PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
May 03, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2017

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.)**

The Tower at PNC Plaza, 300 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2401

(Address of principal executive offices, including zip code)

(888) 762-2265

(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 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 No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

As of April 21, 2017, there were 483,901,441 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 2016 Annual Report on Form 10-K (2016 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following: the Risk Management section of this Financial Review and of Item 7 in our 2016 Form 10-K; Item 1A Risk Factors included in our 2016 Form 10-K; and the Legal Proceedings and Commitments Notes of the Notes To Consolidated Financial Statements included in Item 1 of this Report and Item 8 of our 2016 Form 10-K. 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 2016 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 14 Segment Reporting in the Notes To Consolidated Financial Statements included in this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis. In this Report, PNC , we or us refers to The PNC Financial Services Group, Inc. and its subsidiaries on a consolidated basis. References to The PNC Financial Services Group, Inc. or to any of its subsidiaries are specifically made where applicable.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data	Three months ended March 31	
Unaudited	2017	2016
Financial Results (a)		
Revenue		
Net interest income	$ 2,160	$ 2,098
Noninterest income	1,724	1,567
Total revenue	3,884	3,665
Provision for credit losses	88	152
Noninterest expense	2,402	2,281
Income before income taxes and noncontrolling interests	$ 1,394	$ 1,232
Net income	$ 1,074	$ 943
Less:		
Net income attributable to noncontrolling interests	17	19
Preferred stock dividends	63	63
Preferred stock discount accretion and redemptions	21	2
Net income attributable to common shareholders	$ 973	$ 859
Less:		
Dividends and undistributed earnings allocated to nonvested restricted shares	6	6
Impact of BlackRock earnings per share dilution	4	3
Net income attributable to diluted common shares	$ 963	$ 850

Diluted earnings per common share	$ 1.96	$ 1.68
Cash dividends declared per common share	$ .55	$ .51
Effective tax rate (b)	23.0%	23.5%
Performance Ratios		
Net interest margin (c)	2.77%	2.75%
Noninterest income to total revenue	44%	43%
Efficiency	62%	62%
Return on:		
Average common shareholders equity	9.50%	8.44%
Average assets	1.19%	1.07%

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

(b) The effective income tax rates are generally lower than the statutory rate due to the relationship of pretax income to tax credits and earnings that are not subject to tax.

(c) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. To provide more meaningful comparisons of net interest margins, 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 GAAP in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended March 31, 2017 and March 31, 2016 were $52 million and $48 million, respectively. For additional information, see the Statistical Information (Unaudited) section of this Report.

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

Unaudited	March 31 2017	December 31 2016	March 31 2016
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$ 370,944	$ 366,380	$ 360,985
Loans	$ 212,826	$ 210,833	$ 207,485
Allowance for loan and lease losses	$ 2,561	$ 2,589	$ 2,711
Interest-earning deposits with banks (b)	$ 27,877	$ 25,711	$ 29,478
Investment securities	$ 76,432	$ 75,947	$ 72,569
Loans held for sale	$ 1,414	$ 2,504	$ 1,541
Equity investments (c)	$ 10,900	$ 10,728	$ 10,391
Mortgage servicing rights	$ 1,867	$ 1,758	$ 1,323
Goodwill	$ 9,103	$ 9,103	$ 9,103
Other assets	$ 28,083	$ 27,506	$ 27,945
Noninterest-bearing deposits	$ 79,246	$ 80,230	$ 78,151
Interest-bearing deposits	$ 181,464	$ 176,934	$ 172,208
Total deposits	$ 260,710	$ 257,164	$ 250,359
Borrowed funds	$ 55,062	$ 52,706	$ 54,178
Total shareholders equity	$ 45,754	$ 45,699	$ 45,130
Common shareholders equity	$ 41,774	$ 41,723	$ 41,677
Accumulated other comprehensive income (loss)	$ (279)	$ (265)	$ 532
Book value per common share	$ 86.14	$ 85.94	$ 83.47
Common shares outstanding (in millions)	485	485	499
Loans to deposits	82%	82%	83%
Client Assets (in billions)			
Discretionary client assets under management	$ 141	$ 137	$ 135
Nondiscretionary client assets under administration	123	120	118
Total client assets under administration (d)	264	257	253
Brokerage account client assets	46	44	43
Total client assets	$ 310	$ 301	$ 296
Capital Ratios			
Transitional Basel III (e) (f)			
Common equity Tier 1	10.5%	10.6%	10.6%
Tier 1 risk-based	11.8%	12.0%	11.9%
Total capital risk-based	14.1%	14.3%	14.4%
Leverage	9.9%	10.1%	10.2%
Pro forma Fully Phased-In Basel III (Non-GAAP) (f)			
Common equity Tier 1	10.0%	10.0%	10.1%
Common shareholders equity to assets	11.3%	11.4%	11.5%
Asset Quality			

Nonperforming loans to total loans	.94%	1.02%	1.10%
Nonperforming assets to total loans, OREO, foreclosed and other assets	1.04%	1.12%	1.23%
Nonperforming assets to total assets	.60%	.65%	.71%
Net charge-offs to average loans (for the three months ended) (annualized)	.23%	.20%	.29%
Allowance for loan and lease losses to total loans	1.20%	1.23%	1.31%
Allowance for loan and lease losses to total nonperforming loans	128%	121%	119%
Accruing loans past due 90 days or more (in millions)	$ 699	$ 782	$ 782

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

(b) Amounts include balances held with the Federal Reserve Bank of Cleveland (Federal Reserve Bank) of $27.5 billion, $25.1 billion and $29.0 billion as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively.

(c) Amounts include our equity interest in BlackRock.

(d) As a result of certain investment advisory services performed by one of our registered investment advisors, certain assets were previously reported as both discretionary client assets under management and nondiscretionary client assets under administration. Effective for the first quarter of 2017, these amounts are only reported as discretionary assets under management. Prior periods were adjusted to remove amounts previously included in nondiscretionary assets under administration of approximately $9 billion and $7 billion as of December 31, 2016 and March 31, 2016, respectively.

(e) Calculated using the regulatory capital methodology applicable to PNC during each period presented.

(f) See Basel III Capital discussion in the Capital Management portion of the Risk Management section of this Financial Review and the capital discussion in the Banking Regulation and Supervision section of Item 1 Business in our 2016 Form 10-K. See also the Transitional Basel III and Pro forma Fully Phased-In Basel III Common Equity Tier 1 Capital Ratios (Non-GAAP) 2016 Periods table in the Statistical Information section of this Report for a reconciliation of the 2016 periods ratios.

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EXECUTIVE SUMMARY

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

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

Key Strategic Goals

At PNC we manage our company for the long term. We are focused on the fundamentals of growing customers, loans, deposits and 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 commitments to our customers, shareholders, employees and 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 to our customers with the goal of addressing their financial objectives and putting customers needs first. Our business model is built on customer loyalty and engagement, understanding our customers financial goals and offering our diverse products and services to help them achieve financial wellbeing. Our approach is concentrated on organically growing and deepening client relationships across our businesses that meet our risk/return measures.

Our strategic priorities are designed to enhance value over the long term. One of our priorities is to build a leading banking franchise in our underpenetrated geographic markets. We are focused on reinventing the retail banking experience by transforming the retail distribution network and the home lending process for a better customer experience and improved efficiency, and growing our consumer loan portfolio. In addition, we are seeking to attract more of the investable assets of new and existing clients and we continue to focus on expense management while investing in technology to bolster critical business infrastructure and streamline core processes.

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

Analysis and Review (CCAR) submission to the Board of Governors of the Federal Reserve System (Federal Reserve). For more detail, see the Capital Highlights portion of this Executive Summary and the Liquidity and Capital Management portion of the Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 Business of our 2016 Form 10-K.

Income Statement Highlights

Net income for the first quarter of 2017 was $1.1 billion, or $1.96 per diluted common share, an increase of 14%, compared to $943 million, or $1.68 per diluted common share, for the first quarter of 2016.

- Total revenue increased $219 million, or 6%, to $3.9 billion.
- Net interest income increased $62 million, or 3%, to $2.2 billion.

- Net interest margin increased to 2.77% compared to 2.75% for the first quarter of 2016.
- Noninterest income increased $157 million, or 10%, to $1.7 billion primarily due to growth in fee income.
- Provision for credit losses decreased to $88 million for the first quarter of 2017 compared to $152 million for the first quarter of 2016.
- Noninterest expense increased $121 million to $2.4 billion, reflecting overall higher levels of business activity.

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

Balance Sheet Highlights

Our balance sheet was strong and well positioned at March 31, 2017 and December 31, 2016.

- Total loans increased $2.0 billion, or 1%, to $212.8 billion.
  - Total commercial lending grew $2.7 billion, or 2%.
  - Total consumer lending decreased $.7 billion, or 1%.
- Total deposits increased $3.5 billion, or 1%, to $260.7 billion.
- Investment securities increased $.5 billion, or 1%, to $76.4 billion.

For additional detail, see the Consolidated Balance Sheet Review section of this Financial Review.

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Credit Quality Highlights

Overall credit quality remained stable with the fourth quarter of 2016.

- Nonperforming assets decreased $162 million, or 7%, to $2.2 billion at March 31, 2017 compared with December 31, 2016.
- Overall loan delinquencies decreased $192 million, or 12%, as of March 31, 2017 compared with December 31, 2016.
- Net charge-offs of $118 million in the first quarter of 2017 decreased compared to net charge-offs of $149 million for the first quarter of 2016.

For additional detail, see the Credit Risk Management portion of the Risk Management section of this Financial Review.

Capital Highlights

We maintained a strong capital position and continued to return capital to shareholders.

- The Transitional Basel III common equity Tier 1 capital ratio was 10.5% at March 31, 2017 compared to 10.6% at December 31, 2016.
- Pro forma fully phased-in Basel III common equity Tier 1 capital ratio, a non-GAAP financial measure, remained stable at an estimated 10.0% at March 31, 2017 and December 31, 2016 based on the standardized approach rules.
- In the first quarter of 2017, we returned $.9 billion of capital to shareholders through repurchases of 5.0 million common shares for $.6 billion and dividends on common shares of $.3 billion.
- On January 30, 2017, PNC announced a $300 million increase to its common stock share repurchase programs, which now provide for repurchases of up to $2.3 billion for the four-quarter period ending June 30, 2017.
- On April 4, 2017, the PNC board of directors declared a quarterly cash dividend on common stock of 55 cents per share with a payment date of May 5, 2017.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for more detail on our 2017 capital and liquidity actions as well as our capital ratios.

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Federal Reserve as part of the CCAR process. For additional information, see the Supervision and Regulation section in Item 1 Business of our 2016 Form 10-K.

Business Outlook

Statements regarding our business outlook are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements are subject to the risk that economic and financial market conditions will be substantially different than those we are currently expecting and do not take into account potential legal and regulatory contingencies. These statements are based on our current view that the U.S. economy and the labor market will grow moderately in 2017, boosted by stable oil/energy prices, improving consumer spending and housing activity, and expanded federal fiscal policy stimulus as a result of the 2016 elections. Short-term interest rates and bond yields are expected to continue rising gradually in 2017, along with inflation. Specifically, our business outlook reflects our expectation of continued steady growth in GDP and two 25 basis point increases in short-term interest rates by the Federal Reserve in June and December of 2017. We are also assuming that long-term rates rise at a slower pace than short-term rates. See the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2016 Form 10-K for other factors that could cause future events to differ, perhaps materially, from those anticipated in these forward-looking statements.

For the full year 2017 compared to full year 2016, we expect:

- Loans to increase by mid-single digits, on a percentage basis;
- Revenue growth in the upper end of the mid-single digit range, on a percentage basis;
- Noninterest expense to increase by low single digits, on a percentage basis; and
- The effective tax rate to be approximately 25%, absent any tax reform.

For the remaining quarters of 2017, we expect quarterly other noninterest income to be between $225 million and $275 million.

For the second quarter of 2017 compared to the first quarter of 2017, we expect:

- Modest loan growth;
- Net interest income to increase by low single digits, on a percentage basis;
- Fee income to increase by mid-single digits, on a percentage basis. Fee income consists of asset management, consumer services, corporate services, residential mortgage and service charges on deposits;
- Provision for credit losses to be between $75 million and $125 million, and could be at the higher end of this range as a result of an initial provision for acquired loans; and
- Noninterest expense to increase by low single digits, on a percentage basis.

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CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for the first quarter of 2017 was $1.1 billion, or $1.96 per diluted common share, an increase of 14%, compared to $943 million, or $1.68 per diluted common share, for the first quarter of 2016. The increase was driven by a 6% increase in revenue and lower provision for credit losses, partially offset by a 5% increase in noninterest expense. Higher revenue in the comparison reflected a 10% increase in noninterest income and a 3% increase in net interest income.

