 1, 2028, bearing interest at a floating rate per annum equal to 3-month LIBOR plus 57 basis points. The rate in effect at December 31, 2010 was .866%.	On or after June 1, 2008 at par.
PNC Capital Trust D	December 2003	\$300 million of 6.125% capital securities due December 15, 2033.	On or after December 18, 2008 at par.
Fidelity Capital Trust II	December 2003	\$22 million due January 23, 2034 bearing an interest rate of 3-month LIBOR plus 285 basis points. The rate in effect at December 31, 2010 was 3.137%.	On or after January 23, 2009 at par.
Yardville Capital Trust VI	June 2004	\$15 million due July 23, 2034, bearing an interest rate equal to 3-month LIBOR plus 270 basis points. The rate in effect at December 31, 2010 was 2.988%.	On or after July 23, 2009 at par.
Fidelity Capital Trust III	October 2004	\$30 million due November 23, 2034 bearing an interest rate of 3-month LIBOR plus 197 basis points. The rate in effect at December 31, 2010 was 2.254%.	On or after November 23, 2009 at par.
Sterling Financial Statutory Trust III	December 2004	\$15 million due December 15, 2034 at a fixed rate of 6%. The fixed rate remained in effect until December 15, 2009 at which time the securities began paying a floating rate of 3-month LIBOR plus 189 basis points. The rate in effect at December 31, 2010 was 2.192%.	On or after December 15, 2009 at par.
Sterling Financial Statutory Trust IV	February 2005	\$15 million due March 15, 2035 at a fixed rate of 6.19%. The fixed rate remained in effect until March 15, 2010 at which time the securities began paying a floating rate of 3-month LIBOR plus 187 basis points. The rate in effect at December 31, 2010 was 2.172%.	On or after March 15, 2010 at par.
MAF Bancorp Capital Trust I	April 2005	\$30 million due June 15, 2035 bearing an interest rate of 3-month LIBOR plus 175 basis points. The rate in effect at December 31, 2010 was 2.052%.	On or after June 15, 2010 at par.
MAF Bancorp Capital Trust II	August 2005		On or after September 15, 2010 at par.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

\$35 million due September 15, 2035 bearing an interest rate of 3-month LIBOR plus 140 basis points. The rate in effect at December 31, 2010 was 1.702%.

James Monroe Statutory Trust III	September 2005	\$8 million due December 15, 2035 at a fixed rate of 6.253%. The fixed rate remained in effect until September 15, 2010 at which time the securities began paying a floating rate of LIBOR plus 155 basis points. The rate in effect at December 31, 2010 was 1.852%.	On or after December 15, 2010.
Yardville Capital Trust III	March 2001	\$6 million of 10.18% capital securities due June 8, 2031.	On or after June 8, 2011 at par plus a premium of up to 5.09%.

Table of Contents

Trust	Date Formed	Description of Capital Securities	Redeemable
National City Capital Trust II	November 2006	\$750 million due November 15, 2066 at a fixed rate of 6.625%. The fixed rate remains in effect until November 15, 2036 at which time the securities pay a floating rate of one-month LIBOR plus 229 basis points.	On or after November 15, 2011 at par.
Sterling Financial Statutory Trust V	March 2007	\$20 million due March 15, 2037 at a fixed rate of 7%. The fixed rate remained in effect until June 15, 2007 at which time the securities began paying a floating rate of 3-month LIBOR plus 165 basis points. The rate in effect at December 31, 2010 was 1.952%.	March 15, 2012 at par.
National City Capital Trust III	May 2007	\$500 million due May 25, 2067 at a fixed rate of 6.625%. The fixed rate remains in effect until May 25, 2047 at which time the securities pay a floating rate of one-month LIBOR plus 212.63 basis points.	On or after May 25, 2012 at par.
National City Capital Trust IV	August 2007	\$518 million due August 30, 2067 at a fixed rate of 8.00%. The fixed rate remains in effect until September 15, 2047 at which time the securities pay a floating rate of one-month LIBOR plus 348.7 basis points.	On or after August 30, 2012 at par.
National City Preferred Capital Trust I	January 2008	\$500 million due December 10, 2043 at a fixed rate of 12.00%. The fixed rate remains in effect until December 10, 2012 at which time the interest rate resets to 3-month LIBOR plus 861 basis points.	On or after December 10, 2012 at par.
PNC Capital Trust E	February 2008	\$450 million of 7.75% capital securities due March 15, 2068.	On or after March 15, 2013 at par.*

* If we redeem or repurchase the trust preferred securities of, and the junior subordinated notes payable to, PNC Capital Trust E during the period from March 15, 2038 through March 15, 2048, we are subject to the terms of a replacement capital covenant requiring PNC to have received proceeds from the issuance of certain qualified securities prior to the redemption or repurchase, unless the replacement capital covenant has been terminated pursuant to its terms. As of December 31, 2010, the beneficiaries of this limitation are the holders of our \$300 million of 6.125% Junior Subordinated Notes issued in December 2003.

All of these Trusts are wholly owned finance subsidiaries of PNC. In the event of certain changes or amendments to regulatory requirements or federal tax rules, the capital securities are redeemable in whole. In accordance with GAAP, the financial statements of the Trusts are not included in PNC's consolidated financial statements.

At December 31, 2010, PNC's junior subordinated debt of \$3.4 billion represented debentures purchased and held as assets by the Trusts.

The obligations of the respective parent of each Trust, when taken collectively, are the equivalent of a full and unconditional guarantee of the obligations of such Trust under the terms of the Capital Securities. Such guarantee is subordinate in right of payment in the same manner as other junior subordinated debt. There are certain restrictions on PNC's overall ability to obtain funds from its subsidiaries. For additional disclosure on these funding restrictions, including an explanation of dividend and intercompany loan limitations, see Note 21 Regulatory Matters. PNC is also subject to restrictions on dividends and other provisions potentially imposed under the Exchange Agreements with Trust II and Trust III as described in the following Perpetual Trust Securities section and to other provisions similar to or in some ways more restrictive than those potentially imposed under those agreements.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

In September 2010, we redeemed all of the underlying capital securities of Sterling Financial Statutory Trust II, Yardville Capital Trusts II and IV, and James Monroe Statutory Trust II. The capital securities redeemed totaled \$71 million. In October 2010, we redeemed all of the underlying capital securities of Yardville Capital Trust V. The capital securities redeemed totaled \$10 million.

Perpetual Trust Securities

We issue certain hybrid capital vehicles that currently qualify as capital for regulatory purposes.

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

Table of Contents

Perpetual Trust Securities (the Trust I Securities) of PNC Preferred Funding Trust I (Trust I) in which Trust I acquired \$500 million of LLC Preferred Securities. PNC REIT Corp. owns 100% of LLC's common voting securities. As a result, LLC is an indirect subsidiary of PNC and is consolidated on our Consolidated Balance Sheet. Trust I, II and III's investment in LLC Preferred Securities is characterized as a noncontrolling interest on our Consolidated Balance Sheet since we are not the primary beneficiary of Trust I, Trust II and Trust III. This noncontrolling interest totaled approximately \$1.3 billion at December 31, 2010.

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

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

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

As of December 31, 2010, each of the Trust RCC and the Trust II RCC are for the benefit of holders of our \$200 million of Floating Rate Junior Subordinated Notes issued in June 1998.

PNC has contractually committed to Trust II and Trust III that if full dividends are not paid in a dividend period on the Trust II Securities or the Trust III Securities, as applicable, or the LLC Preferred Securities held by Trust II or Trust III, as applicable, PNC will not declare or pay dividends with respect to, or redeem, purchase or acquire, any of its equity capital

securities during the next succeeding dividend period, other than: (i) purchases, redemptions or other acquisitions of shares of capital stock of PNC in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or consultants, (ii) purchases of shares of common stock of PNC pursuant to a contractually binding requirement to buy stock existing prior to the commencement of the extension period, including under a contractually binding stock repurchase plan, (iii) any dividend in connection with the implementation of a shareholders' rights plan, or the redemption or repurchase of any rights under any such plan, (iv) as a result of an exchange or conversion of any class or series of PNC's capital stock for any other class or series of PNC's capital stock, (v) the purchase of fractional interests in shares of PNC capital stock pursuant to the conversion or exchange provisions of such stock or the security being converted or exchanged or (vi) any stock dividends paid by PNC where the dividend stock is the same stock as that on which the dividend is being paid.

PNC Bank, N.A. has contractually committed to Trust I that if full dividends are not paid in a dividend period on the Trust I Securities, LLC Preferred Securities or any other parity equity securities issued by the LLC, neither PNC Bank, N.A. nor its subsidiaries will declare or pay dividends or other distributions with respect to, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its equity capital securities during the next succeeding period (other than to holders of the LLC Preferred Securities and any parity equity securities issued by the LLC) except: (i) in the case of dividends payable to subsidiaries of PNC Bank, N.A., to PNC Bank, N.A. or another wholly-owned subsidiary of PNC Bank, N.A. or (ii) in the case of dividends payable to persons that are not subsidiaries of PNC Bank, N.A., to such persons only if, (A) in the case of a cash dividend, PNC has first irrevocably committed to contribute amounts at least equal to such cash dividend or (B) in the case of in-kind dividends payable by PNC REIT Corp., PNC has committed to purchase such in-kind dividend from the applicable PNC REIT Corp. holders in exchange for a cash payment representing the market value of such in-kind dividend, and PNC has committed to contribute such in-kind dividend to PNC Bank, N.A.

NOTE 14 EMPLOYEE BENEFIT PLANS***PENSION AND POSTRETIREMENT PLANS***

We have a noncontributory, qualified defined benefit pension plan covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are a percentage of eligible compensation. Earnings credit percentages for plan participants on December 31,

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

2009 are frozen at their level earned to that point. Earnings credits for all employees who become participants on or after January 1, 2010 are a flat 3% of eligible compensation. Participants at December 31, 2009 earn interest based on 30-year Treasury

securities with a minimum rate, while new participants on or

after January 1, 2010 are not subject to the minimum rate.

Table of Contents

Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants.

We also maintain nonqualified supplemental retirement plans for certain employees and provide certain health care and life insurance benefits for qualifying retired employees (postretirement benefits) through various plans. The nonqualified pension and postretirement benefit plans are unfunded.

We use a measurement date of December 31 for plan assets and benefit obligations. A reconciliation of the changes in the projected benefit obligation for qualified pension, nonqualified pension and postretirement benefit plans as well as the change in plan assets for the qualified pension plan follows:

Reconciliation of Changes in Projected Benefit Obligation and Change in Plan Assets

	Qualified		Nonqualified		Postretirement	
	2010	Pension 2009	2010	Pension 2009	2010	Benefits 2009
December 31 (Measurement Date) in millions	2010	2009	2010	2009	2010	2009
Accumulated benefit obligation at end of year	\$ 3,619	\$ 3,533	\$ 286	\$ 274		
Projected benefit obligation at beginning of year	\$ 3,611	\$ 3,617	\$ 282	\$ 263	\$ 374	\$ 359
National City acquisition		(164)				(7)
Service cost	102	90	3	2	5	4
Interest cost	203	206	14	15	20	21
Amendments		(43)		2		
Actuarial losses and changes in assumptions	92	83	11	24	20	21
Participant contributions					14	14
Federal Medicare subsidy on benefits paid					2	2
Benefits paid	(205)	(178)	(20)	(24)	(42)	(40)
Projected benefit obligation at end of year	\$ 3,803	\$ 3,611	\$ 290	\$ 282	\$ 393	\$ 374
Fair value of plan assets at beginning of year	\$ 3,721	\$ 3,292				
Actual return on plan assets	475	607				
Employer contribution			\$ 20	\$ 24	\$ 26	\$ 24
Participant contributions					14	14
Federal Medicare subsidy on benefits paid					2	2
Benefits paid	(205)	(178)	(20)	(24)	(42)	(40)
Fair value of plan assets at end of year	\$ 3,991	\$ 3,721				
Funded status	\$ 188	\$ 110	\$ (290)	\$ (282)	\$ (393)	\$ (374)
Net amount recognized on the balance sheet	\$ 188	\$ 110	\$ (290)	\$ (282)	\$ (393)	\$ (374)
Amounts recognized in accumulated other comprehensive income consist of:						
Prior service cost (credit)	\$ (46)	\$ (54)	\$ 2	\$ 2	\$ (14)	\$ (17)
Net actuarial loss	526	658	61	53	55	35
Amount recognized in AOCI	\$ 480	\$ 604	\$ 63	\$ 55	\$ 41	\$ 18

At December 31, 2010, the fair value of the qualified pension plan assets was greater than both the accumulated benefit obligation and the projected benefit obligation. The nonqualified pension plan is unfunded. Contributions from us and, in the case of postretirement benefit plans, participant contributions cover all benefits paid under the nonqualified pension plan and postretirement benefit plans. The postretirement plan provides benefits to certain retirees that are at least actuarially equivalent to those provided by Medicare Part D and accordingly, we receive a federal subsidy as shown in the table.

PNC PENSION PLAN ASSETS

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Assets related to our qualified pension plan (the Plan) are held in trust (the Trust). The trustee is PNC Bank, National Association, (PNC Bank, N.A). The Trust is exempt from tax

pursuant to section 501(a) of the Internal Revenue Code (the Code). The Plan is qualified under section 401(a) of the Code. Plan assets consist primarily of listed domestic and international equity securities and US government, agency, and corporate debt securities and real estate investments. Plan assets as of December 31, 2010 and 2009 do include common stock of PNC.

During 2009, the assets related to the pension plan investments of the former National City qualified pension plan were held in trust. The trustee was PNC Bank, N.A. During 2010, all remaining assets were transferred to the Trust and the former National City trust was dissolved.

The Pension Plan Administrative Committee (the Committee) adopted the current Pension Plan Investment Policy

Table of Contents

Statement, including the updated target allocations and allowable ranges shown below, on August 13, 2008. On February 25, 2010, the Committee amended the investment policy to include a dynamic asset allocation approach and also updated target allocation ranges for certain asset categories.

The long-term investment strategy for pension plan assets is to:

- Meet present and future benefit obligations to all participants and beneficiaries,
- Cover reasonable expenses incurred to provide such benefits, including expenses incurred in the administration of the Trust and the Plan,
- Provide sufficient liquidity to meet benefit and expense payment requirements on a timely basis, and
- Provide a total return that, over the long term, maximizes the ratio of trust assets to liabilities by maximizing investment return, at an appropriate level of risk.

Under the dynamic asset allocation strategy, scenarios are outlined in which the Committee has the ability to make short to intermediate term asset allocation shifts based on factors such as the Plan's funded status, the Committee's view of return on equities relative to long term expectations, the Committee's view on the direction of interest rates and credit spreads, and other relevant financial or economic factors which would be expected to impact the ability of the Trust to meet its obligation to beneficiaries. Accordingly, the allowable asset allocation ranges have been updated to incorporate the flexibility required by the dynamic allocation policy.

The Plan's specific investment objective is to meet or exceed the investment policy benchmark over the long term. The investment policy benchmark compares actual performance to a weighted market index, and measures the contribution of active investment management and policy implementation. This investment objective is expected to be achieved over the long term (one or more market cycles) and is measured over rolling five-year periods. Total return calculations are time-weighted and are net of investment-related fees and expenses.

The asset strategy allocations for the Trust at the end of 2010 and 2009, and the target allocation range at the end of 2010, by asset category, are as follows:

Asset Strategy Allocations

PNC Pension Plan Asset Category	Target	Percentage	
	Allocation	of Plan	
	Range	2010	2009
Domestic Equity	32-38%	40%	39%
International Equity	17-23%	21%	18%
Private Equity	0-8%	2%	2%
Total Equity	40-70%	63%	59%
Domestic Fixed Income	22-28%	24%	29%
High Yield Fixed Income	2-12%	10%	6%
Total Fixed Income	24-40%	34%	35%
Real estate	0-8%	3%	5%
Other	0-1%	0%	1%
Total		100%	100%

The asset category represents the allocation of Plan assets in accordance with the investment objective of each of the Plan's investment managers. Certain domestic equity investment managers utilize derivatives and fixed income securities as described in their Investment Management Agreements to achieve their investment objective under the Investment Policy Statement. Other investment managers may invest in eligible securities outside of their assigned asset category to meet their investment objectives. The actual percentage of the fair value of total plan assets held as of December 31, 2010 for equity securities, fixed income securities, real estate and all other assets are 56%, 36%, 3%, and 5%, respectively.

We believe that, over the long term, asset allocation is the single greatest determinant of risk. Asset allocation will deviate from the target percentages due to market movement, cash flows, investment manager performance and implementation of shifts under the dynamic allocation

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

policy. Material deviations from the asset allocation targets can alter the expected return and risk of the Trust. On the other hand, frequent rebalancing to the asset allocation targets may result in significant transaction costs, which can impair the Trust's ability to meet its investment objective. Accordingly, the Trust portfolio is periodically rebalanced to maintain asset allocation within the target ranges described above.

In addition to being diversified across asset classes, the Trust is diversified within each asset class. Secondary diversification provides a reasonable basis for the expectation that no single security or class of securities will have a disproportionate impact on the total risk and return of the Trust.

The Committee selects investment managers for the Trust based on the contributions that their respective investment

Table of Contents

styles and processes are expected to make to the investment performance of the overall portfolio. The managers' Investment Objectives and Guidelines, which are a part of each manager's Investment Management Agreement, document performance expectations and each manager's role in the portfolio. The Committee uses the Investment Objectives and Guidelines to establish, guide, control and measure the strategy and performance for each manager.

The purpose of investment manager guidelines is to:

Establish the investment objective and performance standards for each manager,

Provide the manager with the capability to evaluate the risks of all financial instruments or other assets in which the manager's account is invested, and

Prevent the manager from exposing its account to excessive levels of risk, undesired or inappropriate risk, or disproportionate concentration of risk.

The guidelines also indicate which investments and strategies the manager is permitted to use to achieve its performance objectives, and which investments and strategies it is prohibited from using.

Where public market investment strategies may include the use of derivatives and/or currency management, language is incorporated in the managers' guidelines to define allowable and prohibited transactions and/or strategies. Derivatives are typically employed by investment managers to modify risk/return characteristics of their portfolio(s), implement asset allocation changes in a cost-effective manner, or reduce transaction costs. Under the managers' investment guidelines, derivatives may not be used solely for speculation or leverage. Derivatives are used only in circumstances where they offer the most efficient economic means of improving the risk/reward profile of the portfolio.

BlackRock receives compensation for providing investment management services and the Asset Management Group business segment receives compensation for providing trustee services for the majority of the Trust portfolio. Compensation for such services is paid by PNC and was not significant for 2010, 2009 or 2008. Non-affiliate service providers for the Trust are compensated from plan assets.

