PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
August 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of July 25, 2014, there were 540,566,475 shares of the registrant s common stock ($5 par value) outstanding.

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FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 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 and our First Quarter 2014 Form 10-Q: the Risk Management and Recourse And Repurchase Obligations sections of the Financial Review portion of the respective report; 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

THE PNC FINANCIAL SERVICES GROUP, INC. (PNC)

Dollars in millions, except per share data	Three months ended June 30		Six months ended June 30	
Unaudited	2014	2013	2014	2013
Financial Results (a)				
Revenue				
Net interest income	$ 2,129	$ 2,258	$ 4,324	$ 4,647
Noninterest income	1,681	1,806	3,263	3,372
Total revenue	3,810	4,064	7,587	8,019
Noninterest expense (b)	2,328	2,405	4,592	4,773
Pretax, pre-provision earnings (c)	1,482	1,659	2,995	3,246
Provision for credit losses	72	157	166	393
Income before income taxes and noncontrolling interests	$ 1,410	$ 1,502	$ 2,829	$ 2,853
Net income (b)	$ 1,052	$ 1,115	$ 2,112	$ 2,110
Less:				
Net income (loss) attributable to noncontrolling interests (b)	3	4	1	(4)
Preferred stock dividends and discount accretion and redemptions	48	53	118	128
Net income attributable to common shareholders	$ 1,001	$ 1,058	$ 1,993	$ 1,986
Less:				
Dividends and undistributed earnings allocated to nonvested restricted shares	3	5	6	9
Impact of BlackRock earnings per share dilution	3	4	9	9
Net income attributable to diluted common shares	$ 995	$ 1,049	$ 1,978	$ 1,968
Diluted earnings per common share	$ 1.85	$ 1.98	$ 3.67	$ 3.72
Cash dividends declared per common share	$ .48	$ .44	$ .92	$ .84
Performance Ratios				
Net interest margin (d)	3.12%	3.58%	3.19%	3.69%
Noninterest income to total revenue	44	44	43	42
Efficiency	61	59	61	60
Return on:				
Average common shareholders equity	10.12	11.71	10.24	11.16
Average assets	1.31	1.48	1.33	1.41

See page 56 for a glossary of certain terms used in this Report.

Certain prior period amounts have been reclassified to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements.

(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) Amounts for 2013 periods 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 June 30, 2014 and June 30, 2013 were $47 million and $40 million, respectively. The taxable-equivalent adjustments to net interest income for the six months ended June 30, 2014 and June 30, 2013 were $93 million and $80 million, respectively.

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TABLE 1: CONSOLIDATED FINANCIAL HIGHLIGHTS (CONTINUED) (a)

Unaudited	June 30 2014	December 31 2013	June 30 2013
Balance Sheet Data (dollars in millions, except per share data)			
Assets (b)	$ 327,064	$ 320,192	$ 304,306
Loans	200,984	195,613	189,775
Allowance for loan and lease losses	3,453	3,609	3,772
Interest-earning deposits with banks (c)	16,876	12,135	3,797
Investment securities	56,602	60,294	57,449
Loans held for sale	2,228	2,255	3,814
Goodwill and other intangible assets	11,071	11,290	11,228
Equity investments (b) (d)	10,583	10,560	9,945
Other assets	23,527	22,552	24,297
Noninterest-bearing deposits	71,001	70,306	66,708
Interest-bearing deposits	151,553	150,625	145,571
Total deposits	222,554	220,931	212,279
Transaction deposits	188,489	186,391	175,564
Borrowed funds	49,066	46,105	39,864
Total shareholders equity (b)	44,205	42,334	40,210
Common shareholders equity (b)	40,261	38,392	36,271
Accumulated other comprehensive income	881	436	45
Book value per common share	$ 75.62	$ 72.07	$ 68.32
Common shares outstanding (millions)	532	533	531
Loans to deposits	90%	89%	89%
Client Assets (billions)			
Discretionary assets under management	$ 131	$ 127	$ 117
Nondiscretionary assets under administration	126	120	116
Total assets under administration	257	247	233
Brokerage account assets	43	41	39
Total client assets	$ 300	$ 288	$ 272
Capital Ratios			
Transitional Basel III (e) (f)			
Common equity Tier 1 (g)	11.0%	N/A(h)	N/A
Tier 1 risk-based	12.7	N/A	N/A
Total capital risk-based	16.0	N/A	N/A
Leverage	11.2	N/A	N/A
Pro forma Fully Phased-In Basel III (f) (i)			
Common equity Tier 1 (g)	10.0%	9.4%	8.2%
Common shareholders equity to assets	12.3%	12.0%	11.9%
Asset Quality			
Nonperforming loans to total loans	1.39%	1.58%	1.75%
Nonperforming assets to total loans, OREO and foreclosed assets	1.57	1.76	1.99
Nonperforming assets to total assets	.97	1.08	1.24
Net charge-offs to average loans (for the three months ended) (annualized)	.29	.39	.44
Allowance for loan and lease losses to total loans	1.72	1.84	1.99
Allowance for loan and lease losses to nonperforming loans (j)	123%	117%	114%
Accruing loans past due 90 days or more (in millions)	$ 1,252	$ 1,491	$ 1,762

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

(b) Amounts for 2013 periods 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 $16.5 billion, $11.7 billion and $3.3 billion as of June 30, 2014, December 31, 2013 and June 30, 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) Prior to 2014, the Basel III common equity Tier 1 capital ratio was 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 for information regarding December 31, 2013 and June 30, 2013 ratios.

