

PNC FINANCIAL SERVICES GROUP, INC.  
Form 10-Q  
November 04, 2016

**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 September 30, 2016**

**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)**

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(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

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

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

As of October 21, 2016, there were 486,501,562 shares of the registrant's common stock (\$5 par value) outstanding.

THE PNC FINANCIAL SERVICES GROUP, INC.

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## FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

*This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2015 Annual Report on Form 10-K (2015 Form 10-K). For information regarding certain business, regulatory and legal risks, see the following sections as they appear in this Report and in our 2015 Form 10-K: the Risk Management section of the Financial Review portion of this report and of Item 7 in our 2015 Form 10-K; Item 1A Risk Factors included in our 2015 Form 10-K; and the Legal Proceedings and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements included in our 2015 Form 10-K and our First and Second Quarter 2016 Form 10-Q. 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 2015 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 Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis.*

**Table 1: Consolidated Financial Highlights**

Dollars in millions, except per share data

|                                                                               | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |          |
|-------------------------------------------------------------------------------|------------------------------------|----------|-----------------------------------|----------|
| Unaudited                                                                     | 2016                               | 2015     | 2016                              | 2015     |
| <b>Financial Results (a)</b>                                                  |                                    |          |                                   |          |
| Revenue                                                                       |                                    |          |                                   |          |
| Net interest income                                                           | \$ 2,095                           | \$ 2,062 | \$ 6,261                          | \$ 6,186 |
| Noninterest income                                                            | 1,734                              | 1,713    | 5,027                             | 5,186    |
| Total revenue                                                                 | 3,829                              | 3,775    | 11,288                            | 11,372   |
| Provision for credit losses                                                   | 87                                 | 81       | 366                               | 181      |
| Noninterest expense                                                           | 2,394                              | 2,352    | 7,035                             | 7,067    |
| Income before income taxes and noncontrolling interests                       | \$ 1,348                           | \$ 1,342 | \$ 3,887                          | \$ 4,124 |
| Net income                                                                    | \$ 1,006                           | \$ 1,073 | \$ 2,938                          | \$ 3,121 |
| Less:                                                                         |                                    |          |                                   |          |
| Net income attributable to noncontrolling interests                           | 18                                 | 18       | 60                                | 23       |
| Preferred stock dividends and discount accretion and redemptions              | 64                                 | 64       | 172                               | 182      |
| Net income attributable to common shareholders                                | \$ 924                             | \$ 991   | \$ 2,706                          | \$ 2,916 |
| Less:                                                                         |                                    |          |                                   |          |
| Dividends and undistributed earnings allocated to nonvested restricted shares | 7                                  |          | 19                                | 2        |
| Impact of BlackRock earnings per share dilution                               | 4                                  | 4        | 10                                | 14       |
| Net income attributable to diluted common shares                              | \$ 913                             | \$ 987   | \$ 2,677                          | \$ 2,900 |
| Diluted earnings per common share                                             | \$ 1.84                            | \$ 1.90  | \$ 5.33                           | \$ 5.52  |
| Cash dividends declared per common share                                      | \$ .55                             | \$ .51   | \$ 1.57                           | \$ 1.50  |
| Effective tax rate (b)                                                        | 25.4%                              | 20.0%    | 24.4%                             | 24.3%    |
| <b>Performance Ratios</b>                                                     |                                    |          |                                   |          |
| Net interest margin (c)                                                       | 2.68%                              | 2.67%    | 2.71%                             | 2.74%    |
| Noninterest income to total revenue                                           | 45%                                | 45%      | 45%                               | 46%      |
| Efficiency                                                                    | 63%                                | 62%      | 62%                               | 62%      |
| Return on:                                                                    |                                    |          |                                   |          |
| Average common shareholders' equity                                           | 8.74%                              | 9.61%    | 8.69%                             | 9.56%    |
| Average assets                                                                | 1.10%                              | 1.19%    | 1.09%                             | 1.18%    |

- (a) The Executive Summary and Consolidated Income Statement Review portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.
- (b) 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. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended September 30, 2016 and September 30, 2015 were \$49 million and \$50 million, respectively. The taxable-equivalent



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adjustments to net interest income for the nine months ended September 30, 2016 and September 30, 2015 were \$145 million and \$148 million, respectively. For additional information, see Statistical Information (Unaudited) section in Item 1 of this Report.

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

| Unaudited                                                                  | September 30<br>2016 | December 31<br>2015 | September 30<br>2015 |
|----------------------------------------------------------------------------|----------------------|---------------------|----------------------|
| <b>Balance Sheet Data</b> (dollars in millions, except per share data)     |                      |                     |                      |
| Assets                                                                     | \$ 369,348           | \$ 358,493          | \$ 362,125           |
| Loans                                                                      | \$ 210,446           | \$ 206,696          | \$ 204,983           |
| Allowance for loan and lease losses                                        | \$ 2,619             | \$ 2,727            | \$ 3,237             |
| Interest-earning deposits with banks (b)                                   | \$ 27,058            | \$ 30,546           | \$ 34,224            |
| Investment securities                                                      | \$ 78,514            | \$ 70,528           | \$ 68,066            |
| Loans held for sale                                                        | \$ 2,053             | \$ 1,540            | \$ 2,060             |
| Goodwill                                                                   | \$ 9,103             | \$ 9,103            | \$ 9,103             |
| Mortgage servicing rights                                                  | \$ 1,293             | \$ 1,589            | \$ 1,467             |
| Equity investments (c)                                                     | \$ 10,605            | \$ 10,587           | \$ 10,497            |
| Other assets                                                               | \$ 24,730            | \$ 23,092           | \$ 27,285            |
| Noninterest-bearing deposits                                               | \$ 82,159            | \$ 79,435           | \$ 78,239            |
| Interest-bearing deposits                                                  | \$ 177,736           | \$ 169,567          | \$ 166,740           |
| Total deposits                                                             | \$ 259,895           | \$ 249,002          | \$ 244,979           |
| Borrowed funds                                                             | \$ 51,541            | \$ 54,532           | \$ 56,663            |
| Total shareholders' equity                                                 | \$ 45,707            | \$ 44,710           | \$ 44,948            |
| Common shareholders' equity                                                | \$ 42,251            | \$ 41,258           | \$ 41,498            |
| Accumulated other comprehensive income                                     | \$ 646               | \$ 130              | \$ 615               |
| Book value per common share                                                | \$ 86.57             | \$ 81.84            | \$ 81.42             |
| Common shares outstanding (millions)                                       | 488                  | 504                 | 510                  |
| Loans to deposits                                                          | 81%                  | 83%                 | 84%                  |
| <b>Client Assets</b> (in billions)                                         |                      |                     |                      |
| Discretionary client assets under management                               | \$ 138               | \$ 134              | \$ 132               |
| Nondiscretionary client assets under administration                        | 128                  | 125                 | 124                  |
| Total client assets under administration (d)                               | 266                  | 259                 | 256                  |
| Brokerage account client assets                                            | 44                   | 43                  | 42                   |
| Total client assets                                                        | \$ 310               | \$ 302              | \$ 298               |
| <b>Capital Ratios</b>                                                      |                      |                     |                      |
| <b>Transitional Basel III (e) (f)</b>                                      |                      |                     |                      |
| Common equity Tier 1                                                       | 10.6%                | 10.6%               | 10.6%                |
| Tier 1 risk-based                                                          | 11.9%                | 12.0%               | 12.0%                |
| Total capital risk-based                                                   | 14.2%                | 14.6%               | 14.8%                |
| Leverage                                                                   | 10.1%                | 10.1%               | 10.2%                |
| <b>Pro forma Fully Phased-In Basel III (Non-GAAP) (f)</b>                  |                      |                     |                      |
| Common equity Tier 1                                                       | 10.2%                | 10.0%               | 10.1%                |
| Common shareholders' equity to assets                                      | 11.4%                | 11.5%               | 11.5%                |
| <b>Asset Quality</b>                                                       |                      |                     |                      |
| Nonperforming loans to total loans                                         | 1.02%                | 1.03%               | 1.06%                |
| Nonperforming assets to total loans, OREO and foreclosed assets            | 1.13%                | 1.17%               | 1.21%                |
| Nonperforming assets to total assets                                       | .64%                 | .68%                | .69%                 |
| Net charge-offs to average loans (for the three months ended) (annualized) | .29%                 | .23%                | .19%                 |
| Allowance for loan and lease losses to total loans (g)                     | 1.24%                | 1.32%               | 1.58%                |
| Allowance for loan and lease losses to total nonperforming loans (g) (h)   | 122%                 | 128%                | 149%                 |
| Accruing loans past due 90 days or more (in millions)                      | \$ 766               | \$ 881              | \$ 890               |

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

(b) Amounts include balances held with the Federal Reserve Bank of Cleveland (Federal Reserve Bank) of \$26.6 billion, \$30.0 billion, and \$33.8 billion as of September 30, 2016, December 31, 2015 and September 30, 2015, 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 are reported as both discretionary client assets under management and nondiscretionary client assets under administration. The amount of such assets was approximately \$9 billion, \$6 billion and \$6 billion as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively.

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

(f)

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See Basel III Capital discussion in the Capital portion of the Consolidated Balance Sheet Review section of this Financial Review and the capital discussion in the Banking Regulation and Supervision section of Item 1 Business in our 2015 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) 2015 Periods table in the Statistical Information section of this Report for a reconciliation of the 2015 periods ratios.

- (g) See our 2015 Form 10-K for information on our change in derecognition policy effective December 31, 2015 for certain purchased impaired loans.
- (h) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.

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## **EXECUTIVE SUMMARY**

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

We have businesses engaged in retail banking, corporate and institutional banking, asset management and residential mortgage banking, providing many of our products and services nationally, as well as other products and services in our primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, Florida, North Carolina, Kentucky, Washington, D.C., Delaware, Virginia, Alabama, Georgia, 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 fee revenue and improving profitability, while investing for the future and managing risk, expenses and capital. We continue to invest in our products, markets and brand, and embrace our 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. Our strategies for growing fee income across our lines of business are focused on 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 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. In addition, we are seeking to attract more of the investable assets of new and existing clients. PNC is focused on redefining the retail banking experience by transforming the retail distribution network and the home lending process while lowering delivery costs as customer banking preferences evolve. Additionally, 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, the Capital portion of the Consolidated Balance Sheet Review section and the Liquidity Risk Management portion of the Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 Business of our 2015 Form 10-K.

### **Income Statement Highlights**

Net income for the third quarter of 2016 was \$1.0 billion, or \$1.84 per diluted common share, a decrease of 6%, compared to \$1.1 billion, or \$1.90 per diluted common share, for the third quarter of 2015.

Net interest income increased \$33 million, or 2%, to \$2.1 billion.

Net interest margin increased to 2.68% compared to 2.67% in third quarter 2015.

Noninterest income increased \$21 million, or 1%, to \$1.7 billion as growth in fee income was mostly offset by a decline in other noninterest income.

Noninterest expense increased \$42 million to \$2.4 billion, reflecting a new Federal Deposit Insurance Corporation (FDIC) deposit insurance surcharge and higher costs associated with business activities as PNC continued to focus on disciplined expense

management.

The effective tax rate was 25.4% compared to 20.0% in the third quarter of 2015.  
For additional detail, see the Consolidated Income Statement Review section in this Financial Review.

**Credit Quality Highlights**

Overall credit quality remained relatively stable at September 30, 2016.

Nonperforming assets decreased \$50 million, or 2%, to \$2.4 billion compared to December 31, 2015.

Overall loan delinquencies of \$1.5 billion decreased \$184 million, or 11% compared to December 31, 2015.

Provision for credit losses increased modestly to \$87 million for the third quarter of 2016 compared to \$81 million for the third quarter of 2015.

Net charge-offs of \$154 million for the third quarter of 2016 increased \$58 million compared to the third quarter of 2015.  
For additional detail, see the Credit Risk Management portion of the Risk Management section of the Consolidated Balance Sheet Review of this Financial Review.

**Balance Sheet and Liquidity Highlights**

PNC's balance sheet continued to be well positioned at September 30, 2016 compared to December 31, 2015.

Total loans increased \$3.8 billion to \$210.4 billion.

Total commercial lending grew \$4.6 billion, or 3%.

Total consumer lending decreased \$.8 billion, or 1%.

Total deposits increased \$10.9 billion to \$259.9 billion.

Investment securities increased \$8.0 billion, or 11%, to \$78.5 billion.

The Liquidity Coverage Ratio (LCR) at September 30, 2016 for both PNC and PNC Bank exceeded the 2017 fully phased-in requirement of 100%.

**Capital Highlights**

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

The Transitional Basel III common equity Tier 1 capital ratio remained stable at 10.6% at September 30, 2016 compared to December 31, 2015.

Pro forma fully phased-in Basel III common equity Tier 1 capital ratio, a non-GAAP financial measure, increased to an estimated 10.2% at September 30, 2016 compared to 10.0% at December 31, 2015 based on the standardized approach rules.

In the third quarter of 2016, we returned \$.8 billion of capital to common shareholders through repurchases of 5.9 million common shares for \$.5 billion, made under new share repurchase programs, and dividends on common shares of \$.3 billion.

On October 4, 2016, the PNC Board of Directors declared a quarterly cash dividend on common stock of 55 cents per share effective with the November 5, 2016 payment date.

See the Capital portion of the Consolidated Balance Sheet Review and the Liquidity Risk Management portion of the Risk Management section of this Financial Review for more detail on our 2016 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 2015 Form 10-K.

Our Consolidated Income Statement and Consolidated Balance Sheet Review sections of this Financial Review describe in greater detail our results during the first nine months of 2016 and 2015 and balances at September 30, 2016 and December 31, 2015, respectively.

**Business Outlook**

Statements regarding our business outlook are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to numerous assumptions, risks and uncertainties, including our current view that the U.S. economy will grow moderately in the latter half of 2016, boosted by stable oil/energy prices, improving housing activity and moderate job gains, and that short-term interest rates and bond yields will hold fairly steady before gradually rising late this year and do not take into account the impact of potential legal and regulatory contingencies. Specifically, our business outlook reflects our expectation of a 25 basis point increase in short-term interest rates by the Federal Reserve in December 2016. See the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2015 Form 10-K for other factors that could cause future events to differ, perhaps materially, from those anticipated in these forward-looking statements.

In the fourth quarter of 2016, we expect:

Modest loan growth compared to the third quarter of 2016;

Stable net interest income compared to the third quarter, and purchase accounting accretion to be approximately \$50 million;

Stable fee income compared to the third quarter of 2016, with fee income consisting 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

Noninterest expense to increase by low single digits, on a percentage basis, compared to the third quarter 2016. We also expect full year 2016 noninterest expense to remain stable compared to full year 2015, and the full year 2016 effective tax rate to be approximately 25%.

# Average Consolidated Balance Sheet Highlights

**Table 2: Summarized Average Balance Sheet**

Nine months ended September 30

|                                       |            |            | Change    |       |
|---------------------------------------|------------|------------|-----------|-------|
| Dollars in millions                   | 2016       | 2015       | \$        | %     |
| <b>Average assets</b>                 |            |            |           |       |
| Interest-earning assets               |            |            |           |       |
| Investment securities                 | \$ 70,706  | \$ 59,578  | \$ 11,128 | 19%   |
| Loans                                 | 208,124    | 205,122    | 3,002     | 1%    |
| Interest-earning deposits with banks  | 26,691     | 33,380     | (6,689)   | (20)% |
| Other                                 | 7,797      | 9,048      | (1,251)   | (14)% |
| Total interest-earning assets         | 313,318    | 307,128    | 6,190     | 2%    |
| Noninterest-earning assets            | 46,289     | 46,005     | 284       | 1%    |
| Total average assets                  | \$ 359,607 | \$ 353,133 | \$ 6,474  | 2%    |
| <b>Average liabilities and equity</b> |            |            |           |       |
| Interest-bearing liabilities          |            |            |           |       |
| Interest-bearing deposits             | \$ 171,635 | \$ 162,790 | \$ 8,845  | 5%    |
| Borrowed funds                        | 53,411     | 57,018     | (3,607)   | (6)%  |
| Total interest-bearing liabilities    | 225,046    | 219,808    | 5,238     | 2%    |
| Noninterest-bearing deposits          | 77,133     | 75,359     | 1,774     | 2%    |
| Other liabilities                     | 11,169     | 12,091     | (922)     | (8)%  |
| Equity                                | 46,259     | 45,875     | 384       | 1%    |
| Total average liabilities and equity  | \$ 359,607 | \$ 353,133 | \$ 6,474  | 2%    |

Average investment securities increased due to higher average agency residential mortgage-backed securities and U.S. Treasury and government agency securities, partially offset by a decrease in average non-agency residential mortgage-backed securities. Total investment securities increased from 19% to 23% of average interest-earning assets.

The increase in average loans was driven by growth in average commercial real estate loans of \$3.9 billion and average commercial loans of \$1.7 billion, partially offset by a decrease in consumer loans of \$2.8 billion. The decline in consumer loans was primarily attributable to declines in the nonstrategic consumer and the government guaranteed education loan portfolios. Loans represented 66% of average interest-earning assets for the first nine months of 2016 and 67% in the same period of 2015.

Average interest-earning deposits with banks, which are primarily maintained with the Federal Reserve Bank, decreased in the comparison reflecting higher investment securities, loan growth and lower borrowed funds, partially offset by an increase in deposits.

Average total deposits increased \$10.6 billion, primarily due to higher average savings deposits, which reflected a shift from money market deposits to relationship-based savings products. Additionally, average interest-bearing demand deposits and average noninterest-bearing deposits increased as

overall deposits grew. Average total deposits increased from 67% to 69% of average assets in the comparison.

Average borrowed funds declined due to decreases in average commercial paper and Federal Home Loan Bank (FHLB) borrowings, partially offset by an increase in average bank notes and senior debt. The Liquidity Risk Management portion of this Financial Review includes additional information regarding our sources and uses of borrowed funds.

Various seasonal and other factors impact our period-end balances, whereas average balances are generally more indicative of underlying business trends apart from the impact of acquisitions and divestitures. Total assets were \$369.3 billion at September 30, 2016 compared with \$358.5 billion at December 31, 2015. The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at September 30, 2016 compared with December 31, 2015.





**Recent Market and Industry Developments**

As previously disclosed in our First Quarter 2016 Form 10-Q, the final rules adopted by the FDIC imposing a deposit insurance assessment surcharge (Surcharge) on insured depository institutions with total consolidated assets of \$10 billion or more (including PNC Bank) became effective on July 1, 2016. The Surcharge took effect beginning with the third quarter 2016 assessment period. Based on data as of September 30, 2016, PNC Bank's quarterly assessment increased by approximately \$25 million compared to the second quarter of 2016, reflecting the impact of the Surcharge and the reduction of regular assessments that went into effect at the same time.

In September 2016, the Office of the Comptroller of the Currency (OCC) issued final enforceable guidelines under section 39 of the Federal Deposit Insurance Act that establish standards for recovery planning for insured national banks with average total consolidated assets of \$50 billion or more, including PNC Bank. The guidelines require a covered bank to develop and maintain a recovery plan that, among other things, identifies a range of options that could be undertaken by the covered bank to restore its financial strength and viability should identified triggering events occur. For PNC Bank the compliance date for these guidelines is January 1, 2018.

Also in September 2016, the Federal Reserve proposed amendments to its capital plan rule that would, among other things, reduce, from 1% to 0.25% of Tier 1 capital, the amount of capital distributions that a bank holding company may make above the amounts included in its most recently approved capital plan without seeking the Federal Reserve's prior approval and prohibit bank holding companies from seeking to use this de minimis capital distribution authority during the second calendar quarter of each year. The comment period on the proposal closes on November 25, 2016. Governor Daniel Tarullo of the Federal Reserve also outlined additional changes that the Federal Reserve is considering to its capital plan rule and CCAR process, including the establishment of a new stress capital buffer, in a speech delivered on September 26, 2016. Governor Tarullo indicated that such potential changes would be issued for public comment at a later date and, accordingly, the precise nature of these additional potential changes is not known at this time.

**CONSOLIDATED INCOME STATEMENT REVIEW**

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

Net income for the third quarter of 2016 was \$1.0 billion, or \$1.84 per diluted common share, a decrease of 6% compared with \$1.1 billion, or \$1.90 per diluted common share, for the third quarter of 2015. For the first nine months of 2016, net income was \$2.9 billion, or \$5.33 per diluted common share, a decrease of 6% compared with \$3.1 billion, or \$5.52 per diluted common share, for the first nine months of 2015.

Net income decreased in the quarterly comparison as revenue growth, driven by a 2% increase in net interest income and a 1% increase in noninterest income, was more than offset by a higher effective tax rate and a 2% increase in noninterest expense. Net income decreased in the year-to-date comparison driven by higher provision for credit losses and a 3% decline in noninterest income, partially offset by a 1% increase in net interest income and lower noninterest expense.

**Net Interest Income**

**Table 3: Net Interest Income and Net Interest Margin**

| Dollars in millions     | Three months ended   |                      | Nine months ended    |                      |
|-------------------------|----------------------|----------------------|----------------------|----------------------|
|                         | September 30<br>2016 | September 30<br>2015 | September 30<br>2016 | September 30<br>2015 |
| Net interest income     | \$ 2,095             | \$ 2,062             | \$ 6,261             | \$ 6,186             |
| Net interest margin (a) | 2.68%                | 2.67%                | 2.71%                | 2.74%                |

(a) See footnote (c) in Table 1: Consolidated Financial Highlights on page 1.

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 \$33 million, or 2%, and \$75 million, or 1%, for the third quarter and first nine months of 2016, respectively, compared to the same periods in 2015. The increases in both comparisons were attributable to increases in loan and securities balances and higher loan yields, partially offset by lower purchase accounting accretion, lower securities yields and an increase in borrowing costs.

Net interest margin increased in the quarterly comparison largely reflecting the impact of the December 2015 increase in the federal funds rate and decreased in the year-to-date comparison as the impact of the rate increase was more than offset by a lower benefit from purchase

accounting accretion.

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## Noninterest Income

Table 4: Noninterest Income

| Dollars in millions              | Three months ended September 30 |                 |              |           | Nine months ended September 30 |                 |                 |             |
|----------------------------------|---------------------------------|-----------------|--------------|-----------|--------------------------------|-----------------|-----------------|-------------|
|                                  | 2016                            | 2015            | Change<br>\$ | %         | 2016                           | 2015            | Change<br>\$    | %           |
| <b>Noninterest income</b>        |                                 |                 |              |           |                                |                 |                 |             |
| Asset management                 | \$ 404                          | \$ 376          | \$ 28        | 7%        | \$ 1,122                       | \$ 1,168        | \$ (46)         | (4)%        |
| Consumer services                | 348                             | 341             | 7            | 2%        | 1,039                          | 986             | 53              | 5%          |
| Corporate services               | 389                             | 384             | 5            | 1%        | 1,117                          | 1,097           | 20              | 2%          |
| Residential mortgage             | 160                             | 125             | 35           | 28%       | 425                            | 453             | (28)            | (6)%        |
| Service charges on deposits      | 174                             | 172             | 2            | 1%        | 495                            | 481             | 14              | 3%          |
| Net gains on sales of securities | 7                               | (9)             | 16           | (178)%    | 20                             | 41              | (21)            | (51)%       |
| Other                            | 252                             | 324             | (72)         | (22)%     | 809                            | 960             | (151)           | (16)%       |
| <b>Total noninterest income</b>  | <b>\$ 1,734</b>                 | <b>\$ 1,713</b> | <b>\$ 21</b> | <b>1%</b> | <b>\$ 5,027</b>                | <b>\$ 5,186</b> | <b>\$ (159)</b> | <b>(3)%</b> |

Noninterest income increased in the third quarter of 2016 compared to the third quarter of 2015 and decreased in the first nine months compared to the same period in 2015. Noninterest income as a percentage of total revenue was 45% in both the third quarters of 2016 and 2015 and 45% and 46% on a year-to-date basis, respectively.

Asset management revenue increased in the quarterly comparison primarily due to the impact of higher average equity markets on both BlackRock and our asset management business segment. The year-to-date comparison decreased mainly due to lower earnings from BlackRock and the impact from a \$30 million trust settlement during the second quarter of 2015 in our asset management business segment. Discretionary client assets under management were \$138 billion at September 30, 2016 compared with \$132 billion at September 30, 2015.

Consumer services fees increased in the year-to-date comparison primarily due to growth in payment-related products including debit card, credit card and merchant services, as well as higher brokerage fees.

Corporate services revenue increased in the year-to-date comparison primarily reflecting higher capital markets-related revenue and higher treasury management fees.

Residential mortgage revenue increased in the quarterly comparison as a result of higher loan sales revenue from higher origination volumes and increased benefit from residential mortgage servicing rights valuation, net of economic hedge. The year-to-date comparison decreased mainly due to lower loan sales revenue and a lower benefit from residential mortgage servicing rights valuation, net of economic hedge.

Other noninterest income decreased in both comparisons primarily attributable to the impact of third quarter 2015 net gains of \$43 million on sales of 0.5 million Visa Class B

common shares and lower revenue from private equity investments. There were no sales of Visa shares in the third quarter of 2016. Net gains on the sale of Visa shares for the first nine months of 2016 were \$52 million on sales of 1.35 million shares compared with net gains of \$124 million on sales of 1.5 million shares in the first nine months of 2015. Net gains on Visa sales include derivative fair value adjustments related to swap agreements with purchasers of Visa shares in connection with all sales to date.

## Provision For Credit Losses

The provision for credit losses increased modestly to \$87 million in the third quarter of 2016 compared to \$81 million in the third quarter of 2015 and increased \$185 million to \$366 million for the first nine months of 2016 compared to the same period in 2015. The increase in the year-to-date comparison was attributable to a higher provision for energy related loans in the oil, gas, and coal sectors of \$130 million in the first nine months of 2016 compared to \$86 million for the first nine months of 2015, as well as slowing credit quality improvement in our commercial and consumer lending portfolios and the impact of continued loan growth.

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

**Noninterest Expense**

Noninterest expense for the third quarter of 2016 increased \$42 million to \$2.4 billion compared to the third quarter of 2015, while noninterest expense for the first nine months of 2016 compared to the same period in 2015 decreased \$32 million to \$7.0 billion. Both comparisons reflected increases to noninterest expense resulting from a new FDIC deposit insurance surcharge, higher variable compensation costs associated with increased business activity and investments in technology and business infrastructure as PNC continued to

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focus on disciplined expense management. These were offset by net lower contingency accruals and the impact from our effective expense management.

As of September 30, 2016, we have completed actions to capture more than 75% of our 2016 continuous improvement savings goal of \$400 million, and are on track to achieve the full-year goal. Through this program, we are helping to fund our continued investments in technology and business infrastructure.

### **Effective Income Tax Rate**

The effective income tax rate was 25.4% in the third quarter of 2016 compared to 20.0% in the third quarter of 2015 and 24.4% in the first nine months of 2016 compared to 24.3% in the same period of 2015. The lower effective tax rate for the third quarter of 2015 reflected tax benefits attributable to effectively settling acquired entity tax contingencies.

The effective tax rate is generally lower than the statutory rate primarily due to tax credits PNC receives from our investments in low income housing and new markets investments, as well as earnings in other tax exempt investments.

## **CONSOLIDATED BALANCE SHEET REVIEW**

*Table 5: Summarized Balance Sheet Data*

|                                      | September 30      | December 31       | Change           |           |
|--------------------------------------|-------------------|-------------------|------------------|-----------|
| Dollars in millions                  | 2016              | 2015              | \$               | %         |
| <b>Assets</b>                        |                   |                   |                  |           |
| Interest-earning deposits with banks | \$ 27,058         | \$ 30,546         | \$ (3,488)       | (11)%     |
| Loans held for sale                  | 2,053             | 1,540             | 513              | 33%       |
| Investment securities                | 78,514            | 70,528            | 7,986            | 11%       |
| Loans                                | 210,446           | 206,696           | 3,750            | 2%        |
| Allowance for loan and lease losses  | (2,619)           | (2,727)           | 108              | 4%        |
| Goodwill                             | 9,103             | 9,103             |                  |           |
| Mortgage servicing rights            | 1,293             | 1,589             | (296)            | (19)%     |
| Other intangible assets              | 304               | 379               | (75)             | (20)%     |
| Other, net                           | 43,196            | 40,839            | 2,357            | 6%        |
| <b>Total assets</b>                  | <b>\$ 369,348</b> | <b>\$ 358,493</b> | <b>\$ 10,855</b> | <b>3%</b> |
| <b>Liabilities</b>                   |                   |                   |                  |           |
| Deposits                             | \$ 259,895        | \$ 249,002        | \$ 10,893        | 4%        |
| Borrowed funds                       | 51,541            | 54,532            | (2,991)          | (5)%      |
| Other                                | 11,067            | 8,979             | 2,088            | 23%       |
| <b>Total liabilities</b>             | <b>322,503</b>    | <b>312,513</b>    | <b>9,990</b>     | <b>3%</b> |
| <b>Equity</b>                        |                   |                   |                  |           |
| Total shareholders' equity           | 45,707            | 44,710            | 997              | 2%        |
| Noncontrolling interests             | 1,138             | 1,270             | (132)            | (10)%     |
| <b>Total equity</b>                  | <b>46,845</b>     | <b>45,980</b>     | <b>865</b>       | <b>2%</b> |
| <b>Total liabilities and equity</b>  | <b>\$ 369,348</b> | <b>\$ 358,493</b> | <b>\$ 10,855</b> | <b>3%</b> |

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

PNC's balance sheet reflected asset growth compared to December 31, 2015 and strong liquidity and capital positions at September 30, 2016.

Total assets increased primarily due to higher investment securities and loan balances, partially offset by lower interest-earning deposits with banks.

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Higher total liabilities were driven by deposit growth.

The increase to total equity reflected increased retained earnings driven by net income, partially offset by share repurchases.

## Loans

Outstanding loan balances of \$210.4 billion at September 30, 2016 and \$206.7 billion at December 31, 2015 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling \$1.3 billion at September 30, 2016 and \$1.4 billion at December 31, 2015.

**Table 6: Details Of Loans**

|                               | September 30 | December 31 | Change   |      |
|-------------------------------|--------------|-------------|----------|------|
|                               | 2016         | 2015        | \$       | %    |
| Dollars in millions           |              |             |          |      |
| Commercial lending            |              |             |          |      |
| Commercial                    |              |             |          |      |
| Manufacturing                 | \$ 19,813    | \$ 19,014   | \$ 799   | 4%   |
| Retail/wholesale trade        | 17,211       | 16,661      | 550      | 3%   |
| Service providers             | 14,159       | 13,970      | 189      | 1%   |
| Real estate related (a)       | 12,045       | 11,659      | 386      | 3%   |
| Health care                   | 9,148        | 9,210       | (62)     | (1)% |
| Financial services            | 7,203        | 7,234       | (31)     |      |
| Other industries              | 21,933       | 20,860      | 1,073    | 5%   |
| Total commercial              | 101,512      | 98,608      | 2,904    | 3%   |
| Commercial real estate        |              |             |          |      |
| Real estate projects (b)      | 16,851       | 15,697      | 1,154    | 7%   |
| Commercial mortgage           | 12,422       | 11,771      | 651      | 6%   |
| Total commercial real estate  | 29,273       | 27,468      | 1,805    | 7%   |
| Equipment lease financing     | 7,378        | 7,468       | (90)     | (1)% |
| Total commercial lending      | 138,163      | 133,544     | 4,619    | 3%   |
| Consumer lending              |              |             |          |      |
| Home equity                   |              |             |          |      |
| Lines of credit               | 18,014       | 18,828      | (814)    | (4)% |
| Installment                   | 12,418       | 13,305      | (887)    | (7)% |
| Total home equity             | 30,432       | 32,133      | (1,701)  | (5)% |
| Residential real estate       |              |             |          |      |
| Residential mortgage          | 14,915       | 14,162      | 753      | 5%   |
| Residential construction      | 226          | 249         | (23)     | (9)% |
| Total residential real estate | 15,141       | 14,411      | 730      | 5%   |
| Credit card                   | 5,029        | 4,862       | 167      | 3%   |
| Other consumer                |              |             |          |      |
| Automobile                    | 11,898       | 11,157      | 741      | 7%   |
| Education                     | 5,337        | 5,881       | (544)    | (9)% |
| Other                         | 4,446        | 4,708       | (262)    | (6)% |
| Total consumer lending        | 72,283       | 73,152      | (869)    | (1)% |
| Total loans                   | \$ 210,446   | \$ 206,696  | \$ 3,750 | 2%   |

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

(b) Includes both construction loans and intermediate financing for projects.



Loan growth was the result of an increase in total commercial lending driven by higher commercial and commercial real estate loans, while consumer lending declined due to lower home equity and education loans, partially offset by higher automobile and residential mortgage loans.

Loans represented 57% of total assets at September 30, 2016 and 58% at December 31, 2015. Commercial lending represented 66% of the loan portfolio at September 30, 2016 and 65% at December 31, 2015. Consumer lending represented 34% of the loan portfolio at September 30, 2016 and 35% at December 31, 2015. See the Credit Risk Management portion of the Risk Management section of this Financial Review for additional information regarding our loan portfolio.

Total loans above include purchased impaired loans of \$3.1 billion, or 1% of total loans, at September 30, 2016, and \$3.5 billion, or 2% of total loans, at December 31, 2015.

### **Allowance for Loan and Lease Losses (ALLL)**

Information regarding our higher risk loans and ALLL is included in the Credit Risk Management portion of the Risk Management section of this Financial Review, Note 1 Accounting Policies in our 2015 Form 10-K and Note 3 Asset Quality and Note 4 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in this Report.

### **Purchased Impaired Loans**

The following table provides further detail on purchased impaired loans at September 30, 2016 and December 31, 2015:

**Table 7: Purchased Impaired Loans Balances**

|                          | September 30, 2016 |            |          | December 31, 2015 |            |          |
|--------------------------|--------------------|------------|----------|-------------------|------------|----------|
|                          | Outstanding        | Recorded   | Carrying | Outstanding       | Recorded   | Carrying |
| In millions              | Balance            | Investment | Value    | Balance           | Investment | Value    |
| Total commercial lending | \$ 156             | \$ 122     | \$ 80    | \$ 249            | \$ 169     | \$ 120   |
| Total consumer lending   | 3,211              | 2,958      | 2,677    | 3,684             | 3,353      | 3,092    |
| Total                    | \$ 3,367           | \$ 3,080   | \$ 2,757 | \$ 3,933          | \$ 3,522   | \$ 3,212 |

The excess of undiscounted cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized as interest income over the remaining life of the loan using the constant effective yield method. Activity for the accretable yield during the first nine months of 2016 and 2015 follows:

**Table 8: Purchased Impaired Loans Accretable Yield**

| In millions                                             | 2016     | 2015     |
|---------------------------------------------------------|----------|----------|
| January 1                                               | \$ 1,250 | \$ 1,558 |
| Accretion (including excess cash recoveries)            | (292)    | (359)    |
| Net reclassifications to accretable from non-accretable | 155      | 218      |
| Disposals                                               | (5)      | (66)     |
| September 30                                            | \$ 1,108 | \$ 1,351 |

We currently expect to collect total cash flows of \$3.9 billion on purchased impaired loans, representing the \$2.8 billion carrying value at September 30, 2016 and accretable net interest of \$1.1 billion.

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The table below provides the weighted average life (WAL) for each of the purchased impaired portfolios as of September 30, 2016.

**Table 9: Weighted Average Life of the Purchased Impaired Portfolios**

As of September 30, 2016

| Dollars in millions     | Recorded<br>Investment | WAL (a)   |
|-------------------------|------------------------|-----------|
| Commercial              | \$ 21                  | 2.2 years |
| Commercial real estate  | 101                    | 1.7 years |
| Consumer (b)            | 1,188                  | 3.9 years |
| Residential real estate | 1,770                  | 4.6 years |
| Total                   | \$ 3,080               | 4.2 years |

(a) Weighted average life represents the average number of years for which each dollar of unpaid principal remains outstanding.

(b) Portfolio primarily consists of nonrevolving home equity products.

For more information on purchased impaired loans and the accretable yield, see Note 1 Accounting Policies in our 2015 Form 10-K.

## Investment Securities

The following table 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. 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.

**Table 10: Investment Securities**

|                                           | Ratings (a)        |                  |                   |                  |                          |           |           |           |           |  |
|-------------------------------------------|--------------------|------------------|-------------------|------------------|--------------------------|-----------|-----------|-----------|-----------|--|
|                                           | September 30, 2016 |                  | December 31, 2015 |                  | As of September 30, 2016 |           |           |           |           |  |
|                                           |                    |                  |                   |                  | BB                       |           |           |           |           |  |
|                                           | Amortized Cost     | Fair Value       | Amortized Cost    | Fair Value       | AAA/AA                   | A         | BBB       | Lower     | No Rating |  |
| Dollars in millions                       |                    |                  |                   |                  |                          |           |           |           |           |  |
| U.S. Treasury and government agencies     | \$ 12,327          | \$ 12,680        | \$ 10,022         | \$ 10,172        | 100%                     |           |           |           |           |  |
| Agency residential mortgage-backed        | 39,066             | 39,868           | 34,250            | 34,408           | 100                      |           |           |           |           |  |
| Non-agency residential mortgage-backed    | 3,576              | 3,754            | 4,225             | 4,392            | 11                       |           | 4%        | 80%       | 5%        |  |
| Agency commercial mortgage-backed         | 3,352              | 3,408            | 3,045             | 3,086            | 100                      |           |           |           |           |  |
| Non-agency commercial mortgage-backed (b) | 4,762              | 4,837            | 5,624             | 5,630            | 80                       | 7%        | 3         | 1         | 9         |  |
| Asset-backed (c)                          | 6,922              | 6,958            | 6,134             | 6,130            | 90                       | 3         |           | 7         |           |  |
| State and municipal                       | 3,883              | 4,146            | 3,936             | 4,126            | 89                       | 6         |           |           | 5         |  |
| Other debt                                | 2,830              | 2,878            | 2,211             | 2,229            | 51                       | 32        | 16        | 1         |           |  |
| Corporate stock and other                 | 525                | 525              | 590               | 589              |                          |           |           |           | 100       |  |
| <b>Total investment securities (d)</b>    | <b>\$ 77,243</b>   | <b>\$ 79,054</b> | <b>\$ 70,037</b>  | <b>\$ 70,762</b> | <b>91%</b>               | <b>2%</b> | <b>1%</b> | <b>4%</b> | <b>2%</b> |  |

(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 available for sale and held to maturity securities.

Investment securities represented 21% of total assets at September 30, 2016 and 20% at December 31, 2015.

We evaluate our investment securities portfolio in light of changing market conditions and other factors and, where appropriate, take steps to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. At September 30, 2016, 91% of the securities in the portfolio were rated AAA/AA, with U.S. Treasury and government agencies, agency residential mortgage-backed and agency commercial mortgage-backed securities collectively representing 71% of the portfolio.

The investment securities portfolio includes both available for sale and held to maturity securities. Securities classified as available for sale are carried at fair value with net unrealized gains and losses, representing the difference between amortized cost and fair value, included in Shareholders' equity as Accumulated other comprehensive income or loss, net of tax, on our Consolidated Balance Sheet. Securities classified as held to maturity are carried at amortized cost.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and

vice versa. Net unrealized gains in the total investment securities portfolio increased to \$1.8 billion at September 30, 2016 from \$.7 billion at December 31, 2015. The comparable amounts for the securities available for sale portfolio were \$1.3 billion at September 30, 2016 and \$.5 billion at December 31, 2015.

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

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capital rules. In addition, the amount representing the credit-related portion of other-than-temporary impairment (OTTI) on securities would reduce our earnings and regulatory capital ratios.

The duration of investment securities was 1.8 years at September 30, 2016. We estimate that at September 30, 2016 the effective duration of investment securities was 2.0 years for an immediate 50 basis points parallel increase in interest rates and 1.6 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2015 for the effective duration of investment securities were 2.8 years and 2.6 years, respectively.

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Based on current interest rates and expected prepayment speeds, the weighed-average expected maturity of the investment securities portfolio (excluding corporate stock and other) was 4.0 years at September 30, 2016 compared to 4.8 years at December 31, 2015. The weighted-average expected maturities of mortgage and other asset-backed debt securities were as follows as of September 30, 2016:

**Table 11: Weighted-Average Expected Maturities of Mortgage and Other Asset-Backed Debt Securities**

| September 30, 2016                                | Years |
|---------------------------------------------------|-------|
| Agency residential mortgage-backed securities     | 3.4   |
| Non-agency residential mortgage-backed securities | 5.3   |
| Agency commercial mortgage-backed securities      | 3.5   |
| Non-agency commercial mortgage-backed securities  | 3.5   |
| Asset-backed securities                           | 2.5   |

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. For those securities on our balance sheet at September 30, 2016, where during our quarterly security-level impairment assessments we determined losses represented OTTI, we have recorded cumulative credit losses of \$1.1 billion in earnings and accordingly have reduced the amortized cost of our securities. The majority of these cumulative impairment charges related to non-agency residential mortgage-backed and asset-backed securities rated BB or lower.

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.

### **Loans Held for Sale**

**Table 12: Loans Held For Sale**

|                       | September 30 | December 31 | Change |      |
|-----------------------|--------------|-------------|--------|------|
| In millions           | 2016         | 2015        | \$     | %    |
| Commercial mortgages  | \$ 876       | \$668       | \$ 208 | 31%  |
| Residential mortgages | 1,129        | 850         | 279    | 33%  |
| Other                 | 48           | 22          | 26     | 118% |
| Total                 | \$ 2,053     | \$1,540     | \$ 513 | 33%  |

Loans held for sale increased in the comparison as origination volumes exceeded loan sales during the first nine months of 2016 in both commercial and residential mortgages.

We sold \$2.8 billion of commercial mortgage loans to agencies during the first nine months of 2016 compared to \$3.0 billion during the first nine months of 2015. Total revenue of \$51 million was recognized on the valuation and sale of commercial mortgage loans held for sale, net of hedges, during the first nine months of 2016, including \$18 million in the third quarter. Comparable amounts for 2015 were \$64 million and \$13 million, respectively. These amounts are included in Other noninterest income on the Consolidated Income Statement.

Residential mortgage loan origination volume was \$7.6 billion during the first nine months of 2016 compared to \$8.2 billion in the same period in 2015. The majority of such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold \$4.8 billion of loans and recognized loan sales revenue of \$262 million during the first nine months of 2016, of which \$103 million occurred in the third quarter. The comparable amounts for 2015 were \$6.2 billion and \$278 million, respectively, including \$75 million in the third quarter. These loan sales revenue amounts are included in Residential mortgage noninterest income on the Consolidated Income Statement.

Interest income on loans held for sale was \$55 million during the first nine months of 2016, including \$21 million in the third quarter. Comparable amounts for 2015 were \$68 million and \$22 million, respectively. These amounts are included in Other interest income on the Consolidated Income Statement.

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Additional information regarding our loan sale and servicing activities is included in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities and Note 6 Fair Value in our Notes To Consolidated Financial Statements included in Part 1, Item 1 of this Report.

### Funding Sources

*Table 13: Details Of Funding Sources*

|                                                          | September 30 | December 31 | Change     |       |
|----------------------------------------------------------|--------------|-------------|------------|-------|
| Dollars in millions                                      | 2016         | 2015        | \$         | %     |
| Deposits                                                 |              |             |            |       |
| Money market                                             | \$ 115,324   | \$ 118,079  | \$ (2,755) | (2)%  |
| Demand                                                   | 92,282       | 90,038      | 2,244      | 2%    |
| Savings                                                  | 33,540       | 20,375      | 13,165     | 65%   |
| Retail certificates of deposit                           | 16,979       | 17,405      | (426)      | (2)%  |
| Time deposits in foreign offices and other time deposits | 1,770        | 3,105       | (1,335)    | (43)% |
| Total deposits                                           | 259,895      | 249,002     | 10,893     | 4%    |
| Borrowed funds                                           |              |             |            |       |
| Federal funds purchased and repurchase agreements        | 1,235        | 1,777       | (542)      | (31)% |
| FHLB borrowings                                          | 17,050       | 20,108      | (3,058)    | (15)% |
| Bank notes and senior debt                               | 22,431       | 21,298      | 1,133      | 5%    |
| Subordinated debt                                        | 8,708        | 8,556       | 152        | 2%    |
| Other                                                    | 2,117        | 2,793       | (676)      | (24)% |
| Total borrowed funds                                     | 51,541       | 54,532      | (2,991)    | (5)%  |
| Total funding sources                                    | \$ 311,436   | \$ 303,534  | \$ 7,902   | 3%    |

See the Liquidity Risk Management portion of the Risk Management section of this Financial Review for additional information regarding our 2016 capital and liquidity activities.

Total deposits increased in the comparison mainly due to growth in savings deposits reflecting in part a shift from money market deposits to relationship-based savings products. Interest-bearing deposits represented 68% of total deposits at both September 30, 2016 and December 31, 2015.

Total borrowed funds decreased in the comparison due to maturities of FHLB borrowings, partially offset by higher bank notes and senior debt.

### **Capital**

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, managing dividend policies and retaining earnings.

We repurchase shares of PNC common stock under common stock repurchase authorizations approved by PNC's Board of Directors and consistent with capital plans submitted to, and accepted by, the Federal Reserve. The extent and timing of share repurchases under authorizations will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, contractual and regulatory limitations, and the results of future supervisory assessments of capital adequacy and capital planning processes undertaken by the Federal Reserve as part of the CCAR process.

In the second quarter of 2016, we completed our common stock repurchase programs for the five quarter period that ended in June 2016 with total repurchases of 29.9 million common shares for \$2.7 billion. These repurchases were included in our capital plan accepted by the Federal Reserve as part of our 2015 CCAR submission. Additionally, we paid \$1.3 billion in common stock dividends for a total of \$4.0 billion of capital returned to shareholders during this five quarter period.

In connection with the 2016 CCAR process, we submitted our capital plan as approved by PNC's Board of Directors, to the Federal Reserve in April 2016. The Federal Reserve accepted the capital plan and did not object to our proposed capital actions. As provided for in the 2016 capital plan, PNC announced new share repurchase programs of up to \$2.0 billion for the four-quarter period beginning in the third quarter of 2016, including repurchases of up to \$200 million related to employee benefit plans. In the third quarter of 2016, we repurchased 5.9 million common shares for \$.5 billion.

We paid dividends on common stock of \$.3 billion, or 55 cents per common share, during the third quarter of 2016. On October 4, 2016, the PNC Board of Directors declared a quarterly common stock cash dividend of 55 cents per share payable on November 5, 2016. In July 2016, the Board of Directors raised the quarterly dividend on common stock to 55 cents per share, an increase of 4 cents per share, or 8%, effective with the August dividend.

See the Supervision and Regulation section of Item 1 Business of our 2015 Form 10-K for further information concerning the CCAR process and the factors the Federal Reserve takes into consideration in its evaluation of capital plans. See also the Capital section of the Consolidated Balance Sheet Review in our 2015 Form 10-K for additional information on our 2015 CCAR submission and current capital plan.

**Table 14: Shareholders' Equity**

|                                          | September 30 | December 31 | Change  |       |
|------------------------------------------|--------------|-------------|---------|-------|
|                                          | 2016         | 2015        | \$      | %     |
| Dollars in millions                      |              |             |         |       |
| Shareholders' equity                     |              |             |         |       |
| Preferred stock (a)                      |              |             |         |       |
| Common stock                             | \$ 2,709     | \$ 2,708    | \$ 1    |       |
| Capital surplus – preferred stock        | 3,456        | 3,452       | 4       |       |
| Capital surplus – common stock and other | 12,703       | 12,745      | (42)    |       |
| Retained earnings                        | 30,958       | 29,043      | 1,915   | 7%    |
| Accumulated other comprehensive income   | 646          | 130         | 516     | 397%  |
| Common stock held in treasury at cost    | (4,765)      | (3,368)     | (1,397) | (41)% |
| Total shareholders' equity               | \$ 45,707    | \$ 44,710   | \$ 997  | 2%    |

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

The growth in total shareholders' equity as of September 30, 2016 compared to December 31, 2015 was mainly due to an increase in retained earnings and higher accumulated other comprehensive income primarily related to net securities gains, partially offset by common share repurchases of \$1.5 billion. The growth in retained earnings resulted from net income of \$2.9 billion during the period, reduced by \$1.0 billion of common and preferred dividends declared. Common shares outstanding were 488 million and 504 million at September 30, 2016, and December 31, 2015, respectively, reflecting repurchases of 17.9 million shares during the period.

