PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
May 07, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of April 24, 2015, there were 517,920,355 shares of the registrant s common stock ($5 par value) outstanding.

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FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2014 Annual Report on Form 10-K (2014 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following sections as they appear in this Report and in our 2014 Form 10-K: the Risk Management and Recourse And Repurchase Obligations sections of the Financial Review portion of this Report and of Item 7 of our 2014 Form 10-K, respectively; Item 1A Risk Factors included in our 2014 Form 10-K; and the Legal Proceedings and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements included in the respective report. Also, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and the Critical Accounting Estimates And Judgments section in this Financial Review and in our 2014 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 17 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data	Three months ended March 31	
Unaudited	2015	2014
Financial Results (a)		
Revenue		
Net interest income	$ 2,072	$ 2,195
Noninterest income	1,659	1,582
Total revenue	3,731	3,777
Noninterest expense	2,349	2,264
Pretax, pre-provision earnings (b)	1,382	1,513
Provision for credit losses	54	94
Income before income taxes and noncontrolling interests	$ 1,328	$ 1,419
Net income	$ 1,004	$ 1,060
Less:		
Net income (loss) attributable to noncontrolling interests	1	(2)
Preferred stock dividends and discount accretion and redemptions	70	70
Net income attributable to common shareholders	$ 933	$ 992
Less:		
Dividends and undistributed earnings allocated to nonvested restricted shares	2	3
Impact of BlackRock earnings per share dilution	5	6
Net income attributable to diluted common shares	$ 926	$ 983
Diluted earnings per common share	$ 1.75	$ 1.82
Cash dividends declared per common share	$ .48	$ .44
Performance Ratios		
Net interest margin (c)	2.82%	3.26%
Noninterest income to total revenue	44	42
Efficiency	63	60
Return on:		
Average common shareholders equity	9.32	10.36
Average assets	1.17	1.35

See page 49 for a glossary of certain terms used in this Report.

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

(b)

We believe that pretax, pre-provision earnings, a non-GAAP financial measure, is useful as a tool to help evaluate the ability to provide for credit costs through operations.

(c) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended March 31, 2015 and March 31, 2014 were $49 million and $46 million, respectively.

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Table 1: Consolidated Financial Highlights (Continued) (a)

Unaudited	March 31 2015	December 31 2014	March 31 2014
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$ 350,960	$ 345,072	$ 323,423
Loans	204,722	204,817	198,242
Allowance for loan and lease losses	3,306	3,331	3,530
Interest-earning deposits with banks (b)	31,198	31,779	14,877
Investment securities	60,768	55,823	58,644
Loans held for sale	2,423	2,262	2,102
Goodwill	9,103	9,103	9,074
Mortgage servicing rights	1,333	1,351	1,568
Equity investments (c)	10,523	10,728	10,337
Other assets	25,538	23,482	23,315
Noninterest-bearing deposits	74,944	73,479	70,063
Interest-bearing deposits	161,559	158,755	152,319
Total deposits	236,503	232,234	222,382
Transaction deposits	202,272	198,267	188,105
Borrowed funds	56,829	56,768	46,806
Total shareholders equity	45,025	44,551	43,321
Common shareholders equity	41,077	40,605	39,378
Accumulated other comprehensive income	703	503	656
Book value per common share	$ 78.99	$ 77.61	$ 73.73
Common shares outstanding (millions)	520	523	534
Loans to deposits	87%	88%	89%
Client Investment Assets (billions)			
Discretionary client assets under management	$ 136	$ 135	$ 130
Nondiscretionary client assets under administration	129	128	125
Total client assets under administration	265	263	255
Brokerage account client assets	44	43	41
Total	$ 309	$ 306	$ 296
Capital Ratios			
Transitional Basel III (d) (e)			
Common equity Tier 1	10.5%	10.9%	10.8%
Tier 1 risk-based	12.0	12.6	12.6
Total capital risk-based	15.0	15.8	15.8
Leverage	10.5	10.8	11.1
Pro forma Fully Phased-In Basel III (e)			
Common equity Tier 1	10.0%	10.0%	9.7%
Common shareholders equity to assets	11.7%	11.8%	12.2%
Asset Quality			
Nonperforming loans to total loans	1.17%	1.23%	1.49%
Nonperforming assets to total loans, OREO and foreclosed assets	1.34	1.40	1.66
Nonperforming assets to total assets	.78	.83	1.02
Net charge-offs to average loans (for the three months ended) (annualized)	.20	.23	.38
Allowance for loan and lease losses to total loans	1.61	1.63	1.78

Allowance for loan and lease losses to nonperforming loans (f)	137%	133%	120%
Accruing loans past due 90 days or more (in millions)	$ 988	$ 1,105	$ 1,310

(a) The Executive Summary and Consolidated Balance Sheet Review portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.
(b) Amounts include balances held with the Federal Reserve Bank of Cleveland (Federal Reserve Bank) of $30.8 billion, $31.4 billion, and $14.5 billion as of March 31, 2015, December 31, 2014 and March 31, 2014, respectively.
(c) Amounts include our equity interest in BlackRock.
(d) Calculated using the regulatory capital methodology applicable to PNC during each period presented.
(e) See Basel III Capital discussion in the Capital portion of the Consolidated Balance Sheet Review section of this Financial Review and the capital discussion in the Banking Regulation and Supervision section of Item 1 Business in our 2014 Form 10-K. See also the Estimated Pro forma Fully Phased-In Basel III Common Equity Tier 1 Capital Ratio 2014 Periods table in the Statistical Information section of this Report for a reconciliation of the 2014 periods ratios.
(f) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.

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EXECUTIVE SUMMARY

The PNC Financial Services Group, Inc. (PNC) is one of the largest diversified financial services companies in the United States and is headquartered in Pittsburgh, Pennsylvania.

We have businesses engaged in retail banking, corporate and institutional banking, asset management and residential mortgage banking, providing many of our products and services nationally, as well as other products and services in our primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, North Carolina, Florida, Kentucky, Washington, D.C., Delaware, Virginia, Alabama, Missouri, Georgia, Wisconsin and South Carolina. We also provide certain products and services internationally.

Key Strategic Goals

At PNC we manage our company for the long term. We are focused on the fundamentals of growing customers, loans, deposits and fee revenue and improving profitability, while investing for the future and managing risk, expenses and capital. We continue to invest in our products, markets and brand, and embrace our corporate responsibility to the communities where we do business.

We strive to expand and deepen customer relationships by offering a broad range of deposit, fee-based and credit products and services. We are focused on delivering those products and services where, when and how our customers choose with the goal of offering insight that addresses their specific needs. Our approach is concentrated on organically growing and deepening client relationships that meet our risk/return measures. Our strategies for growing fee income across our lines of business are focused on achieving deeper market penetration and cross selling our diverse product mix.

Our strategic priorities are designed to enhance value over the long term. A key priority is to drive growth in acquired and underpenetrated geographic markets, including in the Southeast. In addition, we are seeking to attract more of the investable assets of new and existing clients. PNC is focused on transforming our retail banking business to a more customer-centric and sustainable model while lowering delivery costs as customer banking preferences evolve. We are also working to build a stronger residential mortgage banking business with the goal of becoming the provider of choice for our customers. Additionally, we continue to focus on expense management while investing in technology and business infrastructure and streamlining our processes.

Our capital priorities are to support client growth and business investment, maintain appropriate capital in light of economic uncertainty and the Basel III framework and return excess capital to shareholders, in accordance with the capital plan included in our 2015 Comprehensive Capital Analysis and

Review (CCAR) submission to the Board of Governors of the Federal Reserve System (Federal Reserve). New regulatory short-term liquidity standards became effective for PNC and PNC Bank, National Association (PNC Bank) beginning January 1, 2015. For more detail, see the Balance Sheet, Liquidity and Capital Highlights portion of this Executive Summary, the Capital portion of the Consolidated Balance Sheet Review section and the Liquidity Risk Management portion of the Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 Business of our 2014 Form 10-K.

PNC faces a variety of risks that may impact various aspects of our risk profile from time to time. The extent of such impacts may vary depending on factors such as the current economic, political and regulatory environment, merger and acquisition activity and operational challenges. Many of these risks and our risk management strategies are described in more detail in our 2014 Form 10-K and elsewhere in this Report.

Recent Market and Industry Developments

There have been numerous legislative and regulatory developments and significant changes in the competitive landscape of our industry over the last several years. The United States and other governments have undertaken major reform of the regulation of the financial services industry, including engaging in new efforts to impose requirements designed to strengthen the stability of the financial system and protect consumers and investors. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), enacted in July 2010, mandates the most wide-ranging overhaul of financial industry regulation in decades. Many parts of the law are now in effect, and others are now in the implementation stage, which is likely to continue for several years. We expect to face additional regulation of our industry as a result of Dodd-Frank as well as other current and future initiatives intended to enhance the regulation of financial services companies, the stability of the financial system, the protection of consumers and investors, and the liquidity and solvency of financial institutions and markets. We also expect the scrutiny from our supervisors in the examination process and the enforcement of laws and regulations on both the federal and state levels to remain at elevated levels. Compliance with new regulations will increase our costs and reduce our revenue. Some new regulations may limit our

ability to pursue certain desirable business opportunities.

On March 11, 2015, the Federal Reserve announced the results of its 2015 CCAR exercise. As we announced on that date, the Federal Reserve accepted the capital plan that PNC submitted in January 2015 and did not object to the capital actions included in that plan. See the Capital portion of the Consolidated Balance Sheet Review section of this Financial Review. Of the 30 other bank holding companies participating in 2015 CCAR, the Federal Reserve announced that it did not

object to the capital plans of 27 other bank holding companies, provided a conditional non-objection to the capital plan of one bank holding company based on qualitative grounds and objected to the capital plans of two other bank holding companies also for qualitative reasons.

For additional information concerning recent legislative and regulatory developments, as well as certain governmental, legislative and regulatory inquiries and investigations that may affect PNC, please see the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors, and Note 21 Legal Proceedings and Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of our 2014 Form 10-K, as well as Note 15 Legal Proceedings and Note 16 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Key Factors Affecting Financial Performance

Our financial performance is substantially affected by a number of external factors outside of our control, including the following:

- General economic conditions, including the continuity, speed and stamina of the current U.S. economic expansion in general and on our customers in particular,
- The monetary policy actions and statements of the Federal Reserve and the Federal Open Market Committee (FOMC),
- The level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve,
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets,
- Loan demand, utilization of credit commitments and standby letters of credit, and asset quality,
- Customer demand for non-loan products and services,
- Changes in the competitive and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment,
- The impact of the extensive reforms enacted in the Dodd-Frank legislation and other legislative, regulatory and administrative initiatives and actions, including those outlined elsewhere in this Report, in our 2014 Form 10-K and in our other SEC filings, and
- The impact of market credit spreads on asset valuations.

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

- Focused execution of strategic priorities for organic customer growth opportunities,
- Further success in growing profitability through the acquisition and retention of customers and deepening relationships,
- Driving growth in acquired and underpenetrated geographic markets, including our Southeast markets,
- Our ability to effectively manage PNC s balance sheet and generate net interest income,
- Revenue growth from fee income and our ability to provide innovative and valued products to our customers,
- Our ability to utilize technology to develop and deliver products and services to our customers and protect PNC s systems and customer information,
- Our ability to bolster our critical infrastructure and streamline our core processes,
- Our ability to manage and implement strategic business objectives within the changing regulatory environment,
- A sustained focus on expense management,
- Managing our credit risk in our portfolio,
- Managing the non-strategic assets portfolio and impaired assets,
- Continuing to maintain and grow our deposit base as a low-cost funding source,
- Prudent risk, liquidity and capital management related to our efforts to manage risk to acceptable levels and to meet evolving regulatory capital, capital planning, stress testing and liquidity standards,
- Actions we take within the capital and other financial markets,
- The impact of legal and regulatory-related contingencies, and
- The appropriateness of reserves needed for critical accounting estimates and related contingencies.

For additional information, please see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2014 Form 10-K.

Income Statement Highlights

- Net income for the first quarter of 2015 was $1.0 billion, or $1.75 per diluted common share, compared to $1.1 billion, or $1.82 per diluted common share for the first quarter of 2014. Net income decreased $56 million in the comparison, as a 4% increase in noninterest expense and a 1% decrease in revenue were partially offset by lower provision for credit losses. Lower revenue in the comparison reflected a 6% decline in net interest income, which was partially offset by a 5% increase in noninterest income. For

additional detail, see the Consolidated Income Statement Review section in this Financial Review.

- Net interest income of $2.1 billion for the first quarter of 2015 decreased 6% compared with the first quarter of 2014, primarily driven by lower loan yields and a reduction in purchase accounting accretion, partially offset by commercial and commercial real estate loan growth.
- Net interest margin decreased to 2.82% for the first quarter of 2015 compared to 3.26% for the first quarter of 2014. The decline was principally due to the impact of balance sheet management activities related to regulatory short-term liquidity standards, lower loan yields and lower benefit from purchase accounting accretion.
- Noninterest income of $1.7 billion for the first quarter of 2015 increased 5% compared to the first quarter of 2014, due to strong client fee income growth and higher net securities gains, partially offset by the impact of a gain on sale of Visa Class B common shares in the prior year quarter.
- The provision for credit losses decreased to $54 million for the first quarter of 2015 compared to $94 million for the first quarter of 2014 reflecting overall credit quality improvement.
- Noninterest expense of $2.3 billion for the first quarter of 2015 increased 4% compared with the first quarter of 2014, primarily related to PNC s investments in technology and business infrastructure in support of its strategic priorities and higher personnel expense, partially offset by lower legal and residential mortgage compliance costs.