FAIR VALUE MEASUREMENTS

As further described in Note 8 Fair Value, GAAP establishes the framework for measuring fair value, including a hierarchy used to classify the inputs used in measuring fair value.

A description of the valuation methodologies used for assets measured at fair value follows. There have been no changes in the methodologies used at December 31, 2010 compared with those in place at December 31, 2009:

Money market and mutual funds are valued at the net asset value of the shares held by the pension plan at year-end.

US government securities, corporate debt, common stock and preferred stock are valued at the closing price reported on the active market on which the individual securities are traded. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Such securities are generally classified within level 2 of the valuation hierarchy but may be a level 3 depending on the level of liquidity and activity in the market for the security.

The collective trust fund investments are valued based upon the units of such collective trust fund held by the plan at year end multiplied by the respective unit value. The unit value of the collective trust fund is based upon significant observable inputs, although it is not based upon quoted market prices in an active market. The underlying investments of the collective trust funds consist primarily of equity securities, debt obligations, short-term investments, and other marketable securities. Due to the nature of these securities, there are no unfunded commitments or redemption restrictions.

Limited partnerships are valued by investment managers based on recent financial information used to estimate fair value. Other investments held by the pension plan include derivative financial instruments and real estate, which are recorded at estimated fair value as determined by third-party appraisals and pricing models, and group annuity contracts which are measured at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

These methods may result in fair value calculations that may not be indicative of net realizable values or future fair values. Furthermore, while the pension plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Table of Contents

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2010 and 2009:

Pension Plan Assets Fair Value Hierarchy

In millions	December 31, 2010 Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Fair Value Measurements Using:	
			Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 5	\$ 5		
Money market funds	108		\$ 108	
US government securities	518	267	251	
Corporate debt (a)	916	8	555	\$ 353
Common and preferred stocks	1,195	652	543	
Mutual funds	36		36	
Interest in Collective Funds (b)	646		646	
Limited partnerships	176			176
Other	391	14	77	300
Total	\$ 3,991	\$ 946	\$ 2,216	\$ 829

In millions	December 31, 2009 Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Fair Value Measurements Using:	
			Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 2	\$ 2		
Money market funds	334	285	\$ 49	
US government securities	200	73	127	
Corporate debt (a)	522	1	404	\$ 117
Common and preferred stocks	498	198	300	
Mutual funds	46	11	35	
Interest in Collective Funds (b)	1,948		1,948	
Limited partnerships	119			119
Other	52	8		44
Total	\$ 3,721	\$ 578	\$ 2,863	\$ 280

(a) Corporate debt includes \$175 million and \$103 million of mortgage-backed securities as of December 31, 2010 and 2009, respectively.

(b) The benefit plans own commingled funds that invest in equity and fixed income securities. The commingled funds that invest in equity securities seek to mirror the performance of the S&P 500 Index, Russell 3000 Index, Morgan Stanley Capital International ACWI X US Index, and the Dow Jones U.S. Select Real Estate Securities Index. The commingled fund that holds fixed income securities invests in domestic investment grade securities and seeks to mimic the performance of the Barclays Aggregate Bond Index.

Table of Contents

The following summarizes changes in the fair value of the pension plan's Level 3 assets during 2010 and 2009:

Rollforward of Pension Plan Level 3 Assets

	Corporate	Limited	
In millions	debt	partnerships	Other
January 1, 2010	\$ 117	\$ 119	\$ 44
Net realized gain on sale of investments	37	6	4
Net unrealized gain/(loss) on assets held at end of year	(48)	47	40
Purchases, sales, issuances, and settlements (net)	214	4	215
Transfers into (from) Level 3	33		(3)
December 31, 2010	\$ 353	\$ 176	\$ 300

	Corporate	Limited	
In millions	debt	partnerships	Other
January 1, 2009	\$ 41	\$ 55	\$ 12
Net realized gain on sale of investments	2		
Net unrealized gain/(loss) on assets held at end of year	(23)	(6)	9
Purchases, sales, issuances, and settlements (net)	29	11	9
Transfers into Level 3	68	59	14
December 31, 2009	\$ 117	\$ 119	\$ 44

The following table provides information regarding our estimated future cash flows related to our various plans:

Estimated Cash Flows

	Qualified	Nonqualified	Gross PNC	Postretirement Benefits Reduction in PNC Benefit Payments Due to Medicare Part D Subsidy
In millions	Pension	Pension	Benefit Payments	
Estimated 2011 employer contributions		\$ 34	\$ 37	\$ 2
Estimated future benefit payments				
2011	\$ 247	\$ 34	\$ 37	\$ 2
2012	258	30	35	2
2013	267	27	35	2
2014	276	26	35	2
2015	284	25	35	2
2016 - 2020	1,541	105	166	8

The qualified pension plan contributions are deposited into the Trust, and the qualified pension plan benefit payments are paid from the Trust. For the other plans, total contributions and the benefit payments are the same and represent expected benefit amounts, which are paid from general assets. Postretirement benefits are net of participant contributions. Due to the plan's funded status, PNC's qualified pension contribution in 2011 is expected to be zero.

Table of Contents

The components of net periodic benefit cost/ (income) and other amounts recognized in other comprehensive income were as follows.

Components of Net Periodic Benefit Cost

Year ended December 31 in millions	Qualified Pension Plan			Nonqualified Pension Plan			Postretirement Benefits		
	2010(a)	2009(a)	2008	2010(a)	2009(a)	2008	2010(a)	2009(a)	2008
Net periodic cost consists of:									
Service cost	\$ 102	\$ 90	\$ 44	\$ 3	\$ 2	\$ 2	\$ 5	\$ 4	\$ 3
Interest cost	203	206	86	14	15	6	20	21	15
Expected return on plan assets	(285)	(260)	(160)						
Amortization of prior service cost	(8)	(2)	(2)				(3)	(5)	(7)
Amortization of actuarial losses (gains)	34	83		3	1	2			
Net periodic cost	46	117	(32)	20	18	10	22	20	11
Other changes in plan assets and benefit obligations recognized in other comprehensive income:									
Current year prior service cost/(credit)		(43)	(17)		2				
Amortization of prior service (cost)/credit	8	2	2				3	5	7
Current year actuarial loss/(gain)	(99)	(263)	807	11	24	2	21	21	(17)
Amortization of actuarial (loss)/gain	(34)	(83)		(3)	(1)	(2)			
Total recognized in OCI	(125)	(387)	792	8	25		24	26	(10)
Total recognized in net periodic cost and OCI	\$ (79)	\$ (270)	\$ 760	\$ 28	\$ 43	\$ 10	\$ 46	\$ 46	\$ 1

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

The weighted-average assumptions used (as of the beginning of each year) to determine net periodic costs shown above were as follows:

Net Periodic Costs Assumptions

Year ended December 31	Net Periodic Cost Determination		
	2010	2009	2008
Discount rate			
Qualified pension	5.75%	6.05%	5.95%
Nonqualified pension	5.15	5.90	5.75
Postretirement benefits	5.40	5.95	5.95
Rate of compensation increase (average)	4.00	4.00	4.00
Assumed health care cost trend rate			
Initial trend	8.50	9.00	9.50
Ultimate trend	5.00	5.00	5.00
Year ultimate reached	2014	2014	2014
Expected long-term return on plan assets	8.00	8.25	8.25

The weighted-average assumptions used (as of the end of each year) to determine year-end obligations for pension and postretirement benefits were as follows:

Other Pension Assumptions

	At December 31	
	2010	2009
Discount rate		
Qualified pension	5.20%	5.75%

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Nonqualified pension	4.80	5.15
Postretirement benefits	5.00	5.40
Rate of compensation increase (average)	4.00	4.00
Assumed health care cost trend rate		
Initial trend	8.00	8.50
Ultimate trend	5.00	5.00
Year ultimate reached	2019	2014

The discount rate assumptions were determined independently for each plan reflecting the duration of each plan's obligations. Specifically, a yield curve was produced for a universe containing the majority of US-issued Aa grade corporate bonds, all of which were non-callable (or callable with make-whole provisions). Excluded from this yield curve were the 10% of the bonds with the highest yields and 40% with the lowest yields. For each plan, the discount rate was determined as the level equivalent rate that would produce the same present value obligation as that using spot rates aligned with the projected benefit payments.

The expected return on plan assets is a long-term assumption established by considering historical and anticipated returns of the asset classes invested in by the pension plan and the allocation strategy currently in place among those classes. We

Table of Contents

review this assumption at each measurement date and adjust it if warranted. This assumption will be decreased from 8.00% to 7.75% for determining 2011 net periodic cost.

The health care cost trend rate assumptions shown in the preceding tables relate only to the postretirement benefit plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

Effect of One Percent Change in Assumed Health Care Cost

Year ended December 31, 2010

In millions	Increase	Decrease
Effect on total service and interest cost	\$ 1	\$ (1)
Effect on year-end benefit obligation	\$ 14	\$ (13)

Unamortized actuarial gains and losses and prior service costs and credits are recognized in AOCI each December 31, with amortization of these amounts through net periodic benefit cost. The estimated amounts that will be amortized in 2011 are as follows:

Estimated Amortization of Unamortized Actuarial Gains and Losses 2011

Year ended December 31	2011 Estimate		
	Qualified Pension	Nonqualified Pension	Postretirement Benefits
In millions			
Prior service cost (credit)	\$ (8)	\$ 0	\$ (3)
Net actuarial loss	16	4	2
Total	\$ 8	\$ 4	\$ (1)

DEFINED CONTRIBUTION PLANS

We have a qualified defined contribution plan that covers all eligible PNC employees, which includes both legacy PNC and legacy National City employees. Effective December 31, 2009, the National City Savings and Investment Plan was merged into the PNC Incentive Savings Plan. In addition, effective January 1, 2010, the employer matching contribution under the PNC Incentive Savings Plan was reduced from a maximum of 6% to 4% of a participant's eligible compensation. Certain changes to the plan's eligibility and vesting requirements also became effective January 1, 2010. Employee benefits expense related to defined contribution plans was \$90 million in 2010, \$136 million in 2009 and \$57 million in 2008. We measure employee benefits expense as the fair value of the shares and cash contributed to the plan by PNC.

Under the PNC Incentive Savings Plan, employee contributions up to 4% of eligible compensation as defined by the plan are matched 100%, subject to Code limitations. The plan is a 401(k) Plan and includes a stock ownership (ESOP) feature. Employee contributions are invested in a number of mutual fund investment options available under the plan at the direction of the employee. Although employees were also historically permitted to direct the investment of their contributions into the PNC common stock fund, this fund was

frozen to future investments of such contributions effective January 1, 2010. All shares of PNC common stock held by the plan are part of the ESOP. Employee contributions to the plan for 2010, 2009, and 2008 were matched primarily by shares of PNC common stock held in treasury or reserve, except in the case of those participants who have exercised their diversification election rights to have their matching portion in other investments available within the plan. Effective January 2011, employer matching contributions will no longer be made in PNC common stock, but rather made in cash.

Prior to July 1, 2010, PNC sponsored a separate qualified defined contribution plan that covered substantially all US-based GIS employees not covered by our plan. The plan was a 401(k) plan and included an ESOP feature. Under this plan, employee contributions of up to 6% of eligible compensation as defined by the plan were eligible to be matched annually based on GIS performance levels. Employee benefits expense for this plan was \$6 million in 2010, \$8 million in 2009, and \$11 million in 2008. We measured employee benefits expense as the fair value of the shares and cash contributed to the plan. As described in Note 2 Divestiture, on July 1, 2010 we sold GIS. Plan assets of \$239 million were transferred to The Bank of New York Mellon Corporation 401(k) Savings Plan on that date. Prior to July 1, 2010, the Plan continued to operate under the provisions of the original plan document, as amended.

We also maintain a nonqualified supplemental savings plan for certain employees, known as The PNC Supplemental Incentive Savings Plan. Effective January 1, 2010, the employer match was discontinued in that plan.

NOTE 15 STOCK-BASED COMPENSATION PLANS

We have long-term incentive award plans (Incentive Plans) that provide for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, incentive shares/performance units, restricted stock, restricted share units, other share-based awards and dollar-denominated awards to executives and, other than incentive stock options, to non-employee directors. Certain Incentive Plan awards may be paid in stock, cash or a combination of stock and cash. We typically grant a substantial portion of our stock-based compensation awards during the first quarter of the year. As of December 31, 2010, no stock appreciation rights were outstanding. Total compensation expense recognized related to all share-based payment arrangements during 2010, 2009 and 2008 was approximately \$107 million, \$93 million and \$71 million, respectively.

NONQUALIFIED STOCK OPTIONS

Options are granted at exercise prices not less than the market value of common stock on the grant date. Generally, options become exercisable in installments after the grant date. No option may be exercisable after 10 years from its grant date.

Table of Contents

Payment of the option exercise price may be in cash or shares of common stock at market value on the exercise date. The exercise price may be paid in previously owned shares.

Generally, options granted under the Incentive Plans vest ratably over a three-year period as long as the grantee remains an employee or, in certain cases, retires from PNC. For all options granted prior to the adoption of FASB ASC 718, *Stock Compensation*, we recognized compensation expense over the three-year vesting period. If an employee retired prior to the end of the three-year vesting period, we accelerated the expensing of all unrecognized compensation costs at the retirement date. We recognize compensation expense for options granted to retirement-eligible employees after January 1, 2006 during the first twelve months subsequent to the grant, in accordance with the service period provisions of the options.

OPTION PRICING ASSUMPTIONS

For purposes of computing stock option expense, we estimated the fair value of stock options primarily by using the Black-Scholes option-pricing model. Option pricing models require the use of numerous assumptions, many of which are very subjective.

We used the following assumptions in the option pricing models to determine 2010, 2009 and 2008 option expense:

- The risk-free interest rate is based on the US Treasury yield curve,
- The dividend yield represents average yields over the previous three-year period, except for 2009 and 2010 where (starting with the grants made after the first quarter of 2009) we used a yield indicative of our currently reduced dividend rate,
- Volatility is measured using the fluctuation in month-end closing stock prices over a period which corresponds with the average expected option life, but in no case less than a five-year period, and
- The expected life assumption represents the period of time that options granted are expected to be outstanding and is based on a weighted average of historical option activity.

Option Pricing Assumptions

Weighted-average for the

year ended December 31	2010	2009	2008
Risk-free interest rate	2.9%	1.9%	3.1%
Dividend yield	0.7	3.5	3.3
Volatility	32.7	27.3	18.5
Expected life	6.0 yrs.	5.6 yrs.	5.7 yrs.
Grant date fair value	\$ 19.54	\$ 5.73	\$ 7.27

Stock Option Rollforward 2010

Year ended December 31, 2010	PNC		Converted From National City		Shares	Weighted-Average	Total Weighted-Average	Aggregate
	Shares	Weighted-Average	Shares	Weighted-Average				
In thousands, except weighted-average data		Exercise Price		Exercise Price		Average	Remaining	Intrinsic
						Exercise Price	Contractual	Value

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

							Life	
Outstanding, January 1	18,496	\$ 56.10	1,522	\$ 637.64	20,018	\$ 100.32		
Granted	2,786	56.77			2,786	56.77		
Exercised	(315)	46.04			(315)	46.04		
Cancelled	(1,142)	56.01	(308)	477.98	(1,450)	145.55		
Outstanding, December 31	19,825	\$ 56.36	1,214	\$ 678.09	21,039	\$ 92.25	5.3 years	\$ 164,971
Vested and expected to vest December 31								
(a)	19,492	\$ 56.39	1,214	\$ 678.09	20,706	\$ 92.85	5.3 years	\$ 161,896
Exercisable, December 31	12,183	\$ 62.40	1,214	\$ 678.09	13,397	\$ 118.21	3.6 years	\$ 51,122

(a) Adjusted for estimated forfeitures on unvested options.

To determine stock-based compensation expense, the grant-date fair value is applied to the options granted with a reduction made for estimated forfeitures. We recognized compensation expense for stock options on a straight-line basis over the pro rata vesting period.

At December 31, 2009 and 2008, options for 12,722,000 and 11,373,000 shares of common stock, respectively, were exercisable at a weighted-average price of \$132.52 and \$151.03, respectively. The total intrinsic value of options exercised during 2010, 2009 and 2008 was \$5 million, \$1 million and \$59 million, respectively.

Cash received from option exercises under all Incentive Plans for 2010, 2009 and 2008 was approximately \$15 million, \$5 million and \$167 million, respectively. The actual tax benefit realized for tax deduction purposes from option exercises under all Incentive Plans for 2010, 2009 and 2008 was approximately \$5 million, \$2 million and \$58 million, respectively.

There were no options granted in excess of market value in 2010, 2009 or 2008. Shares of common stock available during the next year for the granting of options and other awards under the Incentive Plans were 28,189,113 at December 31, 2010. Total shares of PNC common stock authorized for

Table of Contents

future issuance under equity compensation plans totaled 29,883,400 shares at December 31, 2010, which includes shares available for issuance under the Incentive Plans and the Employee Stock Purchase Plan as described below.

During 2010, we issued approximately 312,000 shares from treasury stock in connection with stock option exercise activity. As with past exercise activity, we currently intend to utilize treasury stock for any future stock option exercises.

Awards granted to non-employee directors in 2010, 2009 and 2008 include 29,040; 39,552; and 25,381 deferred stock units, respectively, awarded under the Outside Directors Deferred Stock Unit Plan. A deferred stock unit is a phantom share of our common stock, which requires liability accounting treatment until such awards are paid to the participants as cash. As there are no vesting or service requirements on these awards, total compensation expense is recognized in full on all awarded units on the date of grant.

INCENTIVE/PERFORMANCE UNIT SHARE AWARDS AND RESTRICTED STOCK/UNIT AWARDS

The fair value of nonvested incentive/performance unit share awards and restricted stock/unit awards is initially determined based on prices not less than the market value of our common stock price on the date of grant. Certain incentive/performance unit share awards are subsequently valued subject to the achievement of one or more financial and other performance goals over a three-year period. The Personnel and Compensation Committee of the Board of Directors approves the final award payout with respect to certain incentive/performance unit share awards. Restricted stock/unit awards have vesting periods generally ranging from 36 months to 60 months.

The weighted-average grant-date fair value of incentive/performance unit share awards and restricted stock/unit awards granted in 2010, 2009 and 2008 was \$54.59, \$41.16 and \$59.25 per share, respectively. We recognize compensation expense for such awards ratably over the corresponding vesting and/or performance periods for each type of program.