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Table 15: Basel III Capital

|                                                                                                           | September 30, 2016                       |                                                                            |
|-----------------------------------------------------------------------------------------------------------|------------------------------------------|----------------------------------------------------------------------------|
|                                                                                                           | 2016<br>Transitional<br>Basel III<br>(a) | Pro forma Fully<br>Phased-In Basel III<br>(Non-GAAP)<br>(estimated) (b)(c) |
| Dollars in millions                                                                                       |                                          |                                                                            |
| <b>Common equity Tier 1 capital</b>                                                                       |                                          |                                                                            |
| Common stock plus related surplus, net of treasury stock                                                  | \$ 10,646                                | \$ 10,646                                                                  |
| Retained earnings                                                                                         | 30,958                                   | 30,958                                                                     |
| Accumulated other comprehensive income for securities currently and previously held as available for sale | 504                                      | 840                                                                        |
| Accumulated other comprehensive income for pension and other postretirement plans                         | (323)                                    | (538)                                                                      |
| Goodwill, net of associated deferred tax liabilities                                                      | (8,830)                                  | (8,830)                                                                    |
| Other disallowed intangibles, net of deferred tax liabilities                                             | (163)                                    | (272)                                                                      |
| Other adjustments/(deductions)                                                                            | (177)                                    | (180)                                                                      |
| <b>Total common equity Tier 1 capital before threshold deductions</b>                                     | <b>32,615</b>                            | <b>32,624</b>                                                              |
| Total threshold deductions                                                                                | (731)                                    | (1,218)                                                                    |
| <b>Common equity Tier 1 capital</b>                                                                       | <b>31,884</b>                            | <b>31,406</b>                                                              |
| <b>Additional Tier 1 capital</b>                                                                          |                                          |                                                                            |
| Preferred stock plus related surplus                                                                      | 3,456                                    | 3,456                                                                      |
| Noncontrolling interests (d)                                                                              | 418                                      | 45                                                                         |
| Other adjustments/(deductions)                                                                            | (86)                                     | (111)                                                                      |
| <b>Tier 1 capital</b>                                                                                     | <b>35,672</b>                            | <b>34,796</b>                                                              |
| <b>Additional Tier 2 capital</b>                                                                          |                                          |                                                                            |
| Qualifying subordinated debt                                                                              | 3,929                                    | 3,755                                                                      |
| Trust preferred capital securities                                                                        | 119                                      |                                                                            |
| Allowance for loan and lease losses included in Tier 2 capital                                            | 2,929                                    | 2,929                                                                      |
| Other (d)                                                                                                 | 6                                        | 11                                                                         |
| <b>Total Basel III capital</b>                                                                            | <b>\$ 42,655</b>                         | <b>\$ 41,491</b>                                                           |
| <b>Risk-weighted assets</b>                                                                               |                                          |                                                                            |
| Basel III standardized approach risk-weighted assets (e)                                                  | \$ 300,308                               | \$ 308,665                                                                 |
| Basel III advanced approaches risk-weighted assets (f)                                                    | N/A                                      | \$ 280,150                                                                 |
| <b>Average quarterly adjusted total assets</b>                                                            | <b>\$ 352,860</b>                        | <b>\$ 352,231</b>                                                          |
| <b>Supplementary leverage exposure (g)</b>                                                                | <b>\$ 417,565</b>                        | <b>\$ 416,937</b>                                                          |
| <b>Basel III risk-based capital and leverage ratios</b>                                                   |                                          |                                                                            |
| Common equity Tier 1                                                                                      | 10.6%                                    | 10.2%(h)(i)                                                                |
| Tier 1                                                                                                    | 11.9%                                    | 11.3%(h)(j)                                                                |
| Total                                                                                                     | 14.2%                                    | 13.4%(h)(k)                                                                |
| Leverage (l)                                                                                              | 10.1%                                    | 9.9%                                                                       |
| Supplementary leverage ratio (m)                                                                          | 8.5%                                     | 8.3%                                                                       |

(a) Calculated using the regulatory capital methodology applicable to PNC during 2016.

(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) Primarily includes REIT Preferred Securities for transitional and pro forma fully phased-in.

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

(f) 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.

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

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

(i) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Common equity Tier 1 capital ratio estimate is 11.2%. 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.



- (j) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Tier 1 risk-based capital ratio estimate is 12.4%. This capital ratio is calculated using fully phased-in Tier 1 capital and dividing by estimated Basel III advanced approaches risk-weighted assets.
- (k) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III 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.
- (l) Leverage ratio is calculated based on Tier 1 capital divided by Average quarterly adjusted total assets.
- (m) 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.

As a result of the staggered effective dates of the final U.S. Basel III regulatory capital rules (Basel III rules), as well as the fact that PNC remains in the parallel run qualification phase for the advanced approaches, PNC's regulatory risk-based ratios in 2016 are calculated using the standardized approach for determining risk-weighted assets, and the definitions of, and deductions from, regulatory capital under the Basel III rules (as such definitions and deductions are phased-in for 2016). We refer to the capital ratios calculated using the phased-in Basel III provisions in effect for 2016 and, for the risk-based ratios, standardized approach risk-weighted assets, as the 2016 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 September 30, 2016 capital levels were aligned with them.

At September 30, 2016, 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 PNC in the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors and Note 19 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of our 2015 Form 10-K. See the Statistical Information (Unaudited) section of this Report for details on PNC's December 31, 2015 and September 30, 2015 Transitional Basel III and Pro forma fully phased-in Basel III common equity tier 1 capital ratios.

## OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

We engage in a variety of activities that involve unconsolidated entities or that are otherwise not reflected in our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. Additional information on these types of activities is included in our 2015 Form 10-K and in the following sections of this Report:

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Financial Review,
- Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements, and
- Note 13 Commitments and Guarantees in the Notes To Consolidated Financial Statements.

PNC consolidates variable interest entities (VIEs) when we are deemed to be the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that meets both of the following criteria: (i) has the power to make decisions that most significantly affect the economic performance of the VIE and (ii) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE.

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A summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements, as of September 30, 2016 and December 31, 2015, is included in Note 2 of this Report.

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**Trust Preferred Securities and REIT Preferred Securities**

See Note 11 Borrowed Funds and Note 16 Equity in the Notes To Consolidated Financial Statements in Item 8 of our 2015 Form 10-K for additional information on trust preferred securities issued by PNC Capital Trust C and REIT preferred securities issued by PNC Preferred Funding Trust I and PNC Preferred Funding Trust II including information on contractual limitations potentially imposed on payments (including dividends) with respect to PNC and PNC Bank's equity capital securities.

**FAIR VALUE MEASUREMENTS**

In addition to the following, see Note 6 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for further information regarding fair value.

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at September 30, 2016 and December 31, 2015, 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 16: Fair Value Measurements Summary**

| Dollars in millions                                                         | September 30, 2016 |          | December 31, 2015 |          |
|-----------------------------------------------------------------------------|--------------------|----------|-------------------|----------|
|                                                                             | Total Fair Value   | Level 3  | Total Fair Value  | Level 3  |
| Total assets                                                                | \$ 78,010          | \$ 7,929 | \$ 68,804         | \$ 8,606 |
| Total assets at fair value as a percentage of consolidated assets           | 21%                |          | 19%               |          |
| Level 3 assets as a percentage of total assets at fair value                |                    | 10%      |                   | 13%      |
| Level 3 assets as a percentage of consolidated assets                       |                    | 2%       |                   | 2%       |
| Total liabilities                                                           | \$ 6,040           | \$ 424   | \$ 4,892          | \$ 495   |
| Total liabilities at fair value as a percentage of consolidated liabilities | 2%                 |          | 2%                |          |
| Level 3 liabilities as a percentage of total liabilities at fair value      |                    | 7%       |                   | 10%      |
| Level 3 liabilities as a percentage of consolidated liabilities             |                    | <1%      |                   | <1%      |

**BUSINESS SEGMENTS REVIEW**

We have six reportable business segments:

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

Business segment results, including the basis of presentation of inter-segment revenues, and a description of each business are included in Note 14 Segment Reporting included in the Notes To Consolidated Financial Statements in Part I, Item 1 of 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.

Net interest income in business segment results reflects PNC's internal funds transfer pricing methodology. Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product repricing characteristics, tenor and other factors.

**Retail Banking**

(Unaudited)

**Table 17: Retail Banking Table**

Nine months ended September 30

|                                                    | Change     |            |            |       |
|----------------------------------------------------|------------|------------|------------|-------|
|                                                    |            |            | \$         | %     |
| Dollars in millions, except as noted               | 2016       | 2015       |            |       |
| <b>Income Statement</b>                            |            |            |            |       |
| Net interest income                                | \$ 3,351   | \$ 3,152   | \$ 199     | 6%    |
| Noninterest income                                 | 1,628      | 1,652      | (24)       | (1)%  |
| Total revenue                                      | 4,979      | 4,804      | 175        | 4%    |
| Provision for credit losses                        | 210        | 151        | 59         | 39%   |
| Noninterest expense                                | 3,509      | 3,558      | (49)       | (1)%  |
| Pretax earnings                                    | 1,260      | 1,095      | 165        | 15%   |
| Income taxes                                       | 462        | 401        | 61         | 15%   |
| Earnings                                           | \$ 798     | \$ 694     | \$ 104     | 15%   |
| <b>Average Balance Sheet</b>                       |            |            |            |       |
| Loans                                              |            |            |            |       |
| Consumer                                           |            |            |            |       |
| Home equity                                        | \$ 26,351  | \$ 27,810  | \$ (1,459) | (5)%  |
| Automobile                                         | 11,040     | 10,374     | 666        | 6%    |
| Education                                          | 5,653      | 6,402      | (749)      | (12)% |
| Credit cards                                       | 4,818      | 4,476      | 342        | 8%    |
| Other                                              | 1,800      | 1,886      | (86)       | (5)%  |
| Total consumer                                     | 49,662     | 50,948     | (1,286)    | (3)%  |
| Commercial and commercial real estate              | 12,268     | 12,744     | (476)      | (4)%  |
| Residential mortgage                               | 546        | 704        | (158)      | (22)% |
| Total loans                                        | \$ 62,476  | \$ 64,396  | \$ (1,920) | (3)%  |
| Total assets                                       | \$ 71,658  | \$ 73,430  | \$ (1,772) | (2)%  |
| Deposits                                           |            |            |            |       |
| Noninterest-bearing demand                         | \$ 26,895  | \$ 23,353  | \$ 3,542   | 15%   |
| Interest-bearing demand                            | 38,432     | 36,009     | 2,423      | 7%    |
| Money market                                       | 47,230     | 54,775     | (7,545)    | (14)% |
| Savings                                            | 25,738     | 13,471     | 12,267     | 91%   |
| Certificates of deposit                            | 15,008     | 16,763     | (1,755)    | (10)% |
| Total deposits                                     | \$ 153,303 | \$ 144,371 | \$ 8,932   | 6%    |
| <b>Performance Ratios</b>                          |            |            |            |       |
| Return on average assets                           | 1.49%      | 1.26%      |            |       |
| Noninterest income to total revenue                | 33%        | 34%        |            |       |
| Efficiency                                         | 70%        | 74%        |            |       |
| <b>Supplemental Noninterest Income Information</b> |            |            |            |       |
| Service charges on deposits                        | \$ 474     | \$ 459     | \$ 15      | 3%    |
| Brokerage                                          | \$ 222     | \$ 212     | \$ 10      | 5%    |
| Consumer services                                  | \$ 792     | \$ 747     | \$ 45      | 6%    |
| <b>Other Information (a)</b>                       |            |            |            |       |
| <u>Customer-related statistics (average):</u>      |            |            |            |       |
| Non-teller deposit transactions (b)                | 49%        | 43%        |            |       |
| Digital consumer customers (c)                     | 57%        | 52%        |            |       |
| <u>Credit-related statistics:</u>                  |            |            |            |       |
| Nonperforming assets (d)                           | \$ 970     | \$ 1,092   | \$ (122)   | (11)% |
| Net charge-offs                                    | \$ 260     | \$ 251     | \$ 9       | 4%    |
| <u>Other statistics:</u>                           |            |            |            |       |
| ATMs                                               | 9,045      | 8,996      | 49         | 1%    |
| Branches (e)                                       | 2,600      | 2,645      | (45)       | (2)%  |
| Universal branches (f)                             | 475        | 355        | 120        | 34%   |

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|                                                |    |    |    |    |    |   |    |
|------------------------------------------------|----|----|----|----|----|---|----|
| Brokerage account client assets (billions) (g) | \$ | 44 | \$ | 42 | \$ | 2 | 5% |
| (continued on following page)                  |    |    |    |    |    |   |    |

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(continued from previous page)

- (a) Presented as of September 30, except for customer-related statistics, which are averages for the nine months ended, and net charge-offs, which are for the nine months ended.
- (b) Percentage of total consumer and business banking deposit transactions processed at an ATM or through our mobile banking application.
- (c) Represents consumer checking relationships that process the majority of their transactions through non-teller channels.
- (d) Includes nonperforming loans of \$.9 billion at September 30, 2016 and \$1.0 billion at September 30, 2015.
- (e) Excludes satellite offices (*e.g.*, drive-ups, electronic branches and retirement centers) that provide limited products and/or services.
- (f) Included in total branches, represents branches operating under our Universal model.
- (g) Amounts include cash and money market balances.

Retail Banking earned \$798 million in the first nine months of 2016 compared with \$694 million for the first nine months of 2015. The increase in earnings was driven by higher net interest income and a decrease in noninterest expense, partially offset by increased provision for credit losses. 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 and multi-channel engagement and service strategies.

In the first nine months of 2016, approximately 57% of consumer customers used non-teller channels for the majority of their transactions compared with 52% for the same period in 2015.

Deposit transactions via ATM and mobile channels increased to 49% of total deposit transactions in the first nine months of 2016 compared with 43% for the same period in 2015.

PNC had a network of 2,600 branches and 9,045 ATMs at September 30, 2016. Approximately 18% 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 1,812 branches, or 70% of the branch network, as of September 30, 2016.

Net interest income increased in the comparison due to growth in deposit balances partially offset by lower loan balances and interest rate spread compression on the value of loans.

The decline in noninterest income compared to the prior year period reflected the impact of higher net gains on sales of Visa Class B common shares in the 2015 period, as the first nine months of 2016 reflected net gains of \$52 million on sales of 1.35 million Visa shares compared with net gains of \$124 million on the sale of 1.5 million shares for the same period in 2015. Net gains on Visa sales include derivative fair value adjustments related to swap agreements with purchasers of Visa shares in connection with all sales to date.

Excluding the impact of these Visa sales, noninterest income grew in the comparison, reflecting execution on our strategy to provide diverse product and service offerings, which contributed to higher consumer service fee income from payment-related products, specifically in debit card, credit card and merchant services, as well as increased brokerage fees.

The decline in noninterest expense in the comparison was due to a decrease in compensation expense, lower marketing expense and reduced branch network expenses as a result of network transformation and transaction migration to lower cost digital and ATM channels.

Provision for credit losses increased compared to the same period a year ago, reflecting slowing credit quality improvement.



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 nine months of 2016, 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 deposit categories increased, partially offset by a decline in certificates of deposit due to the net runoff of maturing accounts.

Retail Banking continued to focus on a relationship-based lending strategy. The decrease in average total loans in the comparison was due to a decline in home equity and commercial loans, as well as runoff of certain portions of the 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 748 at September 30, 2016 and 752 at December 31, 2015.

Average commercial and commercial real estate loans declined as pay-downs and payoffs on loans exceeded new volume.

Average automobile loans, comprised 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 efforts to increase credit card share of wallet through organic growth.

In the first nine months of 2016, average loan balances for the remainder of the portfolio declined \$993 million, or 11%, compared to the same period in 2015, driven by declines in the discontinued government guaranteed education, indirect other, and residential mortgage portfolios, which are primarily runoff portfolios.

Nonperforming assets decreased compared to September 30, 2015 driven by declines in both consumer and commercial nonperforming loans.

**Corporate & Institutional Banking**

(Unaudited)

**Table 18: Corporate & Institutional Banking Table**

Nine months ended September 30

|                                                                           | Change     |            |            |       |
|---------------------------------------------------------------------------|------------|------------|------------|-------|
|                                                                           | 2016       | 2015       | \$         | %     |
| Dollars in millions, except as noted                                      |            |            |            |       |
| <b>Income Statement</b>                                                   |            |            |            |       |
| Net interest income                                                       | \$ 2,597   | \$ 2,613   | \$ (16)    | (1)%  |
| Noninterest income                                                        | 1,484      | 1,397      | 87         | 6%    |
| Total revenue                                                             | 4,081      | 4,010      | 71         | 2%    |
| Provision for credit losses                                               | 188        | 83         | 105        | 127%  |
| Noninterest expense                                                       | 1,625      | 1,594      | 31         | 2%    |
| Pretax earnings                                                           | 2,268      | 2,333      | (65)       | (3)%  |
| Income taxes                                                              | 810        | 841        | (31)       | (4)%  |
| Earnings                                                                  | \$ 1,458   | \$ 1,492   | \$ (34)    | (2)%  |
| <b>Average Balance Sheet</b>                                              |            |            |            |       |
| Loans held for sale                                                       | \$ 835     | \$ 973     | \$ (138)   | (14)% |
| Loans                                                                     |            |            |            |       |
| Commercial                                                                | \$ 87,625  | \$ 85,304  | \$ 2,321   | 3%    |
| Commercial real estate                                                    | 26,395     | 22,536     | 3,859      | 17%   |
| Equipment lease financing                                                 | 6,843      | 6,965      | (122)      | (2)%  |
| Total commercial lending                                                  | 120,863    | 114,805    | 6,058      | 5%    |
| Consumer                                                                  | 445        | 971        | (526)      | (54)% |
| Total loans                                                               | \$ 121,308 | \$ 115,776 | \$ 5,532   | 5%    |
| Total assets                                                              | \$ 137,884 | \$ 131,678 | \$ 6,206   | 5%    |
| Deposits                                                                  |            |            |            |       |
| Noninterest-bearing demand                                                | \$ 45,712  | \$ 48,168  | \$ (2,456) | (5)%  |
| Money market                                                              | 21,452     | 22,319     | (867)      | (4)%  |
| Other                                                                     | 13,111     | 9,776      | 3,335      | 34%   |
| Total deposits                                                            | \$ 80,275  | \$ 80,263  | \$ 12      |       |
| <b>Performance Ratios</b>                                                 |            |            |            |       |
| Return on average assets                                                  | 1.41%      | 1.51%      |            |       |
| Noninterest income to total revenue                                       | 36%        | 35%        |            |       |
| Efficiency                                                                | 40%        | 40%        |            |       |
| <b>Other Information</b>                                                  |            |            |            |       |
| Commercial loan servicing portfolio (in billions) (a) (b)                 | \$ 461     | \$ 441     | \$ 20      | 5%    |
| Consolidated revenue from: (c)                                            |            |            |            |       |
| Treasury Management (d)                                                   | \$ 1,162   | \$ 999     | \$ 163     | 16%   |
| Capital Markets (d)                                                       | \$ 600     | \$ 592     | \$ 8       | 1%    |
| Commercial mortgage banking activities                                    |            |            |            |       |
| Commercial mortgage loans held for sale (e)                               | \$ 77      | \$ 94      | \$ (17)    | (18)% |
| Commercial mortgage loan servicing income (f)                             | 198        | 191        | 7          | 4%    |
| Commercial mortgage servicing rights valuation, net of economic hedge (g) | 22         | 25         | (3)        | (12)% |
| Total                                                                     | \$ 297     | \$ 310     | \$ (13)    | (4)%  |
| Net carrying amount of commercial mortgage servicing rights (a)           | \$ 473     | \$ 505     | \$ (32)    | (6)%  |
| Average Loans (by C&IB business)                                          |            |            |            |       |
| Corporate Banking                                                         | \$ 57,372  | \$ 58,108  | \$ (736)   | (1)%  |
| Real Estate                                                               | 36,235     | 30,621     | 5,614      | 18%   |
| Business Credit                                                           | 14,770     | 14,503     | 267        | 2%    |
| Equipment Finance                                                         | 11,094     | 10,956     | 138        | 1%    |
| Other                                                                     | 1,837      | 1,588      | 249        | 16%   |
| Total average loans                                                       | \$ 121,308 | \$ 115,776 | \$ 5,532   | 5%    |
| <b>Credit-related statistics:</b>                                         |            |            |            |       |
| Nonperforming assets (a) (h)                                              | \$ 671     | \$ 484     | \$ 187     | 39%   |

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|                 |    |     |    |   |    |     |   |
|-----------------|----|-----|----|---|----|-----|---|
| Net charge-offs | \$ | 169 | \$ | 6 | \$ | 163 | * |
|-----------------|----|-----|----|---|----|-----|---|

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\* Not meaningful.

- (a) As of September 30.
- (b) Represents loans serviced for PNC and others.
- (c) Represents consolidated PNC amounts. See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of the Corporate & Institutional Banking portion of this Business Segments Review section.
- (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 services revenue.
- (h) Includes nonperforming loans of \$.6 billion at September 30, 2016 and \$.4 billion at September 30, 2015.

Corporate & Institutional Banking earned \$1.5 billion in the first nine months of both 2016 and 2015. Earnings decreased by \$34 million primarily due to an increase in the provision for credit losses, partially offset by higher noninterest income. We continue to focus on building client relationships where the risk-return profile is attractive, including in the Southeast.

Net interest income decreased in the comparison, driven by continued interest rate spread compression on loans and lower purchase accounting accretion, which were mostly offset by the impact of higher average loans as well as interest rate spread expansion on deposits.

Higher noninterest income in the comparison was primarily due to an equity investment gain, an increase in gains on asset sales, higher capital markets-related revenue and higher treasury management fees. These increases were partially offset by lower noninterest income from commercial mortgage loan servicing and commercial mortgage loans held for sale activities.

Overall credit quality for the first nine months of 2016 remained relatively stable, except for deterioration of certain energy related loans, which was the primary driver for the increase in provision for credit losses, net charge-offs and nonperforming assets in the year over year comparisons. Increased provision for credit losses also reflected the impact of continued loan growth.

Noninterest expense increased in the comparison due to higher variable compensation and other costs associated with increased business activity and investments in technology and infrastructure, partially offset by our continued expense management.

Average loans increased in the comparison due to strong growth in Real Estate, partially offset by a decline in Corporate Banking:

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 lending driven by higher term and REIT lending. 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 declined in the comparison, reflecting the impact of capital and liquidity management activities, partially offset by increased lending to large corporate clients.

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 in the comparison due to new originations.

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 \$11.8 billion in the first nine months of 2016, stable with the first nine months of 2015.

Average deposits increased nominally compared to the prior year period, as interest-bearing demand deposit growth was essentially offset by decreases in noninterest-bearing demand deposits and money market deposits.

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, including treasury management, capital markets-related products and services, and commercial mortgage banking activities, for customers of all business segments. On a consolidated basis, the revenue from these other services is included in net interest income, corporate service fees and other noninterest income. From a segment perspective, the majority of the revenue and expense related to these services is reflected in the Corporate & Institutional Banking segment results and the remainder is reflected in the results of other businesses. The Other Information section in Table 18 includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue from these services follows.

Treasury management revenue, comprised of fees and net interest income from customer deposit balances, increased in the comparison to the prior year period, driven by liquidity-related revenue.

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 slightly in the comparison as higher merger and acquisition advisory fees and structuring fees on asset securitizations were mostly offset by lower revenue associated with credit valuations for customer-related derivative activities.

Revenue from commercial mortgage banking activities (including net interest income and noninterest income) includes those derived from commercial mortgage servicing and from commercial mortgage loans held for sale and related hedges. Total revenue from commercial mortgage banking activities decreased in the comparison due to lower revenue from commercial mortgage loans held for sale, partially offset by higher commercial mortgage loan servicing income.

## Asset Management Group

(Unaudited)

Table 19: Asset Management Group Table

Nine months ended September 30

|                                                                     | Change    |           |          |        |
|---------------------------------------------------------------------|-----------|-----------|----------|--------|
|                                                                     | 2016      | 2015      | \$       | %      |
| Dollars in millions, except as noted                                |           |           |          |        |
| <b>Income Statement</b>                                             |           |           |          |        |
| Net interest income                                                 | \$ 227    | \$ 215    | \$ 12    | 6%     |
| Noninterest income                                                  | 636       | 658       | (22)     | (3)%   |
| Total revenue                                                       | 863       | 873       | (10)     | (1)%   |
| Provision for credit losses                                         |           | 11        | (11)     | (100)% |
| Noninterest expense                                                 | 618       | 636       | (18)     | (3)%   |
| Pretax earnings                                                     | 245       | 226       | 19       | 8%     |
| Income taxes                                                        | 90        | 83        | 7        | 8%     |
| Earnings                                                            | \$ 155    | \$ 143    | \$ 12    | 8%     |
| <b>Average Balance Sheet</b>                                        |           |           |          |        |
| Loans                                                               |           |           |          |        |
| Consumer                                                            | \$ 5,493  | \$ 5,656  | \$ (163) | (3)%   |
| Commercial and commercial real estate                               | 759       | 901       | (142)    | (16)%  |
| Residential mortgage                                                | 1,032     | 899       | 133      | 15%    |
| Total loans                                                         | \$ 7,284  | \$ 7,456  | \$ (172) | (2)%   |
| Total assets                                                        | \$ 7,743  | \$ 7,922  | \$ (179) | (2)%   |
| Deposits                                                            |           |           |          |        |
| Noninterest-bearing demand                                          | \$ 1,409  | \$ 1,207  | \$ 202   | 17%    |
| Interest-bearing demand                                             | 4,069     | 4,126     | (57)     | (1)%   |
| Money market                                                        | 4,278     | 5,072     | (794)    | (16)%  |
| Savings                                                             | 2,032     | 193       | 1,839    | 953%   |
| Other                                                               | 275       | 279       | (4)      | (1)%   |
| Total deposits                                                      | \$ 12,063 | \$ 10,877 | \$ 1,186 | 11%    |
| <b>Performance Ratios</b>                                           |           |           |          |        |
| Return on average assets                                            | 2.68%     | 2.41%     |          |        |
| Noninterest income to total revenue                                 | 74%       | 75%       |          |        |
| Efficiency                                                          | 72%       | 73%       |          |        |
| <b>Other Information</b>                                            |           |           |          |        |
| Nonperforming assets (a) (b)                                        | \$ 51     | \$ 52     | \$ (1)   | (2)%   |
| Net charge-offs                                                     | \$ 7      | \$ 14     | \$ (7)   | (50)%  |
| <b>Client Assets Under Administration</b> (in billions) (a) (c) (d) |           |           |          |        |
| Discretionary client assets under management                        | \$ 138    | \$ 132    | \$ 6     | 5%     |
| Nondiscretionary client assets under administration                 | 128       | 124       | 4        | 3%     |
| Total                                                               | \$ 266    | \$ 256    | \$ 10    | 4%     |
| Discretionary client assets under management                        |           |           |          |        |
| Personal                                                            | \$ 85     | \$ 84     | \$ 1     | 1%     |
| Institutional                                                       | 53        | 48        | 5        | 10%    |
| Total                                                               | \$ 138    | \$ 132    |          |        |
| Equity                                                              | \$ 73     | \$ 70     | \$ 3     | 4%     |
| Fixed Income                                                        | 40        | 40        |          |        |
| Liquidity/Other                                                     | 25        | 22        | \$ 3     | 14%    |
| Total                                                               | \$ 138    | \$ 132    |          |        |

(a) As of September 30.

(b) Includes nonperforming loans of \$45 million at September 30, 2016 and \$48 million at September 30, 2015.

(c) Excludes brokerage account client assets.

(d) As a result of certain investment advisory services performed by one of our registered investment advisors, certain assets are reported as both discretionary client assets under management and nondiscretionary client assets under administration. The amount of such assets was approximately \$9 billion at September 30, 2016 and \$6 billion at September 30, 2015.



Asset Management Group earned \$155 million through the first nine months of 2016 compared with \$143 million in the same period of 2015. Earnings for the first nine months of 2016 increased due to lower noninterest expense and a decline in the provision for credit losses, partially offset by decreased revenue.

The decrease in total revenue in the comparison was driven by lower noninterest income, partially offset by an increase in net interest income. The decline in noninterest income reflected the impact of a \$30 million trust settlement in the second quarter of 2015, which was partially offset by net business growth.

Noninterest expense decreased in the first nine months of 2016 compared to the prior year period, primarily attributable to lower personnel expense. Asset Management Group remains focused on disciplined expense management as it makes strategic investments.

Asset Management Group's growth strategy is focused on capturing more investable assets by delivering an enhanced client experience, and involves new client acquisition and expanding products and services based on our clients' needs and investment objectives while leveraging our open architecture platform with a full array of investment products and banking solutions for all clients. Key considerations are maximizing front line productivity, a relationship-based focus with other line of business partners, and optimizing market presence in high opportunity markets.

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 as of September 30, 2016 and net business growth.



## Residential Mortgage Banking

(Unaudited)

Table 20: Residential Mortgage Banking Table

| Nine months ended September 30                                                                                                                                                                                                        |          |          |          |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|----------|----------|--------|
| Dollars in millions, except as noted                                                                                                                                                                                                  | 2016     | 2015     | Change   |        |
|                                                                                                                                                                                                                                       |          |          | \$       | %      |
| <b>Income Statement</b>                                                                                                                                                                                                               |          |          |          |        |
| Net interest income                                                                                                                                                                                                                   | \$ 81    | \$ 91    | \$ (10)  | (11)%  |
| Noninterest income                                                                                                                                                                                                                    | 450      | 488      | (38)     | (8)%   |
| Total revenue                                                                                                                                                                                                                         | 531      | 579      | (48)     | (8)%   |
| Provision for credit losses                                                                                                                                                                                                           |          | 2        | (2)      | (100)% |
| Noninterest expense                                                                                                                                                                                                                   | 458      | 510      | (52)     | (10)%  |
| Pretax earnings                                                                                                                                                                                                                       | 73       | 67       | 6        | 9%     |
| Income taxes                                                                                                                                                                                                                          | 27       | 24       | 3        | 13%    |
| Earnings                                                                                                                                                                                                                              | \$ 46    | \$ 43    | \$ 3     | 7%     |
| <b>Average Balance Sheet</b>                                                                                                                                                                                                          |          |          |          |        |
| Loans held for sale                                                                                                                                                                                                                   | \$ 897   | \$ 1,160 | \$ (263) | (23)%  |
| Loans                                                                                                                                                                                                                                 | \$ 979   | \$ 1,175 | \$ (196) | (17)%  |
| Mortgage servicing rights (MSR)                                                                                                                                                                                                       | \$ 913   | \$ 967   | \$ (54)  | (6)%   |
| Total assets                                                                                                                                                                                                                          | \$ 6,078 | \$ 6,962 | \$ (884) | (13)%  |
| Total deposits                                                                                                                                                                                                                        | \$ 2,685 | \$ 2,415 | \$ 270   | 11%    |
| <b>Performance Ratios</b>                                                                                                                                                                                                             |          |          |          |        |
| Return on average assets                                                                                                                                                                                                              | 1.01%    | .83%     |          |        |
| Noninterest income to total revenue                                                                                                                                                                                                   | 85%      | 84%      |          |        |
| Efficiency                                                                                                                                                                                                                            | 86%      | 88%      |          |        |
| <b>Supplemental Noninterest Income Information</b>                                                                                                                                                                                    |          |          |          |        |
| Loan servicing revenue                                                                                                                                                                                                                |          |          |          |        |
| Servicing fees                                                                                                                                                                                                                        | \$ 171   | \$ 143   | \$ 28    | 20%    |
| Mortgage servicing rights valuation, net of economic hedge (a)                                                                                                                                                                        | \$ 16    | \$ 70    | \$ (54)  | (77)%  |
| Loan sales revenue                                                                                                                                                                                                                    | \$ 262   | \$ 278   | \$ (16)  | (6)%   |
| <b>Residential Mortgage Servicing Portfolio (in billions) (b)</b>                                                                                                                                                                     |          |          |          |        |
| Serviced portfolio balance (c)                                                                                                                                                                                                        | \$ 126   | \$ 122   | \$ 4     | 3%     |
| Portfolio acquisitions                                                                                                                                                                                                                | \$ 16    | \$ 24    | \$ (8)   | (33)%  |
| MSR asset value (c)                                                                                                                                                                                                                   | \$ .8    | \$ 1.0   | \$ (.2)  | (20)%  |
| MSR capitalization value (in basis points) (c)                                                                                                                                                                                        | 65       | 79       | (14)     | (18)%  |
| <b>Other Information</b>                                                                                                                                                                                                              |          |          |          |        |
| Loan origination volume (in billions)                                                                                                                                                                                                 | \$ 7.6   | \$ 8.2   | \$ (.6)  | (7)%   |
| Loan sale margin percentage                                                                                                                                                                                                           | 3.33%    | 3.43%    |          |        |
| Percentage of originations represented by:                                                                                                                                                                                            |          |          |          |        |
| Purchase volume (d)                                                                                                                                                                                                                   | 43%      | 46%      |          |        |
| Refinance volume                                                                                                                                                                                                                      | 57%      | 54%      |          |        |
| Nonperforming assets (c) (e)                                                                                                                                                                                                          | \$ 57    | \$ 88    | \$ (31)  | (35)%  |
| (a) Consolidated PNC amounts, which include asset and liability management activities reported in the Other business segment, were \$57 million and \$83 million for the nine months ended September 30, 2016 and 2015, respectively. |          |          |          |        |
| (b) Represents loans serviced for third parties.                                                                                                                                                                                      |          |          |          |        |
| (c) As of September 30.                                                                                                                                                                                                               |          |          |          |        |
| (d) Mortgages with borrowers as part of residential real estate purchase transactions.                                                                                                                                                |          |          |          |        |
| (e) Includes nonperforming loans of \$33 million at September 30, 2016 and \$53 million at September 30, 2015.                                                                                                                        |          |          |          |        |

Residential Mortgage Banking earned \$46 million in the first nine months of 2016 compared with earnings of \$43 million in the first nine months of 2015, primarily driven by a decline in noninterest expense, which was mostly offset by lower noninterest income and net interest income.

The strategic focus of the business is the acquisition of new customers through a retail loan officer sales force with an emphasis on home purchase transactions, competing on the basis of superior service, and leveraging the bank footprint markets.

Residential Mortgage Banking overview:

Total loan originations declined 7% compared to the same period in 2015. Loans continue to be originated primarily through direct channels under Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Housing Administration (FHA)/Department of Veterans Affairs agency guidelines. Refinancings were 57% of originations in the first nine months of 2016 and 54% in the first nine months of 2015.

The decline in net interest income was driven by the decrease in loan originations and lower balances of portfolio loans held for investment.

Noninterest income declined in the comparison, as increased servicing fee income was more than offset by lower benefit from residential mortgage servicing rights valuation, net of economic hedge, and decreased loan sales revenue.

Noninterest expense declined primarily as a result of lower residential mortgage foreclosure-related expenses, including reserve releases of \$24 million, as well as lower servicing costs.

### **BlackRock**

(Unaudited)

### **Table 21: BlackRock Table**

Information related to our equity investment in BlackRock follows:

Nine months ended September 30

| Dollars in millions                                                                                                           | 2016   | 2015   |
|-------------------------------------------------------------------------------------------------------------------------------|--------|--------|
| Business segment earnings (a)                                                                                                 | \$ 390 | \$ 407 |
| PNC's economic interest in BlackRock (b)                                                                                      | 22%    | 22%    |
| (a) Includes PNC's share of BlackRock's reported GAAP earnings and additional income taxes on those earnings incurred by PNC. |        |        |
| (b) At September 30.                                                                                                          |        |        |

| In billions                                                                                                                                                                                                                                                                                         | September 30<br>2016 | December 31<br>2015 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|---------------------|
| Carrying value of PNC's investment in BlackRock (c)                                                                                                                                                                                                                                                 | \$ 6.9               | \$ 6.7              |
| Market value of PNC's investment in BlackRock (d)                                                                                                                                                                                                                                                   | 12.8                 | 12.0                |
| (c) PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of \$2.2 billion at both September 30, 2016 and December 31, 2015. Our voting interest in BlackRock common stock was approximately 21% at September 30, 2016. |                      |                     |
| (d) Does not include liquidity discount.                                                                                                                                                                                                                                                            |                      |                     |

In addition to our investment in BlackRock reflected in Table 21, at September 30, 2016, we held approximately 0.8 million shares of BlackRock Series C Preferred Stock valued at \$221 million, which are available to fund our obligation in connection with certain BlackRock long-term incentive plan (LTIP) programs. We account for the BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock. The fair value amount of the BlackRock Series C Preferred Stock is

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included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 6 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and in Note 7 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of our 2015 Form 10-K.

Our 2015 Form 10-K includes additional information about our investment in BlackRock.

**Non-Strategic Assets Portfolio**

(Unaudited)

**Table 22: Non-Strategic Assets Portfolio Table**

| Nine months ended September 30        |          |          |            |       |
|---------------------------------------|----------|----------|------------|-------|
| Dollars in millions                   | 2016     | 2015     | Change     |       |
|                                       |          |          | \$         | %     |
| <b>Income Statement</b>               |          |          |            |       |
| Net interest income                   | \$ 220   | \$ 302   | \$ (82)    | (27)% |
| Noninterest income                    | 35       | 34       | 1          | 3%    |
| Total revenue                         | 255      | 336      | (81)       | (24)% |
| Provision for credit losses (benefit) | (16)     | (61)     | 45         | 74%   |
| Noninterest expense                   | 57       | 73       | (16)       | (22)% |
| Pretax earnings                       | 214      | 324      | (110)      | (34)% |
| Income taxes                          | 79       | 119      | (40)       | (34)% |
| Earnings                              | \$ 135   | \$ 205   | \$ (70)    | (34)% |
| <b>Average Balance Sheet</b>          |          |          |            |       |
| Loans                                 |          |          |            |       |
| Commercial lending                    | \$ 702   | \$ 742   | \$ (40)    | (5)%  |
| Consumer lending                      |          |          |            |       |
| Home equity                           | 2,015    | 2,859    | (844)      | (30)% |
| Residential real estate               | 3,125    | 3,981    | (856)      | (22)% |
| Total consumer lending                | 5,140    | 6,840    | (1,700)    | (25)% |
| Total loans                           | 5,842    | 7,582    | (1,740)    | (23)% |
| Other assets (a)                      | (262)    | (702)    | 440        | 63%   |
| Total assets                          | \$ 5,580 | \$ 6,880 | \$ (1,300) | (19)% |
| <b>Performance Ratios</b>             |          |          |            |       |
| Return on average assets              | 3.23%    | 3.98%    |            |       |
| Noninterest income to total revenue   | 14%      | 10%      |            |       |
| Efficiency                            | 22%      | 22%      |            |       |
| <b>Other Information</b>              |          |          |            |       |
| Nonperforming assets (b) (c)          | \$ 433   | \$ 571   | \$ (138)   | (24)% |
| Purchased impaired loans (b) (d)      | \$ 2,512 | \$ 3,411 | \$ (899)   | (26)% |
| Net charge-offs (recoveries)          | \$       | \$ (8)   | \$ 8       | 100%  |
| <b>Loans (b)</b>                      |          |          |            |       |
| Commercial lending                    | \$ 693   | \$ 731   | \$ (38)    | (5)%  |
| Consumer lending                      |          |          |            |       |
| Home equity                           | 1,826    | 2,586    | (760)      | (29)% |
| Residential real estate               | 2,933    | 3,625    | (692)      | (19)% |
| Total consumer lending                | 4,759    | 6,211    | (1,452)    | (23)% |
| Total loans                           | \$ 5,452 | \$ 6,942 | \$ (1,490) | (21)% |

(a) Other assets were negative in both periods due to the ALLL.

(b) As of September 30.

(c) Includes nonperforming loans of \$4 billion at September 30, 2016 and \$.5 billion at September 30, 2015.

(d) Recorded investment of purchased impaired loans related to acquisitions. This segment contained 82% of PNC's purchased impaired loans at both September 30, 2016 and September 30, 2015.

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

Non-Strategic Assets Portfolio earned \$135 million in the first nine months of 2016 compared with \$205 million in the first nine months of 2015. Earnings decreased primarily due to a declining loan portfolio and lower benefit from provision for credit losses in 2016.

Non-Strategic Assets Portfolio overview:

Lower net interest income resulted from lower purchase accounting accretion and the impact of the declining average balance of the loan portfolio.

The reduced benefit from provision for credit losses was driven by higher releases of reserves in 2015.

Noninterest expense declined in the comparison, driven by lower costs of managing and servicing the loan portfolios as the portfolio continues to decline.

Average portfolio loans decreased due to customer payment activity and portfolio management activities to reduce under-performing assets. The decrease also reflects the impact of our change in derecognition policy effective December 31, 2015 for certain purchased impaired loans.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Note 1 Accounting Policies in Item 8 of our 2015 Form 10-K and in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report describe the most significant accounting policies that we use to prepare our consolidated financial statements. Certain of these policies require us to make estimates or economic assumptions that may 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 2015 Form 10-K:

Fair Value Measurements

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

Estimated Cash Flows on Purchased Impaired Loans

Goodwill

Lease Residuals

Revenue Recognition

Residential and Commercial Mortgage Servicing Rights

Income Taxes

We provide additional information about many of these items in the Notes To Consolidated Financial Statements included in Part I, Item 1 of 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 has also issued three separate ASUs which amend the original standard to clarify guidance regarding principal versus agent considerations, identifying performance obligations and licensing, and certain narrow-scope amendments which address the presentation of sales tax, noncash consideration, contract modifications at transition and assessing collectability.

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.

### 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

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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.

## 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 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, loss model upgrades, and process re-development prior to adoption. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2019 using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact of adopting this standard.

## 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. We are currently evaluating the impact of adopting this standard.

## Recently Adopted Accounting Standards

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item I of this Report regarding the impact of new accounting pronouncements adopted in 2016.

## RECOURSE AND REPURCHASE OBLIGATIONS

As discussed in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in our 2015 Form 10-K, PNC has sold commercial mortgage, residential mortgage and home equity loans/lines of credit directly or indirectly through securitization and loan sale transactions in which we have continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets. For additional discussion regarding our recourse and repurchase obligations, see the Recourse and Repurchase Obligations section in Item 7 of our 2015 Form 10-K.

## RISK MANAGEMENT

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The Risk Management section included in Item 7 of our 2015 Form 10-K describes our enterprise risk management framework including risk appetite and strategy, risk culture, risk organization and governance, risk identification and quantification, risk control and limits, and risk monitoring and reporting. Additionally, our 2015 Form 10-K provides an analysis of our key areas of risk, which include but are not limited to credit, operational, compliance, model, liquidity and market. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the Risk Management section.

The following information updates our 2015 Form 10-K risk management disclosures.

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**Credit Risk Management**

See the Credit Risk Management portion of the Risk Management section in our 2015 Form 10-K for additional discussion regarding credit risk.

**Asset Quality Overview**

Asset quality trends remained relatively stable during the first nine months of 2016.

Provision for credit losses for the third quarter of 2016 increased modestly to \$87 million compared to \$81 million for the third quarter of 2015. For the nine months ended September 30, 2016, provision for credit losses increased to \$366 million compared with \$181 million for the nine months ended September 30, 2015. During the first nine months of 2016, the provision included \$130 million for energy related loans in the oil, gas, and coal sectors compared to \$86 million for the first nine months of 2015. The increase in provision also reflected slowing credit quality improvement in the commercial and consumer lending portfolios and the impact of continued loan growth.

Nonperforming assets at September 30, 2016 decreased \$50 million compared with December 31, 2015 due to declining home equity and residential real estate nonperforming loans, and lower other real estate owned (OREO) and foreclosed assets, partially offset by higher nonperforming commercial loans driven by energy related loans. Nonperforming assets were 0.64% of total assets at September 30, 2016 compared with 0.68% at December 31, 2015.

Overall loan delinquencies totaled \$1.5 billion at September 30, 2016, a decrease of \$184 million, or 11%, from year-end 2015. The reduction was due in

large part to a decrease in accruing government insured residential real estate and education past due loans of \$117 million.

Net charge-offs for the third quarter of 2016 increased to \$154 million compared to \$96 million for the third quarter of 2015. For the nine months ended September 30, 2016, net charge-offs increased to \$437 million compared with \$266 million for the nine months ended September 30, 2015. Increases were driven by higher commercial loan net charge-offs.

The level of ALLL decreased to \$2.6 billion at September 30, 2016 from \$2.7 billion at December 31, 2015.

**Nonperforming Assets and Loan Delinquencies****Nonperforming Assets, including OREO and Foreclosed Assets**

Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming troubled debt restructurings (TDRs), OREO and foreclosed assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonperforming loans and nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in our 2015 Form 10-K. A summary of the major categories of nonperforming assets are presented in Table 23. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further detail of nonperforming asset categories.

**Table 23: Nonperforming Assets By Type**

|                                                                 | September 30 | December 31 | Change  |       |
|-----------------------------------------------------------------|--------------|-------------|---------|-------|
| Dollars in millions                                             | 2016         | 2015        | \$      | %     |
| <b>Nonperforming loans</b>                                      |              |             |         |       |
| Commercial lending                                              | \$ 691       | \$ 545      | \$ 146  | 27%   |
| Consumer lending (a)                                            | 1,455        | 1,581       | (126)   | (8)%  |
| Total nonperforming loans (b) (c)                               | 2,146        | 2,126       | 20      | 1%    |
| OREO and foreclosed assets                                      | 229          | 299         | (70)    | (23)% |
| Total nonperforming assets                                      | \$ 2,375     | \$ 2,425    | \$ (50) | (2)%  |
| Amount of TDRs included in nonperforming loans                  | \$ 1,177     | \$ 1,119    | \$ 58   | 5%    |
| Percentage of total nonperforming loans                         | 55%          | 53%         |         |       |
| Nonperforming loans to total loans                              | 1.02%        | 1.03%       |         |       |
| Nonperforming assets to total loans, OREO and foreclosed assets | 1.13%        | 1.17%       |         |       |
| Nonperforming assets to total assets                            | .64%         | .68%        |         |       |

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Allowance for loan and lease losses to total nonperforming loans

122%

128%

- (a) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.
- (b) Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.
- (c) The recorded investment of loans collateralized by residential real estate property that are in process of foreclosure was \$.4 billion and \$.6 billion at September 30, 2016 and December 31, 2015, respectively. Both periods included \$.3 billion of loans that are government insured/guaranteed.

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**Table 24: Change in Nonperforming Assets**

| In millions                                        | 2016     | 2015     |
|----------------------------------------------------|----------|----------|
| January 1                                          | \$ 2,425 | \$ 2,880 |
| New nonperforming assets                           | 1,317    | 1,089    |
| Charge-offs and valuation adjustments              | (472)    | (367)    |
| Principal activity, including paydowns and payoffs | (418)    | (544)    |
| Asset sales and transfers to loans held for sale   | (279)    | (296)    |
| Returned to performing status                      | (198)    | (272)    |
| September 30                                       | \$ 2,375 | \$ 2,490 |

As of September 30, 2016, approximately 84% 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 September 30, 2016, commercial lending nonperforming loans were carried at approximately 66% 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 72% of total residential real estate nonperforming loans at September 30, 2016, up from 68% at December 31, 2015. Home equity TDRs comprise 53% of home equity nonperforming loans at September 30, 2016, up from 51% at December 31, 2015. 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 PNC 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 September 30, 2016, our largest nonperforming asset was \$50 million in the Mining, Quarrying, Oil and Gas Extraction 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 44% and 13% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of September 30, 2016.