(i) Ratios as of December 31, 2013 and June 30, 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) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.

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Executive Summary

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 deposit, fee-based and credit products and services. We are focused on delivering those products and services where, when and how our customers choose with the goal of offering insight that 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 earnings and expect to build capital through retention of future earnings net of dividend payments and share repurchases. 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 significant changes in the competitive landscape of our industry over the last several years. The United States and other governments have undertaken major reform of the regulation of the financial services industry, including engaging in new efforts to impose requirements designed to strengthen the stability of the financial system and protect consumers and investors. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), enacted in July 2010, mandates the most wide-ranging overhaul of financial industry regulation in decades. Many parts of the law are now in effect, and others are now in the implementation stage, which is likely to continue for several years. We expect to face 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.

On June 12, 2014, the Federal Reserve issued a proposed rule that would modify the schedule for the annual CCAR and Dodd-Frank stress test (DFAST) process. Under the proposal, beginning in 2016, bank holding companies with total consolidated assets of $50 billion or more, such as PNC, would be required to submit their annual capital plans and company-run stress test results to the Federal Reserve by

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April 5th of each year (rather than by January 5th as currently required). Under the proposal, the Federal Reserve would also release its decisions on the capital plans submitted and release the results of its supervisory stress test results by June 30th, approximately three months later than current practice. The proposal would also shift the schedule for the company-run mid-cycle DFAST stress tests, with the company submission date for these tests shifting to October 5th (from July 5th) and the release date for company results moving to October (from September). In addition, the proposal would require a covered bank holding company to limit the capital distributions made in a calendar quarter under its approved capital plan if the proceeds from the company s net issuances of capital instruments in that quarter are less than the amount projected for that quarter in the company s approved capital plan. Also on June 12, 2014, the Office of the Comptroller of the Currency (OCC) issued a related proposal that would shift the timing of the OCC s required annual company-run stress tests to coincide with the Federal Reserve s proposed modified annual capital plan and stress test cycle. Comments on the Federal Reserve s proposal are due by August 11, 2014, and comments on the OCC s proposal are due no later than August 30, 2014.

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. In May and July 2014, the plaintiffs filed applications in the United States Supreme Court to extend the time for filing a petition for a writ of certiorari, which is a petition for further appellate review of the court of appeals decision, thereby indicating an intent to seek Supreme Court review.

The SEC adopted rules on July 23, 2014 intended to reform certain fundamental structural and operational aspects of money market funds. These changes include requiring a floating net asset value for prime institutional and tax-exempt money market funds, possible fees and suspension of redemption provisions for both retail and institutional funds under certain scenarios, and additional disclosure and stress testing requirements for all money market funds. The majority of these amendments, except for some disclosure enhancements, will not take effect for two years. The likely

impact of these changes on the money market fund industry or on the markets for money market instruments is currently unclear. Among other things, PNC could potentially be impacted as it is a sponsor of money market funds, holds money market funds in customer accounts, and is an issuer of money market instruments, many of which are currently sold to money market funds.

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 and Recent Market and Industry Developments in the Executive Summary section of our First Quarter 2014 Form 10-Q, 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.

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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 second quarter of 2014 was $1.1 billion, or $1.85 per diluted common share, compared with net income of $1.1 billion, or $1.98 per diluted common share for the second quarter of 2013. Net income decreased 6% in the comparison as a 3% reduction in noninterest expense and lower provision for credit losses were more than offset by a 6% decline in revenue. For additional detail, see the Consolidated Income Statement Review section in this Financial Review.
- Net interest income of $2.1 billion for the second quarter of 2014 decreased 6% compared with the second quarter of 2013, primarily driven by lower
yields on loans and lower purchase accounting accretion, partially offset by the impact of loan growth.
- Net interest margin decreased to 3.12% for the second quarter of 2014 compared to 3.58% for the second quarter of 2013. The decline reflected the impact of lower purchase accounting accretion, lower loan yields in the ongoing low rate environment, and the impact of higher interest-earning deposits with banks in light of proposed short-term liquidity regulatory standards partially offset by commercial loan growth.
- Noninterest income of $1.7 billion for the second quarter of 2014 decreased 7% compared to the second quarter of 2013, as strong fee income growth and the positive impact from lower provision for residential mortgage repurchase obligations were more than offset by lower revenue related to asset valuations and sales.
- The provision for credit losses decreased to $72 million for the second quarter of 2014 compared to $157 million for the second quarter of 2013 due to overall credit quality improvement.
- Noninterest expense of $2.3 billion for the second quarter of 2014 decreased 3% compared with the second quarter of 2013 reflecting well managed expenses.

Credit Quality Highlights

- Overall credit quality continued to improve during the first six months of 2014. For additional detail, see the Credit Risk Management portion of the Risk Management section of this Financial Review.
- Nonperforming assets decreased $.3 billion, or 8%, to $3.2 billion at June 30, 2014 compared to December 31, 2013. Nonperforming assets to total assets were .97% at June 30, 2014, compared to 1.08% at December 31, 2013.
- Overall loan delinquencies of $2.1 billion at June 30, 2014 decreased $.4 billion, or 16%, compared with December 31, 2013.
- The allowance for loan and lease losses was 1.72% of total loans and 123% of nonperforming loans at June 30, 2014, compared with 1.84% and 117% at December 31, 2013, respectively.
- Net charge-offs of $145 million were down 30% compared to net charge-offs of $208 million for the second quarter of 2013. Annualized net charge-offs were 0.29% of average loans in the second quarter of 2014 and 0.44% of average loans in the second quarter of 2013. For the first six months of 2014, net charge-offs were $331 million, and 0.34% of average loans on an annualized basis, compared with $664 million and 0.71% for the first six months of 2013, respectively. The year-to-date comparisons were impacted by alignment with interagency guidance in the first quarter of 2013 on practices for loans and

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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 for further detail.