Nonvested Incentive/Performance Unit Share Awards and Restricted Stock/Unit Awards Rollforward

	Nonvested Incentive/ Performance Unit Shares	Weighted- Average Grant Date Fair Value	Nonvested Restricted Stock/ Unit Shares	Weighted- Average Grant Date Fair Value
Shares in thousands				
December 31, 2009	285	\$ 66.45	2,213	\$ 53.45
Granted	211	54.03	685	54.76
Vested	(128)	74.96	(585)	68.88
Forfeited	(5)	55.56	(63)	49.59
December 31, 2010	363	\$ 56.40	2,250	\$ 49.95

In the chart above, the unit shares and related weighted-average grant-date fair value of the incentive/performance awards exclude the effect of dividends on the underlying shares, as those dividends will be paid in cash.

At December 31, 2010, there was \$42 million of unrecognized deferred compensation expense related to nonvested share-based compensation arrangements granted under the Incentive Plans. This cost is expected to be recognized as expense over a period of no longer than five years. The total fair value of incentive/performance unit share and restricted stock /unit awards vested during 2010, 2009 and 2008 was approximately \$39 million, \$47 million and \$41 million, respectively.

LIABILITY AWARDS

Beginning in 2008, we granted cash-payable restricted share units to certain executives. The grants were made primarily as part of an annual bonus incentive deferral plan. While there are time-based and service-related vesting criteria, there are no market or performance criteria associated with these awards. Compensation expense recognized related to these awards was recorded in prior periods as part of annual cash bonus criteria. As of December 31, 2010, there were 484,089 of these cash-payable restricted share units outstanding.

During the third quarter of 2009, we entered into an agreement with certain of our executives regarding a portion of their salary to be payable in stock units. These units, which are cash-payable, have no future service, market or performance criteria and as such are fully expensed at grant date. These units will be settled in cash on March 31, 2011. As of December 31, 2010, there were 280,174 of these units outstanding.

Nonvested Cash-Payable Restricted Share Unit Rollforward

In thousands	Nonvested Cash- Payable	Restricted Unit Shares	Aggregate Intrinsic Value
Outstanding at December 31, 2009		1,001	
Granted		317	
Vested and released		(181)	
Forfeited		(25)	
Outstanding at December 31, 2010		1,112	\$ 67,531

The total of all share-based liability awards paid out during 2010 and 2009 were approximately \$9 million and \$2 million, respectively. There were no share-based liability awards paid out during 2008.

EMPLOYEE STOCK PURCHASE PLAN

As of December 31, 2010, our ESPP has approximately 1.7 million shares available for issuance. Full-time employees with six months and part-time employees with 12 months of continuous employment with a participating entity are eligible to participate in the ESPP at the commencement of the next

Table of Contents

six-month offering period. Eligible participants may purchase our common stock at 95% of the fair market value on the last day of each six-month offering period. No charge to earnings is recorded with respect to the ESPP.

Employee Stock Purchase Plan Summary

Year ended December 31	Shares Issued	Purchase Price Per Share
2010	147,177	\$ 53.68 and \$57.68
2009	158,536	36.87 and 50.15
2008	133,563	54.25 and 46.55

BLACKROCK LTIP AND EXCHANGE AGREEMENTS

BlackRock adopted the 2002 LTIP program to help attract and retain qualified professionals. At that time, PNC agreed to transfer up to four million of the shares of BlackRock common stock then held by us to help fund the 2002 LTIP and future programs approved by BlackRock's board of directors, subject to certain conditions and limitations. As of December 31, 2010, approximately 1.1 million shares of BlackRock common stock were transferred by PNC and distributed to LTIP participants.

BlackRock granted awards in 2007 under an additional LTIP program. Since BlackRock has achieved the earnings performance goals related to these awards, the awards will vest on September 29, 2011, the end of the service condition. Of the shares of BlackRock common stock that we have agreed to transfer to fund their LTIP programs, approximately 1.6 million shares have been committed to fund the awards vesting in 2011 and the amount remaining would then be available to fund future awards.

PNC's noninterest income included pretax gains of \$98 million in 2009 and \$243 million in 2008 related to our BlackRock LTIP shares obligation. These gains represented the mark-to-market adjustment related to our remaining BlackRock LTIP common shares obligation and resulted from the decrease in the market value of BlackRock common shares in those periods.

As previously reported, PNC entered into an Exchange Agreement with BlackRock on December 26, 2008. The transactions that resulted from this agreement restructured PNC's ownership of BlackRock equity without altering, to any meaningful extent, PNC's economic interest in BlackRock. PNC continues to be subject to the limitations on its voting rights in its existing agreements with BlackRock. Also on December 26, 2008, BlackRock entered into an Exchange Agreement with Merrill Lynch in anticipation of the consummation of the merger of Bank of America Corporation and Merrill Lynch that occurred on January 1, 2009. The PNC and Merrill Lynch Exchange Agreements restructured PNC's and Merrill Lynch's respective ownership of BlackRock common and preferred equity.

The exchange contemplated by these agreements was completed on February 27, 2009. On that date, PNC's obligation to deliver its BlackRock common shares to BlackRock was replaced with an obligation to deliver shares of BlackRock's new Series C Preferred Stock. PNC acquired 2.9 million shares of Series C Preferred Stock from BlackRock in exchange for common shares on that same date. PNC accounts for its BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock. The fair value of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 8.

NOTE 16 FINANCIAL DERIVATIVES

We use derivative financial instruments (derivatives) primarily to help manage exposure to interest rate, market and credit risk and reduce the effects that changes in interest rates may have on net income, fair value of assets and liabilities, and cash flows. We also enter into derivatives with customers to facilitate their risk management activities.

Derivatives represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another type of asset to the other party based on a notional amount and an underlying as specified in the contract. Derivative transactions are often measured in terms of notional amount, but this amount is generally not exchanged and it is not recorded on the balance sheet. The notional amount is the basis to which the underlying is applied to determine required payments under the derivative contract. The underlying is a referenced interest rate, commonly LIBOR, security price, credit spread or other index. Certain contracts and commitments, such as residential and commercial real estate loan commitments associated with loans to be sold, also qualify as derivative instruments.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

All derivatives are carried on our Consolidated Balance Sheet at fair value. Derivative balances are presented on a net basis taking into consideration the effects of legally enforceable master netting agreements. Cash collateral exchanged with counterparties is also netted against the applicable derivative fair values.

Further discussion on how derivatives are accounted for is included in Note 1 Accounting Policies.

DERIVATIVES DESIGNATED IN HEDGE RELATIONSHIPS

Certain derivatives used to manage interest rate risk as part of our asset and liability risk management activities are designated as accounting hedges under GAAP. Derivatives hedging the risks associated with changes in the fair value of assets or liabilities are considered fair value hedges, while derivatives hedging the variability of expected future cash

Table of Contents

flows are considered cash flow hedges. Designating derivatives as accounting hedges allows for gains and losses on those derivatives, to the extent effective, to be recognized in the income statement in the same period the hedged items affect earnings.

Cash Flow Hedges

We enter into receive-fixed, pay-variable interest rate swaps to modify the interest rate characteristics of designated commercial loans from variable to fixed in order to reduce the impact of changes in future cash flows due to market interest rate changes. For these cash flow hedges, any changes in the fair value of the derivatives that are effective in offsetting changes in the forecasted interest cash flows are recorded in accumulated other comprehensive income and are reclassified to interest income in conjunction with the recognition of interest receipts on the loans. In the 12 months that follow December 31, 2010, we expect to reclassify from the amount currently reported in accumulated other comprehensive income net derivative gains of \$340 million pretax, or \$221 million after-tax, in association with interest receipts on the hedged loans. This amount could differ from amounts actually recognized due to changes in interest rates, hedge dedesignations, and the addition of other hedges subsequent to December 31, 2010. The maximum length of time over which forecasted loan cash flows are hedged is 10 years. We use statistical regression analysis to assess the effectiveness of these hedge relationships at both the inception of the hedge relationship and on an ongoing basis.

We also periodically enter into forward purchase and sale contracts to hedge the variability of the consideration that will be paid or received related to the purchase or sale of debt securities classified as available for sale. The forecasted purchase or sale is consummated upon gross settlement of the forward contract itself. As a result, hedge ineffectiveness, if any, is typically minimal. Gains and losses on these forward contracts are recorded in accumulated other comprehensive income and are recognized in earnings when the hedged cash flows affect earnings. In the 12 months that follow December 31, 2010, we expect to reclassify from the amount currently reported in accumulated other comprehensive income, net derivative gains of \$28 million pretax, or \$18 million after-tax, as adjustments of yield on securities available for sale. The maximum length of time we are hedging forecasted purchases is three months. There were no amounts in accumulated other comprehensive income related to the forecasted sale of securities at December 31, 2010.

There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness related to either cash flow hedge strategy.

During 2010 and 2009, there were no gains or losses from cash flow hedge derivatives reclassified to earnings because it became probable that the original forecasted transaction would not occur.

Fair Value Hedges

We enter into receive-fixed, pay-variable interest rate swaps to hedge changes in the fair value of outstanding fixed-rate debt and borrowings caused by fluctuations in market interest rates. The specific products hedged include bank notes, Federal Home Loan Bank borrowings, and senior and subordinated debt. We also enter into pay-fixed, receive-variable interest rate swaps to hedge changes in the fair value of fixed rate investment securities caused by fluctuations in market interest rates. The specific products hedged include US Treasury, government agency and other debt securities. For these hedge relationships, we use statistical regression analysis to assess hedge effectiveness at both the inception of the hedge relationship and on an ongoing basis. There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness.

Further detail regarding the notional amounts, fair values and gains and losses recognized related to derivatives used in fair value and cash flow hedge strategies is presented in the tables that follow.

The ineffective portion of the change in value of our fair value and cash flow hedge derivatives resulted in net losses of \$31 million for 2010 compared with a net loss of \$45 million for 2009 and a net gain of \$8 million for 2008.

DERIVATIVES NOT DESIGNATED IN HEDGE RELATIONSHIPS

We also enter into derivatives which are not designated as accounting hedges under GAAP.

The majority of these derivatives is used to manage risk related to residential and commercial mortgage banking activities and are considered economic hedges. Although these derivatives are used to hedge risk, they are not designated as accounting hedges because the contracts they are hedging are typically also carried at fair value on the balance sheet, resulting in symmetrical accounting treatment for both the hedging instrument and the hedged item.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Our residential mortgage banking activities consist of originating, selling and servicing mortgage loans. Residential mortgage loans that will be sold in the secondary market, and the related loan commitments, which are considered derivatives, are accounted for at fair value. Changes in the fair value of the loans and commitments due to interest rate risk are hedged with forward loan sale contracts and Treasury and Eurodollar futures and options. Gains and losses on the loans and commitments held for sale and the derivatives used to economically hedge them are included in residential mortgage noninterest income on the Consolidated Income Statement.

We typically retain the servicing rights related to residential mortgage loans that we sell. Residential mortgage servicing rights are accounted for at fair value with changes in fair value influenced primarily by changes in interest rates. Derivatives

Table of Contents

used to hedge the fair value of residential mortgage servicing rights include interest rate futures, swaps and options, including caps, floors, and swaptions, and forward contracts to purchase mortgage-backed securities. Gains and losses on residential mortgage servicing rights and the related derivatives used for hedging are included in residential mortgage noninterest income.

Commercial mortgage loans are also sold into the secondary market as part of our commercial mortgage banking activities and are accounted for at fair value. Commitments related to loans that will be sold are considered derivatives and are also accounted for at fair value. Derivatives used to economically hedge these loans and commitments from changes in fair value due to interest rate risk and credit risk include forward loan sale contracts, interest rate swaps, and credit default swaps. Gains and losses on the commitments, loans and derivatives are included in other noninterest income.

The residential and commercial loan commitments associated with loans to be sold which are accounted for as derivatives are valued based on the estimated fair value of the underlying loan and the probability that the loan will fund within the terms of the commitment. The fair value also takes into account the fair value of the embedded servicing right.

We offer derivatives to our customers in connection with their risk management needs. These derivatives primarily consist of interest rate swaps, interest rate caps, floors, swaptions, and foreign exchange and equity contracts. We primarily manage our market risk exposure from customer transactions by entering into offsetting derivative transactions with third-party dealers. Gains and losses on customer-related derivatives are included in other noninterest income.

The derivatives portfolio also includes derivatives used for other risk management activities. These derivatives are entered into based on stated risk management objectives.

This segment of the portfolio includes credit default swaps (CDS) used to mitigate the risk of economic loss on a portion of our loan exposure. We also sell loss protection to mitigate the net premium cost and the impact of mark-to-market accounting on CDS purchases to hedge the loan portfolio. The fair values of these derivatives typically are based on related credit spreads. Gains and losses on the derivatives entered into for other risk management are included in other noninterest income.

Included in the customer, mortgage banking risk management, and other risk management portfolios are written interest-rate caps and floors entered into with customers and for risk management purposes. We receive an upfront premium from the counterparty and are obligated to make payments to the counterparty if the underlying market interest rate rises above or falls below a certain level designated in the contract. At both December 31, 2010 and 2009, the fair value of the

written caps and floors liability on our Consolidated Balance Sheet was \$15 million. Our ultimate obligation under written options is based on future market conditions and is only quantifiable at settlement.

Further detail regarding the derivatives not designated in hedging relationships is presented in the tables that follow.

DERIVATIVE COUNTERPARTY CREDIT RISK

By entering into derivative contracts we are exposed to credit risk. We seek to minimize credit risk through internal credit approvals, limits, monitoring procedures, executing master netting agreements and collateral requirements. We generally enter into transactions with counterparties that carry high quality credit ratings. Nonperformance risk including credit risk is included in the determination of the estimated net fair value.

We generally have established agreements with our major derivative dealer counterparties that provide for exchanges of marketable securities or cash to collateralize either party's positions. At December 31, 2010, we held cash, US government securities and mortgage-backed securities totaling \$837 million under these agreements. We pledged cash and mortgage-backed securities of \$699 million under these agreements. To the extent not netted against derivative fair values under a master netting agreement, cash pledged is included in Other assets and cash held is included in Other borrowed funds on our Consolidated Balance Sheet.

The credit risk associated with derivatives executed with customers is essentially the same as that involved in extending loans and is subject to normal credit policies. We may obtain collateral based on our assessment of the customer's credit quality.

We periodically enter into risk participation agreements to share some of the credit exposure with other counterparties related to interest rate derivative contracts or to take on credit exposure to generate revenue. We will make/receive payments under these agreements if a customer defaults on its obligation to perform under certain derivative swap contracts. Risk participation agreements are included in the derivatives table

that follows. Our exposure related to risk participations where we sold protection is discussed in the Credit Derivatives section below.

CONTINGENT FEATURES

Some of PNC's derivative instruments contain provisions that require PNC's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If PNC's debt ratings were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

Table of Contents

The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on December 31, 2010 was \$868 million for which PNC had posted collateral of \$680 million in the normal course of business. The maximum amount of collateral

PNC would have been required to post if the credit-risk-related contingent features underlying these agreements had been triggered on December 31, 2010, would be an additional \$188 million.

Derivatives Total Notional or Contractual Amounts and Estimated Net Fair Values

In millions	Asset Derivatives				Liability Derivatives			
	December 31, 2010		December 31, 2009		December 31, 2010		December 31, 2009	
	Notional/ Contract Amount	Fair Value (a)	Notional/ Contract Amount	Fair Value (a)	Notional/ Contract Amount	Fair Value (b)	Notional/ Contract Amount	Fair Value (b)
Derivatives designated as hedging instruments under GAAP								
Interest rate contracts:								
Cash flow hedges	\$ 13,635	\$ 377	\$ 6,394	\$ 32	\$ 3,167	\$ 53	\$ 7,011	\$ 95
Fair value hedges	9,878	878	13,048	707	1,594	32		
Total derivatives designated as hedging instruments	\$ 23,513	\$ 1,255	\$ 19,442	\$ 739	\$ 4,761	\$ 85	\$ 7,011	\$ 95
Derivatives not designated as hedging instruments under GAAP								
<u>Derivatives used for residential mortgage banking activities:</u>								
Residential mortgage servicing								
Interest rate contracts	\$ 112,236	\$ 1,490	\$ 88,593	\$ 651	\$ 66,476	\$ 1,419	\$ 42,874	\$ 766
Loan sales								
Interest rate contracts	11,765	119	4,251	39	3,585	31	1,977	14
Subtotal	\$ 124,001	\$ 1,609	\$ 92,844	\$ 690	\$ 70,061	\$ 1,450	\$ 44,851	\$ 780
<u>Derivatives used for commercial mortgage banking activities:</u>								
Interest rate contracts	\$ 1,544	\$ 78	\$ 2,128	\$ 67	\$ 2,166	\$ 114	\$ 1,553	\$ 74
Credit contracts:								
Credit default swaps	210	8	410	59			50	7
Subtotal	\$ 1,754	\$ 86	\$ 2,538	\$ 126	\$ 2,166	\$ 114	\$ 1,603	\$ 81
<u>Derivatives used for customer-related activities:</u>								
Interest rate contracts	\$ 53,675	\$ 2,608	\$ 51,270	\$ 2,193	\$ 49,266	\$ 2,700	\$ 49,659	\$ 2,237
Foreign exchange contracts	3,659	149	4,168	122	4,254	155	3,834	108
Equity contracts	195	16	195	16	139	19	156	16
Credit contracts:								
Risk participation agreements	1,371	5	1,091	3	1,367	2	1,728	2
Subtotal	\$ 58,900	\$ 2,778	\$ 56,724	\$ 2,334	\$ 55,026	\$ 2,876	\$ 55,377	\$ 2,363
<u>Derivatives used for other risk management activities:</u>								
Interest rate contracts	\$ 3,420	\$ 20	\$ 3,222	\$ 13	\$ 1,099	\$ 9	\$ 2,360	\$ 19
Foreign exchange contracts			39	1	32	4	2	
Credit contracts:								
Credit default swaps	376	9	516	13	175	1	612	15
Other contracts (c)					209	396	211	486

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Subtotal	\$ 3,796	\$ 29	\$ 3,777	\$ 27	\$ 1,515	\$ 410	\$ 3,185	\$ 520
Total derivatives not designated as hedging instruments	\$ 188,451	\$ 4,502	\$ 155,883	\$ 3,177	\$ 128,768	\$ 4,850	\$ 105,016	\$ 3,744
Total Gross Derivatives	\$ 211,964	\$ 5,757	\$ 175,325	\$ 3,916	\$ 133,529	\$ 4,935	\$ 112,027	\$ 3,839
Less: Legally enforceable master netting agreements		3,203		1,600		3,203		1,600
Less: Cash collateral		659		269		674		506
Total Net Derivatives		\$ 1,895		\$ 2,047		\$ 1,058		\$ 1,733

- (a) Included in Other Assets on our Consolidated Balance Sheet.
- (b) Included in Other Liabilities on our Consolidated Balance Sheet.
- (c) Includes PNC's obligation to fund a portion of certain BlackRock LTIP programs.