**Table 25: OREO and Foreclosed Assets**

|                                    | September 30 | December 31 | Change  |       |
|------------------------------------|--------------|-------------|---------|-------|
| In millions                        | 2016         | 2015        | \$      | %     |
| Other real estate owned (OREO):    |              |             |         |       |
| Residential properties             | \$ 116       | \$ 146      | \$ (30) | (21)% |
| Residential development properties | 23           | 31          | (8)     | (26)% |
| Commercial properties              | 78           | 102         | (24)    | (24)% |
| Total OREO                         | 217          | 279         | (62)    | (22)% |
| Foreclosed and other assets        | 12           | 20          | (8)     | (40)% |
| Total OREO and foreclosed assets   | \$ 229       | \$ 299      | \$ (70) | (23)% |

Total OREO and foreclosed assets were 10% of total nonperforming assets at September 30, 2016, compared to 12% at December 31, 2015. As of September 30, 2016, 61% of our OREO and foreclosed assets were comprised of residential related properties, compared to 59% at December 31, 2015.

#### 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 26: Accruing Loans Past Due (a)**

|                                         | Amount       |             | Change   |       | Percentage of Total Loans Outstanding |             |
|-----------------------------------------|--------------|-------------|----------|-------|---------------------------------------|-------------|
|                                         | September 30 | December 31 |          |       | September 30                          | December 31 |
| Dollars in millions                     | 2016         | 2015        | \$       | %     | 2016                                  | 2015        |
| <b>Early stage loan delinquencies</b>   |              |             |          |       |                                       |             |
| Accruing loans past due 30 to 59 days   | \$ 454       | \$ 511      | \$ (57)  | (11)% | .22%                                  | .25%        |
| Accruing loans past due 60 to 89 days   | 236          | 248         | (12)     | (5)%  | .11%                                  | .12%        |
| Total                                   | 690          | 759         | (69)     | (9)%  | .33%                                  | .37%        |
| <b>Late stage loan delinquencies</b>    |              |             |          |       |                                       |             |
| Accruing loans past due 90 days or more | 766          | 881         | (115)    | (13)% | .36%                                  | .43%        |
| Total                                   | \$ 1,456     | \$ 1,640    | \$ (184) | (11)% | .69%                                  | .80%        |

(a) Past due loan amounts at September 30, 2016 include government insured or guaranteed loans of \$.2 billion, \$.1 billion, and \$.7 billion for accruing loans past due 30 to 59 days, past due 60 to 89 days, and past due 90 days or more, respectively. The comparative amounts as of December 31, 2015 were \$.2 billion, \$.1 billion, and \$.8 billion, respectively.

Total early stage loan delinquencies (accruing loans past due 30 to 89 days) decreased at September 30, 2016 compared to December 31, 2015 due primarily to reductions in consumer early stage delinquencies.

Accruing loans past due 90 days or more decreased at September 30, 2016 compared to December 31, 2015 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 homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines, or are certain government insured or guaranteed loans.

On a regular basis our Special Asset Committee closely monitors loans, primarily commercial loans, that are not included in the nonperforming or accruing past due categories and for which we are uncertain about the borrower's ability to comply with existing repayment terms. These loans totaled \$.3 billion and \$.1 billion at September 30, 2016 and December 31, 2015, respectively.

#### Home Equity Loan Portfolio

Our home equity loan portfolio totaled \$30.4 billion as of September 30, 2016, or 14% of the total loan portfolio. Of that total, \$18.0 billion, or 59%, were outstanding under primarily variable-rate home equity lines of credit and \$12.4 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 September 30, 2016.

As of September 30, 2016, we were in an originated first lien position for approximately 54% of the total outstanding portfolio and, where originated as a second lien, we held or serviced the first lien position for an additional 3% of the portfolio. The remaining 43% 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.

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 September 30, 2016, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

**Table 27: Home Equity Lines of Credit Draw Period End Dates**

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|                     | Interest Only | Principal and    |
|---------------------|---------------|------------------|
| In millions         | Product       | Interest Product |
| Remainder of 2016   | \$ 223        | \$ 72            |
| 2017                | 1,813         | 473              |
| 2018                | 830           | 660              |
| 2019                | 575           | 508              |
| 2020                | 461           | 457              |
| 2021 and thereafter | 2,927         | 6,134            |
| Total (a) (b)       | \$ 6,829      | \$ 8,304         |

- (a) Includes all home equity lines of credit that mature in the remainder 2016 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 \$9 million, \$39 million, \$28 million, \$21 million, \$73 million and \$427 million with draw periods scheduled to end in the remainder of 2016, 2017, 2018, 2019, 2020 and 2021 and thereafter, respectively.

Based upon outstanding balances, and excluding purchased impaired loans, at September 30, 2016, 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.

See the Credit Risk Management portion of the Risk Management section in our 2015 Form 10-K for more information on our home equity loan portfolio. See also Note 3 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

#### Auto Loan Portfolio

The auto loan portfolio totaled \$11.9 billion as of September 30, 2016, or 6% of our total loan portfolio. Of that total, \$10.4 billion resides in the indirect auto portfolio, \$1.2 billion in the direct auto portfolio, and \$.3 billion in acquired or securitized portfolios, which has 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 as evidenced by an average new loan origination FICO score over the last twelve months of 760 for indirect auto loans and 776 for direct auto loans. As of September 30, 2016, .3% 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 58% new vehicle loans and 42% used vehicle loans at September 30, 2016.

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.

#### Energy Related Loan Portfolio

Our portfolio of loans outstanding in the oil and gas industry totaled \$2.5 billion as of September 30, 2016, or 1% of our total loan portfolio and 2% of our total commercial lending portfolio. This portfolio comprised approximately \$1.0 billion in the midstream and downstream sectors, \$.9 billion to oil services companies and \$.6 billion to upstream sectors. Of the oil services portfolio, approximately \$.2 billion is not asset-

based or investment grade. Nonperforming loans in the oil and gas sector as of September 30, 2016 totaled \$197 million, or 8% of total nonperforming assets.

Our portfolio of loans outstanding in the coal industry totaled \$.5 billion as of September 30, 2016, or less than 1% of both our total loan portfolio and our total commercial lending portfolio. Nonperforming loans in the coal industry as of September 30, 2016 totaled \$63 million, or 3% of total nonperforming assets.

### **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, including both government-created Home Affordable Modification Program (HAMP) and PNC-developed modification programs, generally result in principal forgiveness, interest rate reduction, term extension, capitalization of past due amounts, interest-only period or deferral of principal.

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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 28 provides the number of accounts and unpaid principal balance of modified consumer real estate related loans at the end of each year presented.

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**Table 28: Consumer Real Estate Related Loan Modifications**

| Dollars in millions                                   | September 30, 2016 |                          | December 31, 2015  |                          |
|-------------------------------------------------------|--------------------|--------------------------|--------------------|--------------------------|
|                                                       | Number of Accounts | Unpaid Principal Balance | Number of Accounts | Unpaid Principal Balance |
| Temporary modifications (a)                           | 3,672              | \$ 273                   | 4,469              | \$ 337                   |
| Permanent modifications                               |                    |                          |                    |                          |
| Home equity                                           | 15,543             | 1,108                    | 15,268             | 1,088                    |
| Residential real estate                               | 8,410              | 1,615                    | 8,787              | 1,721                    |
| Total permanent modifications                         | 23,953             | 2,723                    | 24,055             | 2,809                    |
| Total consumer real estate related loan modifications | 27,625             | \$ 2,996                 | 28,524             | \$ 3,146                 |

(a) All temporary modifications are home equity loans.

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

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

Under a HAMP trial payment period, we establish an alternate payment, generally at an amount less than the contractual payment amount, for the borrower during this short time period. This allows a borrower to demonstrate successful payment performance before permanently restructuring the loan into a HAMP modification. Subsequent to successful borrower performance under the trial payment period, we will capitalize the original contractual amount past due, to include accrued interest and fees receivable, and restructure the loan's contractual terms, along with bringing the restructured account current. As the borrower is often already delinquent at the time of participation in the HAMP trial payment period, generally enrollment in the program does not significantly increase the ALLL. If the trial payment period is unsuccessful, the loan will be evaluated for further action based upon our existing policies. After December 31, 2016, the government-created HAMP program will expire. As such, no new modifications will be offered under the program after that date.

#### Commercial Loan Modifications and Payment Plans

Modifications of terms for commercial loans are based on individual facts and circumstances. Commercial loan modifications may involve reduction of the interest rate, extension of the 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.

We have established certain commercial loan modification and payment programs for small business loans, Small Business Administration loans, and investment real estate loans. As of September 30, 2016 and December 31, 2015, the loan balances covered under these modification and payment plan programs, including those determined to be TDRs, were not significant.

#### 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 PNC and a court approved Chapter 13 bankruptcy repayment plan).

TDRs totaled \$2.4 billion at September 30, 2016, an increase of \$8 million during the first nine months of 2016. Excluded from TDRs are \$1.1 billion and \$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 September 30, 2016 and December 31, 2015, respectively. Nonperforming TDRs represented approximately 55% and 53% of total nonperforming loans, and 50% and 48% of total TDRs at September 30, 2016 and December 31, 2015, 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****Table 29: Loan Charge-Offs And Recoveries**

| Nine months ended September 30 |                   | Net        |                            |                                       |
|--------------------------------|-------------------|------------|----------------------------|---------------------------------------|
| Dollars in millions            | Gross Charge-offs | Recoveries | Charge-offs / (Recoveries) | Percent of Average Loans (annualized) |
| <b>2016</b>                    |                   |            |                            |                                       |
| Commercial                     | \$ 271            | \$ 87      | \$ 184                     | .25%                                  |
| Commercial real estate         | 22                | 37         | (15)                       | (.07)%                                |
| Equipment lease financing      | 4                 | 9          | (5)                        | (.09)%                                |
| Home equity                    | 115               | 63         | 52                         | .22%                                  |
| Residential real estate        | 11                | 7          | 4                          | .04%                                  |
| Credit card                    | 122               | 14         | 108                        | 2.99%                                 |
| Other consumer                 | 147               | 38         | 109                        | .67%                                  |
| Total                          | \$ 692            | \$ 255     | \$ 437                     | .28%                                  |
| <b>2015</b>                    |                   |            |                            |                                       |
| Commercial                     | \$ 145            | \$ 139     | \$ 6                       | .01%                                  |
| Commercial real estate         | 29                | 46         | (17)                       | (.09)%                                |
| Equipment lease financing      | 2                 | 3          | (1)                        | (.02)%                                |
| Home equity                    | 139               | 69         | 70                         | .28%                                  |
| Residential real estate        | 17                | 10         | 7                          | .07%                                  |
| Credit card                    | 121               | 16         | 105                        | 3.13%                                 |
| Other consumer                 | 136               | 40         | 96                         | .58%                                  |
| Total                          | \$ 589            | \$ 323     | \$ 266                     | .17%                                  |

Net charge-offs increased by \$171 million, or 64%, in the first nine months of 2016 compared to the first nine months of 2015 due to higher commercial loan net charge-offs. Total net charge-offs exclude write-offs and recoveries related to purchased impaired loans.

We maintain an ALLL to absorb losses from the loan and lease portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan and lease portfolio. Our total ALLL of \$2.6 billion at September 30, 2016 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 allocated to non-impaired commercial loan classes are 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 loan data and will periodically refine our PDs and LGDs as well as consider regulatory guidance and management judgment.

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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.

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

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

Purchased impaired loans are initially recorded at fair value and applicable accounting guidance prohibits the carry over or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At September 30, 2016, we had reserves of \$.3 billion for purchased impaired loans. In addition, loans (purchased impaired and non-impaired) acquired after January 1, 2009 were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at the date of acquisition.

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. Consumer lending allocations are made based on historical loss experience adjusted for recent activity.

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 2015 Form 10-K and Note 3 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for further information on certain key asset quality indicators that we use to evaluate our portfolios and establish the allowances.

**Table 30: Allowance for Loan and Lease Losses**

| Dollars in millions                                                                             | 2016     | 2015     |
|-------------------------------------------------------------------------------------------------|----------|----------|
| January 1                                                                                       | \$ 2,727 | \$ 3,331 |
| Total net charge-offs                                                                           | (437)    | (266)    |
| Provision for credit losses                                                                     | 366      | 181      |
| Net change in allowance for unfunded loan commitments and letters of credit                     | (49)     | (7)      |
| Net recoveries of purchased impaired loans and other                                            | 12       | (2)      |
| September 30                                                                                    | \$ 2,619 | \$ 3,237 |
| Net charge-offs to average loans (for the nine months ended) (annualized)                       | .28%     | .17%     |
| Total allowance for loan and lease losses to total loans (a)                                    | 1.24%    | 1.58%    |
| Commercial lending (net charge-offs) / recoveries                                               | \$ (164) | \$ 12    |
| Consumer lending net charge-offs                                                                | (273)    | (278)    |
| Total net charge-offs                                                                           | \$ (437) | \$ (266) |
| <u>Net charge-offs / (recoveries) to average loans (for the nine months ended) (annualized)</u> |          |          |
| Commercial lending                                                                              | .16%     | (.01)%   |
| Consumer lending                                                                                | .50%     | .50%     |

(a) See Note 1 Accounting Policies in our 2015 Form 10-K for information on our change in derecognition policy effective December 31, 2015 for certain purchased impaired loans.

The provision for credit losses increased to \$366 million for the first nine months of 2016 compared to \$181 million for the first nine months of 2015, primarily driven by energy related exposure, slowing credit quality improvement and the impact of continued loan growth.

At September 30, 2016, total ALLL to total nonperforming loans was 122%. The comparable amount for December 31, 2015 was 128%. These ratios are 91% and 98%, respectively, when excluding the \$.7 billion and \$.6 billion of ALLL at September 30, 2016 and December 31, 2015, respectively, allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have

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excluded consumer loans and lines of credit not secured by real estate as they are charged off after 120 to 180 days past due and not placed on nonperforming status. Additionally, we have excluded purchased impaired loans as they are considered performing regardless of their delinquency status as interest is accreted in accordance with ASC 310-30 based on the recorded investment balance. See Table 23 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 nine months of 2016, overall credit quality remained relatively stable offsetting impacts from certain energy related loans, which resulted in a slight ALLL balance decline of \$.1 billion, or 4% to \$2.6 billion as of September 30, 2016 compared to December 31, 2015.

See Note 1 Accounting Policies in our 2015 Form 10-K and Note 4 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on the ALLL and the allowance for unfunded loan commitments and letters of credit.

### **Liquidity Risk Management**

Liquidity risk, including our liquidity monitoring measures and tools, is described in further detail in the Liquidity Risk Management section of our 2015 Form 10-K.

One of the ways PNC monitors its 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 are required to maintain is 90% in 2016. Between January 1, 2016 and June 30, 2016, PNC and PNC Bank were required to calculate the LCR on a month-end basis. Effective July 1, 2016, PNC and PNC Bank began calculating the LCR on a daily basis. As of September 30, 2016, the LCR for PNC and PNC Bank exceeded the 2017 fully phased-in requirement of 100%.

We provide additional information regarding regulatory liquidity requirements and their potential impact on PNC in the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors of our 2015 Form 10-K.

### **Bank Level Liquidity Uses**

At the bank level, primary contractual obligations include funding loan commitments, satisfying deposit withdrawal requests and maturities and debt service related to bank borrowings. As of September 30, 2016, there were approximately \$10.5 billion of bank borrowings with contractual maturities of less than one year, including \$1.1 billion in borrowings from an affiliate. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary.

### **Bank Level Liquidity Sources**

Our largest source of bank liquidity on a consolidated basis is the deposit base generated by our retail and commercial banking businesses. Total deposits increased to \$259.9 billion at September 30, 2016 from \$249.0 billion at December 31, 2015, driven by growth in savings deposits and demand deposits, partially offset by a decline in money market deposits and time deposits in foreign offices and other time deposits. Assets determined by PNC to be liquid (liquid assets) and unused borrowing capacity from a number of sources are also available to maintain our liquidity position. Borrowed funds come from a diverse mix of short-term and long-term funding sources.

At September 30, 2016, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling \$30.4 billion and securities available for sale totaling \$61.9 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 \$92.3 billion, we had \$3.5 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 to the liquid assets we pledged, \$6.5 billion of securities held to maturity were also pledged as collateral for these purposes.

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

Under PNC Bank's 2014 bank note program, dated January 16, 2014 and amended May 22, 2015 and May 27, 2016, PNC Bank may from time to time offer up to \$40.0 billion aggregate principal amount at any one time outstanding 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. The \$40.0 billion of notes includes notes issued by PNC Bank under the 2004 bank note program and those notes PNC Bank has assumed through the acquisition of other banks, in each case for so long as such notes remain outstanding. The terms of the 2014 bank note program, as amended, do not affect any of the bank notes issued prior to January 16, 2014. At September 30, 2016, PNC Bank had \$24.9 billion of notes outstanding under this program of which \$18.7 billion was senior bank notes and \$6.2 billion was subordinated bank notes. The following table details all issuances during 2016:





**Table 31: PNC Bank Notes Issued During 2016**

| Issuance Date  | Amount         | Description of Issuance                                                                                                                                                               |
|----------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| March 4, 2016  | \$1.0 billion  | Senior notes with a maturity date of March 4, 2019. Interest is payable semi-annually at a fixed rate of 1.950% on March 4 and September 4 of each year, beginning September 4, 2016. |
| April 29, 2016 | \$600 million  | Senior notes with a maturity date of June 1, 2025. Interest is payable semi-annually at a fixed rate of 3.250% on June 1 and December 1 of each year, beginning June 1, 2016.         |
| April 29, 2016 | \$1.25 billion | Senior notes with a maturity date of April 29, 2021. Interest is payable semi-annually at a fixed rate of 2.150% on April 29 and October 29 of each year, beginning October 29, 2016. |
| July 29, 2016  | \$1.0 billion  | Senior notes with a maturity date of July 29, 2019. Interest is payable semi-annually at a fixed rate of 1.450% on January 29 and July 29 of each year, beginning January 29, 2017.   |

Total senior and subordinated debt of PNC Bank increased to \$26.7 billion at September 30, 2016 from \$25.5 billion at December 31, 2015 due to the following activity in the period.

**Table 32: PNC Bank Senior and Subordinated Debt**

|                      |         |
|----------------------|---------|
| In billions          | 2016    |
| January 1            | \$ 25.5 |
| Issuances            | 3.9     |
| Calls and maturities | (3.0)   |
| Other                | .3      |
| September 30         | \$ 26.7 |

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 September 30, 2016, our unused secured borrowing capacity was \$26.8 billion with the FHLB-Pittsburgh. Total FHLB borrowings decreased to \$17.1 billion at September 30, 2016 from \$20.1 billion at December 31, 2015 due to the following activity in the period.

**Table 33: FHLB Borrowings**

|                      |         |
|----------------------|---------|
| In billions          | 2016    |
| January 1            | \$ 20.1 |
| Issuances            | 4.5     |
| Calls and maturities | (7.5)   |
| September 30         | \$ 17.1 |

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 September 30, 2016, standby letters of credit issued on our behalf by the FHLB-Pittsburgh totaled \$4.7 billion.

PNC Bank has the ability to offer up to \$10.0 billion of its commercial paper to provide additional liquidity. As of September 30, 2016, 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 September 30, 2016, our unused secured borrowing capacity was \$17.2 billion with the Federal Reserve Bank.

#### Parent Company Liquidity

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As of September 30, 2016, available parent company liquidity totaled \$3.3 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.

### **Parent Company Liquidity    Uses**

The parent company's contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. As of September 30, 2016, there were approximately \$.6 billion of parent company borrowings with contractual maturities of less than one year. Additionally, the parent company maintains adequate liquidity to fund discretionary activities such as paying dividends to PNC shareholders, share repurchases, and acquisitions.

See the Capital portion of the Consolidated Balance Sheet Review section of this Financial Review for information on our 2016 capital plan that was accepted by the Federal Reserve. Our capital plan included a recommendation to

increase the quarterly common stock dividend in the third quarter of 2016 and also included share repurchase programs of up to \$2.0 billion for the four-quarter period beginning in the third quarter of 2016. More information on our share repurchase programs, including detail on our third quarter repurchase of 5.9 million common shares for \$.5 billion, is included in the Capital portion of the Consolidated Balance Sheet Review in this Financial Review.

On July 7, 2016, consistent with our 2016 capital plan, our Board of Directors approved an increase to PNC's quarterly common stock dividend from 51 cents per common share to 55 cents per common share beginning with the August 5, 2016 dividend payment.

See the Supervision and Regulation section in Item 1 Business of our 2015 Form 10-K for additional information regarding the Federal Reserve's CCAR process and the factors the Federal Reserve takes into consideration in evaluating capital plans, qualitative and quantitative liquidity risk management standards proposed by the U.S. banking agencies, and final rules issued by the Federal Reserve that make certain modifications to the Federal Reserve's capital planning and stress testing rules.

### Parent Company Liquidity Sources

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

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

There are statutory and regulatory limitations on the ability of 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 \$1.5 billion at September 30, 2016. See Note 19 Regulatory Matters in our 2015 Form 10-K for a further discussion of these limitations. We provide additional information on certain contractual restrictions in Note 16 Equity in our 2015 Form 10-K.

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.

Total parent company senior and subordinated debt and hybrid capital instruments decreased to \$6.4 billion at September 30,

2016 from \$7.5 billion at December 31, 2015 due to the following activity in the period.

See Note 15 Subsequent Events in the Notes to Consolidated Financial Statements of this Report for information on the issuance of depository shares, each representing a 1/100<sup>th</sup> interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series S.

**Table 34: Parent Company Senior and Subordinated Debt and Hybrid Capital Instruments**

| In billions          | 2016   |
|----------------------|--------|
| January 1            | \$ 7.5 |
| Calls and Maturities | (1.2)  |
| Other                | .1     |
| September 30         | \$ 6.4 |

The parent company has the ability to offer up to \$5.0 billion of commercial paper to provide additional liquidity. As of September 30, 2016, there were no issuances outstanding under this program.

### Status of Credit Ratings

The cost and availability of short-term and long-term funding, as well as collateral requirements for certain derivative instruments, is influenced by PNC's credit ratings. See the Liquidity Risk Management portion of the Risk Management section in our 2015 Form 10-K for more

information on credit ratings.

**Table 35: Credit Ratings as of September 30, 2016 for PNC and PNC Bank**

|                                                | Moody's | Standard & Poor's | Fitch |
|------------------------------------------------|---------|-------------------|-------|
| <b>PNC</b>                                     |         |                   |       |
| Senior debt                                    | A3      | A-                | A+    |
| Subordinated debt                              | A3      | BBB+              | A     |
| Preferred stock                                | Baa2    | BBB-              | BBB-  |
| <b>PNC Bank</b>                                |         |                   |       |
| 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    |
| <b>Contractual Obligations and Commitments</b> |         |                   |       |

We have contractual obligations representing required future payments on borrowed funds, time deposits, leases, pension and postretirement benefits, and purchase obligations. See the Liquidity Risk Management portion of the Risk Management section in our 2015 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 and Guarantees in Part I, Item 1 of this Report.

### **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.

### **Market Risk Management   Interest Rate Risk**

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

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

Sensitivity results and market interest rate benchmarks for the third quarters of 2016 and 2015 follow:

**Table 36: Interest Sensitivity Analysis**

|                                                                                                                 | Third<br>Quarter<br>2016 | Third<br>Quarter<br>2015 |
|-----------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| <b>Net Interest Income Sensitivity Simulation (a)</b>                                                           |                          |                          |
| Effect on net interest income in first year from gradual interest rate change over the following 12 months of:  |                          |                          |
| 100 basis point increase                                                                                        | 3.0%                     | 2.7%                     |
| 100 basis point decrease                                                                                        | (3.9)%                   | (.7)%                    |
| Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of: |                          |                          |
| 100 basis point increase                                                                                        | 6.1%                     | 6.4%                     |
| 100 basis point decrease                                                                                        | (8.3)%                   | (5.3)%                   |
| <b>Duration of Equity Model (a)</b>                                                                             |                          |                          |
| Base case duration of equity (in years)                                                                         | (6.5)                    | (5.2)                    |
| <b>Key Period-End Interest Rates</b>                                                                            |                          |                          |
| One-month LIBOR                                                                                                 | .53%                     | .19%                     |
| Three-year swap                                                                                                 | 1.07%                    | .98%                     |

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

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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 37 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 37: Net Interest Income Sensitivity to Alternative Rate Scenarios (Third Quarter 2016)**

|                         | PNC<br>Economist | Market<br>Forward | Slope<br>Flattening |
|-------------------------|------------------|-------------------|---------------------|
| First year sensitivity  | 2.6%             | 3.1%              | (3.1)%              |
| Second year sensitivity | 6.7%             | 3.6%              | (8.6)%              |

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

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in Tables 36 and 37 above. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates. We also consider forward projections of purchase accounting accretion when forecasting net interest income.

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

**Table 38: Alternate Interest Rate Scenarios: One Year Forward**

The third quarter 2016 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates and an upward sloping interest rate yield curve. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

#### **Market Risk Management   Customer-Related Trading Risk**

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

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in customer-related trading activities. 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 nine months of 2016 and 2015 were within our acceptable limits.

See the Market Risk Management   Customer-Related Trading Risk section of our 2015 Form 10-K for more information on the models and backtesting.

Customer related trading revenue was \$140 million for the first nine months of 2016 compared with \$155 million for the first nine months of 2015. This decrease was primarily due to changes in credit valuations for customer-related derivatives.

Customer related trading revenue was \$51 million for the third quarter of 2016 compared with \$53 million for the third quarter of 2015. This decrease was primarily due to reduced client related foreign exchange results.

#### **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, and underwriting and trading financial instruments, we make and manage direct investments in a variety of transactions, including management buyouts, recapitalizations, and growth financings in a variety of industries. We also have investments in affiliated and non-affiliated funds that make similar investments in private equity and in debt and equity-oriented hedge funds. The economic and/or book value of these investments and other assets such as loan servicing rights are directly affected by changes in market factors.

The primary risk measurement for equity and other investments is economic capital. Economic capital is a common measure of risk for credit, market and operational risk. It is an estimate of the potential value depreciation over a one year horizon commensurate with solvency expectations of an institution rated single-A by the credit rating agencies. Given the illiquid nature of many of these types of investments, it can be a challenge to determine their fair values. See Note 6 Fair Value in the Notes To Consolidated Financial Statements in this Report and Note 7 Fair Value in our 2015 Form 10-K for additional information.

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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.

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A summary of our equity investments follows:

**Table 39: Equity Investments Summary**

|                        | September 30 | December 31 | Change |       |
|------------------------|--------------|-------------|--------|-------|
| In millions            | 2016         | 2015        | \$     | %     |
| BlackRock              | \$ 6,805     | \$ 6,626    | \$ 179 | 3%    |
| Tax credit investments | 2,141        | 2,254       | (113)  | (5)%  |
| Private equity         | 1,340        | 1,441       | (101)  | (7)%  |
| Visa                   | 2            | 31          | (29)   | (94)% |
| Other                  | 317          | 235         | 82     | 35%   |
| Total                  | \$ 10,605    | \$ 10,587   | \$ 18  | 0%    |
| <u>BlackRock</u>       |              |             |        |       |

PNC owned approximately 35 million common stock equivalent shares of BlackRock equity at September 30, 2016, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

#### Tax Credit Investments

Included in our equity investments are direct tax credit investments and equity investments held by consolidated partnerships. These equity investment balances include unfunded commitments totaling \$719 million and \$669 million at September 30, 2016 and December 31, 2015, 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 Item 8 of our 2015 Form 10-K has further information on Tax Credit Investments.

#### Private Equity

The private equity portfolio is an illiquid portfolio comprised of mezzanine and equity investments that vary by industry, stage and type of investment and are carried at estimated fair value. As of September 30, 2016, \$1.1 billion was invested directly in a variety of companies and \$.3 billion was invested indirectly through various private equity funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The interests held in indirect private equity funds are not redeemable, but PNC may receive distributions over the life of the partnership from liquidation of the underlying investments. See Item 1 Business Supervision and Regulation and Item 1A Risk Factors included in our 2015 Form 10-K for discussions of the potential impacts of the Volcker Rule provisions of Dodd-Frank on our interests in and sponsorship of private funds covered by the Volcker Rule.

Our unfunded commitments related to private equity totaled \$128 million at September 30, 2016 and \$126 million at December 31, 2015.

#### Visa

Our 2015 Form 10-K includes information regarding the October 2007 Visa restructuring, our involvement with judgment and loss sharing agreements with Visa and certain other banks, the status of pending interchange litigation, the sales of portions of our Visa Class B common shares and the related swap agreements with the purchaser. See Note 12 Legal Proceedings in our Second Quarter 2016 Form 10-Q for more detail on the status of the pending interchange litigation.

During the first nine months of 2016, we sold 1.35 million Visa Class B common shares, in addition to the 18.5 million shares sold in previous years. We have entered into swap agreements with the purchasers of the shares as part of these sales. At September 30, 2016, our investment in Visa Class B common shares totaled approximately 3.5 million shares. Based on the September 30, 2016 closing price of \$82.70 for the Visa Class A common shares, the fair value of our total investment was \$479 million at the current conversion rate. The 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 final resolution of all of the specified litigation.

#### Other Investments

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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. The economic values could be driven by either the fixed-income market or the equity markets, or both. Given the nature of these investments, if market conditions affecting their valuation were to worsen, we could incur future losses. Net gains related to these investments were not significant for the first nine months of 2016 and 2015.

Our unfunded commitments related to other investments at September 30, 2016 and December 31, 2015 were not significant.

### Financial Derivatives

Information on our financial derivatives is presented in Note 1 Accounting Policies and Note 7 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2015 Form 10-K and in Note 6 Fair Value and Note 9 Financial Derivatives in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report, which is incorporated here by reference.

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

The following table summarizes the notional or contractual amounts and net fair value of financial derivatives at September 30, 2016 and December 31, 2015.

**Table 40: Financial Derivatives Summary**

| In millions                                                         | September 30, 2016                 |                       | December 31, 2015                  |                       |
|---------------------------------------------------------------------|------------------------------------|-----------------------|------------------------------------|-----------------------|
|                                                                     | Notional/<br>Contractual<br>Amount | Net Fair<br>Value (a) | Notional/<br>Contractual<br>Amount | Net Fair<br>Value (a) |
| <b>Derivatives designated as hedging instruments under GAAP</b>     |                                    |                       |                                    |                       |
| Total derivatives designated as hedging instruments                 | \$ 52,466                          | \$ 1,336              | \$ 52,074                          | \$ 985                |
| <b>Derivatives not designated as hedging instruments under GAAP</b> |                                    |                       |                                    |                       |
| Total derivatives used for residential mortgage banking activities  | 72,281                             | 516                   | 73,891                             | 376                   |
| Total derivatives used for commercial mortgage banking activities   | 9,689                              | 80                    | 24,091                             | 36                    |
| Total derivatives used for customer-related activities              | 208,437                            | 170                   | 192,621                            | 151                   |
| Total derivatives used for other risk management activities         | 5,914                              | (362)                 | 5,299                              | (409)                 |
| Total derivatives not designated as hedging instruments             | 296,321                            | 404                   | 295,902                            | 154                   |
| Total Derivatives                                                   | \$ 348,787                         | \$ 1,740              | \$ 347,976                         | \$ 1,139              |

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

## INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of September 30, 2016, 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 September 30, 2016, and that there has been no change in PNC's internal control over financial reporting that occurred during the third quarter of 2016 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 2015 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 PNC and its future business and operations that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as believe, plan, expect, anticipate, see, look, intend, outlook, forecast, estimate, 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.

- The impact on financial markets and the economy of any changes in the credit ratings of U.S. Treasury obligations and other U.S. government-backed debt, as well as issues surrounding the levels of U.S. and European government debt and concerns regarding the creditworthiness of certain sovereign governments, supranationals and financial institutions in Europe.

- Actions by the Federal Reserve, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.

- Changes in customers, suppliers and other counterparties' performance and creditworthiness.

- Slowing or reversal of the current U.S. economic expansion.

- Continued residual effects of recessionary conditions and uneven spread of positive impacts of recovery on the economy and our counterparties, including adverse impacts on levels of unemployment, loan utilization rates, delinquencies, defaults and counterparty ability to meet credit and other obligations.

- 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 will grow moderately in the latter half of 2016, boosted by stable oil/energy prices, improving housing activity and moderate job gains, and that short-term interest rates and bond yields will hold fairly steady before gradually rising late this year. Specifically, our business outlook reflects our expectation of a 25 basis point increase in short-term interest rates by the Federal Reserve in December 2016. These forward-looking statements also do not, unless otherwise indicated, take into account the impact of potential legal and regulatory contingencies.

PNC's ability to take certain capital actions, including paying dividends and any plans to increase common stock dividends, repurchase common stock under current or future programs, or issue or redeem preferred stock or other regulatory capital instruments, is subject to the review of such proposed actions by the Federal Reserve as part of PNC's comprehensive capital plan for the applicable period in connection with the Federal Reserve's CCAR process and to the acceptance of such capital plan and non-objection to such capital actions by the Federal Reserve.

PNC's regulatory capital ratios in the future will depend on, among other things, the company's financial performance, the scope and terms of final capital regulations then in effect (particularly those implementing the 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 PNC's balance sheet. In addition, PNC's ability to determine, evaluate and forecast regulatory capital ratios, and to take actions (such as capital distributions) based on actual or forecasted capital ratios, will be dependent 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 major reform of the regulatory oversight structure of the financial services industry and changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other industry aspects, and changes in accounting policies



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

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

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

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

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

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

Business and operating results also include impacts relating to our equity interest in BlackRock, Inc. and rely to a significant extent on information provided to us by

BlackRock. Risks and uncertainties that could affect BlackRock are discussed in more detail by BlackRock in its SEC filings.

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

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

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

We provide greater detail regarding these as well as other factors in our 2015 Form 10-K, our 2016 Form 10-Qs and elsewhere in this Report, including in the Risk Factors and Risk Management sections and the Legal Proceedings and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements in those reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

**CONSOLIDATED INCOME STATEMENT**

THE PNC FINANCIAL SERVICES GROUP, INC.

| Unaudited                                                        | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |          |
|------------------------------------------------------------------|------------------------------------|----------|-----------------------------------|----------|
| In millions, except per share data                               | 2016                               | 2015     | 2016                              | 2015     |
| <b>Interest Income</b>                                           |                                    |          |                                   |          |
| Loans                                                            | \$ 1,856                           | \$ 1,804 | \$ 5,528                          | \$ 5,397 |
| Investment securities                                            | 451                                | 423      | 1,369                             | 1,236    |
| Other                                                            | 101                                | 114      | 302                               | 332      |
| Total interest income                                            | 2,408                              | 2,341    | 7,199                             | 6,965    |
| <b>Interest Expense</b>                                          |                                    |          |                                   |          |
| Deposits                                                         | 107                                | 107      | 316                               | 297      |
| Borrowed funds                                                   | 206                                | 172      | 622                               | 482      |
| Total interest expense                                           | 313                                | 279      | 938                               | 779      |
| Net interest income                                              | 2,095                              | 2,062    | 6,261                             | 6,186    |
| <b>Noninterest Income</b>                                        |                                    |          |                                   |          |
| Asset management                                                 | 404                                | 376      | 1,122                             | 1,168    |
| Consumer services                                                | 348                                | 341      | 1,039                             | 986      |
| Corporate services                                               | 389                                | 384      | 1,117                             | 1,097    |
| Residential mortgage                                             | 160                                | 125      | 425                               | 453      |
| Service charges on deposits                                      | 174                                | 172      | 495                               | 481      |
| Net gains (losses) on sales of securities                        | 7                                  | (9)      | 20                                | 41       |
| Other                                                            | 252                                | 324      | 809                               | 960      |
| Total noninterest income                                         | 1,734                              | 1,713    | 5,027                             | 5,186    |
| Total revenue                                                    | 3,829                              | 3,775    | 11,288                            | 11,372   |
| <b>Provision For Credit Losses</b>                               | 87                                 | 81       | 366                               | 181      |
| <b>Noninterest Expense</b>                                       |                                    |          |                                   |          |
| Personnel                                                        | 1,239                              | 1,222    | 3,610                             | 3,579    |
| Occupancy                                                        | 215                                | 209      | 651                               | 634      |
| Equipment                                                        | 246                                | 227      | 720                               | 680      |
| Marketing                                                        | 72                                 | 64       | 187                               | 193      |
| Other                                                            | 622                                | 630      | 1,867                             | 1,981    |
| Total noninterest expense                                        | 2,394                              | 2,352    | 7,035                             | 7,067    |
| Income before income taxes and noncontrolling interests          | 1,348                              | 1,342    | 3,887                             | 4,124    |
| Income taxes                                                     | 342                                | 269      | 949                               | 1,003    |
| Net income                                                       | 1,006                              | 1,073    | 2,938                             | 3,121    |
| Less: Net income (loss) attributable to noncontrolling interests | 18                                 | 18       | 60                                | 23       |
| Preferred stock dividends and discount accretion and redemptions | 64                                 | 64       | 172                               | 182      |
| Net income attributable to common shareholders                   | \$ 924                             | \$ 991   | \$ 2,706                          | \$ 2,916 |
| <b>Earnings Per Common Share</b>                                 |                                    |          |                                   |          |
| Basic                                                            | \$ 1.87                            | \$ 1.93  | \$ 5.41                           | \$ 5.64  |
| Diluted                                                          | \$ 1.84                            | \$ 1.90  | \$ 5.33                           | \$ 5.52  |
| <b>Average Common Shares Outstanding</b>                         |                                    |          |                                   |          |
| Basic                                                            | 490                                | 512      | 496                               | 516      |
| Diluted                                                          | 496                                | 520      | 502                               | 525      |

See accompanying Notes To Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

THE PNC FINANCIAL SERVICES GROUP, INC.

| Unaudited                                                                                          | Three months ended<br>September 30 |                 | Nine months ended<br>September 30 |                 |
|----------------------------------------------------------------------------------------------------|------------------------------------|-----------------|-----------------------------------|-----------------|
| In millions                                                                                        | 2016                               | 2015            | 2016                              | 2015            |
| <b>Net income</b>                                                                                  | <b>\$ 1,006</b>                    | <b>\$ 1,073</b> | <b>\$ 2,938</b>                   | <b>\$ 3,121</b> |
| <b>Other comprehensive income (loss), before tax and net of reclassifications into Net income:</b> |                                    |                 |                                   |                 |
| Net unrealized gains (losses) on non-OTTI securities                                               | (25)                               | 154             | 752                               | (137)           |
| Net unrealized gains (losses) on OTTI securities                                                   | 38                                 | 4               | 17                                | 11              |
| Net unrealized gains (losses) on cash flow hedge derivatives                                       | (125)                              | 234             | 138                               | 303             |
| Pension and other postretirement benefit plan adjustments                                          | 11                                 | 7               | 26                                | 57              |
| Other                                                                                              | (25)                               | (1)             | (40)                              | (37)            |
| <b>Other comprehensive income (loss), before tax and net of reclassifications into Net income</b>  | <b>(126)</b>                       | <b>398</b>      | <b>893</b>                        | <b>197</b>      |
| Income tax benefit (expense) related to items of other comprehensive income                        | 36                                 | (162)           | (377)                             | (85)            |
| <b>Other comprehensive income (loss), after tax and net of reclassifications into Net income</b>   | <b>(90)</b>                        | <b>236</b>      | <b>516</b>                        | <b>112</b>      |
| <b>Comprehensive income</b>                                                                        | <b>916</b>                         | <b>1,309</b>    | <b>3,454</b>                      | <b>3,233</b>    |
| Less: Comprehensive income (loss) attributable to noncontrolling interests                         | 18                                 | 18              | 60                                | 23              |
| <b>Comprehensive income attributable to PNC</b>                                                    | <b>\$ 898</b>                      | <b>\$ 1,291</b> | <b>\$ 3,394</b>                   | <b>\$ 3,210</b> |

See accompanying Notes To Consolidated Financial Statements.

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**CONSOLIDATED BALANCE SHEET**

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited

| In millions, except par value                                          | September 30<br>2016 | December 31<br>2015 |
|------------------------------------------------------------------------|----------------------|---------------------|
| <b>Assets</b>                                                          |                      |                     |
| Cash and due from banks (a)                                            | \$ 4,531             | \$ 4,065            |
| Federal funds sold and resale agreements (b)                           | 718                  | 1,369               |
| Trading securities                                                     | 2,612                | 1,726               |
| Interest-earning deposits with banks (a)                               | 27,058               | 30,546              |
| Loans held for sale (b)                                                | 2,053                | 1,540               |
| Investment securities                                                  | 78,514               | 70,528              |
| Loans (b)                                                              | 210,446              | 206,696             |
| Allowance for loan and lease losses                                    | (2,619)              | (2,727)             |
| Net loans (a)                                                          | 207,827              | 203,969             |
| Goodwill                                                               | 9,103                | 9,103               |
| Mortgage servicing rights                                              | 1,293                | 1,589               |
| Other intangible assets                                                | 304                  | 379                 |
| Equity investments (a)                                                 | 10,605               | 10,587              |
| Other (a) (b)                                                          | 24,730               | 23,092              |
| Total assets                                                           | \$ 369,348           | \$ 358,493          |
| <b>Liabilities</b>                                                     |                      |                     |
| Deposits                                                               |                      |                     |
| Noninterest-bearing                                                    | \$ 82,159            | \$ 79,435           |
| Interest-bearing                                                       | 177,736              | 169,567             |
| Total deposits                                                         | 259,895              | 249,002             |
| Borrowed funds                                                         |                      |                     |
| Federal funds purchased and repurchase agreements                      | 1,235                | 1,777               |
| Federal Home Loan Bank borrowings                                      | 17,050               | 20,108              |
| Bank notes and senior debt                                             | 22,431               | 21,298              |
| Subordinated debt                                                      | 8,708                | 8,556               |
| Other (c) (d)                                                          | 2,117                | 2,793               |
| Total borrowed funds                                                   | 51,541               | 54,532              |
| Allowance for unfunded loan commitments and letters of credit          | 310                  | 261                 |
| Accrued expenses (c)                                                   | 5,226                | 4,975               |
| Other (c)                                                              | 5,531                | 3,743               |
| Total liabilities                                                      | 322,503              | 312,513             |
| <b>Equity</b>                                                          |                      |                     |
| Preferred stock (e)                                                    |                      |                     |
| Common stock (\$5 par value, authorized 800 shares, issued 542 shares) | 2,709                | 2,708               |
| Capital surplus – preferred stock                                      | 3,456                | 3,452               |
| Capital surplus – common stock and other                               | 12,703               | 12,745              |
| Retained earnings                                                      | 30,958               | 29,043              |
| Accumulated other comprehensive income (loss)                          | 646                  | 130                 |
| Common stock held in treasury at cost: 54 and 38 shares                | (4,765)              | (3,368)             |
| Total shareholders' equity                                             | 45,707               | 44,710              |
| Noncontrolling interests                                               | 1,138                | 1,270               |
| Total equity                                                           | 46,845               | 45,980              |
| Total liabilities and equity                                           | \$ 369,348           | \$ 358,493          |

- (a) Our consolidated assets at September 30, 2016 included the following assets of certain variable interest entities (VIEs): Equity investments of \$205 million and Other assets of \$21 million. Our consolidated assets at December 31, 2015 included the following assets of certain VIEs: Cash and due from banks of \$11 million, Interest-earning deposits with banks of \$4 million, Net loans of \$1.3 billion, Equity investments of \$183 million, and Other assets of \$402 million.
- (b) Our consolidated assets at September 30, 2016 included the following for which we have elected the fair value option: Federal funds sold and resale agreements of \$136 million, Loans held for sale of \$2.0 billion, Loans of \$9 billion, and Other assets of \$384 million. Our consolidated assets at December 31, 2015 included the following for which we have elected the fair value option: Federal funds sold and resale agreements of \$137 million, Loans held for sale of \$1.5 billion, Loans of \$9 billion, and Other assets of \$521 million.

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- (c) Our consolidated liabilities at September 30, 2016 included liabilities of \$9 million for certain VIEs. Our consolidated liabilities at December 31, 2015 included the following liabilities of certain VIEs: Other borrowed funds of \$148 million, Accrued expenses of \$44 million, and Other liabilities of \$202 million.
  - (d) Our consolidated liabilities at September 30, 2016 and December 31, 2015 included Other borrowed funds of \$78 million and \$93 million, respectively, for which we have elected the fair value option.
  - (e) Par value less than \$.5 million at each date.
- See accompanying Notes To Consolidated Financial Statements.

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**CONSOLIDATED STATEMENT OF CASH FLOWS**

THE PNC FINANCIAL SERVICES GROUP, INC.

| Unaudited                                                                               | Nine months ended<br>September 30 |          |
|-----------------------------------------------------------------------------------------|-----------------------------------|----------|
| In millions                                                                             | 2016                              | 2015     |
| <b>Operating Activities</b>                                                             |                                   |          |
| Net income                                                                              | \$ 2,938                          | \$ 3,121 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities |                                   |          |
| Provision for credit losses                                                             | 366                               | 181      |
| Depreciation and amortization                                                           | 917                               | 802      |
| Deferred income taxes                                                                   | (171)                             | 128      |
| Net gains on sales of securities                                                        | (20)                              | (41)     |
| Changes in fair value of mortgage servicing rights                                      | 559                               | 297      |
| Gain on sales of Visa Class B common shares                                             | (126)                             | (122)    |
| Undistributed earnings of BlackRock                                                     | (256)                             | (292)    |
| Net change in                                                                           |                                   |          |
| Trading securities and other short-term investments                                     | (1,029)                           | 165      |
| Loans held for sale                                                                     | (490)                             | (86)     |
| Other assets                                                                            | (2,179)                           | (2,415)  |
| Accrued expenses and other liabilities                                                  | 2,197                             | 2,280    |
| Other                                                                                   | (411)                             | (385)    |
| Net cash provided (used) by operating activities                                        | 2,295                             | 3,633    |
| <b>Investing Activities</b>                                                             |                                   |          |
| Sales                                                                                   |                                   |          |
| Securities available for sale                                                           | 2,517                             | 3,341    |
| Loans                                                                                   | 1,538                             | 1,613    |
| Repayments/maturities                                                                   |                                   |          |
| Securities available for sale                                                           | 7,683                             | 6,013    |
| Securities held to maturity                                                             | 2,013                             | 1,541    |
| Purchases                                                                               |                                   |          |
| Securities available for sale                                                           | (15,179)                          | (17,546) |
| Securities held to maturity                                                             | (3,741)                           | (3,735)  |
| Loans                                                                                   | (963)                             | (564)    |
| Net change in                                                                           |                                   |          |
| Federal funds sold and resale agreements                                                | 651                               | 317      |
| Interest-earning deposits with banks                                                    | 3,487                             | (2,445)  |
| Loans                                                                                   | (5,451)                           | (1,502)  |
| Other                                                                                   | (159)                             | (567)    |
| Net cash provided (used) by investing activities                                        | (7,604)                           | (13,534) |

(continued on following page)

**CONSOLIDATED STATEMENT OF CASH FLOWS**

THE PNC FINANCIAL SERVICES GROUP, INC.

(continued from previous page)

| Unaudited                                                    | Nine months ended<br>September 30 |              |
|--------------------------------------------------------------|-----------------------------------|--------------|
| In millions                                                  | 2016                              | 2015         |
| <b>Financing Activities</b>                                  |                                   |              |
| Net change in                                                |                                   |              |
| Noninterest-bearing deposits                                 | \$ 3,162                          | \$ 4,772     |
| Interest-bearing deposits                                    | 8,169                             | 7,985        |
| Federal funds purchased and repurchase agreements            | (542)                             | (1,433)      |
| Commercial paper                                             |                                   | (2)          |
| Other borrowed funds                                         | (15)                              | 276          |
| Sales/issuances                                              |                                   |              |
| Federal Home Loan Bank borrowings                            |                                   | 2,250        |
| Bank notes and senior debt                                   | 3,855                             | 6,428        |
| Commercial paper                                             |                                   | 1,394        |
| Other borrowed funds                                         | 143                               | 613          |
| Common and treasury stock                                    | 63                                | 130          |
| Repayments/maturities                                        |                                   |              |
| Federal Home Loan Bank borrowings                            | (3,058)                           | (591)        |
| Bank notes and senior debt                                   | (3,000)                           | (2,629)      |
| Subordinated debt                                            |                                   | 57           |
| Commercial paper                                             | (14)                              | (5,262)      |
| Other borrowed funds                                         | (470)                             | (1,557)      |
| Preferred stock redemption                                   |                                   | (500)        |
| Acquisition of treasury stock                                | (1,559)                           | (1,598)      |
| Preferred stock cash dividends paid                          | (168)                             | (178)        |
| Common stock cash dividends paid                             | (791)                             | (779)        |
| Net cash provided (used) by financing activities             | 5,775                             | 9,376        |
| <b>Net Increase (Decrease) In Cash And Due From Banks</b>    | <b>466</b>                        | <b>(525)</b> |
| Cash and due from banks at beginning of period               | 4,065                             | 4,360        |
| Cash and due from banks at end of period                     | \$ 4,531                          | \$ 3,835     |
| <b>Supplemental Disclosures</b>                              |                                   |              |
| Interest paid                                                | \$ 980                            | \$ 764       |
| Income taxes paid                                            | \$ 461                            | \$ 527       |
| Income taxes refunded                                        | \$ 97                             | \$ 2         |
| <b>Non-cash Investing and Financing Items</b>                |                                   |              |
| Transfer from (to) loans to (from) loans held for sale, net  | \$ 497                            | \$ 153       |
| Transfer from loans to foreclosed assets                     | \$ 225                            | \$ 340       |
| See accompanying Notes To Consolidated Financial Statements. |                                   |              |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE PNC FINANCIAL SERVICES GROUP, INC.