Credit Quality Highlights

- Overall credit quality for the first quarter of 2015 improved modestly compared with the fourth quarter of 2014. For additional detail, see the Credit Risk Management portion of the Risk Management section of this Financial Review.
- Nonperforming assets decreased $.1 billion, or 4%, to $2.8 billion at March 31, 2015 compared to December 31, 2014.
- Nonperforming assets to total assets were 0.78% at March 31, 2015, compared to 0.83% at December 31, 2014.
- Overall loan delinquencies of $1.8 billion at March 31, 2015 decreased $.2 billion, or 10%, compared with December 31, 2014.
- The allowance for loan and lease losses was 1.61% of total loans and 137% of nonperforming loans at March 31, 2015, compared with 1.63% and 133% at December 31, 2014, respectively.
- Net charge-offs of $103 million for the first quarter of 2015 were down 45% compared to net charge-offs of $186 million for the first quarter of 2014. Annualized net charge-offs were 0.20% of average loans in the first quarter of 2015 and 0.38% of average loans in the first quarter of 2014.

Balance Sheet, Liquidity and Capital Highlights

- Total loans decreased by $.1 billion to $205 billion at March 31, 2015 compared to December 31, 2014, as loan activity declined from higher fourth quarter levels.
  - Total commercial lending increased by $1.3 billion, or 1%, as a result of increases in commercial and commercial real estate loans.
  - Total consumer lending decreased $1.4 billion, or 2%, due to declines in home equity, automobile, education and credit card loans. Of the decline in consumer lending, $.3 billion, or 21% of the decline, related to non-strategic loans.
- Investment securities increased by $4.9 billion, or 9%, during the first quarter to $61 billion at March 31, 2015, primarily funded by deposit growth.
- Total deposits increased by $4.3 billion, or 2%, to $237 billion at March 31, 2015 compared with December 31, 2014, driven by higher retail deposits.
- PNC s well-positioned balance sheet remained core funded with a loans to deposits ratio of 87% at March 31, 2015.
- PNC maintained a strong liquidity position.
  - New regulatory short-term liquidity standards became effective for PNC and PNC Bank as advanced approaches banking organizations beginning January 1, 2015, with a minimum phased-in Liquidity Coverage Ratio requirement of 80% in 2015, calculated as of month end.
  - The Liquidity Coverage Ratio at March 31, 2015 exceeded 100% for both PNC and PNC Bank.
- PNC maintained a strong capital position.
  - The Transitional Basel III common equity Tier 1 capital ratio was 10.5% at March 31, 2015 and 10.9% at December 31, 2014, calculated using the regulatory capital methodologies applicable to PNC during 2015 and 2014, respectively.
  - Pro forma fully phased-in Basel III common equity Tier 1 capital ratio was an estimated 10.0% at March 31, 2015 and 10.0% at December 31, 2014 based on the standardized approach rules. See the Capital discussion and Table 18 in the Consolidated Balance Sheet Review section of this Financial Review and the December 31, 2014 capital ratio tables in the Statistical Information (Unaudited) section of this Report for more detail.
- PNC returned capital to shareholders.

In the first quarter of 2015, in accordance with PNC s 2014 capital plan and under the share repurchase authorization in effect during that period, we repurchased 4.4 million shares of common stock on the open market, with an

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average price of $89.48 per share and an aggregate repurchase price of $.4 billion.

These first quarter 2015 repurchases completed PNC s common stock repurchase program for the four quarter period that began in second quarter 2014 with total repurchases of 17.3 million common shares for $1.5 billion.

In connection with the 2015 CCAR, PNC submitted its 2015 capital plan, as approved by its Board of Directors, to the Federal Reserve in January 2015. As we announced on March 11, 2015, the Federal Reserve accepted the capital plan and did not object to our proposed capital actions, which included the new share repurchase programs and dividend increase discussed below.

In March 2015, PNC announced new share repurchase programs of up to $2.875 billion for the five quarter period beginning in the second quarter of 2015. See the Capital portion of the Consolidated Balance Sheet review of this Financial Review for more detail on these share repurchase programs.

In April 2015, the Board of Directors raised the quarterly dividend on common stock to 51 cents per share, an increase of 3 cents per share, or 6 percent, effective with the May dividend.

On May 4, 2015, we redeemed $500 million of PNC s Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series K, as well as all Depositary Shares representing interests therein. Each Depositary Share represented a 1/10 interest in a share of the Series K Preferred Stock. All 50,000 shares of Series K Preferred Stock, as well as all 500,000 Depositary Shares representing interests therein, were redeemed. The redemption price was $10,000 per share of Series K Preferred Stock equivalent to $1,000 per Depositary Share, plus declared and unpaid dividends to but excluding the redemption date.

Our Consolidated Income Statement and Consolidated Balance Sheet Review sections of this Item 7 describe in greater detail the various items that impacted our results during the first three months of 2015 and 2014 and balances at March 31, 2015 and December 31, 2014, respectively.

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Federal Reserve as part of the CCAR process.

See the Capital portion of the Consolidated Balance Sheet Review and the Liquidity Risk Management portion of the Risk Management section of this Financial Review for more detail on our 2015 capital and liquidity actions.

Average Consolidated Balance Sheet Highlights

Table 2: Summarized Average Balance Sheet

Three months ended March 31			Change	
Dollars in millions	2015	2014	$	%
Average assets				
Interest-earning assets				
Investment securities	$ 57,166	$ 58,379	$ (1,213)	(2)%
Loans	205,155	196,581	8,574	4%
Interest-earning deposits with banks	30,405	12,157	18,248	150%
Other	8,947	8,661	286	3%
Total interest-earning assets	301,673	275,778	25,895	9%
Noninterest-earning assets	46,384	43,784	2,600	6%
Total average assets	$ 348,057	$ 319,562	$ 28,495	9%
Average liabilities and equity				
Interest-bearing liabilities				
Interest-bearing deposits	$ 159,911	$ 150,684	$ 9,227	6%
Borrowed funds	56,352	46,388	9,964	21%
Total interest-bearing liabilities	216,263	197,072	19,191	10%
Noninterest-bearing deposits	73,178	67,679	5,499	8%
Other liabilities	12,586	10,364	2,222	21%
Equity	46,030	44,447	1,583	4%
Total average liabilities and equity	$ 348,057	$ 319,562	$ 28,495	9%

Average balances are generally indicative of underlying business trends apart from the impact of acquisitions and divestitures, while various seasonal and other factors can impact period-end balances. The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at March 31, 2015 compared with December 31, 2014. Total assets were $351.0 billion at March 31, 2015 compared with $345.1 billion at December 31, 2014.

Average investment securities declined in the first three months of 2015 compared with the first three months of 2014, due to a decrease in average residential mortgage-backed securities. Total investment securities comprised 19% of average interest-earning assets for the first quarter of 2015 and 21% for the first quarter of 2014.

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Average total loans increased in the first quarter of 2015 compared to the prior year quarter, driven by increases in average commercial loans of $8.3 billion and average commercial real estate loans of $2.3 billion, which were due to growth primarily in Corporate Banking, Real Estate and Business Credit in our Corporate & Institutional Banking segment. Average consumer loans decreased $1.6 billion.

Average loans represented 68% of average interest-earning assets for the first quarter of 2015 and 71% of average interest-earning assets for the first quarter of 2014.

Average interest-earning deposits with banks, which are primarily maintained with the Federal Reserve Bank, increased in the first quarter of 2015 compared to first quarter 2014, reflecting higher balances maintained on deposit with the Federal Reserve Bank in part due to regulatory short-term liquidity standards phased in starting January 1, 2015.

The increase in average noninterest-earning assets for the first three months of 2015 compared to the first three months of 2014 was driven primarily by higher accounts receivable from trade date securities sales and available-for-sale securities valuations, both of which are included in noninterest-earning assets for average balance sheet purposes, and an increase in trading assets, primarily net derivatives.

Average total deposits increased $14.7 billion in the first quarter of 2015 compared with the prior year quarter, primarily due to an increase of $15.0 billion in average transaction deposits, which grew to $199.3 billion for the first quarter of 2015. Growth in both our Retail Banking and Corporate & Institutional Banking segments drove the increase in average

transaction deposits. These increases were partially offset by a decrease of $2.0 billion in average retail certificates of deposit attributable to run-off of maturing accounts.

Average total deposits represented 67% of average total assets for the first quarter of 2015 and 68% for the first quarter of 2014.

The increase in average borrowed funds in the current year first quarter compared with the prior year first quarter was primarily due to increases in average Federal Home Loan Bank (FHLB) borrowings and average bank notes and senior debt, partially offset by a decline in average federal funds purchased and repurchase agreements. The Liquidity Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding our sources and uses of borrowed funds.

Business Segment Highlights

The Business Segments Review section of this Financial Review includes further analysis of our business segment results over the first three months of 2015 and 2014 including presentation differences from Note 17 Segment Reporting in our Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. Note 17 Segment Reporting presents results of businesses for the first three months of 2015 and 2014.

We provide a reconciliation of total business segment earnings to PNC total consolidated net income as reported on a GAAP basis in Note 17 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

Table 3: Results Of Businesses Summary (a)

(Unaudited)

	Net Income		Revenue		Average Assets (b)	
Three months ended March 31 in millions	2015	2014	2015	2014	2015	2014
Retail Banking	$ 202	$ 158	$ 1,526	$ 1,494	$ 74,017	$ 75,920
Corporate & Institutional Banking	482	523	1,284	1,298	131,178	117,937
Asset Management Group	37	37	281	270	7,943	7,599
Residential Mortgage Banking	28	(4)	207	206	7,245	8,777
BlackRock	135	123	175	160	6,645	6,272

Non-Strategic Assets Portfolio	81	110	121	148	7,276	8,889
Total business segments	965	947	3,594	3,576	234,304	225,394
Other (c) (d) (e)	39	113	137	201	113,753	94,168
Total	$ 1,004	$ 1,060	$ 3,731	$ 3,777	$ 348,057	$ 319,562

(a) Our business information is presented based on our internal management reporting practices. We periodically refine our internal methodologies as management reporting practices are enhanced. In the first quarter of 2015, enhancements were made to PNC s funds transfer pricing methodology primarily for costs related to the new regulatory short-term liquidity standards. See the Business Segments Review section of this Financial Review for more detail. Excluding any changes in business volumes, the estimated impacts of this change to net interest income for Retail Banking and Corporate & Institutional Banking were approximately an increase of $55 million and a decrease of $60 million, respectively, for the first quarter of 2015. The impacts to the other business segments were not significant. Prior periods have not been adjusted due to the impracticability of estimating the impact of the change for prior periods.

(b) Period-end balances for BlackRock.

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

(d) Other includes differences between the total business segment financial results and our total consolidated net income. Additional detail is included in Note 17 Segment Reporting in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

(e) The decrease in net income in the first quarter 2015 compared to the first quarter 2014 for Other primarily reflects a decline in net interest income and higher personnel expense.

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Consolidated Income Statement Review

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

Net income for the first three months of 2015 was $1.0 billion, a decrease of 5% compared with $1.1 billion for the first three months of 2014. The decrease was driven by a 4% increase in noninterest expense and a 1% decrease in revenue, partially offset by lower provision for credit losses. Lower revenue in the comparison reflected a 6% decline in net interest income, which was partially offset by a 5% increase in noninterest income.

Net Interest Income

Table 4: Net Interest Income and Net Interest Margin

	Three months ended March 31	
Dollars in millions	2015	2014
Net interest income	$ 2,072	$ 2,195
Net interest margin	2.82%	3.26%

Changes in net interest income and margin result from the interaction of the volume and composition of interest-earning assets and related yields, interest-bearing liabilities and related rates paid, and noninterest-bearing sources of funding. See the Statistical Information (Unaudited) Average Consolidated Balance Sheet And Net Interest Analysis section of this Report and the discussion of purchase accounting accretion on purchased impaired loans in the Consolidated Balance Sheet Review section of this Financial Review for additional information.

Net interest income decreased by $123 million, or 6%, in the first quarter of 2015 compared with the first quarter of 2014 reflecting the ongoing low rate environment. Lower loan yields and a reduction in purchase accounting accretion were partially offset by commercial and commercial real estate loan growth. The decline in net interest income also included the impact from the second quarter 2014 correction to reclassify certain commercial facility fees from net interest income to noninterest income.

Net interest margin decreased in the comparison to the prior year quarter, driven by a 43 basis point decline in the yield on total interest-earning assets, which was principally due to the impact of balance sheet management activities related to regulatory short-term liquidity standards, lower loan yields and lower benefit from purchase accounting accretion. The decline also included the impact of the second quarter 2014 correction to reclassify certain commercial facility fees.

In the second quarter of 2015, we expect net interest income to remain stable compared with the first quarter of 2015.

For full year 2015, we expect purchase accounting accretion to be down approximately $225 million compared to 2014. Further, full year revenues are expected to remain under pressure as the delay in expected interest rate increases will make growing core net interest income (net interest income exclusive of purchase accounting accretion) that much more difficult.