BALANCE SHEET HIGHLIGHTS

- Total loans increased by $5.4 billion to $201 billion at June 30, 2014 compared to December 31, 2013.
  - Total commercial lending increased by $6.9 billion, or 6%, as a result of growth in commercial and commercial real estate loans to new and existing customers.
  - Total consumer lending decreased $1.6 billion, or 2%, due to lower home equity, residential mortgage and education loans partially offset by growth in automobile loans.
- Total deposits increased by $1.6 billion to $223 billion at June 30, 2014 compared with December 31, 2013, driven by growth in transaction deposits.
- PNC further enhanced its liquidity position in preparation for implementation of proposed 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 borrowed funds.
- PNC s well-positioned balance sheet remained core funded with a loans to deposits ratio of 90% at June 30, 2014.
- The Transitional Basel III common equity Tier 1 capital ratio, calculated using the regulatory capital methodology applicable to PNC during 2014, increased to 11.0% at June 30, 2014.
- Pro forma fully phased-in Basel III common equity Tier 1 capital ratio based on the standardized approach rules increased to an estimated 10.0% at June 30, 2014 from 9.4% at December 31, 2013. See the Capital discussion and Table 18 in the Consolidated Balance Sheet Review section of this Financial Review and the December 31, 2013 capital ratio tables in the Statistical Information section of this Report 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 six months of 2014 and 2013 and balances at June 30, 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. In the second quarter of 2014, in accordance with the 2014 capital plan, we repurchased 2.6 million shares of common stock on the open market, with an average price of $86.26 per share and an aggregate repurchase price of $223 million. 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 effective with the May 5, 2014 dividend payment to shareholders of record at the close of business on April 15, 2014. On July 3, 2014, the Board of Directors declared a quarterly common stock cash dividend of 48 cents per share payable on August 5, 2014 to shareholders of record at the close of business on July 15, 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.

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AVERAGE CONSOLIDATED BALANCE SHEET HIGHLIGHTS

Table 2: Summarized Average Balance Sheet

Six months ended June 30			Change	
Dollars in millions	2014	2013	$	%
Average assets				
Interest-earning assets				
Investment securities	$ 57,342	$ 57,683	$ (341)	(1)%
Loans	197,914	187,359	10,555	6%
Interest-earning deposits with banks	13,410	2,236	11,174	500%
Other	8,415	8,863	(448)	(5)%
Total interest-earning assets	277,081	256,141	20,940	8%
Noninterest-earning assets	43,968	46,505	(2,537)	(5)%
Total average assets	$ 321,049	$ 302,646	$ 18,403	6%
Average liabilities and equity				
Interest-bearing liabilities				
Interest-bearing deposits	$ 151,212	$ 145,014	$ 6,198	4%
Borrowed funds	46,747	39,161	7,586	19%
Total interest-bearing liabilities	197,959	184,175	13,784	7%
Noninterest-bearing deposits	67,951	64,800	3,151	5%
Other liabilities	10,313	11,614	(1,301)	(11)%
Equity	44,826	42,057	2,769	7%
Total average liabilities and equity	$ 321,049	$ 302,646	$ 18,403	6%

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 June 30, 2014 compared with December 31, 2013. Total assets were $327.1 billion at June 30, 2014 compared with $320.2 billion at December 31, 2013.

Average investment securities remained relatively stable in the comparison of the first six months of 2014 with the first six 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 largely driven by purchases to enhance our liquidity position in light of proposed short-term liquidity regulatory standards. Total investment securities comprised 21% of average interest-earning assets for the first six months of 2014 and 23% for the first six months of 2013.

The increase in average total loans in the first six months of 2014 compared with the first six months of 2013 was driven by increases in average commercial loans of $5.9 billion, average commercial real estate loans of $3.4 billion and average consumer loans of $1.3 billion. The overall increase in loans reflected organic loan growth, primarily in our Corporate & Institutional Banking segment.

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

Average interest-earning deposits with banks, which are primarily maintained with the Federal Reserve Bank, increased significantly to $13.4 billion for the first six months of 2014 from $2.2 billion for the first six months of 2013, as we continued to enhance our liquidity position in light of proposed short-term liquidity regulatory standards.

The decrease in average noninterest-earning assets in the first six months of 2014 compared with the first six months of 2013 was primarily driven 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 $9.3 billion to $219.2 billion in the first six months of 2014 compared with the first six months of 2013, primarily due to an increase of $11.4 billion in average transaction deposits, which grew to $185.1 billion for the first six months of 2014.

Higher average money market deposits, average interest-bearing demand deposits and average noninterest-bearing deposits drove the increase in both commercial and consumer average transaction deposits. These increases were partially offset by a decrease of $2.8 billion in average retail certificates of deposit attributable to runoff of maturing accounts. Total deposits at June 30, 2014 were $222.6 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 six months of 2014 and 69% for the first six months of 2013.