Table of Contents

Gains (losses) on derivative instruments and related hedged items follow:

Derivatives Designated in GAAP Hedge Relationships Fair Value Hedges

Year ended	Hedged Items	Location	December 31, 2010		December 31, 2009	
			Gain (Loss) on Derivatives Recognized in Income Amount	Gain (Loss) on Related Hedged Items Recognized in Income Amount	Gain (Loss) on Derivatives Recognized in Income Amount	Gain (Loss) on Related Hedged Items Recognized in Income Amount
In millions						
Interest rate contracts	US Treasury and Government Agencies Securities	Investment securities (interest income)	\$ 9	\$ (14)		
Interest rate contracts	Other Debt Securities	Investment securities (interest income)	(1)	(1)		
Interest rate contracts	Federal Home Loan Bank borrowings	Borrowed funds (interest expense)	(66)	64	\$ (107)	\$ 109
Interest rate contracts	Subordinated debt	Borrowed funds (interest expense)	190	(218)	(447)	398
Interest rate contracts	Bank notes and senior debt	Borrowed funds (interest expense)	146	(140)	(24)	28
Total			\$ 278	\$ (309)	\$ (578)	\$ 535

Derivatives Designated in GAAP Hedge Relationships Cash Flow Hedges

Year ended	Interest rate contracts	Gain (Loss) on Derivatives Recognized in OCI	Gain Reclassified from Accumulated OCI into Income	Gain (Loss) Recognized in Income on Derivatives
		(Effective Portion)	(Effective Portion)	(Ineffective Portion)
In millions			Location	Location
December 31, 2010	Interest rate contracts	\$ 948	Interest income	Interest income
			Noninterest income	48
December 31, 2009	Interest rate contracts	\$ (12)	Interest income	Interest income
			\$ 319	\$ (2)

Table of Contents**Derivatives Not Designated as Hedging Instruments under GAAP**

	Year ended	
	December 31	
In millions	2010	2009
<u>Derivatives used for residential mortgage banking activities:</u>		
Residential mortgage servicing		
Interest rate contracts	\$ 440	\$ 27
Loan sales		
Interest rate contracts	(81)	(80)
Gains (losses) from residential mortgage banking activities (a)	\$ 359	\$ (53)
<u>Derivatives used for commercial mortgage banking activities:</u>		
Interest rate contracts	\$ (63)	\$ 88
Credit contracts	(22)	(35)
Gains (losses) from commercial mortgage banking activities (b)	\$ (85)	\$ 53
<u>Derivatives used for customer-related activities:</u>		
Interest rate contracts	\$ 16	\$ 29
Foreign exchange contracts	44	81
Equity contracts	(2)	2
Credit contracts		(1)
Gains (losses) from customer-related activities (b)	\$ 58	\$ 111
<u>Derivatives used for other risk management activities:</u>		
Interest rate contracts	\$ (9)	\$ 35
Foreign exchange contracts	(6)	(10)
Credit contracts	4	(23)
Other contracts (c)	86	(178)
Gains (losses) from other risk management activities (b)	\$ 75	\$ (176)
Total gains (losses) from derivatives not designated as hedging instruments	\$ 407	\$ (65)

(a) Included in residential mortgage noninterest income.

(b) Included in other noninterest income.

(c) Relates to BlackRock LTIP.

CREDIT DERIVATIVES

The credit derivative underlying is based on the credit risk of a specific entity, entities, or an index. We enter into credit derivatives, specifically credit default swaps and risk participation agreements, as part of our commercial mortgage banking hedging activities and for customer and other risk management purposes. Details regarding credit default swaps and risk participations sold follows:

Credit Default Swaps

	December 31, 2010			December 31, 2009		
	Notional Amount	Estimated Net Fair Value	Weighted-Average Remaining Maturity In Years	Notional Amount	Estimated Net Fair Value	Weighted-Average Remaining Maturity In Years
Dollars in millions						
Credit Default Swaps Sold						
Single name	\$ 45	\$ 4	2.8	\$ 85	\$ (4)	3.2
Index traded	189	2	2.0	457		6.1
Total	\$ 234	\$ 6	2.2	\$ 542	\$ (4)	5.7
Credit Default Swaps Purchased						
Single name	\$ 317	\$ 2	2.6	\$ 586	\$ 1	3.7
Index traded	210	8	38.8	460	53	35.9

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Total	\$ 527	\$ 10	17.0	\$ 1,046	\$ 54	17.9
Total	\$ 761	\$ 16	12.5	\$ 1,588	\$ 50	13.7

164

Table of Contents

The notional amount of these credit default swaps by credit rating follows:

Credit Ratings of Credit Default Swaps

Dollars in millions	December 31, 2010	December 31, 2009
Credit Default Swaps Sold		
Investment grade (a)	\$ 220	\$ 496
Subinvestment grade (b)	14	46
Total	\$ 234	\$ 542
Credit Default Swaps Purchased		
Investment grade (a)	\$ 385	\$ 894
Subinvestment grade (b)	142	152
Total	\$ 527	\$ 1,046
Total	\$ 761	\$ 1,588

(a) Investment grade with a rating of BBB-/Baa3 or above based on published rating agency information.

(b) Subinvestment grade with a rating below BBB-/Baa3 based on published rating agency information.

The referenced/underlying assets for these credit default swaps follow:

Referenced/Underlying Assets of Credit Default Swaps

	Corporate Debt	Commercial mortgage- backed securities	Loans
December 31, 2010	62%	28%	10%
December 31, 2009	66%	29%	5%

We enter into credit default swaps under which we buy loss protection from or sell loss protection to a counterparty for the occurrence of a credit event related to a referenced entity or index. The maximum amount we would be required to pay under the credit default swaps in which we sold protection, assuming all referenced underlyings experience a credit event at a total loss, without recoveries, was \$234 million at December 31, 2010 and \$542 million at December 31, 2009.

Risk Participation Agreements

We have sold risk participation agreements with terms ranging from less than one year to 21 years. We will be required to make payments under these agreements if a customer defaults on its obligation to perform under certain derivative swap contracts with third parties.

Risk Participation Agreements Sold

Dollars in millions	Notional Amount	Estimated Net Fair Value	Weighted-Average Remaining Maturity In Years
December 31, 2010	\$ 1,367	\$ (2)	2.0
December 31, 2009	\$ 1,728	\$ (2)	2.0

Based on our internal risk rating process of the underlying third parties to the swap contracts, the percentages of the exposure amount of risk participation agreements sold by internal credit rating follow:

Internal Credit Ratings of Risk Participation Agreements Sold

	December 31, 2010	December 31, 2009
Pass (a)	95%	96%
Below pass (b)	5%	4%

(a) Indicates the expected risk of default is currently low.

(b) Indicates a higher degree of risk of default.

Assuming all underlying swap counterparties defaulted at December 31, 2010, the exposure from these agreements would be \$49 million based on the fair value of the underlying swaps, compared with \$78 million at December 31, 2009.

Table of Contents**NOTE 17 EARNINGS PER SHARE***BASIC AND DILUTED EARNINGS PER COMMON SHARE*

In millions, except per share data	2010	2009	2008
Basic			
Net income from continuing operations	\$ 3,024	\$ 2,358	\$ 796
Less:			
Net income (loss) attributable to noncontrolling interests	(15)	(44)	32
Dividends distributed to common shareholders	203	428	896
Dividends distributed to preferred shareholders	146	388	21
Dividends distributed to nonvested restricted shares	1	1	5
Preferred stock discount accretion and redemptions	255	56	
Undistributed net income from continuing operations	\$ 2,434	\$ 1,529	\$ (158)
Undistributed net income from discontinued operations	373	45	118
Undistributed net income	\$ 2,807	\$ 1,574	\$ (40)
Percentage of undistributed income allocated to common shares	99.64%	99.68%	99.51%
Undistributed income from continuing operations allocated to common shares	\$ 2,425	\$ 1,524	\$ (158)
Plus common dividends	203	428	896
Net income from continuing operations attributable to basic common shares	\$ 2,628	\$ 1,952	\$ 738
Undistributed income from discontinued operations allocated to common shares	372	45	118
Net income attributable to basic common shares	\$ 3,000	\$ 1,997	\$ 856
Basic weighted-average common shares outstanding	517	454	344
Basic earnings per common share from continuing operations	\$ 5.08	\$ 4.30	\$ 2.15
Basic earnings per common share from discontinued operations	.72	.10	.34
Basic earnings per common share	\$ 5.80	\$ 4.40	\$ 2.49
Diluted			
Net income from continuing operations attributable to basic common shares	\$ 2,628	\$ 1,952	\$ 738
Less: BlackRock common stock equivalents	17	15	12
Net income from continuing operations attributable to diluted common shares	\$ 2,611	\$ 1,937	\$ 726
Net income from discontinued operations attributable to diluted common shares	372	45	118
Net income attributable to diluted common shares	\$ 2,983	\$ 1,982	\$ 844
Basic weighted-average common shares outstanding	517	454	344
Dilutive potential common shares (a) (b)	3	1	2
Diluted weighted-average common shares outstanding	520	455	346
Diluted earnings per common share from continuing operations	\$ 5.02	\$ 4.26	\$ 2.10
Diluted earnings per common share from discontinued operations	.72	.10	.34
Diluted earnings per common share	\$ 5.74	\$ 4.36	\$ 2.44
(a) Excludes stock options considered to be anti-dilutive	11	15	9
(b) Excludes warrants considered to be anti-dilutive	22	22	19

Table of Contents**NOTE 18 EQUITY***COMMON STOCK*

On February 8, 2010, we raised \$3.0 billion in new common equity through the issuance of 55.6 million shares of common stock in an underwritten offering at \$54 per share. The underwriters exercised their option to purchase an additional 8.3 million shares of common stock at the offering price of \$54 per share, totaling approximately \$450 million, to cover over-allotments. We completed this issuance on March 11, 2010.

PREFERRED STOCK

Information related to preferred stock is as follows:

Preferred Stock Issued and Outstanding

December 31	Liquidation value per share	Preferred Shares	
		2010	2009
Shares in thousands			
Authorized			
\$1 par value		16,588	16,956
Issued and outstanding			
Series A	\$ 40		6
Series B	40	1	1
Series C	20		118
Series D	20		168
Series K	10,000	50	50
Series L	100,000	2	2
Series N	100,000		76
Total issued and outstanding		53	421

On December 31, 2008, we issued \$7.6 billion of Fixed Rate Cumulative Perpetual Preferred Stock, Series N, to the US Treasury under the US Treasury's Troubled Asset Relief Program (TARP) Capital Purchase Program, together with a warrant to purchase shares of common stock of PNC described below.

As approved by the Federal Reserve Board, US Treasury and our other banking regulators, on February 10, 2010, we redeemed all 75,792 shares of our Series N Preferred Stock held by the US Treasury. We used the net proceeds from the common stock offering described above, senior notes offerings and other funds to redeem the Series N Preferred Stock.

In connection with the redemption of the Series N Preferred Stock, 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 during the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share.

Dividends of \$89 million were paid on February 10, 2010 when the Series N Preferred Stock was redeemed. PNC paid

total dividends of \$421 million to the US Treasury while the Series N preferred shares were outstanding.

As part of the National City transaction, we issued 9.875% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series L in exchange for National City's Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series F. Dividends on the Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series L are payable if and when declared each 1st of February, May, August and November. Dividends will be paid at a rate of 9.875% prior to February 1, 2013 and at a rate of three-month LIBOR plus 633 basis points beginning February 1, 2013. The Series L is redeemable at PNC's option, subject to Federal Reserve approval, if then applicable, on or after February 1, 2013 at a redemption price per share equal to the liquidation preference plus any declared but unpaid dividends.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Also as part of the National City transaction, we established the PNC Non-Cumulative Perpetual Preferred Stock, Series M, which mirrors in all material respects the former National City Non-Cumulative Perpetual Preferred Stock, Series E. PNC has designated 5,751 preferred shares, liquidation value \$100,000 per share, for this series. No shares have yet been issued; however, National City issued stock purchase contracts for 5,001 shares of its Series E Preferred Stock (now replaced by the PNC Series M as part of the National City transaction) to the National City Preferred Capital Trust I in connection with the issuance by that Trust of \$500 million of 12.000% Fixed-to-Floating Rate Normal Automatic Preferred Enhanced Capital Securities (the Normal APEX Securities) in January 2008 by the Trust. It is expected that the Trust will purchase 5,001 of the Series M preferred shares pursuant to these stock purchase contracts on December 10, 2012 or on an earlier date and possibly as late as December 10, 2013. The Trust has pledged the \$500,100,000 principal amount of National City 8.729% Junior Subordinated Notes due 2043 held by the Trust and their proceeds to secure this purchase obligation.

If Series M shares are issued prior to December 10, 2012, any dividends on such shares will be calculated at a rate per annum equal to 12.000% until December 10, 2012, and thereafter, at a rate per annum that will be reset quarterly and will equal three-month LIBOR for the related dividend period plus 8.610%. Dividends will be payable if and when declared by the Board at the dividend rate so indicated applied to the liquidation preference per share of the Series M Preferred Stock. The Series M is redeemable at PNC's option, subject to Federal Reserve approval, if then applicable, on or after December 10, 2012 at a redemption price per share equal to the liquidation preference plus any declared but unpaid dividends.

As a result of the National City transaction, we assumed National City's obligations under replacement capital covenants with respect to (i) the Normal APEX Securities and

Table of Contents

our Series M shares and (ii) our 6,000,000 of Depositary Shares (each representing 1/4000th of an interest in a share of our 9.875% Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series L), whereby we agreed not to cause the redemption or repurchase of the applicable securities, unless such repurchases or redemptions are made from the proceeds of the issuance of certain qualified securities and pursuant to the other terms and conditions set forth in the replacement capital covenants.

As a result of a successful consent solicitation of the holders of our 6.875% Subordinated Notes due May 15, 2019, we terminated these replacement capital covenants on November 5, 2010.

In May 2008, we issued \$500 million of Depositary Shares, each representing a fractional interest in a share of PNC Fixed-to-Floating Non-Cumulative Perpetual Preferred Stock, Series K. Dividends are payable if and when declared each May 21 and November 21 until May 21, 2013. After that date, dividends will be payable each 21st of August, November, February and May. Dividends will be paid at a rate of 8.25% prior to May 21, 2013 and at a rate of three-month LIBOR plus 422 basis points beginning May 21, 2013.

Series A through D Preferred Stocks are cumulative and, except for Series B, are redeemable at our option. Annual dividends on Series A, B and D preferred stock total \$1.80 per share and on Series C preferred stock total \$1.60 per share. Holders of Series A through D preferred stock are entitled to a number of votes equal to the number of full shares of common stock into which such preferred stock is convertible. Series A through D preferred stock have the following conversion privileges: (i) one share of Series A or Series B is convertible into eight shares of PNC common stock; and (ii) 2.4 shares of Series C or Series D are convertible into four shares of PNC common stock.

During 2010, PNC called its Series A, C and D cumulative convertible preferred stock for redemption in accordance with the terms of that stock. Effective September 10, 2010, PNC redeemed 1,777 outstanding shares of Series A at a redemption price of \$40.00 per share. Effective October 1, 2010, PNC redeemed 18,118 outstanding shares of Series C and 26,010 shares of Series D at a redemption price of \$20.00 per share.

As described in Note 13 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities, under the terms of two of the hybrid capital vehicles we issued that currently qualify as capital for regulatory purposes (the Trust II Securities and the Trust III Securities), these Trust Securities are automatically exchangeable into shares of PNC preferred stock (Series I and Series J, respectively) in each case under certain conditions relating to the capitalization or the financial condition of PNC Bank, N.A. and upon the direction of the Office of the Comptroller of the Currency.

TARP WARRANT

A warrant issued to the US Treasury in connection with the Series N Preferred Stock described above would have enabled the US Treasury to purchase up to approximately 16.9 million shares of PNC common stock at an exercise price of \$67.33 per share. After exchanging its TARP Warrant for 16,885,192 warrants, each to purchase one share of PNC common stock, the US Treasury sold the warrants in a secondary public offering. The sale closed on May 5, 2010. These warrants expire December 31, 2018.

NATIONAL CITY WARRANTS

As part of the National City transaction, warrants issued by National City converted into warrants to purchase PNC common stock. The holder has the option to exercise 28,022 warrants, on a daily basis, commencing June 15, 2011 and ending on July 15, 2011, and 28,023 warrants, on a daily basis, commencing July 18, 2011 and ending on October 20, 2011. The strike price of these warrants is \$750 per share. Upon exercise, PNC will deliver common shares with a market value equal to the number of warrants exercised multiplied by the excess of the market price of PNC common stock over the strike price. The maximum number of shares that could be required to be issued is approximately 5.0 million, subject to adjustment in the case of certain events, make-whole fundamental changes or early termination. PNC has reserved 5.0 million shares for issuance pursuant to the warrants and 3.6 million shares for issuance pursuant to the related convertible senior notes.

OTHER SHAREHOLDERS EQUITY MATTERS

We have a dividend reinvestment and stock purchase plan. Holders of preferred stock and PNC common stock may participate in the plan, which provides that additional shares of common stock may be purchased at market value with reinvested dividends and voluntary cash payments. Common shares issued pursuant to this plan were: 149,088 shares in 2010, 534,515 shares in 2009 and 716,819 shares in 2008.

At December 31, 2010, we had reserved approximately 126.1 million common shares to be issued in connection with certain stock plans and the conversion of certain debt and equity securities.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Effective October 4, 2007, our Board of Directors approved a stock repurchase program to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. We did not repurchase any shares during 2010, 2009 or 2008 under this program.