### BUSINESS

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

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

### NOTE 1 ACCOUNTING POLICIES

#### Basis of Financial Statement Presentation

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

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform to the 2016 presentation, which did not have a material impact on our consolidated financial condition or results of operations. Additionally, we evaluate the materiality of identified errors in the financial statements using both an income statement and a balance sheet approach, based on relevant quantitative and qualitative factors.

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

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

When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2015

Annual Report on Form 10-K. Reference is made to Note 1 Accounting Policies in the 2015 Form 10-K for a detailed description of significant accounting policies. There have been no significant changes to our accounting policies as disclosed in the 2015 Annual Report on Form 10-K. These interim consolidated financial statements serve to update the 2015 Form 10-K and may not include all information and notes necessary to constitute a complete set of financial statements.

#### Use of Estimates

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

#### Recently Adopted Accounting Standards

We did not adopt new accounting standards that had a significant impact during the third quarter of 2016.

### NOTE 2 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES

**Loan Sale and Servicing Activities**

As more fully described in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in our 2015 Form 10-K, we have transferred residential and commercial mortgage loans in securitization or sales transactions in which we have continuing involvement. Our continuing involvement generally consists of servicing, repurchasing previously transferred loans under certain conditions and loss share arrangements, and, in limited circumstances, holding of mortgage-backed securities issued by the securitization special purpose entities (SPEs).

We earn servicing and other ancillary fees for our role as servicer and, depending on the contractual terms of the servicing arrangement, we can be terminated as servicer with or without cause. At the consummation date of each type of loan transfer where PNC retains the servicing, we recognize a servicing right at fair value. See Note 7 Goodwill and Intangible Assets for information on our servicing rights, including the carrying value of servicing assets.

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

**Table 41: Cash Flows Associated with Loan Sale and Servicing Activities**

| In millions                                             | Residential<br>Mortgages | Commercial<br>Mortgages (a) | Home Equity<br>Loans/Lines (b) |
|---------------------------------------------------------|--------------------------|-----------------------------|--------------------------------|
| <b>CASH FLOWS Three months ended September 30, 2016</b> |                          |                             |                                |
| Sales of loans (c)                                      | \$ 1,950                 | \$ 1,342                    |                                |
| Repurchases of previously transferred loans (d)         | \$ 133                   |                             |                                |
| Servicing fees (e)                                      | \$ 95                    | \$ 31                       | \$ 2                           |
| Servicing advances recovered/(funded), net              | \$ 13                    | \$ (7)                      | \$ 1                           |
| Cash flows on mortgage-backed securities held (f)       | \$ 466                   | \$ 31                       |                                |
| <b>CASH FLOWS Three months ended September 30, 2015</b> |                          |                             |                                |
| Sales of loans (c)                                      | \$ 2,329                 | \$ 846                      |                                |
| Repurchases of previously transferred loans (d)         | \$ 129                   |                             | \$ 90                          |
| Servicing fees (e)                                      | \$ 84                    | \$ 35                       | \$ 4                           |
| Servicing advances recovered/(funded), net              | \$ 32                    | \$ (6)                      | \$ 3                           |
| Cash flows on mortgage-backed securities held (f)       | \$ 424                   | \$ 41                       |                                |
| <b>CASH FLOWS Nine months ended September 30, 2016</b>  |                          |                             |                                |
| Sales of loans (c)                                      | \$ 4,796                 | \$ 2,796                    |                                |
| Repurchases of previously transferred loans (d)         | \$ 396                   |                             |                                |
| Servicing fees (e)                                      | \$ 281                   | \$ 93                       | \$ 8                           |
| Servicing advances recovered/(funded), net              | \$ 89                    |                             | \$ 21                          |
| Cash flows on mortgage-backed securities held (f)       | \$ 1,235                 | \$ 228                      |                                |
| <b>CASH FLOWS Nine months ended September 30, 2015</b>  |                          |                             |                                |
| Sales of loans (c)                                      | \$ 6,284                 | \$ 3,025                    |                                |
| Repurchases of previously transferred loans (d)         | \$ 432                   |                             | \$ 92                          |
| Servicing fees (e)                                      | \$ 249                   | \$ 103                      | \$ 12                          |
| Servicing advances recovered/(funded), net              | \$ 70                    | \$ 22                       | \$ 28                          |
| Cash flows on mortgage-backed securities held (f)       | \$ 1,093                 | \$ 155                      |                                |

(a) Represents cash flow information associated with both commercial mortgage loan transfer and servicing activities.

(b) These activities were part of an acquired brokered home equity lending business in which PNC is no longer engaged.

(c) Gains/losses recognized on sales of loans were insignificant for the periods presented.

(d) Includes residential mortgage government insured or guaranteed loans eligible for repurchase through the exercise of our Removal of Account Provision (ROAP) option, and loans repurchased due to alleged breaches of origination covenants or representations and warranties made to purchasers. Includes home equity lines of credit repurchased at the end of their draw periods due to contractual requirements.

(e) Includes contractually specified servicing fees, late charges and ancillary fees.

(f) Represents cash flows on securities we hold issued by a securitization SPE in which PNC transferred to and/or services loans. The carrying values of such securities held were \$6.7 billion in residential mortgage-backed securities and \$1.0 billion in commercial mortgage-backed securities at September 30, 2016 and \$5.8 billion in residential mortgage-backed securities and \$1.1 billion in commercial mortgage-backed securities at September 30, 2015. Additionally, at December 31, 2015, the carrying values of such securities held were \$6.6 billion in residential mortgage-backed securities and \$1.3 billion in commercial mortgage-backed securities.

The table below presents information about the principal balances of transferred loans that we service and are not recorded on our Consolidated Balance Sheet. We would only experience a loss on these transferred loans if we were required to repurchase a loan due to a breach in representations and warranties or a loss sharing arrangement associated with our continuing involvement with these loans. For more information regarding our recourse and repurchase obligations, including our reserve of estimated losses, see the Recourse and Repurchase Obligations section of Note 21 Commitments and Guarantees in our 2015 Form 10-K.

**Table 42: Principal Balance, Delinquent Loans, and Net Charge-offs Related to Serviced Loans For Others**

| In millions                                  | Residential<br>Mortgages | Commercial<br>Mortgages (a) | Home Equity<br>Loans/Lines (b) |
|----------------------------------------------|--------------------------|-----------------------------|--------------------------------|
| <b>September 30, 2016</b>                    |                          |                             |                                |
| Total principal balance                      | \$ 67,585                | \$ 46,652                   | \$ 2,410                       |
| Delinquent loans (c)                         | \$ 1,485                 | \$ 1,082                    | \$ 889                         |
| <b>December 31, 2015</b>                     |                          |                             |                                |
| Total principal balance                      | \$ 72,898                | \$ 53,789                   | \$ 2,806                       |
| Delinquent loans (c)                         | \$ 1,923                 | \$ 1,057                    | \$ 904                         |
| <b>Three months ended September 30, 2016</b> |                          |                             |                                |
| Net charge-offs (d)                          | \$ 24                    | \$ 168                      | \$ 9                           |
| <b>Three months ended September 30, 2015</b> |                          |                             |                                |
| Net charge-offs (d)                          | \$ 23                    | \$ 236                      | \$ 6                           |
| <b>Nine months ended September 30, 2016</b>  |                          |                             |                                |
| Net charge-offs (d)                          | \$ 78                    | \$ 1,237                    | \$ 25                          |
| <b>Nine months ended September 30, 2015</b>  |                          |                             |                                |
| Net charge-offs (d)                          | \$ 92                    | \$ 491                      | \$ 21                          |

(a) Represents information at the securitization level in which PNC has sold loans and is the servicer for the securitization.

(b) These activities were part of an acquired brokered home equity lending business in which PNC is no longer engaged.

(c) Serviced delinquent loans are 90 days or more past due or are in process of foreclosure.

(d) Net charge-offs for Residential mortgages and Home equity loans/lines represent credit losses less recoveries distributed and as reported to investors during the period. Net charge-offs for Commercial mortgages represent credit losses less recoveries distributed and as reported by the trustee for commercial mortgage backed securitizations. Realized losses for Agency securitizations are not reflected as we do not manage the underlying real estate upon foreclosure and, as such, do not have access to loss information.

#### **Variable Interest Entities (VIEs)**

As discussed in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in our 2015 Form 10-K, we are involved with various entities in the normal course of business that are deemed to be VIEs. The following provides a summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements as of September 30, 2016 and December 31, 2015, respectively. Amounts presented for September 30, 2016 are based on the assessments performed in accordance with ASC 810 as amended by ASU 2015-02 and adopted in the first quarter of 2016. Specifically, the ASU modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities (VOEs). We have not provided additional financial support to these entities which we are not contractually required to provide.

**Table 43: Consolidated VIEs Carrying Value (a)**

September 30, 2016 (b)

| In millions              | Total  |
|--------------------------|--------|
| <b><u>Assets</u></b>     |        |
| Equity investments       | \$ 205 |
| Other assets             | 21     |
| Total assets             | \$ 226 |
| Total liabilities        | \$ 9   |
| Noncontrolling interests | \$ 121 |

December 31, 2015

| In millions                          | Total |
|--------------------------------------|-------|
| <b><u>Assets</u></b>                 |       |
| Cash and due from banks              | \$ 11 |
| Interest-earning deposits with banks | 4     |
| Loans                                | 1,341 |
| Allowance for loan and lease losses  | (48)  |
| Equity investments                   | 183   |



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|                          |          |
|--------------------------|----------|
| Other assets             | 402      |
| Total assets             | \$ 1,893 |
| <u>Liabilities</u>       |          |
| Other borrowed funds     | \$ 148   |
| Accrued expenses         | 44       |
| Other liabilities        | 202      |
| Total liabilities        | \$ 394   |
| Noncontrolling interests | \$ 99    |

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

(b) Amounts for September 30, 2016 reflect the first quarter 2016 adoption of ASU 2015-02.

The following table provides a summary of non-consolidated VIEs with which we have significant continuing involvement but are not the primary beneficiary. We do not consider our continuing involvement to be significant when it relates to a VIE where we only invest in securities issued by the VIE and were not involved in the design of the VIE or where no transfers have occurred between PNC and the VIE. We have excluded certain transactions with non-consolidated VIEs from the balances presented in Table 44 where we have determined that our continuing involvement is not significant.

In addition, where PNC only has lending arrangements in the normal course of business with entities that could be VIEs, we have excluded these transactions with non-consolidated entities from the balances presented in Table 44. These loans are included as part of the asset quality disclosures that we make in Note 3 Asset Quality.

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Table 44: Non-Consolidated VIEs

| In millions                                     | PNC Risk of Loss (a) | Carrying Value of Assets Owned by PNC | Carrying Value of Liabilities Owned by PNC |
|-------------------------------------------------|----------------------|---------------------------------------|--------------------------------------------|
| <b>September 30, 2016 (b)</b>                   |                      |                                       |                                            |
| Commercial Mortgage-Backed Securitizations (c)  | \$ 1,089             | \$ 1,089 (d)                          |                                            |
| Residential Mortgage-Backed Securitizations (c) | 6,764                | 6,764 (d)                             | \$ 1 (f)                                   |
| Tax Credit Investments and Other                | 3,138                | 3,072 (e)                             | 807 (g)                                    |
| Total                                           | \$ 10,991            | \$ 10,925                             | \$ 808                                     |
| <b>December 31, 2015</b>                        |                      |                                       |                                            |
| Commercial Mortgage-Backed Securitizations (c)  | \$ 1,498             | \$ 1,498 (d)                          | \$ 1 (f)                                   |
| Residential Mortgage-Backed Securitizations (c) | 6,680                | 6,680 (d)                             | 1 (f)                                      |
| Tax Credit Investments and Other                | 2,551                | 2,622 (e)                             | 836 (g)                                    |
| Total                                           | \$ 10,729            | \$ 10,800                             | \$ 838                                     |

(a) This represents loans, investments and other assets related to non-consolidated VIEs, net of collateral (if applicable).

(b) Amounts for September 30, 2016 reflect the first quarter 2016 adoption of ASU 2015-02.

(c) Amounts reflect involvement with securitization SPEs where PNC transferred to and/or services loans for an SPE and we hold securities issued by that SPE. Values disclosed in the PNC Risk of Loss column represent our maximum exposure to loss for those securities holdings.

(d) Included in Trading securities, Investment securities, Other intangible assets and Other assets on our Consolidated Balance Sheet.

(e) Included in Loans, Equity investments and Other assets on our Consolidated Balance Sheet.

(f) Included in Other liabilities on our Consolidated Balance Sheet.

(g) Included in Deposits and Other liabilities on our Consolidated Balance Sheet.

We make certain equity investments in various tax credit limited partnerships or limited liability companies (LLCs). The purpose of these investments is to achieve a satisfactory return on capital and to assist us in achieving goals associated with the Community Reinvestment Act. During the nine months ended September 30, 2016, we recognized \$160 million of amortization, \$167 million of tax credits, and \$58 million of other tax benefits associated with qualified investments in low income housing tax credits within Income taxes. The amounts for the third quarter of 2016 were \$55 million, \$56 million and \$20 million, respectively.

### NOTE 3 ASSET QUALITY

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

Nonperforming assets include nonperforming loans and leases, OREO and foreclosed assets. Nonperforming loans are those loans accounted for at amortized cost whose credit quality has deteriorated to the extent that full collection of contractual principal and interest is not probable. Interest income is not recognized on these loans. Loans accounted for under the fair value option are reported as performing loans as these loans are accounted for at fair value. However, when nonaccrual criteria is met, interest income is not recognized on these loans. Additionally, certain government insured or guaranteed loans for which we expect to collect substantially all principal and interest are not reported as nonperforming loans and continue to accrue interest. Purchased impaired loans are excluded from nonperforming loans as we are currently accreting interest income over the expected life of the loans.

See Note 1 Accounting Policies in our 2015 Form 10-K for additional delinquency, nonperforming, and charge-off information.

The following tables display the delinquency status of our loans and our nonperforming assets at September 30, 2016 and December 31, 2015, respectively.

**Table 45: Analysis of Loan Portfolio (a)**

| Dollars in millions       | Accruing                    |                           |                           |                                |                            | Total<br>Past<br>Due (b) | Nonperforming<br>Loans | Fair<br>Value<br>Option   | Purchased<br>Impaired<br>Loans | Total |
|---------------------------|-----------------------------|---------------------------|---------------------------|--------------------------------|----------------------------|--------------------------|------------------------|---------------------------|--------------------------------|-------|
|                           | Current or Less             | 30-59 Days<br>Past<br>Due | 60-89 Days<br>Past<br>Due | 90 Days<br>Or More<br>Past Due | Nonaccrual<br>Loans<br>(c) |                          |                        | Total<br>Loans<br>(d) (e) |                                |       |
|                           | Than 30<br>Days<br>Past Due |                           |                           |                                |                            |                          |                        |                           |                                |       |
|                           |                             |                           |                           |                                |                            |                          |                        |                           |                                |       |
| September 30, 2016        |                             |                           |                           |                                |                            |                          |                        |                           |                                |       |
| Commercial Lending        |                             |                           |                           |                                |                            |                          |                        |                           |                                |       |
| Commercial                | \$ 100,845                  | \$ 64                     | \$ 24                     | \$ 37                          | \$ 125                     | \$ 521                   |                        | \$ 21                     | \$ 101,512                     |       |
| Commercial real estate    | 28,993                      | 26                        | 1                         |                                | 27                         | 152                      |                        | 101                       | 29,273                         |       |
| Equipment lease financing | 7,357                       | 1                         | 2                         |                                | 3                          | 18                       |                        |                           | 7,378                          |       |
| Total commercial lending  | 137,195                     | 91                        | 27                        | 37                             | 155                        | 691                      |                        | 122                       | 138,163                        |       |
| Consumer Lending          |                             |                           |                           |                                |                            |                          |                        |                           |                                |       |
| Home equity               | 28,267                      | 55                        | 27                        |                                | 82                         | 895                      |                        | 1,188                     | 30,432                         |       |
| Residential real estate   | 11,969                      | 110                       | 71                        | 496                            | 677 (f)                    | 502                      | \$ 223                 | 1,770                     | 15,141                         |       |
| Credit card               | 4,947                       | 28                        | 19                        | 31                             | 78                         | 4                        |                        |                           | 5,029                          |       |
| Other consumer            | 21,163                      | 170                       | 92                        | 202                            | 464 (g)                    | 54                       |                        |                           | 21,681                         |       |
| Total consumer lending    | 66,346                      | 363                       | 209                       | 729                            | 1,301                      | 1,455                    | 223                    | 2,958                     | 72,283                         |       |
| Total                     | \$ 203,541                  | \$ 454                    | \$ 236                    | \$ 766                         | \$ 1,456                   | \$ 2,146                 | \$ 223                 | \$ 3,080                  | \$ 210,446                     |       |
| Percentage of total loans | 96.72%                      | .22%                      | .11%                      | .36%                           | .69%                       | 1.02%                    | .11%                   | 1.46%                     | 100.00%                        |       |
| December 31, 2015         |                             |                           |                           |                                |                            |                          |                        |                           |                                |       |
| Commercial Lending        |                             |                           |                           |                                |                            |                          |                        |                           |                                |       |
| Commercial                | \$ 98,075                   | \$ 69                     | \$ 32                     | \$ 45                          | \$ 146                     | \$ 351                   |                        | \$ 36                     | \$ 98,608                      |       |
| Commercial real estate    | 27,134                      | 10                        | 4                         |                                | 14                         | 187                      |                        | 133                       | 27,468                         |       |
| Equipment lease financing | 7,440                       | 19                        | 2                         |                                | 21                         | 7                        |                        |                           | 7,468                          |       |
| Total commercial lending  | 132,649                     | 98                        | 38                        | 45                             | 181                        | 545                      |                        | 169                       | 133,544                        |       |
| Consumer Lending          |                             |                           |                           |                                |                            |                          |                        |                           |                                |       |
| Home equity               | 29,656                      | 63                        | 30                        |                                | 93                         | 977                      |                        | 1,407                     | 32,133                         |       |
| Residential real estate   | 10,918                      | 142                       | 65                        | 566                            | 773 (f)                    | 549                      | \$ 225                 | 1,946                     | 14,411                         |       |
| Credit card               | 4,779                       | 28                        | 19                        | 33                             | 80                         | 3                        |                        |                           | 4,862                          |       |
| Other consumer            | 21,181                      | 180                       | 96                        | 237                            | 513 (g)                    | 52                       |                        |                           | 21,746                         |       |
| Total consumer lending    | 66,534                      | 413                       | 210                       | 836                            | 1,459                      | 1,581                    | 225                    | 3,353                     | 73,152                         |       |
| Total                     | \$ 199,183                  | \$ 511                    | \$ 248                    | \$ 881                         | \$ 1,640                   | \$ 2,126                 | \$ 225                 | \$ 3,522                  | \$ 206,696                     |       |
| Percentage of total loans | 96.36%                      | .25%                      | .12%                      | .43%                           | .80%                       | 1.03%                    | .11%                   | 1.70%                     | 100.00%                        |       |

- (a) Amounts in table represent recorded investment and exclude loans held for sale. Recorded investment in a loan 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) Past due loan amounts exclude purchased impaired loans, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accruing interest income over the expected life of the loans.
- (c) Consumer loans accounted for under the fair value option for which we do not expect to collect substantially all principal and interest are subject to nonaccrual accounting and classification upon meeting any of our nonaccrual policies. Given that these loans are not accounted for at amortized cost, these loans have been excluded from the nonperforming loan population.
- (d) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling \$1.3 billion and \$1.4 billion at September 30, 2016 and December 31, 2015, respectively.
- (e) Future accretable yield related to purchased impaired loans is not included in the analysis of loan portfolio.
- (f) Past due loan amounts include government insured or guaranteed Residential real estate mortgages totaling \$579 million and \$646 million at September 30, 2016 and December 31, 2015, respectively.
- (g) Past due loan amounts include government insured or guaranteed Other consumer loans totaling \$361 million and \$411 million at September 30, 2016 and December 31, 2015, respectively.

At September 30, 2016, we pledged \$21.9 billion of commercial loans to the Federal Reserve Bank (FRB) and \$59.1 billion of residential real estate and other loans to the Federal Home Loan Bank (FHLB) as collateral for the contingent ability to borrow, if necessary. The comparable amounts at December 31, 2015 were \$20.2 billion and \$56.4 billion, respectively.



**Table 46: Nonperforming Assets**

| Dollars in millions                                             | September 30<br>2016 | December 31<br>2015 |
|-----------------------------------------------------------------|----------------------|---------------------|
| <b>Nonperforming loans</b>                                      |                      |                     |
| Total commercial lending                                        | \$ 691               | \$ 545              |
| Total consumer lending (a)                                      | 1,455                | 1,581               |
| Total nonperforming loans (b) (c)                               | 2,146                | 2,126               |
| <b>OREO and foreclosed assets</b>                               |                      |                     |
| Other real estate owned (OREO)                                  | 217                  | 279                 |
| Foreclosed and other assets                                     | 12                   | 20                  |
| Total OREO and foreclosed assets                                | 229                  | 299                 |
| Total nonperforming assets                                      | \$ 2,375             | \$ 2,425            |
| Nonperforming loans to total loans                              | 1.02%                | 1.03%               |
| Nonperforming assets to total loans, OREO and foreclosed assets | 1.13%                | 1.17%               |
| Nonperforming assets to total assets                            | .64%                 | .68%                |

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

(b) Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.

(c) The recorded investment of loans collateralized by residential real estate property that are in process of foreclosure was \$4 billion and \$6 billion at September 30, 2016 and December 31, 2015, both included \$.3 billion of loans that are government insured/guaranteed.

Nonperforming loans also include certain loans whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. In accordance with applicable accounting guidance, these loans are considered TDRs. See Note 1 Accounting Policies in our 2015 Form 10-K and the TDR section within this Note.

Total nonperforming loans in the nonperforming assets table above include TDRs of \$1.2 billion at September 30, 2016 and \$1.1 billion at December 31, 2015. TDRs that are performing, including consumer credit card TDR loans, totaled \$1.2 billion at both September 30, 2016 and December 31, 2015, and are excluded from nonperforming loans. Nonperforming TDRs are returned to accrual and classified as performing after demonstrating a period of at least six months of consecutive performance under the restructured terms. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status.

### **Additional Asset Quality Indicators**

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

### **Commercial Lending Asset Classes**

#### **Commercial Loan Class**

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

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

### Commercial Real Estate Loan Class

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

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

### Equipment Lease Financing Loan Class

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

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

### Commercial Purchased Impaired Loan Class

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

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

**Table 47: Commercial Lending Asset Quality Indicators (a)(b)**

| In millions               | Criticized Commercial Loans |                        |                 |              | Total<br>Loans |
|---------------------------|-----------------------------|------------------------|-----------------|--------------|----------------|
|                           | Pass<br>Rated               | Special<br>Mention (c) | Substandard (d) | Doubtful (e) |                |
| <b>September 30, 2016</b> |                             |                        |                 |              |                |
| Commercial                | \$ 96,035                   | \$ 2,046               | \$ 3,335        | \$ 75        | \$ 101,491     |
| Commercial real estate    | 28,768                      | 60                     | 328             | 16           | 29,172         |
| Equipment lease financing | 7,185                       | 69                     | 116             | 8            | 7,378          |
| Purchased impaired loans  | 35                          | 1                      | 80              | 6            | 122            |
| Total commercial lending  | \$ 132,023                  | \$ 2,176               | \$ 3,859        | \$ 105       | \$ 138,163     |
| <b>December 31, 2015</b>  |                             |                        |                 |              |                |
| Commercial                | \$ 93,364                   | \$ 2,029               | \$ 3,089        | \$ 90        | \$ 98,572      |
| Commercial real estate    | 26,729                      | 120                    | 481             | 5            | 27,335         |
| Equipment lease financing | 7,230                       | 87                     | 150             | 1            | 7,468          |
| Purchased impaired loans  |                             | 6                      | 157             | 6            | 169            |
| Total commercial lending  | \$ 127,323                  | \$ 2,242               | \$ 3,877        | \$ 102       | \$ 133,544     |

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

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

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- (c) Special Mention rated loans have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects at some future date. These loans do not expose us to sufficient risk to warrant a more adverse classification at this time.
- (d) Substandard rated loans have a well-defined weakness or weaknesses that jeopardize the collection or liquidation of debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.
- (e) Doubtful rated loans possess all the inherent weaknesses of a Substandard loan with the additional characteristics that the weakness makes collection or liquidation in full improbable due to existing facts, conditions, and values.

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**Consumer Lending Asset Classes****Home Equity and Residential Real Estate Loan Classes**

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

**Delinquency/Delinquency Rates:** We monitor trending of delinquency/delinquency rates for home equity and residential real estate loans. See the Asset Quality section of this Note 3 for additional information.

**Nonperforming Loans:** We monitor trending of nonperforming loans for home equity and residential real estate loans. See the Asset Quality section of this Note 3 for additional information.

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

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

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

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

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

**Consumer Purchased Impaired Loan Class**

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

**Table 48: Home Equity and Residential Real Estate Balances**

| In millions                                                                                | September 30<br>2016 | December 31<br>2015 |
|--------------------------------------------------------------------------------------------|----------------------|---------------------|
| Home equity and residential real estate loans excluding purchased impaired loans (a)       | \$ 41,764            | \$ 42,268           |
| Home equity and residential real estate loans purchased impaired loans (b)                 | 3,211                | 3,684               |
| Government insured or guaranteed residential real estate mortgages (a)                     | 851                  | 923                 |
| Difference between outstanding balance and recorded investment in purchased impaired loans | (253)                | (331)               |
| Total home equity and residential real estate loans (a)                                    | \$ 45,573            | \$ 46,544           |

(a) Represents recorded investment.

(b) Represents outstanding balance.



**Table 49: Home Equity and Residential Real Estate Asset Quality Indicators Excluding Purchased Impaired Loans (a) (b)**

| September 30, 2016 in millions                                           | Home Equity |           | Residential Real Estate | Total     |
|--------------------------------------------------------------------------|-------------|-----------|-------------------------|-----------|
|                                                                          | 1st Liens   | 2nd Liens |                         |           |
| Current estimated LTV ratios (c)                                         |             |           |                         |           |
| Greater than or equal to 125% and updated FICO scores:                   |             |           |                         |           |
| Greater than 660                                                         | \$ 197      | \$ 726    | \$ 205                  | \$ 1,128  |
| Less than or equal to 660 (d) (e)                                        | 40          | 135       | 38                      | 213       |
| Missing FICO                                                             |             | 5         | 3                       | 8         |
| Greater than or equal to 100% to less than 125% and updated FICO scores: |             |           |                         |           |
| Greater than 660                                                         | 480         | 1,372     | 391                     | 2,243     |
| Less than or equal to 660 (d) (e)                                        | 78          | 240       | 88                      | 406       |
| Missing FICO                                                             | 1           | 3         | 12                      | 16        |
| Greater than or equal to 90% to less than 100% and updated FICO scores:  |             |           |                         |           |
| Greater than 660                                                         | 535         | 1,233     | 520                     | 2,288     |
| Less than or equal to 660                                                | 77          | 195       | 78                      | 350       |
| Missing FICO                                                             | 2           | 2         | 12                      | 16        |
| Less than 90% and updated FICO scores:                                   |             |           |                         |           |
| Greater than 660                                                         | 13,934      | 7,771     | 10,458                  | 32,163    |
| Less than or equal to 660                                                | 1,334       | 850       | 593                     | 2,777     |
| Missing FICO                                                             | 22          | 12        | 122                     | 156       |
| Total home equity and residential real estate loans                      | \$ 16,700   | \$ 12,544 | \$ 12,520               | \$ 41,764 |

| December 31, 2015 in millions                                            | Home Equity |           | Residential Real Estate | Total     |
|--------------------------------------------------------------------------|-------------|-----------|-------------------------|-----------|
|                                                                          | 1st Liens   | 2nd Liens |                         |           |
| Current estimated LTV ratios (c)                                         |             |           |                         |           |
| Greater than or equal to 125% and updated FICO scores:                   |             |           |                         |           |
| Greater than 660                                                         | \$ 283      | \$ 960    | \$ 284                  | \$ 1,527  |
| Less than or equal to 660 (d) (e)                                        | 40          | 189       | 68                      | 297       |
| Missing FICO                                                             | 1           | 8         | 5                       | 14        |
| Greater than or equal to 100% to less than 125% and updated FICO scores: |             |           |                         |           |
| Greater than 660                                                         | 646         | 1,733     | 564                     | 2,943     |
| Less than or equal to 660 (d) (e)                                        | 92          | 302       | 102                     | 496       |
| Missing FICO                                                             | 3           | 4         | 8                       | 15        |
| Greater than or equal to 90% to less than 100% and updated FICO scores:  |             |           |                         |           |
| Greater than 660                                                         | 698         | 1,492     | 615                     | 2,805     |
| Less than or equal to 660                                                | 88          | 226       | 94                      | 408       |
| Missing FICO                                                             | 1           | 3         | 10                      | 14        |
| Less than 90% and updated FICO scores:                                   |             |           |                         |           |
| Greater than 660                                                         | 13,895      | 7,808     | 9,117                   | 30,820    |
| Less than or equal to 660                                                | 1,282       | 923       | 570                     | 2,775     |
| Missing FICO                                                             | 31          | 18        | 105                     | 154       |
| Total home equity and residential real estate loans                      | \$ 17,060   | \$ 13,666 | \$ 11,542               | \$ 42,268 |

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- (a) Excludes purchased impaired loans of approximately \$3.0 billion and \$3.4 billion in recorded investment at September 30, 2016 and December 31, 2015, respectively, certain government insured or guaranteed residential real estate mortgages of approximately \$.9 billion, and loans held for sale at both September 30, 2016 and December 31, 2015. See the Home Equity and Residential Real Estate Asset Quality Indicators Purchased Impaired Loans table below for additional information on purchased impaired loans.
- (b) Amounts shown represent recorded investment.
- (c) Based upon updated LTV (inclusive of combined loan-to-value (CLTV) for first and subordinate lien positions). Updated LTV is estimated using modeled property values. These ratios are updated at least semi-annually. The related estimates and inputs are based upon an approach that uses a combination of third-party automated valuation models (AVMs), broker price opinions (BPOs), HPI indices, property location, internal and external balance information, origination data and management assumptions. We generally utilize origination lien balances provided by a third-party, where applicable, which do not include an amortization assumption when calculating updated LTV. Accordingly, the results of these calculations do not represent actual appraised loan level collateral or updated LTV based upon lien balances held by others, and as such, are necessarily imprecise and subject to change as we enhance our methodology.
- (d) Higher risk loans are defined as loans with both an updated FICO score of less than or equal to 660 and an updated LTV greater than or equal to 100%.
- (e) The following states had the highest percentage of higher risk loans at September 30, 2016: New Jersey 17%, Pennsylvania 13%, Illinois 11%, Ohio 11%, Florida 7%, Maryland 7%, Michigan 4%, and North Carolina 4%. The remainder of the states had lower than 4% of the higher risk loans individually, and collectively they represent approximately 26% of the higher risk loans. The following states had the highest percentage of higher risk loans at December 31, 2015: New Jersey 14%, Pennsylvania 12%, Illinois 11%, Ohio 11%, Florida 7%, Maryland 7% and Michigan 5%. The remainder of the states had lower than 4% of the high risk loans individually, and collectively they represent approximately 33% of the higher risk loans.

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**Table 50: Home Equity and Residential Real Estate Asset Quality Indicators Purchased Impaired Loans (a)**

| September 30, 2016                                                       | Home Equity (b) (c) |           | Residential Real Estate (b) (c) |          | Total |
|--------------------------------------------------------------------------|---------------------|-----------|---------------------------------|----------|-------|
|                                                                          | 1st Liens           | 2nd Liens |                                 |          |       |
| in millions                                                              |                     |           |                                 |          |       |
| Current estimated LTV ratios (d)                                         |                     |           |                                 |          |       |
| Greater than or equal to 125% and updated FICO scores:                   |                     |           |                                 |          |       |
| Greater than 660                                                         | \$ 4                | \$ 118    | \$ 144                          | \$ 266   |       |
| Less than or equal to 660                                                | 4                   | 53        | 49                              | 106      |       |
| Missing FICO                                                             |                     | 3         | 6                               | 9        |       |
| Greater than or equal to 100% to less than 125% and updated FICO scores: |                     |           |                                 |          |       |
| Greater than 660                                                         | 8                   | 284       | 146                             | 438      |       |
| Less than or equal to 660                                                | 8                   | 117       | 94                              | 219      |       |
| Missing FICO                                                             |                     | 4         | 9                               | 13       |       |
| Greater than or equal to 90% to less than 100% and updated FICO scores:  |                     |           |                                 |          |       |
| Greater than 660                                                         | 7                   | 152       | 106                             | 265      |       |
| Less than or equal to 660                                                | 5                   | 66        | 55                              | 126      |       |
| Missing FICO                                                             |                     | 2         | 6                               | 8        |       |
| Less than 90% and updated FICO scores:                                   |                     |           |                                 |          |       |
| Greater than 660                                                         | 110                 | 322       | 607                             | 1,039    |       |
| Less than or equal to 660                                                | 83                  | 166       | 399                             | 648      |       |
| Missing FICO                                                             | 1                   | 5         | 48                              | 54       |       |
| Missing LTV and updated FICO scores:                                     |                     |           |                                 |          |       |
| Greater than 660                                                         | 1                   |           | 14                              | 15       |       |
| Less than or equal to 660                                                | 1                   |           | 3                               | 4        |       |
| Missing FICO                                                             |                     |           | 1                               | 1        |       |
| Total home equity and residential real estate loans                      | \$ 232              | \$ 1,292  | \$ 1,687                        | \$ 3,211 |       |
|                                                                          |                     |           |                                 |          |       |
| December 31, 2015                                                        | Home Equity (b) (c) |           | Residential Real Estate (b) (c) |          | Total |
|                                                                          | 1st Liens           | 2nd Liens |                                 |          |       |
| in millions                                                              |                     |           |                                 |          |       |
| Current estimated LTV ratios (d)                                         |                     |           |                                 |          |       |
| Greater than or equal to 125% and updated FICO scores:                   |                     |           |                                 |          |       |
| Greater than 660                                                         | \$ 6                | \$ 164    | \$ 147                          | \$ 317   |       |
| Less than or equal to 660                                                | 6                   | 79        | 76                              | 161      |       |
| Missing FICO                                                             |                     | 7         | 5                               | 12       |       |
| Greater than or equal to 100% to less than 125% and updated FICO scores: |                     |           |                                 |          |       |
| Greater than 660                                                         | 12                  | 331       | 186                             | 529      |       |
| Less than or equal to 660                                                | 9                   | 145       | 118                             | 272      |       |
| Missing FICO                                                             |                     | 8         | 7                               | 15       |       |
| Greater than or equal to 90% to less than 100% and updated FICO scores:  |                     |           |                                 |          |       |
| Greater than 660                                                         | 10                  | 167       | 133                             | 310      |       |
| Less than or equal to 660                                                | 6                   | 75        | 68                              | 149      |       |
| Missing FICO                                                             |                     | 4         | 3                               | 7        |       |
| Less than 90% and updated FICO scores:                                   |                     |           |                                 |          |       |
| Greater than 660                                                         | 106                 | 345       | 665                             | 1,116    |       |
| Less than or equal to 660                                                | 91                  | 182       | 455                             | 728      |       |
| Missing FICO                                                             | 1                   | 13        | 31                              | 45       |       |
| Missing LTV and updated FICO scores:                                     |                     |           |                                 |          |       |
| Greater than 660                                                         | 1                   |           | 14                              | 15       |       |
| Less than or equal to 660                                                | 1                   |           | 6                               | 7        |       |
| Missing FICO                                                             |                     |           | 1                               | 1        |       |
| Total home equity and residential real estate loans                      | \$ 249              | \$ 1,520  | \$ 1,915                        | \$ 3,684 |       |

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- (a) Amounts shown represent outstanding balance.
- (b) For the estimate of cash flows utilized in our purchased impaired loan accounting, other assumptions and estimates are made, including amortization of first lien balances, pre-payment rates, etc., which are not reflected in this table.
- (c) The following states had the highest percentage of purchased impaired loans at both September 30, 2016 and December 31, 2015: California 16%, Florida 14%, Illinois 11%, Ohio 9%, North Carolina 7%, and Michigan 5%. The remainder of the states had lower than a 4% concentration of purchased impaired loans individually, and collectively they represent approximately 38% of the purchased impaired portfolio.
- (d) Based upon updated LTV (inclusive of combined loan-to-value (CLTV) for first and subordinate lien positions) which is estimated using modeled property values and updated at least semi-annually. The related estimates and inputs are based upon an approach that uses a combination of third-party automated valuation models (AVMs), broker price opinions (BPOs), HPI indices, property location, internal and external balance information, origination data and management assumptions. We generally utilize origination lien balances provided by a third-party, where applicable, which do not include an amortization assumption when calculating updated LTV. Accordingly, the results of these calculations do not represent actual appraised loan level collateral or updated LTV based upon lien balances held by others, and as such, are necessarily imprecise and subject to change as we enhance our methodology.

## Credit Card and Other Consumer Loan Classes

We monitor a variety of asset quality information in the management of the credit card and other consumer loan classes. Other consumer loan classes include education, automobile, and other secured and unsecured lines and loans. Along with the trending of delinquencies and losses for each class, FICO credit score updates are generally obtained monthly, as well as a variety of credit bureau attributes. Loans with high FICO scores tend to have a lower likelihood of loss. Conversely, loans with low FICO scores tend to have a higher likelihood of loss.

**Table 51: Credit Card and Other Consumer Loan Classes Asset Quality Indicators**

| Dollars in millions                                    | Credit Card (a) |                                           | Other Consumer (b) |                                           |
|--------------------------------------------------------|-----------------|-------------------------------------------|--------------------|-------------------------------------------|
|                                                        | Amount          | % of Total Loans Using FICO Credit Metric | Amount             | % of Total Loans Using FICO Credit Metric |
| September 30, 2016                                     |                 |                                           |                    |                                           |
| FICO score greater than 719                            | \$ 3,029        | 60%                                       | \$ 10,073          | 66%                                       |
| 650 to 719                                             | 1,412           | 28                                        | 3,717              | 24                                        |
| 620 to 649                                             | 209             | 4                                         | 512                | 3                                         |
| Less than 620                                          | 225             | 5                                         | 577                | 4                                         |
| No FICO score available or required (c)                | 154             | 3                                         | 438                | 3                                         |
| Total loans using FICO credit metric                   | 5,029           | 100%                                      | 15,317             | 100%                                      |
| Consumer loans using other internal credit metrics (b) |                 |                                           | 6,364              |                                           |
| Total loan balance                                     | \$ 5,029        |                                           | \$ 21,681          |                                           |
| Weighted-average updated FICO score (d)                |                 | 734                                       |                    | 746                                       |
| December 31, 2015                                      |                 |                                           |                    |                                           |
| FICO score greater than 719                            | \$ 2,936        | 60%                                       | \$ 9,371           | 65%                                       |
| 650 to 719                                             | 1,346           | 28                                        | 3,534              | 24                                        |
| 620 to 649                                             | 202             | 4                                         | 523                | 4                                         |
| Less than 620                                          | 227             | 5                                         | 604                | 4                                         |
| No FICO score available or required (c)                | 151             | 3                                         | 501                | 3                                         |
| Total loans using FICO credit metric                   | 4,862           | 100%                                      | 14,533             | 100%                                      |
| Consumer loans using other internal credit metrics (b) |                 |                                           | 7,213              |                                           |
| Total loan balance                                     | \$ 4,862        |                                           | \$ 21,746          |                                           |
| Weighted-average updated FICO score (d)                |                 | 734                                       |                    | 744                                       |

- (a) At September 30, 2016, we had \$32 million of credit card loans that are higher risk (i.e., loans with both updated FICO scores less than 660 and in late stage (90+ days) delinquency status). The majority of the September 30, 2016 balance related to higher risk credit card loans was geographically distributed throughout the following areas: Pennsylvania 17%, Ohio 15%, Michigan 8%, New Jersey 8%, Florida 7%, Illinois 6%, Maryland 5%, Indiana 5%, North Carolina 5% and Kentucky 4%. All other states had less than 4% individually and make up the remainder of the balance. At December 31, 2015, we had \$34 million of credit card loans that are higher risk. The majority of the December 31, 2015 balance related to higher risk credit card loans was geographically distributed throughout the following areas: Ohio 17%, Pennsylvania 15%, Michigan 8%, New Jersey 8%, Florida 7%, Illinois 6%, Indiana 6%, Maryland 4% and North Carolina 4%. All other states had less than 4% individually and make up the remainder of the balance.
- (b) Other consumer loans for which updated FICO scores are used as an asset quality indicator include non-government guaranteed or insured education loans, automobile loans and other secured and unsecured lines and loans. Other consumer loans for which other internal credit metrics are used as an asset quality indicator include primarily government guaranteed or insured education loans, as well as consumer loans to high net worth individuals. Other internal credit metrics may include delinquency status, geography or other factors.
- (c) Credit card loans and other consumer loans with no FICO score available or required generally refers to new accounts issued to borrowers with limited credit history, accounts for which we cannot obtain an updated FICO score (e.g., recent profile changes), cards issued with a business name, and/or cards secured by collateral. Management proactively assesses the risk and size of this loan portfolio and, when necessary, takes actions to mitigate the credit risk.
- (d) Weighted-average updated FICO score excludes accounts with no FICO score available or required.

## Troubled Debt Restructurings (TDRs)

**Table 52: Summary of Troubled Debt Restructurings**

| In millions              | September 30<br>2016 | December 31<br>2015 |
|--------------------------|----------------------|---------------------|
| Total commercial lending | \$ 527               | \$ 434              |
| Total consumer lending   | 1,832                | 1,917               |
| Total TDRs               | \$ 2,359             | \$ 2,351            |

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|               |    |       |    |       |
|---------------|----|-------|----|-------|
| Nonperforming | \$ | 1,177 | \$ | 1,119 |
| Accruing (a)  |    | 1,182 |    | 1,232 |
| Total TDRs    | \$ | 2,359 | \$ | 2,351 |

(a) 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. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status.

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We held specific reserves in the ALLL of \$.3 billion at both September 30, 2016 and December 31, 2015 for the total TDR portfolio.

Table 53 quantifies the number of loans that were classified as TDRs as well as the change in the loans recorded investment as a result of becoming a TDR during the first nine months and third quarters of 2016 and 2015, respectively. Additionally, the table provides information about the types of TDR concessions. See Note 3 Asset Quality in our 2015 Form 10-K for additional discussion of TDR concessions.

**Table 53: Financial Impact and TDRs by Concession Type (a)**

|                                                  | Pre-TDR         |                         | Post-TDR Recorded Investment (c) |                    |           |
|--------------------------------------------------|-----------------|-------------------------|----------------------------------|--------------------|-----------|
|                                                  | Number of Loans | Recorded Investment (b) | Principal Forgiveness (d)        | Rate Reduction (e) | Other (f) |
| During the three months ended September 30, 2016 |                 |                         |                                  |                    |           |
| Dollars in millions                              |                 |                         |                                  |                    | Total     |
| Total commercial lending                         | 37              | \$ 108                  |                                  | \$ 1               | \$ 96     |
| Total consumer lending                           | 2,800           | 62                      |                                  | 37                 | 22        |
| Total TDRs                                       | 2,837           | \$ 170                  |                                  | \$ 38              | \$ 118    |
| During the three months ended September 30, 2015 |                 |                         |                                  |                    |           |
| Dollars in millions                              |                 |                         |                                  |                    | Total     |
| Total commercial lending                         | 39              | \$ 80                   | \$ 15                            |                    | \$ 47     |
| Total consumer lending                           | 3,014           | 95                      |                                  | \$ 62              | 28        |
| Total TDRs                                       | 3,053           | \$ 175                  | \$ 15                            | \$ 62              | \$ 75     |

|                                                 | Pre-TDR         |                         | Post-TDR Recorded Investment (c) |                    |           |
|-------------------------------------------------|-----------------|-------------------------|----------------------------------|--------------------|-----------|
|                                                 | Number of Loans | Recorded Investment (b) | Principal Forgiveness (d)        | Rate Reduction (e) | Other (f) |
| During the nine months ended September 30, 2016 |                 |                         |                                  |                    |           |
| Dollars in millions                             |                 |                         |                                  |                    | Total     |
| Total commercial lending                        | 109             | \$ 480                  |                                  | \$ 53              | \$ 379    |
| Total consumer lending                          | 8,435           | 187                     |                                  | 119                | 58        |
| Total TDRs                                      | 8,544           | \$ 667                  |                                  | \$ 172             | \$ 437    |
| During the nine months ended September 30, 2015 |                 |                         |                                  |                    |           |
| Dollars in millions                             |                 |                         |                                  |                    | Total     |
| Total commercial lending                        | 114             | \$ 185                  | \$ 20                            | \$ 4               | \$ 120    |
| Total consumer lending                          | 8,400           | 250                     |                                  | 150                | 89        |
| Total TDRs                                      | 8,514           | \$ 435                  | \$ 20                            | \$ 154             | \$ 209    |

|                                                 |       |        |       |        |        |
|-------------------------------------------------|-------|--------|-------|--------|--------|
| During the nine months ended September 30, 2015 |       |        |       |        |        |
| Dollars in millions                             |       |        |       |        | Total  |
| Total commercial lending                        | 114   | \$ 185 | \$ 20 | \$ 4   | \$ 120 |
| Total consumer lending                          | 8,400 | 250    |       | 150    | 89     |
| Total TDRs                                      | 8,514 | \$ 435 | \$ 20 | \$ 154 | \$ 209 |

- (a) Impact of partial charge-offs at TDR date are included in this table.
- (b) Represents the recorded investment of the loans as of the quarter end prior to TDR designation, and excludes immaterial amounts of accrued interest receivable.
- (c) Represents the recorded investment of the TDRs as of the end of the quarter in which the TDR occurs, and excludes immaterial amounts of accrued interest receivable.
- (d) Includes principal forgiveness and accrued interest forgiveness. These types of TDRs result in a write down of the recorded investment and a charge-off if such action has not already taken place.
- (e) Includes reduced interest rate and interest deferral. The TDRs within this category result in reductions to future interest income.
- (f) Primarily includes consumer borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC, as well as postponement/reduction of scheduled amortization and contractual extensions for both consumer and commercial borrowers.

After a loan is determined to be a TDR, we continue to track its performance under its most recent restructured terms. We consider a TDR to have subsequently defaulted when it becomes 60 days past due after the most recent date the loan was restructured. The recorded investment of loans that were both (i) classified as TDRs or were subsequently modified during each 12-month period preceding January 1, 2016 and January 1, 2015, respectively, and (ii) subsequently defaulted during the three months and nine months ended September 30, 2016 totaled \$66 million and \$118 million, respectively. The comparable amounts for the three months and nine months ended September 30, 2015 totaled \$29 million and \$69 million, respectively.

See Note 3 Asset Quality in our 2015 Form 10-K for additional discussion on TDRs.