The increase in average borrowed funds in the first six months of 2014 compared with the first six months of 2013 was

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primarily due to increases in average Federal Home Loan Bank (FHLB) borrowings and average bank notes and senior debt, in part to enhance our liquidity position in light of proposed short-term liquidity regulatory standards. These increases were partially offset by a decline in average commercial paper. Total borrowed funds at June 30, 2014 were $49.1 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

Total business segment earnings were $2.0 billion and $1.9 billion for the first six months of 2014 and 2013, respectively. The Business Segments Review section of this Financial Review includes further analysis of our business segment results over the first six months of 2014 and 2013, including presentation differences from Note 18 Segment Reporting in our Notes To Consolidated Financial Statements of this Report. Note 18 Segment Reporting presents results of businesses for the three months and six months ended June 30, 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)	
Six months ended June 30 in millions	2014	2013	2014	2013	2014	2013
Retail Banking	$ 383	$ 278	$ 3,008	$ 3,037	$ 75,559	$ 74,317
Corporate & Institutional Banking	993	1,153	2,646	2,761	119,992	111,941
Asset Management Group	90	79	549	509	7,642	7,210
Residential Mortgage Banking	32	65	433	519	8,128	10,604
BlackRock	253	220	332	287	6,400	5,982
Non-Strategic Assets Portfolio	209	139	295	394	8,732	10,511
Total business segments	1,960	1,934	7,263	7,507	226,453	220,565
Other (b) (c) (d)	152	176	324	512	94,596	82,081
Total	$ 2,112	$ 2,110	$ 7,587	$ 8,019	$ 321,049	$ 302,646

(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 the Business Segments Review section of this Financial Review and in Note 18 Segment Reporting in the Notes To Consolidated Financial Statements in this Report.
(d) The decrease in revenue in the first six months of 2014 compared to the first six months of 2013 for Other reflected a decline in net interest income primarily due to decreased investment securities income and higher borrowed funds expense, while the decline in noninterest income was more than offset by a decrease in noninterest expense.

Consolidated Income Statement Review

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

Net income was $2.1 billion for both the first six months of 2014 and 2013 as a 4% reduction in noninterest expense and lower provision for credit losses were offset by a 5% decline in total revenue. Second quarter 2014 net income decreased $63 million to $1.1 billion, compared with second quarter 2013, as a 3% reduction in noninterest expense and lower provision for credit losses were more than offset by a 6% decline in revenue. Lower revenue in both comparisons reflected single-digit declines, on a percentage basis, in both net interest income and noninterest income.

NET INTEREST INCOME

Table 4: Net Interest Income and Net Interest Margin

	Six months ended June 30		Three months ended June 30	
Dollars in millions	2014	2013	2014	2013
Net interest income	$ 4,324	$ 4,647	$ 2,129	$ 2,258
Net interest margin	3.19%	3.69%	3.12%	3.58%

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.

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Net interest income decreased by $323 million, or 7%, in the first six months of 2014 compared with the prior year, including a decline of $129 million, or 6%, in the second quarter compared with the same prior year quarter. The declines in both comparisons were primarily due to lower purchase accounting accretion and lower yields on loans, partially offset by the impact of loan growth. The declines also reflected a second quarter 2014 correction to reclassify certain commercial facility fees of $31 million from net interest income to noninterest income. Lower investment securities yields in the year-to-date comparison and lower investment securities balances in the quarter-to-date comparison also contributed to the declines.

Lower net interest margins in both comparisons were driven by 52 basis point and 47 basis point declines in the yields on total interest-earning assets in both the year-to-date and quarter-to-date comparisons, respectively, which included the impact of lower purchase accounting accretion, continued spread compression, and repricing of commercial loans in a

lower rate environment. The rate paid on interest-bearing liabilities remained relatively stable in both comparisons.

These declines in total interesting-earning asset yields, in both comparisons, primarily reflected lower yields on new and repricing loans in the ongoing low rate environment, the impact of the second quarter 2014 correction to reclassify certain commercial facility fees and the impact of higher interest-earning deposits maintained with the Federal Reserve Bank in light of proposed short-term liquidity regulatory standards. The year-to-date comparison also reflected lower rates on the investment securities portfolio.

In the third quarter of 2014, we expect net interest income to be down modestly due to the continued decline in purchase accounting accretion and further interest rate spread compression related to loans and investment securities.

For full year 2014, we expect total purchase accounting accretion to be down approximately $300 million compared with 2013. In 2015, we expect purchase accounting accretion to be down approximately $225 million compared to 2014.

NONINTEREST INCOME

Table 5: Noninterest Income

	Six months ended June 30				Three months ended June 30			
			Change				Change	
Dollars in millions	2014	2013	$	%	2014	2013	$	%
Noninterest income								
Asset management	$ 726	$ 648	$ 78	12%	$ 362	$ 340	$ 22	6%
Consumer services	613	610	3		323	314	9	3
Corporate services	644	603	41	7	343	326	17	5
Residential mortgage	343	401	(58)	(14)	182	167	15	9
Service charges on deposits	303	283	20	7	156	147	9	6
Net gains on sales of securities	4	75	(71)	(95)	(6)	61	(67)	(110)
Net other-than-temporary impairments	(3)	(14)	11	79	(1)	(4)	3	75
Other	633	766	(133)	(17)	322	455	(133)	(29)
Total noninterest income	$ 3,263	$ 3,372	$ (109)	(3)%	$ 1,681	$ 1,806	$ (125)	(7)%

Noninterest income decreased in both prior year comparisons as strong fee income growth and the impact from lower provision for residential mortgage repurchase obligations were more than offset by a decline in residential mortgage loan sales revenue, reductions in asset valuations and lower gains on asset sales.