Noninterest Income

Table 5: Noninterest Income

Three months ended March 31			Change	
Dollars in millions	2015	2014	$	%
Noninterest income				
Asset management	$ 376	$ 364	$ 12	3%
Consumer services	311	290	21	7%
Corporate services	344	301	43	14%
Residential mortgage	164	161	3	2%

Service charges on deposits	153	147	6	4%
Net gains on sales of securities	42	10	32	320%
Net other-than-temporary impairments	(1)	(2)	1	(50)%
Other	270	311	(41)	(13)%
Total noninterest income	$ 1,659	$ 1,582	$ 77	5%

Noninterest income increased during the first quarter of 2015 compared to first quarter of 2014, reflecting strong client fee income growth and higher net securities gains, partially offset by the impact of a gain on sale of Visa Class B common shares in the prior year quarter. Noninterest income as a percentage of total revenue was 44% in the first quarter of 2015, up from 42% in the first quarter of 2014.

Higher asset management revenue in the first three months of 2015 was driven by increased earnings from our BlackRock investment, as well as stronger average equity markets and positive net flows, after adjustments for cyclical client activities. Discretionary client assets under management grew to $136 billion at March 31, 2015 compared with $130 billion at March 31, 2014.

Consumer service fees increased in the first quarter of 2015 compared to the prior year quarter primarily due to higher customer-initiated transaction volumes.

Corporate services revenue increased in the first quarter of 2015 compared to the first quarter of 2014, principally due to the impact of the second quarter 2014 correction to reclassify certain commercial facility fees from net interest income to noninterest income, an increase in treasury management fees and higher net hedging gains on commercial mortgage servicing rights, partially offset by lower mergers and acquisition advisory fees.

Residential mortgage fee revenue increased slightly in the first three months of 2015 compared to the prior year quarter, as higher net hedging gains on residential mortgage servicing rights were substantially offset by lower servicing fee revenue.

Service charges on deposits increased in the first quarter of 2015 compared to the prior year quarter, benefitting from changes in product offerings and higher customer-related activity.

Other noninterest income declined in the first quarter of 2015 compared to the prior year quarter primarily due to the impact of the first quarter 2014 gain on sale of 1 million Visa Class B common shares partially offset by higher customer-related trading revenue. As of March 31, 2015, we held approximately 7 million Visa Class B common shares with a fair value of approximately $740 million and a recorded investment of approximately $77 million.

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

In the second quarter of 2015, we expect the fee income categories of noninterest income (asset management, consumer services, corporate services, residential mortgage and service charges on deposits) to be up low single digits, on a percentage basis, compared to the first quarter of 2015, reflecting our continued focus on our strategic priorities.

Provision For Credit Losses

The provision for credit losses totaled $54 million for the first quarter of 2015 compared with $94 million for the first quarter of 2014. The decline in provision reflected overall credit quality improvement since the first quarter of 2014.

We expect our provision for credit losses in the second quarter of 2015 to be between $50 million and $100 million.

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

Noninterest Expense

Noninterest expense increased $85 million, or 4%, to $2.3 billion for the first quarter of 2015 compared with first quarter 2014, primarily related to PNC s investments in technology and business infrastructure in support of its strategic priorities and higher personnel expense, partially offset by lower legal and residential mortgage compliance costs.

In the first quarter of 2015 we have captured savings of more than 30 percent of our 2015 continuous improvement savings goal of $400 million, and we expect to achieve the full-year goal. We intend to fund our business and technology investments with the cost savings.

In the second quarter of 2015, we expect noninterest expense to be up low single digits, on a percentage basis, compared to the first quarter of 2015, due to the expected impact of seasonality as second quarter expenses typically increase compared to the first quarter.

For full year 2015, we expect noninterest expense to be stable compared to 2014.

Effective Income Tax Rate

The effective income tax rate was 24.4% in the first quarter of 2015 compared with 25.3% in the first quarter of 2014. The effective tax rate is generally lower than the statutory rate primarily due to tax credits PNC receives from our investments in low income housing and new markets investments, as well as earnings in other tax exempt investments.

We expect our 2015 effective tax rate to be approximately 25%.

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CONSOLIDATED BALANCE SHEET REVIEW

Table 6: Summarized Balance Sheet Data

	March 31	December 31	Change	
Dollars in millions	2015	2014	$	%
Assets				
Interest-earning deposits with banks	$ 31,198	$ 31,779	$ (581)	(2)%
Loans held for sale	2,423	2,262	161	7%
Investment securities	60,768	55,823	4,945	9%
Loans	204,722	204,817	(95)	%
Allowance for loan and lease losses	(3,306)	(3,331)	25	(1)%
Goodwill	9,103	9,103		%
Mortgage servicing rights	1,333	1,351	(18)	(1)%
Other intangible assets	463	493	(30)	(6)%
Other, net	44,256	42,775	1,481	3%
Total assets	$ 350,960	$ 345,072	$ 5,888	2%
Liabilities				
Deposits	$ 236,503	$ 232,234	$ 4,269	2%
Borrowed funds	56,829	56,768	61	%
Other	11,190	9,996	1,194	12%
Total liabilities	304,522	298,998	5,524	2%
Equity				
Total shareholders equity	45,025	44,551	474	1%
Noncontrolling interests	1,413	1,523	(110)	(7)%
Total equity	46,438	46,074	364	1%
Total liabilities and equity	$ 350,960	$ 345,072	$ 5,888	2%

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

The increase in total assets was primarily due to higher investment securities balances and an increase in other assets partially offset by lower deposit balances maintained with the Federal Reserve Bank. The increase in investment securities was primarily funded by deposit growth while other assets increased due to accounts receivable from trade date securities sales. The increase in liabilities was largely due to growth in deposits and a rise in other liabilities due to accounts payable from trade date securities purchased, while borrowed funds remained relatively stable. An analysis of changes in selected balance sheet categories follows.

Loans

Outstanding loan balances of $204.7 billion at March 31, 2015 and $204.8 billion at December 31, 2014 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $1.6 billion at March 31, 2015 and $1.7 billion at December 31, 2014, respectively. The balances include purchased impaired loans but do not include future accretable net interest (*i.e.*, the difference between the undiscounted expected cash flows and the carrying value of the loan) on those loans.

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Table 7: Details Of Loans

Dollars in millions	March 31 2015	December 31 2014	Change $	Change %
Commercial lending				
Commercial				
Retail/wholesale trade	$ 17,126	$ 16,972	$ 154	1%
Manufacturing	20,057	18,744	1,313	7%
Service providers	13,916	14,103	(187)	(1)%
Real estate related (a)	10,744	10,812	(68)	(1)%
Financial services	6,306	6,178	128	2%
Health care	9,192	9,017	175	2%
Other industries	20,309	21,594	(1,285)	(6)%
Total commercial	97,650	97,420	230	%
Commercial real estate				
Real estate projects (b)	15,057	14,577	480	3%
Commercial mortgage	9,498	8,685	813	9%
Total commercial real estate	24,555	23,262	1,293	6%
Equipment lease financing	7,470	7,686	(216)	(3)%
Total commercial lending (c)	129,675	128,368	1,307	1%
Consumer lending				
Home equity				
Lines of credit	19,918	20,361	(443)	(2)%
Installment	14,147	14,316	(169)	(1)%
Total home equity	34,065	34,677	(612)	(2)%
Residential real estate				
Residential mortgage	13,982	13,885	97	1%
Residential construction	507	522	(15)	(3)%
Total residential real estate	14,489	14,407	82	1%
Credit card	4,434	4,612	(178)	(4)%
Other consumer				
Education	6,448	6,626	(178)	(3)%
Automobile	11,120	11,616	(496)	(4)%
Other	4,491	4,511	(20)	%
Total consumer lending	75,047	76,449	(1,402)	(2)%
Total loans	$ 204,722	$ 204,817	$ (95)	%

(a) Includes loans to customers in the real estate and construction industries.
(b) Includes both construction loans and intermediate financing for projects.
(c) Construction loans with interest reserves and A/B Note restructurings are not significant to PNC.

The slight decline in loans was driven by a decrease in total consumer lending resulting from lower home equity, automobile, education and credit card loans, offset by an increase in total commercial lending driven by commercial real estate projects.

Loans represented 58% of total assets at March 31, 2015 and 59% at December 31, 2014. Commercial lending represented 63% of the loan portfolio at both March 31, 2015 and December 31, 2014. Consumer lending represented 37% of the loan portfolio at both March 31, 2015 and December 31, 2014.

Commercial real estate loans represented 12% of total loans at March 31, 2015 and 11% of total loans at December 31, 2014 and represented 7% of total assets at both March 31, 2015 and December 31, 2014. See the Credit Risk Management portion of the Risk Management section of this Financial Review for additional information regarding our loan portfolio.

Total loans above include purchased impaired loans of $4.7 billion, or 2% of total loans, at March 31, 2015, and $4.9 billion, or 2% of total loans, at December 31, 2014.

Our loan portfolio continued to be diversified among numerous industries, types of businesses and consumers across our principal geographic markets.

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Allowance for Loan and Lease Losses (ALLL)

Information regarding our higher risk loans and ALLL is included in the Credit Risk Management portion of the Risk Management section of this Financial Review and Note 1 Accounting Policies, Note 3 Asset Quality and Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in Part 1, Item 1 of this Report.

Purchase Accounting Accretion and Valuation of Purchased Impaired Loans

Information related to purchase accounting accretion and accretable yield for the first three months of 2015 and 2014 follows. Additional information on our policies for ALLL for purchased impaired loans is provided in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements of this Report. A description of our purchased impaired loan accounting and loan data is included in Note 4 Purchased Loans in the Notes To Consolidated Financial Statements of this Report.

Table 8: Accretion Purchased Impaired Loans

In millions	Three months ended March 31 2015	2014
Accretion on purchased impaired loans		
Scheduled accretion	$ 99	$ 125
Reversal of contractual interest on impaired loans	(55)	(68)
Scheduled accretion net of contractual interest	44	57
Excess cash recoveries (a)	33	29
Total	$ 77	$ 86

(a) Relates to excess cash recoveries for purchased impaired commercial loans.

Table 9: Purchased Impaired Loans Accretable Yield

In millions	2015	2014
January 1	$ 1,558	$ 2,055
Scheduled accretion	(99)	(125)
Excess cash recoveries	(33)	(29)
Net reclassification to accretable from non-accretable and other activity (a)	58	87
March 31 (b)	$ 1,484	$ 1,988

(a) Approximately 90% and 95% of the net reclassification for the quarters ended March 31, 2015 and 2014, respectively, were driven by the consumer portfolio and were due to improvements of cash expected to be collected on loans in future periods. The remaining net reclassifications were predominantly due to future cash flow changes in the commercial portfolio.

(b) As of March 31, 2015, we estimate that the reversal of contractual interest on purchased impaired loans will total approximately $.8 billion in future periods. This will offset the total net accretable interest in future interest income of $1.5 billion on purchased impaired loans.

Information related to the valuation of purchased impaired loans at March 31, 2015 and December 31, 2014 follows.

Table 10: Valuation of Purchased Impaired Loans

	March 31, 2015		December 31, 2014	
Dollars in millions	Balance	Net Investment	Balance	Net Investment
Commercial and commercial real estate loans:				
Outstanding balance (a)	$ 398		$ 466	
Recorded investment	$ 276		$ 310	

Allowance for loan losses	(80)		(79)	
Net investment/Carrying value	$ 196	49%	$ 231	50%
Consumer and residential mortgage loans:				
Outstanding balance (a)	$ 4,343		$ 4,541	
Recorded investment	$ 4,399		$ 4,548	
Allowance for loan losses	(781)		(793)	
Net investment/Carrying value	$ 3,618	83%	$ 3,755	83%
Total purchased impaired loans:				
Outstanding balance (a)	$ 4,741		$ 5,007	
Recorded investment	$ 4,675		$ 4,858	
Allowance for loan losses	(861)		(872)	
Net investment/Carrying value	$ 3,814	80%	$ 3,986	80%

(a) Outstanding balance represents the balance on the loan servicing system for active loans. It is possible for the outstanding balance to be lower than the recorded investment for certain loans due to the use of pool accounting. See Note 4 Purchased Loans for additional information on purchased impaired loans.

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At March 31, 2015, our largest individual purchased impaired loan had a recorded investment of $9 million. We currently expect to collect total cash flows of $5.3 billion on purchased impaired loans, representing the $3.8 billion net investment at March 31, 2015 and the accretable net interest of $1.5 billion shown in Table 9.

Weighted Average Life of the Purchased Impaired Portfolios

The table below provides the weighted average life (WAL) for each of the purchased impaired portfolios as of March 31, 2015.

Table 11: Weighted Average Life of the Purchased Impaired Portfolios

As of March 31, 2015

Dollars in millions		Recorded Investment	WAL (a)
Commercial	$	60	2.1 years
Commercial real estate		216	1.5 years
Consumer (b)		1,918	3.8 years
Residential real estate		2,481	4.7 years
Total	$	4,675	4.1 years

(a) Weighted average life represents the average number of years for which each dollar of unpaid principal remains outstanding.
(b) Portfolio primarily consists of nonrevolving home equity products.

Purchased Impaired Loans Accretable Difference Sensitivity Analysis

The following table provides a sensitivity analysis on the Total Purchased Impaired Loans portfolio. The analysis reflects hypothetical changes in key drivers for expected cash flows over the life of the loans under declining and improving conditions at a point in time. Any unusual significant economic events or changes, as well as other variables not considered below (*e.g*., natural or widespread disasters), could result in impacts outside of the ranges represented below. Additionally, commercial and commercial real estate loan settlements or sales proceeds can vary widely from appraised values due to a number of factors including, but not limited to, special use considerations, liquidity premiums and improvements/deterioration in other income sources.