**Impaired Loans**

Impaired loans include commercial nonperforming loans and consumer and commercial TDRs, regardless of nonperforming status. TDRs that were previously recorded at amortized cost and are now classified and accounted for as held for sale are also included. Excluded from impaired loans are nonperforming leases, loans accounted for as held for sale other than the TDRs described in the preceding sentence, loans accounted for under the fair value option, smaller balance homogeneous type loans and purchased impaired loans. We did not recognize any interest income on impaired loans that have not returned to performing status, while they were impaired during the nine months ended September 30, 2016 and September 30, 2015. The following table provides further detail on impaired loans individually evaluated for impairment and the associated ALLL. Certain commercial and consumer impaired loans do not have a related ALLL as the valuation of these impaired loans exceeded the recorded investment.

**Table 54: Impaired Loans**

| In millions                                           | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Associated<br>Allowance (a) | Average<br>Recorded<br>Investment (b) |
|-------------------------------------------------------|--------------------------------|------------------------|-----------------------------|---------------------------------------|
| September 30, 2016                                    |                                |                        |                             |                                       |
| <u>Impaired loans with an associated allowance</u>    |                                |                        |                             |                                       |
| Commercial                                            | \$ 544                         | \$ 389                 | \$ 92                       | \$ 394                                |
| Commercial real estate                                | 221                            | 102                    | 28                          | 108                                   |
| Home equity                                           | 891                            | 859                    | 186                         | 893                                   |
| Residential real estate                               | 227                            | 222                    | 29                          | 249                                   |
| Credit card                                           | 104                            | 104                    | 24                          | 106                                   |
| Other consumer                                        | 27                             | 25                     | 1                           | 25                                    |
| Total impaired loans with an associated allowance     | \$ 2,014                       | \$ 1,701               | \$ 360                      | \$ 1,775                              |
| <u>Impaired loans without an associated allowance</u> |                                |                        |                             |                                       |
| Commercial                                            | \$ 379                         | \$ 265                 |                             | \$ 232                                |
| Commercial real estate                                | 135                            | 115                    |                             | 143                                   |
| Home equity                                           | 486                            | 221                    |                             | 205                                   |
| Residential real estate                               | 508                            | 394                    |                             | 390                                   |
| Other consumer                                        | 23                             | 7                      |                             | 8                                     |
| Total impaired loans without an associated allowance  | \$ 1,531                       | \$ 1,002               |                             | \$ 978                                |
| Total impaired loans                                  | \$ 3,545                       | \$ 2,703               | \$ 360                      | \$ 2,753                              |
| December 31, 2015                                     |                                |                        |                             |                                       |
| <u>Impaired loans with an associated allowance</u>    |                                |                        |                             |                                       |
| Commercial                                            | \$ 442                         | \$ 337                 | \$ 84                       | \$ 306                                |
| Commercial real estate                                | 254                            | 130                    | 35                          | 197                                   |
| Home equity                                           | 978                            | 909                    | 216                         | 965                                   |
| Residential real estate                               | 272                            | 264                    | 35                          | 359                                   |
| Credit card                                           | 108                            | 108                    | 24                          | 118                                   |
| Other consumer                                        | 31                             | 26                     | 1                           | 32                                    |
| Total impaired loans with an associated allowance     | \$ 2,085                       | \$ 1,774               | \$ 395                      | \$ 1,977                              |
| <u>Impaired loans without an associated allowance</u> |                                |                        |                             |                                       |
| Commercial                                            | \$ 201                         | \$ 118                 |                             | \$ 87                                 |
| Commercial real estate                                | 206                            | 158                    |                             | 168                                   |
| Home equity                                           | 464                            | 206                    |                             | 158                                   |
| Residential real estate                               | 512                            | 396                    |                             | 346                                   |
| Other consumer                                        | 24                             | 8                      |                             | 8                                     |
| Total impaired loans without an associated allowance  | \$ 1,407                       | \$ 886                 |                             | \$ 767                                |
| Total impaired loans                                  | \$ 3,492                       | \$ 2,660               | \$ 395                      | \$ 2,744                              |

(a) Associated allowance amounts include \$.3 billion for TDRs at both September 30, 2016 and December 31, 2015.

(b) Average recorded investment is for the nine months ended September 30, 2016 and the year ended December 31, 2015, respectively.

**NOTE 4 ALLOWANCES FOR LOAN AND LEASE LOSSES AND UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT****Allowance for Loan and Lease Losses**

We maintain the ALLL at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the portfolios as of the balance sheet date. We use the two main portfolio segments – Commercial Lending and Consumer Lending – and develop and document the ALLL under separate methodologies for each of these segments as discussed in Note 1 Accounting Policies of our 2015 Form 10-K. A rollforward of the ALLL and associated loan data follows.

**Table 55: Rollforward of Allowance for Loan and Lease Losses and Associated Loan Data**

| In millions                                                                 | Commercial<br>Lending | Consumer<br>Lending | Total      |
|-----------------------------------------------------------------------------|-----------------------|---------------------|------------|
| September 30, 2016                                                          |                       |                     |            |
| <u>Allowance for Loan and Lease Losses</u>                                  |                       |                     |            |
| January 1                                                                   | \$ 1,605              | \$ 1,122            | \$ 2,727   |
| Charge-offs                                                                 | (297)                 | (395)               | (692)      |
| Recoveries                                                                  | 133                   | 122                 | 255        |
| Net (charge-offs) / recoveries                                              | (164)                 | (273)               | (437)      |
| Provision for credit losses                                                 | 156                   | 210                 | 366        |
| Net change in allowance for unfunded loan commitments and letters of credit | (48)                  | (1)                 | (49)       |
| Net recoveries of purchased impaired loans and other                        | 1                     | 11                  | 12         |
| September 30                                                                | \$ 1,550              | \$ 1,069            | \$ 2,619   |
| TDRs individually evaluated for impairment                                  | \$ 76                 | \$ 240              | \$ 316     |
| Other loans individually evaluated for impairment                           | 44                    |                     | 44         |
| Loans collectively evaluated for impairment                                 | 1,388                 | 548                 | 1,936      |
| Purchased impaired loans                                                    | 42                    | 281                 | 323        |
| September 30                                                                | \$ 1,550              | \$ 1,069            | \$ 2,619   |
| <u>Loan Portfolio</u>                                                       |                       |                     |            |
| TDRs individually evaluated for impairment (a)                              | \$ 527                | \$ 1,832            | \$ 2,359   |
| Other loans individually evaluated for impairment                           | 344                   |                     | 344        |
| Loans collectively evaluated for impairment (b)                             | 137,170               | 66,619              | 203,789    |
| Fair value option loans (c)                                                 |                       | 874                 | 874        |
| Purchased impaired loans                                                    | 122                   | 2,958               | 3,080      |
| September 30                                                                | \$ 138,163            | \$ 72,283           | \$ 210,446 |
| Portfolio segment ALLL as a percentage of total ALLL                        | 59%                   | 41%                 | 100%       |
| Ratio of the allowance for loan and lease losses to total loans (d)         | 1.12%                 | 1.48%               | 1.24%      |
| September 30, 2015                                                          |                       |                     |            |
| <u>Allowance for Loan and Lease Losses</u>                                  |                       |                     |            |
| January 1                                                                   | \$ 1,571              | \$ 1,760            | \$ 3,331   |
| Charge-offs                                                                 | (176)                 | (413)               | (589)      |
| Recoveries                                                                  | 188                   | 135                 | 323        |
| Net (charge-offs) / recoveries                                              | 12                    | (278)               | (266)      |
| Provision for credit losses                                                 | 48                    | 133                 | 181        |
| Net change in allowance for unfunded loan commitments and letters of credit | (7)                   |                     | (7)        |
| Other                                                                       | (2)                   |                     | (2)        |
| September 30                                                                | \$ 1,622              | \$ 1,615            | \$ 3,237   |
| TDRs individually evaluated for impairment                                  | \$ 39                 | \$ 263              | \$ 302     |
| Other loans individually evaluated for impairment                           | 70                    |                     | 70         |
| Loans collectively evaluated for impairment                                 | 1,446                 | 601                 | 2,047      |
| Purchased impaired loans                                                    | 67                    | 751                 | 818        |
| September 30                                                                | \$ 1,622              | \$ 1,615            | \$ 3,237   |
| <u>Loan Portfolio</u>                                                       |                       |                     |            |
| TDRs individually evaluated for impairment (a)                              | \$ 420                | \$ 1,948            | \$ 2,368   |
| Other loans individually evaluated for impairment                           | 291                   |                     | 291        |
| Loans collectively evaluated for impairment (b)                             | 130,249               | 66,993              | 197,242    |
| Fair value option loans (c)                                                 |                       | 915                 | 915        |
| Purchased impaired loans                                                    | 204                   | 3,963               | 4,167      |
| September 30                                                                | \$ 131,164            | \$ 73,819           | \$ 204,983 |
| Portfolio segment ALLL as a percentage of total ALLL                        | 50%                   | 50%                 | 100%       |
| Ratio of the allowance for loan and lease losses to total loans             | 1.24%                 | 2.19%               | 1.58%      |



- (a) TDRs individually evaluated for impairment exclude TDRs that were subsequently accounted for as held for sale loans, but continue to be disclosed as TDRs.
- (b) Includes \$.1 billion of loans collectively evaluated for impairment based upon collateral values and written down to the respective collateral value less costs to sell at September 30, 2016. Accordingly, there is no allowance recorded on these loans. The comparative amount as of September 30, 2015 was \$.2 billion.
- (c) Loans accounted for under the fair value option are not evaluated for impairment as these loans are accounted for at fair value. Accordingly, there is no allowance recorded on these loans.
- (d) See Note 1 Accounting Policies in our 2015 Form 10-K for information on our change in derecognition policy effective December 31, 2015 for certain purchased impaired loans.

**Allowance for Unfunded Loan Commitments and Letters of Credit**

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is appropriate to absorb estimated probable credit losses incurred on these unfunded credit facilities as of the balance sheet date as discussed in Note 1 Accounting Policies of our 2015 Form 10-K. A rollforward of the allowance is presented below.

***Table 56: Rollforward of Allowance for Unfunded Loan Commitments and Letters of Credit***

| In millions                                                                 | 2016   | 2015   |
|-----------------------------------------------------------------------------|--------|--------|
| January 1                                                                   | \$ 261 | \$ 259 |
| Net change in allowance for unfunded loan commitments and letters of credit | 49     | 7      |
| September 30                                                                | \$ 310 | \$ 266 |

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**NOTE 5 INVESTMENT SECURITIES***Table 57: Investment Securities Summary*

| In millions                            | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|----------------------------------------|-------------------|---------------------|----------------------|---------------|
| September 30, 2016                     |                   |                     |                      |               |
| <b>Securities Available for Sale</b>   |                   |                     |                      |               |
| Debt securities                        |                   |                     |                      |               |
| U.S. Treasury and government agencies  | \$ 12,062         | \$ 301              | \$ (13)              | \$ 12,350     |
| Residential mortgage-backed            |                   |                     |                      |               |
| Agency                                 | 27,429            | 568                 | (18)                 | 27,979        |
| Non-agency                             | 3,372             | 226                 | (61)                 | 3,537         |
| Commercial mortgage-backed             |                   |                     |                      |               |
| Agency                                 | 2,301             | 21                  | (4)                  | 2,318         |
| Non-agency                             | 4,183             | 69                  | (19)                 | 4,233         |
| Asset-backed                           | 6,123             | 66                  | (26)                 | 6,163         |
| State and municipal                    | 1,963             | 107                 | (3)                  | 2,067         |
| Other debt                             | 2,712             | 60                  | (3)                  | 2,769         |
| Total debt securities                  | 60,145            | 1,418               | (147)                | 61,416        |
| Corporate stocks and other             | 525               |                     |                      | 525           |
| Total securities available for sale    | \$ 60,670         | \$ 1,418            | \$ (147)             | \$ 61,941     |
| <b>Securities Held to Maturity (a)</b> |                   |                     |                      |               |
| Debt securities                        |                   |                     |                      |               |
| U.S. Treasury and government agencies  | \$ 265            | \$ 65               |                      | \$ 330        |
| Residential mortgage-backed            |                   |                     |                      |               |
| Agency                                 | 11,637            | 254                 | \$ (2)               | 11,889        |
| Non-agency                             | 204               | 13                  |                      | 217           |
| Commercial mortgage-backed             |                   |                     |                      |               |
| Agency                                 | 1,051             | 39                  |                      | 1,090         |
| Non-agency                             | 579               | 25                  |                      | 604           |
| Asset-backed                           | 799               |                     | (4)                  | 795           |
| State and municipal                    | 1,920             | 159                 |                      | 2,079         |
| Other debt                             | 118               |                     | (9)                  | 109           |
| Total securities held to maturity      | \$ 16,573         | \$ 555              | \$ (15)              | \$ 17,113     |
| December 31, 2015                      |                   |                     |                      |               |
| <b>Securities Available for Sale</b>   |                   |                     |                      |               |
| Debt securities                        |                   |                     |                      |               |
| U.S. Treasury and government agencies  | \$ 9,764          | \$ 152              | \$ (42)              | \$ 9,874      |
| Residential mortgage-backed            |                   |                     |                      |               |
| Agency                                 | 24,698            | 250                 | (128)                | 24,820        |
| Non-agency                             | 3,992             | 247                 | (88)                 | 4,151         |
| Commercial mortgage-backed             |                   |                     |                      |               |
| Agency                                 | 1,917             | 11                  | (10)                 | 1,918         |
| Non-agency                             | 4,902             | 30                  | (29)                 | 4,903         |
| Asset-backed                           | 5,417             | 54                  | (48)                 | 5,423         |
| State and municipal                    | 1,982             | 79                  | (5)                  | 2,056         |
| Other debt                             | 2,007             | 31                  | (12)                 | 2,026         |
| Total debt securities                  | 54,679            | 854                 | (362)                | 55,171        |
| Corporate stocks and other             | 590               |                     | (1)                  | 589           |
| Total securities available for sale    | \$ 55,269         | \$ 854              | \$ (363)             | \$ 55,760     |

| In millions                            | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value |
|----------------------------------------|-------------------|---------------------|----------------------|---------------|
| <b>Securities Held to Maturity (a)</b> |                   |                     |                      |               |
| Debt securities                        |                   |                     |                      |               |
| U.S. Treasury and government agencies  | \$ 258            | \$ 40               |                      | \$ 298        |
| Residential mortgage-backed            |                   |                     |                      |               |
| Agency                                 | 9,552             | 101                 | \$ (65)              | 9,588         |
| Non-agency                             | 233               | 8                   |                      | 241           |
| Commercial mortgage-backed             |                   |                     |                      |               |
| Agency                                 | 1,128             | 40                  |                      | 1,168         |
| Non-agency                             | 722               | 6                   | (1)                  | 727           |
| Asset-backed                           | 717               |                     | (10)                 | 707           |
| State and municipal                    | 1,954             | 116                 |                      | 2,070         |
| Other debt                             | 204               |                     | (1)                  | 203           |
| Total securities held to maturity      | \$ 14,768         | \$ 311              | \$ (77)              | \$ 15,002     |

(a) Held to maturity securities transferred from available for sale are recorded in held to maturity at fair value at the time of transfer. The amortized cost of held to maturity securities included net unrealized gains of \$78 million and \$97 million at September 30, 2016 and December 31, 2015, respectively, related to securities transferred, which are offset in Accumulated Other Comprehensive Income, net of tax.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. Net unrealized gains and losses in the securities available for sale portfolio are included in Shareholders' equity as Accumulated other comprehensive income or loss, net of tax, unless credit-related. Securities held to maturity are carried at amortized cost. At September 30, 2016, Accumulated other comprehensive income included pretax gains of \$103 million from derivatives that hedged the purchase of investment securities classified as held to maturity. The gains will be accreted into interest income as an adjustment of yield on the securities.

Table 58 presents gross unrealized losses on securities available for sale at September 30, 2016 and December 31, 2015. The securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more based on the point in time that the fair value declined below the amortized cost basis. The table includes debt securities where a portion of other-than-temporary impairment (OTTI) has been recognized in Accumulated other comprehensive income (loss). The decrease in total unrealized losses at September 30, 2016 when compared to December 31, 2015 was due to a decline in market interest rates.



**Table 58: Gross Unrealized Loss and Fair Value of Securities Available for Sale**

| In millions                           | Unrealized loss position less than 12 months |            | Unrealized loss position 12 months or more |            | Total           |            |
|---------------------------------------|----------------------------------------------|------------|--------------------------------------------|------------|-----------------|------------|
|                                       | Unrealized Loss                              | Fair Value | Unrealized Loss                            | Fair Value | Unrealized Loss | Fair Value |
| <b>September 30, 2016</b>             |                                              |            |                                            |            |                 |            |
| Debt securities                       |                                              |            |                                            |            |                 |            |
| U.S. Treasury and government agencies | \$ (1)                                       | \$ 1,197   | \$ (12)                                    | \$ 2,805   | \$ (13)         | \$ 4,002   |
| Residential mortgage-backed           |                                              |            |                                            |            |                 |            |
| Agency                                | (5)                                          | 699        | (13)                                       | 943        | (18)            | 1,642      |
| Non-agency                            | (1)                                          | 146        | (60)                                       | 1,222      | (61)            | 1,368      |
| Commercial mortgage-backed            |                                              |            |                                            |            |                 |            |
| Agency                                | (3)                                          | 400        | (1)                                        | 114        | (4)             | 514        |
| Non-agency                            | (4)                                          | 587        | (15)                                       | 1,269      | (19)            | 1,856      |
| Asset-backed                          | (2)                                          | 445        | (24)                                       | 1,629      | (26)            | 2,074      |
| State and municipal                   | (1)                                          | 207        | (2)                                        | 123        | (3)             | 330        |
| Other debt                            | (1)                                          | 195        | (2)                                        | 125        | (3)             | 320        |
| Total debt securities                 | (18)                                         | 3,876      | (129)                                      | 8,230      | (147)           | 12,106     |
| Corporate stocks and other            |                                              |            | (a)                                        | 16         | (a)             | 16         |
| Total                                 | \$ (18)                                      | \$ 3,876   | \$ (129)                                   | \$ 8,246   | \$ (147)        | \$ 12,122  |
| <b>December 31, 2015</b>              |                                              |            |                                            |            |                 |            |
| Debt securities                       |                                              |            |                                            |            |                 |            |
| U.S. Treasury and government agencies | \$ (40)                                      | \$ 5,885   | \$ (2)                                     | \$ 120     | \$ (42)         | \$ 6,005   |
| Residential mortgage-backed           |                                              |            |                                            |            |                 |            |
| Agency                                | (103)                                        | 11,799     | (25)                                       | 1,094      | (128)           | 12,893     |
| Non-agency                            | (3)                                          | 368        | (85)                                       | 1,527      | (88)            | 1,895      |
| Commercial mortgage-backed            |                                              |            |                                            |            |                 |            |
| Agency                                | (7)                                          | 745        | (3)                                        | 120        | (10)            | 865        |
| Non-agency                            | (22)                                         | 2,310      | (7)                                        | 807        | (29)            | 3,117      |
| Asset-backed                          | (30)                                         | 3,477      | (18)                                       | 494        | (48)            | 3,971      |
| State and municipal                   | (3)                                          | 326        | (2)                                        | 60         | (5)             | 386        |
| Other debt                            | (8)                                          | 759        | (4)                                        | 188        | (12)            | 947        |
| Total debt securities                 | (216)                                        | 25,669     | (146)                                      | 4,410      | (362)           | 30,079     |
| Corporate stocks and other            | (a)                                          | 46         | (1)                                        | 15         | (1)             | 61         |
| Total                                 | \$ (216)                                     | \$ 25,715  | \$ (147)                                   | \$ 4,425   | \$ (363)        | \$ 30,140  |

(a) The unrealized loss on these securities was less than \$.5 million.

The gross unrealized loss on debt securities held to maturity was \$16 million at September 30, 2016, with \$10 million of the loss related to securities with a fair value of \$.1 billion that had been in a continuous loss position less than 12 months and \$6 million of the loss related to securities with a fair value of \$.9 billion that had been in a continuous loss position for more than 12 months. The gross unrealized loss on debt securities held to maturity was \$82 million at December 31, 2015, with \$59 million of the loss related to securities with a fair value of \$.5 billion that had been in a continuous loss position less than 12 months and \$23 million of the loss related to securities with a fair value of \$.953 billion that had been in a continuous loss position for more than 12 months. For securities transferred to held to maturity from available for sale, the unrealized loss for purposes of this analysis is determined by comparing the security's original amortized cost to its current estimated fair value.

#### **Evaluating Investment Securities for Other-than-Temporary Impairments**

For the securities in the preceding Table 58, as of September 30, 2016 we do not intend to sell and believe we will not be required to sell the securities prior to recovery of the amortized cost basis.

As more fully described in Note 6 Investment Securities in our 2015 Form 10-K, at least quarterly, we conduct a comprehensive security-level assessment on all securities. For those securities in an unrealized loss position we determine if OTTI exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. An OTTI loss must be recognized for a debt security in an unrealized loss position if we intend to sell the security or it



is more likely than not we will be required to sell the security prior to recovery of its amortized cost basis. Even if we do not expect to sell the security, we must evaluate the expected cash flows to be received to determine if we believe a credit loss has occurred. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in income. The portion of the unrealized loss relating to other factors, such as liquidity conditions in the market or changes in market interest rates, is recorded in accumulated other comprehensive income (loss). See Note 6 Investment Securities in our 2015 Form 10-K for additional details on this quarterly assessment.

For those securities on our balance sheet where we determined losses represented OTTI, we have recorded cumulative credit losses of \$1.1 billion at September 30, 2016. During the first

nine months of 2016 and 2015, the OTTI credit losses recognized in noninterest income and the OTTI noncredit losses recognized in accumulated other comprehensive income (loss), net of tax, on securities were not significant.

Information relating to gross realized securities gains and losses from the sales of securities is set forth in the following table.

**Table 59: Gains (Losses) on Sales of Securities Available for Sale**

Nine months ended September 30

| In millions | Proceeds | Gross Gains | Gross Losses | Net Gains | Tax Expense |
|-------------|----------|-------------|--------------|-----------|-------------|
| 2016        | \$ 2,546 | \$ 20       |              | \$ 20     | \$ 7        |
| 2015        | \$ 3,445 | \$ 54       | \$ (13)      | \$ 41     | \$ 14       |

The following table presents, by remaining contractual maturity, the amortized cost, fair value and weighted-average yield of debt securities at September 30, 2016.

**Table 60: Contractual Maturity of Debt Securities**

September 30, 2016

| Dollars in millions                      | 1 Year or Less | After 1 Year through 5 Years | After 5 Years through 10 Years | After 10 Years | Total     |
|------------------------------------------|----------------|------------------------------|--------------------------------|----------------|-----------|
| <b>Securities Available for Sale</b>     |                |                              |                                |                |           |
| U.S. Treasury and government agencies    | \$ 404         | \$ 5,251                     | \$ 5,244                       | \$ 1,163       | \$ 12,062 |
| Residential mortgage-backed              |                |                              |                                |                |           |
| Agency                                   |                | 137                          | 912                            | 26,380         | 27,429    |
| Non-agency                               |                | 2                            |                                | 3,370          | 3,372     |
| Commercial mortgage-backed               |                |                              |                                |                |           |
| Agency                                   | 78             | 44                           | 828                            | 1,351          | 2,301     |
| Non-agency                               |                | 17                           | 8                              | 4,158          | 4,183     |
| Asset-backed                             | 12             | 2,104                        | 1,987                          | 2,020          | 6,123     |
| State and municipal                      | 2              | 146                          | 383                            | 1,432          | 1,963     |
| Other debt                               | 213            | 2,151                        | 238                            | 110            | 2,712     |
| Total debt securities available for sale | \$ 709         | \$ 9,852                     | \$ 9,600                       | \$ 39,984      | \$ 60,145 |
| Fair value                               | \$ 714         | \$ 10,004                    | \$ 9,739                       | \$ 40,959      | \$ 61,416 |
| Weighted-average yield, GAAP basis       | 2.74%          | 2.17%                        | 2.08%                          | 2.87%          | 2.62%     |
| <b>Securities Held to Maturity</b>       |                |                              |                                |                |           |
| U.S. Treasury and government agencies    |                |                              |                                | \$ 265         | \$ 265    |
| Residential mortgage-backed              |                |                              |                                |                |           |
| Agency                                   |                | \$ 10                        | \$ 500                         | 11,127         | 11,637    |
| Non-agency                               |                |                              |                                | 204            | 204       |
| Commercial mortgage-backed               |                |                              |                                |                |           |
| Agency                                   | \$ 164         | 827                          | 5                              | 55             | 1,051     |

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|                                        |        |        |          |           |           |
|----------------------------------------|--------|--------|----------|-----------|-----------|
| Non-agency                             |        |        |          | 579       | 579       |
| Asset-backed                           |        | 1      | 688      | 110       | 799       |
| State and municipal                    | 4      | 69     | 1,008    | 839       | 1,920     |
| Other debt                             | 7      | 33     | 28       | 50        | 118       |
| Total debt securities held to maturity | \$ 175 | \$ 940 | \$ 2,229 | \$ 13,229 | \$ 16,573 |
| Fair value                             | \$ 175 | \$ 979 | \$ 2,328 | \$ 13,631 | \$ 17,113 |
| Weighted-average yield, GAAP basis     | 3.29%  | 3.60%  | 3.03%    | 3.55%     | 3.48%     |

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Weighted-average yields are based on historical cost with effective yields weighted for the contractual maturity of each security. At September 30, 2016, there were no securities of a single issuer, other than FNMA, that exceeded 10% of Total shareholders' equity. The FNMA investments had a total amortized cost of \$28.4 billion and fair value of \$29.0 billion.

The following table presents the fair value of securities that have been either pledged to or accepted from others to collateralize outstanding borrowings.

**Table 61: Fair Value of Securities Pledged and Accepted as Collateral**

| In millions                                         | September 30<br>2016 | December 31<br>2015 |
|-----------------------------------------------------|----------------------|---------------------|
| Pledged to others                                   | \$ 9,991             | \$ 9,674            |
| Accepted from others:                               |                      |                     |
| Permitted by contract or custom to sell or repledge | \$ 655               | \$ 1,100            |
| Permitted amount repledged to others                | \$ 499               | \$ 943              |

The securities pledged to others include positions held in our portfolio of investment securities, trading securities, and securities accepted as collateral from others that we are permitted by contract or custom to sell or repledge, and were used to secure public and trust deposits, repurchase agreements, and for other purposes.

## NOTE 6 FAIR VALUE

### Fair Value Measurement

PNC measures certain financial assets and liabilities at fair value in accordance with GAAP. Fair value is defined in GAAP as the price that would be received to sell an asset or the price that would be paid to transfer a liability on the measurement date. GAAP focuses on the exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP also establishes a fair value hierarchy to maximize the use of observable inputs when measuring fair value. For more information regarding the fair value hierarchy see Note 7 Fair Value in our 2015 Form 10-K.

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

For more information on the valuation methodologies used to measure assets and liabilities at fair value on a recurring basis, see Note 7 Fair Value in our 2015 Form 10-K. The following table summarizes our assets and liabilities measured at fair value on a recurring basis, including instruments for which PNC has elected the fair value option.

**Table 62: Fair Value Measurements Recurring Basis Summary**

| In millions                                     | September 30, 2016 |           |          |                     | December 31, 2015 |           |          |                     |
|-------------------------------------------------|--------------------|-----------|----------|---------------------|-------------------|-----------|----------|---------------------|
|                                                 | Level 1            | Level 2   | Level 3  | Total<br>Fair Value | Level 1           | Level 2   | Level 3  | Total<br>Fair Value |
| <b>Assets</b>                                   |                    |           |          |                     |                   |           |          |                     |
| Securities available for sale                   |                    |           |          |                     |                   |           |          |                     |
| U.S. Treasury and government agencies           | \$ 11,740          | \$ 610    |          | \$ 12,350           | \$ 9,267          | \$ 607    |          | \$ 9,874            |
| Residential mortgage-backed                     |                    |           |          |                     |                   |           |          |                     |
| Agency                                          |                    | 27,979    |          | 27,979              |                   | 24,820    |          | 24,820              |
| Non-agency                                      |                    | 124       | \$ 3,413 | 3,537               |                   | 143       | \$ 4,008 | 4,151               |
| Commercial mortgage-backed                      |                    |           |          |                     |                   |           |          |                     |
| Agency                                          |                    | 2,318     |          | 2,318               |                   | 1,918     |          | 1,918               |
| Non-agency                                      |                    | 4,233     |          | 4,233               |                   | 4,903     |          | 4,903               |
| Asset-backed                                    |                    | 5,738     | 425      | 6,163               |                   | 4,941     | 482      | 5,423               |
| State and municipal                             |                    | 2,053     | 14       | 2,067               |                   | 2,041     | 15       | 2,056               |
| Other debt                                      |                    | 2,748     | 21       | 2,769               |                   | 1,996     | 30       | 2,026               |
| Total debt securities                           | 11,740             | 45,803    | 3,873    | 61,416              | 9,267             | 41,369    | 4,535    | 55,171              |
| Corporate stocks and other                      | 462                | 63        |          | 525                 | 527               | 62        |          | 589                 |
| Total securities available for sale             | 12,202             | 45,866    | 3,873    | 61,941              | 9,794             | 41,431    | 4,535    | 55,760              |
| Financial derivatives (a) (b)                   |                    |           |          |                     |                   |           |          |                     |
| Interest rate contracts                         |                    | 6,703     | 49       | 6,752               |                   | 4,626     | 29       | 4,655               |
| Other contracts                                 |                    | 392       | 3        | 395                 |                   | 284       | 2        | 286                 |
| Total financial derivatives                     |                    | 7,095     | 52       | 7,147               |                   | 4,910     | 31       | 4,941               |
| Residential mortgage loans held for sale (c)    |                    | 1,124     | 3        | 1,127               |                   | 838       | 5        | 843                 |
| Trading securities                              |                    |           |          |                     |                   |           |          |                     |
| Debt                                            | 826                | 1,774     | 2        | 2,602               | 987               | 727       | 3        | 1,717               |
| Equity                                          | 10                 |           |          | 10                  | 9                 |           |          | 9                   |
| Total trading securities                        | 836                | 1,774     | 2        | 2,612               | 996               | 727       | 3        | 1,726               |
| Residential mortgage servicing rights           |                    |           | 820      | 820                 |                   |           | 1,063    | 1,063               |
| Commercial mortgage servicing rights            |                    |           | 473      | 473                 |                   |           | 526      | 526                 |
| Commercial mortgage loans held for sale (c)     |                    |           | 860      | 860                 |                   |           | 641      | 641                 |
| Equity investments direct investments           |                    |           | 1,075    | 1,075               |                   |           | 1,098    | 1,098               |
| Equity investments indirect investments (d) (e) |                    |           | 220      | 268                 |                   |           |          | 347                 |
| Customer resale agreements (f)                  |                    | 136       |          | 136                 |                   | 137       |          | 137                 |
| Loans (g)                                       |                    | 550       | 324      | 874                 |                   | 565       | 340      | 905                 |
| Other assets                                    |                    |           |          |                     |                   |           |          |                     |
| BlackRock Series C Preferred Stock (h)          |                    |           | 221      | 221                 |                   |           | 357      | 357                 |
| Other                                           | 263                | 187       | 6        | 456                 | 254               | 199       | 7        | 460                 |
| Total other assets                              | 263                | 187       | 227      | 677                 | 254               | 199       | 364      | 817                 |
| Total assets                                    | \$ 13,301          | \$ 56,732 | \$ 7,929 | \$ 78,010           | \$ 11,044         | \$ 48,807 | \$ 8,606 | \$ 68,804           |
| <b>Liabilities</b>                              |                    |           |          |                     |                   |           |          |                     |
| Financial derivatives (b) (i)                   |                    |           |          |                     |                   |           |          |                     |
| Interest rate contracts                         |                    | \$ 4,830  | \$ 9     | \$ 4,839            | \$ 1              | \$ 3,124  | \$ 7     | \$ 3,132            |
| BlackRock LTIP                                  |                    |           | 221      | 221                 |                   |           | 357      | 357                 |
| Other contracts                                 |                    | 183       | 164      | 347                 |                   | 204       | 109      | 313                 |
| Total financial derivatives                     |                    | 5,013     | 394      | 5,407               | 1                 | 3,328     | 473      | 3,802               |
| Trading securities sold short (j)               |                    |           |          |                     |                   |           |          |                     |
| Debt                                            | \$ 505             | 30        |          | 535                 | 960               | 27        |          | 987                 |
| Total trading securities sold short             | 505                | 30        |          | 535                 | 960               | 27        |          | 987                 |
| Other borrowed funds                            |                    | 68        | 10       | 78                  |                   | 81        | 12       | 93                  |
| Other liabilities                               |                    |           | 20       | 20                  |                   |           | 10       | 10                  |
| Total liabilities                               | \$ 505             | \$ 5,111  | \$ 424   | \$ 6,040            | \$ 961            | \$ 3,436  | \$ 495   | \$ 4,892            |

(continued on following page)

(continued from previous page)

- (a) Included in Other assets on the Consolidated Balance Sheet.
- (b) Amounts at September 30, 2016 and December 31, 2015, are presented gross and are not reduced by the impact of legally enforceable master netting agreements that allow PNC to net positive and negative positions and cash collateral held or placed with the same counterparty. See Note 9 Financial Derivatives for additional information related to derivative offsetting.
- (c) Included in Loans held for sale on the Consolidated Balance Sheet. PNC has elected the fair value option for certain residential and commercial mortgage loans held for sale.
- (d) In accordance with ASC 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the Consolidated Balance Sheet.
- (e) The indirect equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee, which we expect to occur over the next twelve years. The amount of unfunded contractual commitments as of September 30, 2016 related to indirect equity investments was \$107 million and related to direct equity investments was \$21 million, respectively. Comparable amounts at December 31, 2015 were \$103 million and \$23 million, respectively.
- (f) Included in Federal funds sold and resale agreements on the Consolidated Balance Sheet. PNC has elected the fair value option for these items.
- (g) Included in Loans on the Consolidated Balance Sheet.
- (h) PNC has elected the fair value option for these shares.
- (i) Included in Other liabilities on the Consolidated Balance Sheet.
- (j) Included in Other borrowed funds on the Consolidated Balance Sheet.

Reconciliations of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the three and nine months ended September 30, 2016 and 2015 follow:

**Table 63: Reconciliation of Level 3 Assets and Liabilities**

**Three Months Ended September 30, 2016**

| Total realized /<br>unrealized<br>gains or losses for the period (a) |                                |                      |                                  |           |         |          |             |                                 |                                   | Unrealized<br>gains /<br>losses<br>on<br>assets<br>and<br>liabilities<br>held on |                                 |
|----------------------------------------------------------------------|--------------------------------|----------------------|----------------------------------|-----------|---------|----------|-------------|---------------------------------|-----------------------------------|----------------------------------------------------------------------------------|---------------------------------|
| Included<br>in                                                       |                                |                      |                                  |           |         |          |             |                                 |                                   | Consolidated<br>Balance<br>Sheet<br>at                                           |                                 |
| Level 3 Instruments Only                                             | Fair Value<br>Jun. 30,<br>2016 | Included<br>earnings | Other<br>comprehensive<br>income | Purchases | Sales   | Issuance | Settlements | Transfers<br>into<br>Level<br>3 | Transfers<br>out of<br>Level<br>3 | Fair Value<br>Sept.<br>30,<br>2016                                               | Sept.<br>30,<br>2016<br>(a) (b) |
| In millions                                                          |                                |                      |                                  |           |         |          |             |                                 |                                   |                                                                                  |                                 |
| Assets                                                               |                                |                      |                                  |           |         |          |             |                                 |                                   |                                                                                  |                                 |
| Securities available for sale                                        |                                |                      |                                  |           |         |          |             |                                 |                                   |                                                                                  |                                 |
| Residential mortgage-backed non-agency                               | \$ 3,557                       | \$ 25                | \$ 32                            |           |         |          | \$ (201)    |                                 |                                   | \$ 3,413                                                                         |                                 |
| Asset-backed                                                         | 436                            | 4                    | 8                                |           |         |          | (23)        |                                 |                                   | 425                                                                              |                                 |
| State and municipal                                                  | 15                             |                      |                                  |           |         |          | (1)         |                                 |                                   | 14                                                                               |                                 |
| Other debt                                                           | 33                             | 1                    |                                  | \$ 1      | \$ (14) |          |             |                                 |                                   | 21                                                                               |                                 |
| Total securities available for sale                                  | 4,041                          | 30                   | 40                               | 1         | (14)    |          | (225)       |                                 |                                   | 3,873                                                                            |                                 |
| Financial derivatives                                                | 51                             | 37                   |                                  |           |         |          | (36)        |                                 |                                   | 52                                                                               | \$ 34                           |
| Residential mortgage loans held for sale                             | 6                              |                      |                                  | 3         | (1)     |          |             | \$ 3                            | \$ (8)                            | 3                                                                                |                                 |
| Trading securities Debt                                              | 2                              |                      |                                  |           |         |          |             |                                 |                                   | 2                                                                                |                                 |
| Residential mortgage servicing rights                                | 774                            | 23                   |                                  | 49        |         | \$ 16    | (42)        |                                 |                                   | 820                                                                              | 23                              |
| Commercial mortgage servicing rights                                 | 448                            | 8                    |                                  | 16        |         | 22       | (21)        |                                 |                                   | 473                                                                              | 8                               |
| Commercial mortgage loans held for sale                              | 981                            | 18                   |                                  |           | (1,343) | 1,205    | (1)         |                                 |                                   | 860                                                                              | 6                               |
| Equity investments                                                   |                                |                      |                                  |           |         |          |             |                                 |                                   |                                                                                  |                                 |
| Direct investments                                                   | 1,120                          | 19                   |                                  | 17        | (81)    |          |             |                                 |                                   | 1,075                                                                            | 21                              |
| Indirect investments                                                 | 233                            | 16                   |                                  |           | (31)    |          |             | 2                               |                                   | 220                                                                              | 9                               |

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|                                    |          |            |       |        |            |          |          |      |         |          |            |
|------------------------------------|----------|------------|-------|--------|------------|----------|----------|------|---------|----------|------------|
| Loans                              | 317      | 3          |       | 27     | (4)        |          | (15)     |      | (4)     | 324      | 1          |
| Other assets                       |          |            |       |        |            |          |          |      |         |          |            |
| BlackRock Series C Preferred Stock | 209      | 12         |       |        |            |          |          |      |         | 221      | 12         |
| Other                              | 6        |            |       |        |            |          |          |      |         | 6        |            |
| Total other assets                 | 215      | 12         |       |        |            |          |          |      |         | 227      | 12         |
| Total assets                       | \$ 8,188 | \$ 166 (c) | \$ 40 | \$ 113 | \$ (1,474) | \$ 1,243 | \$ (340) | \$ 5 | \$ (12) | \$ 7,929 | \$ 114 (d) |
| Liabilities                        |          |            |       |        |            |          |          |      |         |          |            |
| Financial derivatives (e)          | \$ 385   | \$ 21      |       |        | \$ 1       |          | \$ (13)  |      |         | \$ 394   | \$ 25      |
| Other borrowed funds               | 8        |            |       |        |            | \$ 24    | (22)     |      |         | 10       |            |
| Other liabilities                  | 13       |            |       |        |            | 42       | (35)     |      |         | 20       |            |
| Total liabilities                  | \$ 406   | \$ 21 (c)  |       |        | \$ 1       | \$ 66    | \$ (70)  |      |         | \$ 424   | \$ 25 (d)  |

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Three Months Ended September 30, 2015

| Level 3 Instruments Only                 | Fair Value<br>Jun. 30,<br>2015 | Total realized /<br>unrealized<br>gains<br>or losses<br>for the period (a)<br>Included<br>in |        |               |        |          | Unrealized<br>gains /<br>losses<br>on<br>assets<br>and<br>liabilities<br>held on |                       |
|------------------------------------------|--------------------------------|----------------------------------------------------------------------------------------------|--------|---------------|--------|----------|----------------------------------------------------------------------------------|-----------------------|
|                                          |                                | Included                                                                                     | Other  | Comprehensive |        |          | Consolidated<br>Balance<br>Sheet at<br>Sept. 30,<br>2015 (a)                     | Sept. 30,<br>2015 (b) |
| In millions                              |                                | Earnings                                                                                     | income | Purchases     | Sales  | Issuance | Settlements                                                                      |                       |
|                                          |                                |                                                                                              |        |               |        |          |                                                                                  |                       |
| Assets                                   |                                |                                                                                              |        |               |        |          |                                                                                  |                       |
| Securities available for sale            |                                |                                                                                              |        |               |        |          |                                                                                  |                       |
| Residential mortgage- backed non-agency  | \$ 4,424                       | \$ 30                                                                                        | \$ (9) |               |        |          | \$ (230)                                                                         | \$ 4,215              |
| Asset-backed                             | 531                            | 5                                                                                            | 2      |               |        |          | (27)                                                                             | 511                   |
| State and municipal                      | 16                             |                                                                                              |        |               |        |          |                                                                                  | 16                    |
| Other debt                               | 33                             |                                                                                              | (1)    | \$ 8          | \$ (5) |          | (5)                                                                              | 30                    |
| Total securities available for sale      | 5,004                          | 35                                                                                           | (8)    | 8             | (5)    |          | (262)                                                                            | 4,772                 |
| Financial derivatives                    | 36                             | 39                                                                                           |        |               |        |          | (30)                                                                             | 45                    |
| Residential mortgage loans held for sale | 10                             | 1                                                                                            |        | 4             | (1)    |          | \$ 2                                                                             | \$ (11)               |
| Trading securities Debt                  | 3                              |                                                                                              |        |               |        |          |                                                                                  | 3                     |
| Residential mortgage servicing rights    | 1,015                          | (137)                                                                                        |        | 111           |        | \$ 23    | (50)                                                                             | 962                   |
| Commercial mortgage servicing rights     | 543                            | (44)                                                                                         |        | 15            |        | 14       | (23)                                                                             | 505                   |
| Commercial mortgage loans held for sale  | 757                            | 19                                                                                           |        |               | (846)  | 874      | (2)                                                                              | 802                   |
| Equity investments direct investments    | 1,191                          | 36                                                                                           |        | 87            | (99)   |          |                                                                                  | 1,215                 |

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|                               |          |             |        |        |          |        |          |       |         |          |             |
|-------------------------------|----------|-------------|--------|--------|----------|--------|----------|-------|---------|----------|-------------|
| Loans                         | 365      | 4           | 29     | (13)   | (24)     | 10     | (21)     | 350   | 1       |          |             |
| Other assets                  |          |             |        |        |          |        |          |       |         |          |             |
| BlackRock Series C            |          |             |        |        |          |        |          |       |         |          |             |
| Preferred Stock               | 363      | (51)        |        |        |          |        |          | 312   | (51)    |          |             |
| Other                         | 7        |             |        |        |          |        |          | 7     |         |          |             |
| Total other assets            | 370      | (51)        |        |        |          |        |          | 319   | (51)    |          |             |
| Total assets                  | \$ 9,294 | \$ (98) (c) | \$ (8) | \$ 254 | \$ (964) | \$ 911 | \$ (391) | \$ 12 | \$ (32) | \$ 8,978 | \$ (137)(d) |
| Liabilities                   |          |             |        |        |          |        |          |       |         |          |             |
| Financial derivatives (e)     | \$ 498   | \$ (54)     |        |        |          |        | \$ (1)   |       |         | \$ 443   | \$ (57)     |
| Other borrowed funds          | 165      | 1           |        |        |          | \$ 23  | (127)    |       |         | 62       |             |
| Other liabilities             | 10       |             |        |        |          |        |          |       |         | 10       |             |
| Total liabilities             | \$ 673   | \$ (53) (c) |        |        |          | \$ 23  | \$ (128) |       |         | \$ 515   | \$ (57)(d)  |
| (continued on following page) |          |             |        |        |          |        |          |       |         |          |             |

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(continued from previous page)

*Nine Months Ended September 30, 2016*

| Level 3 Instruments<br>Only              | Fair Value<br>Dec. 31, 2015 |          | Total realized /<br>unrealized<br>gains or losses<br>for the period (a)<br>Included<br>in<br>Other<br>comprehensive<br>income |     | Purchases | Sales   | Issuances | Settlements | Transfers<br>into<br>Level<br>3 | Transfers<br>out of<br>Level<br>3 | Fair Value<br>Sept.<br>30,<br>2016 | Unrealized<br>gains /<br>losses<br>on<br>assets<br>and<br>liabilities<br>held on<br>Consolidated<br>Balance<br>Sheet at<br>Sept.<br>30,<br>2016 (a)<br>(b) |
|------------------------------------------|-----------------------------|----------|-------------------------------------------------------------------------------------------------------------------------------|-----|-----------|---------|-----------|-------------|---------------------------------|-----------------------------------|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                          |                             |          |                                                                                                                               |     |           |         |           |             |                                 |                                   |                                    |                                                                                                                                                            |
| In millions                              | 2015                        | Earnings |                                                                                                                               |     |           |         |           |             |                                 |                                   |                                    |                                                                                                                                                            |
| <b>Assets</b>                            |                             |          |                                                                                                                               |     |           |         |           |             |                                 |                                   |                                    |                                                                                                                                                            |
| Securities available for sale            |                             |          |                                                                                                                               |     |           |         |           |             |                                 |                                   |                                    |                                                                                                                                                            |
| Residential mortgage-backed              |                             |          |                                                                                                                               |     |           |         |           |             |                                 |                                   |                                    |                                                                                                                                                            |
| non-agency                               | \$ 4,008                    | \$ 58    | \$ 4                                                                                                                          |     |           | \$ (60) |           | \$ (597)    |                                 |                                   | \$ 3,413                           | \$ (1)                                                                                                                                                     |
| Asset-backed                             | 482                         | 10       |                                                                                                                               |     |           |         |           | (67)        |                                 |                                   | 425                                |                                                                                                                                                            |
| State and municipal                      | 15                          |          |                                                                                                                               |     |           |         |           | (1)         |                                 |                                   | 14                                 |                                                                                                                                                            |
| Other debt                               | 30                          | 1        |                                                                                                                               |     | \$ 10     | (18)    |           | (2)         |                                 |                                   | 21                                 |                                                                                                                                                            |
| Total securities available for sale      | 4,535                       | 69       | 4                                                                                                                             | 10  | (78)      |         |           | (667)       |                                 |                                   | 3,873                              | (1)                                                                                                                                                        |
| Financial derivatives                    | 31                          | 106      |                                                                                                                               | 1   |           |         |           | (86)        |                                 |                                   | 52                                 | 101                                                                                                                                                        |
| Residential mortgage loans held for sale | 5                           |          |                                                                                                                               | 9   | (2)       |         |           | \$ 8        | \$ (17)                         |                                   | 3                                  |                                                                                                                                                            |
| Trading securities Debt                  | 3                           |          |                                                                                                                               |     |           |         |           | (1)         |                                 |                                   | 2                                  |                                                                                                                                                            |
| Residential mortgage servicing rights    | 1,063                       | (316)    |                                                                                                                               | 154 |           | \$ 39   | (120)     |             |                                 |                                   | 820                                | (308)                                                                                                                                                      |
|                                          | 526                         | (56)     |                                                                                                                               | 25  |           | 45      | (67)      |             |                                 |                                   | 473                                | (56)                                                                                                                                                       |