Net Interest Income

Table 2: Summarized Average Balances and Net Interest Income (a)

Three months ended March 31 Dollars in millions	2017 Average Balances	2017 Average Yields/ Rates	2017 Interest Income/ Expense	2016 Average Balances	2016 Average Yields/ Rates	2016 Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$ 76,253	2.67%	$ 508	$ 70,269	2.72%	$ 478
Loans	212,253	3.67%	1,941	207,184	3.60%	1,875
Interest-earning deposits with banks	24,192	.81%	49	25,533	.50%	32
Other	8,395	3.54%	74	7,764	3.62%	70
Total interest-earning assets/interest income	$ 321,093	3.22%	2,572	$ 310,750	3.15%	2,455
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$ 176,871	.28%	120	$ 168,823	.25%	105
Borrowed funds	54,942	1.74%	240	53,626	1.51%	204
Total interest-bearing liabilities/interest expense	$ 231,813	.62%	360	$ 222,449	.55%	309
Net interest margin/income (Non-GAAP)		2.77%	2,212		2.75%	2,146
Taxable-equivalent adjustments			(52)			(48)
Net interest income (GAAP)			$ 2,160			$ 2,098

(a) Interest income calculated as taxable-equivalent interest income. To provide more meaningful comparisons of interest income and yields for all interest-earning assets, as well as net interest margins, we use interest income on a taxable-equivalent basis in calculating average yields and net interest margins by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under GAAP on the Consolidated Income Statement.

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 for additional information.

Net interest income increased by $62 million, or 3%, in the first quarter of 2017 compared with the first quarter of 2016, and net interest margin increased to 2.77% compared with 2.75% in the prior year quarter. Both increases reflected higher loan yields, partially offset by an increase in borrowing and deposit costs. The increase in net interest income also was driven by growth in loans and securities balances.

Average investment securities increased $6.0 billion, or 9%, due to higher average U.S. Treasury and government agency securities and average agency residential mortgage-backed securities, partially offset by decreases in average commercial

mortgage-backed securities and non-agency residential mortgage-backed securities. Total investment securities increased to 24% of average interest-earning assets for the first quarter of 2017 compared to 23% for the first quarter of 2016.

Average loans grew $5.1 billion, or 2%, consisting of growth in average commercial loans of $4.0 billion and average commercial real estate loans of $1.2 billion, driven by our Corporate Banking and Real Estate businesses within our Corporate & Institutional Banking segment. Additionally, average residential real estate loans increased $1.1 billion. These increases were partially offset by a decline in consumer loans of $1.4 billion, which reflected decreases in the non-strategic runoff consumer loan portfolios of brokered home equity and government guaranteed education loans. Average loans represented 66% of average interest-earning assets for the first quarter of 2017 and 67% of average interest-earning assets for the first quarter of 2016.

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Average total deposits of $254.9 billion grew $8.8 billion, or 4%, in the first quarter of 2017 compared to the first quarter of 2016. Average interest-bearing deposits increased $8.0 billion primarily due to higher average savings deposits, which largely reflected a shift from money market deposits to relationship-based savings products, as well as higher average interest-bearing demand deposits. Average interest-bearing deposits represented 76% of average interest-bearing liabilities in both quarters in the comparison.

Noninterest Income

Table 3: Noninterest Income

Three months ended March 31			Change	
Dollars in millions	2017	2016	$	%
Noninterest income				
Asset management	$ 403	$ 341	$ 62	18%
Consumer services	332	337	(5)	(1)%
Corporate services	393	325	68	21%
Residential mortgage	113	100	13	13%
Service charges on deposits	161	158	3	2%
Other	322	306	16	5%
Total noninterest income	$ 1,724	$ 1,567	$ 157	10%

Noninterest income as a percentage of total revenue was 44% in the first quarter of 2017 compared to 43% in the first quarter of 2016.

Asset management revenue growth in the comparison reflected higher earnings from BlackRock and the impact of higher average equity markets as well as net new business activity in our asset management business. Discretionary client assets under management increased $6 billion to $141 billion at March 31, 2017 compared to March 31, 2016.

Corporate services revenue increased due to higher merger and acquisition advisory fees and other capital markets revenue, higher commercial mortgage servicing rights valuation, net of economic hedge, and higher treasury management revenue.

Residential mortgage revenue was higher in the comparison as a result of an increased benefit from residential mortgage servicing rights valuation, net of economic hedge.

Other noninterest income for the first quarter of 2017 increased over the first quarter of 2016 largely attributable to higher revenue from private equity investments, including positive valuation adjustments of $47 million associated with

our receipt of a five-year extension of the prior July 2017 deadline to conform certain equity investments subject to the Volcker Rule provisions of the Dodd-Frank Act. The increase was partially offset by the impact of first quarter 2016 net gains on the sale of Visa Class B common shares.

Provision For Credit Losses

The provision for credit losses was $88 million for the first quarter of 2017 compared with $152 million for the first quarter of 2016, which included a higher provision for energy related loans in the oil, gas and coal sectors.

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

Table 4: Noninterest Expense

Three months ended March 31			Change	
Dollars in millions	2017	2016	$	%
Noninterest expense				
Personnel	$ 1,249	$ 1,145	$ 104	9%
Occupancy	222	221	1	
Equipment	251	234	17	7%
Marketing	55	54	1	2%
Other	625	627	(2)	
Total noninterest expense	$ 2,402	$ 2,281	$ 121	5%

Higher noninterest expense in the comparison reflected the impact of overall higher levels of business activity on personnel and equipment expense. We remained focused on disciplined expense management while continuing to invest in technology and business infrastructure.

As of March 31, 2017, we were on track to achieve our full-year 2017 goal of $350 million in cost savings through our continuous improvement program, which we expect will substantially fund our 2017 business and technology investments.

Effective Income Tax Rate

The effective income tax rate was 23.0% in the first quarter of 2017 compared with 23.5% in the first quarter of 2016. Income taxes for first quarter 2017 included higher tax deductions for stock-based compensation related to vesting of restricted shares and options exercised at a higher common stock price.

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Consolidated Balance Sheet Review

Table 5: Summarized Balance Sheet Data

	March 31	December 31	Change	
Dollars in millions	2017	2016	$	%
Assets				
Interest-earning deposits with banks	$ 27,877	$ 25,711	$ 2,166	8%
Loans held for sale	1,414	2,504	(1,090)	(44)%
Investment securities	76,432	75,947	485	1%
Loans	212,826	210,833	1,993	1%
Allowance for loan and lease losses	(2,561)	(2,589)	28	1%
Mortgage servicing rights	1,867	1,758	109	6%
Goodwill	9,103	9,103		
Other, net	43,986	43,113	873	2%
Total assets	$ 370,944	$ 366,380	$ 4,564	1%
Liabilities				
Deposits	$ 260,710	$ 257,164	$ 3,546	1%
Borrowed funds	55,062	52,706	2,356	4%
Other	9,269	9,656	(387)	(4)%
Total liabilities	325,041	319,526	5,515	2%
Equity				
Total shareholders equity	45,754	45,699	55	
Noncontrolling interests	149	1,155	(1,006)	(87)%
Total equity	45,903	46,854	(951)	(2)%
Total liabilities and equity	$ 370,944	$ 366,380	$ 4,564	1%

The summarized balance sheet data in Table 5 is based upon our Consolidated Balance Sheet in Part 1, Item 1 of this Report.

Our balance sheet was strong and well positioned at both March 31, 2017 and December 31, 2016.

Total assets increased primarily driven by loan growth and higher interest-earning deposits with banks;

Total liabilities increased due to deposit growth and higher borrowed funds;

Total equity decreased due to a decline in noncontrolling interests related to the redemption of Perpetual Trust Securities.

The following discussion provides additional information about the major components of our balance sheet. Information regarding our capital and regulatory compliance is included in the Liquidity and Capital Management portion of the Risk Management section of this Financial Review and in Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements included in our 2016 Form 10-K.

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Loans

Table 6: Details of Loans

Dollars in millions	March 31 2017	December 31 2016	Change $	Change %
Commercial lending				
Commercial				
Manufacturing	$ 20,054	$ 18,891	$ 1,163	6%
Retail/wholesale trade	17,446	16,752	694	4%
Service providers	14,185	14,707	(522)	(4)%
Real estate related (a)	11,690	11,920	(230)	(2)%
Health care	9,603	9,491	112	1%
Financial services	7,710	7,241	469	6%
Other industries	23,077	22,362	715	3%
Total commercial	103,765	101,364	2,401	2%
Commercial real estate	29,435	29,010	425	1%
Equipment lease financing	7,462	7,581	(119)	(2)%
Total commercial lending	140,662	137,955	2,707	2%
Consumer lending				
Home equity	29,577	29,949	(372)	(1)%
Residential real estate	15,781	15,598	183	1%
Credit card	5,112	5,282	(170)	(3)%
Other consumer				
Automobile	12,337	12,380	(43)	
Education	4,974	5,159	(185)	(4)%
Other	4,383	4,510	(127)	(3)%
Total consumer lending	72,164	72,878	(714)	(1)%
Total loans	$ 212,826	$ 210,833	$ 1,993	1%

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

Growth in commercial lending was driven by increased utilization from manufacturing, retail/wholesale trade and financial services customers. Lower consumer lending was driven by declines in home equity loans, education loans and credit cards. The decreases in home equity and education reflected runoff in the non-strategic brokered home equity and government guaranteed education loan portfolios.

See the Credit Risk Management portion of the Risk Management section of this Financial Review and Note 1 Accounting Policies, Note 3 Asset Quality and Note 4 Allowances for Loan and Lease Losses in our Notes To

Consolidated Financial Statements included in this Report for additional information regarding our loan portfolio.

Investment Securities

Table 7: Investment Securities

	March 31, 2017		December 31, 2016		Ratings (a) As of March 31, 2017				
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	$ 13,318	$ 13,459	$ 13,627	$ 13,714	100%				
Agency residential mortgage-backed	38,673	38,427	37,319	37,109	100				
Non-agency residential mortgage-backed	3,196	3,394	3,382	3,564	11		4%	76%	9%
Agency commercial mortgage-backed	2,919	2,906	3,053	3,046	100				
Non-agency commercial mortgage-backed (b)	4,407	4,434	4,590	4,602	85	4%	1	1	9
Asset-backed (c)	6,486	6,532	6,496	6,524	85	5	3	7	
Other debt (d)	6,610	6,782	6,679	6,810	73	15	8	1	3
Corporate stock and other	517	515	603	601					100
Total investment securities (e)	$ 76,126	$ 76,449	$ 75,749	$ 75,970	91%	2%	1%	4%	2%

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(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 corporate debt, government guaranteed education loans and other consumer credit products.
(d) Includes state and municipal securities.
(e) Includes available for sale and held to maturity securities.

Investment securities increased $.5 billion at March 31, 2017 compared to December 31, 2016. Growth in investment securities was driven by net purchases of agency residential mortgage-backed securities, partially offset by maturities and prepayments of U.S. Treasury and government agencies, non-agency commercial mortgage-backed and non-agency residential mortgage-backed securities.

Table 7 presents the distribution of our investment securities portfolio by credit rating. We have included credit ratings information because we believe that the information is an indicator of the degree of credit risk to which we are exposed, which could affect our risk-weighted assets and, therefore, our risk-based regulatory capital ratios under the regulatory capital rules. 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.

At least quarterly, we conduct a comprehensive security-level impairment assessment on all securities. If economic conditions, including home prices, were to deteriorate from current levels, and if market volatility and liquidity were to deteriorate from current levels, or if market interest rates were to increase or credit spreads were to widen appreciably, the valuation of our investment securities portfolio would likely be adversely affected and we could incur additional OTTI credit losses that would impact our Consolidated Income Statement.

The duration of investment securities was 3.2 years at March 31, 2017. We estimate that at March 31, 2017 the effective duration of investment securities was 3.3 years for an immediate 50 basis points parallel increase in interest rates and 3.1 years for an immediate 50 basis points parallel decrease in interest rates.

Based on expected prepayment speeds, the weighted-average expected maturity of the investment securities portfolio (excluding corporate stock and other) was 5.1 years at March 31, 2017 compared to 5.0 years at December 31, 2016.

Table 8: Weighted-Average Expected Maturities of Mortgage and Other Asset-Backed Debt Securities

March 31, 2017	Years
Agency residential mortgage-backed	5.4
Non-agency residential mortgage-backed	5.8
Agency commercial mortgage-backed	3.5
Non-agency commercial mortgage-backed	3.7
Asset-backed	2.5

Additional information regarding our investment securities is included in Note 5 Investment Securities and Note 6 Fair Value in the Notes To Consolidated Financial Statements included in this Report.

Funding Sources

Table 9: Details of Funding Sources

Dollars in millions	March 31 2017	December 31 2016	Change $	Change %
Deposits				
Money market	$ 105,230	$ 105,849	$ (619)	(1)%
Demand	97,076	96,799	277	
Savings	41,428	36,956	4,472	12%
Time deposits	16,976	17,560	(584)	(3)%
Total deposits	260,710	257,164	3,546	1%
Borrowed funds				
FHLB borrowings	19,549	17,549	2,000	11%
Bank notes and senior debt	23,745	22,972	773	3%
Subordinated debt	6,889	8,009	(1,120)	(14)%
Other	4,879	4,176	703	17%
Total borrowed funds	55,062	52,706	2,356	4%
Total funding sources	$ 315,772	$ 309,870	$ 5,902	2%

Growth in total deposits was driven by higher consumer savings and demand deposits, partially offset by seasonal declines in commercial deposits. The overall increase in savings deposits reflected in part a shift from money market deposits to relationship-based savings products. The decline in time deposits reflected the net runoff of maturing accounts.

