PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
May 08, 2014

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, 2014

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 20, 2014, there were 534,128,758 shares of the registrant s common stock ($5 par value) outstanding.

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to First Quarter 2014 Form 10-Q

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to First Quarter 2014 Form 10-Q (continued)

MD&A TABLE REFERENCE

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to First Quarter 2014 Form 10-Q (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE

Cross-Reference Index to First Quarter 2014 Form 10-Q (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE (Continued)

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 2013 Annual Report on Form 10-K (2013 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. Prior period amounts have also been updated to reflect the first quarter 2014 adoption of Accounting Standards Update (ASU) 2014-01 related to investments in low income housing tax credits. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for more detail. For information regarding certain business, regulatory and legal risks, see the following sections as they appear in this Report and in our 2013 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 2013 Form 10-K, respectively; Item 1A Risk Factors included in our 2013 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 2013 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 18 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	2014	2013
Financial Results (a)		
Revenue		
Net interest income	$ 2,195	$ 2,389
Noninterest income	1,582	1,566
Total revenue	3,777	3,955
Noninterest expense (b)	2,264	2,368
Pretax, pre-provision earnings (c)	1,513	1,587
Provision for credit losses	94	236
Income before income taxes and noncontrolling interests	$ 1,419	$ 1,351
Net income (b)	$ 1,060	$ 995
Less:		
Net income (loss) attributable to noncontrolling interests (b)	(2)	(8)
Preferred stock dividends and discount accretion and redemptions	70	75
Net income attributable to common shareholders	$ 992	$ 928
Diluted earnings per common share	$ 1.82	$ 1.74
Cash dividends declared per common share	$ .44	$ .40
Performance Ratios		
Net interest margin (d)	3.26%	3.81%
Noninterest income to total revenue	42	40
Efficiency	60	60
Return on:		
Average common shareholders equity	10.36	10.58
Average assets	1.35	1.33

See page 52 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) Prior period amounts have been updated to reflect the first quarter 2014 adoption of Accounting Standards Update (ASU) 2014-01 related to investments in low income housing tax credits.

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

(d)

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, 2014 and March 31, 2013 were $46 million and $40 million, respectively.

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

Unaudited	March 31 2014	December 31 2013	March 31 2013
Balance Sheet Data (dollars in millions, except per share data)			
Assets (b)	$ 323,423	$ 320,192	$ 300,718
Loans	198,242	195,613	186,504
Allowance for loan and lease losses	3,530	3,609	3,828
Interest-earning deposits with banks (c)	14,877	12,135	1,541
Investment securities	58,644	60,294	59,361
Loans held for sale	2,102	2,255	3,295
Goodwill and other intangible assets	11,189	11,290	10,996
Equity investments (b) (d)	10,337	10,560	10,914
Other assets	23,315	22,552	24,470
Noninterest-bearing deposits	70,063	70,306	64,652
Interest-bearing deposits	152,319	150,625	146,968
Total deposits	222,382	220,931	211,620
Transaction deposits	188,105	186,391	175,407
Borrowed funds	46,806	46,105	37,647
Total shareholders equity (b)	43,321	42,334	39,598
Common shareholders equity (b)	39,378	38,392	36,006
Accumulated other comprehensive income	656	436	767
Book value per common share	$ 73.73	$ 72.07	$ 68.10
Common shares outstanding (millions)	534	533	529
Loans to deposits	89%	89%	88%
Client Assets (billions)			
Discretionary assets under management	$ 130	$ 127	$ 118
Nondiscretionary assets under administration	125	120	118
Total assets under administration	255	247	236
Brokerage account assets	41	41	39
Total client assets	$ 296	$ 288	$ 275
Capital Ratios			
Transitional Basel III (e) (f)			
Common equity Tier 1 (g)	10.8%	N/A(h)	N/A
Tier 1 risk-based	12.6	N/A	N/A
Total capital risk-based	15.8	N/A	N/A
Leverage	11.1	N/A	N/A
Pro forma Fully Phased-In Basel III (f) (i)			
Common equity Tier 1 (g)	9.7%	9.4%	8.0%
Common shareholders equity to assets	12.2%	12.0%	12.0%
Asset Quality			
Nonperforming loans to total loans	1.49%	1.58%	1.83%
Nonperforming assets to total loans, OREO and foreclosed assets	1.66	1.76	2.10
Nonperforming assets to total assets	1.02	1.08	1.31
Net charge-offs to average loans (for the three months ended) (annualized) (j)	.38	.39	.99
Allowance for loan and lease losses to total loans	1.78	1.84	2.05
Allowance for loan and lease losses to nonperforming loans (k)	120%	117%	112%
Accruing loans past due 90 days or more (in millions)	$ 1,310	$ 1,491	$ 1,906

(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) Prior period amounts have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.

(c) Amounts include balances held with the Federal Reserve Bank of Cleveland of $14.5 billion, $11.7 billion and $1.1 billion as of March 31, 2014, December 31, 2013 and March 31, 2013, respectively.

(d) Amounts include our equity interest in BlackRock.

(e) Calculated using the regulatory capital methodology applicable to PNC during 2014.

(f) 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 2013 Form 10-K. See also the Estimated Pro forma Fully Phased-In Basel III Common Equity Tier 1 Capital Ratio 2013 Periods table in the Statistical Information section of this Report for a reconciliation of the 2013 periods ratios.

(g) The Basel III common equity Tier 1 capital ratio was previously referred to as the Basel III Tier 1 common capital ratio.

(h) Our 2013 Form 10-K included a pro forma illustration of the Transitional Basel III common equity Tier 1 capital ratio using December 31, 2013 data and the Basel III phase-in schedule in effect for 2014 and information regarding our Basel I capital ratios, which applied to PNC in 2013. See also the 2013 Basel I Tier 1 Common Capital Ratio Table in the Statistical Information section of this Report.

(i) Ratios as of December 31, 2013 and March 31, 2013 have not been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.

(j) Pursuant to alignment with interagency guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013, additional charge-offs of $134 million were taken. Excluding the impact of these additional charge-offs, annualized net charge-offs to average loans for the first quarter 2013 was 0.70%.

(k) 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.

EXECUTIVE SUMMARY

PNC is one of the largest diversified financial services companies in the United States and is headquartered in Pittsburgh, Pennsylvania.

PNC has businesses engaged in retail banking, corporate and institutional banking, asset management and residential mortgage banking, providing many of its products and services nationally, as well as other products and services in PNC s primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, North Carolina, Florida, Kentucky, Washington, D.C., Delaware, Alabama, Virginia, Missouri, Georgia, Wisconsin and South Carolina. PNC also provides 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 fee-based and credit products and services. We are focused on delivering those products and services where, when and how our customers want to receive them with the goal of offering insight that reflects 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 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 redefining 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 bolstering critical 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 2014 Comprehensive Capital Analysis and Review (CCAR) submission to the Board of Governors of the

Federal Reserve System (Federal Reserve). We continue to improve our capital levels and ratios through retention of quarterly earnings and expect to build capital through retention of future earnings. PNC continues to maintain adequate liquidity positions at both PNC and PNC Bank, National Association (PNC Bank, N.A.). For more detail, see the Capital and Liquidity Actions portion of this Executive Summary, the Funding and Capital Sources 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 2013 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 2013 Form 10-K and elsewhere in this Report.

RECENT MARKET AND INDUSTRY DEVELOPMENTS

There have been numerous legislative and regulatory developments and dramatic 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 further increased 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 in many cases more intense scrutiny from our supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state 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.

The Federal Reserve on April 7, 2014 announced its intent to give banking entities an additional two years (*i.e.*, until July 21, 2017) to conform their ownership interests in and sponsorship of certain collateralized loan obligations (CLOs) that are treated as covered funds to the requirements of section 619 of Dodd-Frank (commonly known as the Volcker Rule). These extensions will allow more time for PNC s senior debt interests in CLOs that may be considered covered funds to pay down over time before compliance is required, and should reduce the potential for adverse consequences that otherwise might result from a forced sale or restructuring of these investments due to the Volcker Rule.

On April 8, 2014, the Federal Deposit Insurance Corporation, the Federal Reserve and the Office of the Comptroller of the Currency (collectively the banking agencies) requested public comment on a notice of proposed rulemaking that would revise the denominator of the supplementary leverage ratio adopted by the banking agencies in July 2013 for banking organizations, such as PNC, subject to the advanced approaches framework to determine risk-based capital. The proposal, among other things, would modify (and in many cases reduce) the credit conversion factors applied to certain off-balance sheet exposures and would revise the treatment of derivatives and certain securities financing transactions. The proposal also would expand the supplementary leverage-related disclosures that covered banking organizations are required to make starting January 1, 2015. Comments on the proposal are due June 13, 2014.

Also on April 8, 2014, the banking agencies released final rules imposing a higher supplementary leverage ratio requirement on bank holding companies with total consolidated assets of more than $700 billion or assets under custody of more than $10 trillion, as well as the insured depository institution subsidiaries of these bank holding companies. Based on the asset and custody thresholds adopted in the final rules, these higher supplementary leverage requirements do not apply to PNC or PNC Bank, N.A.

On March 26, 2014, the Federal Reserve announced the results of its 2014 Comprehensive Capital Analysis and Review exercise (CCAR 2014). Of the 30 bank holding companies participating in CCAR 2014, the Federal Reserve announced that it did not object to the capital plans of 25 bank holding companies (including PNC) and objected to the capital plans of five bank holding companies (four for qualitative reasons and one due to the institution s projected failure to meet the applicable minimum, post-stress capital ratios). In connection with the announcement of these results, the Federal Reserve emphasized that its qualitative assessment of a bank holding company s capital planning and stress testing processes which includes an assessment of the extent to which these processes capture and appropriately address potential risks across the organization, the robustness of the organization s capital planning process, and corporate governance and internal controls over capital planning is a critical component of the Federal Reserve s CCAR review process.

On July 31, 2013, the U.S. District Court for the District of Columbia granted summary judgment to the plaintiffs in *NACS, et al. v. Board of Governors of the Federal Reserve System*. The decision vacated the debit card interchange and network processing rules that went into effect in October 2011

and that were adopted by the Federal Reserve to implement provisions of Dodd-Frank. The court found among other things that the debit card interchange fees permitted under the rules allowed card issuers to recover costs that were not permitted by the statute. The court stayed its decision pending appeal, and the United States Court of Appeals for the District of Columbia Circuit granted an expedited appeal. In March 2014, the court of appeals reversed the district court. It upheld the Federal Reserve s network processing rule and upheld its interchange fee rule except as to the issue of transaction monitoring costs, and remanded that issue back to the Federal Reserve for further explanation. The court s mandate has not yet been issued and the plaintiffs could seek rehearing from the court of appeals or review from the United States Supreme Court.

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, Recent Market and Industry Developments in the Executive Summary section of Item 7, and Note 23 Legal Proceedings and Note 24 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of our 2013 Form 10-K, as well as Note 16 Legal Proceedings and Note 17 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 2013 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 enhance 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,
- Improving our overall asset quality,
- 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 and capital management related to our efforts to manage risk to acceptable levels and to meet evolving regulatory capital 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 2013 Form 10-K.

INCOME STATEMENT HIGHLIGHTS

- Net income for the first quarter of 2014 of $1.1 billion increased 7% compared to the first quarter of 2013. The increase was driven by a decline in provision for credit losses and a 4% reduction of noninterest expense, partially offset by a 5% decline in revenue, which resulted from lower net interest income while noninterest income increased slightly.
- For additional detail, please see the Consolidated Income Statement Review section in this Financial Review.
- Net interest income of $2.2 billion for the first quarter of 2014 decreased 8% compared with the first quarter of 2013, reflecting the impact of lower yields on loans and securities, higher borrowed funds balances and lower purchase accounting accretion. These decreases were somewhat offset by loan growth and the impact of lower rates paid on deposits and borrowed funds.
- Net interest margin decreased to 3.26% for the first quarter of 2014 compared to 3.81% for the first quarter of 2013. The decline was driven by lower rates on new loans and purchased securities in the ongoing low rate environment, as well as lower purchase accounting accretion. In addition, the decline reflected the impact of balance sheet activity in light of new short-term liquidity regulatory standards, partially offset by lower overall rates paid on interest-bearing deposits and redemptions of higher-rate borrowed funds.
- Noninterest income of $1.6 billion for the first quarter of 2014 increased slightly compared to the first quarter of 2013, as strong fee income and the impact from the gain on a sale of Visa Class B common shares in the first quarter of 2014 was mostly offset by lower residential mortgage fee revenue.
- The provision for credit losses decreased to $94 million for the first quarter of 2014 compared to $236 million for the first quarter of 2013 due to overall credit quality improvement.
- Noninterest expense of $2.3 billion for the first quarter of 2014 decreased 4% compared with the first quarter of 2013. The decline was primarily driven by lower personnel expense and also reflected our continued focus on expense management.

CREDIT QUALITY HIGHLIGHTS

- Overall credit quality continued to improve during the first quarter of 2014. For additional detail, see the Credit Risk Management portion of the Risk Management section of this Financial Review.
- Nonperforming assets decreased $.2 billion, or 4%, to $3.3 billion at March 31, 2014 compared to December 31, 2013.
- Nonperforming assets to total assets were 1.02% at March 31, 2014, compared to 1.08% at December 31, 2013.
- Overall loan delinquencies of $2.2 billion at March 31, 2014 decreased $.3 billion, or 11%, compared with December 31, 2013.
- The allowance for loan and lease losses was 1.78% of total loans and 120% of nonperforming loans at March 31, 2014, compared with 1.84% and 117% at December 31, 2013, respectively.

Net charge-offs of $186 million were down 59% compared to net charge-offs of $456 million for the first quarter of 2013. Annualized net charge-offs were 0.38% of average loans in the first quarter of 2014 and 0.99% of average loans in the first quarter of 2013. These charge-off comparisons were impacted by alignment with interagency guidance in the first quarter of 2013 on practices for loans and lines of credit related to consumer lending. In the first quarter 2013, this alignment had the overall effect of (i) accelerating charge-offs, (ii) increasing nonperforming loans and (iii) in the case of loans accounted for under the fair value option, increasing nonaccrual loans. See the Credit Risk Management portion of the Risk Management section of this Financial Review and Note 4 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for further detail.

Balance Sheet Highlights

- Total loans increased by $2.6 billion to $198 billion at March 31, 2014 compared to December 31, 2013.
  - Total commercial lending increased by $3.6 billion, or 3%, from December 31, 2013, as a result of growth in commercial and commercial real estate loans to new and existing customers.
  - Total consumer lending decreased $1.0 billion, or 1%, from December 31, 2013, due to lower home equity, residential mortgage and education loans as well as seasonal declines in credit card loans partially offset by growth in automobile loans.
- Total deposits increased by $1.5 billion to $222 billion at March 31, 2014 compared with December 31, 2013, driven primarily by growth in transaction deposits.
- PNC continued to enhance its liquidity position in preparation for implementation of new short-term liquidity regulatory standards as reflected in higher interest-earning deposits with banks, which are primarily maintained with the Federal Reserve Bank, and activity relating to investment securities and borrowed funds.
- PNC s well-positioned balance sheet remained core funded with a loans to deposits ratio of 89% at March 31, 2014.
- PNC took actions reflecting its strong capital position at March 31, 2014.
  - In April 2014 the Board of Directors raised the quarterly cash dividend on common stock to 48 cents per share, an increase of 4 cents per share, or 9 percent, effective with the May dividend.
  - PNC announced share repurchase programs of up to $1.5 billion for the four quarter period beginning in the second quarter of 2014 under its existing common stock repurchase program authorization.
- The Transitional Basel III common equity Tier 1 capital ratio, calculated using the regulatory capital methodology applicable to PNC during 2014, was 10.8% at March 31, 2014.
- Pro forma fully phased-in Basel III common equity Tier 1 capital ratio based on the standardized approach rules increased to an estimated 9.7 percent at March 31, 2014 from 9.4 percent at December 31, 2013. See the Capital discussion and Table 18 in the Consolidated Balance Sheet Review section of this Financial Review for more detail.

Our Consolidated Income Statement and Consolidated Balance Sheet Review sections of this Financial Review describe in greater detail the various items that impacted our results during the first three months of 2014 and 2013 and balances at March 31, 2014 and December 31, 2013, respectively.

Capital and Liquidity Actions

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 and our primary bank regulators as part of the CCAR process.

In connection with the 2014 CCAR, PNC submitted its 2014 capital plan, approved by its Board of Directors, to the Federal Reserve in January 2014. As we announced on March 26, 2014, the Federal Reserve accepted the capital plan and did not object to our proposed capital actions, which included a recommendation to increase the quarterly common stock dividend in the second quarter of 2014. The capital plan also included share repurchase programs of up to $1.5 billion for the four quarter period beginning in the second quarter of 2014 under PNC s existing common stock repurchase authorization. These programs include repurchases of up to $200 million to mitigate the financial impact of employee benefit plan transactions. For additional information concerning the CCAR process and the factors the Federal Reserve takes into consideration in evaluating capital plans, see the Supervision and Regulation section in Item 1 Business of our 2013 Form 10-K.

On April 3, 2014, consistent with our 2014 capital plan, our Board of Directors approved an increase to PNC s quarterly common stock dividend from 44 cents per common share to 48 cents per common share. For the second quarter of 2014, the increased dividend was payable to shareholders of record at the close of business on April 15, 2014 and was paid on May 5, 2014.

See the Liquidity Risk Management portion of the Risk Management section of this Financial Review for more detail on our 2014 capital and liquidity actions.

AVERAGE CONSOLIDATED BALANCE SHEET HIGHLIGHTS

Table 2: Summarized Average Balance Sheet

Three months ended March 31			Change	
Dollars in millions	2014	2013	$	%
Average assets				
Interest-earning assets				
Investment securities	$ 58,379	$ 58,531	$ (152)	
Loans	196,581	186,099	10,482	6%
Interest-earning deposits with banks	12,157	2,410	9,747	404%
Other	8,661	9,140	(479)	(5)%
Total interest-earning assets	275,778	256,180	19,598	8%
Noninterest-earning assets	43,784	47,186	(3,402)	(7)%
Total average assets	$ 319,562	$ 303,366	$ 16,196	5%
Average liabilities and equity				
Interest-bearing liabilities				
Interest-bearing deposits	$ 150,684	$ 144,801	$ 5,883	4%
Borrowed funds	46,388	39,727	6,661	17%
Total interest-bearing liabilities	197,072	184,528	12,544	7%
Noninterest-bearing deposits	67,679	64,850	2,829	4%
Other liabilities	10,364	12,107	(1,743)	(14)%
Equity	44,447	41,881	2,566	6%
Total average liabilities and equity	$ 319,562	$ 303,366	$ 16,196	5%

Various seasonal and other factors impact our period-end balances, whereas average balances are generally more indicative of underlying business trends apart from the impact of acquisitions and divestitures. The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at March 31, 2014 compared with December 31, 2013. Total assets were $323.4 billion at March 31, 2014 compared with $320.2 billion at December 31, 2013.

Average investment securities remained relatively stable in the comparison of the first three months of 2014 compared with the first three months of 2013, as a net decrease in average residential mortgage-backed securities from principal payments was mostly offset by an increase in average U.S. Treasury and government agency securities, which was driven by the impact of fourth quarter 2013 purchases to enhance our liquidity position in light of new short-term liquidity regulatory standards. Total investment securities comprised 21% of average interest-earning assets for the first quarter of 2014 and 23% for the first quarter of 2013.

The increase in average total loans in the first quarter of 2014 compared to the prior year quarter was driven by increases in average commercial loans of $6.0 billion, average commercial real estate loans of $2.8 billion and average consumer loans of $1.7 billion. The increase in average total loans was driven by increased average loans in our Corporate & Institutional

Banking segment, primarily in Real Estate, Corporate Banking and Business Credit.

Loans represented 71% of average interest-earning assets for the first quarter of 2014 and 73% of average interest-earning assets for the first quarter of 2013.

Average interest-earning deposits with banks, which are primarily maintained with the Federal Reserve Bank, increased significantly in the comparison of first quarter 2014 to first quarter 2013, as we continued to enhance our liquidity position in preparation for implementation of new short-term liquidity regulatory standards.

The decrease in average noninterest-earning assets for the first three months of 2014 compared to the first three months of 2013 was driven primarily by decreased unsettled securities sales and securities valuations, both of which are included in noninterest-earning assets for average balance sheet purposes.

Average total deposits increased $8.7 billion in the comparison of the first quarter of 2014 compared with the prior year quarter, primarily due to an increase of $11.1 billion in average transaction deposits, which grew to $184.3 billion for the first quarter of 2014. Growth in business and consumer customer deposits as well as continued customer preference for liquidity drove the increase in average transaction deposits. These increases were partially offset by a decrease of $3.0 billion in average retail certificates of deposit attributable to run-off of maturing accounts.

Total deposits at March 31, 2014 were $222.4 billion compared with $220.9 billion at December 31, 2013 and are further discussed within the Consolidated Balance Sheet Review section of this Financial Review.

Average total deposits represented 68% of average total assets for the first quarter of 2014 and 69% for the first quarter of 2013.

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, including increases as part of the enhancement of our liquidity position in light of new short-term liquidity regulatory standards. Total borrowed funds at March 31, 2014 were $46.8 billion compared with $46.1 billion at December 31, 2013 and are further discussed within the Consolidated Balance Sheet Review section of this Financial

Review. 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 2014 and 2013 including presentation differences from Note 18 Segment Reporting in our Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. Note 18 Segment Reporting presents results of businesses for the first three months of 2014 and 2013.

We provide a reconciliation of total business segment earnings to PNC total consolidated net income as reported on a GAAP basis in Note 18 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

Table 3: Results Of Businesses Summary

(Unaudited)

	Net Income		Revenue		Average Assets (a)	
Three months ended March 31 in millions	2014	2013	2014	2013	2014	2013
Retail Banking	$ 158	$ 120	$ 1,494	$ 1,483	$ 75,920	$ 74,116
Corporate & Institutional Banking	523	541	1,298	1,341	117,937	111,671
Asset Management Group	37	43	270	255	7,599	7,131
Residential Mortgage Banking	(4)	45	206	291	8,777	10,803
BlackRock	123	108	160	138	6,272	5,859
Non-Strategic Assets Portfolio	110	79	148	219	8,889	10,735
Total business segments	947	936	3,576	3,727	225,394	220,315
Other (b) (c) (d)	113	59	201	228	94,168	83,051
Total	$ 1,060	$ 995	$ 3,777	$ 3,955	$ 319,562	$ 303,366

(a) Period-end balances for BlackRock.
(b) Other average assets include investment securities associated with asset and liability management activities.
(c) Other includes differences between the total business segment financial results and our total consolidated net income. Additional detail is included in Note 18 Segment Reporting in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.
(d) The increase in net income in the first quarter 2014 compared to the first quarter 2013 for Other primarily reflects a decline in noninterest expense due to lower personnel expense related to lower benefits costs and the impact of a first quarter 2013 contribution to the PNC Foundation.

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 2014 was $1.1 billion, an increase of 7% compared with $1.0 billion for the first three months of 2013. The increase was driven by lower provision for credit losses and a decline in noninterest expense of 4%, partially offset by a 5% decline in revenue. Lower revenue in the comparison resulted from lower net interest income while noninterest income increased slightly.

Net Interest Income

Table 4: Net Interest Income and Net Interest Margin

	Three months ended March 31	
Dollars in millions	2014	2013
Net interest income	$ 2,195	$ 2,389
Net interest margin	3.26%	3.81%

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 $194 million, or 8%, in the first quarter of 2014 compared with the first quarter of 2013. The decline was driven by lower purchase accounting accretion, lower yields on loans and securities and higher borrowed funds balances, somewhat offset by loan growth and the impact of lower rates paid on deposits and borrowed funds. Purchase accounting accretion declined $86 million from lower scheduled accretion and lower excess cash recoveries on purchased impaired loans.

Net interest margin declined 55 basis points in the first quarter of 2014 compared to the first quarter of 2013 due to lower yields on interest-earning assets, which decreased 57 basis points, slightly offset by a 4 basis point decrease in the weighted-average rate paid on total interest-bearing liabilities, both of which include the impact of lower purchase accounting accretion in the comparison.

The yield on interest-earning assets decreased primarily due to lower rates on new loans and purchased securities in the ongoing low rate environment, as well as the impact of higher interest-earning deposits with banks maintained with the Federal Reserve Bank and investment securities activity in light of new short-term liquidity regulatory standards. The decrease in the rate paid on interest-bearing liabilities was primarily due to lower overall rates paid on interest-bearing deposits and redemptions of higher-rate bank notes and senior debt and subordinated debt.

In the second quarter of 2014, we expect net interest income to be down modestly compared to first quarter 2014 due to the continued decline in purchase accounting accretion and further interest rate spread compression.

For full year 2014, we expect total purchase accounting accretion to be down approximately $300 million compared with 2013.

NONINTEREST INCOME

Table 5: Noninterest Income

Three months ended March 31			Change	
Dollars in millions	2014	2013	$	%
Noninterest income				
Asset management	$ 364	$ 308	$ 56	18%
Consumer services	290	296	(6)	(2)%
Corporate services	301	277	24	9%
Residential mortgage	161	234	(73)	(31)%
Service charges on deposits	147	136	11	8%
Net gains on sales of securities	10	14	(4)	(29)%
Net other-than-temporary impairments	(2)	(10)	8	(80)%
Other	311	311		
Total noninterest income	$ 1,582	$ 1,566	$ 16	1%

Noninterest income increased slightly during the first quarter of 2014 compared to first quarter of 2013, reflecting strong fee income and a gain on sale of Visa Class B common shares in the first quarter of 2014, mostly offset by lower residential mortgage fee revenue. Noninterest income as a percentage of total revenue was 42% in the first quarter of 2014, up from 40% in the first quarter of 2013.

Higher asset management revenue in the first three months of 2014 was driven by stronger equity markets and sales production, as well as increased earnings from our BlackRock investment. Discretionary assets under management grew to $130 billion at March 31, 2014 compared with $118 billion at March 31, 2013 driven by higher equity markets and strong sales.

Consumer service fees declined slightly in the first quarter of 2014 compared to the prior year quarter, as growth in customer-initiated transaction volumes was more than offset by several individually insignificant items.

Corporate services revenue increased to $301 million in the first quarter of 2014 compared to $277 million in the first quarter of 2013, principally due to higher merger and acquisition advisory fees. Net commercial mortgage servicing rights valuations were stable at $11 million in both first quarters of 2014 and 2013.

Residential mortgage fee revenue decreased to $161 million in the first three months of 2014 from $234 million in the first three months of 2013, which was driven by a decline in loan sales revenue from a reduction in origination volume and lower net hedging gains on residential mortgage servicing rights. These declines were partially offset by a net benefit of $19 million from the release of reserves for residential mortgage repurchase obligations in the first quarter 2014. The repurchase reserve provision recorded during the first quarter of 2013 was not significant.

Service charges on deposits increased in the first quarter of 2014 compared to the prior year quarter due to growth in customer activity and changes in product offerings.

Other noninterest income was stable at $311 million for both first quarters of 2014 and 2013, as a $62 million gain on the sale of 1 million Visa Class B common shares in the first quarter of 2014 was substantially offset by lower commercial mortgage loans held for sale activity and a net expense of $14 million in the current year quarter from credit valuations for customer-related derivatives activities. The first quarter 2013 impact to other noninterest income related to these credit valuations was not significant.

We held approximately 9 million Visa Class B common shares with a fair value of approximately $850 million and recorded investment of $135 million as of March 31, 2014.

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 2014, we expect fee-based noninterest income to increase in the low single digits, on a percentage basis, compared to first quarter 2014, reflecting our continued focus on our strategic priorities.

Assuming a continuation of the current economic environment, we expect that full year 2014 revenue will be under some pressure, and as a result, could likely be down compared to full year 2013 revenue due to expected purchase accounting accretion declines as well as lower residential mortgage revenues.

Provision For Credit Losses

The provision for credit losses totaled $94 million for the first quarter of 2014 compared with $236 million for the first quarter of 2013. The decrease in provision reflected overall credit quality improvement. A contributing economic factor was the increasing value of residential real estate that improved expected cash flows on our purchased impaired loans.

We currently believe that credit trends may not remain at first quarter levels and expect our provision for credit losses in the second quarter of 2014 to be between $100 million and $150 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 decreased $104 million, or 4%, to $2.3 billion for the first quarter of 2014 compared with first quarter 2013 reflecting overall disciplined expense management. A decrease in personnel expense related to lower headcount and benefit costs and the impact of a first quarter 2013 contribution to the PNC Foundation were partially offset by higher legal accruals associated with the residential mortgage banking business and investments in technology.

In the first quarter of 2014 we have captured savings of more than 35% of our 2014 continuous improvement savings goal of $500 million, and we expect to achieve the full-year goal. We expect cost savings to fund investments in our infrastructure,

including those related to cybersecurity, and investments in our diversified businesses, including our Retail Banking transformation, consistent with our strategic priorities.