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Commercial mortgage servicing  
rights

|                                            |          |             |      |         |            |          |            |        |                               |
|--------------------------------------------|----------|-------------|------|---------|------------|----------|------------|--------|-------------------------------|
| Commercial mortgage loans<br>held for sale | 641      | 55          |      | (2,797) | 2,981      | (20)     |            | 860    | 4                             |
| Equity investments                         |          |             |      |         |            |          |            |        |                               |
| Direct investments                         | 1,098    | 85          | 135  | (243)   |            |          |            | 1,075  | 84                            |
| Indirect investments                       |          | 16          |      | (31)    |            | 235(f)   |            | 220    | 9                             |
| Loans                                      | 340      | 6           | 82   | (18)    |            | (57)     | (29)       | 324    | 3                             |
| Other assets                               |          |             |      |         |            |          |            |        |                               |
| BlackRock Series C Preferred<br>Stock      | 357      | 2           |      |         |            | (138)    |            | 221    | 2                             |
| Other                                      | 7        | 2           | (2)  | (1)     |            |          |            | 6      |                               |
| Total other assets                         | 364      | 4           | (2)  | (1)     |            | (138)    |            | 227    | 2                             |
| Total assets                               | \$ 8,606 | \$ (31) (c) | \$ 2 | \$ 416  | \$ (3,170) | \$ 3,065 | \$ (1,156) | \$ 243 | \$ (46) \$ 7,929 \$ (162) (d) |
| Liabilities                                |          |             |      |         |            |          |            |        |                               |
| Financial derivatives (e)                  | \$ 473   | \$ 90       |      | \$ 4    |            | \$ (173) |            | \$ 394 | \$ 92                         |
| Other borrowed funds                       | 12       |             |      |         | \$ 64      | (66)     |            | 10     |                               |
| Other liabilities                          | 10       | 1           |      |         | 114        | (105)    |            | 20     |                               |
| Total liabilities                          | \$ 495   | \$ 91 (c)   |      | \$ 4    | \$ 178     | \$ (344) |            | \$ 424 | \$ 92 (d)                     |

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Nine Months Ended September 30, 2015

|                                          |                                   |                         |                                                                                                                            |           |            |           |             |                                 |                                   |                                    |               | Unrealized<br>gains /<br>losses<br>on<br>assets<br>and<br>liabilities<br>held on<br>Consolidated<br>Balance<br>Sheet<br>at<br>Sept.<br>30,<br>2015 |
|------------------------------------------|-----------------------------------|-------------------------|----------------------------------------------------------------------------------------------------------------------------|-----------|------------|-----------|-------------|---------------------------------|-----------------------------------|------------------------------------|---------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| Level 3 Instruments Only                 | Fair<br>Value<br>Dec. 31,<br>2014 | Included in<br>Earnings | Total realized /<br>unrealized<br>gains or losses<br>for the period (a)<br>Included in<br>Other<br>comprehensive<br>income | Purchases | Sales      | Issuances | Settlements | Transfers<br>into<br>Level<br>3 | Transfers<br>out of<br>Level<br>3 | Fair<br>Value<br>Sept. 30,<br>2015 | Sept.<br>2015 | (a) (b)                                                                                                                                            |
| In millions                              |                                   |                         |                                                                                                                            |           |            |           |             |                                 |                                   |                                    |               |                                                                                                                                                    |
| Assets                                   |                                   |                         |                                                                                                                            |           |            |           |             |                                 |                                   |                                    |               |                                                                                                                                                    |
| Securities available for sale            |                                   |                         |                                                                                                                            |           |            |           |             |                                 |                                   |                                    |               |                                                                                                                                                    |
| Residential mortgage-backed non-agency   | \$ 4,798                          | \$ 85                   | \$ (31)                                                                                                                    |           |            |           | \$ (637)    |                                 |                                   | \$ 4,215                           | \$ (1)        |                                                                                                                                                    |
| Commercial mortgage-backed non-agency    |                                   | 8                       |                                                                                                                            |           |            |           | (8)         |                                 |                                   |                                    |               |                                                                                                                                                    |
| Asset-backed                             | 563                               | 16                      | 11                                                                                                                         |           |            |           | (79)        |                                 |                                   | 511                                | (1)           |                                                                                                                                                    |
| State and municipal                      | 134                               |                         | (1)                                                                                                                        |           |            |           | (117)       |                                 |                                   | 16                                 |               |                                                                                                                                                    |
| Other debt                               | 30                                | 1                       | (1)                                                                                                                        | \$ 11     | \$ (5)     |           | (6)         |                                 |                                   | 30                                 |               |                                                                                                                                                    |
| Total securities available for sale      | 5,525                             | 110                     | (22)                                                                                                                       | 11        | (5)        |           | (847)       |                                 |                                   | 4,772                              | (2)           |                                                                                                                                                    |
| Financial derivatives                    | 42                                | 126                     |                                                                                                                            | 1         |            |           | (124)       |                                 |                                   | 45                                 | 115           |                                                                                                                                                    |
| Residential mortgage loans held for sale | 6                                 | 1                       |                                                                                                                            | 21        | (3)        |           | (1)         | \$ 4                            | \$ (23)                           | 5                                  | 1             |                                                                                                                                                    |
| Trading securities Debt                  | 32                                |                         |                                                                                                                            |           |            |           | (29)        |                                 |                                   | 3                                  |               |                                                                                                                                                    |
| Residential mortgage servicing rights    | 845                               | (69)                    |                                                                                                                            | 261       |            | \$ 61     | (136)       |                                 |                                   | 962                                | (69)          |                                                                                                                                                    |
| Commercial mortgage servicing rights     | 506                               | (26)                    |                                                                                                                            | 43        |            | 48        | (66)        |                                 |                                   | 505                                | (26)          |                                                                                                                                                    |
| Commercial mortgage loans held for sale  | 893                               | 63                      |                                                                                                                            |           | (3,081)    | 2,965     | (38)        |                                 |                                   | 802                                | 3             |                                                                                                                                                    |
| Equity investments direct investments    | 1,152                             | 92                      |                                                                                                                            | 225       | (254)      |           |             |                                 |                                   | 1,215                              | 79            |                                                                                                                                                    |
| Loans                                    | 397                               | 19                      |                                                                                                                            | 84        | (21)       |           | (96)        | 21                              | (54)                              | 350                                | 10            |                                                                                                                                                    |
| Other assets                             |                                   |                         |                                                                                                                            |           |            |           |             |                                 |                                   |                                    |               |                                                                                                                                                    |
| BlackRock Series C Preferred Stock       | 375                               | (63)                    |                                                                                                                            |           |            |           |             |                                 |                                   | 312                                | (63)          |                                                                                                                                                    |
| Other                                    | 15                                |                         |                                                                                                                            |           | (7)        |           | (1)         |                                 |                                   | 7                                  |               |                                                                                                                                                    |
| Total other assets                       | 390                               | (63)                    |                                                                                                                            |           | (7)        |           | (1)         |                                 |                                   | 319                                | (63)          |                                                                                                                                                    |
| Total assets                             | \$ 9,788                          | \$ 253 (c)              | \$ (22)                                                                                                                    | \$ 646    | \$ (3,371) | \$ 3,074  | \$ (1,338)  | \$ 25                           | \$ (77)                           | \$ 8,978                           | \$ 48 (d)     |                                                                                                                                                    |
| Liabilities                              |                                   |                         |                                                                                                                            |           |            |           |             |                                 |                                   |                                    |               |                                                                                                                                                    |
| Financial derivatives (e)                | \$ 526                            | \$ (28)                 |                                                                                                                            |           | \$ 1       |           | \$ (56)     |                                 |                                   | \$ 443                             | \$ (69)       |                                                                                                                                                    |
| Other borrowed funds                     | 181                               | 4                       |                                                                                                                            |           |            | \$ 69     | (192)       |                                 |                                   | 62                                 |               |                                                                                                                                                    |
| Other liabilities                        | 9                                 | 1                       |                                                                                                                            |           |            |           |             |                                 |                                   | 10                                 |               |                                                                                                                                                    |
| Total liabilities                        | \$ 716                            | \$ (23) (c)             |                                                                                                                            |           | \$ 1       | \$ 69     | \$ (248)    |                                 |                                   | \$ 515                             | \$ (69) (d)   |                                                                                                                                                    |

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- (a) Losses for assets are bracketed while losses for liabilities are not.
- (b) The amount of the total gains or losses for the period included in earnings that is attributable to the change in unrealized gains or losses related to those assets and liabilities held at the end of the reporting period.
- (c) Net gains (realized and unrealized) included in earnings relating to Level 3 assets and liabilities were \$145 million for the third quarter of 2016, while for the first nine months of 2016 there were \$122 million of net losses (realized and unrealized) included in earnings. The comparative amounts included net losses (realized and unrealized) of \$45 million for the third quarter of 2015 and net gains (realized and unrealized) of \$276 million for the first nine months of 2015. These amounts also included amortization and accretion. The amortization and accretion amounts were included in Interest income on the Consolidated Income Statement, and the remaining net gains/(losses) (realized and unrealized) were included in Noninterest income on the Consolidated Income Statement.
- (d) Net unrealized gains relating to those assets and liabilities held at the end of the reporting period were \$89 million for the third quarter of 2016, while for the first nine months of 2016 there were \$254 million of net unrealized losses. The comparative amounts included net unrealized losses of \$80 million for the third quarter of 2015 and net unrealized gains of \$117 million for the first nine months of 2015. These amounts were included in Noninterest income on the Consolidated Income Statement.
- (e) Includes swaps entered into in connection with sales of certain Visa Class B common shares.
- (f) Reflects transfers into Level 3 associated with a change in valuation methodology.

An instrument's categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification (transfer) of assets or liabilities between hierarchy levels. PNC's policy is to recognize transfers in and transfers out as of the end of the reporting period.

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Quantitative information about the significant unobservable inputs within Level 3 recurring assets and liabilities follows.

**Table 64: Fair Value Measurements Recurring Quantitative Information**

**September 30, 2016**

Level 3 Instruments Only

| Dollars in millions                                          | Fair Value | Valuation Techniques                                                          | Unobservable Inputs                                                                                                    | Range (Weighted Average)                                                                                  |
|--------------------------------------------------------------|------------|-------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Residential mortgage-backed non-agency securities            | \$ 3,413   | Priced by a third-party vendor using a discounted cash flow pricing model (a) | Constant prepayment rate (CPR)<br>Constant default rate (CDR)<br>Loss severity<br>Spread over the benchmark curve (b)  | 1.0%-24.2% (7.2%) (a)<br>0.0%-16.7% (5.4%) (a)<br>10.0%-98.5% (53.2%) (a)<br>260bps weighted average (a)  |
| Asset-backed securities                                      | 425        | Priced by a third-party vendor using a discounted cash flow pricing model (a) | Constant prepayment rate (CPR)<br>Constant default rate (CDR)<br>Loss severity<br>Spread over the benchmark curve (b)  | 1.0%-15.0% (6.3%) (a)<br>2.0%-13.9% (6.6%) (a)<br>24.2%-100.0% (78.0%) (a)<br>333bps weighted average (a) |
| Residential mortgage servicing rights                        | 820        | Discounted cash flow                                                          | Constant prepayment rate (CPR)<br>Spread over the benchmark curve (b)                                                  | 0.0%-41.3% (18.3%)<br>195bps-1,871bps (847bps)                                                            |
| Commercial mortgage servicing rights                         | 473        | Discounted cash flow                                                          | Constant prepayment rate (CPR)<br>Discount rate                                                                        | 6.1%-45.6% (7.8%)<br>5.1%-7.7% (7.5%)                                                                     |
| Commercial mortgage loans held for sale                      | 860        | Discounted cash flow                                                          | Spread over the benchmark curve (b)<br>Estimated servicing cash flows                                                  | 66bps-1,220bps (527bps)<br>0.0%-4.7% (1.4%)                                                               |
| Equity investments Direct investments                        | 1,075      | Multiple of adjusted earnings                                                 | Multiple of earnings                                                                                                   | 4.1x-12.0x (7.6x)                                                                                         |
| Equity investments Indirect investments                      | 220        | Consensus pricing (c)                                                         | Liquidity discount                                                                                                     | 0.0%-40.0%                                                                                                |
| Loans Residential real estate                                | 127        | Consensus pricing (c)                                                         | Cumulative default rate<br>Loss severity<br>Discount rate                                                              | 11.0%-100.0% (88.0%)<br>0.0%-100.0% (24.4%)<br>4.7%-6.7% (5.1%)                                           |
|                                                              | 114        | Discounted cash flow                                                          | Loss severity<br>Discount rate                                                                                         | 8.0% weighted average<br>3.9% weighted average                                                            |
| Loans Home equity                                            | 83         | Consensus pricing (c)                                                         | Credit and Liquidity discount                                                                                          | 0.0%-99.0% (57.0%)                                                                                        |
| BlackRock Series C Preferred Stock                           | 221        | Consensus pricing (c)                                                         | Liquidity discount                                                                                                     | 20.0%                                                                                                     |
| BlackRock LTIP                                               | (221)      | Consensus pricing (c)                                                         | Liquidity discount                                                                                                     | 20.0%                                                                                                     |
| Swaps related to sales of certain Visa Class B common shares | (156)      | Discounted cash flow                                                          | Estimated conversion factor of Class B shares into Class A shares<br>Estimated growth rate of Visa Class A share price | 164.4% weighted average<br>14.0%                                                                          |
| Insignificant Level 3 assets, net of liabilities (d)         | 51         |                                                                               |                                                                                                                        |                                                                                                           |
| Total Level 3 assets, net of liabilities (e)                 | \$ 7,505   |                                                                               |                                                                                                                        |                                                                                                           |





December 31, 2015

Level 3 Instruments Only

| Dollars in millions                                          | Fair Value | Valuation Techniques                                                          | Unobservable Inputs                                                                                                   | Range (Weighted Average)                                                                                  |
|--------------------------------------------------------------|------------|-------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Residential mortgage-backed non-agency securities            | \$ 4,008   | Priced by a third-party vendor using a discounted cash flow pricing model (a) | Constant prepayment rate (CPR)<br>Constant default rate (CDR)<br>Loss severity<br>Spread over the benchmark curve (b) | 1.0%-24.2% (7.0%) (a)<br>0.0%-16.7% (5.4%) (a)<br>10.0%-98.5% (53.3%) (a)<br>241bps weighted average (a)  |
| Asset-backed securities                                      | 482        | Priced by a third-party vendor using a discounted cash flow pricing model (a) | Constant prepayment rate (CPR)<br>Constant default rate (CDR)<br>Loss severity<br>Spread over the benchmark curve (b) | 1.0%-14.0% (6.3%) (a)<br>1.7%-13.9% (6.8%) (a)<br>24.2%-100.0% (77.5%) (a)<br>324bps weighted average (a) |
| Residential mortgage servicing rights                        | 1,063      | Discounted cash flow                                                          | Constant prepayment rate (CPR)<br>Spread over the benchmark curve (b)                                                 | 0.3%-46.5% (10.6%)<br>559bps-1,883bps (893bps)                                                            |
| Commercial mortgage servicing rights                         | 526        | Discounted cash flow                                                          | Constant prepayment rate (CPR)<br>Discount rate                                                                       | 3.9%-26.5% (5.7%)<br>2.6%-7.7% (7.5%)                                                                     |
| Commercial mortgage loans held for sale                      |            |                                                                               | Spread over the benchmark curve (b)                                                                                   |                                                                                                           |
|                                                              | 641        | Discounted cash flow                                                          | Estimated servicing cash flows                                                                                        | 85bps-4,270bps (547bps)<br>0.0%-7.0% (0.9%)                                                               |
| Equity investments Direct investments                        | 1,098      | Multiple of adjusted earnings                                                 | Multiple of earnings                                                                                                  | 4.2x-14.1x (7.6x)                                                                                         |
| Loans Residential real estate                                | 123        | Consensus pricing (c)                                                         | Cumulative default rate<br>Loss severity<br>Discount rate                                                             | 2.0%-100.0% (85.1%)<br>0.0%-100.0% (27.3%)<br>4.9%-7.0% (5.2%)                                            |
|                                                              | 116        | Discounted cash flow                                                          | Loss severity<br>Discount rate                                                                                        | 8.0% weighted average<br>3.9% weighted average                                                            |
| Loans Home equity                                            | 101        | Consensus pricing (c)                                                         | Credit and Liquidity discount                                                                                         | 26.0%-99.0% (54.0%)                                                                                       |
| BlackRock Series C Preferred Stock                           | 357        | Consensus pricing (c)                                                         | Liquidity discount                                                                                                    | 20.0%                                                                                                     |
| BlackRock LTIP                                               | (357)      | Consensus pricing (c)                                                         | Liquidity discount                                                                                                    | 20.0%                                                                                                     |
| Swaps related to sales of certain Visa Class B common shares | (104)      | Discounted cash flow                                                          | Estimated conversion factor of                                                                                        |                                                                                                           |
|                                                              |            |                                                                               | Class B shares into Class A shares                                                                                    |                                                                                                           |
|                                                              |            |                                                                               |                                                                                                                       | 164.3% weighted average                                                                                   |
|                                                              |            |                                                                               | Estimated growth rate of Visa Class A share price                                                                     | 16.3%                                                                                                     |
| Insignificant Level 3 assets, net of liabilities (d)         | 57         |                                                                               |                                                                                                                       |                                                                                                           |

Total Level 3 assets, net of liabilities (e) \$ 8,111

- (a) Level 3 residential mortgage-backed non-agency and asset-backed securities with fair values as of September 30, 2016 totaling \$2.9 billion and \$4 billion, respectively, were priced by a third-party vendor using a discounted cash flow pricing model that incorporates consensus pricing, where available. The comparable amounts as of December 31, 2015 were \$3.4 billion and \$4 billion, respectively. The significant unobservable inputs for these securities were provided by the third-party vendor and are disclosed in the table. Our procedures to validate the prices provided by the third-party vendor related to these securities are discussed further in the Assets and Liabilities Measured at Fair Value on a Recurring Basis section of Note 7 Fair Value in our 2015 Form 10-K. Certain Level 3 residential mortgage-backed non-agency and asset-backed securities with fair values as of September 30, 2016 of \$518 million and \$28 million, respectively, were valued using a pricing source, such as a dealer quote or comparable security price, for which the significant unobservable inputs used to determine the price were not reasonably available. The comparable amounts as of December 31, 2015 were \$629 million and \$34 million, respectively.
- (b) The assumed yield spread over the benchmark curve for each instrument is generally intended to incorporate non-interest-rate risks, such as credit and liquidity risks.
- (c) Consensus pricing refers to fair value estimates that are generally internally developed using information such as dealer quotes or other third-party provided valuations or comparable asset prices.
- (d) Represents the aggregate amount of Level 3 assets and liabilities measured at fair value on a recurring basis that are individually and in the aggregate insignificant. The amount includes certain financial derivative assets and liabilities, trading securities, state and municipal securities, other debt securities, residential mortgage loans held for sale, other assets, other borrowed funds (ROAPs) and other liabilities. For additional information, please see the Assets and Liabilities Measured at Fair Value on a Recurring Basis discussion included in Note 7 Fair Value in our 2015 Form 10-K.
- (e)

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Consisted of total Level 3 assets of \$7.9 billion and total Level 3 liabilities of \$.4 billion as of September 30, 2016 and \$8.6 billion and \$.5 billion as of December 31, 2015, respectively.

### **Financial Assets Accounted for at Fair Value on a Nonrecurring Basis**

We may be required to measure certain financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower of amortized cost or fair value accounting or write-downs of individual assets due to impairment and are included in Table 65 and Table 66. For more information regarding the valuation methodologies of our financial assets measured at fair value on a nonrecurring basis, see Note 7 Fair Value in our 2015 Form 10-K.

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**Table 65: Fair Value Measurements – Nonrecurring**

| In millions                | Fair Value (a)       |                     | Gains (Losses)       |                      | Gains (Losses)       |                      |
|----------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
|                            |                      |                     | Three months ended   |                      | Nine months ended    |                      |
|                            | September 30<br>2016 | December 31<br>2015 | September 30<br>2016 | September 30<br>2015 | September 30<br>2016 | September 30<br>2015 |
| Assets                     |                      |                     |                      |                      |                      |                      |
| Nonaccrual loans           | \$ 180               | \$ 30               | \$(32)               | \$(41)               | \$(81)               | \$(48)               |
| OREO and foreclosed assets | 108                  | 137                 | (6)                  | (6)                  | (15)                 | (18)                 |
| Insignificant assets (b)   | 19                   | 28                  |                      | (2)                  | (5)                  | (16)                 |
| Total assets               | \$ 307               | \$ 195              | \$(38)               | \$(49)               | \$(101)              | \$(82)               |

(a) All Level 3 as of September 30, 2016 and December 31, 2015.

(b) Represents the aggregate amount of assets measured at fair value on a nonrecurring basis that are individually and in the aggregate insignificant. The amount includes certain equity investments and long-lived assets held for sale.

Quantitative information about the significant unobservable inputs within Level 3 nonrecurring assets follows.

**Table 66: Fair Value Measurements – Nonrecurring Quantitative Information**

## Level 3 Instruments Only

| Dollars in millions        | Fair Value | Valuation Techniques                 | Unobservable Inputs         | Range (Weighted Average) |
|----------------------------|------------|--------------------------------------|-----------------------------|--------------------------|
| September 30, 2016         |            |                                      |                             |                          |
| Assets                     |            |                                      |                             |                          |
| Nonaccrual loans           | \$ 126     | LGD percentage (a)                   | Loss severity               | 5.4%-77.8% (35.3%)       |
|                            | 54         | Fair value of property or collateral | Appraised value/sales price | Not meaningful           |
| OREO and foreclosed assets | 108        | Fair value of property or collateral | Appraised value/sales price | Not meaningful           |
| Insignificant assets       | 19         |                                      |                             |                          |
| Total assets               | \$307      |                                      |                             |                          |
| December 31, 2015          |            |                                      |                             |                          |
| Assets                     |            |                                      |                             |                          |
| Nonaccrual loans           | \$ 20      | LGD percentage (a)                   | Loss severity               | 8.1%-73.3% (58.6%)       |
|                            | 10         | Fair value of property or collateral | Appraised value/sales price | Not meaningful           |
| OREO and foreclosed assets | 137        | Fair value of property or collateral | Appraised value/sales price | Not meaningful           |
| Insignificant assets       | 28         |                                      |                             |                          |

Total assets \$195

(a) LGD percentage represents the amount that PNC expects to lose in the event a borrower defaults on an obligation.

**Financial Instruments Accounted For Under Fair Value Option**

We elect the fair value option to account for certain financial instruments. For more information on these financial instruments for which the fair value option election has been made, please refer to Note 7 Fair Value in our 2015 Form 10-K.

**Table 67: Fair Value Option – Changes in Fair Value (a)**

| In millions | Gains (Losses)       |                      | Gains (Losses)       |                      |
|-------------|----------------------|----------------------|----------------------|----------------------|
|             | Three months ended   |                      | Nine months ended    |                      |
|             | September 30<br>2016 | September 30<br>2015 | September 30<br>2016 | September 30<br>2015 |
| Assets      |                      |                      |                      |                      |

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|                                          |        |         |        |         |
|------------------------------------------|--------|---------|--------|---------|
| Customer resale agreements               | \$ (1) | \$ (1)  | \$ (1) | \$ (1)  |
| Commercial mortgage loans held for sale  | \$ 16  | \$ 25   | \$ 65  | \$ 81   |
| Residential mortgage loans held for sale | \$ 55  | \$ 56   | \$ 161 | \$ 127  |
| Residential mortgage loans portfolio     | \$ 7   | \$ 8    | \$ 24  | \$ 37   |
| BlackRock Series C Preferred Stock       | \$ 12  | \$ (51) | \$ 2   | \$ (63) |
| Other assets                             | \$ 15  |         | \$ (5) | \$ 2    |
| Liabilities                              |        |         |        |         |
| Other borrowed funds                     |        | \$ (2)  |        | \$ (4)  |

(a) The impact on earnings of offsetting hedged items or hedging instruments is not reflected in these amounts.

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Fair values and aggregate unpaid principal balances of items for which we elected the fair value option follow.

**Table 68: Fair Value Option Fair Value and Principal Balances**

| In millions                                 | Fair Value | Aggregate Unpaid<br>Principal<br>Balance | Difference |
|---------------------------------------------|------------|------------------------------------------|------------|
| September 30, 2016                          |            |                                          |            |
| Assets                                      |            |                                          |            |
| Customer resale agreements                  | \$ 136     | \$ 133                                   | \$ 3       |
| Residential mortgage loans held for sale    |            |                                          |            |
| Performing loans                            | 1,122      | 1,071                                    | 51         |
| Accruing loans 90 days or more past due     | 1          | 1                                        |            |
| Nonaccrual loans                            | 4          | 5                                        | (1)        |
| Total                                       | 1,127      | 1,077                                    | 50         |
| Commercial mortgage loans held for sale (a) |            |                                          |            |
| Performing loans                            | 855        | 865                                      | (10)       |
| Nonaccrual loans                            | 5          | 9                                        | (4)        |
| Total                                       | 860        | 874                                      | (14)       |
| Residential mortgage loans portfolio        |            |                                          |            |
| Performing loans                            | 231        | 276                                      | (45)       |
| Accruing loans 90 days or more past due     | 420        | 420                                      |            |
| Nonaccrual loans                            | 223        | 354                                      | (131)      |
| Total                                       | 874        | 1,050                                    | (176)      |
| Other assets                                | 163        | 164                                      | (1)        |
| Liabilities                                 |            |                                          |            |
| Other borrowed funds                        | \$ 78      | \$ 80                                    | \$ (2)     |
| December 31, 2015                           |            |                                          |            |
| Assets                                      |            |                                          |            |
| Customer resale agreements                  | \$ 137     | \$ 133                                   | \$ 4       |
| Residential mortgage loans held for sale    |            |                                          |            |
| Performing loans                            | 832        | 804                                      | 28         |
| Accruing loans 90 days or more past due     | 4          | 4                                        |            |
| Nonaccrual loans                            | 7          | 8                                        | (1)        |
| Total                                       | 843        | 816                                      | 27         |
| Commercial mortgage loans held for sale (a) |            |                                          |            |
| Performing loans                            | 639        | 659                                      | (20)       |
| Nonaccrual loans                            | 2          | 3                                        | (1)        |
| Total                                       | 641        | 662                                      | (21)       |
| Residential mortgage loans portfolio        |            |                                          |            |
| Performing loans                            | 204        | 260                                      | (56)       |
| Accruing loans 90 days or more past due     | 475        | 478                                      | (3)        |
| Nonaccrual loans                            | 226        | 361                                      | (135)      |
| Total                                       | 905        | 1,099                                    | (194)      |
| Other assets                                | 164        | 159                                      | 5          |
| Liabilities                                 |            |                                          |            |
| Other borrowed funds                        | \$ 93      | \$ 95                                    | \$ (2)     |

(a) There were no accruing loans 90 days or more past due within this category at September 30, 2016 or December 31, 2015.

### Additional Fair Value Information Related to Other Financial Instruments

The following table presents the carrying amounts and estimated fair values, including the level within the fair value hierarchy, of all other financial instruments that are not measured on the consolidated financial statements at fair value as of September 30, 2016 and December 31, 2015.

**Table 69: Additional Fair Value Information Related to Other Financial Instruments**

| In millions                                     | Carrying Amount   | Total             | Fair Value      |                   |                   |
|-------------------------------------------------|-------------------|-------------------|-----------------|-------------------|-------------------|
|                                                 |                   |                   | Level 1         | Level 2           | Level 3           |
| <b>September 30, 2016</b>                       |                   |                   |                 |                   |                   |
| <b>Assets</b>                                   |                   |                   |                 |                   |                   |
| Cash and due from banks                         | \$ 4,531          | \$ 4,531          | \$ 4,531        |                   |                   |
| Short-term assets                               | 29,125            | 29,125            |                 | \$ 29,125         |                   |
| Securities held to maturity                     | 16,573            | 17,113            | 330             | 16,669            | \$ 114            |
| Loans held for sale                             | 66                | 65                |                 | 47                | 18                |
| Net loans (excludes leases)                     | 199,570           | 202,758           |                 |                   | 202,758           |
| Other assets                                    | 1,748             | 2,225             |                 | 1,731             | 494               |
| <b>Total assets</b>                             | <b>\$ 251,613</b> | <b>\$ 255,817</b> | <b>\$ 4,861</b> | <b>\$ 47,572</b>  | <b>\$ 203,384</b> |
| <b>Liabilities</b>                              |                   |                   |                 |                   |                   |
| Demand, savings and money market deposits       | \$ 241,146        | \$ 241,146        |                 | \$ 241,146        |                   |
| Time deposits                                   | 18,749            | 18,806            |                 | 18,806            |                   |
| Borrowed funds                                  | 51,222            | 52,073            |                 | 50,616            | \$ 1,457          |
| Unfunded loan commitments and letters of credit | 289               | 289               |                 |                   | 289               |
| Other liabilities                               | 67                | 67                |                 | 67                |                   |
| <b>Total liabilities</b>                        | <b>\$ 311,473</b> | <b>\$ 312,381</b> |                 | <b>\$ 310,635</b> | <b>\$ 1,746</b>   |
| <b>December 31, 2015</b>                        |                   |                   |                 |                   |                   |
| <b>Assets</b>                                   |                   |                   |                 |                   |                   |
| Cash and due from banks                         | \$ 4,065          | \$ 4,065          | \$ 4,065        |                   |                   |
| Short-term assets                               | 32,959            | 32,959            |                 | \$ 32,959         |                   |
| Securities held to maturity                     | 14,768            | 15,002            | 298             | 14,698            | \$ 6              |
| Loans held for sale                             | 56                | 56                |                 | 22                | 34                |
| Net loans (excludes leases)                     | 195,579           | 197,611           |                 |                   | 197,611           |
| Other assets                                    | 1,817             | 2,408             |                 | 1,786             | 622               |
| <b>Total assets</b>                             | <b>\$ 249,244</b> | <b>\$ 252,101</b> | <b>\$ 4,363</b> | <b>\$ 49,465</b>  | <b>\$ 198,273</b> |
| <b>Liabilities</b>                              |                   |                   |                 |                   |                   |
| Demand, savings and money market deposits       | \$ 228,492        | \$ 228,492        |                 | \$ 228,492        |                   |
| Time deposits                                   | 20,510            | 20,471            |                 | 20,471            |                   |
| Borrowed funds                                  | 53,761            | 54,002            |                 | 52,578            | \$ 1,424          |
| Unfunded loan commitments and letters of credit | 245               | 245               |                 |                   | 245               |
| <b>Total liabilities</b>                        | <b>\$ 303,008</b> | <b>\$ 303,210</b> |                 | <b>\$ 301,541</b> | <b>\$ 1,669</b>   |

The aggregate fair values in the preceding table represent only a portion of the total market value of PNC's assets and liabilities as, in accordance with the guidance related to fair value of financial instruments, Table 69 excludes the following:

- financial instruments recorded at fair value on a recurring basis,
- real and personal property,
- lease financing,
- loan customer relationships,
- deposit customer intangibles,
- mortgage servicing rights,
- retail branch networks,
- fee-based businesses, such as asset management and brokerage, and
- trademarks and brand names.

For more information regarding the methods and assumptions used to estimate the fair values of financial instruments included in Table 69, see Note 7 Fair Value in our 2015 Form 10-K.



**NOTE 7 GOODWILL AND INTANGIBLE ASSETS****Goodwill**

See Note 8 Goodwill and Intangible Assets in our 2015 Form 10-K for more information regarding our goodwill.

**Mortgage Servicing Rights**

We recognize the right to service mortgage loans for others as an intangible asset. MSRs are purchased or originated when loans are sold with servicing retained. MSRs totaled \$1.3 billion and \$1.6 billion at September 30, 2016 and December 31, 2015, respectively, and consisted of loan servicing contracts for commercial and residential mortgages measured at fair value.

MSRs are subject to declines in value from actual or expected prepayment of the underlying loans and defaults as well as market driven changes in interest rates. We manage this risk by economically hedging the fair value of MSRs with securities and derivative instruments which are expected to increase (or decrease) in value when the value of MSRs decreases (or increases).

See the Sensitivity Analysis section of this Note 7, as well as Note 6 Fair Value for more detail on our fair value measurement of MSRs. Refer to Note 8 Goodwill and Intangible Assets in our 2015 Form 10-K for more information on our accounting and measurement of MSRs.

Changes in the commercial and residential MSRs follow:

**Table 70: Mortgage Servicing Rights**

| In millions                                      | Commercial MSRs |            | Residential MSRs |            |
|--------------------------------------------------|-----------------|------------|------------------|------------|
|                                                  | 2016            | 2015       | 2016             | 2015       |
| January 1                                        | \$ 526          | \$ 506     | \$ 1,063         | \$ 845     |
| Additions:                                       |                 |            |                  |            |
| From loans sold with servicing retained          | 45              | 48         | 39               | 61         |
| Purchases                                        | 25              | 43         | 154              | 261        |
| Changes in fair value due to:                    |                 |            |                  |            |
| Time and payoffs (a)                             | (67)            | (66)       | (120)            | (136)      |
| Other (b)                                        | (56)            | (26)       | (316)            | (69)       |
| September 30                                     | \$ 473          | \$ 505     | \$ 820           | \$ 962     |
| Related unpaid principal balance at September 30 | \$ 139,976      | \$ 143,915 | \$ 126,189       | \$ 121,680 |
| Servicing advances at September 30               | \$ 251          | \$ 277     | \$ 322           | \$ 431     |

(a) Represents decrease in MSR value due to passage of time, including the impact from both regularly scheduled loan principal payments and loans that were paid down or paid off during the period.

(b) Represents MSR value changes resulting primarily from market-driven changes in interest rates.

**Sensitivity Analysis**

The fair value of commercial and residential MSRs and significant inputs to the valuation models as of September 30, 2016 are shown in the tables below. The expected and actual rates of mortgage loan prepayments are significant factors driving the fair value. Management uses both internal proprietary models and a third-party model to estimate future commercial mortgage loan prepayments and a third-party model to estimate future residential mortgage loan prepayments. These models have been refined based on current market conditions and management judgment. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied forward interest rates to estimate the future direction of mortgage and discount rates. The forward rates utilized are derived from the current yield curve for U.S. dollar interest rate swaps and are consistent with pricing of capital markets instruments.

Changes in the shape and slope of the forward curve in future periods may result in volatility in the fair value estimate.

A sensitivity analysis of the hypothetical effect on the fair value of MSRs to adverse changes in key assumptions is presented below. These sensitivities do not include the impact of the related hedging activities. Changes in fair value generally cannot be extrapolated because the



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relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in mortgage interest rates, which drive changes in prepayment rate estimates, could result in changes in the interest rate spread), which could either magnify or counteract the sensitivities.

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The following tables set forth the fair value of commercial and residential MSRs and the sensitivity analysis of the hypothetical effect on the fair value of MSRs to immediate adverse changes of 10% and 20% in those assumptions:

**Table 71: Commercial Mortgage Loan Servicing Rights Key Valuation Assumptions**

| Dollars in millions                           | September 30<br>2016 | December 31<br>2015 |
|-----------------------------------------------|----------------------|---------------------|
| Fair value                                    | \$ 473               | \$ 526              |
| Weighted-average life (years)                 | 4.4                  | 4.7                 |
| Weighted-average constant prepayment rate     | 7.75%                | 5.71%               |
| Decline in fair value from 10% adverse change | \$ 10                | \$ 10               |
| Decline in fair value from 20% adverse change | \$ 20                | \$ 19               |
| Effective discount rate                       | 7.53%                | 7.49%               |
| Decline in fair value from 10% adverse change | \$ 12                | \$ 14               |
| Decline in fair value from 20% adverse change | \$ 24                | \$ 29               |

**Table 72: Residential Mortgage Loan Servicing Rights Key Valuation Assumptions**

| Dollars in millions                           | September 30<br>2016 | December 31<br>2015 |
|-----------------------------------------------|----------------------|---------------------|
| Fair value                                    | \$ 820               | \$ 1,063            |
| Weighted-average life (years)                 | 4.2                  | 6.3                 |
| Weighted-average constant prepayment rate     | 18.28%               | 10.61%              |
| Decline in fair value from 10% adverse change | \$ 50                | \$ 44               |
| Decline in fair value from 20% adverse change | \$ 94                | \$ 85               |
| Weighted-average option adjusted spread       | 847bps               | 893bps              |
| Decline in fair value from 10% adverse change | \$ 23                | \$ 34               |
| Decline in fair value from 20% adverse change | \$ 44                | \$ 67               |

Fees from mortgage loan servicing, which includes contractually specified servicing fees, late fees and ancillary fees were \$.1 billion for both the three months ended September 30, 2016 and 2015, respectively, and \$.4 billion for both the nine months ended September 30, 2016 and 2015, respectively. We also generate servicing fees from fee-based activities provided to others for which we do not have an associated servicing asset. Fees from commercial and residential MSRs are reported on our Consolidated Income Statement in the line items Corporate services and Residential mortgage, respectively.

### **Other Intangible Assets**

Other intangible assets consist primarily of core deposit intangibles, customer lists and non-compete agreements. See Note 8 Goodwill and Intangible Assets in our 2015 Form 10-K for more information regarding our other intangible assets.

## **NOTE 8 EMPLOYEE BENEFIT PLANS**

### **Pension And Postretirement Plans**

As described in Note 12 Employee Benefit Plans in our 2015 Form 10-K, we have a noncontributory, qualified defined benefit pension plan covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are a percentage of eligible compensation. Any pension contributions to the plan are based on an actuarially determined amount necessary to fund total benefits payable to plan participants.

We also maintain nonqualified supplemental retirement plans for certain employees and provide certain health care and life insurance benefits for qualifying retired employees (postretirement benefits) through various plans. PNC reserves the right to terminate or make changes to these plans at any time. The nonqualified pension is unfunded.

The components of our net periodic pension and postretirement benefit cost for the three and nine months ended September 30, 2016 and 2015, respectively, were as follows:



**Table 73: Net Periodic Pension and Postretirement Benefit Costs**

| Three months ended September 30      | Qualified Pension Plan |       | Nonqualified Retirement Plans |      | Postretirement Benefits |      |
|--------------------------------------|------------------------|-------|-------------------------------|------|-------------------------|------|
|                                      | 2016                   | 2015  | 2016                          | 2015 | 2016                    | 2015 |
| In millions                          |                        |       |                               |      |                         |      |
| Net periodic cost consists of:       |                        |       |                               |      |                         |      |
| Service cost                         | \$ 26                  | \$ 27 | \$ 1                          | \$ 1 | \$ 1                    | \$ 1 |
| Interest cost                        | 46                     | 44    | 3                             | 3    | 4                       | 4    |
| Expected return on plan assets       | (70)                   | (75)  |                               |      | (1)                     |      |
| Amortization of prior service credit | (2)                    | (2)   |                               |      |                         | (1)  |
| Amortization of actuarial losses     | 12                     | 8     | 1                             | 2    |                         |      |
| Net periodic cost/(benefit)          | \$ 12                  | \$ 2  | \$ 5                          | \$ 6 | \$ 4                    | \$ 4 |

| Nine months ended September 30       | Qualified Pension Plan |       | Nonqualified Retirement Plans |       | Postretirement Benefits |       |
|--------------------------------------|------------------------|-------|-------------------------------|-------|-------------------------|-------|
|                                      | 2016                   | 2015  | 2016                          | 2015  | 2016                    | 2015  |
| In millions                          |                        |       |                               |       |                         |       |
| Net periodic cost consists of:       |                        |       |                               |       |                         |       |
| Service cost                         | \$ 77                  | \$ 80 | \$ 2                          | \$ 2  | \$ 4                    | \$ 4  |
| Interest cost                        | 139                    | 133   | 9                             | 9     | 11                      | 11    |
| Expected return on plan assets       | (211)                  | (223) |                               |       | (3)                     |       |
| Amortization of prior service credit | (5)                    | (6)   |                               |       | (1)                     | (1)   |
| Amortization of actuarial losses     | 34                     | 23    | 3                             | 5     |                         |       |
| Net periodic cost/(benefit)          | \$ 34                  | \$ 7  | \$ 14                         | \$ 16 | \$ 11                   | \$ 14 |

## NOTE 9 FINANCIAL DERIVATIVES

We use derivative financial instruments (derivatives) primarily to help manage exposure to interest rate, market and credit risk and reduce the effects that changes in interest rates may have on net income, the fair value of assets and liabilities, and cash flows. We also enter into derivatives with customers to facilitate their risk management activities. Derivatives represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another type of asset to the other party based on a notional amount and an underlying as specified in the contract.

For more information regarding derivatives see Note 1 Accounting Policies and Note 14 Financial Derivatives in our Notes To Consolidated Financial Statements under Item 8 in our 2015 Form 10-K.

The following table presents the notional amounts and gross fair values of all derivative assets and liabilities held by PNC:

**Table 74: Total Gross Derivatives**

|                                                              | September 30, 2016              |                            |                                | December 31, 2015               |                            |                                |
|--------------------------------------------------------------|---------------------------------|----------------------------|--------------------------------|---------------------------------|----------------------------|--------------------------------|
|                                                              | Notional/<br>Contract<br>Amount | Asset<br>Fair<br>Value (a) | Liability<br>Fair<br>Value (b) | Notional/<br>Contract<br>Amount | Asset<br>Fair<br>Value (a) | Liability<br>Fair<br>Value (b) |
| In millions                                                  |                                 |                            |                                |                                 |                            |                                |
| Derivatives designated as hedging instruments under GAAP     | \$ 52,466                       | \$ 1,645                   | \$ 309                         | \$ 52,074                       | \$ 1,159                   | \$ 174                         |
| Derivatives not designated as hedging instruments under GAAP | 296,321                         | 5,502                      | 5,098                          | 295,902                         | 3,782                      | 3,628                          |
| Total gross derivatives                                      | \$ 348,787                      | \$ 7,147                   | \$ 5,407                       | \$ 347,976                      | \$ 4,941                   | \$ 3,802                       |

(a) Included in Other assets on our Consolidated Balance Sheet.

(b) Included in Other liabilities on our Consolidated Balance Sheet.

All derivatives are carried on our Consolidated Balance Sheet at fair value. Derivative balances are presented on the Consolidated Balance Sheet on a net basis taking into consideration the effects of legally enforceable master netting agreements and, when appropriate, any related cash collateral exchanged with counterparties. Further discussion regarding the offsetting rights associated with these legally enforceable master netting agreements is included in the Offsetting, Counterparty Credit Risk, and Contingent Features section below. Any nonperformance risk, including credit risk, is included in the determination of the estimated net fair value of the derivatives.

**Derivatives Designated As Hedging Instruments under GAAP**

Certain derivatives used to manage interest rate and foreign exchange risk as part of our asset and liability risk management activities are designated as accounting hedges under GAAP. Derivatives hedging the risks associated with changes in the fair value of assets or liabilities are considered fair value hedges, derivatives hedging the variability of expected future cash flows are

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considered cash flow hedges, and derivatives hedging a net investment in a foreign subsidiary are considered net investment hedges. Designating derivatives as accounting hedges allows for gains and losses on those derivatives, to the extent effective, to be recognized in the income statement in the same period the hedged items affect earnings.

Further detail regarding the notional amounts and fair values related to derivatives designated in hedge relationships is presented in the following table:

**Table 75: Derivatives Designated As Hedging Instruments under GAAP**

| In millions                                         | September 30, 2016              |                            |                                | December 31, 2015               |                            |                                |
|-----------------------------------------------------|---------------------------------|----------------------------|--------------------------------|---------------------------------|----------------------------|--------------------------------|
|                                                     | Notional/<br>Contract<br>Amount | Asset<br>Fair<br>Value (a) | Liability<br>Fair<br>Value (b) | Notional/<br>Contract<br>Amount | Asset<br>Fair<br>Value (a) | Liability<br>Fair<br>Value (b) |
| Interest rate contracts:                            |                                 |                            |                                |                                 |                            |                                |
| Fair value hedges:                                  |                                 |                            |                                |                                 |                            |                                |
| Receive-fixed swaps                                 | \$ 25,972                       | \$ 989                     | \$ 1                           | \$ 25,756                       | \$ 699                     | \$ 18                          |
| Pay-fixed swaps (c)                                 | 7,715                           | 1                          | 307                            | 5,934                           | 13                         | 153                            |
| Subtotal                                            | 33,687                          | 990                        | 308                            | 31,690                          | 712                        | 171                            |
| Cash flow hedges:                                   |                                 |                            |                                |                                 |                            |                                |
| Receive-fixed swaps                                 | 17,579                          | 487                        | 1                              | 17,879                          | 412                        | 2                              |
| Forward purchase commitments                        | 200                             | 1                          |                                | 1,400                           | 4                          | 1                              |
| Subtotal                                            | 17,779                          | 488                        | 1                              | 19,279                          | 416                        | 3                              |
| Foreign exchange contracts:                         |                                 |                            |                                |                                 |                            |                                |
| Net investment hedges                               | 1,000                           | 167                        |                                | 1,105                           | 31                         |                                |
| Total derivatives designated as hedging instruments | \$ 52,466                       | \$ 1,645                   | \$ 309                         | \$ 52,074                       | \$ 1,159                   | \$ 174                         |

(a) Included in Other assets on our Consolidated Balance Sheet.

(b) Included in Other liabilities on our Consolidated Balance Sheet.

(c) Includes zero-coupon swaps.

#### Fair Value Hedges

We enter into receive-fixed, pay-variable interest rate swaps to hedge changes in the fair value of outstanding fixed-rate debt caused by fluctuations in market interest rates. We also enter into pay-fixed, receive-variable interest rate swaps and zero-coupon swaps to hedge changes in the fair value of fixed rate and zero-coupon investment securities caused by fluctuations in market interest rates. For these hedge relationships, we use statistical regression analysis to assess hedge effectiveness at both the inception of the hedge relationship and on an ongoing basis. There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness.

Further detail regarding gains (losses) on fair value hedge derivatives and related hedged items is presented in the following table:

**Table 76: Gains (Losses) on Derivatives and Related Hedged Items Fair Value Hedges (a)**

| In millions             | Hedged Items                                                  | Location                                         | Three months ended<br>September 30,<br>2016                       |                                                                                  |                                                                                  | Three months ended<br>September 30,<br>2015                       |                                                                                  |                                                                                  | Nine months ended<br>September 30,<br>2016                        |                                                                                  |                                                                                  | Nine months ended<br>September 30,<br>2015                        |                                                                                  |                                                                                  |
|-------------------------|---------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
|                         |                                                               |                                                  | Gain<br>(Loss)<br>on<br>Derivatives<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Related<br>Hedged<br>Items<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Related<br>Hedged<br>Items<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Derivatives<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Related<br>Hedged<br>Items<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Related<br>Hedged<br>Items<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Derivatives<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Related<br>Hedged<br>Items<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Related<br>Hedged<br>Items<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Derivatives<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Related<br>Hedged<br>Items<br>Recognized<br>in<br>Income | Gain<br>(Loss)<br>on<br>Related<br>Hedged<br>Items<br>Recognized<br>in<br>Income |
| Interest rate contracts | U.S. Treasury<br>and Government<br>Agencies and<br>Other Debt | Investment<br>securities<br>(interest<br>income) | \$ 51                                                             | \$ (53)                                                                          | \$ (92)                                                                          | \$ 94                                                             | \$ (158)                                                                         | \$ 161                                                                           | \$ (80)                                                           | \$ 82                                                                            |                                                                                  |                                                                   |                                                                                  |                                                                                  |

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| Securities              |               |           |          |        |        |          |        |          |        |          |
|-------------------------|---------------|-----------|----------|--------|--------|----------|--------|----------|--------|----------|
| Interest rate contracts | Subordinated  | Borrowed  |          |        |        |          |        |          |        |          |
|                         | Debt and Bank | funds     |          |        |        |          |        |          |        |          |
|                         | Notes and     | (interest |          |        |        |          |        |          |        |          |
|                         | Senior Debt   | expense)  | (232)    | 231    | 305    | (323)    | 330    | (369)    | 198    | (236)    |
| Total (a)               |               |           | \$ (181) | \$ 178 | \$ 213 | \$ (229) | \$ 172 | \$ (208) | \$ 118 | \$ (154) |

(a) The difference between the gains (losses) recognized in income on derivatives and their related hedged items represents the ineffective portion of the change in value of our fair value hedge derivatives.

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## Cash Flow Hedges

We enter into receive-fixed, pay-variable interest rate swaps to modify the interest rate characteristics of designated commercial loans from variable to fixed in order to reduce the impact of changes in future cash flows due to market interest rate changes. For these cash flow hedges, any changes in the fair value of the derivatives that are effective in offsetting changes in the forecasted interest cash flows are recorded in Accumulated other comprehensive income and are reclassified to interest income in conjunction with the recognition of interest received on the loans. In the 12 months that follow September 30, 2016, we expect to reclassify from the amount currently reported in Accumulated other comprehensive income, net derivative gains of \$199 million pretax, or \$130 million after-tax, in association with interest received on the hedged loans. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to September 30, 2016. The maximum length of time over which forecasted loan cash flows are hedged is five years. We use statistical regression analysis to assess the effectiveness of these hedge relationships at both the inception of the hedge relationship and on an ongoing basis.