The increase in total borrowed funds reflected net increases in FHLB borrowings and bank notes and senior debt, as new issuances outpaced maturities and calls. These increases were partially offset by subordinated debt maturities.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for additional information regarding our 2017 capital and liquidity activities.

Shareholders Equity

Total shareholders equity as of March 31, 2017 remained relatively stable compared to December 31, 2016. Increased retained earnings, driven by net income of $1.1 billion partially offset by $.3 billion of common and preferred dividends, was largely offset by common share repurchases of $.6 billion and lower capital surplus.

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Common shares outstanding were 485 million at both March 31, 2017, and December 31, 2016, as repurchases of 5.0 million shares during the first quarter of 2017 were largely offset by share issuances from treasury stock related to warrants exercised and stock based compensation activity.

BUSINESS SEGMENTS REVIEW

Effective for the first quarter of 2017, as a result of changes to how we manage our businesses, we realigned our segments and, accordingly, have changed the basis of presentation of our segments, resulting in four reportable business segments:

- Retail Banking
- Corporate & Institutional Banking
- Asset Management Group
- BlackRock

Our changes in business segment presentation resulting from the realignment included the following:

- The Residential Mortgage Banking segment was combined into Retail Banking as a result of our strategic initiative to transform the home lending process by integrating mortgage and home equity lending to enhance product capability and speed of delivery for a better customer experience and to improve efficiency. In conjunction with this shift, residential mortgages previously reported within the Other category were also moved to Retail Banking.

- The Non-Strategic Assets Portfolio segment was eliminated. The segment s remaining consumer assets were moved to the Other category as they are unrelated to the ongoing strategy of any segment, while its commercial assets were transferred to Corporate & Institutional Banking in order to continue the relationships we have with those customers.

- A portion of business banking clients was moved from Retail Banking to Corporate & Institutional Banking to facilitate enhanced product offerings to meet the financial needs of our business banking clients.

Net interest income in business segment results reflects our internal funds transfer pricing methodology. Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product repricing characteristics, tenor and other factors. Effective for the first quarter of 2017, we made certain adjustments to our internal funds transfer pricing methodology primarily relating to weighted average lives of certain non-maturity deposits based on our recent historical experience. These changes in methodology affected business segment results, primarily adversely impacting net interest income for Corporate & Institutional Banking and Retail Banking, offset by increased net interest income in the Other category.

The prior period presented was revised to conform to the new segment alignment and to our change in internal funds transfer pricing methodology.

Business segment results and a description of each business are included in Note 14 Segment Reporting included in the Notes To Consolidated Financial Statements in this Report. Certain amounts included in this Business Segments Review differ from those amounts shown in Note 14, primarily due to the presentation in this Financial Review of business net interest revenue on a taxable-equivalent basis.

Total business segment financial results differ from total consolidated net income. The impact of these differences is reflected in the Other category in the business segment tables. Other includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as gains or losses related to BlackRock transactions, integration costs, asset and liability management activities including net securities gains or losses, other-than-temporary impairment of investment securities and certain trading activities, exited businesses, certain non-strategic runoff consumer loan portfolios, private equity investments, intercompany eliminations, most corporate overhead, tax adjustments that are not allocated to business segments and differences between business segment performance reporting and financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests as the segments results exclude their portion of net income attributable to noncontrolling interests.

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Retail Banking

(Unaudited)

Table 10: Retail Banking Table

Three months ended March 31			Change	
Dollars in millions, except as noted	2017	2016	$	%
Income Statement				
Net interest income	$ 1,121	$ 1,122	$ (1)	
Noninterest income	603	633	(30)	(5)%
Total revenue	1,724	1,755	(31)	(2)%
Provision for credit losses	71	72	(1)	(1)%
Noninterest expense	1,315	1,299	16	1%
Pretax earnings	338	384	(46)	(12)%
Income taxes	125	141	(16)	(11)%
Earnings	$ 213	$ 243	$ (30)	(12)%
Average Balance Sheet				
Loans held for sale	$ 843	$ 801	$ 42	5%
Loans				
Consumer				
Home equity	$ 25,601	$ 26,743	$ (1,142)	(4)%
Automobile	12,146	10,787	1,359	13%
Education	5,131	5,865	(734)	(13)%
Credit cards	5,121	4,722	399	8%
Other	1,756	1,823	(67)	(4)%
Total consumer	49,755	49,940	(185)	
Commercial and commercial real estate	11,006	11,801	(795)	(7)%
Residential mortgage	11,688	10,268	1,420	14%
Total loans	$ 72,449	$ 72,009	$ 440	1%
Total assets	$ 87,109	$ 86,213	$ 896	1%
Deposits				
Noninterest-bearing demand	$ 29,010	$ 26,980	$ 2,030	8%
Interest-bearing demand	40,649	37,815	2,834	7%
Money market	39,321	49,336	(10,015)	(20)%
Savings	35,326	21,780	13,546	62%
Certificates of deposit	13,735	15,320	(1,585)	(10)%
Total deposits	$ 158,041	$ 151,231	$ 6,810	5%
Performance Ratios				

Return on average assets	.99%	1.14%
Noninterest income to total revenue	35%	36%
Efficiency	76%	74%

(continued on following page)

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(continued from previous page)

Dollars in millions, except as noted	2017	2016	Change $	Change %
Supplemental Noninterest Income Information				
Consumer services	$ 250	$ 254	$ (4)	(2)%
Brokerage	$ 76	$ 75	$ 1	1%
Residential mortgage	$ 113	$ 100	$ 13	13%
Service charges on deposits	$ 154	$ 151	$ 3	2%
Residential Mortgage Information				
Residential mortgage servicing statistics (in billions, except as noted) (a)				
Serviced portfolio balance (b)	$ 130	$ 125	$ 5	4%
Serviced portfolio acquisitions	$ 8	$ 5	$ 3	60%
MSR asset value (b)	$ 1.3	$ .9	$ .4	44%
MSR capitalization value (in basis points) (b)	97	69	28	41%
Servicing income: (in millions)				
Servicing fees, net (c)	$ 52	$ 55	$ (3)	(5)%
Mortgage servicing rights valuation, net of economic hedge	$ 12	$ (8)	$ 20	250%
Residential mortgage loan statistics				
Loan origination volume (in billions)	$ 1.9	$ 1.9		
Loan sale margin percentage	2.96%	3.21%		
Percentage of originations represented by:				
Purchase volume (d)	43%	40%		
Refinance volume	57%	60%		
Other Information (b)				
Customer-related statistics (average)				
Non-teller deposit transactions (e)	52%	47%		
Digital consumer customers (f)	61%	56%		
Credit-related statistics				
Nonperforming assets (g)	$ 1,209	$ 1,298	$ (89)	(7)%
Net charge-offs	$ 100	$ 97	$ 3	3%
Other statistics				
ATMs	8,976	8,940	36	
Branches (h)	2,508	2,613	(105)	(4)%
Universal branches (i)	527	362	165	46%
Brokerage account client assets (in billions) (j)	$ 46	$ 43	$ 3	7%

(a) Represents mortgage loan servicing balances for third parties and the related income.
(b) Presented as of March 31, except for customer-related statistics, which are averages for the three months ended, and net charge-offs, which are for the three months ended.
(c) Servicing fees net of impact of decrease in MSR value due to passage of time, including the impact from both regularly scheduled loan prepayments and loans that were paid down or paid off during the period.
(d) Mortgages with borrowers as part of residential real estate purchase transactions.
(e) Percentage of total consumer and business banking deposit transactions processed at an ATM or through our mobile banking application.
(f)

Represents consumer checking relationships that process the majority of their transactions through non-teller channels.

(g) Includes nonperforming loans of $1.1 billion at March 31, 2017 and $1.2 billion at March 31, 2016.

(h) Excludes stand-alone mortgage offices and satellite offices (e.g., drive-ups, electronic branches and retirement centers) that provide limited products and/or services.

(i) Included in total branches, represents branches operating under our universal model.

(j) Includes cash and money market balances.

Retail Banking earned $213 million in the first three months of 2017 compared with $243 million for the same period in 2016. The decrease in earnings was driven by lower noninterest income and increased expenses.

Noninterest income declined compared to the same period a year ago due to the impact of first quarter of 2016 net gains on the sale of Visa Class B common shares, partially offset by a higher benefit from residential mortgage servicing rights valuation, net of economic hedge.

The increase in noninterest expense in the comparison resulted primarily from investments in technology.

The deposit strategy of Retail Banking is to remain disciplined on pricing and focused on growing and retaining relationship-based balances, executing on market specific deposit growth strategies and providing a source of low-cost funding and liquidity to PNC. In the first three months of 2017, average total deposits increased compared to the same period a year ago, driven by growth in savings deposits reflecting in part a shift from money market deposits to relationship-based savings products. Additionally, demand deposits increased, partially offset by a decline in certificates of deposit due to the net runoff of maturing accounts.

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Retail Banking continued to focus on a relationship-based lending strategy. Total average loans increased in the comparison due to increases in residential mortgage and automobile loans partially offset by declines in home equity and commercial loans, as well as runoff of certain portfolios, as more fully described below.

- Average home equity loans decreased as pay-downs and payoffs on loans exceeded new originated volume. Retail Banking s home equity loan portfolio is relationship based, with over 97% of the portfolio attributable to borrowers in our primary geographic footprint. The weighted-average updated FICO scores for this portfolio were 746 at both March 31, 2017 and December 31, 2016.
- Average commercial and commercial real estate loans declined as pay-downs and payoffs on loans exceeded new volume.
- Average residential mortgages increased as a result of new volumes exceeding portfolio liquidations.
- Average automobile loans, which consisted of both direct and indirect auto loans, increased primarily due to portfolio growth in previously underpenetrated markets.
- Average credit card balances increased as a result of organic growth as we continue to focus on delivering on our long-term objective of deepening penetration within our existing customer base.
- In the first three months of 2017, average loan balances for the education and other loan portfolios decreased $801 million, or 10%, compared to same period in 2016, driven by declines in the government guaranteed education and indirect other portfolios, which are primarily runoff portfolios.

Nonperforming assets decreased compared to March 31, 2016 driven by declines in both consumer and commercial nonperforming loans.

Retail Banking continues to enhance the customer experience with refinements to product offerings that drive product value for consumers and small businesses. We are focused on meeting the financial needs of our customers by providing a broad range of liquidity, banking and investment products.

Retail Banking continued to focus on the strategic priority of transforming the customer experience through transaction migration, branch network transformation, home lending transformation and multi-channel engagement and service strategies.

- In the first three months of 2017, approximately 61% of consumer customers used non-teller channels for the majority of their transactions compared with 56% for the same period a year ago.
- Deposit transactions via ATM and mobile channels increased to 52% of total deposit transactions in the first three months of 2017 compared with 47% for the same period in 2016.
- We had a network of 2,508 branches and 8,976 ATMs at March 31, 2017. Approximately 21% of the branch network operates under the universal model.
- Instant debit card issuance, which enables us to print a customer s debit card in minutes, was available in 2,224 branches, or 89% of the branch network, as of March 31, 2017.
- Mortgage loan originations for the first three months of 2017 were comparable to the same period in 2016. Loans continue to be originated primarily through direct channels under Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Housing Administration (FHA)/Department of Veterans Affairs agency guidelines.