Noninterest income as a percentage of total revenue was 43% for the first six months of 2014, up from 42% for the first six months of 2013, and was 44% in both the second quarter of 2014 and 2013.

Asset management revenue increased in both comparisons to the prior year periods, reflecting increases in the equity markets and sales production. The increase in the first six months of 2014 also reflected increased earnings from our BlackRock investment. Discretionary assets under management increased to $131 billion at June 30, 2014 compared with $117 billion at June 30, 2013 driven by higher

equity markets and year-to-date positive net flows, primarily from the institutional business, after adjustments to total net flows for cyclical client activities, due to strong sales performance.

Consumer service fees increased slightly in both the year-to-date and second quarter comparisons, primarily due to growth in customer-initiated transaction volumes that was mostly offset by several individually insignificant items.

Corporate services revenue increased to $644 million for the first six months of 2014, including $343 million in the second quarter of 2014, compared to $603 million for the first six months of 2013, which included $326 million for the second quarter of 2013. The comparisons reflected higher merger and acquisition advisory fees and a second quarter 2014 correction to reclassify certain commercial facility fees of $31 million from net interest income to noninterest income. These increases were partially offset by lower net commercial mortgage servicing rights valuation gains, which were $25

million for the first six months of 2014 compared to $55 million for the first six months of 2013. The respective gain amounts for the second quarters of 2014 and 2013 were $14 million and $44 million.

Residential mortgage revenue decreased to $343 million in the first six months of 2014 compared with $401 million in the first six months of 2013. In the second quarter 2014 comparison, residential mortgage revenue increased to $182 million compared with $167 million in the second quarter of 2013. Both comparisons included lower loan sales revenue from a reduction in origination volume and lower net hedging gains on residential mortgage servicing rights. The decline in loan sales revenue was partially mitigated by the impact of second quarter 2014 gains on sales of previously underperforming portfolio loans.

The overall decline in residential mortgage revenue for the first six months of 2014 was partially offset by the impact of improvement in the provision for residential mortgage repurchase obligations, which was a benefit of $17 million for the first six months of 2014 compared to a provision of $77 million in the prior year period.

For the second quarter of 2014, residential mortgage revenue increased compared to the prior year quarter, as the decreases in loan sales revenue and net hedging gains on residential mortgage servicing rights were more than offset by the improvement in the provision for residential mortgage repurchase obligations, which was an insignificant amount in the current year quarter, compared to $73 million for the second quarter of 2013.

Service charges on deposits increased in both comparisons to the prior year periods due to growth in customer activity and changes in product offerings.

Other noninterest income decreased to $633 million for the first six months of 2014 compared with $766 million for the first six months of 2013. Second quarter 2014 other noninterest income declined to $322 million compared to $455 million for the second quarter of 2013. Decreases in both of the comparisons were driven by lower revenue from credit valuations for customer-related derivatives activities as higher market interest rates impacted the fair value of PNC s credit exposure on these activities. The impacts of these valuations to other noninterest income was a loss of $18 million for the first six months of 2014 compared to income of $41 million for the first six months of 2013, while in the quarterly comparison the second quarter 2014 loss was insignificant and the second quarter of 2013 included income of $39 million. In addition to these declines, other noninterest income decreased due to lower revenue from private equity investments and a decline in the market value of investments related to deferred compensation obligations. The six month comparison also

reflected lower revenue associated with commercial mortgage banking activity in the 2014 period.

Other noninterest income in the first six months of 2014 included a gain of $116 million on the sale of 2 million shares Visa Class B common shares, with a gain in the second quarter of 2014 of $54 million on the sale of 1 million shares, compared to an $83 million gain on the sale of 2 million shares in the second quarter of 2013. At June 30, 2014, we held approximately 8 million Visa Class B common shares with a fair value of approximately $741 million at a recorded investment of approximately $112 million.

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

In the third quarter of 2014, we expect fee-based noninterest income to remain stable as we anticipate growth in our other fee-based businesses to offset an expected decline in the third quarter related to second quarter 2014 gains on sales of residential mortgage banking portfolio loans.

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

Provision For Credit Losses

The provision for credit losses totaled $166 million for the first six months of 2014 compared with $393 million for the first six months of 2013. The provision for credit losses was $72 million for the second quarter of 2014 compared with $157 million for the second quarter of 2013. The declines in both comparisons reflected overall credit quality improvement with the increasing value of residential real estate a contributing factor that improved expected cash flows on our purchased impaired loans.

Assuming a continuation of second quarter 2014 credit trends, we expect our provision for credit losses in the third quarter of 2014 to be between $75 million and $125 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.

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NONINTEREST EXPENSE

Noninterest expense decreased $181 million, or 4%, to $4.6 billion for the first six months of 2014, reflecting overall disciplined expense management. The decline was driven by a decrease in personnel expense related to lower headcount and benefits costs and a reduction in other noninterest expense, which reflected the impacts of a first quarter 2013 contribution to the PNC Foundation and second quarter 2013 noncash charges for unamortized discounts of $30 million related to redemption of trust preferred securities.

For the second quarter of 2014, noninterest expense was $2.3 billion in the second quarter of 2014, a decline of $77 million, or 3%, compared with the prior year quarter. The decrease reflected lower benefits costs, reductions in other real estate owned expense and noncredit losses, and the impact of the second quarter 2013 noncash charges related to redemption of trust preferred securities. These declines were partially offset by investments in technology and infrastructure.

