

PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
August 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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 July 22, 2016, there were 491,409,134 shares of the registrant's common stock (\$5 par value) outstanding.

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FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 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 the respective report. Also, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and the Critical Accounting Estimates And Judgments section in this Financial Review and in our 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 June 30		Six months ended June 30	
Unaudited	2016	2015	2016	2015
Financial Results (a)				
Revenue				
Net interest income	\$ 2,068	\$ 2,052	\$ 4,166	\$ 4,124
Noninterest income	1,726	1,814	3,293	3,473
Total revenue	3,794	3,866	7,459	7,597
Provision for credit losses	127	46	279	100
Noninterest expense	2,360	2,366	4,641	4,715
Income before income taxes and noncontrolling interests	\$ 1,307	\$ 1,454	\$ 2,539	\$ 2,782
Net income	\$ 989	\$ 1,044	\$ 1,932	\$ 2,048
Less:				
Net income (loss) attributable to noncontrolling interests	23	4	42	5
Preferred stock dividends and discount accretion and redemptions	43	48	108	118
Net income attributable to common shareholders	\$ 923	\$ 992	\$ 1,782	\$ 1,925
Less:				
Dividends and undistributed earnings allocated to nonvested restricted shares	6		12	2
Impact of BlackRock earnings per share dilution	3	5	6	10
Net income attributable to diluted common shares	\$ 914	\$ 987	\$ 1,764	\$ 1,913
Diluted earnings per common share	\$ 1.82	\$ 1.88	\$ 3.49	\$ 3.63
Cash dividends declared per common share	\$.51	\$.51	\$ 1.02	\$.99
Effective tax rate (b)	24.3%	28.2%	23.9%	26.4%
Performance Ratios				
Net interest margin (c)	2.70%	2.73%	2.73%	2.78%
Noninterest income to total revenue	45%	47%	44%	46%
Efficiency	62%	61%	62%	62%
Return on:				
Average common shareholders' equity	8.87%	9.75%	8.66%	9.54%
Average assets	1.11%	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 for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended June 30, 2016 and June 30, 2015 were \$48 million and \$49 million, respectively. The

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taxable-equivalent adjustments to net interest income for the six months ended June 30, 2016 and June 30, 2015 were \$96 million and \$98 million, respectively.

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

Unaudited	June 30 2016	December 31 2015	June 30 2015
Balance Sheet Data (dollars in millions, except per share data)			
Assets	\$ 361,335	\$ 358,493	\$ 353,945
Loans	\$ 209,056	\$ 206,696	\$ 205,153
Allowance for loan and lease losses	\$ 2,685	\$ 2,727	\$ 3,272
Interest-earning deposits with banks (b)	\$ 26,750	\$ 30,546	\$ 33,969
Investment securities	\$ 71,801	\$ 70,528	\$ 61,362
Loans held for sale	\$ 2,296	\$ 1,540	\$ 2,357
Goodwill	\$ 9,103	\$ 9,103	\$ 9,103
Mortgage servicing rights	\$ 1,222	\$ 1,589	\$ 1,558
Equity investments (c)	\$ 10,469	\$ 10,587	\$ 10,531
Other assets	\$ 25,316	\$ 23,092	\$ 24,032
Noninterest-bearing deposits	\$ 77,866	\$ 79,435	\$ 77,369
Interest-bearing deposits	\$ 171,912	\$ 169,567	\$ 162,335
Total deposits	\$ 249,778	\$ 249,002	\$ 239,704
Borrowed funds	\$ 54,571	\$ 54,532	\$ 58,276
Total shareholders' equity	\$ 45,558	\$ 44,710	\$ 44,515
Common shareholders' equity	\$ 42,103	\$ 41,258	\$ 41,066
Accumulated other comprehensive income	\$ 736	\$ 130	\$ 379
Book value per common share	\$ 85.33	\$ 81.84	\$ 79.64
Common shares outstanding (millions)	493	504	516
Loans to deposits	84%	83%	86%
Client Assets (in billions)			
Discretionary client assets under management	\$ 135	\$ 134	\$ 134
Nondiscretionary client assets under administration	126	125	128
Total client assets under administration (d)	261	259	262
Brokerage account client assets	44	43	44
Total client assets	\$ 305	\$ 302	\$ 306
Capital Ratios			
Transitional Basel III (e) (f)			
Common equity Tier 1	10.6%	10.6%	10.6%
Tier 1 risk-based	11.9%	12.0%	12.0%
Total capital risk-based	14.3%	14.6%	14.9%
Leverage	10.2%	10.1%	10.3%
Pro forma Fully Phased-In Basel III (f)			
Common equity Tier 1	10.2%	10.0%	10.0%
Common shareholders' equity to assets	11.7%	11.5%	11.6%

Asset Quality

Nonperforming loans to total loans	1.08%	1.03%	1.10%
Nonperforming assets to total loans, OREO and foreclosed assets	1.20%	1.17%	1.25%
Nonperforming assets to total assets	.70%	.68%	.73%
Net charge-offs to average loans (for the three months ended) (annualized)	.26%	.23%	.13%
Allowance for loan and lease losses to total loans (g)	1.28%	1.32%	1.59%
Allowance for loan and lease losses to total nonperforming loans (g) (h)	119%	128%	145%
Accruing loans past due 90 days or more (in millions)	\$ 754	\$ 881	\$ 914

(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 \$26.3 billion, \$30.0 billion, and \$33.6 billion as of June 30, 2016, December 31, 2015 and June 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 \$5 billion as of June 30, 2016, December 31, 2015 and June 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 Pro forma Fully Phased-In Basel III Common Equity Tier 1 Capital Ratio 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 corporate responsibility to the communities where we do business.

We strive to expand and deepen customer relationships by offering a broad range of deposit, fee-based and credit products and services. We are focused on delivering those products and services where, when and how our customers choose with the goal of offering insight that addresses their specific financial objectives. Our approach is concentrated on organically growing and deepening client relationships that meet our risk/return measures. Our strategies for growing fee income across our lines of business are focused on achieving deeper market penetration and cross selling our diverse product mix to meet the broad range of financial needs of our customers.

Our strategic priorities are designed to enhance value over the long term. A key priority 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 to a more customer-centric and sustainable model 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). New regulatory short-term liquidity standards became effective for PNC and PNC Bank, National Association (PNC Bank) beginning January 1, 2015. For more detail, see the Balance Sheet, Liquidity and 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.

Key Factors Affecting Financial Performance

PNC faces a variety of risks that may impact various aspects of our risk profile from time to time. The extent of such impacts may vary depending on factors such as the current economic, political and regulatory environment, merger and acquisition activity and operational challenges. Many of these risks and our risk management strategies are described in more detail in our 2015 Form 10-K and elsewhere in this Report.

Our financial performance is substantially affected by a number of external factors outside of our control, including the following:

- Domestic and global economic conditions, including the continuity, speed and stamina of the current U.S. economic expansion in general and its impact on our customers in particular;
- The monetary policy actions and statements of the Federal Reserve and the Federal Open Market Committee (FOMC);
- The level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve;
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets;
- Changes in the competitive and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment;
- The impact of the extensive reforms enacted by the Dodd-Frank legislation and other legislative, regulatory and administrative initiatives and actions, including those outlined elsewhere in this Report, in our 2015 Form 10-K and in subsequent filings with the SEC;
- The impact of market credit spreads on asset valuations;

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Asset quality and the ability of customers, counterparties and issuers to perform in accordance with contractual terms;
Loan demand, utilization of credit commitments and standby letters of credit; and
Customer demand for non-loan products and services.