In the first quarter of 2014, we adopted new accounting guidance which changes how investments in low income housing tax credits are recognized. As a result, losses on certain tax credit investments which were previously recorded in noninterest expense will be recorded to income taxes. While this change is expected to reduce our expenses for full year 2014, retrospective application of this accounting change was required upon adoption, which had the effect of reducing reported expenses for 2013 as well. As a result, this reclassification did not have an impact on our expense guidance for the year. See the following Effective Income Tax Rate portion of this Consolidated Income Statement Review for more detail.

In the second quarter of 2014, we expect noninterest expense to increase by low single digits, on a percentage basis, compared to first quarter 2014 due to the expected impact of seasonality with second quarter expenses typically higher than first quarter expenses.

We plan to remain focused on disciplined expense management in the current environment and continue to expect noninterest expense for full year 2014 to be lower compared with full year 2013, apart from the impact of potential legal and regulatory contingencies.

Effective Income Tax Rate

The effective income tax rate was 25.3% in the first quarter of 2014 compared with 26.4% in the first quarter of 2013. 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.

The lower effective income tax rate in the first quarter 2014 compared to the prior year quarter was primarily attributable to the impact of higher tax-exempt income and tax credits.

The effective tax rate for both first quarters of 2014 and 2013 reflect the adoption of Accounting Standards Update 2014-01, which relates to amortization of investments in low income

housing tax credits. See the Recent Accounting Pronouncements portion of Note 1 Accounting Policies in the Notes to Consolidated Financial Statements in Part I, Item 1 of this Report for further detail. The retrospective application of this guidance resulted in increased income tax expenses in both periods due to the reclassification of noninterest expense associated with these investments.

As a result of the adoption of this accounting guidance, we now expect our 2014 effective tax rate to be approximately 26%.

Consolidated Balance Sheet Review

Table 6: Summarized Balance Sheet Data

	March 31	December 31	Change	
Dollars in millions	2014	2013	$	%
Assets				
Interest-earning deposits with banks	$ 14,877	$ 12,135	$ 2,742	23%
Loans held for sale	2,102	2,255	(153)	(7)%
Investment securities	58,644	60,294	(1,650)	(3)%
Loans	198,242	195,613	2,629	1%
Allowance for loan and lease losses	(3,530)	(3,609)	79	2%
Goodwill	9,074	9,074		%
Other intangible assets	2,115	2,216	(101)	(5)%
Other, net	41,899	42,214	(315)	(1)%
Total assets	$ 323,423	$ 320,192	$ 3,231	1%
Liabilities				
Deposits	$ 222,382	$ 220,931	$ 1,451	1%
Borrowed funds	46,806	46,105	701	2%
Other	9,317	9,119	198	2%
Total liabilities	278,505	276,155	2,350	1%
Equity				
Total shareholders equity	43,321	42,334	987	2%
Noncontrolling interests	1,597	1,703	(106)	(6)%
Total equity	44,918	44,037	881	2%
Total liabilities and equity	$ 323,423	$ 320,192	$ 3,231	1%

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

The increase in total assets was primarily due to higher interest-earning deposits with banks and loan growth, partially offset by lower investment securities. The increase in interest-earning deposits with banks resulted from the continuation of PNC s efforts to enhance its liquidity position in preparation for implementation of new short-term liquidity regulatory standards. Interest-earning deposits with banks included balances held with the Federal Reserve Bank of Cleveland of $14.5 billion and $11.7 billion at March 31, 2014 and December 31, 2013, respectively. The increase in liabilities was largely due to growth in deposits and higher Federal Home Loan Bank borrowings and bank notes and senior debt, partially offset by a decline in federal funds purchased and repurchase agreements. An analysis of changes in selected balance sheet categories follows.

Loans

Outstanding loan balances of $198.2 billion at March 31, 2014 and $195.6 billion at December 31, 2013 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $2.0 billion at March 31, 2014 and $2.1 billion at December 31, 2013, 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.

Table 7: Details Of Loans

Dollars in millions	March 31 2014	December 31 2013	Change $	Change %
Commercial lending				
Commercial				
Retail/wholesale trade	$ 16,157	$ 15,530	$ 627	4%
Manufacturing	17,185	16,208	977	6%
Service providers	13,576	13,052	524	4%
Real estate related (a)	10,856	10,729	127	1%
Financial services	4,720	4,927	(207)	(4)%
Health care	8,836	8,690	146	2%
Other industries	19,771	19,242	529	3%
Total commercial	91,101	88,378	2,723	3%
Commercial real estate				
Real estate projects (b)	14,268	13,613	655	5%
Commercial mortgage	7,883	7,578	305	4%
Total commercial real estate	22,151	21,191	960	5%
Equipment lease financing	7,521	7,576	(55)	(1)%
Total commercial lending (c)	120,773	117,145	3,628	3%
Consumer lending				
Home equity				
Lines of credit	21,277	21,696	(419)	(2)%
Installment	14,595	14,751	(156)	(1)%
Total home equity	35,872	36,447	(575)	(2)%
Residential real estate				
Residential mortgage	14,179	14,418	(239)	(2)%
Residential construction	627	647	(20)	(3)%
Total residential real estate	14,806	15,065	(259)	(2)%
Credit card	4,309	4,425	(116)	(3)%
Other consumer				
Education	7,360	7,534	(174)	(2)%
Automobile	10,906	10,827	79	1%
Other	4,216	4,170	46	1%
Total consumer lending	77,469	78,468	(999)	(1)%
Total loans	$ 198,242	$ 195,613	$ 2,629	1%

(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 increase in loans was driven by the increase in commercial lending as a result of growth in commercial and commercial real estate loans, primarily from new customers and organic growth. The decline in consumer lending resulted from lower home equity, residential mortgage and education loans as well as seasonal declines in credit card loans partially offset by growth in automobile loans.

Loans represented 61% of total assets at both March 31, 2014 and December 31, 2013. Commercial lending represented 61% of the loan portfolio at March 31, 2014 and 60% at December 31, 2013. Consumer lending represented 39% of the loan portfolio at March 31, 2014 and 40% at December 31, 2013.

Commercial real estate loans represented 11% of total loans at both March 31, 2014 and December 31, 2013 and represented 7% of total assets at both March 31, 2014 and December 31, 2013. 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 $5.8 billion, or 3% of total loans, at March 31, 2014, and $6.1 billion, or 3% of total loans, at December 31, 2013.

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

Allowance for Loan and Lease Losses (ALLL)

Our total ALLL of $3.5 billion at March 31, 2014 consisted of $1.5 billion and $2.0 billion established for the commercial lending and consumer lending categories, respectively. The ALLL included what we believe to be appropriate loss coverage on all loans, including higher risk loans, in the commercial and consumer portfolios. We do not consider government insured or guaranteed loans to be higher risk as defaults have historically been materially mitigated by payments of insurance or guarantee amounts for approved claims. Additional information regarding our higher risk loans is included in the Credit Risk Management portion of the Risk Management section of this Financial Review and Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in Part I, 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 2014 and 2013 follows. Additional information is provided in Note 5 Purchased Loans in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

Table 8: Accretion Purchased Impaired Loans

	Three months ended March 31	
In millions	2014	2013
Accretion on purchased impaired loans		
Scheduled accretion	$ 125	$ 157
Reversal of contractual interest on impaired loans	(68)	(85)
Scheduled accretion net of contractual interest	57	72
Excess cash recoveries	29	50
Total	$ 86	$ 122

Table 9: Purchased Impaired Loans Accretable Yield

In millions	2014	2013
January 1	$ 2,055	$ 2,166
Scheduled accretion	(125)	(157)
Excess cash recoveries	(29)	(50)
Net reclassifications to accretable from non-accretable and other activity (a)	87	213
March 31 (b)	$ 1,988	$ 2,172

(a) Approximately 95% and 52% of the net reclassifications for the quarters ended March 31, 2014 and 2013, respectively, were within the consumer portfolio primarily due to increases in the expected average life of residential and home equity loans. The remaining net reclassifications were predominantly due to future cash flow improvements within the commercial portfolio.

(b) As of March 31, 2014, we estimate that the reversal of contractual interest on purchased impaired loans will total approximately $1.1 billion in future periods. This will offset the total net accretable interest in future interest income of $2.0 billion on purchased impaired loans.

Information related to the valuation of purchased impaired loans at March 31, 2014 and December 31, 2013 follows.

Table 10: Valuation of Purchased Impaired Loans

	March 31, 2014		December 31, 2013	
Dollars in millions	Balance	Net Investment	Balance	Net Investment
<u>Commercial and commercial real estate loans:</u>				
Outstanding balance	$ 799		$ 937	
Purchased impaired mark	(230)		(264)	

Recorded investment	569		673	
Allowance for loan losses	(123)		(133)	
Net investment	446	56%	540	58%
Consumer and residential mortgage loans:				
Outstanding balance	5,345		5,548	
Purchased impaired mark	(90)		(115)	
Recorded investment	5,255		5,433	
Allowance for loan losses	(825)		(871)	
Net investment	4,430	83%	4,562	82%
Total purchased impaired loans:				
Outstanding balance	6,144		6,485	
Purchased impaired mark	(320)		(379)	
Recorded investment	5,824		6,106	
Allowance for loan losses	(948)		(1,004)	
Net investment	$ 4,876	79%	$ 5,102	79%

At March 31, 2014, our largest individual purchased impaired loan had a recorded investment of $18 million. We currently expect to collect total cash flows of $6.9 billion on purchased impaired loans, representing the $4.9 billion net investment at March 31, 2014 and the accretable net interest of $2.0 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, 2014.

Table 11: Weighted Average Life of the Purchased Impaired Portfolios

As of March 31, 2014

In millions	Recorded Investment	WAL (a)
Commercial	$ 132	1.9 years
Commercial real estate	437	1.6 years
Consumer (b) (c)	2,226	4.4 years
Residential real estate (c)	3,029	5.2 years
Total	$ 5,824	4.5 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.
(c) In first quarter 2014, the weighted average life of the purchased impaired portfolio increased, primarily driven by residential real estate and home equity loans. Increasing a portfolio s weighted average life will result in more interest income being recognized on purchased impaired loans in future periods.

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, 2014	Declining Scenario (a)	Improving Scenario (b)
Expected Cash Flows	$ 6.9	$ (.2)	$ .3
Accretable Difference	2.0		.1
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 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.

NET UNFUNDED CREDIT COMMITMENTS

Net unfunded credit commitments are comprised of the following:

Table 13: Net Unfunded Credit Commitments

In millions	March 31 2014	December 31 2013
Total commercial lending (a)	$ 89,044	$ 90,104
Home equity lines of credit	18,632	18,754
Credit card	17,476	16,746
Other	4,492	4,266
Total	$ 129,644	$ 129,870

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

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments reported above exclude syndications, assignments and participations, primarily to financial institutions, totaling $25.9 billion at March 31, 2014 and $25.0 billion at December 31, 2013.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $1.0 billion at March 31, 2014 and $1.3 billion at December 31, 2013 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 $10.6 billion at March 31, 2014 and $10.5 billion at December 31, 2013. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Information regarding our Allowance for unfunded loan commitments and letters of credit is included in Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Investment Securities

The following table presents the distribution of our investment securities portfolio. We have included credit ratings information because 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 represent 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 77 in Note 7 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 relate to non-agency residential mortgage backed and asset-backed securities rated BB or lower.

Table 14: Investment Securities

	March 31, 2014		December 31, 2013		Ratings (a)				
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	$ 4,665	$ 4,833	$ 4,229	$ 4,361	100%				
Agency residential mortgage-backed	27,042	27,351	28,483	28,652	100				
Non-agency residential mortgage-backed	5,556	5,756	5,750	5,894	11	1%	2%	82%	4%
Agency commercial mortgage-backed	1,844	1,914	1,883	1,946	100				
Non-agency commercial mortgage-backed (b)	5,110	5,237	5,624	5,744	70	9	12	4	5
Asset-backed (c)	6,509	6,546	6,763	6,773	90	1		8	1
State and municipal	3,786	3,885	3,664	3,678	84	10	1		5
Other debt	2,926	2,978	2,845	2,891	74	19	7		
Corporate stock and other	325	324	434	433					100
Total investment securities (d)	$ 57,763	$ 58,824	$ 59,675	$ 60,372	84%	3%	2%	9%	2%

(a) Ratings as of March 31, 2014.
(b) Collateralized primarily by retail properties, office buildings and multi-family housing.
(c) Collateralized by consumer credit products, primarily home equity loans and government guaranteed student loans, and corporate debt.
(d) Includes available for sale and held to maturity securities.

Investment securities represented 18% of total assets at March 31, 2014 and 19% at December 31, 2013.

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, 2014, 84% 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 58% 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, 2014, the amortized cost and fair value of available for sale securities totaled $46.6 billion and $47.5 billion, respectively, compared to an amortized cost and fair value as of December 31, 2013 of $48.0 billion and $48.6 billion, respectively. The amortized cost and fair value of held to maturity securities were $11.2 billion and $11.3 billion, respectively, at March 31, 2014, compared to $11.7 billion and $11.8 billion, respectively, at December 31, 2013.

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 $1.1 billion at March 31, 2014 from $.7 billion at December 31, 2013 primarily due to the impact of market interest rates and credit spreads. The comparable amounts for the securities available for sale portfolio were $.9 billion and $.6 billion, respectively.

Unrealized gains and losses on available for sale debt securities do not impact liquidity. However these gains and losses do affect risk-based capital under the regulatory capital rules in effect beginning in 2014 for PNC. 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 regulatory capital ratios under the regulatory capital rules in effect for 2014. In addition, the amount representing the credit-related portion of

OTTI on available for sale securities would reduce our earnings and regulatory capital ratios.

The duration of investment securities was 2.7 years at March 31, 2014. We estimate that, at March 31, 2014, the effective duration of investment securities was 2.8 years for an immediate 50 basis points parallel increase in interest rates and 2.6 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2013 were 3.0 years and 2.8 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 2014 and 2013 we recognized OTTI credit losses of $2 million and $10 million, respectively. The credit losses related to residential mortgage-backed and asset-backed securities collateralized by non-agency residential loans.

If housing and economic conditions 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 could 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 7 Investment Securities and Note 8 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 2014	December 31 2013
Commercial mortgages at fair value	$ 577	$ 586
Commercial mortgages at lower of cost or fair value	155	281
Total commercial mortgages	732	867
Residential mortgages at fair value	1,057	1,315
Residential mortgages at lower of cost or fair value	31	41
Total residential mortgages	1,088	1,356
Other	282	32
Total	$ 2,102	$ 2,255

For commercial mortgages held for sale at fair value, we stopped originating these and continue to pursue opportunities to reduce these positions.

For commercial mortgages held for sale carried at lower of cost or fair value, we sold $439 million during the first three months of 2014 compared to $926 million during the first three months of 2013. All of these loan sales were to government agencies. Total gains of $7 million were recognized on the valuation and sale of commercial mortgage loans held for sale, net of hedges, during the first three months of 2014, and $23 million during the first three months of 2013.

Residential mortgage loan origination volume was $1.9 billion during the first three months of 2014 compared to $4.2 billion for the first three months of 2013. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $2.1 billion of loans and recognized related gains of $88 million during the first three months of 2014. The comparable amounts for the three months of 2013 were $3.8 billion and $172 million, respectively.

Interest income on loans held for sale was $23 million in the first three months of 2014 and $53 million in the first three months of 2013. 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 8 Fair Value in our Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $11.2 billion at March 31, 2014 and $11.3 billion at December 31, 2013. The decrease of $.1 billion was primarily due to fair value changes of residential mortgage servicing rights, partially offset by new additions and purchases of mortgage servicing rights. See additional information regarding our goodwill and intangible assets in Note 9 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

FUNDING AND CAPITAL SOURCES

Table 16: Details Of Funding Sources

In millions	March 31 2014	December 31 2013	Change $	Change %
Deposits				
Money market	$ 110,048	$ 108,631	$ 1,417	1%
Demand	78,054	77,756	298	%
Retail certificates of deposit	20,309	20,795	(486)	(2)%
Savings	11,900	11,078	822	7%
Time deposits in foreign offices and other time deposits	2,071	2,671	(600)	(22)%
Total deposits	222,382	220,931	1,451	1%
Borrowed funds				
Federal funds purchased and repurchase agreements	3,233	4,289	(1,056)	(25)%
Federal Home Loan Bank borrowings	13,911	12,912	999	8%
Bank notes and senior debt	13,861	12,603	1,258	10%
Subordinated debt	8,289	8,244	45	1%
Commercial paper	4,923	4,997	(74)	(1)%
Other	2,589	3,060	(471)	(15)%
Total borrowed funds	46,806	46,105	701	2%
Total funding sources	$ 269,188	$ 267,036	$ 2,152	1%

See the Liquidity Risk Management portion of the Risk Management section of this Financial Review for additional information regarding our 2014 capital and liquidity activities.

The increase in deposits during the first quarter of 2014 was primarily driven by seasonal increases in money market and savings deposits, partially offset by decreases in time deposits and retail certificates of deposit driven by the decline in customer sweep activity and continued run-off, respectively. Interest-bearing deposits represented 68% of total deposits at both March 31, 2014 and December 31, 2013. Total borrowed funds increased $.7 billion since December 31, 2013 as higher Federal Home Loan Bank borrowings and bank notes and senior debt were partially offset by a decline in federal funds purchased and repurchase agreements.

Capital

Table 17: Shareholders Equity

In millions	March 31 2014	December 31 2013
Shareholders equity		
Preferred stock (a)		
Common stock	$ 2,700	$ 2,698
Capital surplus preferred stock	3,943	3,941
Capital surplus common stock and other	12,394	12,416
Retained earnings	24,010	23,251
Accumulated other comprehensive income	656	436
Common stock held in treasury at cost	(382)	(408)
Total shareholders equity	$ 43,321	$ 42,334

(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.

Total shareholders equity increased $1.0 billion compared with December 31, 2013, primarily reflecting an increase in retained earnings of $759 million (driven by net income of $1.1 billion and the impact of $303 million of common and preferred dividends declared) and an increase of $220 million in accumulated other comprehensive income. This increase was primarily 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, along with the impact of pension and other postretirement benefit plan adjustments. Common shares outstanding were 534 million at March 31, 2014 and 533 million at December 31, 2013.

Our current common stock repurchase program authorization permits us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, contractual and regulatory limitations, and the results of the supervisory assessment of capital adequacy and capital planning processes undertaken by the Federal Reserve and our primary bank regulators as part of the CCAR process. The Federal Reserve accepted our 2014 capital plan and did not object to our proposed capital actions. The capital plan included share repurchase programs of up to $1.5 billion for the four quarter period beginning in the second quarter of 2014 under PNC s existing common stock repurchase authorization. These programs include repurchases of up to $200 million to mitigate the financial impact of employee benefit plan transactions. 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 this de minimis safe harbor, PNC repurchased $50 million of common shares to mitigate the financial impact of employee benefit plan transactions in the first quarter of 2014. See the Supervision and Regulation section of Item 1 Business of our 2013 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 Capital and Liquidity Actions portion of the Executive Summary section of our Financial Review for the impact of the Federal Reserve s current supervisory assessment of the capital adequacy program.

Table 18: Basel III Capital

		March 31, 2014	
Dollars in millions	Transitional Basel III (a)(c)	Pro forma Fully Phased-In Basel III (b)(c)	
Common equity Tier 1 capital			
Common stock plus related surplus, net of treasury stock	$ 14,712	$ 14,712	
Retained earnings	24,010	24,010	
Accumulated other comprehensive income for securities currently and previously held as available for sale	119	595	
Accumulated other comprehensive income for pension and other postretirement plans	(37)	(185)	
Goodwill, net of associated deferred tax liabilities	(8,842)	(8,842)	
Other disallowed intangibles, net of deferred tax liabilities	(90)	(449)	
Other adjustments/(deductions)	(16)	(106)	
Total common equity Tier 1 capital before threshold deductions	29,856	29,735	
Total threshold deductions	(214)	(1,186)	
Common equity Tier 1 capital	29,642	28,549	
Additional Tier 1 capital			
Preferred stock	3,943	3,943	
Trust preferred capital securities	99		
Noncontrolling interests (d)	790	40	
Other adjustments/(deductions)	(109)	(94)	
Tier 1 capital	34,365	32,438	
Additional Tier 2 capital			
Qualifying subordinated debt	5,377	4,542	
Trust preferred capital securities	99		
Allowance for loan and lease losses included in Tier 2 capital	3,408	98	
Other	2	10	
Total Basel III capital	$ 43,251	$ 37,088	
Risk-Weighted Assets (e)			
Basel I risk-weighted assets calculated in accordance with transition rules for 2014 (f)	$ 273,826	N/A	
Estimated Basel III standardized approach risk-weighted assets (g)	N/A	$ 293,310	
Estimated Basel III advanced approaches risk-weighted assets (h)	N/A	289,441	
Average quarterly adjusted total assets	309,857	308,496	
Basel III capital ratios			
Common equity Tier 1	10.8%	9.7%	(i) (k)
Tier 1 risk-based	12.6	11.1	(i) (l)
Total capital risk-based	15.8	12.8	(j) (m)
Leverage (n)	11.1	10.5	

(a) Calculated using the regulatory capital methodology applicable to PNC during 2014.
(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.
(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) Includes primarily REIT Preferred Securities.
(e) Calculated as of period end.
(f) Includes credit and market risk-weighted assets.
(g) Estimated based on Basel III standardized approach rules and includes credit and market risk-weighted assets.
(h) Estimated based on Basel III advanced approaches rules and includes credit, market and operational risk-weighted assets.
(i) Pro forma fully phased-in Basel III capital ratio based on estimated Basel III standardized approach risk-weighted assets.
(j) Pro forma fully phased-in Basel III capital ratio based on estimated Basel III advanced approaches risk-weighted assets.
(k) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Common equity Tier 1 capital ratio is 9.9%. This capital ratio is calculated using Common equity 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 advanced approaches Basel III Tier 1 risk-based capital ratio is 11.2%. This capital ratio is calculated using Tier 1 capital and dividing by estimated Basel III advanced approaches risk-weighted assets.
(m) For comparative purposes only, the pro forma fully phased-in standardized approach Basel III Total capital risk-based capital ratio is 13.9%. This ratio is calculated using 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.
(n) Leverage ratio is calculated based on Tier 1 capital divided by Average quarterly adjusted total assets.

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 2013 Form 10-K. Prior to fully implementing the advanced approaches established by these rules to calculate risk-weighted assets, PNC and PNC Bank, N.A. must successfully complete a parallel run qualification phase. Both PNC and PNC Bank, N.A. entered this parallel run phase on January 1, 2013. This phase must last at least four consecutive quarters, although, consistent with the experience of other U.S. banks, we currently anticipate a multi-year parallel run period. After PNC exits parallel run, its regulatory risk-based capital ratio for each measure (*e.g.*, Common equity Tier 1 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. capital rules issued in July 2013, as well as the fact that PNC remains in the parallel run qualification phase for the advanced approaches, PNC s regulatory risk-based capital ratios in 2014 are based on the definitions of, and deductions from, capital under Basel III (as such definitions and deductions are phased-in for 2014) and Basel I risk-weighted assets (but subject to certain adjustments as defined by the Basel III rules). We refer to the capital ratios calculated using these Basel III phased-in provisions and Basel I risk-weighted assets as the Transitional Basel III ratios.

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, 2014 capital levels were aligned with them.

At March 31, 2014, PNC and PNC Bank, N.A., our domestic bank subsidiary, were both considered well capitalized, based on applicable U.S. regulatory capital ratio requirements. To qualify as well capitalized , PNC and PNC Bank, N.A. must have, during 2014, Transitional Basel III capital ratios of at least 6% for Tier 1 risk-based and 10% for Total capital risk-based, and PNC Bank, N.A. must have a Transitional Basel III leverage ratio of at least 5%.

Common equity Tier 1 capital as defined under the Basel III rules adopted by the U.S. banking agencies differs materially

from Basel I. For example, under Basel III, significant common stock investments in unconsolidated financial institutions, mortgage servicing rights and deferred tax assets must be deducted from capital 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 I regulatory capital excludes accumulated other comprehensive income related to securities currently and previously held as available for sale, as well as pension and other postretirement plans, whereas under Basel III these items are a component of PNC s capital. The Basel III final rules also eliminate the Tier 1 treatment of trust preferred securities for bank holding companies with $15 billion or more in assets. In the third quarter of 2013, we concluded our redemptions of the discounted trust preferred securities previously assumed through acquisitions.

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 Banking Regulation and Supervision section of Item 1 Business, Item 1A Risk Factors and Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

PNC s Basel I ratios, which were PNC s effective regulatory capital ratios as of December 31, 2013 were 10.5% for Tier 1 common capital ratio, 12.4% for Tier 1 risk-based capital ratio, 15.8% for Total risk-based capital ratio and 11.1% for leverage ratio. Our 2013 Form 10-K included additional information regarding our Basel I capital ratios.

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 2013 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 10 Capital Securities of a Subsidiary Trust and Perpetual Trust Securities in the Notes To Consolidated Financial Statements, and

Note 17 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, 2014 and December 31, 2013 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, 2014). 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 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of our 2013 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.

Fair Value Measurements

In addition to the following, see Note 8 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, 2014 and December 31, 2013, respectively, and the portions of such assets and liabilities that are classified within Level 3 of the valuation hierarchy.

Table 19: Fair Value Measurements Summary

	March 31, 2014		December 31, 2013	
In millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	$ 61,349	$ 11,052	$ 63,096	$ 10,635
Total assets at fair value as a percentage of consolidated assets	19%		20%	
Level 3 assets as a percentage of total assets at fair value		18%		17%
Level 3 assets as a percentage of consolidated assets		3%		3%
Total liabilities	$ 4,712	$ 621	$ 5,460	$ 623
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		13%		11%
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 for which there was limited market activity, 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. PNC reviews and updates fair value hierarchy classifications quarterly. 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 8 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

European Exposure

Table 20: Summary of European Exposure

March 31, 2014

	Direct Exposure							
	Funded				Unfunded			
In millions	Loans	Leases	Securities	Total	Other (a)	Total Direct Exposure	Total Indirect Exposure	Total Exposure
Greece, Ireland, Italy, Portugal and Spain (GIIPS)	$ 70	$ 127		$ 197	$ 1	$ 198	$ 34	$ 232
United Kingdom	1,034	72		1,106	661	1,767	628	2,395
Europe Other (b)	145	583	$ 375	1,103	81	1,184	1,193	2,377
Total Europe (c)	$ 1,249	$ 782	$ 375	$ 2,406	$ 743	$ 3,149	$ 1,855	$ 5,004

December 31, 2013

	Direct Exposure							
	Funded				Unfunded			
In millions	Loans	Leases	Securities	Total	Other (a)	Total Direct Exposure	Total Indirect Exposure	Total Exposure
Greece, Ireland, Italy, Portugal and Spain (GIIPS)	$ 78	$ 126		$ 204	$ 1	$ 205	$ 32	$ 237
United Kingdom	903	75		978	580	1,558	734	2,292
Europe Other (b)	95	582	$ 267	944	48	992	1,192	2,184
Total Europe (c)	$ 1,076	$ 783	$ 267	$ 2,126	$ 629	$ 2,755	$ 1,958	$ 4,713

(a) Includes unfunded commitments, guarantees, standby letters of credit and sold protection credit derivatives.

(b) Europe Other primarily consists of Germany, Norway, Netherlands, and Sweden.

(c) Included within Europe Other is funded direct exposure of $132 million and $8 million consisting of AAA-rated sovereign debt securities at March 31, 2014 and December 31, 2013, respectively. There was no other direct or indirect exposure to European sovereigns as of March 31, 2014 and December 31, 2013.

European entities are defined as supranational, sovereign, financial institutions and non-financial entities within the countries that comprise the European Union, European Union candidate countries and other European countries. Foreign exposure underwriting and approvals are centralized. PNC currently underwrites new European activities if the credit is generally associated with activities of its United States commercial customers, and, in the case of PNC Business Credit s United Kingdom operations, loans with acceptable risk as they are predominantly well secured by short-term assets or, in limited situations, the borrower s appraised value of certain fixed assets. Country exposures are monitored and reported regularly. We actively monitor sovereign risk, banking system health, and market conditions and adjust limits as appropriate. We rely on information from internal and external sources, including international financial institutions, economists and analysts, industry trade organizations, rating agencies, econometric data analytical service providers and geopolitical news analysis services.

Among the regions and nations that PNC monitors, we have identified five countries for which we are more closely monitoring their economic and financial situation. The basis for the increased monitoring includes, but is not limited to, sovereign debt burden, near term financing risk, political instability, GDP trends, balance of payments, market confidence, banking system distress and/or holdings of stressed sovereign debt. The countries identified are: Greece, Ireland, Italy, Portugal and Spain (collectively GIIPS).