In the first six months of 2014 we have completed actions relating to capturing more than two-thirds of our 2014 continuous improvement savings goal of $500 million, and we expect to achieve the full-year goal. We expect these 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 are recorded to income taxes. See the discussion under Effective Income Tax Rate below.

For the third quarter of 2014, we expect noninterest expense to increase by low single digits, on a percentage basis, compared to second quarter 2014 related to employee benefit seasonality

and costs related to the automating of our regulatory submissions.

We plan to remain focused on overall disciplined expense management and we continue to expect noninterest expense for full year 2014 to be down compared with full year 2013.

EFFECTIVE INCOME TAX RATE

The effective income tax rate was 25.3% in the first six months of 2014 compared with 26.0% in the first six months of 2013. For the second quarter of 2014, our effective income tax rate was 25.4% compared with 25.8% for the second 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 both the first six months of 2014 and the second quarter of 2014 compared to the prior year periods was primarily attributable to the impact of higher tax-exempt income and tax credits.

The effective tax rate for both the 2014 and 2013 periods reflects the adoption of Accounting Standards Update (ASU) 2014-01, which relates to amortization of investments in low income housing tax credits. See the Recently Adopted Accounting Standards 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%.

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Consolidated Balance Sheet Review

Table 6: Summarized Balance Sheet Data

Dollars in millions	June 30 2014	December 31 2013	Change $	Change %
Assets				
Interest-earning deposits with banks	$ 16,876	$ 12,135	$ 4,741	39%
Loans held for sale	2,228	2,255	(27)	(1)%
Investment securities	56,602	60,294	(3,692)	(6)%
Loans	200,984	195,613	5,371	3%
Allowance for loan and lease losses	(3,453)	(3,609)	156	4%
Goodwill	9,074	9,074		%
Other intangible assets	1,997	2,216	(219)	(10)%
Other, net	42,756	42,214	542	1%
Total assets	$ 327,064	$ 320,192	$ 6,872	2%
Liabilities				
Deposits	$ 222,554	$ 220,931	$ 1,623	1%
Borrowed funds	49,066	46,105	2,961	6%
Other	9,651	9,119	532	6%
Total liabilities	281,271	276,155	5,116	2%
Equity				
Total shareholders equity	44,205	42,334	1,871	4%
Noncontrolling interests	1,588	1,703	(115)	(7)%
Total equity	45,793	44,037	1,756	4%
Total liabilities and equity	$ 327,064	$ 320,192	$ 6,872	2%

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 light of proposed short-term liquidity regulatory standards. Interest-earning deposits with banks included balances held with the Federal Reserve Bank of Cleveland of $16.5 billion and $11.7 billion at June 30, 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 issuances of bank notes and senior debt and subordinated 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 $201.0 billion at June 30, 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 $1.9 billion at June 30, 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.

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Table 7: Details Of Loans

	June 30	December 31	Change	
Dollars in millions	2014	2013	$	%
Commercial lending				
Commercial				
Retail/wholesale trade	$ 16,146	$ 15,530	$ 616	4%
Manufacturing	18,683	16,208	2,475	15%
Service providers	13,734	13,052	682	5%
Real estate related (a)	10,908	10,729	179	2%
Financial services	4,846	4,927	(81)	(2)%
Health care	8,939	8,690	249	3%
Other industries	20,280	19,242	1,038	5%
Total commercial	93,536	88,378	5,158	6%
Commercial real estate				
Real estate projects (b)	14,535	13,613	922	7%
Commercial mortgage	8,384	7,578	806	11%
Total commercial real estate	22,919	21,191	1,728	8%
Equipment lease financing	7,628	7,576	52	1%
Total commercial lending (c)	124,083	117,145	6,938	6%
Consumer lending				
Home equity				
Lines of credit	20,959	21,696	(737)	(3)%
Installment	14,507	14,751	(244)	(2)%
Total home equity	35,466	36,447	(981)	(3)%
Residential real estate				
Residential mortgage	13,965	14,418	(453)	(3)%
Residential construction	595	647	(52)	(8)%
Total residential real estate	14,560	15,065	(505)	(3)%
Credit card	4,435	4,425	10	%
Other consumer				
Education	7,118	7,534	(416)	(6)%
Automobile	11,005	10,827	178	2%
Other	4,317	4,170	147	4%
Total consumer lending	76,901	78,468	(1,567)	(2)%
Total loans	$ 200,984	$ 195,613	$ 5,371	3%

(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, partially offset by growth in credit card and automobile loans.

Loans represented 61% of total assets at both June 30, 2014 and December 31, 2013. Commercial lending represented 62% of the loan portfolio at June 30, 2014 and 60% at December 31, 2013. Consumer lending represented 38% of

the loan portfolio at June 30, 2014 and 40% at December 31, 2013.

Commercial real estate loans represented 11% of total loans at both June 30, 2014 and December 31, 2013 and represented 7% of total assets at both June 30, 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 $5.6 billion, or 3% of total loans, at June 30, 2014, and $6.1 billion, or 3% of total loans, at December 31, 2013.