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In addition, our success will depend upon, among other things:

- Execution of our strategic priorities and achieving targeted outcomes, including our ability to:
 - Build a leading banking franchise in our underpenetrated geographic markets;
 - Grow profitability through the acquisition and retention of customers and deepening relationships that meet our risk/return measures;
 - Increase revenue from fee income and provide innovative and valued products and services to our customers;
 - Bolster our critical infrastructure and streamline our core processes;
 - Utilize technology to develop and deliver products and services to our customers and protect PNC's systems and customer information; and
 - Sustain our expense management.
- Effectively managing capital and liquidity including:
 - Continuing to maintain and grow our deposit base as a low-cost stable funding source;
 - Prudent liquidity and capital management to meet evolving regulatory capital, capital planning, stress testing and liquidity standards; and
 - Actions we take within the capital and other financial markets.
- Managing credit risk in our portfolio;
- Our ability to manage and implement strategic business objectives within the changing regulatory environment;
- The impact of legal and regulatory-related contingencies; and
- The appropriateness of reserves needed for critical accounting estimates and related contingencies.

For additional information, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2015 Form 10-K.

Income Statement Highlights

Net income for the second quarter of 2016 was \$989 million, or \$1.82 per diluted common share, a decrease of 5%, compared to \$1.044 billion, or \$1.88 per diluted common share, for the second quarter of 2015.

- Net interest income increased \$16 million, or 1%, to \$2.1 billion.
- Net interest margin decreased to 2.70% compared to 2.73% in second quarter 2015.
- Noninterest income decreased \$88 million, or 5%, to \$1.7 billion as higher fee income was more than offset by lower other income.
- Noninterest expense decreased \$6 million to \$2.4 billion reflecting PNC's effective expense management.

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

Credit Quality Highlights

Overall credit quality remained relatively stable at June 30, 2016 compared to December 31, 2015, except for certain energy related loans.

- Nonperforming assets increased \$90 million, or 4%, to \$2.5 billion.
- Overall loan delinquencies of \$1.5 billion decreased \$179 million, or 11%.
- Provision for credit losses increased to \$127 million for the second quarter of 2016 compared to \$46 million for the second quarter of 2015. Second quarter 2016 provision included \$48 million for energy related loans in the oil, gas and coal sectors.
- Net charge-offs of \$134 million for the second quarter of 2016 increased \$67 million compared to the second 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, Liquidity and Capital Highlights

PNC's balance sheet continued to be well-positioned at June 30, 2016 compared to December 31, 2015 reflecting strong liquidity and capital.

- Total loans increased \$2.4 billion to \$209.1 billion.
 - Total commercial lending grew \$3.5 billion, or 3%.
 - Total consumer lending decreased \$1.1 billion, or 2%.
- Total deposits increased \$.8 billion to \$249.8 billion.
- Investment securities increased \$1.3 billion, or 2%, to \$71.8 billion.
- PNC maintained a strong liquidity position.
 - The Liquidity Coverage Ratio (LCR) at June 30, 2016 exceeded 100% for both PNC and PNC Bank, above the minimum phased-in requirement of 90% in 2016.

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PNC maintained a strong capital position.

The Transitional Basel III common equity Tier 1 capital ratio remained stable at 10.6%.

Pro forma fully phased-in Basel III common equity Tier 1 capital ratio increased to an estimated 10.2% compared to 10.0% based on the standardized approach rules.

PNC continued to return capital to shareholders.

We completed common stock repurchase programs for the five quarter period that ended in the second quarter of 2016.

We returned a total of \$4.0 billion of capital to shareholders through repurchases of 29.9 million common shares for \$2.7 billion and dividends on common shares of \$1.3 billion over the five-quarter period.

Second quarter 2016 repurchases were 6.1 million common shares for \$.5 billion and dividends on common shares were \$.3 billion.

In June 2016, we announced share repurchase programs of up to \$2.0 billion for the four-quarter period beginning in the third quarter of 2016.

PNC's Board of Directors raised the quarterly dividend on common stock to 55 cents per share, an increase of 4 cents per share, or 8 percent, effective with the August 5, 2016 dividend.

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 more detail on 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 six months of 2016 and 2015 and balances at June 30, 2016 and December 31, 2015, respectively.

Average Consolidated Balance Sheet Highlights

Table 2: Summarized Average Balance Sheet

Six months ended June 30			Change	
	2016	2015	\$	%
Dollars in millions				
Average assets				
Interest-earning assets				
Investment securities	\$ 70,232	\$ 58,310	\$ 11,922	20%
Loans	207,757	205,272	2,485	1%
Interest-earning deposits with banks	25,998	31,392	(5,394)	(17)%
Other	7,606	9,236	(1,630)	(18)%
Total interest-earning assets	311,593	304,210	7,383	2%
Noninterest-earning assets	45,858	46,151	(293)	(1)%
Total average assets	\$ 357,451	\$ 350,361	\$ 7,090	2%
Average liabilities and equity				
Interest-bearing liabilities				
Interest-bearing deposits	\$ 170,335	\$ 161,236	\$ 9,099	6%
Borrowed funds	53,629	56,757	(3,128)	(6)%
Total interest-bearing liabilities	223,964	217,993	5,971	3%
Noninterest-bearing deposits	76,541	74,245	2,296	3%
Other liabilities	10,822	12,181	(1,359)	(11)%
Equity	46,124	45,942	182	-%
Total average liabilities and equity	\$ 357,451	\$ 350,361	\$ 7,090	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 \$1.4 billion, principally in our Corporate & Institutional Banking segment, partially offset by a decrease in consumer loans of \$3.0 billion. The decline in consumer loans was primarily attributable to lower home equity and education loans, and included runoff in the non-strategic portfolio of residential mortgage and brokered home equity loans. Loans remained stable at 67% of average interest-earning assets in both periods.

Average interest-earning deposits with banks, which are primarily maintained with the Federal Reserve Bank, decreased in the comparison reflecting a shift to higher yielding investment securities and loans as well as lower borrowed funds, partially offset by an increase in deposits.

Average total deposits increased \$11.4 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, Federal Home Loan Bank (FHLB) borrowings and federal funds purchased and repurchase agreements, 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 \$361.3 billion at June 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 June 30, 2016 compared with December 31, 2015.

Recent Market and Industry Developments

On June 29, 2016, the Federal Reserve announced the results of the 2016 CCAR exercise. As we previously announced, the Federal Reserve accepted the capital plan that PNC submitted in April 2016 and did not object to the capital actions included in that plan. See the Capital portion of the Consolidated Balance Sheet Review section of this Financial Review.

On July 6, 2016, the Federal Reserve granted the final one-year extension of the general conformance period available under the Volcker Rule provisions of the Dodd-Frank Act to give all banking entities until July 21, 2017, to conform their investments in, and relationships with, covered funds (as defined in the Volcker Rule) that were in place prior to December 31, 2013 (legacy covered funds). As a result, PNC now has until at least July 21, 2017, to divest or conform its remaining investments in, and relationships with, legacy covered funds, including certain of PNC's REIT preferred securities that, as currently structured, are considered legacy covered funds. In the second quarter of 2016, PNC recorded negative valuation adjustments of \$51 million in noninterest income primarily associated with nonconforming investments under the Volcker Rule. For additional information regarding the Volcker Rule and related considerations, see the Supervision and Regulation section in Item 1 Business and Item 1A Risk Factors of our 2015 Form 10-K. The Federal Reserve has the ability to provide up to an additional 5-year extended conformance period for investments held in, and relationships with, covered funds that qualify as illiquid funds under the Volcker Rule and the Federal Reserve's regulations.