Table 12: Accretable Difference Sensitivity Total Purchased Impaired Loans

In billions	March 31, 2015	Declining Scenario (a)	Improving Scenario (b)
Expected cash flows	$ 5.3	$ (.1)	$ .2
Accretable difference	1.5		
Allowance for loan and lease losses	(.9)	(.1)	.2

(a) Declining Scenario Reflects hypothetical changes that would decrease future cash flow expectations. For consumer loans, we assume home price forecast decreases by ten percent and unemployment rate forecast increases by two percentage points; for commercial loans, we assume that collateral values decrease by ten percent.
(b) Improving Scenario Reflects hypothetical changes that would increase future cash flow expectations. For consumer loans, we assume home price forecast increases by ten percent, unemployment rate forecast decreases by two percentage points and interest rate forecast increases by two percentage points; for commercial loans, we assume that collateral values increase by ten percent.

The present value impact of declining cash flows is primarily reflected as an immediate impairment charge to the provision for credit losses, resulting in an increase to the allowance for loan and lease losses. The present value impact of increased cash flows is first recognized as a reversal of the allowance with any additional cash flow increases reflected as an increase in accretable yield over the life of the loan.

Commitment to extend credit are comprised of the following:

Table 13: Commitments to Extend Credit (a)

In millions	March 31 2015	December 31 2014
Total commercial lending (b)	$ 96,866	$ 99,837
Home equity lines of credit	17,784	17,839
Credit card	18,539	17,833
Other	4,771	4,178
Total	$ 137,960	$ 139,687

(a) Commitments to extend credit, or net unfunded loan commitments, represent arrangements to lend funds or provide liquidity subject to specified contractual conditions.

(b) Less than 5% of net unfunded loan commitments relate to commercial real estate at each date.

Standby bond purchase agreements totaled $1.1 billion at March 31, 2015 and $1.1 billion at December 31, 2014 and are included in the preceding table, primarily within the Total commercial lending category.

In addition to the credit commitments set forth in the table above, our net outstanding standby letters of credit totaled $9.8 billion at March 31, 2015 and $10.0 billion at December 31, 2014. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Information regarding our commitments to extend credit and our allowance for unfunded loan commitments and letters of credit is included in Note 1 Accounting Policies, Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 16 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part 1, Item 1 of this Report.

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INVESTMENT SECURITIES

The following table presents the distribution of our investment securities portfolio. We have included credit ratings information because we believe that the information is an indicator of the degree of credit risk to which we are exposed. Changes in credit ratings classifications could indicate increased or decreased credit risk and could be accompanied by a reduction or increase in the fair value of our investment securities portfolio. For those securities, where during our quarterly security-level impairment assessments we determined losses represented other-than-temporary impairment (OTTI), we have recorded cumulative credit losses of $1.2 billion in earnings and accordingly have reduced the amortized cost of our securities. See Table 71 in Note 6 Investment Securities in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for more detail. The majority of these cumulative impairment charges related to non-agency residential mortgage-backed and asset-backed securities rated BB or lower.

Table 14: Investment Securities

	March 31, 2015		December 31, 2014		Ratings (a) As of March 31, 2015				
Dollars in millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value	AAA/ AA	A	BBB	BB and Lower	No Rating
U.S. Treasury and government agencies	$ 5,544	$ 5,799	$ 5,485	$ 5,714	100%				
Agency residential mortgage-backed	28,402	29,008	23,382	23,935	100				
Non-agency residential mortgage-backed	4,819	5,041	4,993	5,225	10	1%	3%	81%	5%
Agency commercial mortgage-backed	3,266	3,349	3,378	3,440	100				
Non-agency commercial mortgage-backed (b)	5,183	5,294	5,095	5,191	76	7	7	4	6
Asset-backed (c)	5,904	5,957	5,900	5,940	89	2		8	1
State and municipal	4,017	4,217	3,995	4,191	87	6			7
Other debt	2,135	2,191	2,099	2,142	62	23	14		1
Corporate stock and other	364	363	442	441					100
Total investment securities (d)	$ 59,634	$ 61,219	$ 54,769	$ 56,219	87%	2%	1%	8%	2%

(a) Ratings percentages allocated based on amortized cost.
(b) Collateralized primarily by retail properties, office buildings, lodging properties and multi-family housing.
(c) Collateralized primarily by government guaranteed student loans and other consumer credit products and corporate debt.
(d) Includes available for sale and held to maturity securities.

Investment securities represented 17% of total assets at March 31, 2015 and 16% at December 31, 2014.

We evaluate our investment securities portfolio in light of changing market conditions and other factors and, where appropriate, take steps to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. At March 31, 2015, 87% of the securities in the portfolio were rated AAA/AA, with U.S. Treasury and government agencies, agency residential mortgage-backed and agency commercial mortgage-backed securities collectively representing 62% of the portfolio.

The investment securities portfolio includes both available for sale and held to maturity securities. Securities classified as available for sale are carried at fair value with net unrealized gains and losses, representing the difference between amortized cost and fair value, included in Shareholders equity as Accumulated other comprehensive income or loss, net of tax, on our Consolidated Balance Sheet. Securities classified as held to maturity are carried at amortized cost. As of March 31, 2015, the amortized cost and fair value of available for sale securities totaled $46.4 billion and $47.6 billion, respectively, compared to an amortized cost and fair value as

of December 31, 2014 of $43.2 billion and $44.2 billion, respectively. The amortized cost and fair value of held to maturity securities were $13.2 billion and $13.6 billion, respectively, at March 31, 2015, compared to $11.6 billion and $12.0 billion, respectively, at December 31, 2014.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa. Net unrealized gains in the total investment securities portfolio increased to $1.6 billion at March 31, 2015 from $1.5 billion at December 31, 2014 primarily due to the impact of market interest rates and credit spreads. The comparable amounts for the securities available for sale portfolio were both $1.1 billion.

Unrealized gains and losses on available for sale debt securities do not impact liquidity. However these gains and losses do affect capital under the regulatory capital rules. Also, a change in the securities credit ratings could impact the liquidity of the securities and may be indicative of a change in credit quality, which could affect our risk-weighted

assets and, therefore, our risk-based regulatory capital ratios under the regulatory capital rules. In addition, the amount representing the credit-related portion of OTTI on securities would reduce our earnings and regulatory capital ratios.

The duration of investment securities was 2.1 years at March 31, 2015. We estimate that, at March 31, 2015, the effective duration of investment securities was 2.3 years for an immediate 50 basis points parallel increase in interest rates and 2.0 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2014 for the effective duration of investment securities were 2.2 years and 2.1 years, respectively.

At least quarterly, we conduct a comprehensive security-level impairment assessment on all securities. For securities in an unrealized loss position, we determine whether the loss represents OTTI. For debt securities that we neither intend to sell nor believe we will be required to sell prior to expected recovery, we recognize the credit portion of OTTI charges in current earnings and include the noncredit portion of OTTI in Net unrealized gains (losses) on OTTI securities on our Consolidated Statement of Comprehensive Income and net of tax in Accumulated other comprehensive income (loss) on our Consolidated Balance Sheet. During the first quarters of 2015 and 2014 we recognized OTTI credit losses of $1 million and $2 million, respectively.

If economic conditions, including housing values, were to deteriorate from current levels, and if market volatility and illiquidity were to deteriorate from current levels, or if market interest rates were to increase or credit spreads were to widen appreciably, the valuation of our investment securities portfolio would likely be adversely affected and we could incur additional OTTI credit losses that would impact our Consolidated Income Statement.

Additional information regarding our investment securities is included in Note 6 Investment Securities and Note 7 Fair Value in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

Loans Held for Sale

Table 15: Loans Held For Sale

In millions	March 31 2015	December 31 2014
Commercial mortgages at fair value	$ 975	$ 893
Commercial mortgages at lower of cost or fair value	62	29
Total commercial mortgages	1,037	922
Residential mortgages at fair value	1,232	1,261
Residential mortgages at lower of cost or fair value	17	18
Total residential mortgages	1,249	1,279
Other	137	61
Total	$ 2,423	$ 2,262

As of September 1, 2014, we have elected to apply the fair value option to commercial mortgage loans held for sale to agencies. This election applies to all new commercial mortgage loans held for sale originated for sale to the agencies effective on or after September 1, 2014. The election of fair value option aligns the accounting for the commercial mortgages with the related commitments to sell the loans.

We sold $1.0 billion of commercial mortgage loans to agencies during the first three months of 2015 compared to $439 million during the first three months of 2014. Total gains of $15 million were recognized on the valuation and sale of commercial mortgage loans held for sale, net of hedges, during the first three months of 2015, and $7 million during the first three months of 2014. These amounts are included in Other noninterest income on our Consolidated Income Statement.

Residential mortgage loan origination volume was $2.6 billion during the first three months of 2015 compared to $1.9 billion during the first three months of 2014. The majority of such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $1.9 billion of loans and recognized loan sales revenue of $104 million during the first three months of 2015. The comparable amounts for the first three months of 2014 were $2.1 billion and $107 million.

Interest income on loans held for sale was $23 million during both the first three months of 2015 and 2014. These amounts are included in Other interest income on our Consolidated Income Statement.

Additional information regarding our loan sale and servicing activities is included in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities and Note 7 Fair Value in our Notes To Consolidated Financial Statements included in Part 1, Item 1 of this Report.

Goodwill and Intangible Assets

Goodwill and intangible assets of $10.9 billion remained relatively flat at March 31, 2015. See additional information regarding our goodwill and intangible assets in Note 8 Goodwill and Intangible Assets included in the Notes To Consolidated Financial Statements in Part 1, Item 1 of this Report.

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Funding Sources

Table 16: Details Of Funding Sources

Dollars in millions	March 31 2015	December 31 2014	Change $	Change %
Deposits				
Money market	$ 118,746	$ 115,438	$ 3,308	3%
Demand	83,527	82,829	698	1%
Retail certificates of deposit	18,447	18,544	(97)	(1)%
Savings	13,692	12,571	1,121	9%
Time deposits in foreign offices and other time deposits	2,091	2,852	(761)	(27)%
Total deposits	236,503	232,234	4,269	2%
Borrowed funds				
Federal funds purchased and repurchase agreements	2,202	3,510	(1,308)	(37)%
Federal Home Loan Bank borrowings	21,224	20,005	1,219	6%
Bank notes and senior debt	16,205	15,750	455	3%
Subordinated debt	9,228	9,151	77	1%
Commercial paper	4,399	4,995	(596)	(12)%
Other	3,571	3,357	214	6%
Total borrowed funds	56,829	56,768	61	%
Total funding sources	$ 293,332	$ 289,002	$ 4,330	1%

See the Liquidity Risk Management portion of the Risk Management section of this Financial Review for additional information regarding our 2015 capital and liquidity activities.

Total deposits increased $4.3 billion at March 31, 2015 compared with December 31, 2014 due to strong growth in money market, savings and demand, partially offset by lower other time deposits. Interest-bearing deposits represented 68% of total deposits at both March 31, 2015 and December 31, 2014. Total borrowed funds increased $61 million since December 31, 2014 as higher Federal Home Loan Bank borrowings and issuances of bank notes and senior debt were partially offset by a decline in federal funds purchased and repurchase agreements and commercial paper issuances.

Capital

Table 17: Shareholders Equity

Dollars in millions	March 31 2015	December 31 2014	Change $	Change %
Shareholders equity				
Preferred stock (a)				
Common stock	$ 2,706	$ 2,705	$ 1	%
Capital surplus preferred stock	3,948	3,946	2	%
Capital surplus common stock and other	12,561	12,627	(66)	(1)%
Retained earnings	26,882	26,200	682	3%
Accumulated other comprehensive income	703	503	200	40%
Common stock held in treasury at cost	(1,775)	(1,430)	(345)	(24)%
Total shareholders equity	$ 45,025	$ 44,551	$ 474	1%

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

We manage our funding and capital positions by making adjustments to our balance sheet size and composition, issuing debt, equity or other capital instruments, executing treasury stock transactions and capital redemptions, managing dividend policies and retaining earnings.

The increase in total shareholders equity compared to December 31, 2014 reflected an increase in retained earnings, partially offset by share repurchases of $.4 billion under PNC s common stock repurchase program in effect through the first quarter of 2015. The increase in retained earnings was driven by net income of $1.0 billion, reduced by $319 million of common and preferred dividends declared. Accumulated other comprehensive income increased due to the impact of market interest rates and credit spreads on securities available for sale and derivatives that are part of cash flow hedging strategies. Common shares outstanding were 520 million at March 31, 2015 and 523 million at December 31, 2014.

