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	**(I.R.S. Employer**
incorporation or organization)	**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.

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FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 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

	March 31	December 31	Change	
Dollars in millions	2014	2013	$	%
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
Commercial and commercial real estate loans:				
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%

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