In June 2016, following a period of public comments, the FDIC revised and updated its FAQs concerning brokered deposits that were originally released in 2015. Federal banking laws and regulations apply a variety of requirements or restrictions on insured depository institutions with respect to brokered deposits. For example, as explained in these FAQs, only a well capitalized insured depository institution may accept or retain brokered deposits without prior regulatory approval and brokered deposits are generally subject to higher outflow assumptions than other types of deposits for purposes of the LCR. We do not anticipate that these revised FAQs will have a material impact on PNC's deposit-taking activities or LCR.

Business Segment Highlights**Table 3: Results Of Businesses Summary (a)**

(Unaudited)

Six months ended June 30 in millions	Net Income		Revenue		Average Assets (b)	
	2016	2015	2016	2015	2016	2015
Retail Banking	\$ 575	\$ 443	\$ 3,332	\$ 3,161	\$ 71,880	\$ 73,691
Corporate & Institutional Banking	921	990	2,691	2,647	136,913	131,711
Asset Management Group	97	99	569	595	7,822	7,974
Residential Mortgage Banking	33	47	340	413	6,037	7,190
BlackRock	246	269	311	351	6,919	6,760
Non-Strategic Assets Portfolio	81	137	175	230	5,677	7,094
Total business segments	1,953	1,985	7,418	7,397	235,248	234,420
Other (c) (d)	(21)	63	41	200	122,203	115,941
Total	\$ 1,932	\$ 2,048	\$ 7,459	\$ 7,597	\$ 357,451	\$ 350,361

- (a) Our business information is presented based on our internal management reporting practices. We periodically refine our internal methodologies as management reporting practices are enhanced. 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.
- (b) Period-end balances for BlackRock.
- (c) Other average assets include investment securities associated with asset and liability management activities.
- (d) Other includes differences between the total business segment financial results and our total consolidated net income. Additional detail is included in Note 14 Segment Reporting in the Notes To Consolidated Financial Statements in Part I, Item 1 this Report.

CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for the second quarter of 2016 was \$989 million, or \$1.82 per diluted common share, a decrease of 5%, compared with \$1.044 billion, or \$1.88 per diluted common share, for the second quarter of 2015. For the first six months of 2016, net income was \$1.9 billion, or \$3.49 per diluted common share, a decrease of 6%, compared with \$2.0 billion, or \$3.63 per diluted common share, for the first six months of 2015.

Net income decreased in both comparisons driven by higher provision for credit losses and a 2% decline in revenue, partially offset by a 2% decrease in noninterest expense in the year-to-date comparison. Lower revenue in both comparisons reflected a 5% decline in noninterest income, partially offset by a 1% increase in net interest income.

Net Interest Income**Table 4: Net Interest Income and Net Interest Margin**

Dollars in millions	Three months ended		Six months ended	
	June 30	June 30	June 30	June 30
	2016	2015	2016	2015
Net interest income	\$ 2,068	\$ 2,052	\$ 4,166	\$ 4,124
Net interest margin (a)	2.70%	2.73%	2.73%	2.78%

(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.

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Net interest income increased \$16 million, or 1%, and \$42 million, or 1%, for the second quarter and first six 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, higher borrowing costs and lower securities yields.

Net interest margins decreased in both comparisons mainly due to lower benefit from purchase accounting accretion, partially offset by the impact of lower balances on deposit with the Federal Reserve.

In the third quarter of 2016, we expect net interest income to be stable with the second quarter of 2016.

For full year 2016, we expect purchase accounting accretion to be down approximately \$175 million compared to 2015.

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Noninterest Income**Table 5: Noninterest Income**

Dollars in millions	Three months ended June 30				Six months ended June 30			
	2016	2015	Change \$	%	2016	2015	Change \$	%
Noninterest income								
Asset management	\$ 377	\$ 416	\$ (39)	(9)%	\$ 718	\$ 792	\$ (74)	(9)%
Consumer services	354	334	20	6%	691	645	46	7%
Corporate services	403	369	34	9%	728	713	15	2%
Residential mortgage	165	164	1	1%	265	328	(63)	(19)%
Service charges on deposits	163	156	7	4%	321	309	12	4%
Net gains on sales of securities	4	8	(4)	(50)%	13	50	(37)	(74)%
Other	260	367	(107)	(29)%	557	636	(79)	(12)%
Total noninterest income	\$ 1,726	\$ 1,814	\$ (88)	(5)%	\$ 3,293	\$ 3,473	\$ (180)	(5)%

Noninterest income decreased in both the quarterly and year-to-date comparisons. Noninterest income as a percentage of total revenue was 45% for the second quarter of 2016 compared to 47% for the same period in 2015. The comparable amounts for the year-to-date periods of 2016 and 2015 were 44% and 46%, respectively.

Asset management revenue decreased in both comparisons driven by lower earnings from our BlackRock equity investment and the impact of lower equity markets on both BlackRock and our asset management business segment. The decreases also included 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 \$135 billion at June 30, 2016 compared with \$134 billion at June 30, 2015.

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

Corporate services revenue increased in both comparisons primarily as a result of higher merger and acquisition advisory fees and higher loan syndication fees.

Residential mortgage revenue decreased in the year-to-date comparison as a result of lower residential mortgage servicing rights valuation, net of economic hedge, and lower loan sales revenue, partially offset by higher servicing fee revenue.

Other noninterest income decreased in both comparisons mainly attributable to second quarter valuation adjustments of \$51 million primarily associated with nonconforming investments under the Volcker Rule as well as lower net gains on sales of Visa Class B common shares. Net gains on the sale of Visa Class B common shares were \$63 million on sales of 1.35 million shares for the first six months of 2016, including \$31 million on the sale of 0.85 million shares in the second

quarter of 2016, compared to \$79 million on the sale of 1.0 million shares in the second quarter of 2015. Net gains consist of gains on Visa sales reduced by derivative fair value adjustments related to swap agreements with purchasers of Visa Class B common shares in connection with all prior sales.

In the third quarter of 2016, we expect fee income to remain stable with the second quarter of 2016. Fee income, a non-GAAP financial measure, refers to noninterest income categories of asset management, consumer services, corporate services, residential mortgage and service charges on deposits.

For full year 2016, we expect total revenue to be stable compared to 2015.

Provision For Credit Losses

The provision for credit losses increased \$81 million to \$127 million in the second quarter of 2016 compared to the second quarter of 2015 and increased \$179 million to \$279 million for the first six months of 2016 compared to the same period in 2015. The increase in both comparisons

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was primarily due to provision for energy related loans in the oil, gas, and coal sectors, which was \$128 million for the first six months of 2016, including \$48 million in the second quarter of 2016. The energy related loan portfolio weakened slightly in the second quarter of 2016 compared to the first quarter of 2016, but at a slower pace.

We expect our provision for credit losses in the third quarter of 2016 to be between \$100 million and \$150 million.

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

Noninterest Expense

Noninterest expense for the second quarter of 2016 remained stable at \$2.4 billion compared to the second quarter of 2015. Noninterest expense decreased \$74 million, or 2%, to \$4.6 billion for the first six months of 2016 compared to the same period in 2015, primarily due to the release of \$24 million in residential mortgage foreclosure-related reserves and lower legal accruals, and reflected our effective expense management.

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

We expect noninterest expense in the third quarter of 2016 to remain stable compared to the second quarter 2016, and full year 2016 noninterest expense to remain stable compared to full year 2015.