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Corporate & Institutional Banking

(Unaudited)

Table 11: Corporate & Institutional Banking Table

Three months ended March 31 Dollars in millions, except as noted	2017	2016	Change $	Change %
Income Statement				
Net interest income	$ 839	$ 817	$ 22	3%
Noninterest income	524	441	83	19%
Total revenue	1,363	1,258	105	8%
Provision for credit losses	25	102	(77)	(75)%
Noninterest expense	584	533	51	10%
Pretax earnings	754	623	131	21%
Income taxes	270	225	45	20%
Earnings	$ 484	$ 398	$ 86	22%
Average Balance Sheet				
Loans held for sale	$ 1,116	$ 708	$ 408	58%
Loans				
Commercial	$ 92,116	$ 87,324	$ 4,792	5%
Commercial real estate	27,091	25,959	1,132	4%
Equipment lease financing	7,497	7,420	77	1%
Total commercial lending	126,704	120,703	6,001	5%
Consumer	331	503	(172)	(34)%
Total loans	$ 127,035	$ 121,206	$ 5,829	5%
Total assets	$ 142,592	$ 137,270	$ 5,322	4%
Deposits				
Noninterest-bearing demand	$ 47,423	$ 48,715	$ (1,292)	(3)%
Money market	21,086	22,298	(1,212)	(5)%
Interest-bearing demand and other	15,391	11,391	4,000	35%
Total deposits	$ 83,900	$ 82,404	$ 1,496	2%
Performance Ratios				
Return on average assets	1.38%	1.18%		
Noninterest income to total revenue	38%	35%		
Efficiency	43%	42%		
Other Information				
Commercial loan servicing portfolio (in billions) (a) (b)	$ 490	$ 453	$ 37	8%
Consolidated revenue from: (c)				
Treasury Management (d)	$ 359	$ 315	$ 44	14%

Capital Markets (d)	$ 247	$ 152	$ 95	63%
Commercial mortgage banking activities				
Commercial mortgage loans held for sale (e)	$ 13	$ 26	$ (13)	(50)%
Commercial mortgage loan servicing income (f)	58	62	(4)	(6)%
Commercial mortgage servicing rights valuation, net of economic hedge (g)	16	1	15	*
Total	$ 87	$ 89	$ (2)	(2)%
Net carrying amount of commercial mortgage servicing rights (a)	$ 606	$ 460	$ 146	32%
Average Loans (by C&IB business)				
Corporate Banking	$ 53,839	$ 49,533	$ 4,306	9%
Real Estate	37,136	35,784	1,352	4%
Business Credit	14,839	14,672	167	1%
Equipment Finance	12,478	11,652	826	7%
Commercial Banking	7,041	7,384	(343)	(5)%
Other	1,702	2,181	(479)	(22)%
Total average loans	$ 127,035	$ 121,206	$ 5,829	5%
<u>Credit-related statistics</u>				
Nonperforming assets (a) (h)	$ 546	$ 760	$ (214)	(28)%
Net charge-offs	$ 21	$ 38	$ (17)	(45)%

* - Not meaningful.
(a) As of March 31.
(b) Represents loans serviced for PNC and others.
(c) Represents consolidated amounts. See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of the Corporate & Institutional Banking portion of this Business Segments Review section.
(d) Includes amounts reported in net interest income, corporate service fees and other noninterest income.
(e) Includes other noninterest income for valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(f) Includes net interest income and noninterest income (primarily in corporate services fees) from loan servicing net of reduction in commercial mortgage servicing rights due to time decay and payoffs. Commercial mortgage servicing rights valuation, net of economic hedge is shown separately.
(g) Amounts reported in corporate service fees.
(h) Includes nonperforming loans of $.4 billion at March 31, 2017 and $.6 billion at March 31, 2016.

Corporate & Institutional Banking earned $484 million in the first quarter of 2017 compared to $398 million for the same period in 2016. The increase of $86 million, or 22%, was primarily due to a decrease in the provision for credit losses and higher revenue, partially offset by higher noninterest expense. We continue to focus on building client relationships where the risk-return profile is attractive.

Net interest income increased compared with the first quarter of 2016, reflecting the impact of interest rate spread expansion on deposits as well as higher average loan balances.

Growth in noninterest income in the comparison was driven primarily by higher merger and acquisition advisory fees and other capital markets-related revenue, a higher benefit from commercial mortgage servicing rights valuation, net of economic hedge, and higher treasury management revenue.

The decrease in provision for credit losses reflected a lower provision for energy related loans in the oil, gas and coal sectors in the first quarter of 2017.

Noninterest expense increased in the comparison largely driven by higher variable compensation commensurate with increased business activity.

Average loans increased compared to the first quarter of 2016 due to strong growth in the Corporate Banking, Real Estate and Equipment Finance businesses:

Corporate Banking provides lending, treasury management and capital markets-related products and services to midsized and large corporations, government and not-for-profit entities. Average loans for this business grew in the comparison reflecting increased lending to large corporate clients and strong production in specialty lending verticals.

PNC Real Estate provides banking, financing and servicing solutions for commercial real estate clients across the country. Higher average loans for this business were primarily due to growth in commercial real estate driven by higher term lending.

PNC Business Credit provides asset-based lending. The loan portfolio is relatively high yielding, with acceptable risk as the loans are mainly secured by short-term assets. Average loans for this business increased modestly in the comparison as new originations were offset by payoffs and decreased utilization.

PNC Equipment Finance provides equipment financing solutions for clients throughout the U.S. and Canada. Average loans, including commercial loans and finance leases, and operating leases were $13.2 billion in the first quarter of 2017, an increase of $.8 billion in the year over year comparison due to strong new production.

Commercial Banking provides lending, treasury management and capital markets-related products and services to smaller corporations and businesses. Average loans for this business decreased in the comparison primarily due to the impact of capital management activities.

Growth in the commercial loan servicing portfolio was driven by servicing additions from new and existing customers exceeding portfolio runoff.

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, for customers of all business segments, including treasury management, capital markets-related products and services, and commercial mortgage banking activities. On a consolidated basis, the revenue from these other services is included in net interest income, corporate service fees and other noninterest income. From a segment perspective, the majority of the revenue and expense related to these services is reflected in the Corporate & Institutional Banking segment results and the remainder is reflected in the results of other businesses. The Other Information section in Table 11 includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue from these services follows.

Treasury management revenue, composed of fees and net interest income from customer deposit balances, increased compared with the first quarter of 2016 driven by liquidity-related revenue associated with customer deposit balances mostly due to interest rate spread expansion.

Capital markets-related products and services include foreign exchange, derivatives, securities, loan syndications, mergers and acquisitions advisory and equity capital markets advisory related services. Revenue from capital markets-related products and services increased in the comparison primarily due to higher merger and acquisition advisory fees, higher revenue from credit valuations on customer-related derivative activities and higher derivative sales to customers.

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Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income) and revenue derived from commercial mortgage loans held for sale and related hedges. Total revenue from commercial mortgage banking

activities decreased slightly in the comparison as a decline in revenue from commercial mortgage loans held for sale and lower commercial mortgage loan servicing income was mostly offset by a higher benefit from commercial mortgage servicing rights valuation, net of economic hedge.

Asset Management Group

(Unaudited)

Table 12: Asset Management Group Table

Three months ended March 31 Dollars in millions, except as noted	2017	2016	Change $	Change %
Income Statement				
Net interest income	$ 71	$ 77	$ (6)	(8)%
Noninterest income	218	203	15	7%
Total revenue	289	280	9	3%
Provision for credit losses (benefit)	(2)	(3)	1	33%
Noninterest expense	217	206	11	5%
Pretax earnings	74	77	(3)	(4)%
Income taxes	27	28	(1)	(4)%
Earnings	$ 47	$ 49	$ (2)	(4)%
Average Balance Sheet				
Loans				
Consumer	$ 5,113	$ 5,630	$ (517)	(9)%
Commercial and commercial real estate	728	788	(60)	(8)%
Residential mortgage	1,190	1,003	187	19%
Total loans	$ 7,031	$ 7,421	$ (390)	(5)%
Total assets	$ 7,476	$ 7,887	$ (411)	(5)%
Deposits				
Noninterest-bearing demand	$ 1,433	$ 1,407	$ 26	2%
Interest-bearing demand	3,829	4,280	(451)	(11)%
Money market	3,500	4,758	(1,258)	(26)%
Savings	3,768	1,563	2,205	141%
Other	246	275	(29)	(11)%

Total deposits	$ 12,776	$ 12,283	$ 493	4%
Performance Ratios				
Return on average assets	2.55%	2.52%		
Noninterest income to total revenue	75%	73%		
Efficiency	75%	74%		
Other Information				
Nonperforming assets (a) (b)	$ 51	$ 54	$ (3)	(6)%
Net charge-offs	$ 1	$ 4	$ (3)	(75)%
Client Assets Under Administration (in billions) (a) (c) (d)				
Discretionary client assets under management	$ 141	$ 135	$ 6	4%
Nondiscretionary client assets under administration	123	118	5	4%
Total	$ 264	$ 253	$ 11	4%
Discretionary client assets under management				
Personal	$ 87	$ 84	$ 3	4%
Institutional	54	51	3	6%
Total	$ 141	$ 135	$ 6	4%
Equity	$ 71	$ 66	$ 5	8%
Fixed Income	50	45	5	11%
Liquidity/Other	20	24	(4)	(17)%
Total	$ 141	$ 135	$ 6	4%

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(a) As of March 31.
(b) Includes nonperforming loans of $45 million at March 31, 2017 and $49 million at March 31, 2016.
(c) Excludes brokerage account client assets.
(d) Effective for the first quarter of 2017, we have adjusted nondiscretionary client assets under administration for prior periods to remove assets which, as a result of certain investment advisory services performed by one of our registered investment advisors, were previously reported as both discretionary client assets under management and nondiscretionary client assets under administration. Effective for the first quarter of 2017, these amounts are only reported as discretionary assets under management. The prior period presented was adjusted to remove approximately $7 billion as of March 31, 2016 previously included in nondiscretionary assets under administration. In addition, effective for the first quarter of 2017, we have refined our methodologies for allocating discretionary client assets under management by asset type. As a result, we have updated the presentation of discretionary client assets under management by asset type for the prior period presented.

Asset Management Group earned $47 million in the first quarter of 2017 and $49 million in the first quarter of 2016. Earnings decreased slightly as an increase in noninterest expense was mostly offset by higher revenue.

Higher revenue in the comparison was driven by growth in noninterest income, reflecting stronger average equity markets. Net interest income decreased primarily due to lower average loan balances and interest rate spread compression within the loan portfolio.

Noninterest expense increased in the first quarter of 2017 compared to the prior year primarily attributable to higher variable compensation and technology expenses. Asset Management Group remains focused on disciplined expense management as it invests in strategic growth opportunities.

Asset Management Group s strategy is focused on growing investable assets by continually evolving the client experience and products and services. The business offers an open architecture platform with a full array of investment products and banking solutions.

Wealth Management and Hawthorn have nearly 100 offices operating in seven out of the ten most affluent states in the U.S. with a majority co-located with retail banking branches. The businesses provide customized investments, wealth planning, trust and estate administration and private banking solutions to affluent individuals and ultra-affluent families.

Institutional Asset Management provides advisory, custody and retirement administration services to institutional clients such as corporations, unions, municipalities, non-profits, foundations and endowments. The business also offers PNC proprietary mutual funds and investment strategies. Institutional Asset Management is strengthening its partnership with Corporate & Institutional Banking to drive growth and is focused on building retirement capabilities and expanding product solutions for all customers.

Asset Management Group s discretionary client assets under management increased in the comparison to the prior year, primarily attributable to higher equity markets and net business growth.

BlackRock (Unaudited)

Information related to our equity investment in BlackRock follows:

Table 13: BlackRock Table

Three months ended March 31 Dollars in millions	2017	2016
Business segment earnings (a)	$ 145	$ 114
PNC s economic interest in BlackRock (b)	22%	22%

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

(b) At March 31.

In billions	March 31 2017	December 31 2016
Carrying value of our investment in BlackRock (c)	$ 7.1	$ 7.0
Market value of our investment in BlackRock (d)	13.5	13.4

(c) We account for our investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $2.3 billion at both March 31, 2017 and December 31, 2016. Our voting interest in BlackRock common stock was approximately 21% at March 31, 2017.

(d) Does not include liquidity discount.

In addition to our investment in BlackRock reflected in Table 13, at March 31, 2017, we held approximately 0.25 million shares of BlackRock Series C Preferred Stock valued at $76 million, which are available to fund our obligation in connection with certain BlackRock long-term incentive plan (LTIP) programs.

On February 1, 2017, we transferred 0.52 million shares of BlackRock Series C Preferred Stock to BlackRock to satisfy a portion of our LTIP obligation. The transfer reduced Other assets and Other liabilities on our Consolidated Balance Sheet by $155 million, representing the fair value of the shares transferred.

Our 2016 Form 10-K includes additional information about our investment in BlackRock.

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RISK MANAGEMENT

The Risk Management section included in Item 7 of our 2016 Form 10-K describes our enterprise risk management framework including risk culture, enterprise strategy, risk governance and oversight, risk identification, risk assessment, risk controls and monitoring, and risk aggregation and reporting. Additionally, our 2016 Form 10-K provides an analysis of our key areas of risk, which include but are not limited to credit, liquidity and capital, market, operational and compliance. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the Risk Management section.

The following information updates our 2016 Form 10-K risk management disclosures.

Credit Risk Management

See the Credit Risk Management portion of the Risk Management section in our 2016 Form 10-K for additional discussion regarding credit risk.

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets

Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming troubled debt restructurings (TDRs), other real estate owned (OREO), foreclosed and other assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonperforming loans and nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in our 2016 Form 10-K. A summary of the major categories of nonperforming assets are presented in Table 14. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further detail of nonperforming asset categories.