Our 2007 common stock repurchase program authorization permitted us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. Under such authorization, PNC repurchased 4.4 million common shares for $.4 billion during the first quarter of 2015 and completed its common stock repurchase programs for the four quarter period that began in second quarter 2014 with total repurchases of 17 million common shares for $1.5 billion. In the first quarter of 2015, PNC s Board of Directors approved both the termination of the 2007 authorization, effective as of March 31, 2015, and the establishment of a new stock repurchase program authorization in the amount of 100 million shares of PNC common stock, effective April 1, 2015. The extent and timing of share repurchases under this authorization will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital

considerations, alternative uses of capital, the potential impact on our credit ratings, contractual and regulatory limitations, and the results of future supervisory assessments of capital adequacy and capital planning processes undertaken by the Federal Reserve as part of the CCAR process. In connection with the 2015 CCAR, PNC submitted its 2015 capital plan, as approved by its Board of Directors, to the Federal Reserve in January 2015. In March 2015, the Federal Reserve accepted the capital plan and did not object to our proposed capital actions and PNC announced new share repurchase programs of up to $2.875 billion for the five quarter period beginning in the second quarter of 2015. These programs include repurchases of up to $375 million over the five quarter period related to stock issuances under employee benefit-related programs. Under the de minimis safe harbor of the Federal Reserve s capital plan rule, PNC may make limited repurchases of common stock or other capital distributions in amounts that exceed the amounts included in its most recently approved capital plan, provided that, among other things, such distributions do not exceed, in the aggregate, 1% of PNC s Tier 1 capital and the Federal Reserve does not object to the additional repurchases or distributions. Under the Federal Reserve s capital plan rule, a bank holding company must resubmit a new capital plan prior to the annual submission date if, among other things, there has been or will be a material change in the bank holding company s risk profile, financial condition, or corporate structure since its last capital plan submission. See the Supervision and Regulation section of Item 1 Business of our 2014 Form 10-K for further information concerning the CCAR process and the factors the Federal Reserve takes into consideration in its evaluation of capital plans and the Balance Sheet, Liquidity and Capital Highlights portion of the Executive Summary section of this Financial Review for the impact of the Federal Reserve s current supervisory assessment of the capital adequacy program.

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Table 18: Basel III Capital

	March 31, 2015	
	Transitional Basel III	Pro forma Fully Phased-In Basel III
Dollars in millions	(a)	(b)(c)
Common equity Tier 1 capital		
Common stock plus related surplus, net of treasury stock	$ 13,492	$ 13,492
Retained earnings	26,882	26,882
Accumulated other comprehensive income for securities currently and previously held as available for sale	308	770
Accumulated other comprehensive income for pension and other postretirement plans	(193)	(482)
Goodwill, net of associated deferred tax liabilities	(8,853)	(8,853)
Other disallowed intangibles, net of deferred tax liabilities	(158)	(396)
Other adjustments/(deductions)	(112)	(150)
Total common equity Tier 1 capital before threshold deductions	31,366	31,263
Total threshold deductions	(414)	(1,045)
Common equity Tier 1 capital	30,952	30,218
Additional Tier 1 capital		
Preferred stock plus related surplus	3,948	3,948
Trust preferred capital securities	50	
Noncontrolling interests (d)	604	44
Other adjustments/(deductions)	(78)	(100)
Tier 1 capital	35,476	34,110
Additional Tier 2 capital		
Qualifying subordinated debt	5,159	4,709
Trust preferred capital securities	149	
Allowance for loan and lease losses included in Tier 2 capital	3,539	295
Other	3	9
Total Basel III capital	$ 44,326	$ 39,123
Risk-weighted assets		
Basel III standardized approach risk-weighted assets (e)	$ 295,114	$ 302,784
Estimated Basel III advanced approaches risk-weighted assets (f)	N/A	287,293
Average quarterly adjusted total assets	337,960	337,046
Supplementary leverage exposure (g)	404,391	403,477
Basel III risk-based capital and leverage ratios		
Common equity Tier 1	10.5%	10.0%(h)(j)
Tier 1	12.0	11.3(h)(k)
Total	15.0	13.6(i)(l)
Leverage (m)	10.5	10.1
Supplementary leverage ratio (n)	8.8	8.5

(a) Calculated using the regulatory capital methodology applicable to PNC during 2015.

(b) PNC utilizes the pro forma fully phased-in Basel III capital ratios to assess its capital position (without the benefit of phase-ins), including comparison to similar estimates made by other financial institutions. Pro forma fully phased-in capital amounts, ratios and risk-weighted and leverage-related assets are estimated.

(c) Basel III capital ratios and estimates may be impacted by additional regulatory guidance or analysis and, in the case of those ratios calculated using the advanced approaches, the ongoing evolution, validation and regulatory approval of PNC s models integral to the calculation of advanced approaches risk-weighted assets.

(d) Primarily includes REIT Preferred Securities.

(e) Includes credit and market risk-weighted assets.

(f) Includes credit, market and operational risk-weighted assets.

(g) Supplementary leverage exposure is the sum of Adjusted average assets and certain off-balance sheet exposures including undrawn credit commitments and derivative potential future exposures.

(h) Pro forma fully phased-in Basel III capital ratio based on estimated Basel III standardized approach risk-weighted assets and rules.

(i) Pro forma fully phased-in Basel III capital ratio based on estimated Basel III advanced approaches risk-weighted assets and rules.

(j) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Common equity Tier 1 capital ratio estimate is 10.5%. This capital ratio is calculated using pro forma fully phased-in Common equity Tier 1 capital and dividing by estimated Basel III advanced approaches

risk-weighted assets.

(k) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Tier 1 risk-based capital ratio estimate is 11.9%. This capital ratio is calculated using fully phased-in Tier 1 capital and dividing by estimated Basel III advanced approaches risk-weighted assets.

(l) For comparative purposes only, the pro forma fully phased-in standardized approach Basel III Total capital risk-based capital ratio estimate is 14.0%. This ratio is calculated using fully phased-in additional Tier 2 capital which, under the standardized approach, reflects allowance for loan and lease losses of up to 1.25% of credit risk related risk-weighted assets and dividing by estimated Basel III standardized approach risk-weighted assets.

(m) Leverage ratio is calculated based on Tier 1 capital divided by Average quarterly adjusted total assets.

(n) Supplementary leverage ratio is calculated based on Tier 1 capital divided by Supplementary leverage exposure. As advanced approaches banking organizations, PNC and PNC Bank will be subject to a 3% minimum supplementary leverage ratio effective January 1, 2018.

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The Basel II framework, which was adopted by the Basel Committee on Banking Supervision in 2004, seeks to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. The U.S. banking agencies initially adopted rules to implement the Basel II capital framework in 2004. In July 2013, the U.S. banking agencies adopted final rules (referred to as the advanced approaches) that modified the Basel II framework effective January 1, 2014. See the Supervision and Regulation section in Item 1 Business and Item 1A Risk Factors of our 2014 Form 10-K for additional information. Prior to fully implementing the advanced approaches to calculate risk-weighted assets, PNC and PNC Bank must successfully complete a parallel run qualification phase. Both PNC and PNC Bank entered this parallel run phase on January 1, 2013. Although the minimum parallel run qualification period is four quarters, the parallel run period for PNC and PNC Bank, now in its third year, is consistent with the experience of other U.S. advanced approaches banks that have all had multi-year parallel run periods. After PNC exits parallel run, its regulatory risk-based capital ratio for each measure (*e.g.*, Common equity Tier 1 capital ratio) will be the lower of the ratios as calculated under the standardized approach and the advanced approaches.

As a result of the staggered effective dates of the final U.S. Basel III regulatory capital rules (Basel III rules), as well as the fact that PNC remains in the parallel run qualification phase for the advanced approaches, PNC s regulatory risk-based ratios in 2015 will be calculated using the standardized approach, effective January 1, 2015, for determining risk-weighted assets, and the definitions of, and deductions from, regulatory capital under the Basel III rules (as such definitions and deductions are phased-in for 2015). We refer to the capital ratios calculated using the phased-in Basel III provisions in effect for 2015 and, for the risk-based ratios, standardized approach risk-weighted assets as the 2015 Transitional Basel III ratios. Under the standardized approach for determining credit risk-weighted assets, exposures are generally assigned a pre-defined risk weight. Exposures to high volatility commercial real estate, past due exposures, equity exposures and securitization exposures are generally subject to higher risk weights than other types of exposures.

Under the Basel III rules adopted by the U.S. banking agencies, significant common stock investments in unconsolidated financial institutions, mortgage servicing rights and deferred tax assets must be deducted from capital (subject to a phase-in schedule) to the extent they individually exceed 10%, or in the aggregate exceed 15%, of the institution s adjusted common equity Tier 1 capital. Also, Basel III regulatory capital includes (subject to a phase-in schedule) accumulated other comprehensive income related to securities currently and previously held as available for sale, as well as pension and other postretirement plans.

Federal banking regulators have stated that they expect the largest U.S. bank holding companies, including PNC, to have a level of regulatory capital well in excess of the regulatory minimum and have required the largest U.S. bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet the credit needs of their customers through estimated stress scenarios. We seek to manage our capital consistent with these regulatory principles, and believe that our March 31, 2015 capital levels were aligned with them.

At March 31, 2015, PNC and PNC Bank, our sole bank subsidiary, were both considered well capitalized, based on applicable U.S. regulatory capital ratio requirements. To qualify as well capitalized during 2015, PNC and PNC Bank must have Transitional Basel III capital ratios of at least 6.5% for Common equity Tier 1 capital, 8% for Tier 1 risk-based and 10% for Total risk-based, and PNC Bank is required to have a Transitional Basel III leverage ratio of at least 5%.

The access to and cost of funding for new business initiatives, the ability to undertake new business initiatives including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends or repurchase shares or other capital instruments, 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.

We provide additional information regarding regulatory capital requirements and some of their potential impacts on PNC in the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors and Note 20 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of our 2014 Form 10-K.

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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 our 2014 Form 10-K and 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 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements,
- Note 9 Capital Securities of a Subsidiary Trust and Perpetual Trust Securities in the Notes To Consolidated Financial Statements, and
- Note 16 Commitments and Guarantees in the Notes To Consolidated Financial Statements.

PNC consolidates variable interest entities (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: (i) has the power to make decisions that most significantly affect the economic performance of the VIE and (ii) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE.

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 March 31, 2015 and December 31, 2014 is included in Note 2 of this Report.

Trust Preferred Securities

We are subject to certain restrictions, including restrictions on dividend payments, in connection with $206 million in principal amount of an outstanding junior subordinated debenture associated with $200 million of trust preferred securities that were issued by PNC Capital Trust C, a subsidiary statutory trust (both amounts as of March 31, 2015). Generally, if there is (i) an event of default under the debenture, (ii) PNC elects to defer interest on the debenture, (iii) PNC exercises its right to defer payments on the related trust preferred security issued by the statutory trust or (iv) there is a default under PNC s guarantee of such payment obligations, as specified in the applicable governing documents, then 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 Agreement with PNC Preferred Funding Trust II. See Note 12 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of our 2014 Form 10-K for information on contractual limitations on dividend payments resulting from securities issued by PNC Preferred Funding Trust I and PNC Preferred Funding Trust II.

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Fair Value Measurements

In addition to the following, see Note 7 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for further information regarding fair value.

The following table summarizes the assets and liabilities measured at fair value at March 31, 2015 and December 31, 2014, respectively, and the portions of such assets and liabilities that are classified within Level 3 of the valuation hierarchy. Level 3 assets and liabilities are those where the fair value is estimated using significant unobservable inputs.

Table 19: Fair Value Measurements Summary

	March 31, 2015		December 31, 2014	
Dollars in millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	$ 63,114	$ 10,078	$ 58,973	$ 10,257
Total assets at fair value as a percentage of consolidated assets	18%		17%	
Level 3 assets as a percentage of total assets at fair value		16%		17%
Level 3 assets as a percentage of consolidated assets		3%		3%
Total liabilities	$ 6,678	$ 710	$ 5,799	$ 716
Total liabilities at fair value as a percentage of consolidated liabilities	2%		2%	
Level 3 liabilities as a percentage of total liabilities at fair value		11%		12%
Level 3 liabilities as a percentage of consolidated liabilities		<1%		<1%

The majority of assets recorded at fair value are included in the securities available for sale portfolio. The majority of Level 3 assets represent non-agency residential mortgage-backed securities in the securities available for sale portfolio, equity investments and mortgage servicing rights.

An instrument s categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification (transfer) of assets or liabilities between hierarchy levels. PNC s policy is to recognize transfers in and transfers out as of the end of the reporting period. For additional information regarding the transfers of assets or liabilities between hierarchy levels, see Note 7 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Business Segments Review

We have six reportable business segments:

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

Business segment results, including inter-segment revenues, and a description of each business are included in Note 17 Segment Reporting included in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. Certain amounts included in this Financial Review differ from those amounts shown in Note 17 primarily due to the presentation in this Financial Review of business net interest revenue on a taxable-equivalent basis. Note 17 presents results of businesses for the first three months of 2015 and 2014.

Net interest income in business segment results reflects PNC s internal funds transfer pricing methodology. Assets receive a funding charge and liabilities and capital receive a funding

credit based on a transfer pricing methodology that incorporates product repricing characteristics, tenor and other factors. In the first quarter of 2015, enhancements were made to PNC s funds transfer pricing methodology primarily for costs related to the new regulatory short-term liquidity standards. The enhancements incorporate an additional charge assigned to assets, including for unfunded loan commitments. Conversely, a higher transfer pricing credit has been assigned to those deposits that are accorded higher value under Liquidity Coverage Ratio rules for liquidity purposes. Please see the Supervision and Regulation section in Item 1 and the Liquidity Risk Management section in Item 7 of our 2014 Form 10-K for more information about the ratio. These adjustments apply to business segment results prospectively beginning with the first quarter of 2015. Excluding any changes in business volumes, the estimated impacts of this change to net interest income for Retail Banking and Corporate & Institutional Banking were approximately an increase of $55 million and a decrease of $60 million, respectively, for the first quarter of 2015. The impacts to the other business segments were not significant. Prior periods have not been adjusted due to the impracticability of estimating the impact of the change for prior periods.