Effective Income Tax Rate

The effective income tax rate was 24.3% in the second quarter of 2016 compared to 28.2% in the second quarter of 2015 and 23.9% in the first six months of 2016 compared to 26.4% in the same period of 2015. Both declines were primarily attributable to increased tax credit investments and a change in 2015 to record the impact of historic tax credits as a reduction to the associated investment asset balance.

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.

We expect our full-year 2016 effective tax rate to be approximately 25%.

CONSOLIDATED BALANCE SHEET REVIEW*Table 6: Summarized Balance Sheet Data*

	June 30	December 31	Change	
	2016	2015	\$	%
Dollars in millions				
Assets				
Interest-earning deposits with banks	\$ 26,750	\$ 30,546	\$ (3,796)	(12)%
Loans held for sale	2,296	1,540	756	49%
Investment securities	71,801	70,528	1,273	2%
Loans	209,056	206,696	2,360	1%
Allowance for loan and lease losses	(2,685)	(2,727)	42	2%
Goodwill	9,103	9,103		
Mortgage servicing rights	1,222	1,589	(367)	(23)%
Other intangible assets	329	379	(50)	(13)%
Other, net	43,463	40,839	2,624	6%
Total assets	\$ 361,335	\$ 358,493	\$ 2,842	1%
Liabilities				
Deposits	\$ 249,778	\$ 249,002	\$ 776	
Borrowed funds	54,571	54,532	39	
Other	10,287	8,979	1,308	15%
Total liabilities	314,636	312,513	2,123	1%
Equity				
Total shareholders' equity	45,558	44,710	848	2%
Noncontrolling interests	1,141	1,270	(129)	(10)%
Total equity	46,699	45,980	719	2%
Total liabilities and equity	\$ 361,335	\$ 358,493	\$ 2,842	1%

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 and strong liquidity and capital positions at June 30, 2016 as compared to December 31, 2015.

Total assets increased in the comparison primarily due to increases in loans, investment securities, and other assets driven by accounts receivable for trade date securities sales, partially offset by lower interest-earning deposits with banks.

Total liabilities increased mainly due to deposit growth and higher other liabilities driven by accounts payable for trade date securities purchases.

Total equity increased mainly due to increased retained earnings driven by net income, offset by share repurchases.

Loans

Outstanding loan balances of \$209.1 billion at June 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 \$1.4 billion at both June 30, 2016 and December 31, 2015.

Table 7: Details Of Loans

	June 30	December 31	Change	
Dollars in millions	2016	2015	\$	%
Commercial lending				
Commercial				
Manufacturing	\$ 19,665	\$ 19,014	\$ 651	3%
Retail/wholesale trade	16,786	16,661	125	1%
Service providers	14,258	13,970	288	2%
Real estate related (a)	11,965	11,659	306	3%
Health care	9,092	9,210	(118)	(1)%
Financial services	7,400	7,234	166	2%
Other industries	21,396	20,860	536	3%
Total commercial	100,562	98,608	1,954	2%
Commercial real estate				
Real estate projects (b)	16,468	15,697	771	5%
Commercial mortgage	12,372	11,771	601	5%
Total commercial real estate	28,840	27,468	1,372	5%
Equipment lease financing	7,620	7,468	152	2%
Total commercial lending	137,022	133,544	3,478	3%
Consumer lending				
Home equity				
Lines of credit	18,203	18,828	(625)	(3)%
Installment	12,680	13,305	(625)	(5)%
Total home equity	30,883	32,133	(1,250)	(4)%
Residential real estate				
Residential mortgage	14,562	14,162	400	3%
Residential construction	237	249	(12)	(5)%
Total residential real estate	14,799	14,411	388	3%
Credit card	4,896	4,862	34	1%
Other consumer				
Automobile	11,449	11,157	292	3%
Education	5,482	5,881	(399)	(7)%
Other	4,525	4,708	(183)	(4)%
Total consumer lending	72,034	73,152	(1,118)	(2)%
Total loans	\$ 209,056	\$ 206,696	\$ 2,360	1%

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

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

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Loan growth was the result of an increase in total commercial lending driven by commercial and commercial real estate loans, partially offset by a decline in consumer lending due to lower home equity and education loans.

Loans represented 58% of total assets at both June 30, 2016 and December 31, 2015. Commercial lending represented 66% of the loan portfolio at June 30, 2016 and 65% at December 31, 2015. Consumer lending represented 34% of the loan portfolio at June 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 \$3.2 billion, or 2% of total loans, at June 30, 2016, and \$3.5 billion, or 2% of total loans, at December 31, 2015.

For the third quarter of 2016, we expect total loans to be up modestly compared to the second quarter of 2016.

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 Part 1, Item 1 of this Report.

Purchased Impaired Loans

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

Table 8: Purchased Impaired Loans Balances

In millions	June 30, 2016			December 31, 2015		
	Outstanding	Recorded Investment	Carrying Value	Outstanding	Recorded Investment	Carrying Value
Total commercial lending	\$ 185	\$ 138	\$ 94	\$ 249	\$ 169	\$ 120
Total consumer lending	3,379	3,098	2,817	3,684	3,353	3,092
Total	\$ 3,564	\$ 3,236	\$ 2,911	\$ 3,933	\$ 3,522	\$ 3,212

(a) Outstanding balance represents the balance on the loan servicing system. Recorded investment may be greater than the outstanding balance due to expected recoveries of collateral.

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

Table 9: Purchased Impaired Loans Accretible Yield

In millions	2016	2015
January 1	\$ 1,250	\$ 1,558
Accretion (including excess cash recoveries)	(199)	(252)
Net reclassifications to accretible from non-accretible	110	146
Disposals	(4)	(9)
June 30	\$ 1,157	\$ 1,443

We currently expect to collect total cash flows of \$4.1 billion on purchased impaired loans, representing the \$2.9 billion carrying value at June 30, 2016 and accretible net interest of \$1.2 billion.

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

Table 10: Weighted Average Life of the Purchased Impaired Portfolios

As of June 30, 2016 Dollars in millions	Recorded Investment	WAL (a)
Commercial	\$ 26	2.2 years
Commercial real estate	112	1.5 years
Consumer (b)	1,263	3.9 years
Residential real estate	1,835	4.6 years
Total	\$ 3,236	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 11: Investment Securities

Dollars in millions	June 30, 2016		December 31, 2015		Ratings (a)					
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	As of June 30, 2016					
					AAA/AA	A	BBB	Lower	No Rating	
U.S. Treasury and government agencies	\$ 10,057	\$ 10,429	\$ 10,022	\$ 10,172	100%					
Agency residential mortgage-backed	35,274	36,068	34,250	34,408	100					
Non-agency residential mortgage-backed	3,772	3,920	4,225	4,392	11		4%	80%	5%	
Agency commercial mortgage-backed	2,849	2,918	3,045	3,086	100					
Non-agency commercial mortgage-backed (b)	5,171	5,242	5,624	5,630	79	9%	2	2	8	
Asset-backed (c)	6,387	6,394	6,134	6,130	90	3		6	1	
State and municipal	3,915	4,206	3,936	4,126	89	6			5	
Other debt	2,638	2,703	2,211	2,229	50	34	15		1	
Corporate stock and other	483	484	590	589					100	
Total investment securities (d)	\$ 70,546	\$ 72,364	\$ 70,037	\$ 70,762	90%	3%	1%	5%	1%	

(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 student loans and other consumer credit products.

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

Investment securities represented 20% of total assets at both June 30, 2016 and 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 June 30, 2016, 90% 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 68% of the portfolio.