We also periodically enter into forward purchase and sale contracts to hedge the variability of the consideration that will be paid or received related to the purchase or sale of investment securities. The forecasted purchase or sale is consummated upon gross settlement of the forward contract itself. As a result, hedge ineffectiveness, if any, is typically minimal. Gains and losses on these forward contracts are recorded in Accumulated other comprehensive income and are recognized in earnings when the hedged cash flows affect earnings. In the 12 months that follow September 30, 2016, we expect to reclassify from the amount currently reported in Accumulated other comprehensive income, net derivative gains of \$56 million pretax, or \$36 million after-tax, as adjustments of yield on investment securities. As of September 30, 2016, the maximum length of time over which forecasted purchase contracts are hedged is one month.

There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness related to either cash flow hedge strategy.

During the first nine months of 2016 and 2015, there were no gains or losses from cash flow hedge derivatives reclassified to earnings because it became probable that the original forecasted transaction would not occur.

Further detail regarding gains (losses) on derivatives and related cash flows is presented in the following table:

**Table 77: Gains (Losses) on Derivatives and Related Cash Flows Cash Flow Hedges (a) (b)**

| In millions                                                                            | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |        |
|----------------------------------------------------------------------------------------|------------------------------------|--------|-----------------------------------|--------|
|                                                                                        | 2016                               | 2015   | 2016                              | 2015   |
| Gains (losses) on derivatives recognized in OCI (effective portion)                    | \$ (63)                            | \$ 326 | \$ 328                            | \$ 522 |
| Less: Gains (losses) reclassified from accumulated OCI into income (effective portion) |                                    |        |                                   |        |
| Interest income                                                                        | 61                                 | 80     | 190                               | 220    |
| Noninterest income                                                                     | 1                                  | 12     |                                   | (1)    |
| Total gains (losses) reclassified from accumulated OCI into income (effective portion) | \$ 62                              | \$ 92  | \$ 190                            | \$ 219 |
| Net unrealized gains (losses) on cash flow hedge derivatives                           | \$ (125)                           | \$ 234 | \$ 138                            | \$ 303 |

(a) All cash flow hedge derivatives are interest rate contracts as of September 30, 2016 and September 30, 2015.

(b) The amount of cash flow hedge ineffectiveness recognized in income was not significant for the periods presented.

## Net Investment Hedges

We enter into foreign currency forward contracts to hedge non-U.S. Dollar (USD) net investments in foreign subsidiaries against adverse changes in foreign exchange rates. We assess whether the hedging relationship is highly effective in achieving offsetting changes in the value of the hedge and hedged item by qualitatively verifying that the critical terms of the hedge and hedged item match at the inception of the hedging relationship and on an ongoing basis. Net investment hedge derivatives are classified as foreign exchange contracts. There were no components of derivative gains or losses excluded from the assessment of the hedge effectiveness. During the first nine months of 2016 and 2015, there was no net investment hedge ineffectiveness. Gains (losses) on net investment hedge derivatives recognized in OCI were net



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gains of \$27 million for the three months ended September 30, 2016 and net gains of \$136 million for the nine months ended September 30, 2016 compared with net gains of \$43 million for the three months ended September 30, 2015 and net gains of \$32 million for the nine months ended September 30, 2015.

### **Derivatives Not Designated As Hedging Instruments under GAAP**

We also enter into derivatives that are not designated as accounting hedges under GAAP.

For additional information on derivatives not designated as hedging instruments under GAAP see Note 14 Financial Derivatives in our 2015 Form 10-K.

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Further detail regarding the notional amounts and fair values related to derivatives not designated in hedge relationships is presented in the following table:

**Table 78: Derivatives Not Designated As Hedging Instruments under GAAP**

| In millions                                                          | September 30, 2016              |                         |                             | December 31, 2015               |                         |                             |
|----------------------------------------------------------------------|---------------------------------|-------------------------|-----------------------------|---------------------------------|-------------------------|-----------------------------|
|                                                                      | Notional/<br>Contract<br>Amount | Asset Fair<br>Value (a) | Liability Fair<br>Value (b) | Notional/<br>Contract<br>Amount | Asset Fair<br>Value (a) | Liability Fair<br>Value (b) |
| <b>Derivatives used for residential mortgage banking activities:</b> |                                 |                         |                             |                                 |                         |                             |
| Residential mortgage servicing                                       |                                 |                         |                             |                                 |                         |                             |
| Interest rate contracts:                                             |                                 |                         |                             |                                 |                         |                             |
| Swaps                                                                | \$ 37,604                       | \$ 1,369                | \$ 893                      | \$ 37,505                       | \$ 758                  | \$ 416                      |
| Swaptions                                                            | 1,231                           | 13                      | 7                           | 650                             | 27                      | 14                          |
| Futures (c)                                                          | 18,428                          |                         |                             | 17,653                          |                         |                             |
| Futures options                                                      |                                 |                         |                             | 6,000                           |                         | 1                           |
| Mortgage-backed securities commitments                               | 6,026                           | 14                      | 1                           | 3,920                           | 4                       | 8                           |
| Subtotal                                                             | 63,289                          | 1,396                   | 901                         | 65,728                          | 789                     | 439                         |
| Loan sales                                                           |                                 |                         |                             |                                 |                         |                             |
| Interest rate contracts:                                             |                                 |                         |                             |                                 |                         |                             |
| Futures (c)                                                          | 15                              |                         |                             | 20                              |                         |                             |
| Bond options                                                         | 200                             |                         |                             | 200                             | 2                       |                             |
| Mortgage-backed securities commitments                               | 6,546                           | 8                       | 19                          | 6,363                           | 16                      | 8                           |
| Residential mortgage loan commitments                                | 2,231                           | 32                      |                             | 1,580                           | 16                      |                             |
| Subtotal                                                             | 8,992                           | 40                      | 19                          | 8,163                           | 34                      | 8                           |
| Subtotal                                                             | \$ 72,281                       | \$ 1,436                | \$ 920                      | \$ 73,891                       | \$ 823                  | \$ 447                      |
| <b>Derivatives used for commercial mortgage banking activities:</b>  |                                 |                         |                             |                                 |                         |                             |
| Interest rate contracts:                                             |                                 |                         |                             |                                 |                         |                             |
| Swaps                                                                | \$ 4,925                        | \$ 136                  | \$ 64                       | \$ 3,945                        | \$ 77                   | \$ 46                       |
| Swaptions                                                            |                                 |                         |                             | 439                             |                         |                             |
| Futures (c)                                                          | 3,322                           |                         |                             | 18,454                          |                         |                             |
| Commercial mortgage loan commitments                                 | 1,407                           | 15                      | 7                           | 1,176                           | 11                      | 6                           |
| Subtotal                                                             | 9,654                           | 151                     | 71                          | 24,014                          | 88                      | 52                          |
| Credit contracts                                                     | 35                              |                         |                             | 77                              |                         |                             |
| Subtotal                                                             | \$ 9,689                        | \$ 151                  | \$ 71                       | \$ 24,091                       | \$ 88                   | \$ 52                       |
| <b>Derivatives used for customer-related activities:</b>             |                                 |                         |                             |                                 |                         |                             |
| Interest rate contracts:                                             |                                 |                         |                             |                                 |                         |                             |
| Swaps                                                                | \$ 168,512                      | \$ 3,516                | \$ 3,520                    | \$ 157,041                      | \$ 2,507                | \$ 2,433                    |
| Caps/floors Sold                                                     | 5,140                           |                         | 10                          | 5,337                           |                         | 11                          |
| Caps/floors Purchased                                                | 6,462                           | 19                      |                             | 6,383                           | 18                      |                             |
| Swaptions                                                            | 4,773                           | 150                     | 6                           | 4,363                           | 86                      | 13                          |
| Futures (c)                                                          | 3,077                           |                         |                             | 1,673                           |                         |                             |
| Mortgage-backed securities commitments                               | 2,012                           | 2                       | 3                           | 1,910                           | 5                       | 2                           |
| Subtotal                                                             | 189,976                         | 3,687                   | 3,539                       | 176,707                         | 2,616                   | 2,459                       |
| Foreign exchange contracts                                           | 12,064                          | 185                     | 159                         | 10,888                          | 194                     | 198                         |
| Credit contracts                                                     | 6,397                           | 3                       | 7                           | 5,026                           | 2                       | 4                           |
| Subtotal                                                             | \$ 208,437                      | \$ 3,875                | \$ 3,705                    | \$ 192,621                      | \$ 2,812                | \$ 2,661                    |
| <b>Derivatives used for other risk management activities:</b>        |                                 |                         |                             |                                 |                         |                             |
| Foreign exchange contracts                                           | \$ 3,061                        | \$ 40                   | \$ 25                       | \$ 2,742                        | \$ 59                   | \$ 6                        |
| Other contracts (d)                                                  | 2,853                           |                         | 377                         | 2,557                           |                         | 462                         |
| Subtotal                                                             | \$ 5,914                        | \$ 40                   | \$ 402                      | \$ 5,299                        | \$ 59                   | \$ 468                      |
| Total derivatives not designated as hedging instruments              | \$ 296,321                      | \$ 5,502                | \$ 5,098                    | \$ 295,902                      | \$ 3,782                | \$ 3,628                    |

(a) Included in Other assets on our Consolidated Balance Sheet.

(b) Included in Other liabilities on our Consolidated Balance Sheet.

(c) Futures contracts settle in cash daily and, therefore, no derivative asset or derivative liability is recognized on our Consolidated Balance Sheet.

(d) Includes PNC's obligation to fund a portion of certain BlackRock LTIP programs and the swaps entered into in connection with sales of a portion of Visa Class B common shares.

Further detail regarding the gains (losses) on derivatives not designated in hedging relationships is presented in the following table:

**Table 79: Gains (Losses) on Derivatives Not Designated As Hedging Instruments under GAAP**

|                                                                             | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |        |
|-----------------------------------------------------------------------------|------------------------------------|--------|-----------------------------------|--------|
| In millions                                                                 | 2016                               | 2015   | 2016                              | 2015   |
| <u>Derivatives used for residential mortgage banking activities:</u>        |                                    |        |                                   |        |
| Residential mortgage servicing                                              |                                    |        |                                   |        |
| Interest rate contracts                                                     | \$ 7                               | \$ 144 | \$ 343                            | \$ 159 |
| Loan sales                                                                  |                                    |        |                                   |        |
| Interest rate contracts                                                     | 16                                 | (6)    | 13                                | 62     |
| Gains (losses) included in residential mortgage banking activities (a)      | \$ 23                              | \$ 138 | \$ 356                            | \$ 221 |
| <u>Derivatives used for commercial mortgage banking activities:</u>         |                                    |        |                                   |        |
| Interest rate contracts (b) (c)                                             | \$ (5)                             | \$ 42  | \$ 75                             | \$ 47  |
| Gains (losses) from commercial mortgage banking activities                  | \$ (5)                             | \$ 42  | \$ 75                             | \$ 47  |
| <u>Derivatives used for customer-related activities:</u>                    |                                    |        |                                   |        |
| Interest rate contracts                                                     | \$ 23                              | \$ 10  | \$ 20                             | \$ 44  |
| Foreign exchange contracts                                                  | 26                                 | 23     | 72                                | 56     |
| Gains (losses) from customer-related activities (c)                         | \$ 49                              | \$ 33  | \$ 92                             | \$ 100 |
| <u>Derivatives used for other risk management activities:</u>               |                                    |        |                                   |        |
| Interest rate contracts                                                     |                                    |        |                                   | \$ 1   |
| Foreign exchange contracts                                                  | \$ 26                              | \$ 94  | \$ (3)                            | 208    |
| Other contracts (d)                                                         | (22)                               | 47     | (88)                              | 54     |
| Gains (losses) from other risk management activities (c)                    | \$ 4                               | \$ 141 | \$ (91)                           | \$ 263 |
| Total gains (losses) from derivatives not designated as hedging instruments | \$ 71                              | \$ 354 | \$ 432                            | \$ 631 |

(a) Included in Residential mortgage noninterest income.

(b) Included in Corporate services noninterest income.

(c) Included in Other noninterest income.

(d) Includes BlackRock LTIP funding obligation and the swaps entered into in connection with sales of a portion of Visa Class B common shares.

### **Credit Derivatives Risk Participation Agreements**

We have entered into risk participation agreements to share some of the credit exposure with other counterparties related to interest rate derivative contracts or to take on credit exposure to generate revenue. The notional amount of risk participation agreements sold was \$3.9 billion at September 30, 2016 and \$2.5 billion at December 31, 2015. Assuming all underlying third party customers referenced in the swap contracts defaulted at September 30, 2016, the exposure from these agreements would be \$181 million based on the fair value of the underlying swaps, compared with \$122 million at December 31, 2015.

### **Offsetting, Counterparty Credit Risk, and Contingent Features**

We, generally, utilize a net presentation on the Consolidated Balance Sheet for those derivative financial instruments entered into with counterparties under legally enforceable master netting agreements. The master netting agreements reduce credit risk by permitting the closeout netting of all outstanding derivative instruments under the master netting

agreement with the same counterparty upon the occurrence of an event of default. The master netting agreement also may require the exchange of cash or marketable securities to collateralize either party's net position.

For additional information on derivative offsetting, counterparty credit risk, and contingent features see Note 14 Financial Derivatives in our 2015 Form 10-K. Refer to Note 13 Commitments and Guarantees in this Report for additional information related to resale and repurchase agreements offsetting.

The following derivative Table 80 shows the impact legally enforceable master netting agreements had on our derivative assets and derivative liabilities as of September 30, 2016 and December 31, 2015. The table includes cash collateral held or pledged under legally enforceable master netting agreements. The table also includes the fair value of any securities collateral held or pledged under legally enforceable master netting agreements. Cash and securities collateral amounts are included in the table only to the extent of the related net derivative fair values.



**Table 80: Derivative Assets and Liabilities Offsetting**

| September 30, 2016           | Amounts Offset on<br>the<br>Consolidated Balance<br>Sheet |                             |                    | Securities<br>Collateral<br>Held/<br>(Pledged) |                                       |
|------------------------------|-----------------------------------------------------------|-----------------------------|--------------------|------------------------------------------------|---------------------------------------|
|                              | Gross Fair<br>Value                                       | Fair Value<br>Offset Amount | Cash<br>Collateral | Net<br>Fair Value                              | Under Master<br>Netting<br>Agreements |
| In millions                  |                                                           |                             |                    |                                                | Net<br>Amounts                        |
| Derivative assets            |                                                           |                             |                    |                                                |                                       |
| Interest rate contracts:     |                                                           |                             |                    |                                                |                                       |
| Cleared                      | \$ 2,002                                                  | \$ 1,793                    | \$ 184             | \$ 25                                          | \$ 25                                 |
| Over-the-counter             | 4,750                                                     | 1,844                       | 557                | 2,349                                          | \$ 314 2,035                          |
| Foreign exchange contracts   | 392                                                       | 213                         | 40                 | 139                                            | 139                                   |
| Credit contracts             | 3                                                         | 1                           | 1                  | 1                                              | 1                                     |
| Total derivative assets      | \$ 7,147                                                  | \$ 3,851                    | \$ 782             | \$ 2,514(a)                                    | \$ 314 \$ 2,200                       |
| Derivative liabilities       |                                                           |                             |                    |                                                |                                       |
| Interest rate contracts:     |                                                           |                             |                    |                                                |                                       |
| Cleared                      | \$ 2,192                                                  | \$ 1,794                    | \$ 376             | \$ 22                                          | \$ 22                                 |
| Over-the-counter             | 2,647                                                     | 1,947                       | 643                | 57                                             | 57                                    |
| Foreign exchange contracts   | 184                                                       | 105                         | 24                 | 55                                             | 55                                    |
| Credit contracts             | 7                                                         | 5                           | 2                  |                                                |                                       |
| Other contracts              | 377                                                       |                             |                    | 377                                            | 377                                   |
| Total derivative liabilities | \$ 5,407                                                  | \$ 3,851                    | \$ 1,045           | \$ 511(b)                                      | \$ 511                                |
| December 31, 2015            |                                                           |                             |                    |                                                |                                       |
| In millions                  |                                                           |                             |                    |                                                |                                       |
| Derivative assets            |                                                           |                             |                    |                                                |                                       |
| Interest rate contracts:     |                                                           |                             |                    |                                                |                                       |
| Cleared                      | \$ 1,003                                                  | \$ 779                      | \$ 195             | \$ 29                                          | \$ 29                                 |
| Over-the-counter             | 3,652                                                     | 1,645                       | 342                | 1,665                                          | \$ 178 1,487                          |
| Foreign exchange contracts   | 284                                                       | 129                         | 13                 | 142                                            | 2 140                                 |
| Credit contracts             | 2                                                         | 1                           | 1                  |                                                |                                       |
| Total derivative assets      | \$ 4,941                                                  | \$ 2,554                    | \$ 551             | \$ 1,836(a)                                    | \$ 180 \$ 1,656                       |
| Derivative liabilities       |                                                           |                             |                    |                                                |                                       |
| Interest rate contracts:     |                                                           |                             |                    |                                                |                                       |
| Cleared                      | \$ 855                                                    | \$ 779                      | \$ 57              | \$ 19                                          | \$ 19                                 |
| Exchange-traded              | 1                                                         |                             |                    | 1                                              | 1                                     |
| Over-the-counter             | 2,276                                                     | 1,687                       | 530                | 59                                             | 59                                    |
| Foreign exchange contracts   | 204                                                       | 85                          | 20                 | 99                                             | 99                                    |
| Credit contracts             | 4                                                         | 3                           | 1                  |                                                |                                       |
| Other contracts              | 462                                                       |                             |                    | 462                                            | 462                                   |
| Total derivative liabilities | \$ 3,802                                                  | \$ 2,554                    | \$ 608             | \$ 640(b)                                      | \$ 640                                |

(a) Represents the net amount of derivative assets included in Other assets on our Consolidated Balance Sheet.

(b) Represents the net amount of derivative liabilities included in Other liabilities on our Consolidated Balance Sheet.

The table above includes over-the-counter (OTC) derivatives, cleared derivatives, and exchange-traded derivatives. OTC derivatives represent contracts executed bilaterally with counterparties that are not settled through an organized exchange or cleared through a central clearing house. The majority of OTC derivatives are governed by ISDA documentation or other legally enforceable industry standard master netting agreements. Cleared derivatives represent contracts executed bilaterally with counterparties in the OTC market that are novated to a central clearing house who then becomes our counterparty. Exchange-traded derivatives represent standardized futures and options contracts executed directly on an organized exchange.

In addition to using master netting agreements and other collateral agreements to reduce credit risk associated with derivative instruments, we also seek to manage credit risk by evaluating credit ratings of counterparties and by using internal credit analysis, limits, and monitoring procedures.

At September 30, 2016, we held cash, U.S. government securities and mortgage-backed securities totaling \$1.2 billion under master netting agreements and other collateral agreements to collateralize net derivative assets due from counterparties, and we pledged cash totaling \$1.6 billion under these agreements to collateralize net derivative liabilities owed to counterparties and to meet initial margin requirements. These totals may differ from the amounts presented in the preceding offsetting table because these totals may include collateral exchanged under an agreement that does not qualify as a master netting agreement or because the total amount of collateral held or pledged exceeds the net derivative fair values with the counterparty as of the balance sheet date due to timing or other factors, such as initial margin. To the extent not netted against the derivative fair values under a master netting agreement, the receivable for cash pledged is included in Other assets and the obligation for cash held is included in Other liabilities on our Consolidated Balance Sheet. Securities held from counterparties are not recognized on our balance sheet. Likewise securities we have pledged to counterparties remain on our balance sheet.

Certain derivative agreements contain various credit-risk related contingent provisions, such as those that require PNC's debt to maintain a specified credit rating from one or more of the major credit rating agencies. If PNC's debt ratings were to fall below such specified ratings, the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on September 30, 2016 was \$1.3 billion for which PNC had posted collateral of \$1.1 billion in the normal course of business. The maximum additional amount of collateral PNC would have been required to post if the credit-risk-related contingent features underlying these agreements had been triggered on September 30, 2016 would be \$.2 billion.

## NOTE 10 EARNINGS PER SHARE

*Table 81: Basic and Diluted Earnings per Common Share*

| In millions, except per share data                                         | Three months ended<br>September 30 |          | Nine months ended<br>September 30 |          |
|----------------------------------------------------------------------------|------------------------------------|----------|-----------------------------------|----------|
|                                                                            | 2016                               | 2015     | 2016                              | 2015     |
| <b>Basic</b>                                                               |                                    |          |                                   |          |
| Net income                                                                 | \$ 1,006                           | \$ 1,073 | \$ 2,938                          | \$ 3,121 |
| Less:                                                                      |                                    |          |                                   |          |
| Net income (loss) attributable to noncontrolling interests                 | 18                                 | 18       | 60                                | 23       |
| Preferred stock dividends and discount accretion and redemptions           | 64                                 | 64       | 172                               | 182      |
| Net income attributable to common shares                                   | 924                                | 991      | 2,706                             | 2,916    |
| Less:                                                                      |                                    |          |                                   |          |
| Dividends and undistributed earnings allocated to participating securities | 7                                  |          | 19                                | 2        |
| Net income attributable to basic common shares                             | \$ 917                             | \$ 991   | \$ 2,687                          | \$ 2,914 |
| Basic weighted-average common shares outstanding                           | 490                                | 512      | 496                               | 516      |
| Basic earnings per common share (a)                                        | \$ 1.87                            | \$ 1.93  | \$ 5.41                           | \$ 5.64  |
| <b>Diluted</b>                                                             |                                    |          |                                   |          |
| Net income attributable to basic common shares                             | \$ 917                             | \$ 991   | \$ 2,687                          | \$ 2,914 |
| Less: Impact of BlackRock earnings per share dilution                      | 4                                  | 4        | 10                                | 14       |
| Net income attributable to diluted common shares                           | \$ 913                             | \$ 987   | \$ 2,677                          | \$ 2,900 |
| Basic weighted-average common shares outstanding                           | 490                                | 512      | 496                               | 516      |
| Dilutive potential common shares                                           | 6                                  | 8        | 6                                 | 9        |
| Diluted weighted-average common shares outstanding                         | 496                                | 520      | 502                               | 525      |
| Diluted earnings per common share (a)                                      | \$ 1.84                            | \$ 1.90  | \$ 5.33                           | \$ 5.52  |

(a) Basic and diluted earnings per share under the two-class method are determined on net income reported on the income statement less earnings allocated to nonvested restricted shares and restricted share units with nonforfeitable dividends and dividend rights (participating securities).

# NOTE 11 TOTAL EQUITY AND OTHER COMPREHENSIVE INCOME

Activity in total equity for the first nine months of 2015 and 2016 follows:

**Table 82: Rollforward of Total Equity**

|                                               | Shareholders' Equity            |              |                 |                        |                   |                                        |                |                       |              |  |
|-----------------------------------------------|---------------------------------|--------------|-----------------|------------------------|-------------------|----------------------------------------|----------------|-----------------------|--------------|--|
|                                               | Capital                         |              |                 | Surplus                |                   | Accumulated Other Comprehensive Income |                |                       | Non-         |  |
| In millions                                   | Shares Outstanding Common Stock | Common Stock | Preferred Stock | Common Stock and Other | Retained Earnings | Income (Loss)                          | Treasury Stock | controlling Interests | Total Equity |  |
| Balance at January 1, 2015                    | 523                             | \$ 2,705     | \$ 3,946        | \$ 12,627              | \$ 26,200         | \$ 503                                 | \$ (1,430)     | \$ 1,523              | \$ 46,074    |  |
| Net income                                    |                                 |              |                 |                        | 3,098             |                                        |                | 23                    | 3,121        |  |
| Other comprehensive income (loss), net of tax |                                 |              |                 |                        |                   | 112                                    |                |                       | 112          |  |
| Cash dividends declared                       |                                 |              |                 |                        |                   |                                        |                |                       |              |  |
| Common (\$1.50 per share)                     |                                 |              |                 |                        | (779)             |                                        |                |                       | (779)        |  |
| Preferred                                     |                                 |              |                 |                        | (178)             |                                        |                |                       | (178)        |  |
| Preferred stock discount accretion            |                                 |              | 4               |                        | (4)               |                                        |                |                       |              |  |
| Common stock activity                         | 1                               | 3            |                 | 36                     |                   |                                        |                |                       | 39           |  |
| Treasury stock activity                       | (14)                            |              |                 | (58)                   |                   |                                        | (1,407)        |                       | (1,465)      |  |
| Preferred stock redemption Series K           |                                 |              | (500)           |                        |                   |                                        |                |                       | (500)        |  |
| Other                                         |                                 |              |                 | 70                     |                   |                                        |                | (216)                 | (146)        |  |
| Balance at September 30, 2015 (a)             | 510                             | \$ 2,708     | \$ 3,450        | \$ 12,675              | \$ 28,337         | \$ 615                                 | \$ (2,837)     | \$ 1,330              | \$ 46,278    |  |
| Balance at January 1, 2016                    | 504                             | \$ 2,708     | \$ 3,452        | \$ 12,745              | \$ 29,043         | \$ 130                                 | \$ (3,368)     | \$ 1,270              | \$ 45,980    |  |
| Net income                                    |                                 |              |                 |                        | 2,878             |                                        |                | 60                    | 2,938        |  |
| Other comprehensive income (loss), net of tax |                                 |              |                 |                        |                   | 516                                    |                |                       | 516          |  |
| Cash dividends declared                       |                                 |              |                 |                        |                   |                                        |                |                       |              |  |
| Common (\$1.57 per share)                     |                                 |              |                 |                        | (791)             |                                        |                |                       | (791)        |  |
| Preferred                                     |                                 |              |                 |                        | (168)             |                                        |                |                       | (168)        |  |
| Preferred stock discount accretion            |                                 |              | 4               |                        | (4)               |                                        |                |                       |              |  |
| Common stock activity (b)                     |                                 | 1            |                 | 10                     |                   |                                        |                |                       | 11           |  |
| Treasury stock activity                       | (16)                            |              |                 | (23)                   |                   |                                        | (1,397)        |                       | (1,420)      |  |
| Other                                         |                                 |              |                 | (29)                   |                   |                                        |                | (192)                 | (221)        |  |
| Balance at September 30, 2016 (a)             | 488                             | \$ 2,709     | \$ 3,456        | \$ 12,703              | \$ 30,958         | \$ 646                                 | \$ (4,765)     | \$ 1,138              | \$ 46,845    |  |

(a) The par value of our preferred stock outstanding was less than \$.5 million at each date and, therefore, is excluded from this presentation.

(b) Common stock activity totaled less than .5 million shares issued.

## Warrants

We had 13.4 million warrants outstanding at both September 30, 2016 and December 31, 2015. Each warrant entitles the holder to purchase one share of PNC common stock at an exercise price of \$67.33 per share. In accordance with the terms of the warrants, the warrants are exercised on a non-cash net basis with the warrant holder receiving PNC common shares determined based on the excess of the market price of PNC common stock on the exercise date over the exercise price of the warrant. The outstanding warrants will expire as of December 31, 2018, and are considered in the calculation of diluted earnings per common share in Note 10 Earnings Per Share in this Report.

Details of other comprehensive income (loss) are as follows:

**Table 83: Other Comprehensive Income**

| In millions                                                                                                   | Three Months Ended<br>September 30 |        | Nine Months Ended<br>September 30 |         |
|---------------------------------------------------------------------------------------------------------------|------------------------------------|--------|-----------------------------------|---------|
|                                                                                                               | 2016                               | 2015   | 2016                              | 2015    |
| <b>Net unrealized gains (losses) on non-OTTI securities</b>                                                   |                                    |        |                                   |         |
| Increase in net unrealized gains (losses) on non-OTTI securities                                              | \$ (14)                            | \$ 139 | \$ 791                            | \$ (75) |
| Less: Net gains (losses) realized as a yield adjustment reclassified to investment securities interest income | 5                                  | 6      | 19                                | 20      |
| Less: Net gains (losses) realized on sales of securities reclassified to noninterest income                   | 6                                  | (21)   | 20                                | 42      |
| <b>Net increase (decrease), pre-tax</b>                                                                       | (25)                               | 154    | 752                               | (137)   |
| Effect of income taxes                                                                                        | 10                                 | (57)   | (275)                             | 50      |
| <b>Net increase (decrease), after-tax</b>                                                                     | (15)                               | 97     | 477                               | (87)    |
| <b>Net unrealized gains (losses) on OTTI securities</b>                                                       |                                    |        |                                   |         |
| Increase in net unrealized gains (losses) on OTTI securities                                                  | 38                                 | 3      | 16                                | 8       |
| Less: OTTI losses realized on securities reclassified to noninterest income                                   |                                    | (1)    | (1)                               | (3)     |
| <b>Net increase (decrease), pre-tax</b>                                                                       | 38                                 | 4      | 17                                | 11      |
| Effect of income taxes                                                                                        | (14)                               | (1)    | (6)                               | (4)     |
| <b>Net increase (decrease), after-tax</b>                                                                     | 24                                 | 3      | 11                                | 7       |
| <b>Net unrealized gains (losses) on cash flow hedge derivatives</b>                                           |                                    |        |                                   |         |
| Increase in net unrealized gains (losses) on cash flow hedge derivatives                                      | (63)                               | 326    | 328                               | 522     |
| Less: Net gains (losses) realized as a yield adjustment reclassified to loan interest income                  | 51                                 | 74     | 167                               | 202     |
| Less: Net gains (losses) realized as a yield adjustment reclassified to investment securities interest income | 10                                 | 6      | 23                                | 18      |
| Less: Net gains (losses) realized on sales of securities reclassified to noninterest income                   | 1                                  | 12     |                                   | (1)     |
| <b>Net increase (decrease), pre-tax</b>                                                                       | (125)                              | 234    | 138                               | 303     |
| Effect of income taxes                                                                                        | 45                                 | (86)   | (51)                              | (111)   |
| <b>Net increase (decrease), after-tax</b>                                                                     | (80)                               | 148    | 87                                | 192     |
| <b>Pension and other postretirement benefit plan adjustments</b>                                              |                                    |        |                                   |         |
| Net pension and other postretirement benefit activity                                                         |                                    |        | (5)                               | 36      |
| Amortization of actuarial loss (gain) reclassified to other noninterest expense                               | 13                                 | 10     | 37                                | 28      |
| Amortization of prior service cost (credit) reclassified to other noninterest expense                         | (2)                                | (3)    | (6)                               | (7)     |
| <b>Net increase (decrease), pre-tax</b>                                                                       | 11                                 | 7      | 26                                | 57      |
| Effect of income taxes                                                                                        | (5)                                | (2)    | (10)                              | (20)    |
| <b>Net increase (decrease), after-tax</b>                                                                     | 6                                  | 5      | 16                                | 37      |
| <b>Other</b>                                                                                                  |                                    |        |                                   |         |
| PNC's portion of BlackRock's OCI                                                                              | (28)                               |        | (40)                              | (34)    |
| Net investment hedge derivatives                                                                              | 27                                 | 43     | 136                               | 32      |
| Foreign currency translation adjustments and other (a)                                                        | (24)                               | (44)   | (136)                             | (35)    |
| <b>Net increase (decrease), pre-tax</b>                                                                       | (25)                               | (1)    | (40)                              | (37)    |
| Effect of income taxes (a)                                                                                    |                                    | (16)   | (35)                              |         |
| <b>Net increase (decrease), after-tax</b>                                                                     | (25)                               | (17)   | (75)                              | (37)    |
| <b>Total other comprehensive income, pre-tax</b>                                                              | (126)                              | 398    | 893                               | 197     |
| <b>Total other comprehensive income, tax effect</b>                                                           | 36                                 | (162)  | (377)                             | (85)    |
| <b>Total other comprehensive income, after-tax</b>                                                            | \$ (90)                            | \$ 236 | \$ 516                            | \$ 112  |

(a) The earnings of PNC's Luxembourg-UK lending business have been indefinitely reinvested; therefore, no U.S. deferred income tax has been recorded on the foreign currency translation of the investment.



**Table 84: Accumulated Other Comprehensive Income (Loss) Components**

| In millions, after-tax        | Net<br>unrealized<br>gains (losses) on<br>non-OTTI<br>securities | Net<br>unrealized<br>gains (losses) on<br>OTTI<br>securities | Net<br>unrealized<br>gains (losses) on<br>cash flow<br>hedge<br>derivatives | Pension and other<br>postretirement<br>benefit plan<br>adjustments | Other    | Total  |
|-------------------------------|------------------------------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------|----------|--------|
| Balance at June 30, 2015      | \$ 463                                                           | \$ 78                                                        | \$ 394                                                                      | \$ (488)                                                           | \$ (68)  | \$ 379 |
| Net activity                  | 97                                                               | 3                                                            | 148                                                                         | 5                                                                  | (17)     | 236    |
| Balance at September 30, 2015 | \$ 560                                                           | \$ 81                                                        | \$ 542                                                                      | \$ (483)                                                           | \$ (85)  | \$ 615 |
| Balance at June 30, 2016      | \$ 778                                                           | \$ 53                                                        | \$ 597                                                                      | \$ (544)                                                           | \$ (148) | \$ 736 |
| Net activity                  | (15)                                                             | 24                                                           | (80)                                                                        | 6                                                                  | (25)     | (90)   |
| Balance at September 30, 2016 | \$ 763                                                           | \$ 77                                                        | \$ 517                                                                      | \$ (538)                                                           | \$ (173) | \$ 646 |
| Balance at December 31, 2014  | \$ 647                                                           | \$ 74                                                        | \$ 350                                                                      | \$ (520)                                                           | \$ (48)  | \$ 503 |
| Net activity                  | (87)                                                             | 7                                                            | 192                                                                         | 37                                                                 | (37)     | 112    |
| Balance at September 30, 2015 | \$ 560                                                           | \$ 81                                                        | \$ 542                                                                      | \$ (483)                                                           | \$ (85)  | \$ 615 |
| Balance at December 31, 2015  | \$ 286                                                           | \$ 66                                                        | \$ 430                                                                      | \$ (554)                                                           | \$ (98)  | \$ 130 |
| Net activity                  | 477                                                              | 11                                                           | 87                                                                          | 16                                                                 | (75)     | 516    |
| Balance at September 30, 2016 | \$ 763                                                           | \$ 77                                                        | \$ 517                                                                      | \$ (538)                                                           | \$ (173) | \$ 646 |

**NOTE 12 LEGAL PROCEEDINGS**

We establish accruals for legal proceedings, including litigation and regulatory and governmental investigations and inquiries, when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated. Any such accruals are adjusted thereafter as appropriate to reflect changed circumstances. When we are able to do so, we also determine estimates of possible losses or ranges of possible losses, whether in excess of any related accrued liability or where there is no accrued liability, for disclosed legal proceedings ( Disclosed Matters, which are those matters disclosed in this Note 12 as well as those matters disclosed in Note 20 Legal Proceedings in Part II, Item 8 of our 2015 Form 10-K, in Note 14 Legal Proceedings in Part I, Item 1 of our first quarter 2016 Form 10-Q and in Note 12 Legal Proceedings in Part I, Item 1 of our second quarter 2016 Form 10-Q (such prior disclosure collectively referred to as Prior Disclosure)). For Disclosed Matters where we are able to estimate such possible losses or ranges of possible losses, as of September 30, 2016, we estimate that it is reasonably possible that we could incur losses in excess of related accrued liabilities, if any, in an aggregate amount of up to approximately \$525 million. The estimates included in this amount are based on our analysis of currently available information and are subject to significant judgment and a variety of assumptions and uncertainties. As new information is obtained we may change our estimates. Due to the inherent subjectivity of the assessments and unpredictability of outcomes of legal proceedings, any amounts accrued or included in this aggregate amount may not represent the ultimate loss to us from the legal proceedings in question. Thus, our exposure and ultimate losses may be higher, and possibly significantly so, than the amounts accrued or this aggregate amount.

In our experience, legal proceedings are inherently unpredictable. One or more of the following factors frequently

contribute to this inherent unpredictability: the proceeding is in its early stages; the damages sought are unspecified, unsupported or uncertain; it is unclear whether a case brought as a class action will be allowed to proceed on that basis or, if permitted to proceed as a class action, how the class will be defined; the other party is seeking relief other than or in addition to compensatory damages (including, in the case of regulatory and governmental investigations and inquiries, the possibility of fines and penalties); the matter presents meaningful legal uncertainties, including novel issues of law; we have not engaged in meaningful settlement discussions; discovery has not started or is not complete; there are significant facts in dispute; the possible outcomes may not be amenable to the use of statistical or quantitative analytical tools; predicting possible outcomes depends on making assumptions about future decisions of courts or regulatory bodies or the behavior of other parties; and there are a large number of parties named as defendants (including where it is uncertain how damages or liability, if any, will be shared among multiple defendants). Generally, the less progress that has been made in the proceedings or the broader the range of potential results, the harder it is for us to estimate losses or ranges of losses that it is reasonably possible we could incur.

As a result of these types of factors, we are unable, at this time, to estimate the losses that are reasonably possible to be incurred or ranges of such losses with respect to some of the matters disclosed, and the aggregate estimated amount provided above does not include an estimate for every Disclosed Matter. Therefore, as the estimated aggregate amount disclosed above does not include all of the Disclosed Matters, the amount disclosed above does not represent our maximum reasonably possible loss exposure for all of the Disclosed Matters. The estimated aggregate amount also does not reflect any of our exposure to matters not so disclosed, as discussed below under Other.



We include in some of the descriptions of individual Disclosed Matters certain quantitative information related to the plaintiff's claim against us as alleged in the plaintiff's pleadings or other public filings or otherwise publicly available information. While information of this type may provide insight into the potential magnitude of a matter, it does not necessarily represent our estimate of reasonably possible loss or our judgment as to any currently appropriate accrual.

Some of our exposure in Disclosed Matters may be offset by applicable insurance coverage. We do not consider the possible availability of insurance coverage in determining the amounts of any accruals (although we record the amount of related insurance recoveries that are deemed probable up to the amount of the accrual) or in determining any estimates of possible losses or ranges of possible losses.

The following updates our disclosure of legal proceedings from that provided in Prior Disclosure.

#### **CBNV Mortgage Litigation**

In August 2016, in the lawsuits consolidated for pre-trial proceedings in the U.S. District Court for the Western District of Pennsylvania under the caption *In re: Community Bank of Northern Virginia Lending Practices Litigation* (No. 03-0425 (W.D. Pa.), MDL No. 1674), we reached a settlement with the plaintiffs, subject to notice to the class and court approval. In September 2016, the court granted preliminary approval, authorized the sending of notice to the class, set the timing for objections and scheduled a final approval hearing for December 2016. Under this settlement, the matter will be submitted to binding arbitration before a panel of three arbitrators, who will determine whether we will pay the plaintiff class either an amount (inclusive of class counsel fees and expenses) we proposed (\$24 million) or an amount proposed by the plaintiffs (\$70 million), with no discretion to choose any other amount. The court has ordered the arbitrators to reach a decision by the end of March 2017.

#### **Captive Mortgage Reinsurance Litigation**

In September 2016, in *White, et al. v. The PNC Financial Services Group, Inc., et al.* (Civil Action No. 11-7928), pending in the U.S. District Court for the Eastern District of Pennsylvania, the plaintiffs moved to lift the stay and for permission to file a Third Amended Class Action Complaint. The proposed amended complaint, if allowed, would add claims under the Racketeer Influenced and Corrupt Organizations Act (RICO) and would assert that the RESPA claim is not barred by the statute of limitations because every acceptance of a reinsurance premium is a new occurrence for these purposes. We have opposed the motion to amend.

#### **Pre-need Funeral Arrangements**

The cross appeals by the PNC defendants and the plaintiffs in *Jo Ann Howard, P.C., et al. v. Cassity, et al.* (No. 4:09-CV-

1252-ERW) were argued before the U.S. Court of Appeals for the Eighth Circuit in September 2016.

#### **Other Regulatory and Governmental Inquiries**

PNC is the subject of investigations, audits and other forms of regulatory and governmental inquiry covering a broad range of issues in our consumer, mortgage, brokerage, securities and other financial services businesses, as well as other aspects of our operations. In some cases, these inquiries are part of reviews of specified activities at multiple industry participants; in others, they are directed at PNC individually. These inquiries, including those described below and in Prior Disclosure, may lead to administrative, civil or criminal proceedings, and possibly result in remedies including fines, penalties, restitution, or alterations in our business practices, and in additional expenses and collateral costs and other consequences. These inquiries may result in significant reputational harm or other adverse collateral consequences even if direct resulting remedies are not material to PNC.

Through the U.S. Attorney's Office for the District of Maryland, the office of the Inspector General for the Small Business Administration (SBA) served a subpoena on PNC in 2012 requesting documents concerning PNC's relationship with, including SBA-guaranteed loans made through, a broker named Jade Capital Investments, LLC (Jade), as well as information regarding other PNC-originated SBA guaranteed loans made to businesses located in the State of Maryland, the Commonwealth of Virginia, and Washington, D.C. Certain of the Jade loans have been identified in an indictment and subsequent superseding indictment charging persons associated with Jade with conspiracy to commit bank fraud, substantive violations of the federal bank fraud statute, and money laundering. In August 2016, we completed a settlement, without any admission of liability, in the amount of \$9.5 million that resolves the U.S. Attorney's Office investigation.

Our practice is to cooperate fully with regulatory and governmental investigations, audits and other inquiries, including those described in this Note 12 and in Prior Disclosure.

**Other**

In addition to the proceedings or other matters described above, PNC and persons to whom we may have indemnification obligations, in the normal course of business, are subject to various other pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. We do not anticipate, at the present time, that the ultimate aggregate liability, if any, arising out of such other legal proceedings will have a material adverse effect on our financial position. However, we cannot now determine whether or not any claims asserted against us or others to

whom we may have indemnification obligations, whether in the proceedings or other matters described above or otherwise, will have a material adverse effect on our results of operations in any future reporting period, which will depend on, among other things, the amount of the loss resulting from the claim and the amount of income otherwise reported for the reporting period.

See Note 21 Commitments and Guarantees in Part II, Item 8 of our 2015 Form 10-K for additional information regarding the Visa indemnification and our other obligations to provide indemnification, including to current and former officers, directors, employees and agents of PNC and companies we have acquired.

## NOTE 13 COMMITMENTS AND GUARANTEES

### Commitments

In the normal course of business, we have various commitments outstanding, certain of which are not included on our Consolidated Balance Sheet. The following table presents our outstanding commitments to extend credit along with significant other commitments as of September 30, 2016 and December 31, 2015, respectively.

*Table 85: Commitments to Extend Credit and Other Commitments*

| In millions                                              | September 30<br>2016 | December 31<br>2015 |
|----------------------------------------------------------|----------------------|---------------------|
| Commitments to extend credit                             |                      |                     |
| Total commercial lending                                 | \$ 104,124           | \$ 101,252          |
| Home equity lines of credit                              | 17,316               | 17,268              |
| Credit card                                              | 21,907               | 19,937              |
| Other                                                    | 4,493                | 4,032               |
| Total commitments to extend credit                       | 147,840              | 142,489             |
| Net outstanding standby letters of credit (a)            | 8,760                | 8,765               |
| Reinsurance agreements (b)                               | 1,880                | 2,010               |
| Standby bond purchase agreements (c)                     | 868                  | 911                 |
| Other commitments (d)                                    | 980                  | 966                 |
| Total commitments to extend credit and other commitments | \$ 160,328           | \$ 155,141          |

(a) Net outstanding standby letters of credit include \$4.4 billion and \$4.7 billion which support remarketing programs at September 30, 2016 and December 31, 2015, respectively.

(b) Represents aggregate maximum exposure up to the specified limits of the reinsurance contracts, and reflects estimates based on availability of financial information from insurance carriers. As of September 30, 2016, the aggregate maximum exposure amount comprised \$1.6 billion for accidental death & dismemberment contracts and \$.3 billion for credit life, accident & health contracts. Comparable amounts at December 31, 2015 were \$1.6 billion and \$.4 billion, respectively.

(c) We enter into standby bond purchase agreements to support municipal bond obligations.

(d) Includes \$.4 billion and \$.5 billion related to investments in qualified affordable housing projects at September 30, 2016 and December 31, 2015, respectively.

### **Commitments to Extend Credit**

Commitments to extend credit, or net unfunded loan commitments, represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. These commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer's credit quality deteriorates. Based on our historical experience, some commitments expire unfunded, and therefore cash requirements are substantially less than the total commitment.

### **Net Outstanding Standby Letters of Credit**

We issue standby letters of credit and share in the risk of standby letters of credit issued by other financial institutions, in each case to support obligations of our customers to third parties, such as insurance requirements and the facilitation of transactions involving capital markets product execution. Internal credit ratings related to our net outstanding standby letters of credit were as follows:

*Table 86: Internal Credit Ratings Related to Net Outstanding Standby Letters of Credit*

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|                                                         | September 30<br>2016 | December 31<br>2015 |
|---------------------------------------------------------|----------------------|---------------------|
| Internal credit ratings (as a percentage of portfolio): |                      |                     |
| Pass (a)                                                | 92%                  | 93%                 |
| Below pass (b)                                          | 8%                   | 7%                  |

(a) Indicates that expected risk of loss is currently low.

(b) Indicates a higher degree of risk of default.

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If the customer fails to meet its financial or performance obligation to the third party under the terms of the contract or there is a need to support a remarketing program, then upon a draw by a beneficiary, subject to the terms of the letter of credit, we would be obligated to make payment to them. The standby letters of credit outstanding on September 30, 2016 had terms ranging from less than 1 year to 8 years.

As of September 30, 2016, assets of \$1.0 billion secured certain specifically identified standby letters of credit. In addition, a portion of the remaining standby letters of credit issued on behalf of specific customers is also secured by collateral or guarantees that secure the customers other obligations to us. The carrying amount of the liability for our obligations related to standby letters of credit and participations in standby letters of credit was \$.2 billion at September 30, 2016 and is included in Other liabilities on our Consolidated Balance Sheet.

#### **Reinsurance Agreements**

We have a wholly-owned captive insurance subsidiary which provides reinsurance for accidental death & dismemberment, credit life, and accident & health, all of which are in run-off. This subsidiary previously entered into these various types of reinsurance agreements with third-party insurers where the subsidiary assumed the risk of loss through quota share agreements up to 100% reinsurance. In quota share agreements, the subsidiary and the third-party insurers share the responsibility for payment of all claims.

#### **Recourse and Repurchase Obligations**

As discussed in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities, PNC has sold commercial mortgage, residential mortgage and home equity loans/lines of credit directly or indirectly through securitization and loan sale transactions in which we have continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets. See Note 21 Commitments and Guarantees in our 2015 Form 10-K for details related to our Recourse and Repurchase Obligations.

#### **Resale and Repurchase Agreements**

We enter into repurchase and resale agreements where we transfer investment securities to/from a third party with the agreement to repurchase/resell those investment securities at a future date for a specified price. These agreements are entered into primarily to provide short-term financing for securities inventory positions, acquire securities to cover short positions and accommodate customers' investing and financing needs. Repurchase and resale agreements are treated as collateralized financing transactions for accounting purposes and are generally carried at the amounts at which the securities will be subsequently reacquired or resold, including accrued interest. Our policy is to take possession of securities purchased under agreements to resell. We monitor the market value of securities to be repurchased and resold and additional collateral may be obtained where considered appropriate to protect against credit exposure.

Repurchase and resale agreements are typically entered into with counterparties under industry standard master netting agreements which provide for the right to offset amounts owed to one another with respect to multiple repurchase and resale agreements under such master netting agreement (referred to as netting arrangements) and liquidate the purchased or borrowed securities in the event of counterparty default. In order for an arrangement to be eligible for netting under GAAP, we must obtain the requisite assurance that the offsetting rights included in the master netting agreement would be legally enforceable in the event of bankruptcy, insolvency, or a similar proceeding of such third party. Enforceability is evidenced by obtaining a legal opinion that supports, with sufficient confidence, the enforceability of the master netting agreement in bankruptcy.