Table 14: Nonperforming Assets by Type

	March 31	December 31	Change	
Dollars in millions	2017	2016	$	%
Nonperforming loans				
Commercial lending	$ 549	$ 655	$ (106)	(16)%
Consumer lending (a)	1,449	1,489	(40)	(3)%
Total nonperforming loans (b)	1,998	2,144	(146)	(7)%
OREO, foreclosed and other assets	214	230	(16)	(7)%

Total nonperforming assets	$ 2,212	$ 2,374	$ (162)	(7)%
Amount of TDRs included in nonperforming loans	$ 1,009	$ 1,112	$ (103)	(9)%
Percentage of total nonperforming loans	51%	52%		
Nonperforming loans to total loans	.94%	1.02%		
Nonperforming assets to total loans, OREO, foreclosed and other assets	1.04%	1.12%		
Nonperforming assets to total assets	.60%	.65%		
Allowance for loan and lease losses to total nonperforming loans	128%	121%		

(a) Excludes most consumer loans and lines of credit not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.

(b) The recorded investment of loans collateralized by residential real estate property that are in process of foreclosure was $.4 billion at both March 31, 2017 and December 31, 2016, which included $.2 billion of loans that are government insured/guaranteed.

Table 15: Change in Nonperforming Assets

In millions	2017	2016
January 1	$ 2,374	$ 2,425
New nonperforming assets	330	542
Charge-offs and valuation adjustments	(150)	(161)
Principal activity, including paydowns and payoffs	(228)	(98)
Asset sales and transfers to loans held for sale	(42)	(90)
Returned to performing status	(72)	(66)
March 31	$ 2,212	$ 2,552

As of March 31, 2017, approximately 85% of total nonperforming loans were secured by collateral which lessened reserve requirements and is expected to reduce credit losses in the event of default. As of March 31, 2017, commercial lending nonperforming loans were carried at approximately 54% of their unpaid principal balance, due to charge-offs recorded to date, before consideration of the ALLL.

Within consumer nonperforming loans, residential real estate TDRs comprise 73% of total residential real estate nonperforming loans at March 31, 2017, up from 70% at

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December 31, 2016. Home equity TDRs comprise 51% of home equity nonperforming loans at March 31, 2017 and 52% at December 31, 2016. TDRs generally remain in nonperforming status until a borrower has made at least six consecutive months of both principal and interest payments under the modified terms or ultimate resolution occurs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to us and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status.

At March 31, 2017, our largest nonperforming asset was $51 million in the Wholesale Trade Industry and our average nonperforming loan associated with commercial lending was

less than $1 million. The ten largest individual nonperforming assets are from the commercial lending portfolio and represented 42% and 10% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of March 31, 2017.

Loan Delinquencies

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

Table 16: Accruing Loans Past Due (a)

	Amount		Change		Percentage of Total Loans Outstanding	
	March 31	December 31			March 31	December 31
Dollars in millions	2017	2016	$	%	2017	2016
Early stage loan delinquencies						
Accruing loans past due 30 to 59 days	$ 458	$ 562	$ (104)	(19)%	.22%	.27%
Accruing loans past due 60 to 89 days	227	232	(5)	(2)%	.11%	.11%
Total	685	794	(109)	(14)%	.32%	.38%
Late stage loan delinquencies						
Accruing loans past due 90 days or more	699	782	(83)	(11)%	.33%	.37%
Total	$ 1,384	$ 1,576	$ (192)	(12)%	.65%	.75%

(a) Past due loan amounts include government insured or guaranteed loans of $.9 billion at both March 31, 2017 and December 31, 2016.

Accruing loans past due 90 days or more decreased at March 31, 2017 compared to December 31, 2016 primarily driven by declines in government insured residential real estate and other consumer loans. Accruing loans past due 90 days or more are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral and are in the process of collection, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines, or are certain government insured or guaranteed loans.

Home Equity and Auto Loan Portfolios

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $29.6 billion as of March 31, 2017, or 14% of the total loan portfolio. Of that total, $17.4 billion, or 59%, were outstanding under primarily variable-rate home equity lines of credit and $12.2 billion, or 41%, consisted of closed-end home equity installment loans. Approximately 4% of the home equity portfolio was purchased impaired and 3% of the home equity portfolio was on nonperforming status as of March 31, 2017.

As of March 31, 2017, we were in an originated first lien position for approximately 57% of the total outstanding portfolio and, where originated as a second lien, we held and serviced the first lien position for an additional 1% of the portfolio. The remaining 42% of the portfolio was secured by second liens where we do not hold the first lien position. The credit performance of the majority of the home equity portfolio where we are in, hold or service the first lien position, is superior to the portion of the portfolio where we hold the second lien position but do not hold the first lien. Lien position information is generally based upon original LTV at the time of origination. We use an industry-leading third-party service provider to obtain updated loan, lien and collateral data that is aggregated from public and private sources.

We track borrower performance monthly, including obtaining original LTVs and updated FICO scores at least quarterly, updated LTVs semi-annually, and other credit metrics at least quarterly, including the historical performance of any mortgage loans regardless of lien position that we do or do not hold. This information is used for internal reporting and risk management. For internal reporting and risk management we also segment the population into pools based on product type

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(*e.g.*, home equity loans, brokered home equity loans, home equity lines of credit, brokered home equity lines of credit). As part of our overall risk analysis and monitoring, we segment the home equity portfolio based upon the loan delinquency, modification status and bankruptcy status, as well as the delinquency, modification status and bankruptcy status of any mortgage loan with the same borrower (regardless of whether it is a first lien senior to our second lien).

In establishing our ALLL for non-impaired loans, we utilize a delinquency roll-rate methodology for pools of loans. The roll-rate methodology estimates transition/roll of loan balances from one delinquency state to the next delinquency state and ultimately to charge-off. The roll through to charge-off is based on our actual loss experience for each type of pool. Each of our home equity pools contains both first and second liens. Our experience has been that the ratio of first to second lien loans has been consistent over time and the charge-off amounts for the pools, used to establish our allowance, include losses on both first and second lien loans.

Generally, our variable-rate home equity lines of credit have either a seven or ten year draw period, followed by a 20-year amortization term. During the draw period, we have home equity lines of credit where borrowers pay either interest only or principal and interest. We view home equity lines of credit where borrowers are paying principal and interest under the draw period as less risky than those where the borrowers are paying interest only, as these borrowers have a demonstrated ability to make some level of principal and interest payments. The risk associated with the borrower s ability to satisfy the loan terms upon the draw period ending is considered in establishing our ALLL. Based upon outstanding balances at March 31, 2017, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

Table 17: Home Equity Lines of Credit Draw Period End Dates

In millions	Interest Only Product	Principal and Interest Product
Remainder of 2017	**$ 1,257**	**$ 308**
2018	**757**	**606**
2019	**518**	**460**
2020	**416**	**412**
2021	**436**	**638**
2022 and thereafter	**2,536**	**6,054**
Total (a) (b)	**$ 5,920**	**$ 8,478**

(a) Includes all home equity lines of credit that mature in the remainder of 2017 or later, including those with borrowers where we have terminated borrowing privileges.

(b) Includes home equity lines of credit with balloon payments, including those where we have terminated borrowing privileges, of $25 million, $25 million, $18 million, $69 million, $62 million and $340 million with draw periods scheduled to end in the remainder of 2017, 2018, 2019, 2020, 2021 and 2022 and thereafter, respectively.

Based upon outstanding balances, and excluding purchased impaired loans, at March 31, 2017, for home equity lines of credit for which the borrower can no longer draw (*e.g.*, draw period has ended or borrowing privileges have been terminated), approximately 3% were 30-89 days past due and approximately 5% were 90 days or more past due, which are accounted for as nonperforming. Generally, when a borrower becomes 60 days past due, we terminate borrowing privileges and those privileges are not subsequently reinstated. At that point, we continue our collection/recovery processes, which may include loan modification resulting in a loan that is classified as a TDR.

Auto Loan Portfolio

The auto loan portfolio totaled $12.3 billion as of March 31, 2017, or 6% of our total loan portfolio. Of that total, $10.8 billion resides in the indirect auto portfolio, $1.3 billion in the direct auto portfolio and $.2 billion in acquired or securitized portfolios, which have been declining as no pools have been recently acquired. Indirect auto loan applications are generated from franchised automobile dealers. This business is strategically aligned with our core retail business.

We have elected not to pursue non-prime auto lending. Our average new loan origination FICO score over the last twelve months was 758 for indirect auto loans and 773 for direct auto loans. As of March 31, 2017, .5% of our auto loan portfolio was nonperforming and .4% of the portfolio was accruing past due. We offer both new and used automobile financing to customers through our various channels. The portfolio was composed of 56% new vehicle loans and 44% used vehicle loans at March 31, 2017.

The auto loan portfolio s performance is measured monthly, including updated collateral values that are obtained monthly and updated FICO scores that are obtained at least quarterly. For internal reporting and risk management, we analyze the portfolio by product channel and product type and regularly evaluate default and delinquency experience. As part of our overall risk analysis and monitoring, we segment the portfolio by loan structure, collateral attributes and credit metrics which include FICO score, loan-to-value and term.

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Loan Modifications and Troubled Debt Restructurings

Consumer Loan Modifications

We modify loans under government and PNC-developed programs based upon our commitment to help eligible homeowners and borrowers avoid foreclosure, where appropriate. Initially, a borrower is evaluated for a modification under a government program. If a borrower does not qualify under a government program, the borrower is then evaluated under a PNC program. Our programs utilize both temporary and permanent modifications and typically reduce the interest rate, extend the term and/or defer principal. Loans that are either temporarily or permanently modified under programs involving a change to loan terms are generally classified as TDRs. Further, loans that have certain types of payment plans and trial payment arrangements which do not include a contractual change to loan terms may be classified as TDRs.

A temporary modification, with a term between three and 24 months, involves a change in original loan terms for a period of time and reverts to a calculated exit rate for the remaining term of the loan as of a specific date. A permanent modification, with a term greater than 24 months, is a modification in which the terms of the original loan are changed. Permanent modification programs generally result in principal forgiveness, interest rate reduction, term extension, capitalization of past due amounts, interest-only period or deferral of principal.

We also monitor the success rates and delinquency status of our loan modification programs to assess their effectiveness in serving our borrowers and servicing customers needs while mitigating credit losses. Table 18 provides the number of accounts and unpaid principal balance of modified consumer real estate related loans at the end of each year presented.

Table 18: Consumer Real Estate Related Loan Modifications

	March 31, 2017		December 31, 2016	
Dollars in millions	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Temporary modifications	3,315	$ 242	3,484	$ 258
Permanent modifications	24,024	2,718	23,904	2,693
Total consumer real estate related loan modifications	27,339	$ 2,960	27,388	$ 2,951

Commercial Loan Modifications

Modifications of terms for commercial loans are based on individual facts and circumstances. Commercial loan modifications may involve reduction of the interest rate, extension of the loan term and/or forgiveness of principal. Modified commercial loans are usually already nonperforming prior to modification. We evaluate these modifications for TDR classification based upon whether we granted a concession to a borrower experiencing financial difficulties.

Troubled Debt Restructurings

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs result from our loss mitigation activities and include rate reductions, principal forgiveness, postponement/reduction of scheduled amortization and extensions, which are intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Additionally, TDRs also result from court imposed concessions (*e.g.* a Chapter 7 bankruptcy where the debtor is discharged from personal liability to us and a court approved Chapter 13 bankruptcy repayment plan).

Table 19: Summary of Troubled Debt Restructurings (a)

	March 31	December 31	Change	
In millions	2017	2016	$	%
Total commercial lending	$ 366	$ 428	$ (62)	(14)%
Total consumer lending	1,764	1,793	(29)	(2)%
Total TDRs	$ 2,130	$ 2,221	$ (91)	(4)%
Nonperforming	$ 1,009	$ 1,112	$ (103)	(9)%
Accruing (b)	1,121	1,109	12	1%
Total TDRs	$ 2,130	$ 2,221	$ (91)	(4)%

(a) Amounts in table represent recorded investment, which includes the unpaid principal balance plus accrued interest and net accounting adjustments, less any charge-offs. Recorded investment does not include any associated valuation allowance.

(b) Accruing loans include consumer credit card loans and loans that have demonstrated a period of at least six months of performance under the restructured terms and are excluded from nonperforming loans.

Excluded from TDRs are $1.2 billion of consumer loans held for sale, loans accounted for under the fair value option and pooled purchased impaired loans, as well as certain government insured or guaranteed loans at both March 31, 2017 and December 31, 2016. Nonperforming TDRs represented approximately 51% and 52% of total nonperforming loans and 47% and 50% of total TDRs at March 31, 2017 and December 31, 2016, respectively. The remaining portion of TDRs represents TDRs that have been returned to accrual accounting after performing under the restructured terms for at least six consecutive months.

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

We maintain an ALLL to absorb losses from the loan and lease portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan and lease portfolio. Our total ALLL of $2.6 billion at March 31, 2017 consisted of $1.5 billion and $1.1 billion established for the commercial lending and consumer lending categories, respectively. We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolio as of the balance sheet date. The reserve calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan and lease portfolio performance experience, the financial strength of the borrower and economic conditions. Key reserve assumptions are periodically updated.

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

Reserves are established for non-impaired commercial loan classes based on probability of default (PD) and loss given default (LGD) credit risk ratings.