Direct exposure primarily consists of loans, leases, securities, derivatives, letters of credit and unfunded contractual

commitments with European entities. Indirect exposure principally arises where our clients, primarily U.S. entities, appoint PNC as a letter of credit issuing bank and we elect to assume the joint probability of default risk. For PNC to incur a loss in these indirect exposures, both the obligor and the financial counterparty participating bank would need to default. PNC assesses both the corporate customers and the participating banks for counterparty risk, and where PNC has found that a participating bank exposes PNC to unacceptable risk, PNC will reject the participating bank as an acceptable counterparty and will ask the corporate customer to find an acceptable participating bank.

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 18 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 18 primarily due to the presentation in this Financial Review of business net interest revenue on a taxable-equivalent basis. Note 18 presents results of businesses for the first three months of 2014 and 2013.

Retail Banking

(Unaudited)

Table 21: Retail Banking Table

Three months ended March 31

Dollars in millions	2014	2013
Income Statement		
Net interest income	$ 980	$ 1,049
Noninterest income		
Service charges on deposits	140	129
Brokerage	55	52
Consumer services	218	216
Other	101	37
Total noninterest income	514	434
Total revenue	1,494	1,483
Provision for credit losses	145	162
Noninterest expense	1,100	1,131
Pretax earnings	249	190
Income taxes	91	70
Earnings	$ 158	$ 120
Average Balance Sheet		
Loans		
Consumer		
Home equity	$ 29,317	$ 28,913
Indirect auto	8,994	7,006
Indirect other	777	1,000
Education	7,547	8,220
Credit cards	4,271	4,108
Other	2,137	2,141
Total consumer	53,043	51,388
Commercial and commercial real estate	11,051	11,290
Floor plan	2,373	2,014
Residential mortgage	647	811
Total loans	67,114	65,503
Goodwill and other intangible assets	6,062	6,148
Other assets	2,744	2,465
Total assets	$ 75,920	$ 74,116
Deposits		
Noninterest-bearing demand	$ 21,359	$ 20,744
Interest-bearing demand	33,490	31,183
Money market	49,484	48,291
Total transaction deposits	104,333	100,218
Savings	11,288	10,537
Certificates of deposit	19,882	22,683
Total deposits	135,503	133,438
Other liabilities	398	273
Total liabilities	$ 135,901	$ 133,711
Performance Ratios		
Return on average assets	.84%	.66%
Noninterest income to total revenue	34	29
Efficiency	74	76
Other Information (a)		
Credit-related statistics:		
Commercial nonperforming assets	$ 172	$ 230
Consumer nonperforming assets	1,059	1,050
Total nonperforming assets (b)	$ 1,231	$ 1,280
Purchased impaired loans (c)	$ 663	$ 788
Commercial lending net charge-offs	$ 20	$ 37
Credit card lending net charge-offs	37	45
Consumer lending (excluding credit card) net charge-offs	88	168

Total net charge-offs	$ 145	$ 250
Commercial lending annualized net charge-off ratio	.60%	1.13%
Credit card lending annualized net charge-off ratio	3.51%	4.44%
Consumer lending (excluding credit card) annualized net charge-off ratio (d)	.72%	1.42%
Total annualized net charge-off ratio (d)	.88%	1.55%

At March 31 Dollars in millions, except as noted	2014	2013
Other Information (Continued) (a)		
Home equity portfolio credit statistics: (e)		
% of first lien positions at origination (f)	53%	48%
Weighted-average loan-to-value ratios (LTVs) (f) (g)	79%	85%
Weighted-average updated FICO scores (h)	745	743
Annualized net charge-off ratio (d)	.75%	1.97%
Delinquency data: (i)		
Loans 30 59 days past due	.21%	.23%
Loans 60 89 days past due	.08%	.10%
Total accruing loans past due	.29%	.33%
Nonperforming loans	3.12%	3.01%
Other statistics:		
ATMs	8,001	7,303
Branches (j)	2,703	2,856
Brokerage account assets (in billions)	$ 41	$ 39
Customer-related statistics: (in thousands, except as noted)		
Non-branch deposit transactions (k)	31%	20%
Digital consumer customers (l)	43%	37%

(a) Presented as of March 31, except for net charge-offs and net charge-off ratios, which are for the three months ended.
(b) Includes nonperforming loans of $1.2 billion at both March 31, 2014 and March 31, 2013.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Ratios for the first three months of 2013 include additional consumer charge-offs taken as a result of alignment with interagency guidance on practices for loans and lines of credit we implemented in the first quarter of 2013.
(e) Lien position, LTV and FICO statistics are based upon customer balances.
(f) Lien position and LTV calculations reflect the use of revised assumptions where data is missing.
(g) LTV statistics are based upon current information.
(h) Represents FICO scores that are updated at least quarterly.
(i) 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.
(j) Excludes satellite offices (*e.g.*, drive-ups, electronic branches and retirement centers) that provide limited products and/or services.
(k) Percentage of total 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-branch channels.

Retail Banking earned $158 million in the first quarter of 2014 compared with earnings of $120 million for the same period a year ago. The increase in earnings was driven by an increase in noninterest income and lower noninterest expense and provision for credit losses, partially offset by lower net interest income.

Retail Banking continues to augment and refine its core checking account products to enhance the customer experience and grow value. In the first quarter of 2014 we improved the Cash Flow Insight features and customer experience, and we discontinued the sale of free checking to our business banking customers. Retail Banking also continued to focus on growing consumer share of wallet through the sale of liquidity, banking and investment products and improved product value for customers. We are currently piloting Total Insight, an integrated banking and investing experience for our customers.

Retail Banking also continued to focus on providing more cost effective alternative servicing channels that meet customers evolving preferences for convenience.

- In the first quarter of 2014, approximately 43% of consumer customers used non-branch channels for the majority of their transactions compared with 37% for the same period in 2013.
- Non-branch deposit transactions via ATM and mobile channels increased to 31% of total deposit transactions in the first quarter of 2014 compared with 20% for the same period a year ago.
- As part of PNC s retail branch transformation strategy, 45 branches were converted to universal branches as of March 31, 2014 in a pilot program, and 22 branches were closed or consolidated in 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 2,703 branches and 8,001 ATMs.

Total revenue for the first three months of 2014 remained stable at $1.5 billion. Net interest income of $980 million decreased $69 million compared with the same period a year ago. The decrease resulted primarily from interest rate spread compression on the value of deposits due to the continued low rate environment and lower purchase accounting accretion and lower yields on loans. Noninterest income increased $80 million compared to the first quarter of 2013. The increase was due primarily to the $62 million pretax gain on the sale of 1 million Visa Class B common shares in the first quarter of 2014, the impact of higher customer-initiated fee-based transactions and growth in brokerage fees.

Net charge-offs were $145 million in the first quarter of 2014 compared with $250 million for the same period in 2013. The decrease was primarily attributable to the impact of alignment with interagency guidance in the first quarter of 2013.

Noninterest expense decreased $31 million in the first three months of 2014 compared to the same period in 2013. The decrease was due to disciplined expense management and the impact of branch consolidations in 2013, partially offset by higher non-credit losses and marketing expense.

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 three months of 2014, average total deposits of $135.5 billion increased $2.1 billion, or 2%, compared with the same period in 2013.

- Average transaction deposits grew $4.1 billion, or 4%, and average savings deposit balances grew $751 million, or 7%, compared to the prior year quarter as a result of organic deposit growth and continued customer preference for liquidity. In the first three months of 2014, compared with the same period a year ago, average demand deposits increased $2.9 billion, or 6%, to $54.8 billion and average money market deposits increased $1.2 billion, or 2%, to $49.5 billion.
- Total average certificates of deposit decreased $2.8 billion, or 12%, compared to the same period of 2013. 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 2014, average total loans were $67.1 billion, an increase of $1.6 billion, or 2%, over the first quarter of 2013.

- Average indirect auto loans increased $2.0 billion, or 28%, compared to the first three months of 2013. The increase was primarily due to the expansion of our indirect sales force and product introduction to acquired markets, as well as overall increases in auto sales.
- Average home equity loans increased $404 million, or 1%, compared to the first three months of 2013. The portfolio grew modestly as increases in term loans were partially offset by declines in lines of credit. 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 grew $359 million, or 18%, in the first three months of 2014, compared to the same period a year ago, primarily resulting from dealer line utilization and penetration into the Southeast market.
- Average credit card balances increased $163 million, or 4%, over the first three months of 2013 as a result of organic growth.
- For the first three months of 2014, compared to the same period a year ago, average loan balances for the remainder of the portfolio declined a net $1.3 billion, driven by a decline in the education portfolio of $673 million and commercial & commercial real estate of $239 million. The discontinued government guaranteed education loan, indirect other and residential mortgage portfolios are primarily run-off portfolios.

Nonperforming assets totaled $1.2 billion at March 31, 2014, a decrease of $49 million, or 4%, over the same period of 2013, driven by a $58 million decline in commercial nonperforming assets.

Corporate & Institutional Banking

(Unaudited)

Table 22: Corporate & Institutional Banking Table

Three months ended March 31

Dollars in millions, except as noted	2014	2013
Income Statement		
Net interest income	$ 934	$ 956
Noninterest income		
Corporate service fees	268	246
Other	96	139
Noninterest income	364	385
Total revenue	1,298	1,341
Provision for credit losses (benefit)	(13)	14
Noninterest expense	488	480
Pretax earnings	823	847
Income taxes	300	306
Earnings	$ 523	$ 541
Average Balance Sheet		
Loans		
Commercial	$ 75,506	$ 69,817
Commercial real estate	20,039	16,876
Equipment lease financing	6,789	6,552
Total commercial lending	102,334	93,245
Consumer	1,125	1,083
Total loans	103,459	94,328
Goodwill and other intangible assets	3,826	3,752
Loans held for sale	894	1,236
Other assets	9,758	12,355
Total assets	$ 117,937	$ 111,671
Deposits		
Noninterest-bearing demand	$ 42,772	$ 40,572
Money market	20,678	17,023
Other	7,531	6,979
Total deposits	70,981	64,574
Other liabilities	7,476	18,779
Total liabilities	$ 78,457	$ 83,353
Performance Ratios		
Return on average assets	1.80%	1.96%
Noninterest income to total revenue	28	29
Efficiency	38	36
Commercial Mortgage Servicing Portfolio Serviced For PNC and Others (in billions)		
Beginning of period	$ 308	$ 282
Acquisitions/additions	23	21
Repayments/transfers	(18)	(13)
End of period	$ 313	$ 290
Other Information		
Consolidated revenue from: (a)		
Treasury Management (b)	$ 311	$ 329
Capital Markets (c)	$ 157	$ 131
Commercial mortgage loans held for sale (d)	$ 19	$ 38
Commercial mortgage loan servicing income (e)	55	53
Commercial mortgage servicing rights valuation, net of economic hedge (f)	11	11
Total commercial mortgage banking activities	$ 85	$ 102
Average Loans (by C&IB business)		
Corporate Banking	$ 52,253	$ 49,241
Real Estate	26,003	20,790
Business Credit	12,534	11,181
Equipment Finance	10,210	9,811
Other	2,459	3,305

Total average loans	$ 103,459	$ 94,328
Total loans (g)	$ 105,398	$ 94,843
Net carrying amount of commercial mortgage servicing rights (g)	$ 529	$ 452
Credit-related statistics:		
Nonperforming assets (g) (h)	$ 786	$ 1,082
Purchased impaired loans (g) (i)	$ 428	$ 768
Net charge-offs	$ 2	$ 58

(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 for the first three months of 2014 and net of commercial mortgage servicing rights amortization for the first three months of 2013. 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 $.7 billion at March 31, 2014 and $.9 billion at March 31, 2013.
(i) Recorded investment of purchased impaired loans related to acquisitions.

Corporate & Institutional Banking earned $523 million in the first three months of 2014, a decrease of $18 million compared with the first three months of 2013. The decrease in earnings was due to lower net interest income and lower noninterest income partially offset by a current quarter benefit from the provision for credit losses compared to provision expense in the 2013 period. We continued to focus on building client relationships, including increasing cross sales and adding new clients where the risk-return profile was attractive.

Highlights of Corporate & Institutional Banking s performance include the following:

- Corporate & Institutional Banking continued to execute on strategic initiatives, including in the Southeast, by organically growing and deepening client relationships that meet our risk-return measures.
- Loan commitments increased 1%, or $2.4 billion, to $198.5 billion at March 31, 2014 compared to $196.1 billion at December 31, 2013 and 9%, or $15.9 billion, compared to $182.6 billion at March 31, 2013, primarily due to growth in our Real Estate, Corporate Banking and Business Credit businesses.
- Period-end loan balances have increased for the fourteenth consecutive quarter increasing 4%, or $3.6 billion, to $105.4 billion at March 31, 2014 compared with $101.8 billion at December 31, 2013 and 11%, or $10.6 billion, compared with $94.8 billion at March 31, 2013.
- Our Treasury Management business, which ranks among the top providers in the country, continued to invest in markets, products and infrastructure as well as major initiatives such as healthcare. During the first quarter of 2014, following the receipt of regulatory approvals, PNC Bank Canada Branch, PNC Bank, N.A. s branch in Toronto, Canada, expanded its commercial banking capabilities to include commercial deposits and a comprehensive range of treasury management services.
- Midland Loan Services was the number one servicer of Fannie Mae and Freddie Mac multifamily and healthcare loans and was the second leading servicer

of commercial and multifamily loans by volume as of December 31, 2013 according to Mortgage Bankers Association. Midland is the only U.S. commercial mortgage servicer to receive the highest primary, master and special servicer ratings from Fitch Ratings, Standard & Poor s and Morningstar.

Net interest income was $934 million in the first three months of 2014, a decrease of $22 million from the first three months of 2013, reflecting lower purchase accounting accretion and continued interest rate spread compression on loans and deposits, partially offset by higher average loans and deposits.

Corporate service fees were $268 million in the first three months of 2014, increasing $22 million compared to the first three months of 2013. This increase was primarily due to higher merger and acquisition advisory fees. Corporate service fees include the noninterest portion of treasury management revenue, corporate finance fees, including revenue from certain capital markets-related products and services, the noninterest portion of commercial mortgage loan servicing income, and commercial mortgage servicing rights valuation, net of economic hedge.

Other noninterest income was $96 million in the first three months of 2014 compared with $139 million in the first three months of 2013. The decrease of $43 million was driven by lower revenue associated with credit valuations for customer-related derivatives activities and lower multifamily loans originated for sale, primarily to Agencies.

For the first three months of 2014, there was a benefit from the provision for credit losses of $13 million compared to a provision for credit losses of $14 million in first three months of 2013, reflecting continuing improvement in credit quality. Net charge-offs were $2 million in first three months of 2014, which represents a decrease of $56 million compared with the first three months of 2013, primarily attributable to lower levels of commercial real estate and commercial charge-offs.

Nonperforming assets were $786 million, a 27% decrease from March 31, 2013 resulting from improving credit quality.

Noninterest expense was $488 million in the first three months of 2014, an increase of $8 million from the first three months of 2013, primarily driven by higher incentive compensation costs associated with business activity.

Average loans were $103.5 billion in the first three months of 2014 compared with $94.3 billion in the first three months of 2013, an increase of 10% reflecting strong growth in Real Estate, Corporate Banking and Business Credit.

Corporate Banking 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 $3.0 billion, or 6%, in the first three months of 2014 compared with the first three months of 2013, primarily due to an increase in loan commitments from specialty lending businesses.

PNC Real Estate provides commercial real estate and real estate-related lending and is one of the industry s top providers of both conventional and affordable multifamily financing. Average loans for this business increased $5.2 billion, or 25%, in the first three months of 2014 compared with the first three months of 2013 due to increased originations.

PNC Business Credit was one of the top four asset-based lenders in the country as of December 31, 2013, with increasing market share according to the Commercial Finance Association. The loan portfolio is relatively high yielding, with acceptable risk as the loans are mainly secured by short-term assets. Average loans increased $1.4 billion, or 12%, in the first three months of 2014 compared with the first three months of 2013 due to an increase in loan usage and new customer loan originations.

PNC Equipment Finance is a recognized leader in providing equipment financing solutions to clients throughout the U.S. and in Canada with over $11.6 billion in equipment finance assets as of March 31, 2014. Average equipment finance assets for the leasing company in the first three months of 2014 were $11.6 billion, an increase of $473 million, or 4%, compared with the first three months of 2013.

Average deposits were $71.0 billion in the first three months of 2014, an increase of $6.4 billion, or 10%, compared with the first three months of 2013 as a result of business growth and inflows into money market and noninterest-bearing deposits.

The commercial mortgage servicing portfolio was $313 billion at March 31, 2014, an increase of 2% compared with December 31, 2013 and an increase of 8% compared to March 31, 2013, as servicing additions exceeded portfolio run-off.

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 22 in 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, totaled $311 million for the first three months of 2014 compared with $329 million for the first three months of 2013. Lower spreads on deposits drove the decline in revenue in the first three months of 2014 compared with the first three months of 2013. Growth in deposit balances and products such as liquidity management products and payables was strong.

Capital markets revenue includes merger and acquisition advisory fees, loan syndications, derivatives, foreign exchange, asset-backed finance revenue and fixed income activities. Revenue from capital markets-related products and services totaled $157 million in the first three months of 2014 compared with $131 million in the first three months of 2013. The increase in the comparison was driven by the impact of higher merger and acquisition advisory fees and higher corporate finance fees partially offset by lower revenue associated with credit valuations for customer-related derivatives activities.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income from loan servicing and ancillary services, net of changes in commercial mortgage servicing rights due to time and payoffs, and commercial mortgage servicing rights valuations, net of economic hedge and, for the 2013 periods, mortgage servicing rights amortization), and revenue derived from commercial mortgage loans held for sale and related hedges (including loan origination fees, net interest income, valuation adjustments and gains or losses on sales).

Commercial mortgage banking activities resulted in revenue of $85 million in the first three months of 2014 compared with $102 million in the first three months of 2013. The decrease in the comparison was mainly due to lower multifamily loans originated for sale, primarily to Agencies.

Asset Management Group

(Unaudited)

Table 23: Asset Management Group Table

Three months ended March 31 Dollars in millions, except as noted	2014	2013
Income Statement		
Net interest income	$ 71	$ 73
Noninterest income	199	182
Total revenue	270	255
Provision for credit losses	12	5
Noninterest expense	199	183
Pretax earnings	59	67
Income taxes	22	24
Earnings	$ 37	$ 43
Average Balance Sheet		
Loans		
Consumer	$ 5,311	$ 4,793
Commercial and commercial real estate	1,023	1,037
Residential mortgage	771	772
Total loans	7,105	6,602
Goodwill and other intangible assets	272	306
Other assets	222	223
Total assets	$ 7,599	$ 7,131
Deposits		
Noninterest-bearing demand	$ 1,338	$ 1,331
Interest-bearing demand	3,893	3,616
Money market	3,889	3,841
Total transaction deposits	9,120	8,788
CDs/IRAs/savings deposits	436	454
Total deposits	9,556	9,242
Other liabilities	53	60
Total liabilities	$ 9,609	$ 9,302
Performance Ratios		
Return on average assets	1.97%	2.45%
Noninterest income to total revenue	74	71

Efficiency	74	72
Other Information		
Total nonperforming assets (a) (b)	$ 80	$ 65
Purchased impaired loans (a) (c)	$ 96	$ 105
Total net charge-offs	$ 1	$ 3
Assets Under Administration (in billions) (a) (d)		
Personal	$ 112	$ 112
Institutional	143	124
Total	$ 255	$ 236
Asset Type		
Equity	$ 145	$ 130
Fixed Income	66	70
Liquidity/Other	44	36
Total	$ 255	$ 236
Discretionary assets under management		
Personal	$ 84	$ 77
Institutional	46	41
Total	$ 130	$ 118
Asset Type		
Equity	$ 71	$ 62
Fixed Income	34	39
Liquidity/Other	25	17
Total	$ 130	$ 118
Nondiscretionary assets under administration		
Personal	$ 28	$ 35
Institutional	97	83
Total	$ 125	$ 118
Asset Type		
Equity	$ 74	$ 68
Fixed Income	32	31
Liquidity/Other	19	19
Total	$ 125	$ 118

(a) As of March 31.
(b) Includes nonperforming loans of $75 million at March 31, 2014 and $62 million at March 31, 2013.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account assets.

Asset Management Group earned $37 million in the first quarter of 2014 compared with $43 million in the first quarter of 2013. Assets under administration were $255 billion as of March 31, 2014 compared to $236 billion as of March 31, 2013. Earnings decreased due to higher noninterest expense and provision for credit losses, partially offset by higher noninterest income.

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 provide investment management, private banking and family wealth services to affluent and ultra affluent clients. The businesses have 103 offices operating in 7 out of the 10 most affluent states with a majority co-located with retail banking branches. The businesses strategies primarily focus on growing assets under management through expanding relationships directly and through other PNC lines of business and increasing the share of our clients investable assets. Institutional Asset Management provides advisory, custody, and retirement administration services to institutional clients primarily within our banking footprint. The business segment also offers a lineup of 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.

Assets under administration increased $19 billion compared to a year ago. Discretionary assets under management were $130 billion at March 31, 2014 compared with $118 billion at March 31, 2013. The increase was driven by higher average equity markets and strong sales resulting in positive net flows of $1.6 billion primarily from the institutional business, after adjustments to total net flows for cyclical client activities.

Total revenue for the first quarter of 2014 increased $15 million to $270 million compared with $255 million for 2013, primarily relating to noninterest income due to stronger average equity markets and positive net flows.

Noninterest expense was $199 million in the first quarter of 2014, an increase of $16 million, or 9%, from the prior year first quarter. The increase was primarily attributable to compensation expense and the impact of a legal benefit in the first quarter of 2013. Over the last 12 months, total full-time headcount has increased by approximately 105 positions, or 3%. The business remains focused on managing expenses as it invests in growth opportunities.

Average deposits for the first quarter of 2014 increased $.3 billion, or 3%, from the prior year first quarter. Average transaction deposits grew 4% to $9.1 billion compared with the first quarter of 2013 and were partially offset by the run-off of maturing certificates of deposit. Average loan balances of $7.1 billion increased $.5 billion, or 8%, from the prior year first quarter due to continued growth in the consumer loan portfolio, primarily home equity installment loans, due to favorable interest rates.

Residential Mortgage Banking

(Unaudited)

Table 24: Residential Mortgage Banking Table

Three months ended March 31 Dollars in millions, except as noted	2014	2013
Income Statement		
Net interest income	$ 40	$ 48
Noninterest income		
Loan servicing revenue		
Servicing fees	61	41
Mortgage servicing rights valuation, net of economic hedge	(1)	37
Loan sales revenue		
Benefit / (Provision) for residential mortgage repurchase obligations	19	(4)
Loan sales revenue	88	172
Other	(1)	(3)
Total noninterest income	166	243
Total revenue	206	291

Provision for credit losses (benefit)	(1)	20
Noninterest expense	213	200
Pretax earnings (loss)	(6)	71
Income taxes (benefit)	(2)	26
Earnings (loss)	$ (4)	$ 45
Average Balance Sheet		
Portfolio loans	$ 2,036	$ 2,553
Loans held for sale	1,068	2,038
Mortgage servicing rights (MSR)	1,073	764
Other assets	4,600	5,448
Total assets	$ 8,777	$ 10,803
Deposits	$ 2,100	$ 3,106
Borrowings and other liabilities	3,464	3,487
Total liabilities	$ 5,564	$ 6,593
Performance Ratios		
Return on average assets	(.18)%	1.69%
Noninterest income to total revenue	81	84
Efficiency	103	69
Residential Mortgage Servicing Portfolio Serviced for Third Parties (in billions)		
Beginning of period	$ 114	$ 119
Acquisitions	2	6
Additions	2	4
Repayments/transfers	(4)	(9)
End of period	$ 114	$ 120
Servicing portfolio third-party statistics: (a)		
Fixed rate	94%	92%
Adjustable rate/balloon	6%	8%
Weighted-average interest rate	4.56%	4.80%
MSR asset value (in billions)	$ 1.1	$ .8
MSR capitalization value (in basis points)	92	65
Weighted-average servicing fee (in basis points)	28	28
Residential Mortgage Repurchase Reserve		
Beginning of period	$ 131	$ 614
(Benefit)/ Provision	(19)	4
Losses loan repurchases	(9)	(96)
End of Period	$ 103	$ 522
Other Information		
Loan origination volume (in billions)	$ 1.9	$ 4.2
Loan sale margin percentage	4.53%	4.07%
Percentage of originations represented by:		
Agency and government programs	99%	100%
Purchase volume (b)	37%	19%
Refinance volume	63%	81%
Total nonperforming assets (a) (c)	$ 173	$ 236

(a) As of March 31.
(b) Mortgages with borrowers as part of residential real estate purchase transactions.
(c) Includes nonperforming loans of $130 million at March 31, 2014 and $192 million at March 31, 2013.

Residential Mortgage Banking lost $4 million in the first three months of 2014 compared with earnings of $45 million in the first three months of 2013. Earnings declined from the prior year three month period primarily as a result of decreased loan sales revenue.

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 were $1.9 billion for the first three months of 2014 compared with $4.2 billion in the comparable period of 2013. 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 (VA) agency guidelines. Refinancings were 63% of originations for the first three months of 2014 and 81% in the first three months of 2013. During the first three months of 2014, 28% of loan originations were under the Home Affordable Refinance Program (HARP).
- 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. At March 31, 2014, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $103 million compared with $522 million at March 31, 2013. See the Recourse And Repurchase Obligations section of this Financial Review and Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.
- Residential mortgage loans serviced for others totaled $114 billion at March 31, 2014 and $120 billion at March 31, 2013 as payoffs continued to outpace new direct loan origination volume and acquisitions.
- Noninterest income was $166 million in the first three months of 2014 compared with $243 million in the first three months of 2013. Increased servicing fees and improvement in residential mortgage repurchase obligations provision were more than offset by decreased loans sales revenue and MSR valuation, net of economic hedge.
- Noninterest expense was $213 million in the first three months of 2014 compared with $200 million in the first three months of 2013. Increased legal accruals were partially offset by a decrease in foreclosure expenses.
- The fair value of mortgage servicing rights was $1.1 billion at March 31, 2014 compared with $.8 billion at March 31, 2013. The increase was due to higher mortgage interest rates at March 31, 2014.

BlackRock

(Unaudited)

Table 25: BlackRock Table

Information related to our equity investment in BlackRock follows:

Three months ended March 31 Dollars in millions	2014	2013
Business segment earnings (a)	$ 123	$ 108
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 2014	December 31 2013
Carrying value of PNC s investment in BlackRock (c)	$ 5.9	$ 6.0
Market value of PNC s investment in BlackRock (d)	11.2	11.3

(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 both March 31, 2014 and December 31, 2013. Our voting interest in BlackRock common stock was approximately 21% at March 31, 2014.

(d) Does not include liquidity discount.

PNC accounts for its BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock to partially fund BlackRock long-term incentive plan (LTIP) programs. The fair value amount of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 8 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and in Note 9 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of our 2013 Form 10-K.

At March 31, 2014, we held approximately 1.3 million shares of BlackRock Series C Preferred Stock, which are available to fund our obligation in connection with the BlackRock LTIP programs.

Our 2013 Form 10-K includes additional information about our investment in BlackRock.

NON-STRATEGIC ASSETS PORTFOLIO

(Unaudited)

Table 26: Non-Strategic Assets Portfolio Table

Three months ended March 31

Dollars in millions	2014	2013
Income Statement		
Net interest income	$ 142	$ 203
Noninterest income	6	16
Total revenue	148	219
Provision for credit losses (benefit)	(52)	42
Noninterest expense	26	52
Pretax earnings	174	125
Income taxes	64	46
Earnings	$ 110	$ 79
Average Balance Sheet		
Commercial Lending:		
Commercial/Commercial real estate	$ 220	$ 537
Lease financing	681	688
Total commercial lending	901	1,225
Consumer Lending:		
Home equity	3,625	4,158
Residential real estate	5,104	5,938
Total consumer lending	8,729	10,096
Total portfolio loans	9,630	11,321
Other assets (a)	(741)	(586)
Total assets	$ 8,889	$ 10,735
Deposits and other liabilities	$ 231	$ 168
Total liabilities	$ 231	$ 168
Performance Ratios		
Return on average assets	5.02%	2.98%
Noninterest income to total revenue	4	7
Efficiency	18	24
Other Information		
Nonperforming assets (b) (c)	$ 798	$ 999
Purchased impaired loans (b) (d)	$ 4,654	$ 5,372
Net charge-offs	$ 31	$ 87
Annualized net charge-off ratio	1.31%	3.12%
Loans (b)		
Commercial Lending		
Commercial/Commercial real estate	$ 201	$ 493
Lease financing	683	690
Total commercial lending	884	1,183
Consumer Lending		
Home equity	3,554	4,209
Residential real estate	5,092	5,880
Total consumer lending	8,646	10,089
Total loans	$ 9,530	$ 11,272

(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 $.6 billion at March 31, 2014 and $.7 billion at March 31, 2013.
(d) Recorded investment of purchased impaired loans related to acquisitions. At March 31, 2014, this segment contained 80% 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 $110 million in the first three months of 2014 compared with $79 million in the first three months of 2013. Earnings increased year-over-year due to a current quarter benefit from the provision for credit losses compared to provision expense in the prior year period and lower noninterest expense, partially offset by lower net interest income.