The investment securities portfolio includes both available for sale and held to maturity securities. Securities classified as available for sale are carried at fair value with net unrealized gains and losses, representing the difference between amortized cost and fair value, included in Shareholders' equity as Accumulated other comprehensive income or loss, net of tax, on our Consolidated Balance Sheet. Securities classified as held to maturity are carried at amortized cost. As of June 30, 2016, the amortized cost and fair value of available for sale securities totaled \$55.6 billion and \$56.9 billion, respectively, compared to an amortized cost and fair value as of December 31, 2015 of \$55.3 billion and \$55.8 billion, respectively. The amortized cost and fair value of held to maturity securities were \$14.9 billion and \$15.5 billion, respectively, at June 30, 2016, compared to \$14.8 billion and \$15.0 billion, respectively, at December 31, 2015.

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 June 30, 2016 from \$0.7 billion at December 31, 2015. The comparable amounts for the securities available for sale portfolio were \$1.3 billion at June 30, 2016 and \$0.5 billion at December 31, 2015.

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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 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 2.0 years at June 30, 2016. We estimate that at June 30, 2016 the effective duration of investment securities was 2.1 years for an immediate 50 basis points parallel increase in interest rates and 1.8 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.

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 June 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 June 30, 2016:

Table 12: Weighted-Average Expected Maturities of Mortgage and Other Asset-Backed Debt Securities

June 30, 2016	Years
Agency residential mortgage-backed securities	3.4
Non-agency residential mortgage-backed securities	5.3
Agency commercial mortgage-backed securities	2.9
Non-agency commercial mortgage-backed securities	3.6
Asset-backed securities	2.6

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 June 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 Part I, Item 1 of this Report.

Loans Held for Sale

Table 13: Loans Held For Sale

	June 30	December 31	Change	
In millions	2016	2015	\$	%
Commercial mortgages	\$ 1,000	\$668	\$ 332	50%
Residential mortgages	1,137	850	287	34%
Other	159	22	137	623%
Total	\$ 2,296	\$1,540	\$ 756	49%

Loans held for sale increased in the comparison reflecting higher origination volumes in both commercial and residential mortgages.

We sold \$1.5 billion of commercial mortgage loans to agencies during the first six months of 2016 compared to \$2.2 billion during the first six months of 2015. Total revenue of \$33 million was recognized on the valuation and sale of commercial mortgage loans held for sale, net of hedges, during the first six months of 2016, including \$16 million in the second quarter. Comparable amounts for 2015 were \$51

million and \$36 million, respectively. These amounts are included in Other noninterest income on the Consolidated Income Statement.

Residential mortgage loan origination volume was \$4.5 billion during the first six months of 2016 compared to \$5.5 billion in the same period in 2015. The majority of such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold \$2.8 billion of loans and recognized loan sales revenue of \$159 million during the first six months of 2016, of which \$95 million occurred in the second quarter. The comparable amounts for 2015 were \$4.0 billion and \$203 million, respectively, including \$99 million in the second 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 \$34 million during the first six months of 2016, including \$18 million in the second quarter. Comparable amounts for 2015 were \$46 million and \$23 million, respectively. These amounts are included in Other interest income on the Consolidated Income Statement.

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

Funding Sources

Table 14: Details Of Funding Sources

	June 30	December 31	Change	
Dollars in millions	2016	2015	\$	%
Deposits				
Money market	\$ 110,435	\$ 118,079	\$ (7,644)	(6)%
Demand	90,356	90,038	318	
Savings	29,936	20,375	9,561	47%
Retail certificates of deposit	17,359	17,405	(46)	
Time deposits in foreign offices and other time deposits	1,692	3,105	(1,413)	(46)%
Total deposits	249,778	249,002	776	
Borrowed funds				
Federal funds purchased and repurchase agreements	1,620	1,777	(157)	(9)%
FHLB borrowings	18,055	20,108	(2,053)	(10)%
Bank notes and senior debt	23,588	21,298	2,290	11%
Subordinated debt	8,764	8,556	208	2%
Other	2,544	2,793	(249)	(9)%
Total borrowed funds	54,571	54,532	39	
Total funding sources	\$ 304,349	\$ 303,534	\$ 815	

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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 69% of total deposits at June 30, 2016 and 68% at December 31, 2015.

Total borrowed funds increased slightly in the comparison as higher bank notes and senior debt were substantially offset by maturities of FHLB borrowings.

Capital

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

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 repurchased 6.1 million common shares for \$.5 billion, completing our common stock repurchase programs for the five quarter period that ended in June 2016. We returned a total of \$4.0 billion of capital to shareholders through repurchases of 29.9 million common shares for \$2.7 billion and dividends on common shares of \$1.3 billion over the five quarter period, consistent with the capital plan accepted by the Federal Reserve as part of our 2015 CCAR submission.

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.

We paid dividends on common stock of \$.3 billion, or 51 cents per common share, during the second quarter of 2016. On July 7, 2016, the PNC Board of Directors raised the quarterly common stock cash dividend to 55 cents per share, an increase of 4 cents, or 8%, payable on August 5, 2016.

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 15: Shareholders' Equity

	June 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	3,455	3,452	3	
Capital surplus - common stock and other	12,653	12,745	(92)	(1)%
Retained earnings	30,309	29,043	1,266	4%
Accumulated other comprehensive income	736	130	606	466%
Common stock held in treasury at cost	(4,304)	(3,368)	(936)	(28)%
Total shareholders' equity	\$ 45,558	\$ 44,710	\$ 848	2%

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

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The increase in total shareholders' equity compared to December 31, 2015 was mainly due to a \$1.3 billion increase in retained earnings and higher accumulated other comprehensive income primarily related to net securities gains, partially offset by common share repurchases of \$1.0 billion. The increase in retained earnings was driven by net income of \$1.9 billion, reduced by \$.6 billion of common and preferred dividends declared. Common shares outstanding were 493 million and 504 million at June 30, 2016, and December 31, 2015, respectively.

Table 16: Basel III Capital

Dollars in millions	June 30, 2016	
	2016 Transitional Basel III (a)	Pro forma Fully Phased-In Basel III (estimated) (b)(c)
Common equity Tier 1 capital		
Common stock plus related surplus, net of treasury stock	\$ 11,058	\$ 11,058
Retained earnings	30,309	30,309
Accumulated other comprehensive income for securities currently and previously held as available for sale	499	831
Accumulated other comprehensive income for pension and other postretirement plans	(327)	(545)
Goodwill, net of associated deferred tax liabilities	(8,833)	(8,833)
Other disallowed intangibles, net of deferred tax liabilities	(175)	(291)
Other adjustments/(deductions)	(158)	(165)
Total common equity Tier 1 capital before threshold deductions	32,373	32,364
Total threshold deductions	(710)	(1,185)
Common equity Tier 1 capital	31,663	31,179
Additional Tier 1 capital		
Preferred stock plus related surplus	3,455	3,455
Trust preferred capital securities		
Noncontrolling interests (d)	418	45
Other adjustments/(deductions)	(86)	(109)
Tier 1 capital	35,450	34,570
Additional Tier 2 capital		
Qualifying subordinated debt	4,041	3,845
Trust preferred capital securities	119	
Allowance for loan and lease losses included in Tier 2 capital	2,989	2,989
Other (d)	6	11
Total Basel III capital	\$ 42,605	\$ 41,415
Risk-weighted assets		
Basel III standardized approach risk-weighted assets (e)	\$ 297,724	\$ 305,918
Basel III advanced approaches risk-weighted assets (f)	N/A	\$ 278,863
Average quarterly adjusted total assets	\$ 348,195	\$ 347,572
Supplementary leverage exposure (g)	\$ 411,912	\$ 411,289
Basel III risk-based capital and leverage ratios		
Common equity Tier 1	10.6%	10.2%(h)(i)
Tier 1	11.9%	11.3%(h)(j)
Total	14.3%	13.5%(h)(k)
Leverage (l)	10.2%	9.9%
Supplementary leverage ratio (m)	8.6%	8.4%

(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), including comparison to similar estimates made by other financial institutions. Pro forma fully phased-in capital amounts, ratios and risk-weighted and leverage-related assets are estimated.