Our commercial pool reserve methodology is sensitive to changes in key risk parameters such as PD and LGD. The results of these parameters are then applied to the loan balance and unfunded loan commitments and letters of credit to determine the amount of the respective reserves. The majority of the commercial portfolio is secured by collateral, including loans to asset-based lending customers, which generally demonstrate lower LGD compared to loans not secured by collateral. Our PDs and LGDs are primarily determined using internal commercial loan loss data. This internal data is supplemented with third-party data and management judgment, as deemed necessary. We continue to evaluate and enhance our use of internal commercial loss data and will periodically update our PDs and LGDs as well as consider third-party data, regulatory guidance and management judgment.

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

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

- Industry concentrations and conditions,
- Recent credit quality trends,
- Recent loss experience in particular portfolios,

- Recent macro-economic factors,
- Model imprecision,
- Changes in lending policies and procedures,
- Timing of available information, including the performance of first lien positions, and
- Limitations of available historical data.

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans. We also allocate reserves to provide coverage for probable losses incurred in the portfolio at the balance sheet date based upon current market conditions, which may not be reflected in historical loss data. Commercial lending is the largest category of credits and is sensitive to changes in assumptions and judgments underlying the determination of the ALLL.

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

See Note 1 Accounting Policies in our 2016 Form 10-K and Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further information on certain key asset quality indicators that we use to evaluate our portfolios and establish the allowances.

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Table 20: Allowance for Loan and Lease Losses

Dollars in millions	2017	2016
January 1	$ 2,589	$ 2,727
Total net charge-offs	(118)	(149)
Provision for credit losses	88	152
Net change in allowance for unfunded loan commitments and letters of credit	(4)	(21)
Other	6	2
March 31	$ 2,561	$ 2,711
Net charge-offs to average loans (for the three months ended) (annualized)	.23%	.29%
Total allowance for loan and lease losses to total loans	1.20%	1.31%
Commercial lending net charge-offs	$ (23)	$ (43)
Consumer lending net charge-offs	(95)	(106)
Total net charge-offs	$ (118)	$ (149)
Net charge-offs to average loans (for the three months ended) (annualized)		
Commercial lending	.07%	.13%
Consumer lending	.53%	.59%

At March 31, 2017, total ALLL to total nonperforming loans was 128%. The comparable amount for December 31, 2016 was 121%. These ratios are 94% and 89%, respectively, when excluding the $.7 billion of ALLL at both March 31, 2017 and December 31, 2016, allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded from these ratios purchased impaired loans, consumer loans and consumer lines of credit not secured by real estate that are excluded from nonperforming loans. See Table 14 within this Credit Risk Management section for additional information.

The ALLL balance increases or decreases across periods in relation to fluctuating risk factors, including asset quality trends, net charge-offs and changes in aggregate portfolio balances. During the first three months of 2017, overall credit quality remained relatively stable, which resulted in an essentially flat ALLL balance as of March 31, 2017 compared to December 31, 2016.

The following table summarizes our loan charge-offs and recoveries.

Table 21: Loan Charge-Offs and Recoveries

Three months ended March 31 Dollars in millions	Gross Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	Percent of Average Loans (Annualized)
2017				
Commercial	$ 53	$ 24	$ 29	.11%
Commercial real estate	1	7	(6)	(.08)%
Equipment lease financing	1	1		
Home equity	34	20	14	.19%
Residential real estate	4	4		

Credit card	46	5	41	3.24%
Other consumer	59	19	40	.74%
Total	$ 198	$ 80	$ 118	.23%
2016				
Commercial	$ 78	$ 33	$ 45	.18%
Commercial real estate	10	12	(2)	(.03)%
Equipment lease financing	1	1		
Home equity	48	21	27	.34%
Residential real estate	8	3	5	.14%
Credit card	42	4	38	3.23%
Other consumer	49	13	36	.67%
Total	$ 236	$ 87	$ 149	.29%

See Note 1 Accounting Policies in our 2016 Form 10-K and Note 4 Allowance for Loan and Lease Losses in the Notes To Consolidated Financial Statements in this Report for additional information on the ALLL.

Residential Mortgage Repurchase Obligations

As discussed in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in our 2016 Form 10-K, we have sold residential mortgage loans directly or indirectly through securitization and loan sale transactions in which we have continuing involvement. One form of continuing involvement includes certain loan repurchase obligations associated with the transferred assets. For additional information regarding our residential mortgage repurchase obligations, see the Credit Risk Management portion of the Risk Management section in our 2016 Form 10-K.

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Liquidity and Capital Management

Liquidity risk, including our liquidity monitoring measures and tools, is described in further detail in the Liquidity and Capital Management section of our 2016 Form 10-K.

One of the ways we monitor our liquidity is by reference to the Liquidity Coverage Ratio (LCR), a regulatory minimum liquidity requirement designed to ensure that covered banking organizations maintain an adequate level of liquidity to meet net liquidity needs over the course of a 30-day stress scenario. The LCR is calculated by dividing the amount of an institution s high quality, unencumbered liquid assets (HQLA), as defined and calculated in accordance with the LCR rules, by its estimated net cash outflows, with net cash outflows determined by applying the assumed outflow factors in the LCR rules. The resulting quotient is expressed as a percentage. The minimum LCR that PNC and PNC Bank were required to maintain was 90% in 2016 and the minimum increased to 100% in 2017. PNC and PNC Bank calculate the LCR on a daily basis and as of March 31, 2017, the LCR for PNC and PNC Bank exceeded the fully phased-in requirement of 100%.

We provide additional information regarding regulatory liquidity requirements and their potential impact on us in the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors of our 2016 Form 10-K.

Sources of Funding

Our largest source of liquidity on a consolidated basis is the customer deposit base generated by our banking businesses. These deposits provide relatively stable and low-cost funding. Total deposits increased to $260.7 billion at March 31, 2017 from $257.2 billion at December 31, 2016, driven by growth in consumer savings and demand deposits, partially offset by seasonal declines in commercial deposits. The overall increase in savings deposits reflected in part a shift from money market deposits to relationship-based savings products. Additionally, certain assets determined by us to be liquid and unused borrowing capacity from a number of sources are also available to maintain our liquidity position.

At March 31, 2017, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling $32.4 billion and securities available for sale totaling $59.3 billion. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and balance sheet management activities. Of our total liquid assets of $91.7 billion, we had $4.4 billion of securities available for sale and trading securities pledged as collateral to secure public and trust deposits, repurchase agreements and for other purposes. In addition, $4.5 billion of securities held to maturity were also pledged as collateral for these purposes.

We also obtain liquidity through the issuance of traditional forms of funding, including long-term debt (senior notes, subordinated debt and FHLB advances) and short-term borrowings (Federal funds purchased, securities sold under repurchase agreements, commercial paper and other short-term borrowings).

Total senior and subordinated debt, on a consolidated basis, decreased due to the following activity:

Table 22: Senior and Subordinated Debt

In billions	2017
January 1	$ 31.0

Issuances	1.8
Calls and maturities	(2.2)
March 31	$ 30.6

Under PNC Bank s 2014 bank note program, as amended, PNC Bank may from time to time offer up to $40.0 billion aggregate principal amount outstanding at any one time of its unsecured senior and subordinated notes with maturity dates more than nine months (in the case of senior notes) and five years or more (in the case of subordinated notes) from their date of issue. At March 31, 2017, PNC Bank had $24.6 billion of notes outstanding under this program of which $19.4 billion were senior bank notes and $5.2 billion were subordinated bank notes. The following table details issuances for the three months ended March 31, 2017:

Table 23: PNC Bank Notes Issued During First Quarter 2017

Issuance Date	Amount	Description of Issuance
February 17, 2017 March 8, 2017 (re-opening)	$1.0 billion $250 million	Senior notes with a maturity date of February 17, 2022. Interest is payable semi-annually at a fixed rate of 2.625% on February 17 and August 17 of each year, beginning August 17, 2017. Following the re-opening, the aggregate outstanding principal amount of this series of notes increased to $1.25 billion.

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PNC Bank is a member of the FHLB-Pittsburgh and, as such, has access to advances from FHLB-Pittsburgh secured generally by residential mortgage loans, other mortgage-related loans and commercial mortgage-backed securities. At March 31, 2017, our unused secured borrowing capacity was $25.6 billion with the FHLB-Pittsburgh. Total FHLB borrowings increased to $19.5 billion at March 31, 2017 compared with $17.5 billion at December 31, 2016 as draws outpaced maturities.

The FHLB-Pittsburgh also periodically provides standby letters of credit on behalf of PNC Bank to secure certain public deposits. If the FHLB-Pittsburgh is required to make payment for a beneficiary s draw, the payment amount is converted into a collateralized advance to PNC Bank. At March 31, 2017, standby letters of credit issued on our behalf by the FHLB-Pittsburgh totaled $4.4 billion.

PNC Bank has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of March 31, 2017, there were no issuances outstanding under this program.

PNC Bank can also borrow from the Federal Reserve Bank discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as a primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by commercial loans. At March 31, 2017, our unused secured borrowing capacity was $17.5 billion with the Federal Reserve Bank.

Borrowed funds come from a diverse mix of short-term and long-term funding sources. See Note 10 Borrowed Funds in our 2016 Form 10-K and the Funding Sources section of the Consolidated Balance Sheet Review for additional information related to our Borrowings.

In addition to managing liquidity risk at the consolidated company level, we monitor the parent company s liquidity. The parent company s contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. Additionally, the parent company maintains adequate liquidity to fund discretionary activities such as paying dividends to our shareholders, share repurchases and acquisitions.

As of March 31, 2017, available parent company liquidity totaled $4.5 billion. Parent company liquidity is primarily held in intercompany short-term investments, the terms of which provide for the availability of cash in 31 days or less. Investments with longer durations may also be acquired, but if so, the related maturities are aligned with scheduled cash needs, such as the maturity of parent company debt obligations.

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

Bank-level capital needs,

Laws and regulations,

Corporate policies,

Contractual restrictions, and

Other factors.

There are statutory and regulatory limitations on the ability of a national bank to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. The amount available for dividend payments by PNC Bank to the parent company without prior regulatory approval was approximately $1.1 billion at March 31, 2017. See Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements in our 2016 Form 10-K for a further discussion of these limitations.

In addition to dividends from PNC Bank, other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. We can also generate liquidity for the parent company and PNC s non-bank subsidiaries through the issuance of debt and equity securities, including certain capital instruments, in public or private markets and commercial paper. The parent company has the ability to offer up to $5.0 billion of commercial paper to provide additional liquidity. As of March 31, 2017, there were no commercial paper issuances outstanding.

The parent company has an effective shelf registration statement pursuant to which it can issue additional debt, equity and other capital instruments. Under this shelf registration statement, on February 7, 2017, the parent company issued $575 million in Floating Rate Senior Notes with a maturity date of August 7, 2018. Interest is payable at the 3-month LIBOR rate reset quarterly, plus a spread of 0.25% per annum, on February 7, May 7, August 7 and November 7 of each year, commencing on May 7, 2017.

Total parent company borrowings outstanding totaled $6.2 billion at both March 31, 2017 and December 31, 2016. As of March 31, 2017, there were no parent company borrowings with contractual maturities of less than one year.

Contractual Obligations and Commitments

We have contractual obligations representing required future payments on borrowed funds, time deposits, leases, pension and postretirement benefits and purchase obligations. See the Liquidity and Capital Management portion of the Risk Management section in our 2016 Form 10-K for more information on these future cash outflows. Additionally, in the normal course of business we have various commitments outstanding, certain of which are not included on our Consolidated Balance Sheet. We provide information on our commitments in Note 13 Commitments in the Notes To Consolidated Financial Statements of this Report.

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Credit Ratings

PNC s credit ratings affect the cost and availability of short- and long-term funding, collateral requirements for certain derivative instruments and the ability to offer certain products.

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

Table 24: Credit Ratings as of March 31, 2017 for PNC and PNC Bank

	Moody s	Standard & Poor s	Fitch
PNC			
Senior debt	A3	A-	A+
Subordinated debt	A3	BBB+	A
Preferred stock	Baa2	BBB-	BBB-
PNC Bank			
Senior debt	A2	A	A+
Subordinated debt	A3	A-	A
Long-term deposits	Aa2	A	AA-
Short-term deposits	P-1	A-1	F1+
Short-term notes	P-1	A-1	F1

Capital Management

Detailed information on our capital management processes and activities, including additional information on our share repurchase programs and our previous CCAR submissions and capital plans, is included in the Capital Management portion of the Risk Management section in our 2016 Form 10-K.

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

In January 2017, we announced a $300 million increase to our share repurchase programs, which now provide for repurchases of up to $2.3 billion for the four quarter period ended June 30, 2017. In the first quarter of 2017, we repurchased 5.0 million common shares for $.6 billion. PNC has repurchased a total of 15.8 million shares for $1.6 billion under these repurchase programs as of March 31, 2017.

We paid dividends on common stock of $.3 billion, or 55 cents per common share, during the first quarter of 2017. On April 4, 2017, the PNC Board of Directors declared a quarterly common stock cash dividend of 55 cents per share payable on May 5, 2017.