Non-Strategic Assets Portfolio overview:

- Net interest income was $142 million in the first three months of 2014 compared with $203 million in the first three months of 2013. The decrease was driven by lower scheduled accretion and excess cash recoveries on purchased impaired loans as well as lower average loan balances.
- Noninterest income was $6 million in the first three months of 2014 compared with $16 million in the first three months of 2013. The decrease was driven by higher provision for estimated losses on home equity loans/lines repurchase obligations.
- The first three months of 2014 reflected a benefit from the provision for credit losses of $52 million compared to an expense of $42 million in the first three months of 2013. The decline in provision reflected overall credit quality improvement. A contributing economic factor was the increasing value of residential real estate that improved expected cash flows on our purchased impaired loans.
- Noninterest expense in the first three months of 2014 was $26 million compared with $52 million in the first three months of 2013. The decrease was driven by lower OREO expense, primarily due to lower write-downs on commercial properties as well as lower write-offs of protective advances on residential mortgages.
- Average portfolio loans declined to $9.6 billion in the first three months of 2014 compared with $11.3 billion in the first three months of 2013. The overall decline was driven by customer payment activity and portfolio management activities to reduce under-performing assets.
- Nonperforming loans were $.6 billion at March 31, 2014 and $.7 billion at March 31, 2013. The consumer lending portfolio comprised 90% of the nonperforming loans in this segment at March 31, 2014. Nonperforming consumer loans decreased $20 million from March 31, 2013. The commercial lending portfolio comprised 10% of the nonperforming loans as of March 31, 2014. Nonperforming commercial loans decreased $76 million from March 31, 2013.
- Net charge-offs were $31 million in the first three months of 2014 and $87 million in the first three months of 2013. The decline was due to lower charge-offs experienced across the entire lending portfolio.

At March 31, 2014, the liability for estimated losses on repurchase and indemnification claims for the Non-Strategic Assets Portfolio was $19 million compared to $25 million at March 31, 2013. See Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for additional information.

Critical Accounting Estimates and Judgments

Note 1 Accounting Policies in Item 8 of our 2013 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.

Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by independent third-party sources, including appraisers and valuation specialists, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques. Changes in underlying factors, assumptions or estimates 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 2013 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
- Recent Accounting Pronouncements

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.

The following critical accounting estimate and judgment has been updated during the first three months of 2014.

Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit

We maintain the ALLL and the Allowance for Unfunded Loan Commitments and Letters of Credit at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolio and on the unfunded credit facilities as of the balance sheet date. Our determination of these allowances is based on periodic evaluations of the loan and lease portfolios and unfunded credit facilities and other relevant factors. These critical estimates include the use of significant amounts of PNC s own historical data and complex methods to interpret them. We have an ongoing process to evaluate and enhance the quality, quantity and timeliness of our data and interpretation methods used in the determination of these allowances. These evaluations are inherently subjective as they require material estimates, and may be susceptible to significant change, and include, among others:

- Probability of default (PD),
- Loss given default (LGD),
- Exposure at date of default,
- Movement through delinquency stages,
- Amounts and timing of expected future cash flows,
- Value of collateral, which may be obtained from third parties, and
- Qualitative factors, such as changes in current economic conditions, that may not be reflected in modeled results.

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans. We also allocate reserves to provide coverage for probable losses incurred in the portfolio at the balance sheet date based upon current market conditions, which may not be reflected in historical loss data. Commercial lending is the largest category of credits and is sensitive to changes in assumptions and judgments underlying the determination of the ALLL. We have allocated approximately $1.5 billion, or 44%, of the ALLL at March 31, 2014 to the commercial lending category. Consumer lending allocations are made based on historical loss experience adjusted for recent activity. Approximately $2.0 billion, or 56%, of the ALLL at March 31, 2014 has been allocated to these consumer lending categories.

Recently Issued Accounting Standards

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-04, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. This ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. This ASU will also require additional disclosures, including: (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate properties that are in the process of foreclosure. This guidance is effective as of January 1, 2015 and may be adopted using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. We do not expect this ASU to have a material effect on our results of operations or financial position.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* This ASU will limit discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity s operations and financial results. Additionally, the ASU will also require expanded disclosures for discontinued operations. This ASU is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014 and is to be applied prospectively. Early adoption is permitted for disposals or classifications as held for sale that have not been previously reported in financial statements. We do not expect this ASU to have a material effect on our results of operations or 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 standards which we have adopted.

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 trust 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 income of $9 million in 2014 compared with pretax expense of $74 million in 2013. This year-over-year expected decrease reflects the impact of favorable returns on plan assets experienced in 2013, as well as the effects of the higher discount rate required to be used in 2014.

The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2014 estimated expense as a baseline.

Table 27: Pension Expense Sensitivity Analysis

Change in Assumption (a)	Estimated Increase/(Decrease) to 2014 Pension Expense (In millions)
.5% decrease in discount rate	$ (2)
.5% decrease in expected long-term return on assets	$ 21
.5% increase in compensation rate	$ 1

(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 15 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of our 2013 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, close 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 17 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, however, we face other risks of loss with respect to our participation in these programs, some of which are described in Note 23 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 in our 2013 Form 10-K 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 file requests, 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.

For more information see the Recourse and Repurchase Obligations section included in Item 7 of our 2013 Form 10-K and Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

The following tables present the unpaid principal balance of repurchase claims by vintage and total unresolved repurchase claims at the respective balance sheet dates.

Table 28: Analysis of Quarterly Residential Mortgage Repurchase Claims by Vintage

Dollars in millions	March 31 2014	December 31 2013
2004 & Prior	$ 6	$ 66
2005	4	88
2006	3	27
2007	3	35
2008		9
2008 & Prior	16	225
2009 2014	29	19
Total	$ 45	$ 244
FNMA, FHLMC and GNMA %	82%	96%

Table 29: Analysis of Quarterly Residential Mortgage Unresolved Asserted Indemnification and Repurchase Claims

Dollars in millions	March 31 2014	December 31 2013
FNMA, FHLMC and GNMA Securitizations	$ 21	$ 13
Private Investors (a)	24	22
Total unresolved claims	$ 45	$ 35
FNMA, FHLMC and GNMA %	47%	37%

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

The table below details our indemnification and repurchase claim settlement activity during the first three months of 2014 and 2013.

Table 30: Analysis of Residential Mortgage Indemnification and Repurchase Claim Settlement Activity

	2014			2013		
Three months ended March 31 In millions	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
FNMA, FHLMC and GNMA securitizations	$ 14	$ 6	$ 6	$ 155	$ 91	$ 34
Private investors (e)	3	3		10	5	2
Total indemnification and repurchase settlements	$ 17	$ 9	$ 6	$ 165	$ 96	$ 36

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date. Excluded from these balances are amounts associated with pooled settlement payments as loans are typically not repurchased in these transactions.
(b) Represents both i) amounts paid for indemnification/settlement payments and ii) the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability.
(c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification/settlement payments are made to investors.
(d) Repurchase activity associated with insured loans, government-guaranteed loans and loans repurchased through the exercise of our removal of account provision (ROAP) option are excluded from this table. Refer to Note 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 for further discussion of ROAPs.
(e) Activity relates to loans sold through Non-Agency securitizations and loan sale transactions.

Residential mortgages that we service through FNMA, FHLMC and GNMA securitizations, and for which we could experience a loss if required to repurchase a delinquent loan due to a breach in representations or warranties, were $49 billion at March 31, 2014, of which $230 million was 90 days or more delinquent. These amounts were $48 billion and $253 million, respectively, at December 31, 2013.

In the fourth quarter of 2013, PNC reached agreements with both FNMA and FHLMC to resolve their repurchase claims with respect to loans sold between 2000 and 2008. PNC paid a total of $191 million related to these settlements. The volume of new repurchase demand claims dropped significantly in the first quarter of 2014 compared to the fourth quarter of 2013 as a result of the settlement agreements. Additionally, the liability for estimated losses on indemnification and repurchase claims for residential mortgages decreased to $103 million at March 31, 2014 from $131 million at December 31, 2013.

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, 2014 and December 31, 2013. In making these estimates, we consider

the losses that we expect to incur over the life of the sold loans. See Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

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 2013 Form 10-K and Note 17 Commitments and Guarantees included in the Notes To Consolidated Financial Statements in Part I, Item 1 of 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 2013 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 2013 Form 10-K provides an analysis of our key areas of risk, which include but are not limited to credit, operational, 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 2013 Form 10-K risk management disclosures.

Credit Risk Management

Credit risk represents the possibility that a customer, counterparty or issuer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers, purchasing securities, and entering into financial derivative transactions and certain guarantee contracts. Credit risk is one of our most significant risks. 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 tolerance 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 for the first three months of 2014, improved from both December 31, 2013 and March 31, 2013.

Overall credit quality continued to improve during the first quarter of 2014. Nonperforming assets at March 31, 2014 decreased $153 million compared with December 31, 2013 as a result of improvements in both consumer and commercial lending. Consumer lending nonperforming loans decreased $84 million, commercial real estate nonperforming loans declined $38 million and commercial nonperforming loans decreased $20 million. Nonperforming assets to total assets were 1.02 percent at March 31, 2014 compared with 1.08 percent at December 31, 2013 and 1.31 percent at March 31, 2013.

Overall loan delinquencies of $2.2 billion decreased $.3 billion, or 11%, from year-end 2013 levels. The reduction was largely due to a reduction in accruing
government insured residential real estate loans past due 90 days or more of $101 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 for the first quarter of 2014 were stable compared with fourth quarter 2013 as lower home equity loan net charge-offs were offset by higher residential real estate and commercial loan net charge-offs. In the comparison with first quarter 2013, net charge-offs decreased $270 million reflecting improving credit quality, which was partially offset by $134 million of charge-offs due to the impact of alignment with interagency supervisory guidance in the first quarter of 2013.

Provision for credit losses for first quarter 2014 decreased $19 million compared with fourth quarter 2013 and $142 million compared with first quarter 2013 as overall credit quality has continued to improve. A contributing economic factor was the increasing value of residential real estate, which improved expected cash flows from our purchased impaired loans.

The level of ALLL decreased to $3.5 billion at March 31, 2014 from $3.6 billion at December 31, 2013 and $3.8 billion at March 31, 2013.

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets, including OREO and Foreclosed Assets

Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming troubled debt restructurings (TDRs), OREO and foreclosed assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonperforming loans and nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. The major categories of nonperforming assets are presented in Table 31.

In the first quarter of 2013, we completed our alignment of certain nonaccrual and charge-off policies consistent with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending. This alignment primarily related to (i) subordinate consumer loans (home equity loans and lines of credit and residential mortgages) where the first-lien loan was 90 days or more past due, (ii) government guaranteed loans where the guarantee may not result in collection of substantially all contractual principal and interest and (iii) certain loans with borrowers in or discharged from bankruptcy. In the first quarter of 2013, nonperforming loans increased by $426 million and net charge-offs increased by $134 million as a result of completing the alignment of the aforementioned policies. Additionally, overall delinquencies decreased $395 million due to loans now being reported as either nonperforming or, in the case of loans accounted for under the fair value option, nonaccruing or having been charged off. Certain consumer nonperforming loans were charged-off to the respective collateral value less costs to sell, and any associated allowance at the time of charge-off was reduced to zero. Therefore, the charge-off activity resulted in a reduction to the allowance. As the interagency guidance was adopted, incremental provision for credit losses was recorded if the related loan charge-off exceeded the associated allowance. Subsequent declines in collateral value for these loans will result in additional charge-offs to maintain recorded investment at collateral value less costs to sell.

At March 31, 2014, TDRs included in nonperforming loans were $1.4 billion, or 48%, of total nonperforming loans compared to $1.5 billion, or 49%, of total nonperforming loans as of December 31, 2013. Within consumer nonperforming loans, residential real estate TDRs comprise 57% of total residential real estate nonperforming loans at March 31, 2014, down from 59% at December 31, 2013. Home equity TDRs comprise 51% of home equity nonperforming loans at March 31, 2014, down from 54% at December 31, 2013. TDRs generally remain in nonperforming status until a borrower has made at least six consecutive months of payments under the modified terms or ultimate resolution occurs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC are not returned to accrual status.

At March 31, 2014, our largest nonperforming asset was $35 million in the Real Estate, Rental and Leasing Industry and our average nonperforming loans associated with commercial lending were under $1 million. All of the ten largest outstanding nonperforming assets are from the commercial lending portfolio and represent 17% and 5% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of March 31, 2014.

Table 31: Nonperforming Assets By Type

In millions	March 31 2014	December 31 2013
Nonperforming loans		
Commercial lending		
Commercial		
Retail/wholesale trade	$ 49	$ 57
Manufacturing	63	58
Service providers	90	108
Real estate related (a)	122	124
Financial services	5	7
Health care	17	19
Other industries	91	84
Total commercial	437	457
Commercial real estate		
Real estate projects (b)	401	436
Commercial mortgage	79	82
Total commercial real estate	480	518
Equipment lease financing	6	5
Total commercial lending	923	980
Consumer lending (c)		
Home equity (d)	1,117	1,139
Residential real estate		
Residential mortgage (d)	829	890
Residential construction	13	14
Credit card	4	4
Other consumer (d)	61	61
Total consumer lending	2,024	2,108
Total nonperforming loans (e)	2,947	3,088
OREO and foreclosed assets		
Other real estate owned (OREO) (f)	343	360
Foreclosed and other assets	14	9
Total OREO and foreclosed assets	357	369
Total nonperforming assets	$ 3,304	$ 3,457
Amount of commercial lending nonperforming loans contractually current as to remaining principal and interest	$ 303	$ 266
Percentage of total commercial lending nonperforming loans	33%	27%
Amount of TDRs included in nonperforming loans	$ 1,405	$ 1,511
Percentage of total nonperforming loans	48%	49%

Nonperforming loans to total loans	1.49%	1.58%
Nonperforming assets to total loans, OREO and foreclosed assets	1.66	1.76
Nonperforming assets to total assets	1.02	1.08
Allowance for loan and lease losses to total nonperforming loans (g)	120	117

(a) Includes loans related to customers in the real estate and construction industries.
(b) Includes both construction loans and intermediate financing for projects.
(c) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.
(d) Pursuant to alignment with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013, nonperforming home equity loans increased $214 million, nonperforming residential mortgage loans increased $187 million and nonperforming other consumer loans increased $25 million. Charge-offs were taken on these loans where the fair value less costs to sell the collateral was less than the recorded investment of the loan and were $134 million.
(e) 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.
(f) OREO excludes $238 million and $245 million at March 31, 2014 and December 31, 2013, respectively, related to commercial and residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the FHA or guaranteed by the VA or guaranteed by the Department of Housing and Urban Development.

(g) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. See Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

Table 32 : OREO and Foreclosed Assets

In millions	March 31 2014	December 31 2013
Other real estate owned (OREO):		
Residential properties	$ 171	$ 164
Residential development properties	58	74
Commercial properties	114	122
Total OREO	343	360
Foreclosed and other assets	14	9
Total OREO and foreclosed assets	$ 357	$ 369

Total OREO and foreclosed assets decreased $12 million during the first three months of 2014 from $369 million at December 31, 2013, to $357 million at March 31, 2014 and is 11% of total nonperforming assets at March 31, 2014. As of March 31, 2014 and December 31, 2013, 48% and 44%, respectively, of our OREO and foreclosed assets were comprised of 1-4 family residential properties. The lower level of OREO and foreclosed assets was driven mainly by continued elevated sales activity offset slightly by an increase in foreclosures.

Table 33: Change in Nonperforming Assets

In millions	2014	2013
January 1	$ 3,457	$ 3,794
New nonperforming assets (a)	633	1,032
Charge-offs and valuation adjustments (b)	(152)	(343)
Principal activity, including paydowns and payoffs	(323)	(258)
Asset sales and transfers to loans held for sale	(85)	(114)
Returned to performing status	(226)	(184)
March 31	$ 3,304	$ 3,927

(a) New nonperforming assets include $560 million of loans added in the first quarter of 2013 due to the alignment with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending.

(b) Charge-offs and valuation adjustments include $134 million of charge-offs added in the first quarter of 2013 due to the alignment with interagency supervisory guidance discussed in footnote (a) above.

The table above presents nonperforming asset activity during the first three months of 2014 and 2013, respectively. Nonperforming assets decreased $153 million from $3.5 billion at December 31, 2013, as a result of improvements in both consumer and commercial lending. Consumer lending nonperforming loans decreased $84 million, commercial real estate nonperforming loans declined $38 million and commercial nonperforming loans decreased $20 million. Approximately 88% of total nonperforming loans are secured by collateral which would be expected to reduce credit losses

and require less reserve in the event of default, and 33% of commercial lending nonperforming loans are contractually current as to both principal and interest obligations. As of March 31, 2014, commercial lending nonperforming loans are carried at approximately 67% of their unpaid principal balance, due to charge-offs recorded to date, before consideration of the ALLL. See Note 4 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on these loans.

Purchased impaired loans are considered performing, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans. The accretable yield represents the excess of the expected cash flows on the loans at the measurement date over the carrying value. Generally decreases, other than interest rate decreases for variable rate notes, in the net present value of expected cash flows of individual commercial or pooled purchased impaired loans would result in an impairment charge to the provision for loan losses in the period in which the change is deemed probable. Generally increases in the net present value of expected cash flows of purchased impaired loans would first result in a recovery of previously recorded allowance for loan losses, to the extent applicable, and then an increase to accretable yield for the remaining life of the purchased impaired loans. Total nonperforming loans and assets in the tables above are significantly lower than they would have been due to this accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of nonperforming loans to total loans and a higher ratio of ALLL to nonperforming loans. See Note 5 Purchased Loans in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on these loans.

Loan Delinquencies

We regularly monitor the level of loan delinquencies and believe these levels may be a key indicator of loan portfolio asset quality. Measurement of delinquency status is based on the contractual terms of each loan. Loans that are 30 days or more past due in terms of payment are considered delinquent. Loan delinquencies exclude loans held for sale and purchased impaired loans, but include government insured or guaranteed loans and loans accounted for under the fair value option.

Total early stage loan delinquencies (accruing loans past due 30 to 89 days) decreased from $1.0 billion at December 31, 2013 to $0.9 billion at March 31, 2014. The reduction in both Consumer and Commercial lending early stage delinquencies resulted from improving credit quality. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements of this Report for additional information regarding our nonperforming loan and nonaccrual policies.

Accruing loans past due 90 days or more are referred to as late stage delinquencies. These loans are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral, and/or are in the process of collection, are managed in homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines, or are certain government insured or guaranteed loans. These loans decreased $.2 billion, or 12%, from $1.5 billion at December 31, 2013, to $1.3 billion at March 31, 2014, mainly due to a decline in government insured residential real estate loans of $.1 billion, the majority of which we took possession of and conveyed the real estate, or are in the process of conveyance and claim resolution. The following tables display the delinquency status of our loans at March 31, 2014 and December 31, 2013. Additional information regarding accruing loans past due is included in Note 4 Asset Quality in the Notes To Consolidated Financial Statements of this Report.

Table 34: Accruing Loans Past Due 30 To 59 Days (a)

	Amount		Percentage of Total Outstandings	
Dollars in millions	March 31 2014	December 31 2013	March 31 2014	December 31 2013
Commercial	$ 93	$ 81	.09%	.09%
Commercial real estate	35	54	.16	.25
Equipment lease financing	17	31	.23	.41
Home equity	76	86	.21	.24
Residential real estate				
Non government insured	101	112	.68	.74
Government insured	82	105	.55	.70
Credit card	26	29	.60	.66
Other consumer				
Non government insured	51	62	.23	.28
Government insured	149	154	.66	.68
Total	$ 630	$ 714	.32	.37

(a) Amounts in table represent recorded investment.

Table 35: Accruing Loans Past Due 60 To 89 Days (a)

	Amount		Percentage of Total Outstandings	
Dollars in millions	March 31 2014	December 31 2013	March 31 2014	December 31 2013
Commercial	$ 20	$ 20	.02%	.02%
Commercial real estate	25	11	.11	.05
Equipment lease financing		2		.03
Home equity	32	34	.09	.09
Residential real estate				
Non government insured	27	30	.18	.20
Government insured	43	57	.29	.38
Credit card	19	19	.44	.43
Other consumer				
Non government insured	16	18	.07	.08
Government insured	104	94	.46	.42
Total	$ 286	$ 285	.14	.15

(a) Amounts in table represent recorded investment.

Table 36: Accruing Loans Past Due 90 Days Or More (a)

	Amount		Percentage of Total Outstandings	
Dollars in millions	March 31 2014	December 31 2013	March 31 2014	December 31 2013
Commercial	$ 28	$ 42	.03%	.05%
Commercial real estate		2		.01
Residential real estate				
Non government insured	30	35	.20	.23
Government insured	924	1,025	6.24	6.80
Credit card	31	34	.72	.77
Other consumer				
Non government insured	13	14	.06	.06
Government insured	284	339	1.26	1.50
Total	$ 1,310	$ 1,491	.66	.76

(a) Amounts in table represent recorded investment.

On a regular basis our Special Asset Committee closely monitors loans, primarily commercial loans, that are not included in the nonperforming or accruing past due categories and for which we are uncertain about the borrower s ability to comply with existing repayment terms over the next six months. These loans totaled $.2 billion at both March 31, 2014 and December 31, 2013.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $35.9 billion as of March 31, 2014, or 18% of the total loan portfolio. Of that total, $21.3 billion, or 59%, was outstanding under primarily variable-rate home equity lines of credit and $14.6 billion, or 41%, consisted of closed-end home equity installment loans. Approximately 3% of the home equity portfolio was on nonperforming status as of March 31, 2014.

As of March 31, 2014, we are in an originated first lien position for approximately 49% of the total portfolio and, where originated as a second lien, we currently hold or service the first lien position for approximately an additional 2% of the portfolio. Historically, we have originated and sold first lien residential real estate mortgages, which resulted in a low percentage of home equity loans where we hold the first lien mortgage position. The remaining 49% of the portfolio was secured by second liens where we do not hold the first lien position. The credit performance of the majority of the home equity portfolio where we are in, hold or service the first lien position, is superior to the portion of the portfolio where we hold the second lien position but do not hold the first lien.

Lien position information is generally based upon original LTV at the time of origination. However, after origination PNC is not typically notified when a senior lien position that is not held by PNC is satisfied. Therefore, information about the current lien status of junior lien loans is less readily available in cases where PNC does not also hold the senior lien. Additionally, PNC is not typically notified when a junior lien position is added after origination of a PNC first lien. This

updated information for both junior and senior liens must be obtained from external sources, and therefore, PNC has contracted with an industry leading third-party service provider to obtain updated loan, lien and collateral data that is aggregated from public and private sources.

We track borrower performance monthly, including obtaining original LTVs, updated FICO scores at least quarterly, updated LTVs semi-annually, and other credit metrics at least quarterly, including the historical performance of any mortgage loans regardless of lien position that we do or do not hold. This information is used for internal reporting and risk management. For internal reporting and risk management we also segment the population into pools based on product type (*e.g.*, home equity loans, brokered home equity loans, home equity lines of credit, brokered home equity lines of credit). As part of our overall risk analysis and monitoring, we segment the home equity portfolio based upon the delinquency, modification status and bankruptcy status of these loans, as well as the delinquency, modification status and bankruptcy status of any mortgage loan with the same borrower (regardless of whether it is a first lien senior to our second lien).

In establishing our ALLL for non-impaired loans, we utilize a delinquency roll-rate methodology for pools of loans. In accordance with accounting principles, under this methodology, we establish our allowance based upon incurred losses and not lifetime expected losses. We also consider the incremental expected losses when home equity lines of credit transition from interest-only products to principal and interest products in establishing our ALLL. The roll-rate methodology estimates transition/roll of loan balances from one delinquency state (*e.g.*, 30-59 days past due) to another delinquency state (*e.g.*, 60-89 days past due) and ultimately to charge-off. The roll through to charge-off is based on

PNC s actual loss experience for each type of pool. Since a pool may consist of first and second liens, the charge-off amounts for the pool are proportionate to the composition of first and second liens in the pool. Our experience has been that the ratio of first to second lien loans has been consistent over time and is appropriately represented in our pools used for roll-rate calculations.

Generally, our variable-rate home equity lines of credit have either a seven or ten year draw period, followed by a 20-year amortization term. During the draw period, we have home equity lines of credit where borrowers pay interest only and home equity lines of credit where borrowers pay principal and interest. We view home equity lines of credit where borrowers are paying principal and interest under the draw period as less risky than those where the borrowers are paying interest only, as these borrowers have a demonstrated ability to make some level of principal and interest payments. The risk associated with our home equity lines of credit end of period draw dates is considered in establishing our ALLL. Based upon outstanding balances at March 31, 2014, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

Table 37: Home Equity Lines of Credit Draw Period End Dates

In millions	Interest Only Product	Principal and Interest Product
Remainder of 2014	$ 1,394	$ 337
2015	1,781	608
2016	1,479	474
2017	2,656	643
2018	1,168	873
2019 and thereafter	3,846	4,676
Total (a) (b)	$ 12,324	$ 7,611

(a) Includes all home equity lines of credit that mature in the remainder of 2014 or later, including those with borrowers where we have terminated borrowing privileges.

(b) Includes approximately $141 million, $187 million, $52 million, $62 million, $45 million and $561 million of home equity lines of credit with balloon payments, including those where we have terminated borrowing privileges, with draw periods scheduled to end in the remainder of 2014, 2015, 2016, 2017, 2018 and 2019 and thereafter, respectively.

Based upon outstanding balances, and excluding purchased impaired loans, at March 31, 2014, for home equity lines of credit for which the borrower can no longer draw (*e.g.*, draw period has ended or borrowing privileges have been terminated), approximately 3.37% were 30-89 days past due and approximately 5.61% were 90 days or more past due. Generally, when a borrower becomes 60 days past due, we terminate borrowing privileges and those privileges are not subsequently reinstated. At that point, we continue our collection/recovery processes, which may include a loss mitigation loan modification resulting in a loan that is classified as a TDR.

See Note 4 Asset Quality in the Notes To Consolidated Financial Statements of this Report for additional information.

LOAN MODIFICATIONS AND TROUBLED DEBT RESTRUCTURINGS

CONSUMER LOAN MODIFICATIONS

We modify loans under government and PNC-developed programs based upon our commitment to help eligible homeowners and borrowers avoid foreclosure, where appropriate. Initially, a borrower is evaluated for a modification under a government program. If a borrower does not qualify under a government program, the borrower is then evaluated under a PNC program. Our programs utilize both temporary and permanent modifications and typically reduce the interest rate, extend the term and/or defer principal. Temporary and permanent modifications under programs involving a change to loan terms are generally classified as TDRs. Further, certain payment plans and trial payment arrangements which do not include a contractual change to loan terms may be classified as TDRs. Additional detail on TDRs is discussed below as well as in Note 4 Asset Quality in the Notes To Consolidated Financial Statements of this Report.

A temporary modification, with a term between 3 and 24 months, involves a change in original loan terms for a period of time and reverts to a calculated exit rate for the remaining term of the loan as of a specific date. A permanent modification, with a term greater than 24 months, is a modification in which the terms of the original loan are changed. Permanent modifications primarily include the government-created Home Affordable Modification Program (HAMP) or PNC-developed HAMP-like modification programs.

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

We also monitor the success rates and delinquency status of our loan modification programs to assess their effectiveness in serving our customers needs while mitigating credit losses. Table 38 provides the number of accounts and unpaid principal balance of modified consumer real estate related loans and Table 39 provides the number of accounts and unpaid principal balance of modified loans that were 60 days or more past due as of six months, nine months, twelve months and fifteen months after the modification date.