Table of Contents**NOTE 19 OTHER COMPREHENSIVE INCOME**

Details of other comprehensive income (loss) are as follows (in millions):

	Pretax	Tax	After-tax
<i>Net unrealized securities gains (losses) and net OTTI losses on debt securities</i>			
Balance at December 31, 2007			\$ (167)
<u>2008 activity</u>			
Increase in net unrealized losses for securities	\$ (5,673)	\$ 2,084	(3,589)
Less: net losses realized in net income	(206)	76	(130)
Net unrealized securities losses	(5,467)	2,008	(3,459)
Balance at December 31, 2008			(3,626)
<u>2009 activity</u>			
Decrease in net unrealized losses for non-OTTI securities	5,075	(1,863)	3,212
Less: net gains realized in net income	550	(204)	346
Net unrealized gains on non-OTTI securities	4,525	(1,659)	2,866
Cumulative effect of adopting FASB ASC 320-10	(174)	64	(110)
Net increase in OTTI losses on debt securities	(1,699)	630	(1,069)
Less: Net OTTI losses realized in net income	(577)	214	(363)
Net unrealized losses on OTTI securities	(1,296)	480	(816)
Balance at December 31, 2009			(1,576)
<u>2010 activity</u>			
Cumulative effect of adopting FASB ASU 2009-17, <i>Consolidations</i>	(20)	7	(13)
Decrease in net unrealized losses for non-OTTI securities	1,803	(665)	1,138
Less: net gains realized in net income	426	(156)	270
Net unrealized gains on non-OTTI securities	1,377	(509)	868
Net increase in OTTI losses on debt securities	(50)	14	(36)
Less: OTTI losses realized in net income	(325)	119	(206)
Net unrealized gains on OTTI securities	275	(105)	170
Balance at December 31, 2010			\$ (551)
	Pretax	Tax	After-tax
<i>Net unrealized gains (losses) on cash flow hedge derivatives</i>			
Balance at December 31, 2007			\$ 175
<u>2008 activity</u>			
Increase in net unrealized gains on cash flow hedge derivatives	\$ 467	\$ (172)	295
Less: net gains realized in net income	152	(56)	96
Net unrealized gains on cash flow hedge derivatives	315	(116)	199
Balance at December 31, 2008			374
<u>2009 activity</u>			
Decrease in net unrealized gains on cash flow hedge derivatives	(12)	4	(8)
Less: net gains realized in net income	317	(117)	200
Net unrealized losses on cash flow hedge derivatives	(329)	121	(208)
Balance at December 31, 2009			166
<u>2010 activity</u>			
Increase in net unrealized gains on cash flow hedge derivatives	948	(347)	601
Less: net gains realized in net income	387	(142)	245
Net unrealized gains on cash flow hedge derivatives	561	(205)	356
Balance at December 31, 2010			\$ 522

Table of Contents

	Pretax	Tax	After-tax
Pension, other postretirement and postemployment benefit plan adjustments			
Balance at December 31, 2007			\$ (177)
<u>2008 Activity</u>	\$ (775)	\$ 285	(490)
Balance at December 31, 2008			(667)
<u>2009 Activity</u>	198	(73)	125
Balance at December 31, 2009			(542)
2010 Activity	260	(98)	162
Balance at December 31, 2010			\$ (380)
Other (a)			
Balance at December 31, 2007			\$ 22
<u>2008 Activity</u>			
Foreign currency translation adj.	\$ (129)	\$ 46	(83)
BlackRock deferred tax adj.		31	31
Total 2008 activity	(129)	77	(52)
Balance at December 31, 2008			(30)
<u>2009 Activity</u>			
Foreign currency translation adj.	48	(17)	31
BlackRock deferred tax adj.		(13)	(13)
SBA I/O strip valuation adj.	3	(1)	2
Total 2009 activity	51	(31)	20
Balance at December 31, 2009			(10)
<u>2010 Activity</u>			
Foreign currency translation adj.	(18)	6	(12)
BlackRock deferred tax adj.		1	1
SBA I/O strip valuation adj.	(2)	1	(1)
Total 2010 activity	(20)	8	(12)
Balance at December 31, 2010			\$ (22)

(a) Consists of foreign currency translation adjustments, deferred tax adjustments on BlackRock's other comprehensive income, and for 2010 and 2009, interest-only strip valuation adjustments.

The accumulated balances related to each component of other comprehensive income (loss) are as follows:

Accumulated Other Comprehensive Income (Loss)

December 31 in millions	2010	2009
Net unrealized securities gains (losses)	\$ 95	\$ (760)
OTTI losses on debt securities	(646)	(816)
Net unrealized gains on cash flow hedge derivatives	522	166
Pension, other postretirement and post employment benefit plan adjustments	(380)	(542)
Other	(22)	(10)
Accumulated other comprehensive income (loss)	\$ (431)	\$ (1,962)

NOTE 20 INCOME TAXES

The components of income taxes from continuing operations are as follows:

Income Taxes from Continuing Operations

Year ended December 31

In millions	2010	2009	2008
-------------	------	------	------

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Current			
Federal	\$ (207)	\$ (109)	\$ 473
State	43	46	61
Total current	(164)	(63)	534
Deferred			
Federal	1,193	912	(211)
State	8	18	(25)
Total deferred	1,201	930	(236)
Total	\$ 1,037	\$ 867	\$ 298

Significant components of deferred tax assets and liabilities are as follows:

Deferred Tax Assets and Liabilities

December 31 - in millions	2010	2009
Deferred tax assets		
Allowance for loan and lease losses	\$ 1,912	\$ 1,978
Net unrealized securities losses	320	922
Compensation and benefits	595	788
Unrealized losses on loans	402	1,349
Loss and credit carryforward	145	816
Other	1,422	1,287
Total gross deferred tax assets	4,796	7,140
Valuation allowance	(21)	(31)
Total deferred tax assets	4,775	7,109
Deferred tax liabilities		
Leasing	1,153	1,191
Goodwill and Intangibles	399	619
Mortgage servicing rights	355	618
BlackRock basis difference	1,750	1,850
Other	1,277	1,124
Total deferred tax liabilities	4,934	5,402
Net deferred asset / (liability)	\$ (159)	\$ 1,707

A reconciliation between the statutory and effective tax rates follows:

Reconciliation of Statutory and Effective Tax Rates

Year ended December 31	2010	2009	2008
Statutory tax rate	35.0%	35.0%	35.0%
Increases (decreases) resulting from			
State taxes net of federal benefit	0.8	1.2	2.3
Tax-exempt interest	(1.3)	(1.2)	(1.9)
Life insurance	(1.8)	(1.9)	(2.6)
Dividend received deduction	(1.4)	(1.2)	(3.5)
Tax credits	(4.3)	(5.4)	(4.8)
IRS Letter ruling and settlements	(2.5)		
Tax gain on sale of Hilliard Lyons			4.7
Other	1.0	.4	(2.0)
Effective tax rate	25.5%	26.9%	27.2%

Table of Contents

The net operating loss carryforwards and tax credit carryforwards at December 31, 2010 and 2009 follow:

Net Operating Loss Carryforwards and Tax Credit Carryforwards

In millions	December 31, 2010	December 31, 2009
Net Operating Loss Carryforwards:		
Federal	\$ 54	\$ 1,200
State	1,600	2,000
Valuation allowance State	21	31
Tax Credit Carryforwards:		
Federal		\$ 254
State		4

The federal net operating loss credit carryforwards expire from 2026 to 2027. The state net operating loss carryforwards will expire from 2011 to 2031.

At December 31, 2010, there were no undistributed earnings of non-US subsidiaries for which deferred US income taxes had not been provided. At December 31, 2009, \$62 million of undistributed earnings of non-US subsidiaries had no deferred US income taxes provided. The change in undistributed earnings was due to the sale of GIS.

Retained earnings at December 31, 2010 and 2009 included \$117 million in allocations for bad debt deductions of former thrift subsidiaries for which no income tax has been provided. Under current law, if certain subsidiaries use these bad debt reserves for purposes other than to absorb bad debt losses, they will be subject to Federal income tax at the current corporate tax rate.

As of December 31, 2010 and 2009, we had a liability for uncertain tax positions excluding interest and penalties of \$238 million and \$227 million, respectively. At December 31, 2010, the amount of unrecognized tax benefits that if recognized would impact the effective tax rate was \$125 million.

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

Changes in Unrecognized Tax Benefits

In millions	2010	2009	2008
Balance of gross unrecognized tax benefits at January 1	\$227	\$ 257	\$ 57
Increases:			
Positions taken during a prior period	76	22	203 (a)
Positions taken during the current period		26	
Decreases:			
Positions taken during a prior period	(49)	(39)	(3)
Settlements with taxing authorities	(13)	(34)	
Reductions resulting from lapse of statute of limitations	(3)	(5)	
Balance of gross unrecognized tax benefits at December 31	\$238	\$ 227	\$ 257

(a) Includes \$202 million acquired from National City.

It is reasonably possible that the liability for uncertain tax positions could increase or decrease in the next twelve months due to completion of tax authorities' exams or the expiration of statutes of limitations. Management's best estimate at this time is that the liability for uncertain tax positions will decrease by \$2 million over the next 12 months.

PNC's consolidated federal income tax returns through 2006 have been audited by the IRS and we have resolved all matters through the IRS Appeals Division. The IRS began its examination of PNC's 2007 and 2008 consolidated federal income tax returns during the third quarter of

2010.

The consolidated federal income tax returns of National City through 2007 have been audited by the IRS. Certain adjustments remain under review by the IRS Appeals Division for years 2003-2007. The IRS began its examination of National City's 2008 consolidated federal income tax return during the third quarter of 2010. Also, in July 2010, we received a favorable IRS letter ruling that resolved a prior uncertain tax position and resulted in a tax benefit of \$89 million.

California, Delaware, District of Columbia, Florida, Illinois, Indiana, Maryland, Missouri, New Jersey, New York, and New York City are principally where we are subject to state and local income tax. Audits currently in process for these states include: California (2001-2005), Illinois (2005-2008), Indiana (2005-2007), Missouri (2003-2009), New Jersey (2003-2005), and New York City (2005-2007). In the ordinary course of business, we are routinely subject to audit by the taxing authorities of states and at any given time a number of audits will be in process.

For all open audits, we believe adequate reserves have been provided for settlement on reasonable terms.

Our policy is to classify interest and penalties associated with income taxes as income tax expense. For 2010, we had expense of \$25 million of gross interest and penalties increasing income tax expense. The total accrued interest and penalties at December 31, 2010 and December 31, 2009 was \$113 million and \$144 million, respectively.

NOTE 21 REGULATORY MATTERS

We are subject to the regulations of certain federal and state agencies and undergo periodic examinations by such regulatory authorities.

The access to and cost of funding new business initiatives including acquisitions, the ability to pay dividends, the level of deposit insurance costs, and the level and nature of regulatory oversight depend, in large part, on a financial institution's capital strength. The minimum US regulatory capital ratios under Basel I are 4% for tier 1 risk-based, 8% for total risk-based and 4% for leverage. To qualify as well

Table of Contents

capitalized, regulators require banks to maintain capital ratios of at least 6% for tier 1 risk-based, 10% for total risk-based and 5% for leverage. At December 31, 2010 and December 31, 2009, PNC Bank, N.A. met the well capitalized capital ratio requirements.

The following table sets forth regulatory capital ratios for PNC and its bank subsidiary, PNC Bank, N.A.

Regulatory Capital

December 31	Amount		Ratios	
	2010	2009	2010	2009
Dollars in millions				
Risk-based capital				
Tier 1				
PNC	\$ 26,092	\$ 26,523	12.1%	11.4%
PNC Bank, N.A.	24,722	24,491	11.8	10.9
Total				
PNC	33,724	34,813	15.6	15.0
PNC Bank, N.A.	31,662	32,481	15.1	14.4
Leverage				
PNC	NM	NM	10.2	10.1
PNC Bank, N.A.	NM	NM	10.0	9.3

NM Not meaningful.

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

- Capital needs,
- Laws and regulations,
- Corporate policies,
- Contractual restrictions, and
- Other factors.

Also, there are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions. The amount available for dividend payments to the parent company by PNC Bank, N.A. without prior regulatory approval was approximately \$1.1 billion at December 31, 2010.

Under federal law, a bank subsidiary generally may not extend credit to the parent company or its non-bank subsidiaries on terms and under circumstances that are not substantially the same as comparable extensions of credit to nonaffiliates. No extension of credit may be made to the parent company or a non-bank subsidiary which is in excess of 10% of the capital stock and surplus of such bank subsidiary or in excess of 20% of the capital and surplus of such bank subsidiary as to aggregate extensions of credit to the parent company and its non-bank subsidiaries. Such extensions of credit, with limited exceptions, must be fully collateralized by certain specified assets. In certain circumstances, federal regulatory authorities may impose more restrictive limitations.

Federal Reserve Board regulations require depository institutions to maintain cash reserves with the Federal Reserve Bank (FRB). At December 31, 2010, the balance outstanding at the FRB was \$983 million.

NOTE 22 LEGAL PROCEEDINGS

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. Any such accruals are adjusted thereafter as appropriate to reflect changed circumstances. We also determine estimates of possible losses or ranges of possible losses, whether in excess of any related accrued liability or where there is no accrued liability, for those matters disclosed in this Note 22 when we are able to do so. For disclosed matters where we are able to estimate such possible losses or ranges of possible losses, we currently estimate that it is reasonably possible that we could incur losses in an aggregate amount up to \$400 million, with it also being reasonably possible that we could incur no such losses at all in these matters.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

The estimates included in this amount are based on our analysis of currently available information, and as new information is obtained we may change our estimates. Due to the inherent subjectivity of the assessments and unpredictability of outcomes of legal proceedings, any amounts accrued or included in this aggregate amount may not represent the ultimate loss to us from the legal proceedings in question. Thus, our exposure and ultimate losses may be higher or lower, and possibly significantly so, than the amounts accrued or this aggregate amount.

The aggregate estimated amount provided above does not include an estimate for every matter disclosed in this Note 22, as we are unable, at this time, to estimate the losses that it is reasonably possible that we could incur or ranges of such losses with respect to some of the matters disclosed for one or more of the following reasons. In our experience, legal proceedings are inherently unpredictable. In many legal proceedings, various factors exacerbate this inherent unpredictability, including, among others, the following: the proceeding is in its early stages; the damages sought are unspecified, unsupported or uncertain; it is unclear whether a case brought as a class action will be allowed to proceed on that basis or, if permitted to proceed as a class action, how the class will be defined; the plaintiff is seeking relief other than compensatory damages; the matter presents meaningful legal uncertainties, including novel issues of law; discovery has not started or is not complete; there are significant facts in dispute; and there are a large number of parties named as defendants (including where it is uncertain how liability, if any, will be shared among multiple defendants). Generally, the less progress that has been made in the proceedings or the broader the range of potential results, the harder it is for us to estimate losses or ranges of losses that it is reasonably possible we could incur. Therefore, as the estimated aggregate amount disclosed above does not include all of the matters disclosed below, the amount disclosed above does not represent our maximum reasonably possible loss exposure for all of the matters disclosed in this Note 22. The estimated aggregate amount also does not reflect any of our exposure to matters not so disclosed, as discussed below under Other.

Table of Contents

We include in some of the descriptions of individual matters below certain quantitative information related to the plaintiff's claim against us alleged in the plaintiff's pleadings or otherwise publicly available. While information of this type may provide insight into the potential magnitude of a matter, it does not necessarily represent our estimate of reasonably possible loss or our judgment as to any currently appropriate accrual.

Some of our exposure in matters described below may be offset by applicable insurance coverage. We do not consider the possible availability of insurance coverage in determining the amounts of any accruals or any estimates of possible losses or ranges of possible losses.

Securities and State Law Fiduciary Cases against National City

In January 2008, a lawsuit (*In re National City Corporation Securities, Derivative & ERISA Litigation (The Securities Case)*) (MDL No. 2003, Case No: 1:08-nc-70004-SO) was filed in the United States District Court for the Northern District of Ohio against National City and certain officers and directors of National City. As amended, this lawsuit was brought as a class action on behalf of purchasers of National City's stock during the period April 30, 2007 to April 21, 2008 and also on behalf of everyone who acquired National City stock pursuant to a registration statement filed in connection with its acquisition of MAF Bancorp in 2007. The amended complaint alleges violations of federal securities laws regarding public statements and disclosures relating to, among other things, the nature, quality, performance, and risks of National City's non-prime, residential construction, and National Home Equity portfolios, its loan loss reserves, its financial condition, and related allegedly false and misleading financial statements. In the amended complaint, the plaintiffs seek, among other things, unspecified damages and attorneys' fees. A motion to dismiss the amended complaint is pending. A magistrate judge has recommended dismissal of the lawsuit without prejudice, with a right for the plaintiffs to file a further amended complaint within 30 days. The magistrate's recommendation is subject to adoption by the district court. The plaintiffs have filed objections to that recommendation.

In May 2008, a lawsuit (*The Dispatch Printing Company, et al. v. National City Corporation, et al.* (Case No. 08CVH-6506)) was filed on behalf of an individual plaintiff in the Franklin County, Ohio, Court of Common Pleas against National City, certain directors of National City, and Corsair Co-Invest, L.P. and unnamed other investors participating in the April 2008 capital infusion into National City alleging that National City's directors breached their fiduciary duties by entering into this capital infusion transaction. A motion to dismiss the case as originally filed has been denied. After the initial filing, two additional plaintiffs were added. The plaintiffs filed an amended complaint in December 2010. The amended complaint adds PNC as a defendant as successor in interest to National City. In the amended complaint, which included some additional allegations, the plaintiffs seek, among other things, unspecified actual and punitive damages, a declaratory judgment that the investment agreement for the capital infusion are void and/or voidable, and attorneys' fees.

In August 2008, a lawsuit was filed in the Palm Beach County, Florida, Circuit Court against National City and certain officers and directors of National City (*Reagan v. National City Corp., et al.*, MDL No. 2003, Case No: 1:08-nc-70015-SO). The lawsuit was brought as a class action on behalf of all who acquired National City stock pursuant to and/or traceable to the registration statement filed in connection with National City's acquisition of Fidelity Bankshares, Inc. The complaint alleged that the registration statement contained false and misleading statements and omissions in violation of the federal securities laws. This lawsuit was removed to federal court in Florida and then transferred to the United States District Court for the Northern District of Ohio. The parties reached a settlement in March 2010, which received final court approval in December, 2010. We have paid the settlement, which was not material to PNC.

In December 2008, a lawsuit was filed in the United States District Court for the Northern District of Ohio against National City and some of its officers and directors (*Argent Classic Convertible Arbitrage Fund (Bermuda) Ltd. and Argent Classic Convertible Arbitrage Fund L.P. v. National City Corp., et al.* (MDL No. 2003, Case No: 1:08-nc-70016-SO). As amended in a second amended complaint, the lawsuit was brought as a class action on behalf of all who purchased National City's 4.0% Convertible Senior Notes Due 2011 pursuant to and/or traceable to the registration statement and prospectus supplement issued in connection with the January 2008 offering of these notes. The second amended complaint alleged that the registration statement and prospectus supplement contained false and misleading statements and omissions in violation of the federal securities laws. In July 2010, the parties reached a settlement, which received final court approval in November 2010. We have paid the settlement, which was not material to PNC.