See Note 11 Total Equity and Other Comprehensive Income in the Notes To Consolidated Financial Statements in this Report for additional information on the March 15, 2017 redemption of $1.0 billion of Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities issued by PNC Preferred Funding Trusts I and II.

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Table 25: Basel III Capital

	March 31, 2017	
Dollars in millions	2017 Transitional Basel III (a)	Pro forma Fully Phased-In Basel III (Non-GAAP) (estimated) (b) (c)
Common equity Tier 1 capital		
Common stock plus related surplus, net of treasury stock	$ 9,681	$ 9,681
Retained earnings	32,372	32,372
Accumulated other comprehensive income for securities currently and previously held as available for sale	179	223
Accumulated other comprehensive income for pension and other postretirement plans	(474)	(592)
Goodwill, net of associated deferred tax liabilities	(8,824)	(8,824)
Other disallowed intangibles, net of deferred tax liabilities	(183)	(228)
Other adjustments/(deductions)	(183)	(180)
Total common equity Tier 1 capital before threshold deductions	32,568	32,452
Total threshold deductions	(1,064)	(1,585)
Common equity Tier 1 capital	31,504	30,867
Additional Tier 1 capital		
Preferred stock plus related surplus	3,980	3,980
Other adjustments/(deductions)	(94)	(104)
Tier 1 capital	35,390	34,743
Additional Tier 2 capital		
Qualifying subordinated debt	3,846	3,778
Trust preferred capital securities	100	
Eligible credit reserves includable in Tier 2 capital	2,866	2,866
Total Basel III capital	$ 42,202	$ 41,387
Risk-weighted assets		
Basel III standardized approach risk-weighted assets (d)	$ 300,233	$ 308,392
Basel III advanced approaches risk-weighted assets (e)	N/A	$ 278,938
Average quarterly adjusted total assets	$ 356,237	$ 355,657
Supplementary leverage exposure (f)	$ 423,122	$ 422,542
Basel III risk-based capital and leverage ratios		
Common equity Tier 1	10.5%	10.0% (g) (h)
Tier 1	11.8%	11.3% (g) (i)
Total	14.1%	13.4% (g) (j)
Leverage (k)	9.9%	9.8%
Supplementary leverage ratio (l)	8.4%	8.2%

(a) Calculated using the regulatory capital methodology applicable to us during 2017.

(b) PNC utilizes the pro forma fully phased-in Basel III capital ratios to assess its capital position (without the benefit of phase-ins), as these ratios represent the regulatory capital standards that will ultimately be applicable to PNC under the final Basel III rules. Pro forma fully phased-in capital amounts, ratios and risk-weighted and leverage-related assets are estimates.

(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, may be subject to variability based on the ongoing evolution, validation and regulatory approval of PNC s models integral to the calculation of advanced approaches risk-weighted assets.

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

(e) Basel III advanced approaches risk-weighted assets are estimated based on the Basel III advanced approaches rules, and include credit, market and operational risk-weighted assets. During the parallel run qualification phase, PNC has refined the data, models and internal processes used as part of the advanced approaches for determining risk-weighted assets. We anticipate additional refinements to this estimate through the parallel run qualification phase.

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

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

(h) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Common equity Tier 1 capital ratio estimate is 11.1%. This capital ratio is calculated using pro forma fully phased-in Common equity Tier 1 capital and dividing by estimated Basel III advanced approaches risk-weighted assets.

(i) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Tier 1 risk-based capital ratio estimate is 12.5%. This capital ratio is calculated using fully phased-in Tier 1 capital and dividing by estimated Basel III advanced approaches risk-weighted assets.

(j) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Total capital risk-based capital ratio estimate is 13.8%. This ratio is calculated using fully phased-in Total Basel III capital, which under the advanced approaches, Additional Tier 2 capital includes allowance for loan and lease losses in excess of Basel expected credit losses, if any, up to 0.6% of credit risk related risk-weighted assets, and dividing by estimated Basel III advanced approach risk-weighted assets.

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

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

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As a result of the phase-in periods included in the final U.S. Basel III regulatory capital rules (Basel III rules), as well as the fact that we remain in the parallel run qualification phase for the advanced approaches, our regulatory risk-based capital ratios in 2017 are based on the definitions of, and deductions from, regulatory capital under the Basel III rules (as such definitions and deductions are phased-in for 2017) and the standardized approach for determining risk-weighted assets. Until we have exited parallel run, our regulatory risk-based Basel III ratios will be calculated using the standardized approach for determining risk-weighted assets, and the definitions of, and deductions from, capital under Basel III (as such definitions and deductions are phased-in through 2019). Once we exit parallel run, our regulatory risk-based capital ratios will be the lower of the ratios calculated under the standardized approach and the advanced approaches. We refer to the capital ratios calculated using the phased-in Basel III provisions in effect for 2017 and, for the risk-based ratios, standardized approach risk-weighted assets, as the 2017 Transitional Basel III ratios. Under the standardized approach for determining credit risk-weighted assets, exposures are generally assigned a pre-defined risk weight. Exposures to high volatility commercial real estate, past due exposures, equity exposures and securitization exposures are generally subject to higher risk weights than other types of exposures.

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

Federal banking regulators have stated that they expect the largest U.S. bank holding companies, including PNC, to have a level of regulatory capital well in excess of the regulatory minimum and have required the largest U.S. bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet the credit needs of their customers through estimated stress scenarios. We seek to manage our capital consistent with these regulatory principles and believe that our March 31, 2017 capital levels were aligned with them.

At March 31, 2017, PNC and PNC Bank, our sole bank subsidiary, were both considered well capitalized, based on applicable U.S. regulatory capital ratio requirements. To qualify as well capitalized , PNC must have Transitional Basel III capital ratios of at least 6% for Tier 1 risk-based

capital and 10% for Total risk-based capital, and PNC Bank must have Transitional Basel III capital ratios of at least 6.5% for Common equity Tier 1 risk-based capital, 8% for Tier 1 risk-based capital, 10% for Total risk-based capital and a Leverage ratio of at least 5%.

We provide additional information regarding regulatory capital requirements and some of their potential impacts on us in the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors and Note 18 Regulatory Matters in our 2016 Form 10-K. See the Statistical Information (Unaudited) section of this Report for details on our December 31, 2016 and March 31, 2016 Transitional Basel III and Pro forma fully phased-in Basel III common equity tier 1 capital ratios.

Market Risk Management

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

Traditional banking activities of gathering deposits and extending loans,

Equity and other investments and activities whose economic values are directly impacted by market factors, and

Fixed income securities, derivatives and foreign exchange activities, as a result of customer activities and securities underwriting.

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

Market Risk Management   Interest Rate Risk

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

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

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Sensitivity results and market interest rate benchmarks for the first quarters of 2017 and 2016 follow:

Table 26: Interest Sensitivity Analysis

	First Quarter 2017	First Quarter 2016
Net Interest Income Sensitivity Simulation (a)		
Effect on net interest income in first year from gradual interest rate change over the following 12 months of:		
100 basis point increase	2.5%	2.7%
100 basis point decrease	(4.5)%	(2.9)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	4.0%	6.7%
100 basis point decrease	(8.8)%	(7.8)%
Duration of Equity Model (a)		
Base case duration of equity (in years)	(2.3)	(7.1)
Key Period-End Interest Rates		
One-month LIBOR	.98%	.44%
Three-year swap	1.81%	.95%

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

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. Table 27 reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist s most likely rate forecast, (ii) implied market forward rates and (iii) yield curve slope flattening (a 100 basis point yield curve slope flattening between 1-month and ten-year rates superimposed on current base rates) scenario.

Table 27: Net Interest Income Sensitivity to Alternative Rate Scenarios (First Quarter 2017)

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	1.8%	2.0%	(2.3)%
Second year sensitivity	4.8%	2.6%	(6.5)%

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

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in Tables 26 and 27 above. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates.

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

Table 28: Alternate Interest Rate Scenarios: One Year Forward

The first quarter 2017 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates and an upward sloping interest rate yield curve. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

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Market Risk Management   Customer-Related Trading Risk

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

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in customer-related trading activities. VaR is used to estimate the probability of portfolio losses based on the statistical analysis of historical market risk factors. A diversified VaR reflects empirical correlations across different asset classes. We calculate a diversified VaR at a 95% confidence interval and the results for the first three months of 2017 and 2016 were within our acceptable limits.

See the Market Risk Management   Customer-Related Trading Risk section of our 2016 Form 10-K for more information on our models used to calculate VaR and our backtesting process.

Customer-related trading revenue was $68 million for the first quarter of 2017 compared with $39 million for the first quarter of 2016. The increase was primarily due to market rate changes impacting valuations for customer-related derivatives and higher derivative sales.

Market Risk Management   Equity And Other Investment Risk

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

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

A summary of our equity investments follows:

Table 29: Equity Investments Summary

In millions	March 31 2017	December 31 2016	Change $	Change %
BlackRock	$ 6,907	$6,886	$ 21	
Tax credit investments	2,204	2,090	114	5%
Private equity and other	1,789	1,752	37	2%
Total	$ 10,900	$10,728	$ 172	2%

<u>BlackRock</u>

We owned approximately 35 million common stock equivalent shares of BlackRock equity at March 31, 2017, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

Tax Credit Investments

Included in our equity investments are direct tax credit investments and equity investments held by consolidated entities. These tax credit investment balances included unfunded commitments totaling $.8 billion and $.7 billion at March 31, 2017 and December 31, 2016, respectively. These unfunded commitments are included in Other Liabilities on our Consolidated Balance Sheet.

Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in our 2016 Form 10-K has further information on Tax Credit Investments.

Private Equity and Other

The majority of our other equity investments consists of our private equity portfolio. The private equity portfolio is an illiquid portfolio consisted of mezzanine and equity investments that vary by industry, stage and type of investment. Private equity investments carried at estimated fair value totaled $1.4 billion at both March 31, 2017 and December 31, 2016. As of March 31, 2017, $1.1 billion was invested directly in a variety of companies and $.3 billion was invested indirectly through various private equity funds. See Item 1 Business Supervision and Regulation and Item 1A Risk Factors in our 2016 Form 10-K for discussion of the potential impacts of the Volcker Rule provisions of Dodd-Frank on our interests in and of private funds covered by the Volcker Rule, including the five-year extension we received in February 2017 to conform certain equity investments subject to the Volcker Rule.

Included in our other equity investments are Visa Class B common shares, which are recorded at cost. At March 31, 2017, the fair value of our investment in Visa Class B common shares was approximately $515 million and our cost basis was not significant. Visa Class B common shares that we own are transferable only under limited circumstances until they can be converted into shares of the publicly traded class of stock, which cannot happen until the settlement of the pending interchange litigation. Please see Note 6 Fair Value and Note 12 Legal Proceedings in the Notes To Consolidated Financial Statements in our 2016 Form 10-K for additional information regarding our Visa agreements.

We also have certain other equity investments, the majority of which represent investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. Net gains related to these investments were not significant at March 31, 2017 and December 31, 2016.

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Financial Derivatives

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

Financial derivatives involve, to varying degrees, market and credit risk. Periodic cash payments are exchanged for interest rate swaps, options and future contracts. Premiums are also exchanged for options contracts. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments.

Further information on our financial derivatives is presented in Note 1 Accounting Policies and Note 6 Fair Value in our Notes To Consolidated Financial Statements in our 2016 Form 10-K and in Note 6 Fair Value and Note 9 Financial Derivatives in the Notes To Consolidated Financial Statements in this Report.

Not all elements of market and credit risk are addressed through the use of financial derivatives, and such instruments

may be ineffective for their intended purposes due to unanticipated market changes, among other reasons.

RECENT REGULATORY DEVELOPMENTS

The Department of Labor (DOL) has issued final rules expanding the definition of investment advice related to retirement accounts and certain other accounts that are subject to DOL interpretive authority. The rules were scheduled to take effect on April 10, 2017 with a transition period between April 10, 2017 and January 1, 2018, during which time reduced requirements were to apply. A presidential memorandum issued on February 3, 2017 directed the DOL to review the rules to determine whether, among other things, the rules harm investors or increase the cost of retirement services. In light of the presidential memorandum, on April 5, 2017, the DOL delayed the applicability date of the rule until June 9, 2017 and further reduced the requirements during the transition period. Full compliance is still required on January 1, 2018, although the DOL continues to conduct a review of the rules and has left open the possibility of additional extension of the full compliance date or modification to the rules.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Note 1 Accounting Policies of our 2016 Form 10-K describes the most significant accounting policies that we use to prepare our consolidated financial statements. Certain of these policies

require us to make estimates or economic assumptions that may vary under different assumptions or conditions and such variations may significantly affect our reported results and financial position for the period or in future periods.