Table 38: Consumer Real Estate Related Loan Modifications

	March 31, 2014		December 31, 2013	
Dollars in millions	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Home equity				
Temporary Modifications	6,292	$ 502	6,683	$ 539
Permanent Modifications	12,235	927	11,717	889
Total home equity	18,527	1,429	18,400	1,428
Residential Mortgages				
Permanent Modifications	7,338	1,427	7,397	1,445
Non-Prime Mortgages				
Permanent Modifications	4,420	626	4,400	621
Residential Construction				
Permanent Modifications	2,376	773	2,260	763
Total Consumer Real Estate Related Loan Modifications	32,661	$ 4,255	32,457	$ 4,257

Table 39: Consumer Real Estate Related Loan Modifications Re-Default by Vintage (a) (b)

March 31, 2014	Six Months		Nine Months		Twelve Months		Fifteen Months		
Dollars in thousands	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Unpaid Principal Balance (c)
Permanent Modifications									
Home Equity									
Third Quarter 2013	32	2.7%							$ 2,570
Second Quarter 2013	25	2.0	44	3.5%					3,982
First Quarter 2013	36	2.9	47	3.8	57	4.7%			4,406
Fourth Quarter 2012	38	3.0	50	4.0	63	5.0	79	6.3%	8,961
Third Quarter 2012	46	2.9	73	4.6	97	6.0	110	6.9	8,997
Residential Mortgages									
Third Quarter 2013	100	9.2							17,324
Second Quarter 2013	138	16.7	162	19.6					28,705
First Quarter 2013	132	16.7	186	23.5	199	25.1			33,261
Fourth Quarter 2012	119	16.7	197	27.6	227	31.8	236	33.1	40,020
Third Quarter 2012	190	20.3	226	24.2	289	30.9	308	32.9	48,023
Non-Prime Mortgages									
Third Quarter 2013	26	15.2							2,986
Second Quarter 2013	25	18.8	40	30.1					8,414
First Quarter 2013	12	14.8	12	14.8	16	19.8			2,669
Fourth Quarter 2012	23	19.7	28	23.9	30	25.6	37	31.6	4,803
Third Quarter 2012	24	17.8	31	23.0	33	24.4	38	28.2	5,463
Residential Construction									
Third Quarter 2013	1	0.7							7
Second Quarter 2013	3	1.5	7	3.5					788
First Quarter 2013	2	1.2	5	2.9	5	2.9			906
Fourth Quarter 2012	2	1.1	4	2.2	6	3.4	5	2.8	885
Third Quarter 2012	3	1.3	1	0.4	4	1.7	6	2.6	1,230
Temporary Modifications									
Home Equity									
Third Quarter 2013	4	9.8%							$ 276
Second Quarter 2013	12	15.8	18	23.7%					1,800
First Quarter 2013	2	2.5	7	8.6	8	9.9%			450
Fourth Quarter 2012	4	4.1	13	13.3	16	16.3	18	18.4%	1,324
Third Quarter 2012	17	11.0	21	13.6	31	20.0	32	20.7	2,329

(a) An account is considered in re-default if it is 60 days or more delinquent after modification. The data in this table represents loan modifications completed during the quarters ending September 30, 2012 through September 30, 2013 and represents a vintage look at all quarterly accounts and the number of those modified accounts (for each quarterly vintage) 60 days or more delinquent at six, nine, twelve, and fifteen months after modification. Account totals include active and inactive accounts that were delinquent when they achieved inactive status. Accounts that are no longer 60 days or more delinquent, or were re-modified since prior period, are removed from re-default status in the period they are cured or re-modified.
(b) Vintage refers to the quarter in which the modification occurred.
(c) Reflects March 31, 2014 unpaid principal balances of the re-defaulted accounts for the Third Quarter 2013 Vintage at Six Months, for the Second Quarter 2013 Vintage at Nine Months, for the First Quarter 2013 Vintage at Twelve Months, and for the Fourth Quarter 2012 and prior Vintages at Fifteen Months.

In addition to temporary loan modifications, we may make available to a borrower a payment plan or a HAMP trial payment period. Under a payment plan or a HAMP trial payment period, there is no change to the loan s contractual terms so the borrower remains legally responsible for payment of the loan under its original terms.

Payment plans may include extensions, re-ages and/or forbearance plans. All payment plans bring an account current once certain requirements are achieved and are primarily intended to demonstrate a borrower s renewed willingness and ability to re-pay. Due to the short term nature of the payment plan, there is a minimal impact to the ALLL.

Under a HAMP trial payment period, we establish an alternate payment, generally at an amount less than the contractual payment amount, for the borrower during this short time period. This allows a borrower to demonstrate successful payment performance before permanently restructuring the loan into a HAMP modification. Subsequent to successful borrower performance under the trial payment period, we will capitalize the original contractual amount past due and restructure the loan s contractual terms, along with bringing the restructured account to current. As the borrower is often already delinquent at the time of participation in the HAMP trial payment period, there is not a significant increase in the ALLL. If the trial payment period is unsuccessful, the loan will be evaluated for further action based upon our existing policies.

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under PNC-developed programs, which in some cases may operate similarly to HAMP. These programs first require a reduction of the interest rate followed by an extension of term and, if appropriate, deferral of principal payments. As of March 31, 2014 and December 31, 2013, 6,262 accounts with a balance of $.9 billion and 5,834 accounts with a balance of $.9 billion, respectively, of residential real estate loans had been modified under HAMP and were still outstanding on our balance sheet.

We do not re-modify a defaulted modified loan except for subsequent significant life events, as defined by the Office of the Comptroller of the Currency (OCC). A modified loan

continues to be classified as a TDR for the remainder of its term regardless of subsequent payment performance.

Commercial Loan Modifications and Payment Plans

Modifications of terms for commercial loans are based on individual facts and circumstances. Commercial loan modifications may involve reduction of the interest rate, extension of the term of the loan and/or forgiveness of principal. Modified commercial loans are usually already nonperforming prior to modification. We evaluate these modifications for TDR classification based upon whether we granted a concession to a borrower experiencing financial difficulties. Additional detail on TDRs is discussed below as well as in Note 4 Asset Quality in the Notes To Consolidated Financial Statements of this Report.

We have established certain commercial loan modification and payment programs for small business loans, Small Business Administration loans, and investment real estate loans. As of March 31, 2014 and December 31, 2013, $44 million and $47 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $15 million and $16 million have been determined to be TDRs as of March 31, 2014 and December 31, 2013, respectively.

Troubled Debt Restructurings

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs result from our loss mitigation activities and include rate reductions, principal forgiveness, postponement/reduction of scheduled amortization and extensions, which are intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Additionally, TDRs also result from borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC. For the three months ended March 31, 2014, $.3 billion of loans held for sale, loans accounted for under the fair value option and pooled purchased impaired loans, as well as certain consumer government insured or guaranteed loans, were excluded from the TDR population. The comparable amount for the three months ended March 31, 2013 was $.7 billion.

Table 40: Summary of Troubled Debt Restructurings

In millions	March 31 2014	December 31 2013
Consumer lending:		
Real estate-related	$ 1,925	$ 1,939
Credit card	157	166
Other consumer	52	56
Total consumer lending	2,134	2,161
Total commercial lending	579	578
Total TDRs	$ 2,713	$ 2,739
Nonperforming	$ 1,405	$ 1,511
Accruing (a)	1,151	1,062
Credit card	157	166
Total TDRs	$ 2,713	$ 2,739

(a) Accruing loans have demonstrated a period of at least six months of performance under the restructured terms and are excluded from nonperforming loans. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC are not returned to accrual status.

Total TDRs decreased $26 million, or 1%, during the first three months of 2014. Nonperforming TDRs totaled $1.4 billion, which represents approximately 48% of total nonperforming loans.

TDRs that are performing, including credit card loans, are excluded from nonperforming loans. Generally, these loans have been returned to performing status as the borrowers have been performing under the restructured terms for at least six consecutive months. These TDRs increased $80 million, or 7%, during 2014 to $1.3 billion as of March 31, 2014. This increase reflects the further seasoning and performance of the TDRs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC are not returned to accrual status. See Note 4 Asset Quality in the Notes To Consolidated Financial Statements in this Report for additional information.

Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit

We recorded $186 million in net charge-offs for the first three months of 2014, compared to $456 million in the first three months of 2013. Commercial lending net charge-offs decreased from $121 million in the first three months of 2013 to $31 million in the first three months of 2014. Consumer lending net charge-offs decreased from $335 million, which included $134 million due to the impact of alignment with interagency supervisory guidance, in the first three months of 2013 to $155 million in the first three months of 2014.

Table 41: Loan Charge-Offs And Recoveries

Three months ended March 31 Dollars in millions	Gross Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	Percent of Average Loans (annualized)
2014				
Commercial	$ 85	$ 51	$ 34	.15%
Commercial real estate	18	20	(2)	(.04)
Equipment lease financing	2	3	(1)	(.05)
Home equity	95	19	76	.85
Residential real estate	8	(1)	9	.25
Credit card	43	5	38	3.60
Other consumer	49	17	32	.57
Total	$ 300	$ 114	$ 186	.38
2013				
Commercial	$ 114	$ 63	$ 51	.25%

Commercial real estate	86	13	73	1.57
Equipment lease financing	3	6	(3)	(.17)
Home equity	194	13	181	2.05
Residential real estate	79	(1)	80	2.15
Credit card	50	5	45	4.42
Other consumer	43	14	29	.55
Total	$ 569	$ 113	$ 456	.99

Total net charge-offs are lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. See Note 5 Purchased Loans

in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on net charge-offs related to these loans.

We maintain an ALLL to absorb losses from the loan and lease portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan and lease portfolio. We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolio as of the balance sheet date. The reserve calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan and lease portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions are periodically updated.

We establish specific allowances for loans considered impaired using methods prescribed by GAAP. All impaired loans are subject to individual analysis, except leases and large groups of smaller-balance homogeneous loans which may include, but are not limited to, credit card, residential mortgage and consumer installment loans. Specific allowances for individual loans (including commercial and consumer TDRs) are determined based on an analysis of the present value of expected future cash flows from the loans discounted at their effective interest rate, observable market price or the fair value of the underlying collateral.

Reserves allocated to non-impaired commercial loan classes are based on PD and LGD credit risk ratings.

Our commercial pool reserve methodology is sensitive to changes in key risk parameters such as PD and LGD. The results of these parameters are then applied to the loan balance and unfunded loan commitments and letters of credit to determine the amount of the respective reserves. Our PDs and LGDs are primarily determined using internal commercial loan loss data. This internal data is supplemented with third-party data and management judgment, as deemed necessary. We continue to evaluate and enhance our use of internal commercial loss data and will periodically update our PDs and LGDs, as well as consider third-party data, regulatory guidance and management judgment. In general, a given change in any of the major risk parameters will have a corresponding change in the pool reserve allocations for non-impaired commercial loans.

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

Allocations to non-impaired consumer loan classes are based upon a roll-rate model which uses statistical relationships, calculated from historical data that estimate the movement of loan outstandings through the various stages of delinquency and ultimately charge-off.

A portion of the ALLL is related to qualitative and measurement factors. These factors may include, but are not limited to, the following:

- Industry concentrations and conditions,
- Recent credit quality trends,
- Recent loss experience in particular portfolios,
- Recent macro-economic factors,
- Model imprecision,
- Changes in lending policies and procedures,
- Timing of available information, including the performance of first lien positions, and
- Limitations of available historical data.

Purchased impaired loans are initially recorded at fair value and applicable accounting guidance prohibits the carry over or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At March 31, 2014, we had established reserves of $.9 billion for purchased impaired loans. In addition, loans (purchased impaired and non-impaired) acquired after January 1, 2009 were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at the date of acquisition. See Note 5 Purchased Loans in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

In addition to the ALLL, we maintain an allowance for unfunded loan commitments and letters of credit. We report this allowance as a liability on our Consolidated Balance Sheet. We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is appropriate to absorb estimated probable losses on these unfunded credit facilities. We determine this amount using estimates of the probability of the ultimate funding and losses related to those credit exposures. Other than the estimation of the probability of funding, this methodology is very similar to the one we use for determining our ALLL.

We refer you to Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for further information on certain key asset quality indicators that we use to evaluate our portfolio and establish the allowances.

Table 42: Allowance for Loan and Lease Losses

Dollars in millions	2014	2013
January 1	$ 3,609	$ 4,036
Total net charge-offs	(186)	(456)
Provision for credit losses	94	236
Net change in allowance for unfunded loan commitments and letters of credit	14	12
Other	(1)	
March 31	$ 3,530	$ 3,828
Net charge-offs to average loans (for the three months ended) (annualized) (a)	.38%	.99%
Allowance for loan and lease losses to total loans	1.78	2.05
Commercial lending net charge-offs	$ (31)	$ (121)
Consumer lending net charge-offs	(155)	(335)
Total net charge-offs	$ (186)	$ (456)
<u>Net charge-offs to average loans (for the three months ended) (annualized)</u>		
Commercial lending	.11%	.45%
Consumer lending (a)	.81	1.78

(a) Includes charge-offs of $134 million taken pursuant to alignment with interagency guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013.

The provision for credit losses totaled $94 million for the first three months of 2014 compared to $236 million for the first three months of 2013. The primary driver of the decrease to the provision was improved overall credit quality, including improved commercial loan risk factors, lower consumer loan delinquencies, and the increasing value of residential real estate, which resulted in greater expected cash flows for our purchased impaired loans. For the first three months of 2014, the provision for commercial lending credit losses decreased by $37 million, or 67%, from the first three months of 2013. The provision for consumer lending credit losses decreased $105 million, or 58%, from the first three months of 2013.

At March 31, 2014, total ALLL to total nonperforming loans was 120%. The comparable amount for December 31, 2013 was 117%. These ratios are 76% and 72%, respectively, when excluding the $1.3 billion and $1.4 billion, respectively, of ALLL at March 31, 2014 and December 31, 2013 allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded consumer loans and lines of credit not secured by real estate as they are charged off after 120 to 180 days past due and not placed on nonperforming status. Additionally, we have excluded purchased impaired loans as they are considered performing regardless of their delinquency status as interest is accreted based on our estimate of expected cash flows and additional allowance is recorded when these cash flows are below recorded investment. See Table 31 within this Credit Risk Management section for additional information.

The ALLL balance increases or decreases across periods in relation to fluctuating risk factors, including asset quality trends, charge-offs and changes in aggregate portfolio balances. During the first three months of 2014, improving asset quality trends, including, but not limited to, delinquency status and improving economic conditions, realization of previously estimated losses through charge-offs and overall portfolio growth, combined to result in the ALLL balance declining $.1 billion, or 2% to $3.5 billion as of March 31, 2014 compared to December 31, 2013.

See Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 5 Purchased Loans in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report regarding changes in the ALLL and in the allowance for unfunded loan commitments and letters of credit.

Liquidity Risk Management

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

Management monitors liquidity through a series of early warning indicators that may indicate a potential market, or PNC-specific, liquidity stress event. In addition, management performs a set of liquidity stress tests over multiple time horizons with varying levels of severity and maintains a contingency funding plan to address a potential stress event. In the most severe liquidity stress simulation, we assume that PNC s liquidity position is under pressure, while the market in general is under systemic pressure. The simulation considers, among other things, the impact of restricted access to both secured and unsecured external sources of funding, accelerated run-off of customer deposits, valuation pressure on assets and heavy demand to fund contingent obligations. Risk limits are established within our Enterprise Capital and Liquidity Management Policy. Management s Asset and Liability Committee and the Board of Directors Risk Committee regularly review compliance with the established limits.

Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet our parent company obligations over the succeeding 24-month period. Risk limits for parent company liquidity are established within our Enterprise Capital and Liquidity Management Policy.

Management s Asset and Liability Committee and the Board of Directors Risk Committee regularly review compliance with the established limits.

Bank Level Liquidity Uses

At the bank level, primary contractual obligations include funding loan commitments, satisfying deposit withdrawal requests and maturities and debt service related to bank borrowings. As of March 31, 2014, there were approximately $9.6 billion of bank borrowings with contractual maturities of less than one year. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary. See the Bank Level Liquidity Sources section below.

Bank Level Liquidity Sources

Our largest source of bank liquidity on a consolidated basis is the deposit base that comes from our retail and commercial businesses. Total deposits increased to $222.4 billion at March 31, 2014 from $220.9 billion at December 31, 2013, primarily driven by growth in transactions deposits. Assets determined by PNC to be liquid (liquid assets) and unused borrowing capacity from a number of sources are also available to maintain our liquidity position. Borrowed funds come from a diverse mix of short and long-term funding sources.

At March 31, 2014, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling $18.4 billion and securities available for sale totaling $47.5 billion. Of our total liquid assets of $65.9 billion, we had $17.3 billion pledged as collateral for borrowings, trust, and other commitments. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and balance sheet management activities.

In addition to the customer deposit base, which has historically provided the single largest source of relatively stable and low-cost funding, the bank also obtains liquidity through the issuance of traditional forms of funding including long-term debt (senior notes and subordinated debt and FHLB advances) and short-term borrowings (Federal funds purchased, securities sold under repurchase agreements, commercial paper issuances and other short-term borrowings).

On January 16, 2014, PNC Bank, N.A. established a new bank note program under which it may from time to time offer up to $25 billion aggregate principal amount at any one time outstanding of its unsecured senior and subordinated notes due more than nine months from their date of issue (in the case of senior notes) and due five years or more from their date of issue (in the case of subordinated notes). The $25 billion of notes authorized to be issued and outstanding at any one time includes notes issued by PNC Bank, N.A. prior to January 16, 2014 under the 2004 bank note program and those notes PNC Bank, N.A. has acquired through the acquisition of other

banks, in each case for so long as such notes remain outstanding. The terms of the new program do not affect any of the bank notes issued prior to January 16, 2014. At March 31, 2014, PNC Bank, N.A. had $14.2 billion of bank notes outstanding including the following issued during 2014:

- $750 million of senior notes with a maturity date of January 28, 2019. Interest is payable semi-annually, at a fixed rate of 2.200% on January 28 and July 28 of each year, beginning on July 28, 2014,
- $1.0 billion of senior notes with a maturity date of January 27, 2017. Interest is payable semi-annually, at a fixed rate of 1.125% on January 27 and July 27 of each year, beginning on July 27, 2014, and
- $1.0 billion of senior extendible floating rate bank notes issued to an affiliate with an initial maturity date of April 15, 2015, subject to the holder s monthly option to extend, and a final maturity date of April 15, 2016. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .235%, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder. Interest is payable on January 15, April 15, July 15 and October 15 of each year, beginning on July 15, 2014.

Total senior and subordinated debt of PNC Bank, N.A. increased to $15.5 billion at March 31, 2014 from $14.6 billion at December 31, 2013 primarily due to $2.8 billion in new borrowing less $1.9 billion in calls and maturities.

PNC Bank, N.A. is a member of the FHLB-Pittsburgh and, as such, has access to advances from FHLB-Pittsburgh secured generally by residential mortgage loans, other mortgage-related loans and commercial mortgage-backed securities. At March 31, 2014, our unused secured borrowing capacity was $12.3 billion with FHLB-Pittsburgh. Total FHLB borrowings increased to $13.9 billion at March 31, 2014 from $12.9 billion at December 31, 2013 due to $4.0 billion of new issuances offset by $3.0 billion in calls and maturities. The FHLB-Pittsburgh also periodically provides standby letters of credit on behalf of PNC Bank, N.A. to secure certain public deposits. PNC Bank, N.A. began using standby letters of credit issued by the FHLB-Pittsburgh in response to anticipated short-term regulatory standards. If the FHLB-Pittsburgh is required to make payment for a beneficiary s draw, the payment amount is converted into a collateralized advance to PNC Bank, N.A. At both March 31, 2014 and December 31, 2013, standby letters of credit issued on our behalf by the FHLB-Pittsburgh totaled $6.2 billion.

PNC Bank, N.A. has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of March 31, 2014, there was $4.9 billion outstanding under this program. During the fourth quarter of 2013, PNC finalized the wind down of Market Street Funding LLC (Market Street), a multi-seller asset-backed commercial paper conduit administered by PNC Bank, N.A. As part of the wind down process, the commitments and outstanding loans of Market Street were assigned to PNC Bank, N.A., which will fund these commitments and loans by utilizing its diversified funding sources. In conjunction with the assignment of commitments and loans, the associated liquidity facilities were terminated along with the program-level credit enhancement provided to Market Street. The wind down did not have a material impact to PNC s financial condition or results of operation.

PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland s (Federal Reserve Bank) discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by commercial loans. At March 31, 2014, our unused secured borrowing capacity was $20.2 billion with the Federal Reserve Bank.

Parent Company Liquidity Uses

The parent company s contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. As of March 31, 2014, there were approximately $2.3 billion of parent company borrowings with maturities of less than one year.

Additionally, the parent company maintains adequate liquidity to fund discretionary activities such as paying dividends to PNC shareholders, share repurchases, and acquisitions. See the Parent Company Liquidity Sources section below.

See Capital and Liquidity Actions in the Executive Summary section of this Financial Review for information on our 2014 capital plan that was accepted by the Federal Reserve, which included certain share repurchases under PNC s existing common stock repurchase authorization and the dividend increase described below.

On April 3, 2014, consistent with our 2014 capital plan, our Board of Directors approved an increase to PNC s quarterly common stock dividend from 44 cents per common share to 48 cents per common share. For the second quarter of 2014, the increased dividend was payable to shareholders of record at the close of business on April 15, 2014 and was paid on May 5, 2014.

See the Supervision and Regulation section of Item 1 Business in our 2013 Form 10-K for additional information regarding the Federal Reserve s CCAR process and the factors the Federal Reserve takes into consideration in evaluating capital plans, as well as for information on new qualitative and quantitative liquidity risk management standards proposed by the U.S. banking agencies.

During 2014, the parent company used cash for the following:

- On March 28, 2014, we used $1.0 billion of parent company cash to purchase senior extendible floating rate bank notes issued by PNC Bank, N.A., and
- In March 2014, PNC repurchased $50 million of common shares to mitigate the financial impact of employee benefit plan transactions, as described in more detail in Item 2 Unregistered Sales Of Equity Securities And Use of Proceeds in Part II of this Report.

Parent Company Liquidity Sources

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

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

There are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. The amount available for dividend payments by PNC Bank, N.A. to the parent company without prior regulatory approval was approximately $1.2 billion at March 31, 2014. See Note 22 Regulatory Matters in Item 8 of our 2013 Form 10-K for a further discussion of these limitations. We provide additional information on certain contractual restrictions in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in Item 8 of our 2013 Form 10-K.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of March 31, 2014, the parent company had approximately $5.4 billion in funds available from its cash and investments.

We can also generate liquidity for the parent company and PNC s non-bank subsidiaries through the issuance of debt securities and equity securities, including certain capital instruments, in public or private markets and commercial paper. We have an effective shelf registration statement pursuant to which we can issue additional debt, equity and other capital instruments. Total senior and subordinated debt and hybrid capital instruments decreased to $10.2 billion at March 31, 2014 from $10.7 billion at December 31, 2013.

See Note 19 Subsequent Events in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for information on the issuance of subordinated notes of $750 million on April 28, 2014.

The parent company, through its subsidiary PNC Funding Corp, has the ability to offer up to $3.0 billion of commercial paper to provide additional liquidity. As of March 31, 2014, there were no issuances outstanding under this program.

Note 19 Equity in Item 8 of our 2013 Form 10-K describes the 16,885,192 warrants we have outstanding, each to purchase one share of PNC common stock at an exercise price of $67.33 per share. These warrants were sold by the U.S. Treasury in a secondary public offering in May 2010 after the U.S. Treasury exchanged its TARP Warrant. These warrants will expire December 31, 2018. These warrants are considered in the calculation of diluted earnings per common share in Note 13 Earnings Per Share in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Status of Credit Ratings

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

In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current legislative and regulatory environment, including implied government support. In

addition, rating agencies themselves have been subject to scrutiny arising from the most recent financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in Dodd-Frank. Potential changes in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above, could impact our liquidity and financial condition. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect liquidity and financial condition.

Table 43: Credit Ratings as of March 31, 2014 for PNC and PNC Bank, N.A.

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

Commitments

The following tables set forth contractual obligations and various other commitments as of March 31, 2014 representing required and potential cash outflows.

Table 44: Contractual Obligations

		Payment Due By Period			
March 31, 2014 in millions	Total	Less than one year	One to three years	Four to five years	After five years
Remaining contractual maturities of time deposits (a)	$ 22,380	$ 15,525	$ 3,542	$ 614	$ 2,699
Borrowed funds (a) (b)	46,806	16,292	15,025	6,635	8,854
Minimum annual rentals on noncancellable leases	2,627	383	617	467	1,160

Nonqualified pension and postretirement benefits	534	58	113	111	252
Purchase obligations (c)	682	400	232	27	23
Total contractual cash obligations	$ 73,029	$ 32,658	$ 19,529	$ 7,854	$ 12,988

(a) Includes purchase accounting adjustments.
(b) Includes basis adjustment relating to accounting hedges.
(c) Includes purchase obligations for goods and services covered by noncancellable contracts and contracts including cancellation fees.

At March 31, 2014, we had a liability for unrecognized tax benefits of $109 million, which represents a reserve for tax positions that we have taken in our tax returns which ultimately may not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the contractual obligations table. See Note 15 Income Taxes in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

Our contractual obligations totaled $73.5 billion at December 31, 2013. The decrease in the comparison is primarily attributable to a decline in time deposits partially offset by the increase in borrowed funds. See Funding and Capital Sources in the Consolidated Balance Sheet Review section of this Financial Review for additional information regarding our funding sources.

Table 45: Other Commitments (a)

March 31, 2014 in millions	Total Amounts Committed	Amount Of Commitment Expiration By Period Less than one year	One to three years	Four to five years	After five years
Net unfunded credit commitments	$ 129,644	$ 51,240	$ 44,180	$ 33,279	$ 945
Net outstanding standby letters of credit (b)	10,607	4,739	4,748	1,119	1
Reinsurance agreements (c)	5,168	2,675	29	29	2,435
Other commitments (d)	933	674	221	35	3
Total commitments	$ 146,352	$ 59,328	$ 49,178	$ 34,462	$ 3,384

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of syndications, assignments and participations.
(b) Includes $6.3 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.
(c) Reinsurance agreements are with third-party insurers related to insurance sold to our customers. Balances represent estimates based on availability of financial information.
(d) Includes unfunded commitments related to private equity investments of $153 million and additional obligations related to direct investment of $6 million that are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $698 million and other direct equity investments of $76 million that are included in Other liabilities on our Consolidated Balance Sheet.

Our total commitments were relatively flat at March 31, 2014 compared to the $146.8 billion reported at December 31, 2013.

Market Risk Management

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

- Traditional banking activities of taking deposits and extending loans,
- Equity and other investments and activities whose economic values are directly impacted by market factors, and
- Fixed income securities, derivatives and foreign exchange activities, as a result of customer activities and underwriting.

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

Market Risk Management Interest Rate Risk

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

Asset and Liability Management centrally manages interest rate risk as prescribed in our risk management policies, which are approved by management s Asset and Liability Committee and the Risk Committee of the Board.

Sensitivity results and market interest rate benchmarks for the first quarters of 2014 and 2013 follow:

Table 46: Interest Sensitivity Analysis

	First Quarter 2014	First Quarter 2013
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	2.1%	2.1%
100 basis point decrease (a)	(.8)%	(1.2)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	6.9%	8.0%
100 basis point decrease (a)	(4.5)%	(4.8)%
Duration of Equity Model (a)		
Base case duration of equity (in years)	(2.2)	(5.6)
Key Period-End Interest Rates		
One-month LIBOR	.15%	.20%
Three-year swap	.99%	.54%

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

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. The following Net Interest Income Sensitivity to Alternative Rate Scenarios (First Quarter 2014) table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist s most likely rate forecast, (ii) implied market forward rates and (iii) Yield Curve Slope Flattening (a 100 basis point yield curve slope flattening between 1-month and ten-year rates superimposed on current base rates) scenario.

Table 47: Net Interest Income Sensitivity to Alternative Rate Scenarios (First Quarter 2014)

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	.5%	1.0%	(.7)%
Second year sensitivity	3.3%	4.7%	(3.6)%

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

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business and the behavior of existing on- and off-balance sheet positions. These

assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in the above table. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates. We also consider forward projections of purchase accounting accretion when forecasting net interest income.

The following graph presents the LIBOR/Swap yield curves for the base rate scenario and each of the alternate scenarios one year forward.

Table 48: Alternate Interest Rate Scenarios: One Year Forward

The first quarter 2014 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates and an upward sloping interest rate yield curve. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

Market Risk Management Customer-Related Trading Risk

We engage in fixed income securities, derivatives and foreign exchange transactions to support our customers investing and hedging activities. These transactions, related hedges and the credit valuation adjustment (CVA) related to our customer derivatives portfolio are marked-to-market daily and reported as customer-related trading activities. We do not engage in proprietary trading of these products.

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in customer-related trading activities. We calculate a diversified VaR at a 95% confidence interval. VaR is used to estimate the probability of portfolio losses based on the statistical analysis of historical market risk factors. A diversified VaR reflects empirical correlations across different asset classes.