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Retail Banking

(Unaudited)

Table 20: Retail Banking Table

Three months ended March 31

Dollars in millions, except as noted	2015	2014
Income Statement		
Net interest income	$ 1,038	$ 980
Noninterest income		
Service charges on deposits	146	140
Brokerage	67	55
Consumer services	233	218
Other	42	101
Total noninterest income	488	514
Total revenue	1,526	1,494
Provision for credit losses	49	145
Noninterest expense	1,158	1,100
Pretax earnings	319	249
Income taxes	117	91
Earnings	$ 202	$ 158
Average Balance Sheet		
Loans		
Consumer		
Home equity	$ 28,152	$ 29,317
Indirect auto	9,287	8,994
Indirect other	603	777
Education	6,626	7,547
Credit cards	4,444	4,271
Other	2,347	2,137
Total consumer	51,459	53,043
Commercial and commercial real estate	10,654	11,051
Floor plan	2,213	2,373
Residential mortgage	734	647
Total loans	65,060	67,114
Goodwill and other intangible assets	5,990	6,062
Other assets	2,967	2,744
Total assets	$ 74,017	$ 75,920
Deposits		
Noninterest-bearing demand	$ 22,591	$ 21,359
Interest-bearing demand	35,650	33,490
Money market	53,105	49,484
Total transaction deposits	111,346	104,333
Savings	12,888	11,288
Certificates of deposit	17,318	19,882
Total deposits	141,552	135,503
Other liabilities	617	398
Total liabilities	$ 142,169	$ 135,901
Performance Ratios		
Return on average assets	1.11%	.84%
Noninterest income to total revenue	32	34
Efficiency	76	74
Other Information (a)		
Credit-related statistics:		
Commercial nonperforming assets	$ 131	$ 172
Consumer nonperforming assets	1,043	1,059
Total nonperforming assets (b)	$ 1,174	$ 1,231
Purchased impaired loans (c)	$ 553	$ 663
Commercial lending net charge-offs	$ 1	$ 20

Credit card lending net charge-offs	38	37
Consumer lending (excluding credit card) net charge-offs	60	88
Total net charge-offs	$ 99	$ 145
Commercial lending annualized net charge-off ratio	.03%	.60%
Credit card lending annualized net charge-off ratio	3.47%	3.51%
Consumer lending (excluding credit card) annualized net charge-off ratio	.51%	.72%
Total annualized net charge-off ratio	.62%	.88%

At March 31	2015	2014
Other Information (Continued) (a)		
Home equity portfolio credit statistics: (d)		
% of first lien positions at origination (f)	54%	53%
Weighted-average loan-to-value ratios (LTVs) (e) (f)	76%	79%
Weighted-average updated FICO scores (g)	748	745
Net charge-off ratio	.42%	.75%
Delinquency data % of total loans: (h)		
Loans 30 59 days past due	.18%	.21%
Loans 60 89 days past due	.09%	.08%
Accruing loans past due	.27%	.29%
Nonperforming loans	3.12%	3.12%
Other statistics:		
ATMs	8,754	8,001
Branches (i)	2,660	2,703
Brokerage account client assets (in billions) (j)	$ 44	$ 41
Customer-related statistics (average):		
Non-teller deposit transactions (k)	40%	31%
Digital consumer customers (l)	50%	43%

(a) Presented as of March 31, except for net charge-offs, net charge-off ratios and customer-related statistics, which are for the three months ended and customer-related statistics which are quarterly averages.
(b) Includes nonperforming loans of $1.1 billion at March 31, 2015 and $1.2 billion at March 31, 2014.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Lien position, LTV and FICO statistics are based upon customer balances.
(e) Lien position and LTV calculations reflect management assumptions where data limitations exist.
(f) LTV statistics are based upon current information.
(g) Represents FICO scores that are updated at least quarterly.
(h) Data based upon recorded investment. Past due amounts exclude purchased impaired loans, even if contractually past due, as we are currently accreting interest income over the expected life of the loans.
(i) Excludes satellite offices (*e.g.*, drive-ups, electronic branches and retirement centers) that provide limited products and/or services.
(j) Amounts include cash and money market balances.
(k) Percentage of total consumer and business banking deposit transactions processed at an ATM or through our mobile banking application.
(l) Represents consumer checking relationships that process the majority of their transactions through non-teller channels.

Retail Banking earned $202 million in the first quarter of 2015 compared with earnings of $158 million for the same period a year ago. The increase in earnings was driven by lower provision for credit losses and increased net interest income offset by higher expenses and lower noninterest income. Noninterest income declined as a result of the sale of Visa Class B common shares recognized in the first quarter of 2014.

Retail Banking continues to enhance the customer experience with refinements to product offerings that drive product value for consumers and small businesses. We are focused on growing customer share of wallet through the sale of liquidity, banking, and investment products.

Retail Banking also continued to serve more customers through cost effective channels that meet their evolving preferences for convenience.

In the first quarter of 2015, approximately 50% of consumer customers used non-teller channels for the

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majority of their transactions compared with 43% for the same period in 2014.
Deposit transactions via ATM and mobile channels increased to 40% of total deposit transactions in the first quarter of 2015 compared with 31% for the same period a year ago.
As part of PNC s retail branch transformation strategy, we continue to evolve our network. In the first quarter of 2015 we converted 127 branches to the new universal branch format and 40 branches were closed or consolidated. In support of our transformation efforts, we increased our ATM network by more than 9% since the first quarter of 2014.
Retail Banking s primary geographic footprint extends across 17 states and Washington, D.C. Our retail branch network covers nearly half the U.S. population, with 2,660 branches and 8,754 ATMs.

Total revenue for the first three months of 2015 increased $32 million compared to the same period a year ago, which included a $58 million increase in net interest income. In addition to the benefit from the enhancements to funds transfer pricing methodology in the first quarter of 2015, net interest income increased slightly, as growth in deposit balances was mostly offset by lower yields on loans and lower purchase accounting accretion on loans and deposits.

Noninterest income decreased $26 million, or 5%, compared to the first quarter of 2014, reflecting the impact of the $62 million gain on sales of Visa Class B common shares in the first quarter of 2014. Excluding this gain, noninterest income increased as a result of strong customer-related fee income growth, primarily resulting from increases in customer-initiated transactions, changes in product offerings, and increased brokerage and merchant processing revenue.

Provision for credit losses and net charge-offs in the first quarter of 2015 declined by $96 million and $46 million, respectively, in the comparison to the prior year quarter. Provision for credit losses decreased due to improved credit metrics. Lower net charge-offs were driven by improved credit quality in both consumer and commercial portfolios.

Noninterest expense increased $58 million in the first three months of 2015 compared to the same period in 2014. Increases in technology investments, compensation, marketing, and customer transaction-related costs were offset by reduced branch network expenses as a result of transaction migration to lower cost digital and ATM channels.

Growing core checking deposits is key to Retail Banking s growth and to providing a source of low-cost funding and liquidity to PNC. The deposit product 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 customer balances. In the first quarter of 2015,

average total deposits increased $6.0 billion, or 4%, compared with the same period in 2014.

Average transaction deposits grew $7.0 billion, or 7%, and average savings deposit balances grew $1.6 billion, or 14%, compared to the first quarter in 2014 as a result of organic deposit growth. Compared with the same period a year ago, average demand deposits increased $3.4 billion, or 6%, to $58.2 billion and average money market deposits increased $3.6 billion, or 7%.
Total average certificates of deposit decreased $2.6 billion, or 13%, compared to the same period in 2014. The decline in average certificates of deposit was due to the expected run-off of maturing accounts.

Retail Banking continued to focus on a relationship-based lending strategy that targets specific products and markets for growth, small businesses, and auto dealerships. In the first quarter of 2015, average total loans declined $2.1 billion, compared to the same period a year ago, driven by a decline in home equity loans and declines from run-off of non-strategic portions of the portfolios.

Average home equity loans decreased $1.2 billion, or 4%, compared to the first three months of 2014. The overall portfolio declines resulted from reduced refinance activity. Retail Banking s home equity loan portfolio is relationship based, with 97% of the portfolio attributable to borrowers in our primary geographic footprint.
Average auto dealer floor plan loans declined $160 million, or 7%, in the first quarter of 2015, compared to the same period in 2014, primarily resulting from lower dealer line utilization.
Average indirect auto loans increased $293 million, or 3%, compared to the first three months 2014. The increase was primarily due to growth in newer footprint indirect auto markets.
Average credit card balances increased $173 million, or 4%, over the same period in 2014 as a result of efforts to increase credit card share of wallet through organic growth.
Average residential mortgage balances increased $87 million, or 13%, compared to the first three months of 2014. The increase was due to the transfer of $198 million in CRA mortgage loans from the Residential Mortgage Banking business segment.
In the first quarter of 2015, average loan balances for the remainder of the portfolio declined a net $1.3 billion, compared to the same period a year ago, driven by declines in the education portfolio of $921 million and commercial & commercial real estate of $397 million. The discontinued government guaranteed education loan and indirect other portfolios are primarily run-off portfolios.

Nonperforming assets declined $57 million, or 5%, over the same period in 2014. The decrease was driven by declines in both commercial and consumer non-performing loans.

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Corporate & Institutional Banking

(Unaudited)

Table 21: Corporate & Institutional Banking Table

Three months ended March 31

Dollars in millions, except as noted	2015	2014
Income Statement		
Net interest income	$ 855	$ 934
Noninterest income		
Corporate service fees	310	268
Other	119	96
Noninterest income	429	364
Total revenue	1,284	1,298
Provision for credit losses (benefit)	17	(13)
Noninterest expense	514	488
Pretax earnings	753	823
Income taxes	271	300
Earnings	$ 482	$ 523
Average Balance Sheet		
Loans		
Commercial	$ 84,712	$ 75,506
Commercial real estate	22,090	20,039
Equipment lease financing	6,914	6,789
Total commercial lending	113,716	102,334
Consumer	1,352	1,125
Total loans	115,068	103,459
Goodwill and other intangible assets	3,835	3,826
Loans held for sale	1,106	894
Other assets	11,169	9,758
Total assets	$ 131,178	$ 117,937
Deposits		
Noninterest-bearing demand	$ 46,976	$ 42,772
Money market	22,286	20,678
Other	9,340	7,531
Total deposits	78,602	70,981
Other liabilities	8,271	7,476
Total liabilities	$ 86,873	$ 78,457
Performance Ratios		
Return on average assets	1.49%	1.80%
Noninterest income to total revenue	33	28
Efficiency	40	38
Commercial Loan Servicing Portfolio Serviced For PNC and Others (in billions)		
Beginning of period	$ 377	$ 347
Acquisitions/additions	29	22
Repayments/transfers	(16)	(18)
End of period	$ 390	$ 351
Other Information		
Consolidated revenue from: (a)		
Treasury Management (b)	$ 319	$ 311
Capital Markets (c)	$ 180	$ 157
Commercial mortgage banking activities		
Commercial mortgage loans held for sale (d)	$ 26	$ 19
Commercial mortgage loan servicing income (e)	56	55
Commercial mortgage servicing rights valuation, net of economic hedge (f)	16	11
Total	$ 98	$ 85
Average Loans (by C&IB business)		
Corporate Banking	$ 58,227	$ 52,253

Real Estate	29,918	26,003
Business Credit	14,217	12,534
Equipment Finance	10,941	10,210
Other	1,765	2,459
Total average loans	$ 115,068	$ 103,459
Total loans (g)	$ 114,946	$ 105,398
Net carrying amount of commercial mortgage servicing rights (g)	$ 494	$ 529
Credit-related statistics:		
Nonperforming assets (g) (h)	$ 516	$ 786
Purchased impaired loans (g) (i)	$ 221	$ 428
Net charge-offs (recoveries)	$ (1)	$ 2

(a) Represents consolidated PNC amounts. See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of the Corporate & Institutional Banking portion of this Business Segments Review section.
(b) Includes amounts reported in net interest income and corporate service fees.
(c) Includes amounts reported in net interest income, corporate service fees and other noninterest income.
(d) Includes other noninterest income for 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.
(e) Includes net interest income and noninterest income, primarily in corporate services fees, from loan servicing and ancillary services, net of changes in fair value on commercial mortgage servicing rights due to time and payoffs. Commercial mortgage servicing rights valuation, net of economic hedge is shown separately.
(f) Includes amounts reported in corporate services fees.
(g) As of March 31.
(h) Includes nonperforming loans of $.4 billion at March 31, 2015 and $.7 billion at March 31, 2014.
(i) Recorded investment of purchased impaired loans related to acquisitions.

Corporate & Institutional Banking earned $482 million in the first quarter of 2015 compared with earnings of $523 million for the same period a year ago. The decrease in earnings was due to lower net interest income, an increase in the provision for credit losses and an increase in noninterest expense, partially offset by higher noninterest income. We continue to focus on building client relationships where the risk-return profile is attractive, including the Southeast.

Net interest income decreased $79 million in the first three months of 2015 compared to the first three months of 2014. The decline was due to the impact of first quarter 2015 enhancements to funds transfer pricing methodology, continued spread compression on loans, and lower purchase accounting accretion, partially offset by the impact of higher average loans and deposits. Decreased net interest income in the comparison also reflected the impact from the second quarter 2014 correction to reclassify certain commercial facility usage fees from net interest income to corporate service fees.

Corporate service fees increased $42 million in the first quarter of 2015 compared to the first quarter of 2014. This increase was primarily due to the impact of the second quarter 2014 correction to reclassify certain commercial facility fees from net interest income to corporate service fees, an increase in treasury management fees and higher net hedging gains on commercial mortgage servicing rights, partially offset by lower mergers and acquisition advisory fees.