The following critical accounting policies and judgments are described in more detail in Critical Accounting Estimates and Judgments in Item 7 of our 2016 Form 10-K:

- Fair Value Measurements
- Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit
- Goodwill
- Residential and Commercial Mortgage Servicing Rights
- Income Taxes

Goodwill

Goodwill arising from business acquisitions represents the value attributable to unidentifiable intangible elements in the business acquired. Most of our goodwill relates to value inherent in the Retail Banking and Corporate & Institutional Banking businesses.

The value of goodwill is supported by earnings, which is driven by our invested assets and transaction volume and, for certain businesses, the market value of assets under administration or for which processing services are provided. Lower earnings and realized profitability resulting from a lack of growth or our inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could result in a current period charge to earnings. At least annually, in the fourth quarter, or more frequently if events occur or circumstances have changed significantly from the annual test date, management reviews the current operating environment and strategic direction of each reporting unit taking into consideration any events or changes in circumstances that may have an effect on the unit. For this review, inputs are generated and used in calculating the fair value of the reporting unit, which is compared to its carrying amount (Step 1 of the goodwill impairment test) as further discussed below. The fair values of our reporting units are determined using a discounted cash flow valuation model with assumptions based upon market comparables. Additionally, we may also evaluate certain financial metrics that are indicative of fair value, including market quotes, price to earnings ratios and recent acquisitions involving other financial institutions.

Given our segment realignment, as described in the Business Segments Review section of this Financial Review, we performed an interim impairment test as of March 31, 2017. The results indicated that the estimated fair value of our reporting units exceeded their carrying values by at least 10% and are not considered to be at risk of not passing Step 1.

See the Critical Accounting Estimates and Judgments section in Item 7 of our 2016 Form 10-K for additional information on our annual impairment test processes.

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Fair Value Measurements

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at March 31, 2017 and December 31, 2016, respectively, and the portions of such assets and liabilities that are classified within Level 3 of the valuation hierarchy. Level 3 assets and liabilities are those where the fair value is estimated using significant unobservable inputs.

Table 30: Fair Value Measurements   Summary

	March 31, 2017		December 31, 2016	
Dollars in millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	$ 71,352	$ 7,526	$ 74,608	$ 8,830
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		11%		12%
Level 3 assets as a percentage of consolidated assets		2%		2%
Total liabilities	$ 4,315	$ 292	$ 4,818	$ 433
Total liabilities at fair value as a percentage of consolidated liabilities	1%		2%	
Level 3 liabilities as a percentage of total liabilities at fair value		7%		9%
Level 3 liabilities as a percentage of consolidated liabilities		<1%		<1%

The majority of assets recorded at fair value are included in the securities available for sale portfolio. The majority of Level 3 assets represent non-agency residential mortgage-backed securities in the available for sale portfolio, equity investments and mortgage servicing rights. For further information on fair value, see Note 6 Fair Value in the Notes To Consolidated Financial Statements in this Report.

Recently Issued Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU clarifies the principles for recognizing revenue and replaces nearly all existing revenue recognition guidance in U.S. GAAP with one accounting model. The core principle of the guidance is that an entity should recognize revenue to depict the satisfaction of a performance obligation by transfer of promised goods or services to customers. The ASU also requires additional qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

In August 2015, the FASB issued guidance deferring the mandatory effective date of ASU 2014-09 for one year, to annual reporting periods beginning after December 15, 2017. During 2016, the FASB also issued four separate ASUs which amend the original standard to clarify guidance regarding principal versus agent considerations, identifying performance obligations and licensing, certain narrow-scope amendments which address the presentation of sales tax, noncash consideration, contract modifications at transition and assessing collectability and other minor technical corrections and improvements.

The requirements within ASU 2014-09 and its subsequent amendments should be applied retrospectively to each prior period presented (with several practical expedients for certain completed contracts) or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application (i.e., modified retrospective application). We plan to adopt the ASU consistent with the deferred mandatory effective date using the modified retrospective approach. Based on our evaluation to date, we do not expect the adoption of this standard to have a significant impact on our consolidated results of operations or our consolidated financial position. We expect that the most significant impact related to the standard s expanded disclosure requirements will be the disaggregation of revenue.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): *Recognition and Measurement of Financial Assets and Financial Liabilities.* This ASU changes the accounting for certain equity investments, financial liabilities under the fair value option and presentation and disclosure requirements for financial instruments. Equity investments not accounted for under the equity method of accounting will be measured at fair value with any changes in fair value recognized in net income. The ASU also simplifies the impairment assessment of equity investments for which fair value is not readily determinable. Additionally, the ASU changes the presentation of certain fair value changes for financial liabilities measured at fair value and amends certain disclosure requirements relating to the fair value of financial instruments. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 and should be applied using a modified retrospective approach through a cumulative-effect adjustment to the balance sheet, except for the amendment related to equity securities without readily determinable fair values, which should be applied prospectively. We plan to adopt all provisions consistent with the effective date and are currently evaluating the impact of this ASU on our results of operations and financial position. However, we expect the standard will most significantly impact equity investments that are currently accounted for under the cost method which will likely have a positive impact on income when transitioned to fair value measurement.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842*)*. The primary change in the new guidance is the recognition of lease assets and lease liabilities by lessees for operating leases. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases with lease terms of more than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 using a modified retrospective approach through a cumulative-effect adjustment. Early adoption is permitted. We are currently evaluating the impact of adopting this standard.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*. The ASU requires the use of an expected credit loss methodology; specifically, expected credit losses for the remaining life of the asset will be recognized at the time of origination or acquisition. The expected credit loss methodology will apply to loans, debt securities and other financial assets accounted for at amortized cost and net investment in leases not accounted for at fair value through net income. It will also apply to off-balance

sheet credit exposures except for unconditionally cancellable commitments. Assets in the scope of the ASU, except for purchased credit deteriorated assets, will be presented at the net amount expected to be collected after deducting the allowance for credit losses from the amortized cost basis of the assets.

Enhanced credit quality disclosures will be required including disaggregation of credit quality indicators by vintage. The development of an expected credit loss methodology and new disclosures will require significant data collection, building or enhancing loss models, and process re-development prior to adoption. The ASU is effective for us for the first quarter of 2020 using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. We have established a company-wide, cross-functional governance structure. We are in the process of determining the required changes to our credit loss estimation methodologies, data and systems to be able to comply with the standard. We continue to assess the impact of the standard; however, we expect the guidance will result in an increase in the allowance for loan losses to cover credit losses over the estimated life of the financial assets. The magnitude of the increase in our allowance for loan losses at the adoption date will be dependent upon the nature of the characteristics of the portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that date.

Statement of Cash Flows

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): *Classification of Certain Cash Receipts and Cash Payments.* The ASU provides guidance on eight specific issues related to classification within the statement of cash flows with the objective of reducing existing diversity in practice. The specific issues cover cash payments for debt prepayment or debt extinguishment costs; cash outflows for settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant; contingent consideration payments that are not made soon after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests received in securitization transactions; and clarifies that when no specific GAAP guidance exists and the source of the cash flows are not separately identifiable, then the predominant source of cash flows should be used to determine the classification for the item. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. Based on our evaluation to date, we do not expect the adoption of this standard to have a significant impact on our consolidated statement of cash flows.

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Goodwill

In January 2017, the FASB issued ASU 2017-04, Intangibles Goodwill and Other (Topic 350): *Simplifying the Accounting for Goodwill Impairment.* This ASU eliminates Step 2 from the goodwill impairment test to simplify the subsequent measurement of goodwill. Under Step 2, an entity had to calculate the implied fair value of goodwill at the impairment testing date of its assets and liabilities as if those assets and liabilities had been acquired in a business combination. Under the ASU, the goodwill impairment test compares the fair value of a reporting unit with its carrying amount, and an impairment charge is recognized for the amount by which the carrying amount exceeds the reporting unit s fair value, not to exceed the carrying amount of goodwill. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect the adoption of this standard to impact our consolidated results of operations or our consolidated financial position.

Recently Adopted Accounting Standards

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in this Report regarding the impact of new accounting pronouncements adopted in 2017.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

We engage in a variety of activities that involve entities that are not consolidated or otherwise 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 2016 Form 10-K and in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities and Note 13 Commitments in the Notes To Consolidated Financial Statements included in this Report.

A summary of variable interest entities (VIEs), including those in which we hold variable interests but have not consolidated into our financial statements, is included in Note 2 in our 2016 Form 10-K.

Trust Preferred Securities and REIT Preferred Securities

See Note 10 Borrowed Funds and Note 15 Equity in the Notes To Consolidated Financial Statements in our 2016 Form 10-K and Note 11 Total Equity and Other Comprehensive Income in the Notes To Consolidated Financial Statements in this Report for additional information on trust preferred securities issued by PNC Capital Trust C and Fixed-to-Floating Rate Non-Cumulative Exchangeable Perpetual Trust Securities (Perpetual Trust Securities) issued by PNC Preferred Funding Trust I and PNC Preferred Funding Trust II, including information on our March 15, 2017 redemption of the Perpetual Trust Securities and the related termination of the replacement capital covenants which had benefitted PNC Capital Trust C, as well as information on contractual limitations potentially imposed by PNC Capital Trust C on payments (including dividends) with respect to PNC s securities.

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of March 31, 2017, we performed an evaluation under the supervision of and with the participation of our management, including the Chairman, President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chairman, President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934) were effective as of March 31, 2017, and that there has been no change in PNC s internal control over financial reporting that occurred during the first quarter of 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

GLOSSARY OF TERMS

For a glossary of terms commonly used in our filings, please see the glossary of terms included in our 2016 Form 10-K.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

- Our businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:
  - Changes in interest rates and valuations in debt, equity and other financial markets.
  - Disruptions in the U.S. and global financial markets.
  - Actions by the Federal Reserve Board, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.
  - Changes in law and policy accompanying the new presidential administration and uncertainty or speculation pending the enactment of such changes.
  - Changes in customers , suppliers and other counterparties performance and creditworthiness.
  - Slowing or reversal of the current U.S. economic expansion.
  - Continued residual effects of recessionary conditions and uneven spread of positive impacts of recovery on the economy and our counterparties, including adverse impacts on levels of unemployment, loan utilization rates, delinquencies, defaults and counterparty ability to meet credit and other obligations.
  - Commodity price volatility.
  - Changes in customer preferences and behavior, whether due to changing business and economic conditions, legislative and regulatory initiatives, or other factors.
- Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than those we are currently expecting. These statements are based on our current view that the U.S. economy and the labor market will grow moderately in 2017, boosted by stable oil/energy prices, improving consumer spending and housing activity, and expanded federal fiscal policy stimulus as a result of the 2016 elections. Short-term interest rates and bond yields are expected to continue rising gradually in 2017, along with inflation. These forward-looking statements also do not, unless otherwise indicated, take into account the impact of potential legal and regulatory contingencies.
- Our ability to take certain capital actions, including paying dividends and any plans to increase common stock dividends, repurchase common stock under current or future programs, or issue or redeem preferred stock or other regulatory capital instruments, is subject to the review of such proposed actions by the Federal Reserve Board as part of our comprehensive capital plan for the applicable period in connection with the Federal Reserve Board s Comprehensive Capital Analysis and Review (CCAR) process and to the acceptance of such capital plan and non-objection to such capital actions by the Federal Reserve Board.
- Our regulatory capital ratios in the future will depend on, among other things, the company s financial performance, the scope and terms of final capital regulations then in effect (particularly those implementing the international regulatory capital framework developed by the Basel Committee on Banking Supervision (Basel

Committee), the international body responsible for developing global regulatory standards for banking organizations for consideration and adoption by national jurisdictions), and management actions affecting the composition of our balance sheet. In addition, our ability to determine, evaluate and forecast regulatory capital ratios, and to take actions (such as capital distributions) based on actual or forecasted capital ratios, will be dependent at least in part on the development, validation and regulatory approval of related models.

Legal and regulatory developments could have an impact on our ability to operate our businesses, financial condition, results of operations, competitive position, reputation, or pursuit of attractive acquisition opportunities. Reputational impacts could affect matters such as business generation and retention, liquidity, funding and ability to attract and retain management. These developments could include:

- Changes resulting from legislative and regulatory reforms, including changes affecting oversight of the financial services industry, consumer protection, bank capital and liquidity standards, tax, pension, bankruptcy and other industry aspects, and changes in accounting policies and principles.
- Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. These matters may

result in monetary judgments or settlements or other remedies, including fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to us.

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

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

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

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

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

Competition can have an impact on customer acquisition, growth and retention and on credit spreads and product pricing, which can affect market share, deposits and revenues. Our ability to anticipate and respond to technological changes can also impact our ability to respond to customer needs and meet competitive demands.

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

We provide greater detail regarding these as well as other factors in our 2016 Form 10-K, and elsewhere in this Report, including in the Risk Factors and Risk Management sections and the Legal Proceedings and Commitments Notes of the Notes To Consolidated Financial Statements in that Report. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

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CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited	Three months ended March 31	
In millions, except per share data	2017	2016
Interest Income		
Loans	$ 1,904	$ 1,843
Investment securities	493	462
Other	123	102
Total interest income	2,520	2,407
Interest Expense		
Deposits	120	