During the first three months of 2014, our 95% VaR ranged between \$3.1 million and \$3.9 million, averaging \$3.5 million. During the first three months of 2013, our 95% VaR ranged between \$3.2 million and \$5.3 million, averaging \$3.8 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of gains or losses against the VaR levels that were calculated at the close of the prior day. This assumes that market exposures remain constant throughout the day and that recent historical market variability is a good predictor of future variability. Our customer-related trading activity includes customer revenue and intraday hedging which helps to reduce losses, and may reduce the number of instances of actual losses exceeding the prior day VaR measure. There were no such instances during the first three months of 2014 or the first three months of 2013 where actual losses exceeded the prior day VaR measure under our diversified VaR measure. We use a 500 day look back period for backtesting and include customer-related revenue.

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

Table 49: Enterprise-Wide Gains/Losses Versus Value-at-Risk

Total customer-related trading revenue was as follows:

Table 50: Customer-Related Trading Revenue

Three months ended March 31

In millions	2014	2013
Net interest income	$ 8	$ 9
Noninterest income	42	51
Total customer-related trading revenue	$ 50	$ 60
Securities underwriting and trading (a)	$ 21	$ 25
Foreign exchange	28	19
Financial derivatives and other	1	16
Total customer-related trading revenue	$ 50	$ 60

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

Customer-related trading revenue for the first quarter of 2014 decreased $10 million compared with the first quarter of 2013. The decrease was mainly due to the impact of changes in market interest rates on credit valuations related to customer-related derivatives.

Market Risk Management   Equity And Other Investment Risk

Equity investment risk is the risk of potential losses associated with investing in both private and public equity markets. PNC invests primarily in private equity markets. In addition to extending credit, taking deposits, and underwriting and trading financial instruments, we make and manage direct investments in a variety of transactions, including management buyouts, recapitalizations, and growth financings in a variety of industries. We also have investments in affiliated and non-affiliated funds that make similar investments in private equity and in debt and equity-oriented hedge funds. The economic and/or book value of these investments and other assets such as loan servicing rights are directly affected by changes in market factors.

The primary risk measurement for equity and other investments is economic capital. Economic capital is a common measure of risk for credit, market and operational risk. It is an estimate of the potential value depreciation over a one year horizon commensurate with solvency expectations of an institution rated single-A by the credit rating agencies. Given the illiquid nature of many of these types of investments, it can be a challenge to determine their fair values. See Note 8 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and Note 9 Fair Value in Item 8 of our 2013 Form 10-K for additional information.

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

A summary of our equity investments follows:

Table 51: Equity Investments Summary

In millions	March 31 2014	December 31 2013
BlackRock	$ 5,942	$ 5,940
Tax credit investments (a)	2,271	2,572
Private equity	1,748	1,656
Visa	135	158
Other	241	234
Total	$ 10,337	$ 10,560

(a) The December 31, 2013 amount has been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.

BLACKROCK

PNC owned approximately 36 million common stock equivalent shares of BlackRock equity at March 31, 2014, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

Tax Credit Investments

Included in our equity investments are direct tax credit investments and equity investments held by consolidated partnerships which totaled $2.3 billion at March 31, 2014 and $2.6 billion at December 31, 2013. These equity investment balances include unfunded commitments totaling $698 million and $802 million at March 31, 2014 and December 31, 2013, respectively. These unfunded commitments are included in Other Liabilities on our Consolidated Balance Sheet.

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 has further information on Tax Credit Investments.

Private Equity

The private equity portfolio is an illiquid portfolio comprised of mezzanine and equity investments that vary by industry, stage and type of investment.

Private equity investments carried at estimated fair value totaled $1.7 billion at both March 31, 2014 and December 31, 2013. As of March 31, 2014, $1.1 billion was invested directly in a variety of companies and $.6 billion was invested indirectly through various private equity funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The noncontrolling interests of these funds totaled $229 million as of March 31, 2014. The interests held in indirect private equity funds are not redeemable, but PNC may receive distributions over the life of the partnership from liquidation of the underlying investments. See the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors included in our 2013 Form 10-K for discussion of potential impacts of the Volcker Rule provisions of Dodd-Frank on our holding interests in and sponsorship of private equity or hedge funds.

Our unfunded commitments related to private equity totaled $153 million at March 31, 2014 compared with $164 million at December 31, 2013.

Visa

During the first three months of 2014, we sold 1 million of Visa Class B common shares, in addition to the 13 million shares sold in the previous two years. We have entered into swap agreements with the purchaser of the shares as part of these sales. See Note 8 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information. At March 31, 2014, our investment in Visa Class B common shares totaled approximately 9 million shares and was valued at $135 million. Based on the March 31, 2014 closing price of $215.86 for the Visa Class A common shares, the fair value of our total investment was approximately $850 million at the current conversion rate, which reflects adjustments in respect of all litigation funding by Visa to date. The Visa Class B common

shares that we own are transferable only under limited circumstances (including those applicable to the sales in the first quarter of 2014 and in the previous two years) until they can be converted into shares of the publicly traded class of stock, which cannot happen until the settlement of all of the specified litigation.

Our 2013 Form 10-K has additional information regarding the October 2007 Visa restructuring, our involvement with judgment and loss sharing agreements with Visa and certain other banks, and the status of pending interchange litigation. See also Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At March 31, 2014, other investments totaled $241 million compared with $234 million at December 31, 2013. We recognized net gains related to these investments of $8 million and $20 million during the first three months of 2014 and 2013, respectively.

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

Our unfunded commitments related to other investments were immaterial at both March 31, 2014 and December 31, 2013.

Financial Derivatives

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

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

Further information on our financial derivatives is presented in Note 1 Accounting Policies and Note 9 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K and in Note 8 Fair Value and Note 12

Financial Derivatives in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report, which is incorporated here by reference.

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

The following table summarizes the notional or contractual amounts and net fair value of financial derivatives at March 31, 2014 and December 31, 2013.

Table 52: Financial Derivatives Summary

	March 31, 2014		December 31, 2013	
In millions	Notional/ Contractual Amount	Net Fair Value (a)	Notional/ Contractual Amount	Net Fair Value (a)
Derivatives designated as hedging instruments under GAAP				
Total derivatives designated as hedging instruments	$ 37,458	$ 821	$ 36,197	$ 825
Derivatives not designated as hedging instruments under GAAP				
Total derivatives used for residential mortgage banking activities	$ 114,805	$ 319	$ 119,679	$ 330
Total derivatives used for commercial mortgage banking activities	49,880	(5)	53,149	(12)
Total derivatives used for customer-related activities	172,878	137	169,534	138
Total derivatives used for other risk management activities	2,910	(430)	2,697	(422)
Total derivatives not designated as hedging instruments	$ 340,473	$ 21	$ 345,059	$ 34
Total Derivatives	$ 377,931	$ 842	$ 381,256	$ 859

(a) Represents the net fair value of assets and liabilities.

Internal Controls And Disclosure Controls And Procedures

As of March 31, 2014, we performed an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended) were effective as of March 31, 2014, and that there has been no change in PNC s internal control over financial reporting that occurred during the first quarter of 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Glossary Of Terms

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

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

<u>Annualized</u> Adjusted to reflect a full year of activity.

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

Basel III common equity Tier 1 capital Common stock plus related surplus, net of treasury stock, plus retained earnings, plus accumulated other comprehensive income for securities currently and previously held as available for sale, plus accumulated other comprehensive income for pension and other post postretirement benefit plans, less goodwill, net of associated deferred tax liabilities, less other disallowed intangibles, net of deferred tax liabilities and plus/less other adjustments.

Basel III common equity Tier 1 capital ratio Common equity Tier 1 capital divided by period-end risk-weighted assets (as applicable).

Basel III Tier 1 capital Common equity Tier 1 capital, plus preferred stock, plus certain trust preferred capital securities, plus certain noncontrolling interests that are held by others and plus/ less other adjustments.

Basel III Tier 1 capital ratio Tier 1 capital divided by period-end risk-weighted assets (as applicable).

Basel III Total capital Tier 1 capital plus qualifying subordinated debt, plus certain trust preferred securities, plus, under the Basel III transitional rules and the standardized approach, the allowance for loan and lease losses included in Tier 2 capital and other.

Basel III Total capital ratio   Total capital divided by period-end risk-weighted assets (as applicable).

Basis point   One hundredth of a percentage point.

Carrying value of purchased impaired loans   The net value on the balance sheet which represents the recorded investment less any valuation allowance.

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

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

Combined loan-to-value ratio (CLTV)   This is the aggregate principal balance(s) of the mortgages on a property divided by its appraised value or purchase price.

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

Core net interest income   Core net interest income is total net interest income less purchase accounting accretion.

Credit derivatives   Contractual agreements, primarily credit default swaps, that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

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

Credit valuation adjustment (CVA)   Represents an adjustment to the fair value of our derivatives for our own and counterparties non-performance risk.

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

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

Earning assets   Assets that generate income, which include: federal funds sold; resale agreements; trading securities; interest-earning deposits with banks; loans held for sale; loans; investment securities; and certain other assets.

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

Efficiency   Noninterest expense divided by total revenue.

Enterprise risk management framework   An enterprise process designed to identify potential risks that may affect PNC, manage risk to be within our risk appetite and provide reasonable assurance regarding achievement of our objectives.

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

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

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

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

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

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

Home price index (HPI) A broad measure of the movement of single-family house prices in the U.S.

Impaired loans Loans are determined to be impaired when, based on current information and events, it is probable that all contractually required payments will not be collected. Impaired loans include commercial nonperforming loans and consumer and commercial TDRs, regardless of nonperforming status. Excluded from impaired loans are nonperforming leases, loans held for sale, loans accounted for under the fair value option, smaller balance homogenous type loans and purchased impaired loans.

Interest rate floors and caps Interest rate protection instruments that involve payment from the protection seller to the protection buyer of an interest differential, which represents the difference between a short-term rate (*e.g.*, three-month LIBOR) and an agreed-upon rate (the strike rate) applied to a notional principal amount.

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

Intrinsic value The difference between the price, if any, required to be paid for stock issued pursuant to an equity compensation arrangement and the fair market value of the underlying stock.

Leverage ratio Tier 1 capital divided by average quarterly adjusted total assets.

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

Loan-to-value ratio (LTV) A calculation of a loan s collateral coverage that is used both in underwriting and assessing credit risk in our lending portfolio. LTV is the sum total of loan obligations secured by collateral divided by the market value of that same collateral. Market values of the collateral are based on an independent valuation of the collateral. For example, a LTV of less than 90% is better secured and has less credit risk than a LTV of greater than or equal to 90%.

Loss given default (LGD) An estimate of loss, net of recovery based on collateral type, collateral value, loan exposure, or the guarantor(s) quality and guaranty type (full or partial). Each

loan has its own LGD. The LGD risk rating measures the percentage of exposure of a specific credit obligation that we expect to lose if default occurs. LGD is net of recovery, through either liquidation of collateral or deficiency judgments rendered from foreclosure or bankruptcy proceedings.

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

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

Nonaccrual loans Loans for which we do not accrue interest income. Nonaccrual loans include nonperforming loans, in addition to loans accounted for under fair value option and loans accounted for as held for sale for which full collection of contractual principal and/or interest is not probable.

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

Nonperforming assets Nonperforming assets include nonperforming loans and OREO and foreclosed assets, but exclude certain government insured or guaranteed loans for which we expect to collect substantially all principal and interest, loans held for sale, loans accounted for under the fair value option and purchased impaired loans. We do not accrue interest income on assets classified as nonperforming.

Nonperforming loans Loans accounted for at amortized cost for which we do not accrue interest income. Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, home equity, residential real estate, credit card and other consumer customers as well as TDRs which have not returned to performing status. Nonperforming loans exclude certain government insured or guaranteed loans for which we expect to collect substantially all principal and interest, loans held for sale, loans accounted for under the fair value option and purchased impaired loans. Nonperforming loans exclude purchased impaired loans as we are currently accreting interest income over the expected life of the loans.

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

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

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

Other real estate owned (OREO) and foreclosed assets Assets taken in settlement of troubled loans primarily through deed-in-lieu of foreclosure or foreclosure. Foreclosed assets include real and personal property, equity interests in corporations, partnerships, and limited liability companies.

Other-than-temporary impairment (OTTI) When the fair value of a security is less than its amortized cost basis, an assessment is performed to determine whether the impairment is other-than-temporary. If we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment is considered to have occurred. In such cases, an other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment s amortized cost basis and its fair value at the balance sheet date. Further, if we do not expect to recover the entire amortized cost of the security, an other-than-temporary impairment is considered to have occurred. However for debt securities, if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before its recovery, the other-than-temporary loss is separated into (a) the amount representing the credit loss, and (b) the amount related to all other factors. The other-than-temporary impairment related to credit losses is recognized in earnings while the amount related to all other factors is recognized in other comprehensive income, net of tax.

Parent company liquidity coverage Liquid assets divided by funding obligations within a two year period.

Pretax earnings Income before income taxes and noncontrolling interests.

Pretax, pre-provision earnings Total revenue less noninterest expense.

Primary client relationship A corporate banking client relationship with annual revenue generation of $10,000 to $50,000 or more, and for Asset Management Group, a client relationship with annual revenue generation of $10,000 or more.

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

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

the constant effective yield method. Accretion for purchased impaired loans includes any cash recoveries received in excess of the recorded investment.

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

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

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

Residential development loans Project-specific loans to commercial customers for the construction or development of residential real estate including land, single family homes, condominiums and other residential properties.

Residential mortgage servicing rights valuation, net of economic hedge We have elected to measure acquired or originated residential mortgage servicing rights (MSRs) at fair value under GAAP. We employ a risk management strategy designed to protect the economic value of MSRs from changes in interest rates. This strategy utilizes securities and a portfolio of derivative instruments to hedge changes in the fair value of MSRs arising from changes in interest rates. These financial instruments are expected to have changes in fair value which are negatively correlated to the change in fair value of the MSR portfolio. Net MSR hedge gains/(losses) represent the change in the fair value of MSRs, exclusive of changes due to time decay and payoffs, combined with the change in the fair value of the associated securities and derivative instruments.

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

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

Return on average common shareholders   equity   Annualized net income attributable to common shareholders divided by average common shareholders   equity.

Risk   The potential that an event or series of events could occur that would threaten PNC s ability to achieve its strategic objectives, thereby negatively affecting shareholder value or reputation.

Risk appetite   A dynamic, forward-looking view on the aggregate amount of risk PNC is willing and able to take in executing business strategy in light of the current business environment.

Risk limits   Quantitative measures based on forward looking assumptions that allocate the firm s aggregate risk appetite (*e.g.* measure of loss or negative events) to business lines, legal entities, specific risk categories, concentrations and as appropriate, other levels.

Risk profile   The risk profile is a point-in-time assessment of risk. The profile represents overall risk position in relation to the desired risk appetite. The determination of the risk profile s position is based on qualitative and quantitative analysis of reported risk limits, metrics, operating guidelines and qualitative assessments.

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

Securitization   The process of legally transforming financial assets into securities.

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

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

Taxable-equivalent interest   The interest income earned on certain assets is completely or partially exempt from Federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of yields and margins for all interest-earning assets, we use interest income on a taxable-equivalent basis in calculating average yields and net interest margins by increasing the interest income earned on tax-exempt assets to

make it fully equivalent to interest income earned on other taxable investments. This adjustment is not permitted under GAAP on the Consolidated Income Statement.

Total equity   Total shareholders equity plus noncontrolling interests.

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

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

Troubled debt restructuring (TDR)   A loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

Value-at-risk (VaR)   A statistically-based measure of risk that describes the amount of potential loss which may be incurred due to adverse market movements. The measure is of the maximum loss which should not be exceeded on 95 out of 100 days for a 95% VaR.

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

Yield curve   A graph showing the relationship between the yields on financial instruments or market indices of the same credit quality with different maturities. For example, a normal or positive yield curve exists when long-term bonds have higher yields than short-term bonds. A flat yield curve exists when yields are the same for short-term and long-term bonds. A steep yield curve exists when yields on long-term bonds are significantly higher than on short-term bonds. An inverted or negative yield curve exists when short-term bonds have higher yields than long-term bonds.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

We make statements in this Report, and we may from time to time make other statements, regarding our outlook for earnings, revenues, expenses, capital and liquidity levels and ratios, asset levels, asset quality, financial position, and other matters regarding or affecting PNC and its future business and operations that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as believe, plan, expect, anticipate, see, look, intend, outlook, p forecast, estimate, goal, will, should and other similar words and expressions. Forward-looking statements are subject to numerous assumpti risks and uncertainties, which change over time.

Forward-looking statements speak only as of the date made. We do not assume any duty and do not undertake to update forward-looking statements. Actual results or future events could differ, possibly materially, from those anticipated in forward-looking statements, as well as from historical performance.

Our forward-looking statements are subject to the following principal risks and uncertainties.

- Our businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:
  - Changes in interest rates and valuations in debt, equity and other financial markets.
  - Disruptions in the liquidity and other functioning of U.S. and global financial markets.
  - The impact on financial markets and the economy of any changes in the credit ratings of U.S. Treasury obligations and other U.S. government-backed debt, as well as issues surrounding the levels of U.S. and European government debt and concerns regarding the creditworthiness of certain sovereign governments, supranationals and financial institutions in Europe.
  - Actions by the Federal Reserve, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.
  - Changes in customers , suppliers and other counterparties performance and creditworthiness.
  - Slowing or reversal of the current U.S. economic expansion.
  - Continued residual effects of recessionary conditions and uneven spread of positive impacts of recovery on the economy and our counterparties, including adverse impacts on levels of unemployment, loan utilization rates, delinquencies, defaults and counterparty ability to meet credit and other obligations.
  - Changes in customer preferences and behavior, whether due to changing business and economic conditions, legislative and regulatory initiatives, or other factors.
- Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than we are currently expecting. These statements are based on our current view that the U.S. economic expansion will speed up to an above trend growth rate near 2.8 percent in 2014 as drags from Federal fiscal restraint subside and that short-term interest rates will remain very low and bond yields will rise only slowly in 2014. These forward-looking statements also do not, unless otherwise indicated, take into account the impact of potential legal and regulatory contingencies.
- PNC s ability to take certain capital actions, including paying dividends and any plans to increase common stock dividends, repurchase common stock under current or future programs, or issue or redeem preferred stock or other regulatory capital instruments, is subject to the review of such proposed actions by the Federal Reserve as part of PNC s comprehensive capital plan for the applicable period in connection with the regulators Comprehensive Capital Analysis and Review (CCAR) process and to the acceptance of such capital plan and non-objection to such capital actions by the Federal Reserve.
- PNC s regulatory capital ratios in the future will depend on, among other things, the company s financial performance, the scope and terms of final capital regulations then in effect (particularly those implementing the Basel Capital Accords), and management actions affecting the composition of PNC s balance sheet. In addition, PNC s ability to determine, evaluate and forecast regulatory capital ratios, and to take actions (such as capital distributions) based on actual or forecasted capital ratios, will be dependent on the ongoing development, validation and regulatory approval of related models.
- Legal and regulatory developments could have an impact on our ability to operate our businesses, financial condition, results of operations, competitive position, reputation, or pursuit of attractive acquisition opportunities. Reputational impacts could affect matters such as business generation and retention, liquidity, funding, and ability to attract and retain management. These developments could include:
  - Changes resulting from legislative and regulatory reforms, including major reform of the regulatory oversight structure of the financial services industry and changes to laws and regulations involving tax, pension, bankruptcy,

consumer protection, and other industry aspects, and changes in accounting policies and principles. We will be impacted by extensive reforms provided for in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and otherwise growing out of the most recent financial crisis, the precise nature, extent and timing of which, and their impact on us, remains uncertain.

Changes to regulations governing bank capital and liquidity standards, including due to the Dodd-Frank Act and to Basel-related initiatives.

Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. In addition to matters relating to PNC s business and activities, such matters may include proceedings, claims, investigations, or inquiries relating to pre-acquisition business and activities of acquired companies, such as National City. These matters may result in monetary judgments or settlements or other remedies, including fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to PNC.

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

Impact on business and operating results of any costs associated with obtaining rights in intellectual property claimed by others and of adequacy of our intellectual property protection in general.

Business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through effective use of third-party insurance, derivatives, and capital management techniques, and to meet evolving regulatory capital and liquidity standards. In particular, our results currently depend on our ability to manage elevated levels of impaired assets.

Business and operating results also include impacts relating to our equity interest in BlackRock, Inc. and
rely to a significant extent on information provided to us by BlackRock. Risks and uncertainties that could affect BlackRock are discussed in more detail by BlackRock in its SEC filings.

We grow our business in part by acquiring from time to time other financial services companies, financial services assets and related deposits and other liabilities. Acquisition risks and uncertainties include those presented by the nature of the business acquired, including in some cases those associated with our entry into new businesses or new geographic or other markets and risks resulting from our inexperience in those new areas, as well as risks and uncertainties related to the acquisition transactions themselves, regulatory issues, and the integration of the acquired businesses into PNC after closing.

Competition can have an impact on customer acquisition, growth and retention and on credit spreads and product pricing, which can affect market share, deposits and revenues. Industry restructuring in the current environment could also impact our business and financial performance through changes in counterparty creditworthiness and performance and in the competitive and regulatory landscape. Our ability to anticipate and respond to technological changes can also impact our ability to respond to customer needs and meet competitive demands.

Business and operating results can also be affected by widespread natural and other disasters, dislocations, terrorist activities, cyberattacks or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically.

We provide greater detail regarding these as well as other factors in our 2013 Form 10-K and elsewhere in this Report, including in the Risk Factors and Risk Management sections and the Legal Proceedings and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements in those reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except per share data Unaudited	Three months ended March 31 2014	2013
Interest Income		
Loans	$ 1,899	$ 2,029
Investment securities	427	470
Other	84	112
Total interest income	2,410	2,611
Interest Expense		
Deposits	78	93
Borrowed funds	137	129
Total interest expense	215	222
Net interest income	2,195	2,389
Noninterest Income		
Asset management	364	308
Consumer services	290	296
Corporate services	301	277
Residential mortgage	161	234
Service charges on deposits	147	136
Net gains on sales of securities	10	14
Other-than-temporary impairments	(2)	(1)
Less: Noncredit portion of other-than-temporary impairments (a)		9
Net other-than-temporary impairments	(2)	(10)
Other	311	311
Total noninterest income	1,582	1,566
Total revenue	3,777	3,955
Provision For Credit Losses	94	236
Noninterest Expense		
Personnel	1,080	1,169
Occupancy	218	211
Equipment	201	183
Marketing	52	45
Other (b)	713	760
Total noninterest expense	2,264	2,368
Income before income taxes and noncontrolling interests	1,419	1,351
Income taxes (b)	359	356
Net income	1,060	995
Less: Net income (loss) attributable to noncontrolling interests (b)	(2)	(8)
Preferred stock dividends and discount accretion and redemptions	70	75
Net income attributable to common shareholders	$ 992	$ 928
Earnings Per Common Share		
Basic	$ 1.86	$ 1.76
Diluted	1.82	1.74
Average Common Shares Outstanding		
Basic	532	526
Diluted	539	528

(a) Included in accumulated other comprehensive income (loss). The amount for the first quarter of 2014 was less than $.5 million.

(b) Prior period amounts have been updated to reflect the first quarter 2014 adoption of Accounting Standards Update (ASU) 2014-01 related to investments in low income housing tax credits.

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions	Three months ended March 31	
Unaudited	2014	2013
Net income (a)	$ 1,060	$ 995
Other comprehensive income (loss), before tax and net of reclassifications into Net income:		
Net unrealized gains (losses) on non-OTTI securities	189	(170)
Net unrealized gains (losses) on OTTI securities	66	141
Net unrealized gains (losses) on cash flow hedge derivatives	(5)	(107)
Pension and other postretirement benefit plan adjustments	82	46
Other	11	(6)
Other comprehensive income (loss), before tax and net of reclassifications into Net income	343	(96)
Income tax benefit (expense) related to items of other comprehensive income	(123)	29
Other comprehensive income (loss), after tax and net of reclassifications into Net income	220	(67)
Comprehensive income	1,280	928
Less: Comprehensive income (loss) attributable to noncontrolling interests (a)	(2)	(8)
Comprehensive income attributable to PNC	$ 1,282	$ 936

(a) Prior period amounts have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.
See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited

In millions, except par value	March 31 2014	December 31 2013
Assets		
Cash and due from banks (includes $5 and $5 for VIEs) (a)	$ 4,723	$ 4,043
Federal funds sold and resale agreements (includes $186 and $207 measured at fair value) (b)	1,143	1,986
Trading securities	2,381	3,073
Interest-earning deposits with banks (includes $6 and $7 for VIEs) (a)	14,877	12,135
Loans held for sale (includes $1,634 and $1,901 measured at fair value) (b)	2,102	2,255
Investment securities	58,644	60,294
Loans (includes $1,632 and $1,736 for VIEs) (a) (includes $1,050 and $1,025 measured at fair value) (b)	198,242	195,613
Allowance for loan and lease losses (includes $(55) and $(58) for VIEs) (a)	(3,530)	(3,609)
Net loans	194,712	192,004
Goodwill	9,074	9,074
Other intangible assets	2,115	2,216
Equity investments (includes $375 and $582 for VIEs) (a) (c)	10,337	10,560
Other (includes $537 and $591 for VIEs) (a) (includes $337 and $338 measured at fair value) (b)	23,315	22,552
Total assets	$ 323,423	$ 320,192
Liabilities		
Deposits		
Noninterest-bearing	$ 70,063	$ 70,306
Interest-bearing	152,319	150,625
Total deposits	222,382	220,931
Borrowed funds		
Federal funds purchased and repurchase agreements	3,233	4,289
Federal Home Loan Bank borrowings	13,911	12,912
Bank notes and senior debt	13,861	12,603
Subordinated debt	8,289	8,244
Commercial paper	4,923	4,997
Other (includes $402 and $414 for VIEs) (a) (includes $181 and $184 measured at fair value) (b)	2,589	3,060
Total borrowed funds	46,806	46,105
Allowance for unfunded loan commitments and letters of credit	228	242
Accrued expenses (includes $75 and $83 for VIEs) (a) (c)	4,808	4,690
Other (includes $157 and $252 for VIEs) (a)	4,281	4,187
Total liabilities	278,505	276,155
Equity		
Preferred stock (d)		
Common stock ($5 par value, authorized 800 shares, issued 540 shares)	2,700	2,698
Capital surplus preferred stock	3,943	3,941
Capital surplus common stock and other	12,394	12,416
Retained earnings (c)	24,010	23,251
Accumulated other comprehensive income	656	436
Common stock held in treasury at cost: 6 and 7 shares	(382)	(408)
Total shareholders equity	43,321	42,334
Noncontrolling interests (c)	1,597	1,703
Total equity	44,918	44,037
Total liabilities and equity	$ 323,423	$ 320,192

(a) Amounts represent the assets or liabilities of consolidated variable interest entities (VIEs).
(b) Amounts represent items for which we have elected the fair value option.
(c) Prior period amounts have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.
(d) Par value less than $.5 million at each date.
See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited	Three months ended March 31	
In millions	2014	2013
Operating Activities		
Net income (a)	$ 1,060	$ 995
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for credit losses	94	236
Depreciation and amortization	236	283
Deferred income taxes (a)	17	259
Net gains on sales of securities	(10)	(14)
Net other-than-temporary impairments	2	10
Mortgage servicing rights valuation adjustment	125	(41)
Gain on sale of Visa Class B common shares	(62)	
Undistributed earnings of BlackRock	(101)	(73)
Excess tax benefits from share-based payment arrangements	(16)	(4)
Net change in		
Trading securities and other short-term investments	616	112
Loans held for sale	(12)	69
Other assets	(356)	66
Accrued expenses and other liabilities (a)	356	(845)
Other (a)	(29)	(41)
Net cash provided (used) by operating activities	1,920	1,012
Investing Activities		
Sales		
Securities available for sale	1,347	1,240
Loans	697	351
Repayments/maturities		
Securities available for sale	1,654	2,610
Securities held to maturity	520	708
Purchases		
Securities available for sale	(1,690)	(2,770)
Securities held to maturity		(186)
Loans	(216)	(361)
Net change in		
Federal funds sold and resale agreements	842	187
Interest-earning deposits with banks	(2,741)	2,443
Loans	(3,318)	(975)
Other (b)	(80)	133
Net cash provided (used) by investing activities	(2,985)	3,380

(continued on following page)

CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

(continued from previous page)

In millions	Three months ended March 31	
Unaudited	2014	2013
Financing Activities		
Net change in		
Noninterest-bearing deposits	$ (254)	$ (5,307)
Interest-bearing deposits	1,694	3,806
Federal funds purchased and repurchase agreements	(1,055)	674
Commercial paper	(19)	(1,090)
Other borrowed funds	(626)	(242)
Sales/issuances		
Federal Home Loan Bank borrowings	4,000	
Bank notes and senior debt	1,743	998
Subordinated debt		744
Commercial paper	3,152	2,372
Other borrowed funds	335	275
Common and treasury stock	126	29
Repayments/maturities		
Federal Home Loan Bank borrowings	(3,001)	(3,954)
Bank notes and senior debt	(495)	(444)
Subordinated debt	16	17
Commercial paper	(3,207)	(2,782)
Other borrowed funds	(336)	(90)
Excess tax benefits from share-based payment arrangements	16	4
Redemption of noncontrolling interests		(375)
Acquisition of treasury stock	(41)	(22)
Preferred stock cash dividends paid	(68)	(67)
Common stock cash dividends paid	(235)	(210)
Net cash provided (used) by financing activities	1,745	(5,664)
Net Increase (Decrease) In Cash And Due From Banks	680	(1,272)
Cash and due from banks at beginning of period	4,043	5,220
Cash and due from banks at end of period	$ 4,723	$ 3,948
Supplemental Disclosures		
Interest paid	$ 205	$ 233
Income taxes paid	20	32
Income taxes refunded	1	
Non-cash Investing and Financing Items		
Transfer from (to) loans to (from) loans held for sale, net	70	(17)
Transfer from loans to foreclosed assets	161	201

(a) Prior period amounts have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.
(b) Includes the impact of the consolidation of a variable interest entity as of March 31, 2013.
See accompanying Notes To Consolidated Financial Statements.