(c) Basel III capital ratios and estimates may be impacted by additional regulatory guidance or analysis and, in the case of those ratios calculated using the advanced approaches, the ongoing evolution, validation and regulatory approval of PNC's models integral to the calculation of advanced approaches risk-weighted assets.

(d) 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.

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- (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 June 30, 2016 capital levels were aligned with them.

At June 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 June 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.

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

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

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 June 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 17: Fair Value Measurements Summary

Dollars in millions	June 30, 2016		December 31, 2015	
	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	\$ 73,459	\$ 8,188	\$ 68,804	\$ 8,606
Total assets at fair value as a percentage of consolidated assets	20%		19%	
Level 3 assets as a percentage of total assets at fair value		11%		13%
Level 3 assets as a percentage of consolidated assets		2%		2%
Total liabilities	\$ 7,197	\$ 406	\$ 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		6%		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 and the Business Segments Highlights in the Executive Summary section of this Financial 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 18: Retail Banking Table**

Six months ended June 30

Dollars in millions, except as noted	Change			
	2016	2015	\$	%
Income Statement				
Net interest income	\$ 2,231	\$ 2,083	\$ 148	7%
Noninterest income	1,101	1,078	23	2%
Total revenue	3,332	3,161	171	5%
Provision for credit losses	106	94	12	13%
Noninterest expense	2,318	2,368	(50)	(2)%
Pretax earnings	908	699	209	30%
Income taxes	333	256	77	30%
Earnings	\$ 575	\$ 443	\$ 132	30%
Average Balance Sheet				
Loans				
Consumer				
Home equity	\$ 26,526	\$ 27,964	\$ (1,438)	(5)%
Automobile	10,882	10,340	542	5%
Education	5,754	6,506	(752)	(12)%
Credit cards	4,755	4,446	309	7%
Other	1,807	1,887	(80)	(4)%
Total consumer	49,724	51,143	(1,419)	(3)%
Commercial and commercial real estate	12,435	12,812	(377)	(3)%
Residential mortgage	567	731	(164)	(22)%
Total loans	\$ 62,726	\$ 64,686	\$ (1,960)	(3)%
Total assets	\$ 71,880	\$ 73,691	\$ (1,811)	(2)%
Deposits				
Noninterest-bearing demand	\$ 26,577	\$ 23,015	\$ 3,562	15%
Interest-bearing demand	38,378	36,054	2,324	6%
Money market	48,739	54,071	(5,332)	(10)%
Savings	23,954	13,245	10,709	81%
Certificates of deposit	15,199	17,032	(1,833)	(11)%
Total deposits	\$ 152,847	\$ 143,417	\$ 9,430	7%
Performance Ratios				
Return on average assets	1.61%	1.21%		
Noninterest income to total revenue	33%	34%		
Efficiency	70%	75%		
Supplemental Noninterest Income Information				
Service charges on deposits	\$ 306	\$ 294	\$ 12	4%
Brokerage	\$ 149	\$ 138	\$ 11	8%
Consumer services	\$ 525	\$ 487	\$ 38	8%
Other Information (a)				
<u>Customer-related statistics (average):</u>				
Non-teller deposit transactions (b)	48%	41%		
Digital consumer customers (c)	57%	51%		
<u>Credit-related statistics:</u>				
Nonperforming assets (d)	\$ 995	\$ 1,127	\$ (132)	(12)%
Net charge-offs	\$ 171	\$ 185	\$ (14)	(8)%
Annualized net charge-off ratio	.55%	.58%		
<u>Other statistics:</u>				
ATMs	8,993	8,880	113	1%
Branches (e)	2,601	2,644	(43)	(2)%

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Universal branches (f)		467		347	120	35%
Brokerage account client assets (billions) (g)	\$	44	\$	44		

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- (a) Presented as of June 30, except for customer-related statistics, which are averages for the six months ended, and net charge-offs and annualized net charge-off ratio, which are for the six 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 June 30, 2016 and \$1.1 billion at June 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 \$575 million in the first six months of 2016 compared with earnings of \$443 million for the first six months of 2015. The increase in earnings was driven by higher revenue, including both net interest income and noninterest income, as well as a decrease in noninterest expense. 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 growing customer share of wallet through the sale of liquidity, banking, and investment products that meet the broad range of financial needs of our customers.

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

In the first six months of 2016, approximately 57% of consumer customers used non-teller channels for the majority of their transactions compared with 51% for the same period in 2015.

Deposit transactions via ATM and mobile channels increased to 48% of total deposit transactions in the first six months of 2016 compared with 41% for the same period in 2015.

Integral to PNC's retail branch transformation strategy, 467 branches, or 18% of the branch network, operate under the universal model designed to enhance sales opportunities for branch personnel, in part, by driving higher ATM and mobile deposits. PNC had a network of 2,601 branches and 8,993 ATMs at June 30, 2016.

Instant debit card issuance, which enables us to print a customer's debit card in minutes, was available in 1,776 branches, or 68% of the branch network, as of June 30, 2016.

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

Growth in noninterest income primarily resulted from execution on our share of wallet strategy, which drove increased consumer service fee income from payment-related products, specifically in debit card, credit card and merchant services, as well as increased brokerage fees. Noninterest income in the first six months of 2016 also reflected net gains of \$63 million on sales of 1.35 million Visa Class B common shares compared with a net gain of \$79 million on the sale of 1.0 million shares in the second quarter of 2015. Net gains on Visa sales include derivative fair value adjustments related to swap agreements with purchasers of Visa Class B common shares in connection with all prior sales.

The decline in noninterest expense in the comparison was due to 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, 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 six months of 2016, average total deposits of \$152.8 billion 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 that targets specific products and markets for growth. The decline in average total loans in the comparison was due to a decline in home equity and commercial loans and runoff of non-strategic 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, consistent with lower mortgage refinance demand. 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 was 752 at both June 30, 2016 and December 31, 2015.

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

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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 six months of 2016, average loan balances for the remainder of the portfolio declined \$996 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 June 30, 2015 driven by declines in both consumer and commercial nonperforming loans.