Other noninterest income increased $23 million in the first quarter of 2015 compared to the first quarter of 2014. This increase was driven by increased securities underwriting activity, higher revenue associated with credit valuations for customer-related derivatives activities and related derivatives sales and higher multifamily loans originated for sale to agencies, partially offset by lower gains on asset sales.

The provision for credit losses was $17 million for the first three months of 2015 compared with a benefit of $13 million

for the first three months of 2014 reflecting the impact of portfolio growth and slower credit quality improvement.

Noninterest expense increased $26 million in the first quarter of 2015 compared to the prior year period, primarily driven by investments in technology and infrastructure.

Average loans increased $11.6 billion, or 11%, for the first quarter of 2015 compared to the prior year quarter, reflecting strong growth in Corporate Banking, Real Estate, Business Credit and Equipment Finance:

- Corporate Banking business provides lending, treasury management and capital markets-related products and services to mid-sized and large corporations, government and not-for-profit entities. Average loans for this business increased $6.0 billion, or 11%, in the first quarter of 2015 compared with the first quarter of 2014, primarily due to an increase in loan commitments from specialty lending businesses and higher utilization.
- PNC Real Estate provides banking, financing and servicing solutions for commercial real estate clients across the country. Average loans for this business increased $3.9 billion, or 15%, in the first quarter of 2015 compared with the first quarter of 2014 due to increased originations and higher utilization.
- PNC Business Credit provides asset-based lending. The loan portfolio is relatively high yielding, with acceptable risk as the loans are mainly secured by short-term assets. Average loans for this business increased $1.7 billion, or 13%, in the first three months of 2015 compared with the first three months of 2014 due to new originations, increasing deal sizes and higher utilization.
- PNC Equipment Finance provides equipment financing solutions for clients throughout the U.S. and Canada. Average equipment finance loans and operating leases were $11.8 billion in the first quarter of 2015, an increase of $.9 billion, or 8%, compared with the first quarter of 2014.

Period-end loan balances increased by 9%, or $9.5 billion, at March 31, 2015 compared to March 31, 2014 primarily due to growth in our Corporate Banking, Real Estate and Business Credit businesses.

Loan commitments increased 8%, or $15.2 billion, to $213.7 billion at March 31, 2015 compared to March 31, 2014, primarily due to growth in our Corporate Banking, Real Estate and Business Credit businesses.

Average deposits for the first quarter of 2015 increased $7.6 billion, or 11%, compared with the first quarter of 2014 as a result of business growth and inflows into demand and money market deposits.

The commercial loan servicing portfolio increased $39 billion, or 11%, compared with March 31, 2014, as servicing additions exceeded portfolio run-off.

Nonperforming assets declined 34% from March 31, 2014 due to continued improving credit quality.

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, capital markets-related products and services, and commercial mortgage banking activities, for customers of all our business segments. On a consolidated basis, the revenue from these other services is included in net interest income, corporate service fees and other noninterest income. From a segment perspective, the majority of the revenue and expense related to these services is reflected in the Corporate & Institutional Banking segment results and the remainder is reflected in the results of other businesses. The Other Information section in Table 21 in the Corporate & Institutional Banking portion of this Business Segments Review section includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue from these services follows.

Treasury management revenue, comprised of fees and net interest income from customer deposit balances, increased $8 million in the comparison of first quarter 2015 to first quarter 2014, driven by growth in our commercial card, wholesale lockbox, and PINACLE® and other deposit-related services.

Capital markets revenue includes merger and acquisition advisory fees, loan syndications, derivatives, foreign exchange, asset-backed finance revenue and fixed income and equity capital markets advisory activities. Revenue from capital markets-related products and services increased $23 million in the first three months of 2015 compared with the first three months of 2014. The increase in the comparison was driven by increased securities underwriting activity and higher revenue associated with credit valuations for customer-related derivatives activities and related derivatives sales, partially offset by lower mergers and acquisition advisory fees.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income) and revenue derived from commercial mortgage loans held for sale and related hedges. Revenue from total commercial mortgage banking activities increased $13 million in the first quarter of 2015 compared with the first quarter of 2014. The increase in the comparison was mainly due to higher multifamily loans originated for sale to agencies and higher net hedging gains on commercial mortgage servicing rights.

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Asset Management Group

(Unaudited)

Table 22: Asset Management Group Table

Three months ended March 31 Dollars in millions, except as noted	2015	2014
Income Statement		
Net interest income	$ 73	$ 71
Noninterest income	208	199
Total revenue	281	270
Provision for credit losses	12	12
Noninterest expense	210	199
Pretax earnings	59	59
Income taxes	22	22
Earnings	$ 37	$ 37
Average Balance Sheet		
Loans		
Consumer	$ 5,650	$ 5,311
Commercial and commercial real estate	932	1,023
Residential mortgage	865	771
Total loans	7,447	7,105
Goodwill and other intangible assets	238	272
Other assets	258	222
Total assets	$ 7,943	$ 7,599
Deposits		
Noninterest-bearing demand	$ 1,345	$ 1,338
Interest-bearing demand	4,241	3,893
Money market	4,621	3,889
Total transaction deposits	10,207	9,120
CDs/IRAs/savings deposits	455	436
Total deposits	10,662	9,556
Other liabilities	47	53
Total liabilities	$ 10,709	$ 9,609
Performance Ratios		
Return on average assets	1.89%	1.97%
Noninterest income to total revenue	74	74
Efficiency	75	74
Other Information		
Total nonperforming assets (a) (b)	$ 63	$ 80
Purchased impaired loans (a) (c)	$ 82	$ 96
Total net charge-offs	$ 4	$ 1
Client Assets Under Administration (a) (d) (in billions)		
Personal	$ 115	$ 112
Institutional	150	143
Total	$ 265	$ 255
Asset Type		
Equity	$ 151	$ 145
Fixed Income	74	66
Liquidity/Other	40	44
Total	$ 265	$ 255
Discretionary client assets under management		
Personal	$ 88	$ 84
Institutional	48	46
Total	$ 136	$ 130
Asset Type		
Equity	$ 75	$ 71
Fixed Income	41	34
Liquidity/Other	20	25

Total	$ 136	$ 130
Nondiscretionary client assets under administration		
Personal	$ 27	$ 28
Institutional	102	97
Total	$ 129	$ 125
Asset Type		
Equity	$ 76	$ 74
Fixed Income	33	32
Liquidity/Other	20	19
Total	$ 129	$ 125

(a) As of March 31.
(b) Includes nonperforming loans of $59 million at March 31, 2015 and $75 million at March 31, 2014.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account client assets.

Asset Management Group earned $37 million in both the first quarter of 2015 and the first quarter of 2014. Client assets under administration were $265 billion as of March 31, 2015 compared to $255 billion as of March 31, 2014. Earnings remained consistent with the prior year as increased noninterest income was offset by higher noninterest expense from strategic growth and higher technology expenses.

The core growth strategies of the business include increasing sales sourced from other PNC lines of business, maximizing front line productivity and optimizing market presence including additions to staff in high opportunity markets. Wealth Management and Hawthorn have over 100 offices operating in 7 out of the 10 most affluent states in the U.S. with a majority co-located with retail banking branches. The businesses strategies primarily focus on growing client assets under management through expanding relationships directly and through cross-selling from PNC s other lines of business.

Institutional Asset Management provides advisory, custody, and retirement administration services to institutional clients primarily within our banking footprint. The business also offers PNC proprietary mutual funds. Institutional Asset Management is strengthening its partnership with the Corporate Bank to drive growth and is focused on building retirement capabilities and expanding product solutions for all customers.

Client assets under administration increased $10 billion compared to a year ago. Discretionary client assets under management at March 31, 2015 increased $6 billion compared with March 31, 2014, driven by higher equity markets, new sales, and positive net flows, after adjustments for cyclical client activities.

Total revenue for the first quarter of 2015 increased $11 million, or 4%, compared to the first quarter of 2014, primarily relating to higher noninterest income due to stronger average equity markets and positive net flows, after adjustments for cyclical client activities.

Noninterest expense increased $11 million, or 6%, in the first three months of 2015 compared to the prior year period, which was primarily attributable to higher compensation costs from strategic growth and higher technology expenses. Over the last 12 months, total full-time headcount has increased by approximately 95 positions, or 3%. Asset Management Group remains focused on disciplined expense management as it invests in strategic growth opportunities.

Average deposits and average transaction deposits increased $1.1 billion, or 12%, in the first quarter of 2015 compared to the prior year first quarter. Average loan balances increased $.3 billion, or 5%, in the comparison due to continued growth in the consumer loan portfolio.

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Residential Mortgage Banking

(Unaudited)

Table 23: Residential Mortgage Banking Table

Three months ended March 31 Dollars in millions, except as noted	2015	2014
Income Statement		
Net interest income	$ 30	$ 40
Noninterest income		
Loan servicing revenue		
Servicing fees	48	61
Mortgage servicing rights valuation, net of economic hedge	25	(1)
Loan sales revenue	104	107
Other		(1)
Total noninterest income	177	166
Total revenue	207	206
Provision for credit losses (benefit)	2	(1)
Noninterest expense	161	213
Pretax earnings (loss)	44	(6)
Income taxes (benefit)	16	(2)
Earnings (loss)	$ 28	$ (4)
Average Balance Sheet		
Portfolio loans	$ 1,282	$ 2,036
Loans held for sale	1,147	1,068
Mortgage servicing rights (MSR)	843	1,073
Other assets	3,973	4,600
Total assets	$ 7,245	$ 8,777
Deposits	$ 2,215	$ 2,100
Borrowings and other liabilities	2,840	3,464
Total liabilities	$ 5,055	$ 5,564
Performance Ratios		
Return on average assets	1.57%	(.18)%
Noninterest income to total revenue	86	81
Efficiency	78	103
Residential Mortgage Servicing Portfolio Serviced for Third Parties (in billions)		
Beginning of period	$ 108	$ 114
Acquisitions	8	2
Additions	2	2
Repayments/transfers	(5)	(4)
End of period	$ 113	$ 114
Servicing portfolio third-party statistics: (a)		
Fixed rate	94%	94%
Adjustable rate/balloon	6%	6%
Weighted-average interest rate	4.41%	4.56%
MSR asset value (in billions)	$ .8	$ 1.1
MSR capitalization value (in basis points)	74	92
Weighted-average servicing fee (in basis points)	27	28
Residential Mortgage Repurchase Reserve		
Beginning of period	$ 107	$ 131
(Benefit)/ Provision	1	(19)
Losses loan repurchases	(2)	(9)
End of Period	$ 106	$ 103
Other Information		
Loan origination volume (in billions)	$ 2.6	$ 1.9
Loan sale margin percentage	4.09%	4.53%
Percentage of originations represented by:		
Purchase volume (b)	31%	37%
Refinance volume	69%	63%

Total nonperforming assets (a) (c)	$ 105	$ 173

(a) As of March 31.
(b) Mortgages with borrowers as part of residential real estate purchase transactions.
(c) Includes nonperforming loans of $65 million at March 31, 2015 and $130 million at March 31, 2014.

Residential Mortgage Banking earned $28 million in the first three months of 2015 compared to a $4 million loss in the first three months of 2014. Earnings increased from the prior year primarily as a result of lower noninterest expense and higher net hedging gains on residential mortgage servicing rights, partially offset by lower servicing fees and net interest income.

The strategic focus of the business is the acquisition of new customers through a retail loan officer sales force with an emphasis on home purchase transactions. Our strategy involves competing on the basis of superior service to new and existing customers in serving their home purchase and refinancing needs. A key consideration in pursuing this approach is the cross-sell opportunity, especially in the bank footprint markets.

Residential Mortgage Banking overview:

Total loan originations increased $.7 billion for the first three months of 2015 compared to the first three months of 2014. Loans continue to be originated primarily through direct channels under Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Housing Administration (FHA)/Department of Veterans Affairs agency guidelines. Refinancings were 69% of originations for the first three months of 2015 and 63% in the first three months of 2014. During 2015, 18% of loan originations were under the original or revised Home Affordable Refinance Program (HARP or HARP 2).

Investors having purchased mortgage loans may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. The liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment increased slightly to $106 million at March 31, 2015 compared to March 31, 2014. See the Recourse And Repurchase Obligations section of this Financial Review and Note 16 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.

Residential mortgage loans serviced for others declined slightly at March 31, 2015 compared to March 31, 2014 as payoffs slightly outpaced new loan origination volume and acquisitions.

Noninterest income increased $11 million in the first quarter of 2015 compared to the prior year quarter, primarily due to higher net hedging gains on residential mortgage servicing rights, partially offset by lower servicing revenue. Loan sales revenue

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declined slightly in the comparison, as higher loan sales revenue on increased loan originations was more than offset by the impact of the first quarter 2014 $19 million benefit from the release of reserves for residential mortgage repurchase obligations.

Net interest income declined $10 million in the comparison of the first three months of 2015 to the prior year period, primarily due to lower average portfolio loans, which declined $.8 billion, or 37%, in the comparison.

Noninterest expense declined $52 million, or 24%, in the first quarter of 2015 compared to the first quarter of 2014 due to lower legal accruals.

BlackRock

(Unaudited)

Table 24: BlackRock Table

Information related to our equity investment in BlackRock follows:

Three months ended March 31 Dollars in millions	2015	2014
Business segment earnings (a)	$ 135	$ 123
PNC s economic interest in BlackRock (b)	22%	22%

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

(b) At March 31.