Notes To Consolidated Financial Statements (Unaudited)

The PNC Financial Services Group, Inc.

Business

PNC is one of the largest diversified financial services companies in the United States and is headquartered in Pittsburgh, Pennsylvania.

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

Note 1 Accounting Policies

Basis Of Financial Statement Presentation

Our consolidated financial statements include the accounts of the parent company and its subsidiaries, most of which are wholly-owned, and certain partnership interests and variable interest entities.

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform to the 2014 presentation, which did not have a material impact on our consolidated financial condition or results of operations. We also evaluate the materiality of identified errors in the financial statements using both an income statement and a balance sheet approach, based on relevant quantitative and qualitative factors. The financial statements include certain adjustments to correct immaterial errors related to previously reported periods. Prior period financial statements also reflect the retrospective application of Accounting Standards Update (ASU) 2014-01, Investments Equity Method and Joint Ventures (Topic 323): *Accounting for Investments in Qualified Affordable Housing Projects.*

In our opinion, the unaudited interim consolidated financial statements reflect all normal, recurring adjustments needed to present fairly our results for the interim periods. The results of operations for interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2013 Annual Report on Form 10-K. Reference is made to Note 1 Accounting Policies in the 2013 Form 10-K for a detailed

description of significant accounting policies. Included herein are policies that are required to be disclosed on an interim basis as well as policies where there has been a significant change within the first three months of 2014. These interim consolidated financial statements serve to update the 2013 Form 10-K and may not include all information and notes necessary to constitute a complete set of financial statements.

We have also considered the impact of subsequent events on these consolidated financial statements.

Use Of Estimates

We prepared these consolidated financial statements using financial information available at the time of preparation, which requires us to make estimates and assumptions that affect the amounts reported. Our most significant estimates pertain to our fair value measurements, allowances for loan and lease losses and unfunded loan commitments and letters of credit, and accretion on purchased impaired loans. Actual results may differ from the estimates and the differences may be material to the consolidated financial statements.

Investment In BlackRock, Inc.

We account for our investment in the common stock and Series B Preferred Stock of BlackRock (deemed to be in-substance common stock) under the equity method of accounting. The investment in BlackRock is reflected on our Consolidated Balance Sheet in Equity investments, while our equity in earnings of BlackRock is reported on our Consolidated Income Statement in Asset management revenue.

We also hold shares of Series C Preferred Stock of BlackRock pursuant to our obligation to partially fund a portion of certain BlackRock long-term incentive plan (LTIP) programs. Since these preferred shares are not deemed to be in-substance common stock, we have elected to account for these preferred shares at fair value and the changes in fair value will offset the impact of marking-to-market the obligation to deliver these shares to BlackRock. Our investment in the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in Other assets. Our obligation to transfer these shares to BlackRock is classified as a derivative not designated as a hedging instrument under GAAP as disclosed in Note 12 Financial Derivatives.

NONPERFORMING ASSETS

Nonperforming assets consists of nonperforming loans and leases, other real estate owned (OREO) and foreclosed assets. Nonperforming loans and leases include nonperforming troubled debt restructurings (TDRs).

Commercial Loans

We generally classify Commercial Lending (Commercial, Commercial Real Estate, and Equipment Lease Financing) loans as nonperforming and place them on nonaccrual status when we determine that the collection of interest or principal is not probable, including when delinquency of interest or principal payments has existed for 90 days or more and the loans are not well-secured and/or in the process of collection. A loan is considered well-secured when the collateral in the form of liens on (or pledges of) real or personal property, including marketable securities, has a realizable value sufficient to discharge the debt in full, including accrued interest. Such factors that would lead to nonperforming status would include, but are not limited to, the following:

- Deterioration in the financial position of the borrower resulting in the loan moving from accrual to cash basis accounting;
- The collection of principal or interest is 90 days or more past due unless the asset is both well-secured and/or in the process of collection;
- Reasonable doubt exists as to the certainty of the borrower s future debt service ability, whether 90 days have passed or not;
- The borrower has filed or will likely file for bankruptcy;
- The bank advances additional funds to cover principal or interest;
- We are in the process of liquidating a commercial borrower; or
- We are pursuing remedies under a guarantee.

We charge off commercial nonperforming loans when we determine that a specific loan, or portion thereof, is uncollectible. This determination is based on the specific facts and circumstances of the individual loans. In making this determination, we consider the viability of the business or project as a going concern, the past due status when the asset is not well-secured, the expected cash flows to repay the loan, the value of the collateral, and the ability and willingness of any guarantors to perform.

Additionally, in general, for smaller dollar commercial loans of $1 million or less, a partial or full charge-off will occur at 120 days past due for term loans and 180 days past due for revolvers.

Certain small business credit card balances are placed on nonaccrual status when they become 90 days or more past due. Such loans are charged-off at 180 days past due.

Consumer Loans

Nonperforming loans are those loans accounted for at amortized cost that have deteriorated in credit quality to the extent that full collection of contractual principal and interest is not probable. These loans are also classified as nonaccrual. For these loans, the current year accrued and uncollected interest is reversed through Net interest income and prior year accrued and uncollected interest is charged-off. Additionally, these loans may be charged-off down to the fair value less costs to sell.

Loans acquired and accounted for under ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality are reported as performing and accruing loans due to the accretion of interest income.

Loans accounted for under the fair value option and loans accounted for as held for sale are reported as performing loans as these loans are accounted for at fair value and the lower of carrying value or the fair value less costs to sell, respectively. However, based upon the nonaccrual policies discussed below, interest income is not accrued. Additionally, based upon the nonaccrual policies discussed below, certain government insured loans for which we do not expect to collect substantially all principal and interest are reported as nonperforming and do not accrue interest. Alternatively, certain government insured loans for which we expect to collect substantially all principal and interest are not reported as nonperforming loans and continue to accrue interest.

Loans where a borrower has been discharged from personal liability in bankruptcy and has not formally reaffirmed its loan obligation to PNC are classified as nonperforming TDRs. These loans are charged off to collateral value less costs to sell, and any associated allowance at the time of charge-off is reduced to zero. The charge-off activity results in a reduction in the allowance, an increase in provision for credit losses, if the related loan charge-off exceeds the associated allowance, as well as a difference in the pre-TDR recorded investment to the post-TDR recorded investment reflected in Table 67. Collateral values are updated at least semi-annually. Subsequent declines in collateral values are charged-off and incremental provision for credit loss is incurred. These nonperforming TDRs are not eligible to be returned to performing status.

A consumer loan is considered well-secured when the collateral in the form of liens on (or pledges of) real or personal property, including marketable securities, has a realizable value sufficient to discharge the debt in full, including accrued interest. Home equity installment loans and lines of credit, whether well-secured or not, are classified as nonaccrual at 90 days past due. Well-secured residential real estate loans are classified as nonaccrual at 180 days past due. In addition to these delinquency-related policies, a consumer loan may also be placed on nonaccrual status when:

- The loan has been modified and classified as a TDR, as further discussed below;
- Notification of bankruptcy has been received and the loan is 30 days or more past due;
- The bank holds a subordinate lien position in the loan and the first lien loan is seriously stressed (*i.e.*, 90 days or more past due);

Other loans within the same borrower relationship have been placed on nonaccrual or charge-off has been taken on them;
The bank has repossessed non-real estate collateral securing the loan; or
The bank has charged-off the loan to the value of the collateral.

Most consumer loans and lines of credit, not secured by residential real estate, are charged off after 120 to 180 days past due. Generally, they are not placed on nonaccrual status as permitted by regulatory guidance.

Home equity installment loans, home equity lines of credit, and residential real estate loans that are not well-secured and in the process of collection are charged-off at no later than 180 days past due to the estimated fair value of the collateral less costs to sell. In addition to this policy, the bank will also recognize a charge-off on a secured consumer loan when:

- The bank holds a subordinate lien position in the loan and a foreclosure notice has been received on the first lien loan;
- The bank holds a subordinate lien position in the loan which is 30 days or more past due with a combined loan to value ratio of greater than or equal to 110% and the first lien loan is seriously stressed (*i.e.*, 90 days or more past due);
- It is modified or otherwise restructured in a manner that results in the loan becoming collateral dependent;
- Notification of bankruptcy has been received within the last 60 days and the loan is 60 days or more past due;
- The borrower has been discharged from personal liability through Chapter 7 bankruptcy and has not formally reaffirmed his or her loan obligation to PNC; or
- The collateral securing the loan has been repossessed and the value of the collateral is less than the recorded investment of the loan outstanding.

Accounting for Nonperforming Assets

If payment is received on a nonaccrual loan, generally the payment is first applied to the recorded investment; payments are then applied to recover any charged-off amounts related to the loan. Finally, if both recorded investment and any charge-offs have been recovered, then the payment will be recorded as fee and interest income.

Nonaccrual loans are generally not returned to accrual status until the borrower has performed in accordance with the contractual terms for a reasonable period of time (*e.g.*, 6 months). When a nonperforming loan is returned to accrual status, it is then considered a performing loan.

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs may include restructuring certain terms of loans, receipts of assets from debtors in partial satisfaction of loans, or a combination thereof. For TDRs, payments are applied based upon their contractual terms unless the related loan is deemed non-performing. TDRs are generally included in nonperforming loans until returned to performing status through the fulfilling of restructured terms for a reasonable period of time (generally 6 months). TDRs

resulting from borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC are not returned to accrual status.

See Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional TDR information.

Foreclosed assets are comprised of any asset seized or property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Other real estate owned is comprised principally of commercial real estate and residential real estate properties obtained in partial or total satisfaction of loan obligations. After obtaining a foreclosure judgment, or in some jurisdictions the initiation of proceedings under a power of sale in the loan instruments, the property will be sold. When we are awarded title, we transfer the loan to foreclosed assets included in Other assets on our Consolidated Balance Sheet. Property obtained in satisfaction of a loan is initially recorded at estimated fair value less cost to sell. Based upon the estimated fair value less cost to sell, the recorded investment of the loan is adjusted and, typically, a charge-off/recovery is recognized to the ALLL. We estimate fair values primarily based on appraisals, or sales agreements with third parties. Fair value also considers the proceeds expected from government insurance and guarantees upon the conveyance of the other real estate owned (OREO).

Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or estimated fair value less cost to sell. Valuation adjustments on these assets and gains or losses realized from disposition of such property are reflected in Other noninterest expense.

See Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

Allowance for Loan and Lease Losses

We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolios as of the balance sheet date. Our determination of the allowance is based on periodic evaluations of these loan and lease portfolios and other relevant factors. This critical estimate includes the use of significant amounts of PNC s own historical data and complex methods to interpret them. We have an ongoing process to evaluate and enhance the quality, quantity and timeliness of our data and interpretation methods used in the determination of this allowance. These evaluations are inherently subjective, as they require material estimates and may be susceptible to significant change, and include, among others:

- Probability of default (PD),
- Loss given default (LGD),
- Outstanding balance of the loan,
- Movement through delinquency stages,

- Amounts and timing of expected future cash flows,
- Value of collateral, which may be obtained from third parties, and
- Qualitative factors, such as changes in current economic conditions, that may not be reflected in modeled results.

While our reserve methodologies strive to reflect all relevant risk factors, there continues to be uncertainty associated with, but not limited to, potential imprecision in the estimation process due to the inherent time lag of obtaining information and normal variations between estimates and actual outcomes. We adjust reserves to provide coverage for losses attributable to such risks. The ALLL also includes factors which may not be directly measured in the determination of specific or pooled reserves. Such qualitative factors may include:

- Industry concentrations and conditions,
- Recent credit quality trends,
- Recent loss experience in particular portfolios,
- Recent macro-economic factors,
- Model imprecision,
- Changes in lending policies and procedures,
- Timing of available information, including the performance of first lien positions, and
- Limitations of available historical data.

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans.

Nonperforming loans that are considered impaired under ASC 310 Receivables are evaluated for a specific reserve. Specific reserve allocations are determined as follows:

- For commercial nonperforming loans and TDRs greater than or equal to a defined dollar threshold, specific reserves are based on an analysis of the present value of the loan s expected future cash flows, the loan s observable market price or the fair value of the collateral.
- For commercial nonperforming loans and TDRs below the defined dollar threshold, the individual loan s LGD percentage is multiplied by the loan balance and the results are aggregated for purposes of measuring specific reserve impairment.
- Consumer nonperforming loans are collectively reserved for unless classified as TDRs. For TDRs, specific reserves are determined through an analysis of the present value of the loan s expected future cash flows, except for those instances where loans have been deemed collateral dependent, including loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC. Once that determination has been made, those TDRs are charged down to the fair value of the collateral less costs to sell at each period end.
- For purchased impaired loans, subsequent decreases to the net present value of expected cash flows will generally result in an impairment charge to the provision for credit losses, resulting in an increase to the ALLL.

When applicable, this process is applied across all the loan classes in a similar manner. However, as previously discussed, certain consumer loans and lines of credit, not secured by residential real estate, are charged off.

Our credit risk management policies, procedures and practices are designed to promote sound lending standards and prudent credit risk management. We have policies, procedures and practices that address financial statement requirements, collateral review and appraisal requirements, advance rates based upon collateral types, appropriate levels of exposure, cross-border risk, lending to specialized industries or borrower type, guarantor requirements, and regulatory compliance.

See Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

Allowance for Unfunded Loan Commitments and Letters of Credit

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is appropriate to absorb estimated probable credit losses on these unfunded credit facilities as of the balance sheet date. We determine the allowance based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors, and, solely for commercial lending, the terms and expiration dates of the unfunded credit facilities. Other than the estimation of the probability of funding, the reserve for unfunded loan commitments is estimated in a manner similar to the methodology used for determining reserves for funded exposures. The allowance for unfunded loan commitments and letters of credit is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the allowance for unfunded loan commitments and letters of credit are included in the provision for credit losses.

See Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

Residential and Commercial Mortgage Servicing Rights

We elect to measure our residential mortgage servicing rights (MSRs) at fair value. This election was made to be consistent with our risk management strategy to hedge changes in the fair value of these assets as described below. The fair value of residential MSRs is estimated by using a discounted cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors which are determined based on current market conditions.

Commercial MSRs are purchased or originated when loans are sold with servicing retained. As of January 1, 2014, PNC made an irrevocable election to prospectively measure all classes of commercial MSRs at fair value in order to eliminate any potential measurement mismatch between our economic hedges and the commercial MSRs. The impact of the election was not material. We recognize gain/(loss) on changes in the fair value of commercial MSRs as a result of that election. Prior to 2014, commercial MSRs were initially recorded at fair value and subsequently accounted for at the lower of amortized cost or fair value. These commercial MSRs were periodically evaluated for impairment. For purposes of impairment, the commercial MSRs were stratified based on asset type, which characterized the predominant risk of the underlying financial asset.

The fair value of commercial MSRs is estimated by using a discounted cash flow model incorporating inputs for assumptions as to constant prepayment rates, discount rates and other factors determined based on current market conditions and expectations.

Earnings Per Common Share

Basic earnings per common share is calculated using the two-class method to determine income attributable to common shareholders. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities under the two-class method. Income attributable to common shareholders is then divided by the weighted-average common shares outstanding for the period.

Diluted earnings per common share is calculated under the more dilutive of either the treasury method or the two-class method. For the diluted calculation, we increase the weighted-average number of shares of common stock outstanding by the assumed conversion of outstanding convertible preferred stock from the beginning of the year or date of issuance, if later, and the number of shares of common stock that would be issued assuming the exercise of stock options and warrants and the issuance of incentive shares using the treasury stock method. These adjustments to the weighted-average number of shares of common stock outstanding are made only when such adjustments will dilute earnings per common share. See Note 13 Earnings Per Share for additional information.

Recent Accounting Standards

In January 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-01, Investments Equity Method and Joint Ventures (Topic 323): *Accounting for Investments in Qualified Affordable Housing Projects.* This ASU provides guidance on accounting for investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low income housing tax credit. If certain criteria are satisfied, investment amortization, net of tax credits, may be recognized in the income statement as a component of income taxes attributable to continuing

operations under either the proportional amortization method or the practical expedient method to the proportional amortization method. This ASU is effective for annual periods, beginning after December 15, 2014. Retrospective application is required and early adoption is permitted. We early adopted this guidance in the first quarter of 2014 for interim and annual reporting periods because we believe the presentation more accurately reflects the economics of tax credit investments. We elected to amortize our qualifying investments in low income housing tax credits under the practical expedient method to the proportional amortization method while continuing to account for our other tax credit investments under the equity method.

For prior periods, pursuant to ASU 2014-01, (i) amortization expense related to our qualifying investments in low income housing tax credits was reclassified from Other noninterest expense to Income taxes, and (ii) additional amortization, net of the associated tax benefits was recognized in Income taxes as a result of our adoption of the practical expedient to the proportional amortization method. The cumulative effect to retained earnings as of January 1, 2014 of adopting this guidance was a reduction of $74 million, inclusive of a $55 million reduction to retained earnings as of January 1, 2013.

During the first quarter of 2014, we recognized $44 million of amortization, $50 million of tax credits, and $16 million of other tax benefits associated with these investments within Income taxes. At March 31, 2014, the amount of investments in low income housing tax credits that were accounted for under ASU 2014-01 was $1.8 billion. These investments are reflected in Equity investments on our Consolidated Balance Sheet.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This ASU clarifies existing guidance to require that an unrecognized tax benefit or a portion thereof be presented in the statement of financial position as a reduction to a deferred tax asset for a net operating loss (NOL) carryforward, similar tax loss, or a tax credit carryforward except when an NOL carryforward, similar tax loss, or tax credit carryforward is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. In such a case, the unrecognized tax benefit would be presented in the statement of financial position as a liability. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We adopted ASU

2013-11 in the first quarter of 2014 using prospective application to all unrecognized tax benefits that existed at the effective date. Adoption of this ASU did not have a material effect on our results of operations or financial position.

In June 2013, the FASB issued ASU 2013-08, Financial Services Investment Companies (Topic 946): *Amendments to the Scope, Measurement and Disclosure Requirements*. This ASU modifies the guidance in ASC 946 for determining whether an entity is an investment company, as well as the measurement and disclosure requirements for investment companies. The ASU does not change current accounting where a noninvestment company parent retains the specialized accounting applied by an investment company subsidiary in consolidation. ASU 2013-08 is being applied prospectively for all periods beginning after December 15, 2013. We adopted ASU 2013-08 in the first quarter of 2014. Adoption of the ASU did not have a material effect on our results of operations or financial position. See Note 8 Fair Value for the new required disclosures.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830): *Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. This ASU clarifies the timing of release of Currency Translation Adjustments (CTA) from Accumulated Other Comprehensive Income upon deconsolidation or derecognition of a foreign entity, subsidiary or a group of assets within a foreign entity and in a step acquisition. ASU 2013-05 is being applied prospectively for all periods beginning after December 15, 2013. We adopted ASU 2013-05 in the first quarter of 2014. Adoption of the ASU did not have a material effect on our results of operations or financial position.

In February 2013, the FASB issued ASU 2013-04, Liabilities (Topic 405): *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. This ASU requires entities to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the following: a) the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors and b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. Required disclosures include a description of the joint and several arrangements and the total outstanding amount of the obligation for all joint parties. ASU 2013-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and should be applied retrospectively to joint and several obligations existing at the beginning of 2014. We adopted ASU 2013-04 in the first quarter of 2014. Adoption of the ASU did not have a material effect on our results of operations or financial position.

NOTE 2 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES

LOAN SALE AND SERVICING ACTIVITIES

We have transferred residential and commercial mortgage loans in securitization or sales transactions in which we have continuing involvement. These transfers have occurred through Agency securitization, Non-agency securitization, and loan sale transactions. Agency securitizations consist of securitization transactions with Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) (collectively the Agencies). FNMA and FHLMC generally securitize our transferred loans into mortgage-backed securities for sale into the secondary market through special purpose entities (SPEs) that they sponsor. We, as an authorized GNMA issuer/servicer, pool Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) insured loans into mortgage-backed securities for sale into the secondary market. In Non-agency securitizations, we have transferred loans into securitization SPEs. In other instances, third-party investors have also purchased our loans in loan sale transactions and in certain instances have subsequently sold these loans into securitization SPEs. Securitization SPEs utilized in the Agency and Non-agency securitization transactions are variable interest entities (VIEs).

Our continuing involvement in the FNMA, FHLMC, and GNMA securitizations, Non-agency securitizations, and loan sale transactions generally consists of servicing, repurchases of previously transferred loans under certain conditions and loss share arrangements, and, in limited circumstances, holding of mortgage-backed securities issued by the securitization SPEs.

Depending on the transaction, we may act as the master, primary, and/or special servicer to the securitization SPEs or third-party investors. Servicing responsibilities typically consist of collecting and remitting monthly borrower principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and, in certain instances, funding of servicing advances. Servicing advances, which are reimbursable, are recognized in Other assets at cost and are made for principal and interest and collateral protection.

We earn servicing and other ancillary fees for our role as servicer and, depending on the contractual terms of the servicing arrangement, we can be terminated as servicer with or without cause. At the consummation date of each type of loan transfer, we recognize a servicing right at fair value. Servicing rights are recognized in Other intangible assets on our Consolidated Balance Sheet and when subsequently accounted for at fair value are classified within Level 3 of the fair value hierarchy. See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further discussion of our residential and commercial servicing rights.

Certain loans transferred to the Agencies contain removal of account provisions (ROAPs). Under these ROAPs, we hold an option to repurchase at par individual delinquent loans that meet certain criteria. In other limited cases, the U.S. Department of Housing and Urban Development (HUD) has granted us the right to repurchase current loans when we intend to modify the borrower s interest rate under established guidelines. When we have the unilateral ability to repurchase a loan, effective control over the loan has been regained and we recognize an asset (in either Loans or Loans held for sale) and a corresponding liability (in Other borrowed funds) on the balance sheet regardless of our intent to repurchase the loan. At March 31, 2014 and December 31, 2013, these assets and liabilities both totaled $156 million and $128 million, respectively.

The Agency and Non-agency mortgage-backed securities issued by the securitization SPEs that are purchased and held on our balance sheet are typically purchased in the secondary market. PNC does not retain any credit risk on its Agency mortgage-backed security positions as FNMA, FHLMC, and the U.S. Government (for GNMA) guarantee losses of principal and interest. Substantially all of the Non-agency mortgage-backed securities acquired and held on our balance sheet are senior tranches in the securitization structure.

We also have involvement with certain Agency and Non-agency commercial securitization SPEs where we have not transferred commercial mortgage loans. These SPEs were sponsored by independent third-parties and the loans held by these entities were purchased exclusively from other third-parties. Generally, our involvement with these SPEs is as servicer with servicing activities consistent with those described above.

We recognize a liability for our loss exposure associated with contractual obligations to repurchase previously transferred loans due to breaches of representations and warranties and also for loss sharing arrangements (recourse obligations) with the Agencies. Other than providing temporary liquidity under servicing advances and our loss exposure associated with our repurchase and recourse obligations, we have not provided nor are we required to provide any type of credit support, guarantees, or commitments to the securitization SPEs or third-party investors in these transactions. See Note 17 Commitments and Guarantees for further discussion of our repurchase and recourse obligations.

The following table provides certain financial information and cash flows associated with PNC s loan sale and servicing activities:

Table 53: Certain Financial Information and Cash Flows Associated with Loan Sale and Servicing Activities

In millions	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/Lines (b)
FINANCIAL INFORMATION March 31, 2014			
Servicing portfolio (c)	$ 113,573	$ 175,382	$ 4,830
Carrying value of servicing assets (d)	1,039	529	
Servicing advances (e)	541	379	7
Repurchase and recourse obligations (f)	103	33	19
Carrying value of mortgage-backed securities held (g)	3,991	1,312	
FINANCIAL INFORMATION December 31, 2013			
Servicing portfolio (c)	$ 113,994	$ 176,510	$ 4,902
Carrying value of servicing assets (d)	1,087	549	
Servicing advances (e)	571	412	11
Repurchase and recourse obligations (f)	131	33	22
Carrying value of mortgage-backed securities held (g)	4,144	1,475	

In millions	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/Lines (b)
CASH FLOWS Three months ended March 31, 2014			
Sales of loans (h)	$ 2,095	$ 439	
Repurchases of previously transferred loans (i)	209		$ 6
Servicing fees (j)	87	41	5
Servicing advances recovered/(funded), net	30	32	3
Cash flows on mortgage-backed securities held (g)	232	144	
CASH FLOWS Three months ended March 31, 2013			
Sales of loans (h)	$ 3,804	$ 926	
Repurchases of previously transferred loans (i)	372		$ 2
Servicing fees (j)	90	46	6
Servicing advances recovered/(funded), net	(6)	(5)	
Cash flows on mortgage-backed securities held (g)	367	123	

(a) Represents financial and cash flow information associated with both commercial mortgage loan transfer and servicing activities.
(b) These activities were part of an acquired brokered home equity lending business in which PNC is no longer engaged. See Note 17 Commitments and Guarantees for further information.
(c) For our continuing involvement with residential mortgages, this amount represents the outstanding balance of loans we service, including loans transferred by us and loans originated by others where we have purchased the associated servicing rights. For home equity loan/line of credit transfers, this amount represents the outstanding balance of loans transferred and serviced. For commercial mortgages, this amount represents our overall servicing portfolio in which loans have been transferred by us or third parties to VIEs.
(d) See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further information.
(e) Pursuant to certain contractual servicing agreements, represents outstanding balance of funds advanced (i) to investors for monthly collections of borrower principal and interest, (ii) for borrower draws on unused home equity lines of credit, and (iii) for collateral protection associated with the underlying mortgage collateral.
(f) Represents liability for our loss exposure associated with loan repurchases for breaches of representations and warranties for our Residential Mortgage Banking and Non-Strategic Assets Portfolio segments, and our commercial mortgage loss share arrangements for our Corporate & Institutional Banking segment. See Note 17 Commitments and Guarantees for further information.
(g) Represents securities held where PNC transferred to and/or services loans for a securitization SPE and we hold securities issued by that SPE.
(h) There were no gains or losses recognized on the transaction date for sales of residential mortgage loans as these loans are recognized on the balance sheet at fair value. For transfers of commercial mortgage loans not recognized on the balance sheet at fair value, gains/losses recognized on sales of these loans were insignificant for the periods presented.
(i) Includes government insured or guaranteed loans eligible for repurchase through the exercise of our ROAP option and loans repurchased due to breaches of origination covenants or representations and warranties made to purchasers.
(j) Includes contractually specified servicing fees, late charges and ancillary fees.

The table below presents information about the principal balances of transferred loans not recorded on our balance sheet, including residential mortgages, that we service. Additionally, the table below includes principal balances of commercial mortgage securitization and sales transactions where we service those assets. Serviced delinquent loans are 90 days or more past due.

Table 54: Principal Balance, Delinquent Loans (Loans 90 Days or More Past Due), and Net Charge-offs Related to Serviced Loans

In millions	Residential Mortgages	Commercial Mortgages	Home Equity Loans/Lines (a)
Serviced Loan Information March 31, 2014			
Total principal balance	$ 84,391	$ 62,951	$ 4,830
Delinquent loans	3,282	1,599	2,004
Serviced Loan Information December 31, 2013			
Total principal balance	$ 85,758	$ 62,872	$ 4,902
Delinquent loans	3,562	2,353	1,985

In millions	Residential Mortgages	Commercial Mortgages	Home Equity Loans/Lines (a)
Three months ended March 31, 2014			
Net charge-offs (b)	$ 41	$ 355	$ 17
Three months ended March 31, 2013			
Net charge-offs (b)	$ 70	$ 243	$ 44

(a) These activities were part of an acquired brokered home equity lending business in which PNC is no longer engaged. See Note 17 Commitments and Guarantees for further information.
(b) Net charge-offs for Residential mortgages and Home equity loans/lines represent credit losses less recoveries distributed and as reported to investors during the period. Net charge-offs for Commercial mortgages represents credit losses less recoveries distributed and as reported by the trustee for CMBS

securitizations. Realized losses for Agency securitizations are not reflected as we do not manage the underlying real estate upon foreclosure and, as such, do not have access to loss information.