Corporate & Institutional Banking

(Unaudited)

Table 19: Corporate & Institutional Banking Table

Six months ended June 30	Change			
Dollars in millions, except as noted	2016	2015	\$	%
Income Statement				
Net interest income	\$ 1,724	\$ 1,726	\$ (2)	
Noninterest income	967	921	46	5%
Total revenue	2,691	2,647	44	2%
Provision for credit losses	176	37	139	376%
Noninterest expense	1,070	1,061	9	1%
Pretax earnings	1,445	1,549	(104)	(7)%
Income taxes	524	559	(35)	(6)%
Earnings	\$ 921	\$ 990	\$ (69)	(7)%
Average Balance Sheet				
Loans held for sale	\$ 754	\$ 1,048	\$ (294)	(28)%
Loans				
Commercial	\$ 87,193	\$ 85,228	\$ 1,965	2%
Commercial real estate	26,157	22,319	3,838	17%
Equipment lease financing	6,856	6,920	(64)	(1)%
Total commercial lending	120,206	114,467	5,739	5%
Consumer	470	1,113	(643)	(58)%
Total loans	\$ 120,676	\$ 115,580	\$ 5,096	4%
Total assets	\$ 136,913	\$ 131,711	\$ 5,202	4%
Deposits				
Noninterest-bearing demand	\$ 45,588	\$ 47,449	\$ (1,861)	(4)%
Money market	21,185	22,002	(817)	(4)%
Other	12,137	9,368	2,769	30%
Total deposits	\$ 78,910	\$ 78,819	\$ 91	
Performance Ratios				
Return on average assets	1.36%	1.52%		
Noninterest income to total revenue	36%	35%		
Efficiency	40%	40%		
Other Information				
Commercial loan servicing portfolio (a) (b)	\$ 459	\$ 436	\$ 23	5%
Consolidated revenue from: (c)				
Treasury Management (d)	\$ 762	\$ 653	\$ 109	17%
Capital Markets (d)	\$ 387	\$ 385	\$ 2	1%
Commercial mortgage banking activities				
Commercial mortgage loans held for sale (e)	\$ 50	\$ 73	\$ (23)	(32)%
Commercial mortgage loan servicing income (f)	132	121	11	9%
Commercial mortgage servicing rights valuation, net of economic hedge (g)	21	24	(3)	(13)%
Total	\$ 203	\$ 218	\$ (15)	(7)%
Average Loans (by C&IB business)				
Corporate Banking	\$ 56,933	\$ 58,323	\$ (1,390)	(2)%
Real Estate	35,989	30,248	5,741	19%
Business Credit	14,769	14,415	354	2%
Equipment Finance	11,079	10,938	141	1%
Other	1,906	1,656	250	15%
Total average loans	\$ 120,676	\$ 115,580	\$ 5,096	4%
Net carrying amount of commercial mortgage servicing rights (a)	\$ 448	\$ 543	\$ (95)	(17)%
Credit-related statistics:				
Nonperforming assets (a) (h)	\$ 752	\$ 463	\$ 289	62%

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Net charge-offs / (recoveries)	\$	100	\$	(20)	\$	120	600%
(a) As of June 30.							
(b) Represents loans serviced for PNC and others.							

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- (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 \$.7 billion at June 30, 2016 and \$.4 billion at June 30, 2015.

Corporate & Institutional Banking earned \$921 million in the first six months of 2016 compared with earnings of \$990 million for the first six months of 2015. The decrease in earnings was 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 slightly in the comparison, as continued interest rate spread compression on loans and lower purchase accounting accretion were essentially offset by the impact of higher average loans and deposits as well as interest rate spread expansion on deposits.

Higher noninterest income in the comparison was primarily due to an equity investment gain and higher merger and acquisition advisory fees, structuring fees on asset securitizations and loan syndication fees. These increases were partially offset by lower multifamily loans originated for sale to agencies and lower revenue associated with credit valuations for customer-related derivative activities.

Overall credit quality for the first six months of 2016 remained relatively stable, except for deterioration related to certain energy related loans, which was the primary driver for the increases 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 nominally in the comparison reflecting disciplined 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 was 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 ongoing 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 six months of 2016, stable with the first six months of 2015.

Average deposits increased slightly compared to the prior year period, as a result of interest-bearing demand deposit growth, mostly 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 run-off.

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, capital markets-related products and services, and commercial mortgage banking activities, for customers of all 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 19 in the Corporate & Institutional Banking portion of this Business Segments Review section includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue from these services follows.

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

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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, structuring fees on asset securitizations and loan syndication fees were mostly offset by lower revenue associated with credit valuations for customer-related derivative activities and lower equity capital markets advisory fees.

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

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Asset Management Group*(Unaudited)***Table 20: Asset Management Group Table**

Six months ended June 30	Change			
Dollars in millions, except as noted	2016	2015	\$	%
Income Statement				
Net interest income	\$ 153	\$ 144	\$ 9	6%
Noninterest income	416	451	(35)	(8)%
Total revenue	569	595	(26)	(4)%
Provision for credit losses	3	13	(10)	(77)%
Noninterest expense	412	425	(13)	(3)%
Pretax earnings	154	157	(3)	(2)%
Income taxes	57	58	(1)	(2)%
Earnings	\$ 97	\$ 99	\$ (2)	(2)%
Average Balance Sheet				
Loans				
Consumer	\$ 5,565	\$ 5,669	\$ (104)	(2)%
Commercial and commercial real estate	778	938	(160)	(17)%
Residential mortgage	1,014	878	136	15%
Total loans	\$ 7,357	\$ 7,485	\$ (128)	(2)%
Total assets	\$ 7,822	\$ 7,974	\$ (152)	(2)%
Deposits				
Noninterest-bearing demand	\$ 1,400	\$ 1,344	\$ 56	4%
Interest-bearing demand	4,183	4,127	56	1%
Money market	4,494	4,873	(379)	(8)%
Savings	1,783	171	1,612	943%
Other	276	285	(9)	(3)%
Total deposits	\$ 12,136	\$ 10,800	\$ 1,336	12%
Performance Ratios				
Return on average assets	2.50%	2.50%		
Noninterest income to total revenue	73%	76%		
Efficiency	72%	71%		
Other Information				
Total nonperforming assets (a) (b)	\$ 48	\$ 56	\$ (8)	(14)%
Total net charge-offs	\$ 6	\$ 11	\$ (5)	(45)%
Client Assets Under Administration (in billions) (a) (c) (d)				
Discretionary client assets under management	\$ 135	\$ 134	\$ 1	1%
Nondiscretionary client assets under administration	126	128	(2)	(2)%
Total	\$ 261	\$ 262	\$ (1)	
Discretionary client assets under management				
Personal	\$ 84	\$ 86	\$ (2)	(2)%
Institutional	51	48	3	6%
Total	\$ 135	\$ 134		
Equity	\$ 72	\$ 75	\$ (3)	(4)%
Fixed Income	40	41	(1)	(2)%
Liquidity/Other	23	18	5	28%
Total	\$ 135	\$ 134		

(a) As of June 30.

(b) Includes nonperforming loans of \$44 million at June 30, 2016 and \$53 million at June 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 June 30, 2016 and \$5 billion at June 30, 2015.

Asset Management Group earned \$97 million through the first six months of 2016 compared with earnings of \$99 million for the first six months of 2015. Earnings for the first six months of 2016 decreased compared with the first six months of 2015 due to lower revenue, partially offset by lower noninterest expense and provision for credit losses.

Total revenue declined in the comparison due to lower noninterest income reflecting a \$30 million trust settlement in the second quarter of 2015 and lower average equity markets, partially offset by higher net interest income.

Noninterest expense declined primarily attributable to lower personnel expense. Asset Management Group remains focused on disciplined expense management as it invests in strategic growth opportunities.

The core growth strategies of the business include increasing sales sourced from other PNC lines of business, maximizing front line productivity and optimizing market presence in high opportunity markets. Wealth Management and Hawthorn have nearly 100 offices operating in 7 of the 10 most affluent states in the U.S. with a majority co-located with retail banking branches. The strategies primarily focus on growing client assets under management through expanding relationships directly and through cross-selling from PNC's other lines of business.

Institutional Asset Management provides advisory, custody, and retirement administration services to institutional clients primarily within our banking footprint. The business also offers PNC proprietary mutual funds. 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.

Discretionary client assets under management increased in the comparison to the prior year, primarily attributable to equity market increases as of June 30, 2016 compared to the prior year and new business activities.