In billions	March 31 2015	December 31 2014
Carrying value of PNC s investment in BlackRock (c)	$ 6.3	$ 6.3
Market value of PNC s investment in BlackRock (d)	12.9	12.6

(c) PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $2.0 billion at March 31, 2015 and $2.1 billion at December 31, 2014. Our voting interest in BlackRock common stock was approximately 21% at March 31, 2015.

(d) Does not include liquidity discount.

In addition, at March 31, 2015, we held approximately 1.3 million shares of BlackRock Series C Preferred Stock valued at $384 million, which are available to fund our obligation in connection with certain BlackRock long-term incentive plan (LTIP) programs.

We account for the 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 7 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and in Note 7 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of our 2014 Form 10-K.

Our 2014 Form 10-K includes additional information about our investment in BlackRock.

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Non-Strategic Assets Portfolio

(Unaudited)

Table 25: Non-Strategic Assets Portfolio Table

Three months ended March 31

Dollars in millions	2015	2014
Income Statement		
Net interest income	$ 112	$ 142
Noninterest income	9	6
Total revenue	121	148
Provision for credit losses (benefit)	(31)	(52)
Noninterest expense	24	26
Pretax earnings	128	174
Income taxes	47	64
Earnings	$ 81	$ 110
Average Balance Sheet		
Commercial Lending:		
Commercial/Commercial real estate	$ 125	$ 220
Lease financing	625	681
Total commercial lending	750	901
Consumer Lending:		
Home equity	3,021	3,625
Residential real estate	4,184	5,104
Total consumer lending	7,205	8,729
Total portfolio loans	7,955	9,630
Other assets (a)	(679)	(741)
Total assets	$ 7,276	$ 8,889
Deposits and other liabilities	$ 224	$ 231
Total liabilities	$ 224	$ 231
Performance Ratios		
Return on average assets	4.51%	5.02%
Noninterest income to total revenue	7	4
Efficiency	20	18
Other Information		
Nonperforming assets (b) (c)	$ 669	$ 798
Purchased impaired loans (b) (d)	$ 3,808	$ 4,654
Net charge-offs	$	$ 31
Annualized net charge-off ratio	%	1.31%
Loans (b)		
Commercial Lending		
Commercial/Commercial real estate	$ 120	$ 201
Lease financing	626	683
Total commercial lending	746	884
Consumer Lending		
Home equity	2,944	3,554
Residential real estate	4,139	5,092
Total consumer lending	7,083	8,646
Total loans	$ 7,829	$ 9,530

(a) Other assets includes deferred taxes, ALLL and other real estate owned (OREO). Other assets were negative in both periods due to the ALLL.

(b) As of March 31.

(c) Includes nonperforming loans of $.5 billion at March 31, 2015 and $.6 billion at March 31, 2014.

(d) Recorded investment of purchased impaired loans related to acquisitions. At March 31, 2015, this segment contained 81% of PNC s purchased impaired loans.

This business segment consists of non-strategic assets primarily obtained through acquisitions of other companies. The business activity of this segment is to manage the wind-down of the portfolios while maximizing the value and mitigating risk.

Non-Strategic Assets Portfolio had earnings of $81 million in the first three months of 2015 compared with $110 million in the first three months of 2014. Earnings decreased year-over-year due to lower net interest income and a reduced benefit from the provision for credit losses.

Non-Strategic Assets Portfolio overview:

- Net interest income declined $30 million, or 21%, in the first three months of 2015 compared with the first three months of 2014, resulting from lower purchase accounting accretion and the impact of the declining average balance of the loan portfolio.
- Noninterest income increased slightly in the first quarter of 2015 compared to the prior year quarter, due to lower provision for estimated losses on repurchase obligations on home equity loans and lines.
- Provision for credit losses was a benefit in both the first quarter of 2015 and 2014, reflecting continued improvements in credit quality.
- Noninterest expense declined slightly in the first three months of 2015 compared with the first three months of 2014, as lower costs of managing and servicing the loan portfolios was mostly offset by higher residential OREO expense.
- Average portfolio loans declined $1.7 billion, or 17%, in the first quarter of 2015 compared to the prior year quarter, due to customer payment activity and portfolio management activities to reduce under-performing assets.

Critical Accounting Estimates and Judgments

Note 1 Accounting Policies in Item 8 of our 2014 Form 10-K and in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report describe the most significant accounting policies that we use to prepare our consolidated financial statements. 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.

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

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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 discounted cash flow and other financial modeling techniques. Changes in underlying factors, assumptions or estimates could materially impact our future financial condition and results of operations.

We discuss the following critical accounting policies and judgments under this same heading in Item 7 of our 2014 Form 10-K:

- Fair Value Measurements
- Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit
- Estimated Cash Flows on Purchased Impaired Loans
- Goodwill
- Lease Residuals
- Revenue Recognition
- Residential and Commercial Mortgage Servicing Rights
- Income Taxes
- Recently Issued Accounting Standards

We provide additional information about many of these items in the Notes To Consolidated Financial Statements included in Part I, Item l of this Report.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standard Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU clarifies the principles for recognizing revenue and replaces nearly all existing revenue recognition guidance in U.S. GAAP with one accounting model. The core principle of the guidance is that an entity should recognize revenue to depict the satisfaction of a performance obligation by transfer of promised goods or services to customers. The ASU also requires additional qualitative and quantitative disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The requirements within the ASU should be applied retrospectively to each prior period presented (with several practical expedients for certain completed contracts) or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. Recently, the FASB has proposed delaying the effective date by one year to annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The proposal is subject to the FASB s due process and will

include a period for public comments. We are currently evaluating the impact of this ASU on our results of operations and financial position.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): *Amendments to the Consolidation Analysis*. All legal entities are subject to re-evaluation under this ASU, including investment companies and certain other entities measured in a manner consistent with ASC 946 Financial Services Investment Companies which were previously excluded. The ASU will change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the ASU modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; eliminates the presumption that a general partner should consolidate a limited partnership; potentially changes the consolidation conclusions of reporting entities that are involved with VIEs, in particular those that have fee arrangements and related party arrangements, and provides a scope exception for reporting entities with interests held in certain money market funds. The ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015 and may be applied through a retrospective or modified retrospective approach. We are currently evaluating the impact of this ASU on our results of operations and financial position.

Recently Adopted Accounting Standards

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item I of this Report regarding the impact of new accounting pronouncements adopted in the first quarter of 2015.

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 applied as a percentage of eligible compensation. We calculate the expense associated with the pension plan and the assumptions and methods that we use include a policy of reflecting plan assets at their fair market value. On an

annual basis, we review the actuarial assumptions related to the pension plan.

We currently estimate pretax pension expense of $9 million in 2015 compared with pretax income of $7 million in 2014. This year-over-year expected increase in expense reflects the effects of the lower expected return on asset assumption, improved mortality, and the lower discount rate required to be used in 2015. These factors are partially offset by the favorable impact of the increase in plan assets at December 31, 2014 and the assumed return on a $200 million voluntary contribution to the plan made in February 2015.

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The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2015 estimated expense as a baseline.

Table 26: Pension Expense Sensitivity Analysis

Change in Assumption (a)	Estimated Increase/(Decrease) to 2015 Pension Expense (In millions)
.5% decrease in discount rate	$ 18
.5% decrease in expected long-term return on assets	$ 22
.5% increase in compensation rate	$ 2

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

We provide additional information on our pension plan in Note 13 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of our 2014 Form 10-K.

Recourse and Repurchase Obligations

As discussed in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report, PNC has sold commercial mortgage, residential mortgage and home equity loans/lines of credit directly or indirectly through securitization and loan sale transactions in which we have continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets.

Commercial Mortgage Loan Recourse Obligations

We originate and service certain multi-family commercial mortgage loans which are sold to FNMA under FNMA s Delegated Underwriting and Servicing (DUS) program. We participated in a similar program with the FHLMC. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment. For more information regarding our Commercial Mortgage Loan Recourse Obligations, see the Recourse and Repurchase Obligations section of Note 16 Commitments and Guarantees included in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Residential Mortgage 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 loan sale transactions. As discussed in Note 2 in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report, Agency securitizations consist of mortgage loan sale transactions with FNMA, FHLMC and the Government National Mortgage Association (GNMA), while Non-Agency securitizations consist of mortgage loan sale transactions with private investors. Mortgage loan sale transactions that are not part of a securitization may involve FNMA, FHLMC or private investors. Our historical exposure and activity associated with Agency securitization repurchase obligations has primarily been related to transactions with FNMA and FHLMC, as indemnification and repurchase losses associated with FHA and VA-insured and uninsured loans pooled in GNMA securitizations historically have been minimal. In addition to indemnification and repurchase risk, we face other risks of loss with respect to our participation in these programs, some of which are described in Note 15 Legal Proceedings in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report with respect to governmental inquiries related to FHA-insured loans. Repurchase obligation activity associated with residential mortgages is reported in the Residential Mortgage Banking segment.

Origination and sale of residential mortgages is an ongoing business activity and, accordingly, management continually assesses the need to recognize 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 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. To estimate the mortgage repurchase liability arising from breaches of representations and warranties, we consider the following factors: (i) borrower performance in our historically sold portfolio (both actual and estimated future defaults); (ii) the level of outstanding unresolved repurchase claims; (iii) estimated probable future repurchase claims, considering information about expected investor behaviors, delinquent and liquidated loans, resolved and unresolved mortgage insurance rescission notices and our historical experience with claim rescissions; (iv) the potential ability to cure the defects identified in the repurchase claims (rescission rate) and (v) the estimated severity of loss upon repurchase of the loan or collateral, make-whole settlement or indemnification.

We previously reached agreements with both FNMA and FHLMC to resolve their repurchase claims with respect to loans sold between 2000 and 2008. Thus, our repurchase obligations involve Agency securitizations and other loan

sales with FNMA and FHLMC subsequent to 2008 only, as well as Agency securitizations with GNMA and Non-Agency securitizations and other loan sales with private investors. The unpaid principal balance of loans associated with our exposure to repurchase obligations totaled $67.6 billion at March 31, 2015, of which $1.4 billion was 90 days or more delinquent. The comparative amounts were $68.3 billion and $1.5 billion, respectively, at December 31, 2014.

We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all residential mortgage loans sold and outstanding as of March 31, 2015 and December 31, 2014. In making these estimates we consider the losses that we expect to incur over the life of the sold loans. See Note 16 Commitments and Guarantees in this Report for additional information on residential mortgage repurchase obligations.

Home Equity Repurchase Obligations

PNC s repurchase obligations include obligations with respect to certain brokered home equity loans/lines of credit that were sold to a limited number of private investors in the financial services industry by National City prior to our acquisition of National City. PNC is no longer engaged in the brokered home equity lending business, and our exposure under these loan repurchase obligations is limited to repurchases of the loans sold in these transactions. Repurchase activity associated with brokered home equity loans/lines of credit is reported in the Non-Strategic Assets Portfolio segment.

For more information regarding our Home Equity Repurchase Obligations, see the Recourse and Repurchase Obligations section under Item 7 of our 2014 Form 10-K and Note 16 Commitments and Guarantees included in this Report.

RISK MANAGEMENT

PNC encounters risk as part of the normal course of operating our business. Accordingly, we design risk management processes to help manage these risks.

The Risk Management section included in Item 7 of our 2014 Form 10-K describes our enterprise risk management framework including risk appetite and strategy, risk culture, risk organization and governance, risk identification and quantification, risk control and limits, and risk monitoring and reporting. Additionally, our 2014 Form 10-K provides an analysis of our key areas of risk, which include but are not limited to credit, operational, compliance, model, liquidity and market. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the Risk Management section.

The following information updates our 2014 Form 10-K risk management disclosures.

Credit Risk Management

As more fully discussed in the Credit Risk Management portion of the Risk Management section in our 2014 Form 10-K, 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. Our processes for managing credit risk are embedded in PNC s risk culture and in our decision-making processes using a systematic approach whereby credit risks and related exposures are identified and assessed, managed through specific policies and processes, measured and evaluated against our risk appetite and credit concentration limits, and reported, along with specific mitigation activities, to management and the Board through our governance structure.

Asset Quality Overview

Asset quality trends improved during the first three months of 2015.

- Nonperforming assets at March 31, 2015 decreased $126 million compared with December 31, 2014 as a result of improvements in both consumer and commercial nonperforming loans. Consumer lending nonperforming loans decreased $54 million, commercial real estate nonperforming loans declined $41 million and commercial nonperforming loans decreased $10 million. Nonperforming assets were 0.78% of total assets at March 31, 2015 compared with 0.83% at December 31, 2014.
- Overall loan delinquencies of $1.8 billion decreased $196 million, or 10%, from year-end 2014 levels. The reduction was due in large part to a reduction in accruing government insured residential real estate loans past due 90 days or more of $85 million, the majority of which we took possession of and conveyed the real estate, or are in the process of conveyance and claim resolution.

Net charge-offs were $103 million in the first quarter of 2015, down 45% from net charge-offs in the same quarter of 2014 of $186 million, due primarily to improved overall credit quality.
Provision for credit losses in the first quarter of 2015 decreased to $54 million compared with $94 million in the first quarter of 2014. The smaller provision is attributed to improved overall credit quality, including lower consumer loan delinquencies, and the increasing value of residential real estate which resulted in greater expected cash flows from our purchased impaired loans.