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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 June 30, 2014 consisted of $1.6 billion and $1.9 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 1 Accounting Policies, 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 six 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 June 30		Six months ended June 30	
In millions	2014	2013	2014	2013
Accretion on purchased impaired loans				
Scheduled accretion	$ 120	$ 150	$ 245	$ 307
Reversal of contractual interest on impaired loans	(70)	(83)	(138)	(168)
Scheduled accretion net of contractual interest	50	67	107	139
Excess cash recoveries	35	11	64	61
Total	$ 85	$ 78	$ 171	$ 200

Table 9: Purchased Impaired Loans Accretable Yield

In millions	2014	2013
January 1	$ 2,055	$ 2,166
Scheduled accretion	(245)	(307)
Excess cash recoveries	(64)	(61)
Net reclassifications to accretable from non-accretable and other activity (a)	190	366
June 30 (b)	$ 1,936	$ 2,164

(a) Approximately 78% and 58% of the net reclassifications for the first six months ended June 30, 2014 and 2013, respectively, were driven by the consumer portfolio and were due to improvements of cash expected to be collected on both RBC Bank (USA) and National City loans in future periods. The remaining net reclassifications were predominantly due to future cash flow changes in the commercial portfolio.

(b) As of June 30, 2014, we estimate that $1.9 billion of accretable interest on purchased credit impaired loans will be recognized in future interest income, $1.1 billion of which is expected to be contractual interest.

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Information related to the valuation of purchased impaired loans at June 30, 2014 and December 31, 2013 follows.

Table 10: Valuation of Purchased Impaired Loans

	June 30, 2014		December 31, 2013	
Dollars in millions	Balance	Net Investment	Balance	Net Investment
Commercial and commercial real estate loans:				
Outstanding balance	$ 676		$ 937	
Purchased impaired mark	(197)		(264)	
Recorded investment	479		673	
Allowance for loan losses	(108)		(133)	
Net investment	371	55%	540	58%
Consumer and residential mortgage loans:				
Outstanding balance	5,120		5,548	
Purchased impaired mark	(42)		(115)	
Recorded investment	5,078		5,433	
Allowance for loan losses	(778)		(871)	
Net investment	4,300	84%	4,562	82%
Total purchased impaired loans:				
Outstanding balance	5,796		6,485	
Purchased impaired mark	(239)		(379)	
Recorded investment	5,557		6,106	
Allowance for loan losses	(886)		(1,004)	
Net investment	$ 4,671	81%	$ 5,102	79%

At June 30, 2014, our largest individual purchased impaired loan had a recorded investment of $12 million. We currently expect to collect total cash flows of $6.6 billion on purchased impaired loans, representing the $4.7 billion net investment at June 30, 2014 and the accretable net interest of $1.9 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 June 30, 2014.

Table 11: Weighted Average Life of the Purchased Impaired Portfolios

As of June 30, 2014 Dollars in millions	Recorded Investment	WAL (a)
Commercial	$ 109	1.8 years
Commercial real estate	370	1.3 years
Consumer (b) (c)	2,150	4.4 years
Residential real estate (c)	2,928	5.2 years
Total	$ 5,557	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 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	June 30, 2014	Declining Scenario (a)	Improving Scenario (b)
Expected Cash Flows	$ 6.6	$ (.2)	$ .3
Accretable Difference	1.9		.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.

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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 Loan Commitments

In millions	June 30 2014	December 31 2013
Total commercial lending (a)	$ 91,209	$ 90,104
Home equity lines of credit	18,323	18,754
Credit card	17,343	16,746
Other	4,571	4,266
Total	$ 131,446	$ 129,870

(a) Less than 5% of net unfunded loan 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.

Standby bond purchase agreements totaled $980 million at June 30, 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 $10.5 billion at both June 30, 2014 and 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 1 Accounting Policies 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 represented other-than-temporary impairment (OTTI), we have recorded cumulative credit losses of $1.2 billion in earnings and accordingly have reduced the amortized cost of our securities. See Table 76 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 related to non-agency residential mortgage-backed and asset-backed securities rated BB or lower.

Table 14: Investment Securities

June 30, 2014	December 31, 2013	Ratings (a) As of June 30, 2014

Dollars in millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value	AAA/ AA	A	BBB	BB and Lower	No Rating
U.S. Treasury and government agencies	$ 5,453	$ 5,638	$ 4,229	$ 4,361	100%				
Agency residential mortgage-backed	25,402	25,930	28,483	28,652	100				
Non-agency residential mortgage-backed	5,385	5,629	5,750	5,894	11	1%	3%	82%	3%
Agency commercial mortgage-backed	1,795	1,871	1,883	1,946	100				
Non-agency commercial mortgage-backed (b)	4,710	4,855	5,624	5,744	69	11	11	4	5
Asset-backed (c)	6,361	6,414	6,763	6,773	90	1		8	1
State and municipal	3,925	4,057	3,664	3,678	83	12			5
Other debt	2,122	2,179	2,845	2,891	67	24	8		1
Corporate stock and other	355	362	434	433					100
Total investment securities (d)	$ 55,508	$ 56,935	$ 59,675	$ 60,372	84%	3%	2%	9%	2%

(a) Ratings percentages allocated based on amortized cost.

(b) Collateralized primarily by retail properties, office buildings, lodging properties and multi-family housing.

(c) Collateralized primarily by government guaranteed student loans and other consumer credit products and corporate debt.

(d) Includes available for sale and held to maturity securities.

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Investment securities represented 17% of total assets at June 30, 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 June 30, 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 June 30, 2014, the amortized cost and fair value of available for sale securities totaled $43.4 billion and $44.5 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 $12.1 billion and $12.4 billion, respectively, at June 30, 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 $1.4 billion at June 30, 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 $1.1 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.