Table of Contents

National City ERISA Cases

Commencing in January 2008, a series of substantially similar lawsuits were brought against National City, the Administrative Committee of the *National City Savings and Investment Plan (the Plan)*, *National City Bank (as trustee)*, and some of *National City's* officers and directors. These cases were consolidated in the United States District Court for the Northern District of Ohio under the caption *In re National City Corporation Securities, Derivative & ERISA Litigation (The ERISA Cases)* (MDL 2003 Case No. 08-nc-70000-SO), and the plaintiffs filed a consolidated amended complaint. The consolidated action was brought as a class action on behalf of all participants in or beneficiaries of the Plan at any time between September 5, 2006 and the present and whose Plan accounts included investments in National City common stock, as well as all participants in or beneficiaries of the Plan and whose accounts were invested in Allegiant Funds from March 25, 2002 to the present. The consolidated complaint alleged breaches of fiduciary duty under the Employee Retirement Income Security Act of 1974 (ERISA) relating to, among other things, National City stock being offered as an investment alternative in the Plan, conflicts of interest, and monitoring and disclosure obligations. The consolidated complaint also alleged that the Administrative Committee defendants breached their fiduciary duties under ERISA, engaged in prohibited transactions by authorizing or causing the Plan to invest in Allegiant Funds, and violated ERISA duties of loyalty by virtue of National City's receipt of financial benefits in the forms of fees paid to Allegiant Asset Management Company for managing the mutual funds. The complaint sought equitable relief (including a declaration that defendants breached their ERISA fiduciary duties, an order compelling the defendants to make good any losses to the Plan caused by their actions, the imposition of a constructive trust on any profits earned by the defendants from their actions and restitution), unspecified damages and attorneys' fees. In February 2010, the parties reached a settlement, which received final court approval in November 2010. We have paid the settlement, which was not material to PNC.

Visa

Beginning in June 2005, a series of antitrust lawsuits were filed against Visa®, MasterCard®, and several major financial institutions, including cases naming National City (since merged into PNC) and its subsidiary, National City Bank of Kentucky (since merged into National City Bank which has since merged into PNC Bank, N.A.). The cases have been consolidated for pretrial proceedings in the United States District Court for the Eastern District of New York under the caption *In re Payment Card Interchange Fee and Merchant-Discount Antitrust Litigation* (Master File No. 1:05-md-1720-JG-JO). Those cases naming National City were brought as class actions on behalf of all persons or business entities who have accepted Visa® or MasterCard®. The plaintiffs, merchants operating commercial businesses throughout the US and trade associations, allege, among other things, that the defendants conspired to fix the prices for

general purpose card network services and otherwise imposed unreasonable restraints on trade, resulting in the payment of inflated interchange fees, in violation of the antitrust laws. In January 2009, the plaintiffs filed amended and supplemental complaints adding, among other things, allegations that the restructuring of Visa and MasterCard, each of which included an initial public offering, violated the antitrust laws. In their complaints, the plaintiffs seek, among other things, injunctive relief, unspecified damages (tripled under the antitrust laws) and attorneys' fees. In January 2008, the district court dismissed the plaintiffs' claims for damages incurred prior to January 1, 2004. In April 2009, the defendants filed a motion to dismiss the amended and supplemental complaints. In May 2009, class plaintiffs filed a motion for class certification. Both of these motions were argued in November 2009 and are still pending. In February 2011, the defendants filed a motion for summary judgment. National City and National City Bank entered into judgment and loss sharing agreements with Visa and certain other banks with respect to all of the above referenced litigation. All of the litigation against Visa is also subject to the indemnification obligations described in Note 23 Commitments and Guarantees. PNC Bank, N.A. is not named a defendant in any of the Visa or MasterCard related antitrust litigation nor was it initially a party to the judgment or loss sharing agreements, but it has been subject to these indemnification obligations and became responsible for National City Bank's position in the litigation and under the agreements upon completion of the merger of National City Bank into PNC Bank, N.A.

Adelphia

Some of our subsidiaries were defendants (or had potential contractual contribution obligations to other defendants) in several lawsuits brought during late 2002 and 2003 arising out of the bankruptcy of Adelphia Communications Corporation and its subsidiaries.

One of the lawsuits was brought on Adelphia's behalf by the unsecured creditors' committee and equity committee in Adelphia's consolidated bankruptcy proceeding and was removed to the United States District Court for the Southern District of New York by order dated February 9, 2006 (*Adelphia Recovery Trust v. Bank of America, N.A., et al.* (Case No. 05 Civ. 9050 (LMM))). Pursuant to Adelphia's plan of reorganization, this lawsuit was prosecuted by a contingent value vehicle, known as the Adelphia Recovery Trust. In October 2007, the Adelphia Recovery Trust filed an amended complaint in this lawsuit, adding defendants and making additional allegations.

In June 2008, the district court granted in part the defendants' motion to dismiss. The court dismissed the principal bankruptcy law claims that had not previously been dismissed by the Bankruptcy Court, including claims alleging voidable preference payments, fraudulent transfers, and equitable disallowance. The effect of this ruling was to dismiss from this lawsuit all claims against most of the defendants, but

Table of Contents

leave pending claims against PNC and other original members of Adelpia loan syndicates and then-affiliated investment banks. The district court's ruling was affirmed on appeal. This lawsuit arose out of lending and investment banking activities engaged in by PNC subsidiaries and many other financial services companies. Collectively, with respect to some or all of the defendants, the lawsuit alleged violations of federal banking laws, violations of common law duties, aiding and abetting such violations, voidable preference payments, and fraudulent transfers, among other matters. The lawsuit sought damages (including in some cases punitive or tripled damages), interest, attorneys' fees and other expenses, and a return of the alleged voidable preference and fraudulent transfer payments, among other remedies.

In September 2010, PNC and all but one other defendant in this lawsuit reached a complete settlement of all remaining claims, which received final court approval in November, 2010. We have paid our share of the settlement, which was not material to PNC.

There is one remaining Adelpia-related lawsuit (*W. R. Huff Asset Management Co., L.L.C. v. Deloitte & Touche, L.L.P., et al.* (03 MD 1529 (LMM), 03-CV-5752 (LMM)) alleging violations of the federal securities laws in which a PNC subsidiary is a defendant, brought by holders of debt securities of Adelpia and consolidated for pretrial purposes in the United States District Court for the Southern District of New York. In the complaint, the plaintiff seeks, among other things, unspecified damages, interest, and attorneys' fees.

CBNV Mortgage Litigation

Between 2001 and 2003, on behalf of either individual plaintiffs or proposed classes of plaintiffs, several separate lawsuits were filed in state and federal courts against Community Bank of Northern Virginia (CBNV) and other defendants asserting claims arising from second mortgage loans made to the plaintiffs. CBNV was merged into one of Mercantile Bankshares Corporation's banks before PNC acquired Mercantile in 2007. The state lawsuits were removed to federal court and, with the lawsuits that had been filed in federal court, were consolidated for pre-trial proceedings in a multidistrict litigation (MDL) proceeding in the United States District Court for the Western District of Pennsylvania under the caption *In re: Community Bank of Northern Virginia and Guaranty Bank Second Mortgage Litigation* (No. 03-0425 (W.D. Pa.), MDL No. 1674). In January 2008, the Pennsylvania district court issued an order sending back to the General Court of Justice, Superior Court Division, for Wake County, North Carolina the claims of two proposed class members. This case, which was originally filed in 2001, is captioned *Bumpers, et al. v. Community Bank of Northern Virginia* (01-CVS-011342).

The plaintiffs in the MDL proceedings and in the *Bumpers* lawsuit complain of an alleged illegal home equity lending

scheme of the Shumway/Bapst Organization (Shumway). The plaintiffs allege that Shumway used CBNV and another bank as fronts to make high-interest, high-fee loans that would otherwise have been prohibited by state usury laws but for the banks' status as depository institutions. The plaintiffs further allege that, in the course of doing so, CBNV misrepresented the apportionment and distribution of settlement and title fees, and that these fees included illegal kickbacks to Shumway that did not reflect the value of any settlement services actually performed. The plaintiffs claim violations of the Real Estate Settlement Procedures Act (RESPA), the Racketeer Influenced and Corrupt Organizations Act (RICO), and certain state laws. In their complaints, the plaintiffs in the lawsuits that are part of the MDL proceedings in Pennsylvania seek, among other things, unspecified damages (including tripled damages under RICO and RESPA), rescission of loans, interest, and attorneys' fees. The two plaintiffs in *Bumpers* have procured individual judgments totaling approximately \$11,000 each plus interest, and, as described below, they now seek to assert claims seeking similar damages on behalf of a class of North Carolina borrowers, which they claim consists of approximately 650 borrowers.

Status of MDL Proceedings in Pennsylvania. In August 2006, a proposed settlement agreement covering some of the plaintiffs and class members (those who have second mortgages that had been assigned to another defendant, Residential Finance Corporation (RFC)) was submitted to the district court for its approval. In August 2008, the district court gave final approval to the settlement agreement. The class covered by this settlement and certified by the district court in its approval of the settlement consisted of approximately 44,000 borrowers and is referred to as the *Kessler* class.

Some objecting members of the *Kessler* class appealed the final approval order to the United States Court of Appeals for the Third Circuit. In September 2010, the court of appeals vacated the district court's class certification decision and approval of the class settlement and remanded the case to the district court for further proceedings. In their appeal, the objecting *Kessler* class members had asserted that CBNV's annual percentage rate disclosures violated the Truth in Lending Act (TILA) and the Home Ownership and Equity Protection Act (HOEPA), that those claims are very valuable, and that the settling plaintiffs should have asserted those claims. The settling plaintiffs advanced a number of reasons why they had not asserted TILA/HOEPA claims. The court of appeals decision focused on the district court's finding that such claims were time-barred and for that reason not viable.

The court of appeals remanded the case to the district court for consideration of certain aspects of its decision certifying the settlement class and approving the settlement. The court of appeals instructed the district court to consider (a) whether a sub-class should be created for class

members whose transactions occurred within one year (the limitations period

Table of Contents

for RESPA and TILA/HOEPA claims) of the date of filing of the earliest complaint in these actions, (b) whether class counsel is adequate in light of counsel's justifications for not bringing TILA/HOEPA claims, and (c) whether a sub-class of North Carolina borrowers should be created. No proceedings have yet occurred in the district court on those issues.

Other individuals, whose loans were not assigned to RFC, have continued to pursue, on behalf of themselves or alleged classes, claims similar to those asserted with respect to the loans assigned to RFC and covered by the settlement. In one case, where the alleged class overlaps the *Kessler* class, the plaintiffs have asserted that there are as many as 50,000 borrowers in total represented in the MDL proceedings, including both the borrowers in the *Kessler* class and those not covered by the *Kessler* class.

Status of North Carolina Proceedings. Following the remand to North Carolina state court, the plaintiffs in *Bumpers* sought to represent a class of North Carolina borrowers in state court proceedings in North Carolina. The district court in Pennsylvania handling the MDL proceedings enjoined class proceedings in *Bumpers* in March 2008. In April 2008, the North Carolina superior court granted the *Bumpers* plaintiffs' motion for summary judgment on their individual claims. CBNV appealed the grant of the motion for summary judgment, which appeal is now before the North Carolina Court of Appeals.

In September 2010, one of the *Bumpers* plaintiffs filed papers in the superior court seeking permission to proceed with certification proceedings for a class of North Carolina borrowers. In January 2011, the superior court entered an order stating that, if it had jurisdiction to rule on the plaintiff's motion (which it does not while its summary judgment order remains on appeal), it would be inclined to rule that it would entertain motions for class certification and consider class relief at a future date.

Overdraft Litigation

Beginning in October 2009, PNC Bank and National City Bank have been named in six lawsuits brought as class actions relating to the manner in which they charged overdraft fees on ATM and debit transactions to customers. Three lawsuits naming PNC Bank and one naming National City Bank, along with similar lawsuits against numerous other banks, have been consolidated for pre-trial proceedings in the United States District Court for the Southern District of Florida (the MDL Court) under the caption *In re Checking Account Overdraft Litigation* (MDL No. 2036, Case No. 1:09-MD-02036-JLK). The first of these cases (*Casayuran, et al. v. PNC Bank, National Association* (Case No. 10-cv-20496-JLK)) was originally filed against PNC Bank in October 2009 in the United States District Court for the District of New Jersey, and an amended complaint was filed in June 2010 in the MDL Court. The other cases that have been consolidated were filed in June 2010 in the United States District Court for the

Southern District of Florida (*Cowen, et al. v. PNC Bank, National Association* (Case No. 10-CV-21869-JLK), *Hernandez, et al. v. PNC Bank, National Association* (Case No. 10-CV-21868-JLK), and *Matos v. National City Bank* (Case No. 10-cv-21771-JLK). A consolidated amended complaint was filed in December 2010 that consolidated all of the claims in these four cases. It seeks to certify national classes of customers for the common law claims described below, and subclasses of PNC Bank customers with accounts in Pennsylvania, New Jersey and Illinois branches and of National City Bank customers with accounts in Illinois branches, with each subclass being asserted for purposes of claims under those states' consumer protection statutes. No class periods are stated in any of the complaints, other than for the applicable statutes of limitations, which vary by state and cause of action. We have moved to dismiss the consolidated amended complaint.

In December 2010, an additional lawsuit (*Henry v. PNC Bank, National Association* (No. GD-10-022974)) was filed in the Court of Common Pleas of Allegheny County, Pennsylvania on behalf of all current citizens of Pennsylvania who are domiciled in Pennsylvania who had or have a PNC checking or debit account used primarily for personal, family or household purposes and who incurred overdraft and related fees on transactions resulting from the methodology of posting transactions from December 8, 2004 through August 14, 2010.

The sixth lawsuit (*Trombley, et al. v. National City Bank* (Civil Action No. 10-00232 (JDB))) is pending against National City Bank in the United States District Court for the District of Columbia. The class sought to be certified in this case is a national class of National City Bank customers with subclasses of customers with accounts in Michigan and Ohio branches for purposes of claims under those states' consumer protection statutes. In July 2010, the parties reached a tentative settlement of this lawsuit. In August 2010, in light of this settlement, the Judicial Panel on Multidistrict Litigation denied a motion to transfer this lawsuit to the MDL Court. A member of the proposed settlement class, who is the named plaintiff in another lawsuit filed in the MDL Court, filed objections to approval of this settlement. In January 2011, the court granted preliminary approval and set a hearing on final approval for June 2011. The settlement remains subject to, among other things, notice to the proposed class and final court approval. The amount of the settlement is not material to PNC and has been accrued.

The complaints in each of these lawsuits allege that the banks engaged in unlawful practices in assessing overdraft fees arising from electronic point-of-sale and ATM debits. The principal practice challenged in these lawsuits is the banks' purportedly common policy of posting debit transactions on a daily basis from highest amount to lowest amount, thereby allegedly inflating the number of overdraft fees assessed. Other

practices challenged include the failure to decline to

Table of Contents

honor debit card transactions where the account has insufficient funds to cover the transactions.

In the consolidated amended complaint in the MDL Court, the plaintiffs assert claims for breach of the covenant of good faith and fair dealing; unconscionability; conversion, unjust enrichment; and violation of the consumer protection statutes of Pennsylvania, Illinois and New Jersey. In the *Henry* case, the plaintiffs assert the same common law claims and a claim under the Pennsylvania consumer protection statute. The action against National City pending in the District of Columbia adds claims under the Ohio and Michigan consumer protection statutes and the federal Electronic Funds Transfer Act. In their complaints, the plaintiffs seek, among other things, restitution of overdraft fees paid, unspecified actual and punitive damages, pre-judgment interest, attorneys' fees, and declaratory relief finding the overdraft policies to be unfair and unconscionable.

Fulton Financial

In 2009, Fulton Financial Advisors, N.A. filed lawsuits against PNC Capital Markets, LLC and NatCity Investments, Inc. in the Court of Common Pleas of Lancaster County, Pennsylvania arising out of Fulton's purchase of auction rate certificates (ARCs) through PNC and NatCity. Each of the lawsuits alleges violations of the Pennsylvania Securities Act, negligent misrepresentation, negligence, breach of fiduciary duty, common law fraud, and aiding and abetting common law fraud in connection with the purchase of the ARCs by Fulton. Specifically, Fulton alleges that, as a result of the decline of financial markets in 2007 and 2008, the market for ARCs became illiquid; that PNC and NatCity knew or should have known of the increasing threat of the ARC market becoming illiquid; and that PNC and NatCity did not inform Fulton of this increasing threat, but allowed Fulton to continue to purchase ARCs, to Fulton's detriment. In its complaints, Fulton alleges that it then held ARCs purchased through PNC for a price of more than \$123 million and purchased through NatCity for a price of more than \$175 million. In each complaint, Fulton seeks, among other things, unspecified actual and punitive damages, rescission, and interest.

In the case against PNC (*Fulton Financial Advisors, N.A. v. PNC Capital Markets, LLC* (CI 09-10838)), PNC filed preliminary objections to Fulton's complaint, which were denied. NatCity removed the case against it to the United States District Court for the Eastern District of Pennsylvania (*Fulton Financial Advisors, N.A. v. NatCity Investments, Inc.* (No. 5:09-cv-04855)), and filed a motion to dismiss the complaint, which is pending before the court.

Other Mortgage-Related Litigation

In October 2010, the Federal Home Loan Bank of Chicago brought a lawsuit in the Circuit Court of Cook County, Illinois, against numerous financial companies, including The PNC Financial Services Group, Inc., as successor in interest to National City Corporation, and PNC Investments LLC, as successor in interest to NatCity Investments, Inc. (*Federal Home Loan Bank of Chicago v. Bank of America Funding Corp., et al.* (Case No. 10CH45033)). The complaint alleges that the defendants have liability to the Federal Home Loan Bank of Chicago in a variety of capacities (in the case of the National City entities, as underwriters) under Illinois state securities law and common law in connection with the alleged purchase of private-label mortgage-backed securities by the Federal Home Loan Bank. According to the complaint, the Federal Home Loan Bank purchased approximately \$3.3 billion in mortgage-backed securities in total in transactions addressed by the complaint, approximately \$345 million of which was allegedly in transactions involving the National City entities. The complaint alleges misrepresentations and omissions in connection with the sales of the mortgage-backed securities in question. In its complaint, the Federal Home Loan Bank seeks, among other things, rescission, unspecified damages, interest, and attorneys' fees. In November 2010 the defendants removed the case to the United States District Court for the Northern District of Illinois. In January 2011 the district court remanded the case to the Circuit Court of Cook County.