VARIABLE INTEREST ENTITIES (VIEs)

As discussed in our 2013 Form 10-K, we are involved with various entities in the normal course of business that are deemed to be VIEs. The following provides a summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements as of March 31, 2014 and December 31, 2013. We have not provided additional financial support to these entities which we are not contractually required to provide.

Table 55: Consolidated VIEs Carrying Value (a) (b)

March 31, 2014

In millions	Credit Card and Other Securitization Trusts	Tax Credit Investments	Total
Assets			
Cash and due from banks		$ 5	$ 5
Interest-earning deposits with banks		6	6
Loans	$ 1,632		1,632
Allowance for loan and lease losses	(55)		(55)
Equity investments		375	375
Other assets	9	528	537
Total assets	$ 1,586	$ 914	$ 2,500
Liabilities			
Other borrowed funds	$ 181	$ 221	$ 402
Accrued expenses		75	75
Other liabilities		157	157
Total liabilities	$ 181	$ 453	$ 634

December 31, 2013

In millions	Credit Card and Other Securitization Trusts	Tax Credit Investments	Total
Assets			
Cash and due from banks		$ 5	$ 5
Interest-earning deposits with banks		7	7
Loans	$ 1,736		1,736
Allowance for loan and lease losses	(58)		(58)
Equity investments		582	582
Other assets	25	566	591
Total assets	$ 1,703	$ 1,160	$ 2,863
Liabilities			
Other borrowed funds	$ 184	$ 230	$ 414
Accrued expenses		83	83
Other liabilities		252	252
Total liabilities	$ 184	$ 565	$ 749

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

(b) Difference between total assets and total liabilities represents the equity portion of the VIE or intercompany assets and liabilities which are eliminated in consolidation.

Table 56: Non-Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss (a)	Carrying Value of Assets	Carrying Value of Liabilities
March 31, 2014					
Commercial Mortgage-Backed Securitizations (b)	$ 60,948	$ 60,948	$ 1,539	$ 1,539 (d)	
Residential Mortgage-Backed Securitizations (b)	37,342	37,342	4,009	4,009 (d)	$ 4 (f)
Tax Credit Investments and Other (c)	7,087	2,613	2,009	2,038 (e)	750 (g)

Total	$ 105,377	$ 100,903	$ 7,557	$ 7,586	$ 754

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss (a)	Carrying Value of Assets	Carrying Value of Liabilities
December 31, 2013					
Commercial Mortgage-Backed Securitizations (b)	$ 65,757	$ 65,757	$ 1,747	$ 1,747 (d)	
Residential Mortgage-Backed Securitizations (b)	37,962	37,962	4,171	4,171 (d)	$ 5 (f)
Tax Credit Investments and Other (c) (h)	7,086	2,622	2,030	2,055 (e)	826 (g)
Total	$ 110,805	$ 106,341	$ 7,948	$ 7,973	$ 831

(a) This represents loans, investments and other assets related to non-consolidated VIEs, net of collateral (if applicable). Our total exposure related to our involvement in loan sale and servicing activities is disclosed in Table 53. Additionally, we also invest in other mortgage and asset-backed securities issued by third-party VIEs with which we have no continuing involvement. Further information on these securities is included in Note 7 Investment Securities and values disclosed represent our maximum exposure to loss for those securities holdings.
(b) Amounts reflect involvement with securitization SPEs where PNC transferred to and/or services loans for an SPE and we hold securities issued by that SPE. Asset amounts equal outstanding liability amounts of the SPEs due to limited availability of SPE financial information.
(c) Aggregate assets and aggregate liabilities are based on limited availability of financial information associated with certain acquired partnerships and certain LLCs engaged in solar power generation to which PNC provides lease financing. The aggregate assets and aggregate liabilities of LLCs engaged in solar power generation may not be reflective of the size of these VIEs due to differences in classification of leases by these entities.
(d) Included in Trading securities, Investment securities, Other intangible assets and Other assets on our Consolidated Balance Sheet.
(e) Included in Loans, Equity investments and Other assets on our Consolidated Balance Sheet.
(f) Included in Other liabilities on our Consolidated Balance Sheet.
(g) Included in Deposits and Other liabilities on our Consolidated Balance Sheet.
(h) PNC Risk of Loss and Carrying Value of Assets have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.

Credit Card Securitization Trust

We were the sponsor of several credit card securitizations facilitated through a trust. This bankruptcy-remote SPE was established to purchase credit card receivables from the sponsor and to issue and sell asset-backed securities created by it to independent third-parties. The SPE was financed primarily through the sale of these asset-backed securities. These transactions were originally structured to provide liquidity and to afford favorable capital treatment.

Our continuing involvement in these securitization transactions consisted primarily of holding certain retained interests and acting as the primary servicer. For each securitization series that was outstanding, our retained interests held were in the form of a pro-rata undivided interest in the transferred receivables, subordinated tranches of asset-backed securities, interest-only strips, discount receivables and subordinated interests in accrued interest and fees in securitized receivables. We consolidated the SPE as we were deemed the primary beneficiary of the entity based upon our level of continuing involvement. Our role as primary servicer gave us the power to direct the activities of the SPE that most significantly affect its economic performance and our holding of retained interests gave us the obligation to absorb expected losses, or the ability to receive residual returns that could be potentially significant to the SPE. The underlying assets of the consolidated SPE were restricted only for payment of the beneficial interests issued by the SPE. Additionally, creditors of the SPE have no direct recourse to PNC.

During the first quarter of 2012, the last series issued by the SPE, Series 2007-1, matured. At March 31, 2014, the SPE continued to exist and we consolidated the entity as we continued to be the primary beneficiary of the SPE through our holding of seller s interest and our role as the primary servicer.

Tax Credit Investments and Other

We make certain equity investments in various tax credit limited partnerships or limited liability companies (LLCs). The purpose of these investments is to achieve a satisfactory return on capital and to assist us in achieving goals associated with the Community Reinvestment Act.

Also, we are a national syndicator of affordable housing equity. In these syndication transactions, we create funds in which our subsidiaries are the general partner or managing member and sell limited partnership or non-managing member interests to third parties. In some cases PNC may also purchase a limited partnership or non-managing member interest in the fund. The purpose of this business is to generate income from the syndication of these funds, generate servicing fees by managing the funds, and earn tax credits to reduce our tax liability. General partner or managing member activities include selecting, evaluating, structuring, negotiating, and closing the fund investments in operating limited partnerships or LLCs, as well as oversight of the ongoing operations of the fund portfolio.

Typically, the general partner or managing member will be the party that has the right to make decisions that will most significantly impact the economic performance of the entity. However, certain partnership or LLC agreements provide the limited partner or non-managing member the ability to remove the general partner or managing member without cause. This results in the limited partner or non-managing member being the party that has the right to make decisions that will most significantly impact the economic performance of the entity. The primary sources of benefits for these investments are the tax credits and passive losses which reduce our tax liability. We have consolidated investments in which we have the power to direct the activities that most significantly impact the entity s performance, and have an obligation to absorb expected losses or receive benefits that could be potentially significant. The assets are primarily included in Equity investments and Other assets on our Consolidated Balance Sheet with the liabilities classified in Other borrowed funds, Accrued expenses, and Other liabilities and the third-party investors interests included in the Equity section as Noncontrolling interests. Neither creditors nor equity investors in these investments have any recourse to our general credit. The consolidated assets and liabilities of these investments are provided in Table 55 and reflected in the Other business segment.

For tax credit investments in which we do not have the right to make decisions that will most significantly impact the economic performance of the entity, we are not the primary beneficiary and thus they are not consolidated. These investments are disclosed in Table 56. The table also reflects our maximum exposure to loss exclusive of any potential tax credit recapture. Our maximum exposure to loss is equal to our legally binding equity commitments adjusted for recorded impairment, partnership results, or proportional amortization for qualifying low income housing tax credit investments when applicable. For all legally binding unfunded equity commitments, we increase our recognized investment and recognize a liability. As of March 31, 2014, we had a liability of $543 million related to investments in low income housing tax credits which is reflected in Other liabilities on our Consolidated Balance Sheet.

Table 56 also includes our involvement in lease financing transactions with LLCs engaged in solar power generation that to a large extent provided returns in the form of tax credits. The outstanding financings and operating lease assets are reflected as Loans and Other assets, respectively, on our Consolidated Balance Sheet, whereas related liabilities are reported in Deposits and Other liabilities.

Residential and Commercial Mortgage-Backed Securitizations

In connection with each Agency and Non-agency securitization discussed above, we evaluate each SPE utilized in these transactions for consolidation. In performing these assessments, we evaluate our level of continuing involvement in these transactions as the nature of our involvement ultimately determines whether or not we hold a variable interest and/or are the primary beneficiary of the SPE. Factors we consider in our consolidation assessment include the significance of (i) our role as servicer, (ii) our holdings of mortgage-backed securities issued by the securitization SPE, and (iii) the rights of third-party variable interest holders.

The first step in our assessment is to determine whether we hold a variable interest in the securitization SPE. We hold variable interests in Agency and Non-agency securitization SPEs through our holding of mortgage-backed securities issued by the SPEs and/or our recourse obligations. Each SPE in which we hold a variable interest is evaluated to determine whether we are the primary beneficiary of the entity. For Agency securitization

transactions, our contractual role as servicer does not give us the power to direct the activities that most significantly affect the economic performance of the SPEs. Thus, we are not the primary beneficiary of these entities. For Non-agency securitization transactions, we would be the primary beneficiary to the extent our servicing activities give us the power to direct the activities that most significantly affect the economic performance of the SPE and we hold a more than insignificant variable interest in the entity.

Details about the Agency and Non-agency securitization SPEs where we hold a variable interest and are not the primary beneficiary are included in Table 56. Our maximum exposure to loss as a result of our involvement with these SPEs is the carrying value of the mortgage-backed securities, servicing assets, servicing advances, and our liabilities associated with our recourse obligations. Creditors of the securitization SPEs have no recourse to PNC s assets or general credit.

NOTE 3 LOANS AND COMMITMENTS TO EXTEND CREDIT

A summary of the major categories of loans outstanding follows:

Table 57: Loans Summary

In millions	March 31 2014	December 31 2013
Commercial lending		
Commercial	$ 91,101	$ 88,378
Commercial real estate	22,151	21,191
Equipment lease financing	7,521	7,576
Total commercial lending	120,773	117,145
Consumer lending		
Home equity	35,872	36,447

Residential real estate	14,806	15,065
Credit card	4,309	4,425
Other consumer	22,482	22,531
Total consumer lending	77,469	78,468
Total loans (a) (b)	$ 198,242	$ 195,613

(a) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $2.0 billion and $2.1 billion at March 31, 2014 and December 31, 2013, respectively.

(b) Future accretable yield related to purchased impaired loans is not included in the loans summary.

At March 31, 2014, we pledged $24.3 billion of commercial loans to the Federal Reserve Bank (FRB) and $41.7 billion of residential real estate and other loans to the Federal Home Loan Bank (FHLB) as collateral for the contingent ability to borrow, if necessary. The comparable amounts at December 31, 2013 were $23.4 billion and $40.4 billion, respectively.

Table 58: Net Unfunded Credit Commitments

In millions	March 31 2014	December 31 2013
Total commercial lending	$ 89,044	$ 90,104
Home equity lines of credit	18,632	18,754
Credit card	17,476	16,746
Other	4,492	4,266
Total (a)	$ 129,644	$ 129,870

(a) Excludes standby letters of credit. See Note 17 Commitments and Guarantees for additional information on standby letters of credit.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. At March 31, 2014, commercial commitments reported above exclude $25.9 billion of syndications, assignments and participations, primarily to financial institutions. The comparable amount at December 31, 2013 was $25.0 billion.

Commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer s credit quality deteriorates. Based on our historical experience, most commitments expire unfunded, and therefore cash requirements are substantially less than the total commitment.

NOTE 4 ASSET QUALITY

Asset Quality

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency rates may be a key indicator, among other considerations, of credit risk within the loan portfolios. The measurement of delinquency status is based on the contractual terms of each loan. Loans that are 30 days or more past due in terms of payment are considered delinquent. Loan delinquencies exclude loans held for sale, purchased impaired loans, nonperforming loans and fair value option nonaccrual loans, but include government insured or guaranteed loans and accruing loans accounted for under the fair value option.

The trends in nonperforming assets represent another key indicator of the potential for future credit losses. Nonperforming assets include nonperforming loans, OREO and foreclosed assets. Nonperforming loans are those loans accounted for at amortized cost that have deteriorated in credit quality to the extent that full collection of contractual principal and interest is not probable. Interest income is not recognized on these loans. Loans accounted for under the fair value option are reported as performing loans as these loans are accounted for at fair value. However, when nonaccrual criteria is met, interest income is not recognized on these loans. Additionally, certain government insured or guaranteed loans for which we expect to collect substantially all principal and interest are not reported as nonperforming loans and continue to accrue interest. Purchased impaired loans are excluded from nonperforming loans as we are currently accreting interest income over the expected life of the loans. See Note 5 Purchased Loans for further information.

See Note 1 Accounting Policies for additional delinquency, nonperforming, and charge-off information.

The following tables display the delinquency status of our loans and our nonperforming assets at March 31, 2014 and December 31, 2013, respectively.

Table 59: Analysis of Loan Portfolio (a)

In millions	Current or Less Than 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	Accruing 90 Days Or More Past Due	Total Past Due (b)	Nonperforming Loans	Fair Value Option Nonaccrual Loans (c)	Purchased Impaired	Total Loans
March 31, 2014									
Commercial	$ 90,391	$ 93	$ 20	$ 28	$ 141	$ 437		$ 132	$ 91,101
Commercial real estate	21,174	35	25		60	480		437	22,151
Equipment lease financing	7,498	17			17	6			7,521
Home equity	32,421	76	32		108	1,117		2,226	35,872
Residential real estate (d)	9,355	183	70	954	1,207	842	$ 373	3,029	14,806
Credit card	4,229	26	19	31	76	4			4,309
Other consumer (e)	21,804	200	120	297	617	61			22,482
Total	$ 186,872	$ 630	$ 286	$ 1,310	$ 2,226	$ 2,947	$ 373	$ 5,824	$ 198,242
Percentage of total loans	94.26%	.32%	.14%	.66%	1.12%	1.49%	.19%	2.94%	100.00%
December 31, 2013									
Commercial	$ 87,621	$ 81	$ 20	$ 42	$ 143	$ 457		$ 157	$ 88,378
Commercial real estate	20,090	54	11	2	67	518		516	21,191
Equipment lease financing	7,538	31	2		33	5			7,576
Home equity	32,877	86	34		120	1,139		2,311	36,447
Residential real estate (d)	9,311	217	87	1,060	1,364	904	$ 365	3,121	15,065
Credit card	4,339	29	19	34	82	4			4,425
Other consumer (e)	21,788	216	112	353	681	61		1	22,531
Total	$ 183,564	$ 714	$ 285	$ 1,491	$ 2,490	$ 3,088	$ 365	$ 6,106	$ 195,613
Percentage of total loans	93.83%	.37%	.15%	.76%	1.28%	1.58%	.19%	3.12%	100.00%

(a) Amounts in table represent recorded investment and exclude loans held for sale.

(b) Past due loan amounts exclude purchased impaired loans, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans.

(c) Consumer loans accounted for under the fair value option for which we do not expect to collect substantially all principal and interest are subject to nonaccrual accounting and classification upon meeting any of our nonaccrual policies. Given that these loans are not accounted for at amortized cost, these loans have been excluded from the nonperforming loan population.

(d) Past due loan amounts at March 31, 2014 include government insured or guaranteed Residential real estate mortgages totaling $82 million for 30 to 59 days past due, $43 million for 60 to 89 days past due and $924 million for 90 days or more past due. Past due loan amounts at December 31, 2013 include government insured or guaranteed Residential real estate mortgages totaling $105 million for 30 to 59 days past due, $57 million for 60 to 89 days past due and $1,025 million for 90 days or more past due.

(e) Past due loan amounts at March 31, 2014 include government insured or guaranteed Other consumer loans totaling $149 million for 30 to 59 days past due, $104 million for 60 to 89 days past due and $284 million for 90 days or more past due. Past due loan amounts at December 31, 2013 include government insured or guaranteed Other consumer loans totaling $154 million for 30 to 59 days past due, $94 million for 60 to 89 days past due and $339 million for 90 days or more past due.

Table 60: Nonperforming Assets

Dollars in millions	March 31 2014	December 31 2013
Nonperforming loans		
Commercial lending		
Commercial	$ 437	$ 457
Commercial real estate	480	518
Equipment lease financing	6	5
Total commercial lending	923	980
Consumer lending (a)		
Home equity	1,117	1,139
Residential real estate	842	904
Credit card	4	4
Other consumer	61	61
Total consumer lending	2,024	2,108
Total nonperforming loans (b)	2,947	3,088
OREO and foreclosed assets		
Other real estate owned (OREO) (c)	343	360
Foreclosed and other assets	14	9
Total OREO and foreclosed assets	357	369
Total nonperforming assets	$ 3,304	$ 3,457
Nonperforming loans to total loans	1.49%	1.58%
Nonperforming assets to total loans, OREO and foreclosed assets	1.66	1.76
Nonperforming assets to total assets	1.02	1.08

(a) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.
(b) 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.
(c) OREO excludes $238 million and $245 million at March 31, 2014 and December 31, 2013, respectively, related to commercial and residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or guaranteed by the Department of Housing and Urban Development (HUD).

Nonperforming loans also include certain loans whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. In accordance with applicable accounting guidance, these loans are considered TDRs. See Note 1 Accounting Policies and the TDR section of this Note 4 for additional information. For the three months ended March 31, 2014, $.3 billion of loans held for sale, loans accounted for under the fair value option, pooled purchased impaired loans, as well as certain consumer government insured or guaranteed loans which were evaluated for TDR consideration, are not classified as TDRs. The comparable amount for the three months ended March 31, 2013 was $.7 billion.

Total nonperforming loans in the nonperforming assets table above include TDRs of $1.4 billion at March 31, 2014 and $1.5 billion at December 31, 2013. TDRs that are performing,

including credit card loans, totaled $1.3 billion and $1.2 billion at March 31, 2014 and December 31, 2013, respectively, and are excluded from nonperforming loans. Generally, these loans have demonstrated a period of at least six months of consecutive performance under the restructured terms. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC are not returned to accrual status. At March 31, 2014 and December 31, 2013, remaining commitments to lend additional funds to debtors in a commercial or consumer TDR were immaterial.

Additional Asset Quality Indicators

We have two overall portfolio segments Commercial Lending and Consumer Lending. Each of these two segments is comprised of multiple loan classes. Classes are characterized by similarities in initial measurement, risk attributes and the manner in which we monitor and assess credit risk. The commercial segment is comprised of the commercial, commercial real estate, equipment lease financing, and commercial purchased impaired loan classes. The consumer segment is comprised of the home equity, residential real estate, credit card, other consumer, and consumer purchased impaired loan classes. Asset quality indicators for each of these loan classes are discussed in more detail below.

COMMERCIAL LENDING ASSET CLASSES

Commercial Loan Class

For commercial loans, we monitor the performance of the borrower in a disciplined and regular manner based upon the level of credit risk inherent in the loan. To evaluate the level of credit risk, we assign an internal risk rating reflecting the borrower s PD and LGD. This two-dimensional credit risk rating methodology provides granularity in the risk monitoring process on an ongoing basis. These ratings are reviewed and updated on a risk-adjusted basis, generally at least once per year. Additionally, no less frequently than on an annual basis, we update PD rates related to each rating grade based upon internal historical data, augmented by market data. For small balance homogenous pools of commercial loans, mortgages and leases, we apply statistical modeling to assist in determining the probability of default within these pools. Further, on a periodic basis, we update our LGD estimates associated with each rating grade based upon historical data. The combination of the PD and LGD ratings assigned to a commercial loan, capturing both the combination of expectations of default and loss severity in event of default, reflects the relative estimated likelihood of loss for that loan at the reporting date. In general, loans with better PD and LGD tend to have a lower likelihood of loss compared to loans with worse PD and LGD, which tend to have a higher likelihood of loss. The loss amount also considers exposure at date of default, which we also periodically update based upon historical data.

Based upon the amount of the lending arrangement and our risk rating assessment, we follow a formal schedule of written periodic review. On a quarterly basis, we conduct formal reviews of a market s or business unit s entire loan portfolio, focusing on those loans which we perceive to be of higher risk, based upon PDs and LGDs, or loans for which credit quality is weakening. If circumstances warrant, it is our practice to review any customer obligation and its level of credit risk more frequently. We attempt to proactively manage our loans by using various procedures that are customized to the risk of a given loan, including ongoing outreach, contact, and assessment of obligor financial conditions, collateral inspection and appraisal.

Commercial Real Estate Loan Class

We manage credit risk associated with our commercial real estate projects and commercial mortgage activities similar to commercial loans by analyzing PD and LGD. Additionally, risks connected with commercial real estate projects and commercial mortgage activities tend to be correlated to the loan structure and collateral location, project progress and business environment. As a result, these attributes are also monitored and utilized in assessing credit risk.

As with the commercial class, a formal schedule of periodic review is performed to also assess market/geographic risk and business unit/industry risk. Often as a result of these overviews, more in-depth reviews and increased scrutiny are placed on areas of higher risk, including adverse changes in risk ratings, deteriorating operating trends, and/or areas that concern management. These reviews are designed to assess risk and take actions to mitigate our exposure to such risks.

Equipment Lease Financing Loan Class

We manage credit risk associated with our equipment lease financing class similar to commercial loans by analyzing PD and LGD.

Based upon the dollar amount of the lease and of the level of credit risk, we follow a formal schedule of periodic review. Generally, this occurs quarterly, although we have established practices to review such credit risk more frequently if circumstances warrant. Our review process entails analysis of the following factors: equipment value/residual value, exposure levels, jurisdiction risk, industry risk, guarantor requirements, and regulatory compliance.

Commercial Purchased Impaired Loan Class

The credit impacts of purchased impaired loans are primarily determined through the estimation of expected cash flows. Commercial cash flow estimates are influenced by a number of credit related items, which include but are not limited to: estimated collateral value, receipt of additional collateral, secondary trading prices, circumstances of possible and/or ongoing liquidation, capital availability, business operations and payment patterns.

We attempt to proactively manage these factors by using various procedures that are customized to the risk of a given loan. These procedures include a review by our Special Asset Committee (SAC), ongoing outreach, contact, and assessment of obligor financial conditions, collateral inspection and appraisal.

See Note 5 Purchased Loans for additional information.

Table 61: Commercial Lending Asset Quality Indicators (a)(b)

In millions	Pass Rated	Criticized Commercial Loans Special Mention (c)	Substandard (d)	Doubtful (e)	Total Loans
March 31, 2014					
Commercial	$ 86,539	$ 1,922	$ 2,417	$ 91	$ 90,969
Commercial real estate	20,358	261	1,015	80	21,714
Equipment lease financing	7,359	73	84	5	7,521

Purchased impaired loans		28	432	109	569
Total commercial lending	$ 114,256	$ 2,284	$ 3,948	$ 285	$ 120,773
December 31, 2013					
Commercial	$ 83,903	$ 1,894	$ 2,352	$ 72	$ 88,221
Commercial real estate	19,175	301	1,113	86	20,675
Equipment lease financing	7,403	77	93	3	7,576
Purchased impaired loans	10	31	469	163	673
Total commercial lending	$ 110,491	$ 2,303	$ 4,027	$ 324	$ 117,145

(a) Based upon PDs and LGDs. We apply a split rating classification to certain loans meeting threshold criteria. By assigning a split classification, a loan s exposure amount may be split into more than one classification category in the above table.

(b) Loans are included above based on the Regulatory Classification definitions of Pass , Special Mention , Substandard and Doubtful .

(c) Special Mention rated loans have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects at some future date. These loans do not expose us to sufficient risk to warrant a more adverse classification at this time.

(d) Substandard rated loans have a well-defined weakness or weaknesses that jeopardize the collection or liquidation of debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.
(e) Doubtful rated loans possess all the inherent weaknesses of a Substandard loan with the additional characteristics that the weakness makes collection or liquidation in full improbable due to existing facts, conditions, and values.

CONSUMER LENDING ASSET CLASSES

Home Equity and Residential Real Estate Loan Classes

We use several credit quality indicators, including delinquency information, nonperforming loan information, updated credit scores, originated and updated LTV ratios, and geography, to monitor and manage credit risk within the home equity and residential real estate loan classes. We evaluate mortgage loan performance by source originators and loan servicers. A summary of asset quality indicators follows:

Delinquency/Delinquency Rates: We monitor trending of delinquency/delinquency rates for home equity and residential real estate loans. See the Asset Quality section of this Note 4 for additional information.

Nonperforming Loans: We monitor trending of nonperforming loans for home equity and residential real estate loans. See the Asset Quality section of this Note 4 for additional information.

Credit Scores: We use a national third-party provider to update FICO credit scores for home equity loans and lines of credit and residential real estate loans at least quarterly. The updated scores are incorporated into a series of credit management reports, which are utilized to monitor the risk in the loan classes.

LTV (inclusive of combined loan-to-value (CLTV) for first and subordinate lien positions): At least semi-annually, we update the property values of real estate collateral and calculate an updated LTV ratio. For open-end credit lines secured by real estate in regions experiencing significant declines in property values, more frequent valuations may occur. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.

Historically, we used, and we continue to use, a combination of original LTV and updated LTV for internal risk management and reporting purposes (*e.g.*, line management, loss mitigation strategies). In addition to the fact that estimated property values by their nature are estimates, given certain data limitations it is important to note that updated LTVs may be based upon management s assumptions (*e.g.*, if an updated LTV is not provided by the third-party service provider, home price index (HPI) changes will be incorporated in arriving at management s estimate of updated LTV).

Geography: Geographic concentrations are monitored to evaluate and manage exposures. Loan purchase programs are sensitive to, and focused within, certain regions to manage geographic exposures and associated risks.

A combination of updated FICO scores, originated and updated LTV ratios and geographic location assigned to home equity loans and lines of credit and residential real estate loans is used to monitor the risk in the loan classes. Loans with higher FICO scores and lower LTVs tend to have a lower level of risk. Conversely, loans with lower FICO scores, higher LTVs, and in certain geographic locations tend to have a higher level of risk.

Consumer Purchased Impaired Loan Class

Estimates of the expected cash flows primarily determine the valuation of consumer purchased impaired loans. Consumer cash flow estimates are influenced by a number of credit related items, which include, but are not limited to: estimated real estate values, payment patterns, updated FICO scores, the current economic environment, updated LTV ratios and the date of origination. These key factors are monitored to help ensure that concentrations of risk are mitigated and cash flows are maximized.

See Note 5 Purchased Loans for additional information.

Table 62: Home Equity and Residential Real Estate Balances

In millions	March 31	December 31

	2014	2013
Home equity and residential real estate loans excluding purchased impaired loans (a)	$ 43,894	$ 44,376
Home equity and residential real estate loans purchased impaired loans (b)	5,345	5,548
Government insured or guaranteed residential real estate mortgages (a)	1,529	1,704
Purchase accounting adjustments purchased impaired loans	(90)	(116)
Total home equity and residential real estate loans (a)	$ 50,678	$ 51,512

(a) Represents recorded investment.
(b) Represents outstanding balance.

Table 63: Home Equity and Residential Real Estate Asset Quality Indicators Excluding Purchased Impaired Loans (a) (b)

	Home Equity		Residential Real Estate	
March 31, 2014 in millions	1st Liens	2nd Liens		Total
Current estimated LTV ratios (c)				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$ 425	$ 1,733	$ 481	$ 2,639
Less than or equal to 660 (d) (e)	72	347	149	568
Missing FICO	1	10	21	32
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	907	2,601	943	4,451
Less than or equal to 660 (d) (e)	147	452	210	809
Missing FICO	2	6	27	35
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	967	1,843	786	3,596
Less than or equal to 660	121	299	129	549
Missing FICO	2	3	20	25
Less than 90% and updated FICO scores:				
Greater than 660	13,556	7,732	6,587	27,875
Less than or equal to 660	1,356	1,021	643	3,020
Missing FICO	25	18	252	295
Missing LTV and updated FICO scores:				
Total home equity and residential real estate loans	$ 17,581	$		