Table 87 shows the amounts owed under resale and repurchase agreements and the securities collateral associated with those agreements where a legal opinion supporting the enforceability of the offsetting rights has been obtained. We do not present resale and repurchase agreements entered into with the same counterparty under a legally enforceable master netting agreement on a net basis on our Consolidated Balance Sheet or within Table 87.

Refer to Note 9 Financial Derivatives for additional information related to offsetting of financial derivatives.

**Table 87: Resale and Repurchase Agreements Offsetting**

| In millions                      | Gross Resale/<br>Repurchase<br>Agreements | Amounts Offset on<br>the<br>Consolidated<br>Balance<br>Sheet | Net Resale/<br>Repurchase<br>Agreements (a) | Securities Collateral<br>Held/Pledged Under<br>Master Netting<br>Agreements (b) | Net Amounts |
|----------------------------------|-------------------------------------------|--------------------------------------------------------------|---------------------------------------------|---------------------------------------------------------------------------------|-------------|
| <b>Resale Agreements</b>         |                                           |                                                              |                                             |                                                                                 |             |
| September 30, 2016               | \$ 637                                    |                                                              | \$ 637                                      | \$ 563                                                                          | \$ 74 (c)   |
| December 31, 2015                | \$ 1,082                                  |                                                              | \$ 1,082                                    | \$ 1,008                                                                        | \$ 74 (c)   |
| <b>Repurchase Agreements (d)</b> |                                           |                                                              |                                             |                                                                                 |             |
| September 30, 2016               | \$ 1,231                                  |                                                              | \$ 1,231                                    | \$ 532                                                                          | \$ 699 (e)  |
| December 31, 2015                | \$ 1,767                                  |                                                              | \$ 1,767                                    | \$ 1,014                                                                        | \$ 753 (e)  |

(a) Resale agreements are included on the Consolidated Balance Sheet in Federal funds sold and resale agreements. Repurchase agreements are included on the Consolidated Balance Sheet in Federal funds purchased and repurchase agreements.

(b) Represents the fair value of securities collateral purchased or sold, up to the amount owed under the agreement, for agreements supported by a legally enforceable master netting agreement.

(c) Represents certain long term resale agreements which are fully collateralized but do not have the benefits of a netting opinion and, therefore, might be subject to a stay in insolvency proceedings and therefore are not eligible under ASC 210-20 for netting.

(d) Repurchase agreements have remaining contractual maturities that are classified as overnight or continuous. As of September 30, 2016 and December 31, 2015, the collateral pledged under these agreements consisted primarily of residential mortgage-backed agency securities.

(e) Represents overnight repurchase agreements entered into with municipalities, pension plans, and certain trusts and insurance companies which are fully collateralized but do not have the benefits of a netting opinion and, therefore, might be subject to a stay in insolvency proceedings and therefore are not eligible under ASC 210-20 for netting. There were no long term repurchase agreements as of September 30, 2016 and December 31, 2015.

## NOTE 14 SEGMENT REPORTING

We have six reportable business segments:

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

Results of individual businesses are presented based on our internal management reporting practices. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our individual businesses are not necessarily comparable with similar information for any other company. We periodically refine our internal methodologies as management reporting practices are enhanced. To the extent significant and practicable, retrospective application of new methodologies is made to prior period reportable business segment results and disclosures to create comparability with the current period.

Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis. Additionally, we have aggregated the results for corporate support functions within Other for financial reporting purposes.

Net interest income in business segment results reflects PNC's internal funds transfer pricing methodology. Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product repricing characteristics, tenor and other factors.

A portion of capital is intended to cover unexpected losses and is assigned to our business segments using our risk-based

economic capital model, including consideration of the goodwill at those business segments, as well as the diversification of risk among the business segments, ultimately reflecting PNC's portfolio risk adjusted capital allocation.

We have allocated the allowances for loan and lease losses and for unfunded loan commitments and letters of credit based on the loan exposures within each business segment's portfolio. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions are periodically updated.



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Our allocation of the costs incurred by operations and other shared support areas not directly aligned with the businesses is primarily based on the use of services.

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, 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. Assets, revenue and earnings attributable to foreign activities were not material in the periods presented for comparative purposes.

### **Business Segment Products and Services**

**Retail Banking** provides deposit, lending, brokerage, investment management and cash management services to consumer and small business customers within our primary geographic markets. Our customers are serviced through our branch network, ATMs, call centers, online banking and mobile channels. The branch network is located primarily in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, Florida, North Carolina, Kentucky, Washington, D.C., Delaware, Virginia, Alabama, Georgia, Missouri, Wisconsin and South Carolina.

**Corporate & Institutional Banking** provides lending, treasury management, and capital markets-related products and services to mid-sized and large corporations, government and not-for-profit entities. Lending products include secured and unsecured loans, letters of credit and equipment leases. Treasury management services include cash and investment management, receivables management, disbursement services, funds transfer services, information reporting and global trade services. Capital markets-related products and services include foreign exchange, derivatives, securities, loan syndications, mergers and acquisitions advisory and equity capital markets advisory related services. We also provide commercial loan servicing and technology solutions for the commercial real estate finance industry. Products and services are generally provided within our primary geographic markets, with certain products and services offered nationally and internationally.

**Asset Management Group** includes personal wealth management for high net worth and ultra high net worth clients and institutional asset management. Wealth management products and services include investment and retirement planning, customized investment management, private banking, tailored credit solutions, and trust management and administration for individuals and their families. Our Hawthorn unit provides multi-generational family planning including wealth strategy, investment management, private banking, tax and estate planning guidance, performance reporting and personal administration services to ultra high net worth families. Institutional asset management provides advisory, custody administration and retirement administration services. The business also offers

PNC proprietary mutual funds and investment strategies. Institutional clients include corporations, unions, municipalities, non-profits, foundations and endowments, primarily located in our geographic footprint.

**Residential Mortgage Banking** directly originates first lien residential mortgage loans on a nationwide basis with a significant presence within the retail banking footprint. Mortgage loans represent loans collateralized by one-to-four family residential real estate. These loans are typically underwritten to government agency and/or third-party standards, and either sold with servicing retained or held on PNC's balance sheet. Loan sales are primarily to secondary mortgage conduits of FNMA, FHLMC, Federal Home Loan Banks and third-party investors, or are securitized and issued under the GNMA program. The mortgage servicing operation performs all functions related to servicing mortgage loans, primarily those in first lien position, for various investors and for loans owned by PNC.

**BlackRock** is a leading publicly traded investment management firm providing a broad range of investment and risk management services to institutional and retail clients worldwide. Using a diverse platform of active and index investment strategies across asset classes, BlackRock develops investment outcomes and asset allocation solutions for clients. Product offerings include single- and multi-asset class portfolios investing in equities, fixed income, alternatives and money market instruments. BlackRock also offers an investment and risk management technology platform, risk analytics and advisory services and solutions to a broad base of institutional investors.

We hold an equity investment in BlackRock, which provides us with an additional source of noninterest income and increases our overall revenue diversification. BlackRock is a publicly traded company, and additional information regarding its business is available in its filings with the Securities and Exchange Commission (SEC). At September 30, 2016, our economic interest in BlackRock was 22%. PNC received cash dividends from BlackRock of \$248 million and \$240 million during the first nine months of 2016 and 2015, respectively.

**Non-Strategic Assets Portfolio** includes a consumer portfolio of mainly residential mortgage and brokered home equity loans and lines of credit and a small commercial lending portfolio. We obtained a significant portion of these non-strategic assets through acquisitions of other companies.

Table 88: Results Of Businesses

Three months ended September 30

| In millions                                                    | Retail<br>Banking | Corporate &<br>Institutional<br>Banking | Asset<br>Management<br>Group | Residential<br>Mortgage<br>Banking | BlackRock | Non-Strategic<br>Assets<br>Portfolio | Other Consolidated (a) |            |
|----------------------------------------------------------------|-------------------|-----------------------------------------|------------------------------|------------------------------------|-----------|--------------------------------------|------------------------|------------|
| 2016                                                           |                   |                                         |                              |                                    |           |                                      |                        |            |
| <b>Income Statement</b>                                        |                   |                                         |                              |                                    |           |                                      |                        |            |
| Net interest income                                            | \$ 1,120          | \$ 840                                  | \$ 74                        | \$ 28                              |           | \$ 72                                | \$ (39)                | \$ 2,095   |
| Noninterest income                                             | 527               | 517                                     | 220                          | 163                                | \$ 189    | 8                                    | 110                    | 1,734      |
| Total revenue                                                  | 1,647             | 1,357                                   | 294                          | 191                                | 189       | 80                                   | 71                     | 3,829      |
| Provision for credit losses (benefit)                          | 104               | 12                                      | (3)                          |                                    |           | (22)                                 | (4)                    | 87         |
| Depreciation and amortization                                  | 40                | 35                                      | 11                           | 3                                  |           |                                      | 120                    | 209        |
| Other noninterest expense                                      | 1,151             | 520                                     | 195                          | 167                                |           | 16                                   | 136                    | 2,185      |
| Income (loss) before income taxes and noncontrolling interests | 352               | 790                                     | 91                           | 21                                 | 189       | 86                                   | (181)                  | 1,348      |
| Income taxes (benefit)                                         | 129               | 253                                     | 33                           | 8                                  | 41        | 32                                   | (154)                  | 342        |
| Net income (loss)                                              | \$ 223            | \$ 537                                  | \$ 58                        | \$ 13                              | \$ 148    | \$ 54                                | \$ (27)                | \$ 1,006   |
| Average Assets (b)                                             | \$ 71,219         | \$ 139,806                              | \$ 7,588                     | \$ 6,160                           | \$ 7,026  | \$ 5,302                             | \$ 126,769             | \$ 363,870 |
| 2015                                                           |                   |                                         |                              |                                    |           |                                      |                        |            |
| <b>Income Statement</b>                                        |                   |                                         |                              |                                    |           |                                      |                        |            |
| Net interest income                                            | \$ 1,068          | \$ 855                                  | \$ 71                        | \$ 31                              |           | \$ 90                                | \$ (53)                | \$ 2,062   |
| Noninterest income                                             | 574               | 476                                     | 207                          | 135                                | \$ 181    | 16                                   | 124                    | 1,713      |
| Total revenue                                                  | 1,642             | 1,331                                   | 278                          | 166                                | 181       | 106                                  | 71                     | 3,775      |
| Provision for credit losses (benefit)                          | 57                | 46                                      | (2)                          | 2                                  |           | (25)                                 | 3                      | 81         |
| Depreciation and amortization                                  | 42                | 36                                      | 10                           | 4                                  |           |                                      | 109                    | 201        |
| Other noninterest expense                                      | 1,148             | 497                                     | 201                          | 167                                |           | 23                                   | 115                    | 2,151      |
| Income (loss) before income taxes and noncontrolling interests | 395               | 752                                     | 69                           | (7)                                | 181       | 108                                  | (156)                  | 1,342      |
| Income taxes (benefit)                                         | 144               | 250                                     | 25                           | (3)                                | 42        | 40                                   | (229)                  | 269        |
| Net income (loss)                                              | \$ 251            | \$ 502                                  | \$ 44                        | \$ (4)                             | \$ 139    | \$ 68                                | \$ 73                  | \$ 1,073   |
| Average Assets (b)                                             | \$ 72,916         | \$ 131,613                              | \$ 7,902                     | \$ 6,513                           | \$ 6,813  | \$ 6,460                             | \$ 126,370             | \$ 358,587 |

Nine months ended September 30

| In millions                                                    | Retail<br>Banking | Corporate &<br>Institutional<br>Banking | Asset<br>Management<br>Group | Residential<br>Mortgage<br>Banking | BlackRock | Non-Strategic<br>Assets<br>Portfolio | Other Consolidated (a) |            |
|----------------------------------------------------------------|-------------------|-----------------------------------------|------------------------------|------------------------------------|-----------|--------------------------------------|------------------------|------------|
| 2016                                                           |                   |                                         |                              |                                    |           |                                      |                        |            |
| <b>Income Statement</b>                                        |                   |                                         |                              |                                    |           |                                      |                        |            |
| Net interest income                                            | \$ 3,350          | \$ 2,500                                | \$ 227                       | \$ 81                              |           | \$ 220                               | \$ (117)               | \$ 6,261   |
| Noninterest income                                             | 1,628             | 1,484                                   | 636                          | 450                                | \$ 500    | 35                                   | 294                    | 5,027      |
| Total revenue                                                  | 4,978             | 3,984                                   | 863                          | 531                                | 500       | 255                                  | 177                    | 11,288     |
| Provision for credit losses (benefit)                          | 210               | 188                                     |                              |                                    |           | (16)                                 | (16)                   | 366        |
| Depreciation and amortization                                  | 121               | 107                                     | 34                           | 8                                  |           |                                      | 356                    | 626        |
| Other noninterest expense                                      | 3,388             | 1,518                                   | 584                          | 450                                |           | 57                                   | 412                    | 6,409      |
| Income (loss) before income taxes and noncontrolling interests | 1,259             | 2,171                                   | 245                          | 73                                 | 500       | 214                                  | (575)                  | 3,887      |
| Income taxes (benefit)                                         | 461               | 713                                     | 90                           | 27                                 | 110       | 79                                   | (531)                  | 949        |
| Net income (loss)                                              | \$ 798            | \$ 1,458                                | \$ 155                       | \$ 46                              | \$ 390    | \$ 135                               | \$ (44)                | \$ 2,938   |
| Average Assets (b)                                             | \$ 71,658         | \$ 137,884                              | \$ 7,743                     | \$ 6,078                           | \$ 7,026  | \$ 5,580                             | \$ 123,638             | \$ 359,607 |
| 2015                                                           |                   |                                         |                              |                                    |           |                                      |                        |            |
| <b>Income Statement</b>                                        |                   |                                         |                              |                                    |           |                                      |                        |            |
| Net interest income                                            | \$ 3,150          | \$ 2,515                                | \$ 215                       | \$ 91                              |           | \$ 302                               | \$ (87)                | \$ 6,186   |
| Noninterest income                                             | 1,652             | 1,397                                   | 658                          | 488                                | \$ 532    | 34                                   | 425                    | 5,186      |
| Total revenue                                                  | 4,802             | 3,912                                   | 873                          | 579                                | 532       | 336                                  | 338                    | 11,372     |
| Provision for credit losses (benefit)                          | 151               | 83                                      | 11                           | 2                                  |           | (61)                                 | (5)                    | 181        |
| Depreciation and amortization                                  | 127               | 109                                     | 33                           | 11                                 |           |                                      | 315                    | 595        |
| Other noninterest expense                                      | 3,431             | 1,485                                   | 603                          | 499                                |           | 73                                   | 381                    | 6,472      |
| Income (loss) before income taxes and noncontrolling interests | 1,093             | 2,235                                   | 226                          | 67                                 | 532       | 324                                  | (353)                  | 4,124      |
| Income taxes (benefit)                                         | 399               | 743                                     | 83                           | 24                                 | 125       | 119                                  | (490)                  | 1,003      |
| Net income                                                     | \$ 694            | \$ 1,492                                | \$ 143                       | \$ 43                              | \$ 407    | \$ 205                               | \$ 137                 | \$ 3,121   |
| Average Assets (b)                                             | \$ 73,430         | \$ 131,678                              | \$ 7,922                     | \$ 6,962                           | \$ 6,813  | \$ 6,880                             | \$ 119,448             | \$ 353,133 |

(a) There were no material intersegment revenues for the three and nine months ended September 30, 2016 and 2015.

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(b) Period-end balances for BlackRock.

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**NOTE 15 SUBSEQUENT EVENTS**

On November 1, 2016, we issued 525,000 depositary shares, each representing a 1/100<sup>th</sup> interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series S, in an underwritten public offering resulting in gross proceeds of \$525 million to us before commissions and expenses. We issued 5,250 shares of Series S Preferred Stock to the depositary in this transaction. We intend to use the net proceeds from the sale of the depositary shares for general corporate purposes, which may include advances to our subsidiaries to finance their activities, repayment of outstanding indebtedness, and repurchases and redemptions of issued and outstanding securities of PNC and its subsidiaries.

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**STATISTICAL INFORMATION (UNAUDITED)**

THE PNC FINANCIAL SERVICES GROUP, INC.

**AVERAGE CONSOLIDATED BALANCE SHEET AND NET INTEREST ANALYSIS (a) (b) (c)**

| Taxable-equivalent basis                          | Nine months ended September 30 |                         |                      |                  |                         |                      |
|---------------------------------------------------|--------------------------------|-------------------------|----------------------|------------------|-------------------------|----------------------|
|                                                   | 2016                           |                         |                      |                  | 2015                    |                      |
| Dollars in millions                               | Average Balances               | Interest Income/Expense | Average Yields/Rates | Average Balances | Interest Income/Expense | Average Yields/Rates |
| <b>Assets</b>                                     |                                |                         |                      |                  |                         |                      |
| Interest-earning assets:                          |                                |                         |                      |                  |                         |                      |
| Investment securities                             |                                |                         |                      |                  |                         |                      |
| Securities available for sale                     |                                |                         |                      |                  |                         |                      |
| Residential mortgage-backed                       |                                |                         |                      |                  |                         |                      |
| Agency                                            | \$ 25,129                      | \$ 466                  | 2.47%                | \$ 20,560        | \$ 388                  | 2.52%                |
| Non-agency                                        | 3,717                          | 133                     | 4.75%                | 4,471            | 157                     | 4.68%                |
| Commercial mortgage-backed                        | 6,399                          | 131                     | 2.73%                | 6,258            | 147                     | 3.14%                |
| Asset-backed                                      | 5,661                          | 96                      | 2.27%                | 5,219            | 83                      | 2.12%                |
| U.S. Treasury and government agencies             | 9,846                          | 109                     | 1.46%                | 5,640            | 54                      | 1.26%                |
| Other                                             | 5,006                          | 113                     | 3.00%                | 4,253            | 111                     | 3.46%                |
| Total securities available for sale               | 55,758                         | 1,048                   | 2.50%                | 46,401           | 940                     | 2.70%                |
| Securities held to maturity                       |                                |                         |                      |                  |                         |                      |
| Residential mortgage-backed                       | 10,215                         | 218                     | 2.85%                | 7,865            | 181                     | 3.07%                |
| Commercial mortgage-backed                        | 1,747                          | 47                      | 3.55%                | 2,009            | 58                      | 3.82%                |
| Asset-backed                                      | 708                            | 10                      | 1.91%                | 744              | 9                       | 1.54%                |
| U.S. Treasury and government agencies             | 262                            | 7                       | 3.80%                | 252              | 7                       | 3.80%                |
| Other                                             | 2,016                          | 87                      | 5.77%                | 2,307            | 89                      | 5.19%                |
| Total securities held to maturity                 | 14,948                         | 369                     | 3.29%                | 13,177           | 344                     | 3.49%                |
| Total investment securities                       | 70,706                         | 1,417                   | 2.67%                | 59,578           | 1,284                   | 2.87%                |
| Loans                                             |                                |                         |                      |                  |                         |                      |
| Commercial                                        | 99,795                         | 2,331                   | 3.07%                | 98,053           | 2,230                   | 3.00%                |
| Commercial real estate                            | 28,555                         | 717                     | 3.30%                | 24,659           | 659                     | 3.52%                |
| Equipment lease financing                         | 7,485                          | 204                     | 3.64%                | 7,593            | 196                     | 3.45%                |
| Consumer                                          | 57,612                         | 1,852                   | 4.29%                | 60,426           | 1,887                   | 4.17%                |
| Residential real estate                           | 14,677                         | 520                     | 4.72%                | 14,391           | 523                     | 4.85%                |
| Total loans                                       | 208,124                        | 5,624                   | 3.58%                | 205,122          | 5,495                   | 3.55%                |
| Interest-earning deposits with banks              | 26,691                         | 100                     | .50%                 | 33,380           | 63                      | .25%                 |
| Loans held for sale                               | 1,737                          | 55                      | 4.20%                | 2,128            | 68                      | 4.25%                |
| Federal funds sold and resale agreements          | 1,127                          | 4                       | .53%                 | 1,737            | 4                       | .25%                 |
| Other                                             | 4,933                          | 144                     | 3.89%                | 5,183            | 199                     | 5.13%                |
| Total interest-earning assets/interest income     | 313,318                        | 7,344                   | 3.11%                | 307,128          | 7,113                   | 3.08%                |
| Noninterest-earning assets:                       |                                |                         |                      |                  |                         |                      |
| Allowance for loan and lease losses               | (2,699)                        |                         |                      | (3,297)          |                         |                      |
| Cash and due from banks                           | 3,996                          |                         |                      | 3,969            |                         |                      |
| Other                                             | 44,992                         |                         |                      | 45,333           |                         |                      |
| Total assets                                      | \$ 359,607                     |                         |                      | \$ 353,133       |                         |                      |
| <b>Liabilities and Equity</b>                     |                                |                         |                      |                  |                         |                      |
| Interest-bearing liabilities:                     |                                |                         |                      |                  |                         |                      |
| Interest-bearing deposits                         |                                |                         |                      |                  |                         |                      |
| Money market                                      | \$ 72,960                      | 111                     | .20%                 | \$ 82,151        | 163                     | .27%                 |
| Demand                                            | 51,854                         | 29                      | .07%                 | 46,269           | 19                      | .05%                 |
| Savings                                           | 27,770                         | 82                      | .40%                 | 13,663           | 17                      | .17%                 |
| Retail certificates of deposit                    | 17,236                         | 91                      | .70%                 | 18,422           | 95                      | .69%                 |
| Time deposits in foreign offices and other time   | 1,815                          | 3                       | .25%                 | 2,285            | 3                       | .18%                 |
| Total interest-bearing deposits                   | 171,635                        | 316                     | .25%                 | 162,790          | 297                     | .24%                 |
| Borrowed funds                                    |                                |                         |                      |                  |                         |                      |
| Federal funds purchased and repurchase agreements | 1,924                          | 4                       | .29%                 | 2,708            | 3                       | .13%                 |
| Federal Home Loan Bank borrowings                 | 18,694                         | 110                     | .78%                 | 21,556           | 76                      | .47%                 |
| Bank notes and senior debt                        | 21,990                         | 266                     | 1.59%                | 17,087           | 165                     | 1.27%                |
| Subordinated debt                                 | 8,337                          | 201                     | 3.20%                | 8,862            | 179                     | 2.69%                |
| Commercial paper                                  | 1                              |                         | .43%                 | 3,486            | 9                       | .35%                 |

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|                                                               |            |          |       |            |          |       |
|---------------------------------------------------------------|------------|----------|-------|------------|----------|-------|
| Other                                                         | 2,465      | 41       | 2.17% | 3,319      | 50       | 1.99% |
| Total borrowed funds                                          | 53,411     | 622      | 1.54% | 57,018     | 482      | 1.12% |
| Total interest-bearing liabilities/interest expense           | 225,046    | 938      | .55%  | 219,808    | 779      | .47%  |
| Noninterest-bearing liabilities and equity:                   |            |          |       |            |          |       |
| Noninterest-bearing deposits                                  | 77,133     |          |       | 75,359     |          |       |
| Allowance for unfunded loan commitments and letters of credit | 282        |          |       | 246        |          |       |
| Accrued expenses and other liabilities                        | 10,887     |          |       | 11,845     |          |       |
| Equity                                                        | 46,259     |          |       | 45,875     |          |       |
| Total liabilities and equity                                  | \$ 359,607 |          |       | \$ 353,133 |          |       |
| Interest rate spread                                          |            |          | 2.56% |            |          | 2.61% |
| Impact of noninterest-bearing sources                         |            |          | .15   |            |          | .13   |
| Net interest income/margin                                    |            | \$ 6,406 | 2.71% |            | \$ 6,334 | 2.74% |

- (a) Nonaccrual loans are included in loans, net of unearned income. The impact of financial derivatives used in interest rate risk management is included in the interest income/expense and average yields/rates of the related assets and liabilities. Basis adjustments related to hedged items are included in noninterest-earning assets and noninterest-bearing liabilities. Average balances of securities are based on amortized historical cost (excluding adjustments to fair value, which are included in other assets). Average balances for certain loans and borrowed funds accounted for at fair value, with changes in fair value recorded in trading noninterest income, are included in noninterest-earning assets and noninterest-bearing liabilities.

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| Third Quarter 2016 |          |         | Second Quarter 2016 |          |         | Third Quarter 2015 |          |         |
|--------------------|----------|---------|---------------------|----------|---------|--------------------|----------|---------|
|                    | Interest | Average |                     | Interest | Average |                    | Interest | Average |
| Average            | Income/  | Yields/ | Average             | Income/  | Yields/ | Average            | Income/  | Yields/ |
| Balances           | Expense  | Rates   | Balances            | Expense  | Rates   | Balances           | Expense  | Rates   |
|                    |          |         |                     |          |         |                    |          |         |
| \$25,825           | \$ 154   | 2.39%   | \$ 24,856           | \$ 153   | 2.46%   | \$ 21,813          | \$ 134   | 2.47%   |
| 3,490              | 45       | 5.06%   | 3,728               | 44       | 4.79%   | 4,279              | 52       | 4.83%   |
| 6,276              | 39       | 2.47%   | 6,335               | 46       | 2.94%   | 6,228              | 49       | 3.20%   |
| 5,823              | 33       | 2.31%   | 5,672               | 33       | 2.32%   | 5,287              | 28       | 2.15%   |
| 9,929              | 33       | 1.33%   | 9,673               | 37       | 1.50%   | 6,558              | 23       | 1.36%   |
| 5,166              | 39       | 2.99%   | 5,004               | 38       | 3.02%   | 4,374              | 37       | 3.26%   |
| 56,509             | 343      | 2.42%   | 55,268              | 351      | 2.54%   | 48,539             | 323      | 2.66%   |
|                    |          |         |                     |          |         |                    |          |         |
| 10,521             | 71       | 2.71%   | 10,215              | 72       | 2.81%   | 8,352              | 63       | 3.05%   |
| 1,666              | 15       | 3.51%   | 1,755               | 16       | 3.61%   | 1,927              | 18       | 3.65%   |
| 702                | 3        | 1.99%   | 708                 | 4        | 1.91%   | 733                | 4        | 1.57%   |
| 264                | 2        | 3.81%   | 262                 | 3        | 3.79%   | 254                | 2        | 3.82%   |
| 1,983              | 33       | 6.58%   | 1,986               | 26       | 5.40%   | 2,268              | 29       | 5.23%   |
| 15,136             | 124      | 3.29%   | 14,926              | 121      | 3.22%   | 13,534             | 116      | 3.43%   |
| 71,645             | 467      | 2.60%   | 70,194              | 472      | 2.68%   | 62,073             | 439      | 2.83%   |
|                    |          |         |                     |          |         |                    |          |         |
| 100,320            | 781      | 3.05%   | 99,991              | 779      | 3.08%   | 97,926             | 756      | 3.02%   |
| 29,034             | 240      | 3.23%   | 28,659              | 229      | 3.16%   | 25,228             | 216      | 3.35%   |
| 7,463              | 76       | 4.06%   | 7,570               | 65       | 3.44%   | 7,683              | 66       | 3.42%   |
| 57,163             | 621      | 4.32%   | 57,467              | 610      | 4.28%   | 59,584             | 628      | 4.18%   |
| 14,870             | 171      | 4.60%   | 14,643              | 177      | 4.84%   | 14,406             | 171      | 4.76%   |
| 208,850            | 1,889    | 3.57%   | 208,330             | 1,860    | 3.56%   | 204,827            | 1,837    | 3.54%   |
| 28,063             | 35       | .50%    | 26,463              | 33       | .51%    | 37,289             | 24       | .25%    |
| 2,044              | 21       | 4.07%   | 1,655               | 18       | 4.24%   | 2,048              | 22       | 4.23%   |
| 1,056              | 1        | .59%    | 1,026               | 1        | .55%    | 1,598              | 2        | .33%    |
| 5,074              | 44       | 3.44%   | 4,768               | 48       | 4.02%   | 5,033              | 67       | 5.33%   |
| 316,732            | 2,457    | 3.07%   | 312,436             | 2,432    | 3.10%   | 312,868            | 2,391    | 3.02%   |
|                    |          |         |                     |          |         |                    |          |         |
| (2,675)            |          |         | (2,712)             |          |         | (3,265)            |          |         |
| 4,128              |          |         | 3,938               |          |         | 3,890              |          |         |
| 45,685             |          |         | 45,328              |          |         | 45,094             |          |         |
| \$363,870          |          |         | \$ 358,990          |          |         | \$ 358,587         |          |         |
|                    |          |         |                     |          |         |                    |          |         |
| \$70,076           | 34       | .19%    | \$ 72,442           | 35       | .20%    | \$ 84,554          | 61       | .29%    |
| 53,428             | 10       | .08%    | 52,218              | 10       | .08%    | 46,390             | 7        | .06%    |
| 31,791             | 32       | .40%    | 28,131              | 27       | .39%    | 14,150             | 6        | .18%    |
| 17,153             | 31       | .70%    | 17,277              | 30       | .70%    | 18,392             | 32       | .68%    |
| 1,757              |          | .24%    | 1,779               | 2        | .24%    | 2,361              | 1        | .17%    |
| 174,205            | 107      | .25%    | 171,847             | 104      | .24%    | 165,847            | 107      | .26%    |
|                    |          |         |                     |          |         |                    |          |         |
| 1,844              | 1        | .32%    | 1,881               | 2        | .29%    | 2,298              | 1        | .14%    |
| 17,524             | 38       | .86%    | 18,716              | 38       | .80%    | 21,882             | 27       | .49%    |
| 22,896             | 87       | 1.50%   | 22,375              | 92       | 1.62%   | 19,455             | 63       | 1.27%   |
| 8,356              | 65       | 3.06%   | 8,336               | 68       | 3.26%   | 8,882              | 63       | 2.81%   |
|                    |          |         | 1                   |          | .55%    | 1,867              | 2        | .38%    |
| 2,361              | 15       | 2.27%   | 2,324               | 12       | 2.29%   | 3,147              | 16       | 2.03%   |
| 52,981             | 206      | 1.53%   | 53,633              | 212      | 1.57%   | 57,531             | 172      | 1.18%   |
| 227,186            | 313      | .54%    | 225,480             | 316      | .56%    | 223,378            | 279      | .49%    |
|                    |          |         |                     |          |         |                    |          |         |
| 78,303             |          |         | 75,775              |          |         | 77,553             |          |         |



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|           |            |            |  |
|-----------|------------|------------|--|
| 304       | 282        | 246        |  |
| 11,551    | 11,108     | 11,667     |  |
| 46,526    | 46,345     | 45,743     |  |
| \$363,870 | \$ 358,990 | \$ 358,587 |  |
| 2.53%     | 2.54%      | 2.53%      |  |
| .15       | .16        | .14        |  |
| \$ 2,144  | \$ 2,116   | \$ 2,112   |  |
| 2.68%     | 2.70%      | 2.67%      |  |

- (b) Loan fees for the nine months ended September 30, 2016 and September 30, 2015 were \$106 million and \$76 million, respectively. Loan fees for the three months ended September 30, 2016, June 30, 2016 and September 30, 2015 were \$46 million, \$34 million and \$26 million, respectively.
- (c) Interest income includes the effects of taxable-equivalent adjustments. See the following table: Non-GAAP to GAAP Reconciliation of Net Interest Income.

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**NON-GAAP TO GAAP RECONCILIATION OF NET INTEREST INCOME (a)**

| Dollars in millions            | Nine months ended     |                       |                       | Three months ended |                       |
|--------------------------------|-----------------------|-----------------------|-----------------------|--------------------|-----------------------|
|                                | September 30,<br>2016 | September 30,<br>2015 | September 30,<br>2016 | June 30,<br>2016   | September 30,<br>2015 |
| Net interest income (GAAP)     | \$ 6,261              | \$ 6,186              | \$ 2,095              | \$ 2,068           | \$ 2,062              |
| Taxable-equivalent adjustments | 145                   | 148                   | 49                    | 48                 | 50                    |
| Net interest income (Non-GAAP) | \$ 6,406              | \$ 6,334              | \$ 2,144              | \$ 2,116           | \$ 2,112              |

(a) To provide more meaningful comparisons of net interest yields for all earning assets, interest income includes the effects of taxable-equivalent adjustments using a statutory federal income tax rate of 35% to increase tax-exempt interest income to a taxable-equivalent basis. This adjustment is not permitted under GAAP. The above table reconciles the total adjusted net interest income to the GAAP reportable net interest income amount disclosed in our Consolidated Income Statement.

**TRANSITIONAL BASEL III AND PRO FORMA FULLY PHASED-IN BASEL III COMMON EQUITY TIER 1 CAPITAL RATIOS (NON-GAAP) 2015 PERIODS**

| Dollars in millions                                                        | 2015 Transitional Basel III                     |                      | Pro forma Fully Phased-In Basel III (Non-GAAP) (estimated) (a) (b) |                      |
|----------------------------------------------------------------------------|-------------------------------------------------|----------------------|--------------------------------------------------------------------|----------------------|
|                                                                            | December 31<br>2015                             | September 30<br>2015 | December 31<br>2015                                                | September 30<br>2015 |
| Common stock, related surplus and retained earnings, net of treasury stock | \$ 41,128                                       | \$ 40,883            | \$ 41,128                                                          | \$ 40,883            |
| Less regulatory capital adjustments:                                       |                                                 |                      |                                                                    |                      |
| Goodwill and disallowed intangibles, net of deferred tax liabilities       | (8,972)                                         | (8,986)              | (9,172)                                                            | (9,197)              |
| Basel III total threshold deductions                                       | (470)                                           | (448)                | (1,294)                                                            | (1,135)              |
| Accumulated other comprehensive income (c)                                 | (81)                                            | 64                   | (201)                                                              | 159                  |
| All other adjustments                                                      | (112)                                           | (111)                | (182)                                                              | (148)                |
| Basel III Common equity Tier 1 capital                                     | \$ 31,493                                       | \$ 31,402            | \$ 30,279                                                          | \$ 30,562            |
| Basel III standardized approach risk-weighted assets (d)                   | \$ 295,905                                      | \$ 295,384           | \$ 303,707                                                         | \$ 303,343           |
| Basel III advanced approaches risk-weighted assets (e)                     | N/A                                             | N/A                  | \$ 264,931                                                         | \$ 284,215           |
| Basel III Common equity Tier 1 capital ratio                               | 10.6%                                           | 10.6%                | 10.0%                                                              | 10.1%                |
| Risk weight and associated rules utilized                                  | Standardized (with 2015 transition adjustments) |                      | Standardized                                                       |                      |

- (a) 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.
- (b) Basel III capital ratios and estimates may be impacted by additional regulatory guidance 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 that are integral to the calculation of advanced approaches risk-weighted assets as PNC moves through the parallel run process.
- (c) Represents net adjustments related to accumulated other comprehensive income for securities currently and previously held as available for sale, as well as pension and other postretirement plans.
- (d) Basel III standardized approach risk-weighted assets are based on the Basel III standardized approach rules and include credit and market risk-weighted assets.
- (e) Basel III advanced approaches risk-weighted assets are 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. Refinements implemented in the fourth quarter of 2015 reduced estimated Basel III advanced approaches risk-weighted assets. We anticipate additional refinements may result in increases or decreases to this estimate through the parallel run qualification phase.

## PART II OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See the information set forth in Note 12 Legal Proceedings in the Notes To Consolidated Financial Statements under Part I, Item 1 of this Report, which is incorporated by reference in response to this item.

### ITEM 1A. RISK FACTORS

There are no material changes in our risk factors from those previously disclosed in PNC's 2015 Form 10-K in response to Part I, Item 1A.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Details of our repurchases of PNC common stock during the third quarter of 2016 are included in the following table:

|                                     |    | Average                    | Total shares<br>purchased<br>as part of<br>publicly<br>announced<br>programs | Maximum<br>number<br>of shares<br>that may<br>yet be<br>purchased<br>under the<br>programs |
|-------------------------------------|----|----------------------------|------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
|                                     |    | price<br>paid per<br>share | (b)                                                                          | (b)                                                                                        |
| 2016 period                         |    |                            |                                                                              |                                                                                            |
| In thousands, except per share data |    | (a)                        |                                                                              |                                                                                            |
| July 1                              | 31 | 2,578                      | \$ 81.76                                                                     | 2,561                                                                                      |
| August 1                            | 31 | 1,469                      | \$ 85.63                                                                     | 1,469                                                                                      |
| September 1                         | 30 | 1,824                      | \$ 89.84                                                                     | 1,824                                                                                      |
| Total                               |    | 5,871                      | \$ 85.24                                                                     | 64,207                                                                                     |

- (a) Includes PNC common stock purchased in connection with our various employee benefit plans generally related to forfeitures of unvested restricted stock awards and shares used to cover employee payroll tax withholding requirements. Note 12 Employee Benefit Plans and Note 13 Stock Based Compensation Plans in the Notes To Consolidated Financial Statements in Item 8 of our 2015 Annual Report on Form 10-K include additional information regarding our employee benefit and equity compensation plans that use PNC common stock.
- (b) On March 11, 2015, we announced that our Board of Directors had approved the establishment of a new stock repurchase program authorization in the amount of 100 million shares of PNC common stock, effective April 1, 2015. Repurchases are made in open market or privately negotiated transactions and the timing and exact amount of common stock repurchases will depend on a number of factors including, among others, market and general economic conditions, economic capital and regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, and contractual and regulatory limitations, including the results of the supervisory assessment of capital adequacy and capital planning processes undertaken by the Federal Reserve as part of the CCAR process.

Our 2016 capital plan, submitted as part of the CCAR process and accepted by the Federal Reserve, included share repurchase programs of up to \$2.0 billion for the four quarter period beginning with the third quarter of 2016, including repurchases of up to \$200 million related to employee benefit plans. In the third quarter of 2016, in accordance with PNC's 2016 capital plan and under the share repurchase authorization in effect during that period, we repurchased 5.9 million shares of common stock on the open market, with an average price of \$85.25 per share and an aggregate repurchase price of \$.5 billion. See the Capital portion of the Consolidated Balance Sheet Review in Part I, Item 2 of this Report for more information on the share repurchase programs under the new share repurchase authorization for the period July 1, 2016 through June 30, 2017 included in the 2016 capital plan accepted by the Federal Reserve.

## ITEM 6. EXHIBITS

The following exhibit index lists Exhibits filed, or in the case of Exhibits 32.1 and 32.2 furnished, with this Quarterly Report on Form 10-Q:

### EXHIBIT INDEX

|                |                                                                                                                                                                                                                     |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1.7 and 4.29 | Statement with Respect to Shares of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series S (Incorporated by reference to Exhibit 3.1 of PNC's Current Report on Form 8-K filed November 1, 2016) |
| 3.2            | By-Laws of The PNC Financial Services Group, Inc., as amended and restated, effective as of August 11, 2016 (Incorporated by reference to Exhibit 3.2 of PNC's Current Report on Form 8-K filed August 16, 2016)    |
| 10.51          | Form of Change of Control Employment Agreements (Incorporated by reference to Exhibit 10.51 of PNC's Current Report on Form 8-K filed August 16, 2016)                                                              |
| 10.52          | 2016 Form of Performance Restricted Share Units Award Agreement                                                                                                                                                     |
| 10.53          | 2016 Form of Incentive Performance Units Award Agreement                                                                                                                                                            |
| 10.54          | 2016 Form of Senior Leader Performance Restricted Share Units Award Agreement                                                                                                                                       |
| 10.55          | 2016 Form of ALM Incentive Performance Units Award Agreement                                                                                                                                                        |
| 12.1           | Computation of Ratio of Earnings to Fixed Charges                                                                                                                                                                   |
| 12.2           | Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends                                                                                                                                     |
| 31.1           | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                  |
| 31.2           | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                                                                                                                  |
| 32.1           | Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350                                                                                                                                         |
| 32.2           | Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350                                                                                                                                         |
| 101            | Interactive Data File (XBRL)                                                                                                                                                                                        |

You can obtain copies of these Exhibits electronically at the SEC's website at [www.sec.gov](http://www.sec.gov) or by mail from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, DC 20549 at prescribed rates. The Exhibits are also available as part of this Form 10-Q on PNC's corporate website at [www.pnc.com/secfilings](http://www.pnc.com/secfilings). Shareholders and bondholders may also obtain copies of Exhibits, without charge, by contacting Shareholder Relations at 800-843-2206 or via e-mail at [investor.relations@pnc.com](mailto:investor.relations@pnc.com). The interactive data file (XBRL) exhibit is only available electronically.

## **CORPORATE INFORMATION**

The PNC Financial Services Group, Inc.

### **Corporate Headquarters**

The PNC Financial Services Group, Inc.

The Tower at PNC Plaza, 300 Fifth Avenue

Pittsburgh, Pennsylvania 15222-2401

412-762-2000

### **Stock Listing**

The common stock of The PNC Financial Services Group, Inc. is listed on the New York Stock Exchange under the symbol **PNC**.

### **Internet Information**

The PNC Financial Services Group, Inc.'s financial reports and information about its products and services are available on the internet at [www.pnc.com](http://www.pnc.com). We provide information for investors on our corporate website under **About Us** **Investor Relations**. We use our Twitter account, @pncnews, as an additional way of disseminating to the public information that may be relevant to investors.

We generally post the following under **About Us** **Investor Relations** shortly before or promptly following its first use or release: financially-related press releases, including earnings releases and supplemental financial information, various SEC filings, including annual, quarterly and current reports and proxy statements, presentation materials associated with earnings and other investor conference calls or events, and access to live and recorded audio from earnings and other investor conference calls or events. In some cases, we may post the presentation materials for other investor conference calls or events several days prior to the call or event. When warranted, we will also use our website to expedite public access to time-critical information regarding PNC in advance of distribution of a press release or a filing with the SEC disclosing the same information. For earnings and other conference calls or events, we generally include in our posted materials a cautionary statement regarding forward-looking and adjusted information and we provide GAAP reconciliations when we refer to adjusted information and results. Where applicable, we provide GAAP reconciliations for such additional information in materials for that event or in materials for other prior investor presentations or in our annual, quarterly or current reports.

PNC is required periodically to provide additional public disclosure regarding estimated income, losses and pro forma regulatory capital ratios under supervisory and PNC-developed hypothetical severely adverse economic scenarios, as well as information concerning our capital stress testing processes, pursuant to the stress testing regulations adopted by the Federal Reserve and the OCC. PNC is also required to make certain additional regulatory capital-related public disclosures about PNC's capital structure, risk exposures, risk assessment processes, risk-weighted assets and overall capital adequacy, including market risk-related disclosures, under the regulatory capital rules adopted by the Federal banking agencies. Under these regulations, PNC may satisfy these requirements through postings on our website, and PNC has done so and expects to continue to do so without also providing disclosure of this information through filings with the SEC.

Other information posted on our corporate website that may not be available in our filings with the SEC includes information relating to our corporate governance and communications from our chairman to shareholders.

Where we have included web addresses in this Report, such as our web address and the web address of the SEC, we have included those web addresses as inactive textual references only. Except as specifically incorporated by reference into this Report, information on those websites is not part hereof.

**Financial Information**

We are subject to the informational requirements of the Securities Exchange Act of 1934 (Exchange Act) and, in accordance with the Exchange Act, we file annual, quarterly and current reports, proxy statements, and other information with the SEC. Our SEC File Number is 001-09718. You can obtain copies of these and other filings, including exhibits, electronically at the SEC's internet website at [www.sec.gov](http://www.sec.gov) or on PNC's corporate internet website at [www.pnc.com/secfilings](http://www.pnc.com/secfilings). Shareholders and bond holders may also obtain copies of these filings without charge by contacting Shareholder Services at 800-982-7652 or via the online contact form at [www.computershare.com/contactus](http://www.computershare.com/contactus) for copies without exhibits, and by contacting Shareholder Relations at 800-843-2206 or via email at [investor.relations@pnc.com](mailto:investor.relations@pnc.com) for copies of exhibits, including financial statement and schedule exhibits where applicable. The interactive data file (XBRL) exhibit is only available electronically.

**Corporate Governance at PNC**

Information about our Board of Directors and its committees and corporate governance at PNC is available on PNC's corporate website at [www.pnc.com/corporategovernance](http://www.pnc.com/corporategovernance). Our PNC Code of Business Conduct and Ethics is available on our corporate website at [www.pnc.com/corporategovernance](http://www.pnc.com/corporategovernance). In addition, any future amendments to, or waivers from, a provision of the PNC Code of Business Conduct and Ethics that applies to our directors or executive officers (including our principal executive officer, principal financial officer, and principal accounting officer or controller) will be posted at this internet address.

Shareholders who would like to request printed copies of the PNC Code of Business Conduct and Ethics or our Corporate Governance Guidelines or the charters of our Board's Audit, Nominating and Governance, Personnel and Compensation, or Risk Committees (all of which are posted on the PNC corporate website) may do so by sending their requests to PNC's Corporate Secretary at corporate headquarters at the above address. Copies will be provided without charge to shareholders.

**Inquiries**

For financial services call 888-PNC-2265.

Registered shareholders should contact Shareholder Services at 800-982-7652.

Analysts and institutional investors should contact Bryan K. Gill, Senior Vice President, Director of Investor Relations, at 412-768-4143 or via email at [investor.relations@pnc.com](mailto:investor.relations@pnc.com).

News media representatives and others seeking general information should contact Fred Solomon, Senior Vice President, Corporate Communications, at 412-762-4550 or via email at [corporate.communications@pnc.com](mailto:corporate.communications@pnc.com).

**Common Stock Prices/Dividends Declared**

The table below sets forth by quarter the range of high and low sale and quarter-end closing prices for The PNC Financial Services Group, Inc. common stock and the cash dividends declared per common share.

|                     | High     | Low      | Close    | Cash<br>Dividends<br>Declared<br>(a) |
|---------------------|----------|----------|----------|--------------------------------------|
| <i>2016 Quarter</i> |          |          |          |                                      |
| First               | \$ 94.26 | \$ 77.67 | \$ 84.57 | \$ .51                               |
| Second              | 90.85    | 77.40    | 81.39    | .51                                  |
| Third               | 91.39    | 77.86    | 90.09    | .55                                  |
| Total               |          |          |          | \$ 1.57                              |
| <i>2015 Quarter</i> |          |          |          |                                      |
| First               | \$ 96.71 | \$ 81.84 | \$ 93.24 | \$ .48                               |
| Second              | 99.61    | 90.42    | 95.65    | .51                                  |
| Third               | 100.52   | 82.77    | 89.20    | .51                                  |
| Fourth              | 97.50    | 84.93    | 95.31    | .51                                  |

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|       |         |
|-------|---------|
| Total | \$ 2.01 |
|-------|---------|

(a) Our Board approved a fourth quarter 2016 cash dividend of \$.55 per common share, which is payable on November 5, 2016.

### **Dividend Policy**

Holders of PNC common stock are entitled to receive dividends when declared by the Board of Directors out of funds legally available for this purpose. Our Board of Directors may not pay or set apart dividends on the common stock until dividends for all past dividend periods on any series of outstanding preferred stock have been paid or declared and set apart for payment. The Board presently intends to continue the policy of paying quarterly cash dividends. The amount of any future dividends will depend on economic and market conditions, our financial condition and operating results, and other factors, including contractual restrictions and applicable government regulations and policies (such as those relating to the ability of bank and non-bank subsidiaries to pay dividends to the parent company and regulatory capital limitations). The amount of our dividend is also currently subject to the results of the supervisory assessment of capital adequacy and capital planning processes undertaken by the Federal Reserve as part of the CCAR process as described in the Capital portion of the Consolidated Balance Sheet Review section of the Financial Review of this Report and in the Supervision and Regulation section in Item 1 of our 2015 Form 10-K.

### **Dividend Reinvestment And Stock Purchase Plan**

The PNC Financial Services Group, Inc. Dividend Reinvestment and Stock Purchase Plan enables holders of our common stock to conveniently purchase additional shares of common stock. You can obtain a prospectus and enrollment form by contacting Shareholder Services at 800-982-7652.

### **Stock Transfer Agent And Registrar**

Computershare Trust Company, N.A.

250 Royall Street

Canton, MA 02021

800-982-7652

Registered shareholders may contact the above phone number regarding dividends and other shareholder services.

### **SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on November 4, 2016 on its behalf by the undersigned thereunto duly authorized.

/s/ Robert Q. Reilly  
Robert Q. Reilly  
Executive Vice President and Chief Financial Officer

(Principal Financial Officer)