In October 2010, a lawsuit was filed in the U.S. District Court for the Northern District of Illinois, against PNC Bank and numerous other financial institutions, mortgage servicing organizations, law firms that handle foreclosures in Northern Illinois, and individuals employed by financial institutions, mortgage servicers and law firms. As amended in November 2010, the lawsuit (*Stone, et al. v. Washington Mutual Bank, et al.* (Case No. 10 C 6410)) has been brought as a class action on behalf of all present or former homeowners whose homes are being or have been the subject of foreclosure suits involving either securitized mortgages, bifurcated mortgages, or broken chains of title, during the two years prior to the filing of the complaint. The plaintiffs allege that defendants conspired to foreclose illegally on the properties of the named plaintiffs and the other alleged class members. Among other things, the plaintiffs allege that the defendant banks, law firms, and their employees instituted foreclosure proceedings in the names of parties who did not actually own the mortgages, and used false or otherwise defective affidavits to prosecute the foreclosure actions. The plaintiffs assert claims under various federal criminal statutes, a federal civil rights statute, the Fair Debt Collection Practices Act, RICO, and Illinois common law. In the amended complaint, the plaintiffs seek, among other

Table of Contents

things, unspecified actual, statutory and punitive damages (including tripled actual damages under RICO); accounting; disgorgement; preliminary and permanent injunctive relief against foreclosure of the affected mortgages; and attorneys' fees. In January 2011, all defendants, including PNC, filed motions to dismiss the complaint. These motions are still pending.

In February 2011, a lawsuit was filed in the Superior Court of the State of California for Orange County against PNC and numerous other financial institutions and mortgage servicing organizations. The lawsuit (*National Organization of Assistance for Homeowners of California, et al. v. America's Servicing Company, et al.*, (Case No. 30-2011-00447677-CU-OR-CXC)) has been brought as a class action by individual plaintiffs, who allege that they have obtained loans secured by deeds of trust on California real estate, and by a non-profit organization which purports, along with the individual plaintiffs, to represent a class of similarly situated individuals. The plaintiffs contend, among other things, that the defendants engaged in misrepresentations and fraudulent concealment in connection with the mortgage loan origination process, engaged in wrongful foreclosure practices, caused notices of default to be issued against the plaintiffs in a manner not authorized by California law, made inaccurate credit disclosures regarding the plaintiffs, and disclosed the plaintiffs' private information without their authorization. The plaintiffs allege violations, among other things, of various provisions of California statutory law, the right to privacy provisions of the California Constitution, the federal Fair Credit Reporting Act and the Gramm-Leach Bliley Act. The plaintiffs seek, among other things, unspecified actual and punitive damages, statutory civil penalties, restitution, injunctive relief, interest, and attorneys' fees.

Regulatory and Governmental Inquiries

As a result of the regulated nature of our business and that of a number of our subsidiaries, particularly in the banking and securities areas, we and our subsidiaries are the subject of investigations, audits and other forms of regulatory inquiry, in some cases as part of regulatory reviews of specified activities at multiple industry participants, including those described below.

Numerous federal and state governmental, legislative and regulatory authorities are investigating practices in the mortgage lending and servicing industries. PNC has received inquiries from governmental, legislative and regulatory authorities on this topic and is cooperating with these inquiries. These inquiries may lead to administrative, civil or criminal proceedings, possibly resulting in remedies including fines, penalties, restitution, or alterations in our business practices and in additional expenses and collateral costs. As a result of the

number and range of authorities conducting the investigations and inquiries, as well as the nature of these types of investigations and inquiries, among other factors, PNC cannot at this time predict the ultimate overall cost to or effect on PNC from potential governmental, legislative or regulatory actions arising out of these investigations and inquiries.

PNC is one of the fourteen federally regulated mortgage servicers subject to a publicly-disclosed interagency horizontal review of residential mortgage servicing operations. That review is expected to result in formal enforcement actions against many or all of the companies subject to review, which actions are expected to incorporate remedial requirements, heightened mortgage servicing standards and potential civil money penalties. PNC expects that it and PNC Bank will enter into consent orders with the Federal Reserve and the OCC, respectively, relating to the residential mortgage servicing operations of PNC Bank. PNC expects that these consent orders, among other things, will describe certain foreclosure-related practices and controls that the regulators found to be deficient and will require PNC and PNC Bank to, among other things, develop and implement plans and programs to enhance PNC's servicing and foreclosure processes and take certain other remedial actions, and oversee compliance with the orders and the new plans and programs. In addition, either or both of these agencies may seek potential civil money penalties. Other governmental, legislative and regulatory inquiries on this topic, referred to above, are on-going, and may result in additional actions or penalties.

The SEC previously commenced investigations of activities of National City prior to its acquisition by PNC. The SEC has requested, and we have provided to the SEC, documents concerning, among other things, National City's capital-raising activities, loan underwriting experience, allowance for loan losses, marketing practices, dividends, bank regulatory matters and the sale of First Franklin Financial Corporation.

The SEC has been conducting an investigation into events at Equipment Finance LLC (EFI), a subsidiary of Sterling Financial Corporation, which PNC acquired in April 2008. The United States Attorney's Office for the Eastern District of Pennsylvania has also been investigating the EFI situation.

Our practice is to cooperate fully with regulatory and governmental investigations, audits and other inquiries, including those described above. Such investigations, audits and other inquiries may lead to remedies including fines, penalties, restitution or alterations in our business practices.

Other

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

In addition to the proceedings or other matters described above, PNC and persons to whom we may have indemnification obligations, in the normal course of business, are subject to various other pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. We do not anticipate, at the present time, that the ultimate aggregate liability, if any, arising out of such

Table of Contents

other legal proceedings will have a material adverse effect on our financial position. However, we cannot now determine whether or not any claims asserted against us or others to whom we may have indemnification obligations, whether in the proceedings or other matters specifically described above or otherwise, will have a material adverse effect on our results of operations in any future reporting period, which will depend on, among other things, the amount of the loss resulting from the claim and the amount of income otherwise reported for the reporting period.

See Note 23 Commitments and Guarantees for additional information regarding the Visa indemnification and our other obligations to provide indemnification, including to current and former officers, directors, employees and agents of PNC and companies we have acquired, including National City.

NOTE 23 COMMITMENTS AND GUARANTEES*EQUITY FUNDING AND OTHER COMMITMENTS*

Our unfunded commitments at December 31, 2010 included private equity investments of \$319 million and other investments of \$11 million.

STANDBY LETTERS OF CREDIT

We issue standby letters of credit and have risk participations in standby letters of credit and bankers' acceptances issued by other financial institutions, in each case to support obligations of our customers to third parties, such as remarketing programs for customers' variable rate demand notes. Net outstanding standby letters of credit and internal credit ratings were as follows:

Net Outstanding Standby Letters of Credit

Dollars in billions	December 31 2010	December 31 2009
Net outstanding standby letters of credit	\$ 10.1	\$ 10.0
Internal credit ratings (as percentage of portfolio):		
Pass (a)	90%	86%
Below pass (b)	10%	14%

(a) Indicates that expected risk of loss is currently low.

(b) Indicates a higher degree of risk of default.

If the customer fails to meet its financial or performance obligation to the third party under the terms of the contract or there is a need to support a remarketing program, then upon the request of the guaranteed party, we would be obligated to make payment to them. The standby letters of credit and risk participations in standby letters of credit and bankers' acceptances outstanding on December 31, 2010 had terms ranging from less than 1 year to 8 years. The aggregate maximum amount of future payments PNC could be required to make under outstanding standby letters of credit and risk participations in standby letters of credit and bankers' acceptances was \$13.1 billion at December 31, 2010, of which \$6.8 billion support remarketing programs.

As of December 31, 2010, assets of \$2.2 billion secured certain specifically identified standby letters of credit. Recourse provisions from third parties of \$3.0 billion were also available for this purpose as of December 31, 2010. In addition, a portion of the remaining standby letters of credit and letter of credit risk participations issued on behalf of specific customers is also secured by collateral or guarantees that secure the customers' other obligations to us. The carrying amount of the liability for our obligations related to standby letters of credit and risk participations in standby letters of credit and bankers' acceptances was \$250 million at December 31, 2010.

STANDBY BOND PURCHASE AGREEMENTS AND OTHER LIQUIDITY FACILITIES

We enter into standby bond purchase agreements to support municipal bond obligations. At December 31, 2010, the aggregate of our commitments under these facilities was \$313 million. We also enter into certain other liquidity facilities to support individual pools of receivables acquired by commercial paper conduits. At December 31, 2010 our total commitments under these facilities were \$145 million.

INDEMNIFICATIONS

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

We are a party to numerous acquisition or divestiture agreements under which we have purchased or sold, or agreed to purchase or sell, various types of assets. These agreements can cover the purchase or sale of:

- Entire businesses,
- Loan portfolios,
- Branch banks,
- Partial interests in companies, or
- Other types of assets.

These agreements generally include indemnification provisions under which we indemnify the third parties to these agreements against a variety of risks to the indemnified parties as a result of the transaction in question. When PNC is the seller, the indemnification provisions will generally also provide the buyer with protection relating to the quality of the assets we are selling and the extent of any liabilities being assumed by the buyer. Due to the nature of these indemnification provisions, we cannot quantify the total potential exposure to us resulting from them.

We provide indemnification in connection with securities offering transactions in which we are involved. When we are the issuer of the securities, we provide indemnification to the underwriters or placement agents analogous to the indemnification provided to the purchasers of businesses from us, as described above. When we are an underwriter or placement agent, we provide a limited indemnification to the issuer related to our actions in connection with the offering and, if there are other underwriters, indemnification to the other underwriters intended to result in an appropriate sharing of the risk of participating in the offering. Due to the nature of these indemnification provisions, we cannot quantify the total potential exposure to us resulting from them.

Table of Contents

In the ordinary course of business, we enter into certain types of agreements that include provisions for indemnifying third parties. We also enter into certain types of agreements, including leases, assignments of leases, and subleases, in which we agree to indemnify third parties for acts by our agents, assignees and/or sublessees, and employees. We also enter into contracts for the delivery of technology service in which we indemnify the other party against claims of patent and copyright infringement by third parties. Due to the nature of these indemnification provisions, we cannot calculate our aggregate potential exposure under them.

We engage in certain insurance activities which require our employees to be bonded. We satisfy this bonding requirement by issuing letters of credit which were insignificant in amount at December 31, 2010.

In the ordinary course of business, we enter into contracts with third parties under which the third parties provide services on behalf of PNC. In many of these contracts, we agree to indemnify the third party service provider under certain circumstances. The terms of the indemnity vary from contract to contract and the amount of the indemnification liability, if any, cannot be determined.

We are a general or limited partner in certain asset management and investment limited partnerships, many of which contain indemnification provisions that would require us to make payments in excess of our remaining funding commitments. While in certain of these partnerships the maximum liability to us is limited to the sum of our unfunded commitments and partnership distributions received by us, in the others the indemnification liability is unlimited. As a result, we cannot determine our aggregate potential exposure for these indemnifications.

Pursuant to their bylaws, PNC and its subsidiaries provide indemnification to directors, officers and, in some cases, employees and agents against certain liabilities incurred as a result of their service on behalf of or at the request of PNC and its subsidiaries. PNC and its subsidiaries also advance on behalf of covered individuals costs incurred in connection with certain claims or proceedings, subject to written undertakings by each such individual to repay all amounts advanced if it is ultimately determined that the individual is not entitled to indemnification. We generally are responsible for similar indemnifications and advancement obligations that companies we acquire had to their officers, directors and sometimes employees and agents at the time of acquisition. We advanced such costs on behalf of several such individuals with respect to pending litigation or investigations during 2010. It is not possible for us to determine the aggregate potential exposure resulting from the obligation to provide this indemnity or to advance such costs.

In connection with the sale of GIS, PNC agreed to continue to act for the benefit of GIS as securities lending agent for certain of GIS's clients. In such role, we provide indemnification to those clients against the failure of the borrowers to return the securities. The market value of the securities lent is fully secured on a daily basis; therefore, the exposure to us is limited to temporary shortfalls in the collateral as a result of short-term fluctuations in trading prices of the loaned securities. At December 31, 2010, the total maximum potential exposure as a result of these indemnity obligations was \$6.3 billion, although the collateral at the time exceeded that amount. In addition, the purchaser of GIS, The Bank of New York Mellon Corporation, has entered into an agreement to indemnify PNC with respect to such exposure on the terms set forth in such indemnification agreement. Also in connection with the GIS divestiture, PNC has agreed to indemnify the buyer generally as described above.

VISA INDEMNIFICATION

Our payment services business issues and acquires credit and debit card transactions through Visa U.S.A. Inc. card association or its affiliates (Visa).

In October 2007, Visa completed a restructuring and issued shares of Visa Inc. common stock to its financial institution members (Visa Reorganization) in contemplation of its initial public offering (IPO). As part of the Visa Reorganization, we received our proportionate share of a class of Visa Inc. common stock allocated to the US members. Prior to the IPO, the US members, which included PNC, were obligated to indemnify Visa for judgments and settlements related to the specified litigation. We continue to have an obligation to indemnify Visa for judgments and settlements for the remaining specified litigation.

As a result of the acquisition of National City, we became party to judgment and loss sharing agreements with Visa and certain other banks. The judgment and loss sharing agreements were designed to apportion financial responsibilities arising from any potential adverse judgment or negotiated settlements related to the specified litigation.

In May 2010, Visa funded \$500 million to their litigation escrow account and reduced the conversion ratio of Visa B to A shares. We consequently recognized our estimated \$47 million share of the \$500 million as a reduction of our previously established indemnification liability and a reduction of noninterest expense.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

In October 2010, Visa funded \$800 million to their litigation escrow account and reduced the conversion ratio of Visa B to A shares. We consequently recognized our estimated \$76 million share of the \$800 million as a reduction of our previously established indemnification liability and a reduction of noninterest expense.

Our Visa indemnification liability included on our Consolidated Balance Sheet at December 31, 2010 totaled

Table of Contents

\$70 million as a result of the indemnification provision in Section 2.05j of the Visa By-Laws and/or the indemnification provided through the judgment and loss sharing agreements which is considered appropriate at this time in consideration of the Visa announcement. Any ultimate exposure to the specified Visa litigation may be different than this amount.

RECOURSE AND REPURCHASE OBLIGATIONS

As discussed in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities, PNC has sold commercial mortgage and residential mortgage loans directly or indirectly in securitizations and whole-loan sale transactions with continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets in these transactions.

COMMERCIAL MORTGAGE RECOURSE OBLIGATIONS

We originate, close and service commercial mortgage loans which are sold to FNMA under FNMA's DUS program. We have similar arrangements with FHLMC.

Under these programs, we generally assume up to a one-third pari passu risk of loss on unpaid principal balances through a loss share arrangement. At December 31, 2010 and 2009, the unpaid principal balance outstanding of loans sold as a participant in these programs was \$13.2 billion and \$19.7 billion, respectively. At December 31, 2010 and 2009, the potential maximum exposure under the loss share arrangements was \$4.0 billion and \$6.0 billion, respectively. We maintain a reserve based upon these potential losses. The reserve for losses under these programs totaled \$54 million and \$71 million as of December 31, 2010 and 2009, respectively, and is included in Other liabilities on our Consolidated Balance Sheet. If payment is required under these programs, we would not have a contractual interest in the collateral underlying the mortgage loans on which losses occurred, although the value of the collateral is taken into account in determining our share of such losses. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment.

Analysis of Commercial Mortgage Recourse Obligations

In millions	2010	2009
January 1	\$ 71	\$ 79
Reserve adjustments, net	9	(3)
Losses — loan repurchases and settlements	(2)	(5)
Loan sales	(24)	
December 31	\$ 54	\$ 71

RESIDENTIAL MORTGAGE LOAN REPURCHASE OBLIGATIONS

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to situations where PNC is alleged to have breached certain origination covenants and representations and warranties

made to purchasers of the loans in the respective purchase and sale agreements. Residential mortgage loans covered by these loan repurchase obligations include first and second-lien mortgage loans we have sold through Agency securitizations, Non-Agency securitizations, and whole-loan sale transactions. As discussed in Note 3, Agency securitizations consist of mortgage loans sale transactions with FNMA, FHLMC, and GNMA, while Non-Agency securitizations and whole-loan sale transactions consist of mortgage loans sale transactions with private investors. Our exposure and activity associated with these loan repurchase obligations is reported in the Residential Mortgage Banking segment. In addition, PNC's residential mortgage loan repurchase obligations include certain brokered home equity loans/lines that were sold to private investors by National City prior to our acquisition. PNC is no longer engaged in the brokered home equity lending business, and our exposure under these loan repurchase obligations is reported in the Distressed Assets Portfolio segment.

Loan covenants and representations and warranties are established through loan sale agreements with various investors to provide assurance that PNC has sold loans to investors of sufficient investment quality. Key aspects of such covenants and representations and warranties include the loan's compliance with any applicable loan criteria established by the investor, including underwriting standards, delivery of all required loan documents to the investor or its designated party, sufficient collateral valuation, and the validity of the lien securing the loan. As a result of alleged breaches of these contractual obligations, investors may request PNC to indemnify them against losses on certain loans or to repurchase loans. These investor indemnification or repurchase claims are typically settled on an individual loan basis through make-whole payments or loan repurchases; however, on occasion we may negotiate pooled settlements with investors.

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Indemnifications for loss or loan repurchases typically occur when, after review of the claim, we agree insufficient evidence exists to dispute the investor's claim that a breach of a loan covenant and representation and warranty has occurred, such breach has not been cured, and the effect of such breach is deemed to have had a material and adverse effect on the value of the transferred loan. Depending on the sale agreement and upon proper notice from the investor, we typically respond to such indemnification and repurchase requests within 60 days, although final resolution of the claim may take a longer period of time. With the exception of the sales agreements associated with the Agency securitizations, most sale agreements do not provide for penalties or other remedies if we do not respond timely to investor indemnification or repurchase requests.

Origination and sale of residential mortgages is an ongoing business activity and, accordingly, management continually assesses the need for indemnification and repurchase liabilities

Table of Contents

pursuant to the associated investor sale agreements. We establish indemnification and repurchase liabilities for estimated losses on sold first and second-lien mortgages and home equity loans/lines for which indemnification is expected to be provided or for loans that are expected to be repurchased. For the first and second-lien mortgage sold portfolio, we have established an indemnification and repurchase liability pursuant to investor sale agreements based on claims made and our estimate of future claims on a loan by loan basis. These relate primarily to loans originated in years 2006-2008. For the home equity loans/lines sold portfolio, we have established indemnification and repurchase liabilities based upon this same methodology for loans sold from 2005-2007.

Indemnification and repurchase liabilities are initially recognized when loans are sold to investors and are subsequently evaluated for adequacy by management. Initial recognition and subsequent adjustments to the indemnification and repurchase liability for the first and second-lien mortgage sold portfolio are recognized in Residential mortgage revenue

on the Consolidated Income Statement. Since PNC is no longer engaged in the brokered home equity lending business, only subsequent adjustments are recognized to the home equity loans/lines indemnification and repurchase liability. These adjustments are recognized in Other noninterest income on the Consolidated Income Statement.