During the second quarter of 2014, we transferred securities with a fair value of $1.4 billion from available for sale to held to maturity. We changed our intent and committed to hold these high-quality securities to maturity in order to reduce the impact of price volatility on Accumulated other comprehensive income and certain capital measures, after taking into consideration market conditions and regulatory capital requirements under Basel III capital standards. See additional discussion of this transfer in Note 7 Investment Securities in our Notes To Consolidated Financial Statements included in Part I, Item I of this Report.

The duration of investment securities was 2.4 years at June 30, 2014. We estimate that, at June 30, 2014, the effective duration of investment securities was 2.5 years for an immediate 50 basis points parallel increase in interest rates and 2.3 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 six months of 2014 and 2013 we recognized OTTI credit losses of $3 million and $14 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.

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Loans Held for Sale

Table 15: Loans Held For Sale

In millions	June 30 2014	December 31 2013
Commercial mortgages at fair value	$ 521	$ 586
Commercial mortgages at lower of cost or fair value	379	281
Total commercial mortgages	900	867
Residential mortgages at fair value	1,259	1,315
Residential mortgages at lower of cost or fair value	12	41
Total residential mortgages	1,271	1,356
Other	57	32
Total	$ 2,228	$ 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 $935 million during the first six months of 2014 compared to $1.4 billion during the first six months of 2013. All of these loan sales were to government agencies. Total gains of $29 million were recognized on the valuation and sale of commercial mortgage loans held for sale, net of hedges, during the first six months of 2014, including $22 million in the second quarter. Comparable amounts for 2013 were $43 million and $20 million, respectively.

Residential mortgage loan origination volume was $4.5 billion during the first six months of 2014 compared to $8.9 billion for the first six months of 2013. The majority of such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $4.3 billion of loans and recognized related gains of $225 million during the first six months of 2014, of which $137 million occurred in the second quarter. The comparable amounts for the six months of 2013 were $8.0 billion and $362 million, respectively, including $190 million in the second quarter.

Interest income on loans held for sale was $47 million in the first six months of 2014, including $24 million in the second quarter. Comparable amounts for 2013 were $85 million and $32 million, respectively. 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 $11.1 billion at June 30, 2014 and $11.3 billion at December 31, 2013. The decrease of $.2 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

	Change

	June 30	December 31		
Dollars in millions	2014	2013	$	%
Deposits				
Money market	$ 110,404	$ 108,631	$ 1,773	2%
Demand	78,083	77,756	327	%
Retail certificates of deposit	19,713	20,795	(1,082)	(5)%
Savings	12,037	11,078	959	9%
Time deposits in foreign offices and other time deposits	2,317	2,671	(354)	(13)%
Total deposits	222,554	220,931	1,623	1%
Borrowed funds				
Federal funds purchased and repurchase agreements	3,132	4,289	(1,157)	(27)%
Federal Home Loan Bank borrowings	15,023	12,912	2,111	16%
Bank notes and senior debt	14,102	12,603	1,499	12%
Subordinated debt	9,099	8,244	855	10%
Commercial paper	4,999	4,997	2	%
Other	2,711	3,060	(349)	(11)%
Total borrowed funds	49,066	46,105	2,961	6%
Total funding sources	$ 271,620	$ 267,036	$ 4,584	2%

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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 six months of 2014 was primarily driven by increases in money market and savings deposits, partially offset by lower retail certificates of

deposit. Interest-bearing deposits represented 68% of total deposits at both June 30, 2014 and December 31, 2013. Total borrowed funds increased $3.0 billion since December 31, 2013 as higher Federal Home Loan Bank borrowings and issuances of bank notes and senior debt and subordinated debt were partially offset by a decline in federal funds purchased and repurchase agreements.

CAPITAL

Table 17: Shareholders Equity

	June 30	December 31	Change	
Dollars in millions	2014	2013	$	%
Shareholders equity				
Preferred stock (a)				
Common stock	$ 2,703	$ 2,698	$ 5	%
Capital surplus preferred stock	3,944	3,941	3	%
Capital surplus common stock and other	12,506	12,416	90	1%
Retained earnings	24,755	23,251	1,504	6%
Accumulated other comprehensive income	881	436	445	102%
Common stock held in treasury at cost	(584)	(408)	(176)	(43)%
Total shareholders equity	$ 44,205	$ 42,334	$ 1,871	4%

(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 $1.9 billion compared with December 31, 2013, primarily reflecting an increase in retained earnings of $1.5 billion (driven by net income of $2.1 billion and the impact of $606 million of common and preferred dividends declared) and an increase of $445 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 532 million at June 30, 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. In the second quarter of 2014, PNC repurchased 2.6 million common shares for $223 million under the capital plan authorization. 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.

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Table 18: Basel III Capital

	June 30, 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	$ 14,625	$ 14,625
Retained earnings	24,755	24,755
Accumulated other comprehensive income for securities currently and previously held as available for sale	151	756
Accumulated other comprehensive income for pension and other postretirement plans	(36)	(180)
Goodwill, net of associated deferred tax liabilities	(8,838)	(8,838)
Other disallowed intangibles, net of deferred tax liabilities	(85)	(424)
Other adjustments/(deductions)	(5)	(74)
Total common equity Tier 1 capital before threshold deductions	30,567	30,620
Total threshold deductions	(216)	(1,075)
Common equity Tier 1 capital	30,351	29,545
Additional Tier 1 capital		
Preferred stock	3,944	3,944