Management's subsequent evaluation of these indemnification and repurchase liabilities is based upon trends in indemnification and repurchase requests, actual loss experience, known and inherent risks in the underlying serviced loan portfolios, and current economic conditions. As part of its evaluation, management considers estimated loss projections over the life of the subject loan portfolio. At December 31, 2010 and 2009, the total indemnification and repurchase liability for estimated losses on indemnification and repurchase claims totaled \$294 million and \$270 million, respectively, and was included in Other liabilities on the Consolidated Balance Sheet. An analysis of the changes in this liability during 2010 and 2009 follows:

Analysis of Indemnification and Repurchase Liability for Asserted and Unasserted Claims

In millions	2010			2009		Total
	Residential Mortgages (a)	Home Equity Loans/Lines (b)	Total	Residential Mortgages (a)	Home Equity Loans/Lines (b)	
January 1	\$ 229	\$ 41	\$ 270	\$ 300	\$ 101	\$ 401
Reserve adjustments, net (c)	120	144	264	230	(9)	221
Losses - loan repurchases and settlements	(205)	(35)	(240)	(301)	(51)	(352)
December 31	\$ 144	\$ 150	\$ 294	\$ 229	\$ 41	\$ 270

(a) Repurchase obligation associated with sold loan portfolios of \$139.8 billion and \$157.2 billion at December 31, 2010 and December 31, 2009, respectively.

(b) Repurchase obligation associated with sold loan portfolios of \$6.5 billion and \$7.5 billion at December 31, 2010 and December 31, 2009, respectively. PNC is no longer engaged in the brokered home equity business which was acquired with National City.

(c) Includes \$157 million in 2009 for residential mortgages related to the final purchase price allocation associated with the National City acquisition.

REINSURANCE AGREEMENTS

We have two wholly-owned captive insurance subsidiaries which provide reinsurance to third-party insurers related to insurance sold to our customers. These subsidiaries enter into various types of reinsurance agreements with third-party insurers where the subsidiary assumes the risk of loss through either an excess of loss or quota share agreement up to 100% reinsurance. In excess of loss agreements, these subsidiaries assume the risk of loss for an excess layer of coverage up to specified limits, once a defined first loss percentage is met. In quota share agreements, the subsidiaries and third-party insurers share the responsibility for payment of all claims.

Reserves recognized for probable losses on these policies and the aggregate maximum exposure up to the specified limits for all reinsurance contracts were as follows:

Reinsurance Agreements

In millions except as noted	December 31, 2010
Reserves for probable losses	\$ 150
Maximum exposure (billions)	\$ 4.5

The comparable amount of reserves for probable losses as of December 31, 2009 was \$220 million.

REPURCHASE AND RESALE AGREEMENTS

We enter into repurchase and resale agreements where we transfer investment securities to/from a third party with the agreement to repurchase/resell those investment securities at a future date for a specified price. These transactions are accounted for as collateralized borrowings/financings.

Table of Contents**NOTE 24 PARENT COMPANY**

Summarized financial information of the parent company is as follows:

Income Statement

Year ended December 31 - in millions	2010(a)	2009 (a)	2008
Operating Revenue			
Dividends from:			
Bank subsidiaries and bank holding company	\$ 2,180	\$ 839	\$ 1,012
Non-bank subsidiaries	575	84	168
Interest income		12	4
Noninterest income	27	28	18
Total operating revenue	2,782	963	1,202
OPERATING EXPENSE			
Interest expense	458	495	152
Other expense	(61)	21	46
Total operating expense	397	516	198
Income before income taxes and equity in undistributed net income of subsidiaries	2,385	447	1,004
Income tax benefits	(253)	(147)	(50)
Income before equity in undistributed net income of subsidiaries	2,638	594	1,054
Equity in undistributed net income of subsidiaries:			
Bank subsidiaries and bank holding company	677	1,736	(125)
Non-bank subsidiaries	97	117	(47)
Net income	\$ 3,412	\$ 2,447	\$ 882

(a) Includes the impact of National City.

Balance Sheet

December 31 - in millions	2010	2009
ASSETS		
Cash and due from banks	\$ 401	\$ 104
Interest-earning deposits with banks	5	95
Investments in:		
Bank subsidiaries and bank holding company	34,049	32,966
Non-bank subsidiaries	1,951	2,650
Other assets	1,523	1,287
Total assets	\$ 37,929	\$ 37,102
LIABILITIES		
Subordinated debt	\$ 3,804	\$ 3,859
Senior debt	1,799	2,018
Bank affiliate borrowings	112	92
Non-bank affiliate borrowings	964	
Accrued expenses and other liabilities	1,008	1,191
Total liabilities	7,687	7,160
EQUITY		
Shareholder's equity	30,242	29,942
Total liabilities and equity	\$ 37,929	\$ 37,102

Commercial paper and all other debt issued by PNC Funding Corp, a wholly owned finance subsidiary, is fully and

unconditionally guaranteed by the parent company. In addition, in connection with certain affiliates' commercial and residential mortgage servicing operations, the parent company has committed to maintain such affiliates' net worth above minimum requirements.

Parent Company Income Tax Refunds and Interest Paid

Year ended December 31 (in millions)	Income Tax Refunds	Interest Paid
2010	\$ 342	\$ 419
2009	137	427
2008	92	147

Statement Of Cash Flows

Year ended December 31 - in millions	2010	2009	2008
OPERATING ACTIVITIES			
Net income	\$ 3,412	\$ 2,447	\$ 882
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net (earnings)/losses of subsidiaries	(774)	(1,853)	172
Other	(53)	2,687	156
Net cash provided by operating activities	2,585	3,281	1,210
INVESTING ACTIVITIES			
Net capital returned from (contributed to) subsidiaries	1,766	(899)	(8,298)
Investment securities:			
Sales and maturities		267	
Purchases		(228)	
Net cash received from acquisitions		5	1,431
Other	1	(182)	(104)
Net cash provided by (used in) investing activities	1,767	(1,037)	(6,971)
FINANCING ACTIVITIES			
Borrowings from subsidiaries	7,580	3,420	2,100
Repayments on borrowings from subsidiaries	(6,596)	(4,274)	(3,633)
Other borrowed funds	(379)	(1,166)	
Preferred stock TARP	(7,579)		7,275
Preferred stock Other	(1)		492
TARP Warrant			304
Supervisory Capital Assessment Program common stock		624	
Common and treasury stock	3,474	247	375
Acquisition of treasury stock	(204)	(188)	(234)
Preferred stock cash dividends paid	(146)	(388)	(21)
Common stock cash dividends paid	(204)	(430)	(902)
Net cash provided by (used in) financing activities	(4,055)	(2,155)	5,756
Increase (decrease) in cash and due from banks	297	89	(5)
Cash and due from banks at beginning of year	104	15	20
Cash and due from banks at end of year	\$ 401	\$ 104	\$ 15

Table of Contents**NOTE 25 SEGMENT REPORTING**

In the first quarter of 2009, we made changes to our business organization structure and management reporting in conjunction with the acquisition of National City. Business segment results for 2008 have been reclassified to reflect current methodologies and current business and management structure and to present those periods on the same basis as 2010 and 2009.

We have six reportable business segments:

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

Results of individual businesses are presented based on our management accounting practices and management structure. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our individual businesses are not necessarily comparable with similar information for any other company. We refine our methodologies from time to time as our management accounting practices are enhanced and our businesses and management structure change. As a result of its sale, GIS is no longer a reportable business segment.

Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis. As permitted under GAAP, we have aggregated the business results for certain similar operating segments for financial reporting purposes.

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product maturities, duration and other factors. Capital is intended to cover unexpected losses and is assigned to the banking and servicing businesses using our risk-based economic capital model. We have assigned capital to Retail Banking equal to 6% of funds to approximate market comparables for this business.

We have allocated the allowances for loan and lease losses and unfunded loan commitments and letters of credit based on our assessment of risk inherent in each business segment's loan portfolio. Our allocation of the costs incurred by operations and other shared support areas not directly aligned with the businesses is primarily based on the use of services.

Total business segment financial results differ from consolidated income from continuing operations before noncontrolling interests, which itself excludes the earnings and revenue attributable to GIS through June 30, 2010 and the related after-tax gain on sale in the third quarter of 2010 that are reflected in discontinued operations. The impact of these

differences is reflected in the Other category in the business segment tables. Other includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions including LTIP share distributions and obligations, integration costs, asset and liability management activities including net securities gains or losses and certain trading activities, exited businesses, equity management activities, alternative investments, intercompany eliminations, most corporate overhead, and differences between business segment performance reporting and financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests. Assets, revenue and earnings attributable to foreign activities were not material in the periods presented for comparative purposes.

BUSINESS SEGMENT PRODUCTS AND SERVICES

Retail Banking provides deposit, lending, brokerage, trust, 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 the internet. The branch network is located primarily in Pennsylvania, Ohio, New Jersey, Michigan, Maryland, Illinois, Indiana, Kentucky, Florida, Virginia, Missouri, Delaware, Washington, D.C., and Wisconsin.

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,

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

our multi-seller conduit, securities underwriting, and securities sales and trading. Corporate & Institutional Banking also provides commercial loan servicing, 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.

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 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

Table of Contents

corporations, unions, municipalities, non-profits, foundations and endowments located primarily in our geographic footprint.

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 and minority 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 market conduits FNMA, FHLMC, Federal Home Loan Banks and third-party investors, or are securitized and issued under the GNMA program. 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 or minority owned affiliates are sold to others.

BlackRock is the largest publicly traded investment management firm in the world. BlackRock manages assets on behalf of institutional and individual investors worldwide through a variety of equity, fixed income, multi-asset class, alternative and cash management separate accounts and funds, including iShares®, the global product leader in exchange traded funds. In addition, BlackRock provides market risk management, financial markets advisory and enterprise investment system services globally to a broad base of clients. At December 31, 2010, our economic interest in BlackRock was 20%.

PNC received cash dividends from BlackRock of \$178 million during 2010, \$134 million during 2009, and \$135 million during 2008.

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. These loans require special servicing and management oversight given current market conditions. We obtained the majority of these loans through acquisitions of other companies.

Table of Contents**Results Of Businesses**

Year ended December 31	Corporate &		Asset	Residential	Distressed			Consolidated
	Retail	Institutional	Management	Mortgage	Assets			
In millions	Banking	Banking	Group	Banking	BlackRock	Portfolio	Other	
2010								
Income Statement								
Net interest income	\$ 3,431	\$ 3,493	\$ 263	\$ 267		\$ 1,217	\$ 559	\$ 9,230
Noninterest income	1,943	1,363	627	736	\$ 462	(92)	907	5,946
Total revenue	5,374	4,856	890	1,003	462	1,125	1,466	15,176
Provision for credit losses	1,103	303	20	5		976	95	2,502
Depreciation and amortization	218	148	41	3			287	697
Other noninterest expense	3,836	1,669	606	562		250	993	7,916
Income (loss) from continuing operations before income taxes and noncontrolling interests	217	2,736	223	433	462	(101)	91	4,061
Income taxes (benefit)	77	966	82	158	111	(37)	(320)	1,037
Income (loss) from continuing operations before noncontrolling interests	\$ 140	\$ 1,770	\$ 141	\$ 275	\$ 351	\$ (64)	\$ 411	\$ 3,024
Inter-segment revenue	\$ 1	\$ 21	\$ 13	\$ 12	\$ 22	\$ (12)	\$ (57)	
Average Assets (a)	\$ 67,024	\$ 77,467	\$ 7,022	\$ 9,247	\$ 5,428	\$ 17,517	\$ 81,197	\$ 264,902
2009								
Income Statement								
Net interest income	\$ 3,520	\$ 3,801	\$ 308	\$ 332		\$ 1,079	\$ 43	\$ 9,083
Noninterest income	2,199	1,433	611	996	\$ 262	74	1,570	7,145
Total revenue	5,719	5,234	919	1,328	262	1,153	1,613	16,228
Provision for (recoveries of) credit losses	1,330	1,603	97	(4)		771	133	3,930
Depreciation and amortization	263	141	41	5			323	773
Other noninterest expense	3,906	1,659	613	627		246	1,249	8,300
Income (loss) from continuing operations before income taxes and noncontrolling interests	220	1,831	168	700	262	136	(92)	3,225
Income taxes (benefit)	84	641	63	265	55	52	(293)	867
Income from continuing operations before noncontrolling interests	\$ 136	\$ 1,190	\$ 105	\$ 435	\$ 207	\$ 84	\$ 201	\$ 2,358
Inter-segment revenue	\$ (3)	\$ 11	\$ 18	\$ 6	\$ 16	\$ (17)	\$ (31)	
Average Assets (a)	\$ 65,320	\$ 84,689	\$ 7,320	\$ 8,420	\$ 6,249	\$ 22,844	\$ 82,034	\$ 276,876
2008								
Income Statement								
Net interest income	\$ 1,593	\$ 1,302	\$ 130				\$ 829	\$ 3,854
Noninterest income	1,137	536	429		\$ 261		79	2,442
Total revenue	2,730	1,838	559		261		908	6,296
Provision for credit losses	388	575	6				548	1,517
Depreciation and amortization	125	22	7				149	303
Other noninterest expense	1,664	923	356				439	3,382
Income (loss) from continuing operations before income taxes and noncontrolling interests	553	318	190		261		(228)	1,094
Income taxes (benefit)	225	103	71		54		(155)	298
Income (loss) from continuing operations before noncontrolling interests	\$ 328	\$ 215	\$ 119		\$ 207		\$ (73)	\$ 796

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

Inter-segment revenue	\$ 2	\$ 14	\$ 15	\$ 15	\$ (46)
Average Assets (a)	\$ 32,922	\$ 47,049	\$ 3,001	\$ 4,240	\$ 54,808 \$ 142,020

(a) Period-end balances for BlackRock.

Table of Contents**Statistical Information (Unaudited)****THE PNC FINANCIAL SERVICES GROUP, INC.****Selected Quarterly Financial Data**

Dollars in millions, except per share data	2010				2009			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Summary Of Operations								
Interest income	\$ 2,671	\$ 2,701	\$ 2,873	\$ 2,905	\$ 2,939	\$ 2,888	\$ 3,000	\$ 3,259
Interest expense	470	486	438	526	593	664	807	939
Net interest income	2,201	2,215	2,435	2,379	2,346	2,224	2,193	2,320
Noninterest income (a) (b)	1,702	1,383	1,477	1,384	2,540	1,629	1,610	1,366
Total revenue	3,903	3,598	3,912	3,763	4,886	3,853	3,803	3,686
Provision for credit losses	442	486	823	751	1,049	914	1,087	880
Noninterest expense	2,340	2,158	2,002	2,113	2,209	2,214	2,492	2,158
Income from continuing operations before income taxes and noncontrolling interests	1,121	954	1,087	899	1,628	725	224	648
Income taxes	301	179	306	251	525	185	29	128
Income from continuing operations before noncontrolling interests	820	775	781	648	1,103	540	195	520
Income from discontinued operations, net of income taxes (c)		328	22	23	4	19	12	10
Net income	820	1,103	803	671	1,107	559	207	530
Less: Net income (loss) attributable to noncontrolling interests	(3)	2	(9)	(5)	(37)	(20)	9	4
Preferred stock dividends	24	4	25	93	119	99	119	51
Preferred stock discount accretion and redemptions	1	3	1	250	14	13	14	15
Net income attributable to common shareholders	\$ 798	\$ 1,094	\$ 786	\$ 333	\$ 1,011	\$ 467	\$ 65	\$ 460
Per Common Share Data								
Book value	\$ 56.29	\$ 55.91	\$ 52.77	\$ 50.32	\$ 47.68	\$ 45.52	\$ 42.00	\$ 41.67
Basic earnings (d)								
Continuing operations	1.52	1.45	1.45	.62	2.18	.97	.11	1.02
Discontinued operations (c)		.63	.04	.05	.01	.04	.03	.02
Net income	1.52	2.08	1.49	.67	2.19	1.01	.14	1.04
Diluted earnings (d)								
Continuing operations	1.50	1.45	1.43	.61	2.16	.96	.11	1.01
Discontinued operations (c)		.62	.04	.05	.01	.04	.03	.02
Net income	1.50	2.07	1.47	.66	2.17	1.00	.14	1.03

(a) Fourth quarter 2009 included a \$1.076 billion gain related to BlackRock's acquisition of BGI on December 1, 2009.

(b) Noninterest income included equity management gains/(losses) and net gains on sales of securities in each quarter as follows (in millions):

	2010				2009			
	Fourth	Third	Second	First	Fourth	Third	Second	First
Equity management gains/(losses)	\$ 40	\$ 63	\$ 75	\$ 41	\$ 35	\$ 3	\$ (13)	\$ (52)
Net gains on sales of securities	68	121	147	90	144	168	182	56

Edgar Filing: WALT DISNEY CO/ - Form 10-Q

- (c) Includes results of operations for PNC Global Investment Servicing Inc. (GIS) and the related after-tax gain on sale. We sold GIS effective July 1, 2010, resulting in a pretax gain of \$639 million, or \$328 million after taxes, recognized during the third quarter of 2010.
- (d) The sum of quarterly amounts for 2010 and 2009 does not equal the respective year's amount because the quarterly calculations are based on a changing number of average shares.

Table of Contents**Analysis Of Year-To-Year Changes In Net Interest Income**

Taxable-equivalent basis - in millions	2010/2009			2009/2008		
	Increase/(Decrease) in Income/ Expense Due to Changes in:			Increase/(Decrease) in Income/ Expense Due to Changes in:		
	Volume	Rate	Total	Volume	Rate	Total
Interest-Earning Assets						
Investment securities						
Securities available for sale						
Residential mortgage-backed						
Agency	\$ 69	\$ (196)	\$ (127)	\$ 572	\$ (79)	\$ 493
Non-agency	(170)	(52)	(222)	(3)	126	123
Commercial mortgage-backed	(56)	(17)	(73)	(51)	8	(43)
Asset-backed	18	(80)	(62)	(71)	57	(14)
US Treasury and government agencies	87	(13)	74	135	(1)	134
State and municipal	5		5	31	7	38
Other debt	42	(9)	33	39	(5)	34
Corporate stocks and other		(3)	(3)		(9)	(9)
Total securities available for sale	132	(507)	(375)	819	(63)	756
Securities held to maturity						
Commercial mortgage-backed	97	(14)	83	108		108
Asset-backed	45	(49)	(4)	86	(1)	85
Other	(2)	2		6		6
Total securities held to maturity	135	(56)	79	200	(1)	199
Total investment securities	274	(570)	(296)	1,016	(61)	955
Loans						
Commercial	(363)	(37)	(400)	1,626	(200)	1,426
Commercial real estate	(222)	(25)	(247)	809	(59)	750
Equipment lease financing	4	23	27	159	58	217
Consumer	136	(16)	120	1,673	(63)	