Residential Mortgage Banking*(Unaudited)***Table 21: Residential Mortgage Banking Table**

Six months ended June 30			Change	
Dollars in millions, except as noted	2016	2015	\$	%
Income Statement				
Net interest income	\$ 53	\$ 60	\$ (7)	(12)%
Noninterest income	287	353	(66)	(19)%
Total revenue	340	413	(73)	(18)%
Provision for credit losses				
Noninterest expense	288	339	(51)	(15)%
Pretax earnings	52	74	(22)	(30)%
Income taxes	19	27	(8)	(30)%
Earnings	\$ 33	\$ 47	\$ (14)	(30)%
Average Balance Sheet				
Loans held for sale	\$ 821	\$ 1,127	\$ (306)	(27)%
Loans	\$ 995	\$ 1,223	\$ (228)	(19)%
Mortgage servicing rights (MSR)	\$ 949	\$ 896	\$ 53	6%
Total assets	\$ 6,037	\$ 7,190	\$ (1,153)	(16)%
Total deposits	\$ 2,553	\$ 2,357	\$ 196	8%
Performance Ratios				
Return on average assets	1.10%	1.32%		
Noninterest income to total revenue	84%	85%		
Efficiency	85%	82%		
Supplemental Noninterest Income Information				
Loan servicing revenue				
Servicing fees	\$ 118	\$ 94	\$ 24	26%
Mortgage servicing rights valuation, net of economic hedge (a)	\$ 9	\$ 58	\$ (49)	(84)%
Loan sales revenue	\$ 159	\$ 203	\$ (44)	(22)%
Residential Mortgage Servicing Portfolio (in billions) (b)				
Serviced portfolio balance (c)	\$ 126	\$ 115	\$ 11	10%
Portfolio acquisitions	\$ 11	\$ 14	\$ (3)	(21)%
MSR asset value (c)	\$.8	\$ 1.0	\$ (.2)	(20)%
MSR capitalization value (in basis points) (c)	61	88	(27)	(30)%
Other Information				
Loan origination volume (in billions)	\$ 4.5	\$ 5.5	\$ (1.0)	(18)%
Loan sale margin percentage	3.33%	3.74%		
Percentage of originations represented by:				
Purchase volume (d)	44%	41%		
Refinance volume	56%	59%		
Total nonperforming assets (c) (e)	\$ 65	\$ 88	\$ (23)	(26)%
(a) Consolidated PNC amounts, which include asset and liability management activities reported in the Other business segment, were \$27 million and \$68 million for the six months ended June 30, 2016 and 2015, respectively.				
(b) Represents loans serviced for third parties.				
(c) As of June 30.				
(d) Mortgages with borrowers as part of residential real estate purchase transactions.				
(e) Includes nonperforming loans of \$36 million at June 30, 2016 and \$55 million at June 30, 2015.				

Residential Mortgage Banking earned \$33 million in the first six months of 2016 compared with earnings of \$47 million for the first six months of 2015, primarily driven by a decline in noninterest income, partially offset by lower noninterest expense.

The strategic focus of the business is the acquisition of new customers through a retail loan officer sales force with an emphasis on home purchase transactions. Our strategy involves competing on the basis of superior service to new and existing customers in serving their home purchase and refinancing needs. A key consideration in pursuing this approach is the cross-sell opportunity, especially in the bank footprint markets.

Residential Mortgage Banking overview:

Total loan originations decreased \$1 billion in the first six months of 2016 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. Lower net interest income was primarily due to lower 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 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 legal accruals and servicing costs.

BlackRock

(Unaudited)

Table 22: BlackRock Table

Information related to our equity investment in BlackRock follows:

Six months ended June 30

Dollars in millions	2016	2015
Business segment earnings (a)	\$ 246	\$ 269
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 June 30.

In billions	June 30 2016	December 31 2015
Carrying value of PNC's investment in BlackRock (c)	\$ 6.8	\$6.7
Market value of PNC's investment in BlackRock (d)	12.1	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 June 30, 2016 and December 31, 2015. Our voting interest in BlackRock common stock was approximately 21% at June 30, 2016.
 (d) Does not include liquidity discount.

In addition to our investment in BlackRock reflected in Table 22, at June 30, 2016, we held approximately 0.8 million shares of BlackRock Series C Preferred Stock valued at \$209 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 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 23: Non-Strategic Assets Portfolio Table

Six months ended June 30			Change	
Dollars in millions	2016	2015	\$	%
Income Statement				
Net interest income	\$ 148	\$ 212	\$ (64)	(30)%
Noninterest income	27	18	9	50%
Total revenue	175	230	(55)	(24)%
Provision for credit losses (benefit)	6	(36)	42	117%
Noninterest expense	41	50	(9)	(18)%
Pretax earnings	128	216	(88)	(41)%
Income taxes	47	79	(32)	(41)%
Earnings	\$ 81	\$ 137	\$ (56)	(41)%
Average Balance Sheet				
Loans				
Commercial Lending	\$ 704	\$ 746	\$ (42)	(6)%
Consumer Lending				
Home equity	2,081	2,937	(856)	(29)%
Residential real estate	3,189	4,103	(914)	(22)%
Total consumer lending	5,270	7,040	(1,770)	(25)%
Total loans	5,974	7,786	(1,812)	(23)%
Other assets (a)	(297)	(692)	395	57%
Total assets	\$ 5,677	\$ 7,094	\$ (1,417)	(20)%
Performance Ratios				
Return on average assets	2.88%	3.89%		
Noninterest income to total revenue	15%	8%		
Efficiency	23%	22%		
Other Information				
Nonperforming assets (b) (c)	\$ 460	\$ 616	\$ (156)	(25)%
Purchased impaired loans (b) (d)	\$ 2,628	\$ 3,663	\$ (1,035)	(28)%
Net charge-offs / (recoveries)	\$ 6	\$ (7)	\$ 13	186%
Loans (b)				
Commercial Lending	\$ 696	\$ 738	\$ (42)	(6)%
Consumer Lending				
Home equity	1,952	2,765	(813)	(29)%
Residential real estate	3,062	3,941	(879)	(22)%
Total consumer lending	5,014	6,706	(1,692)	(25)%
Total loans	\$ 5,710	\$ 7,444	\$ (1,734)	(23)%

(a) Other assets includes deferred taxes, ALLL and other real estate owned (OREO). Other assets were negative in both periods due to the ALLL.

(b) As of June 30.

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

(d) Recorded investment of purchased impaired loans related to acquisitions. This segment contained 81% of PNC's purchased impaired loans at June 30, 2016 and 82% at June 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 had earnings of \$81 million in the first six months of 2016 compared with \$137 million in the first six months of 2015. Earnings decreased primarily due to a declining loan portfolio and a provision for credit losses in the current period compared to a benefit in the prior year period.

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.

Noninterest income increased in the comparison, driven by a release of excess reserves for estimated losses on repurchase obligations in the first quarter 2016 related to a settlement.

The change in provision for credit losses (benefit) was driven by higher commercial recoveries and a release of reserves in 2015.

Noninterest expense declined due to lower costs of managing and servicing the loan portfolios as the portfolio balance continues to decline.

Average portfolio loans declined in the comparison 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 purchase 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. We plan to adopt the ASU consistent with the deferred mandatory effective date. 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

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

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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 public business entities that are SEC filers 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.

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

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.

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 six months of 2016, except for certain energy related loans.

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Provision for credit losses for the second quarter of 2016 increased to \$127 million compared to \$46 million for the second quarter of 2015. For the six months ended June 30, 2016, provision for credit losses increased to \$279 million compared with \$100 million for the six months ended June 30, 2015. During the first six months of 2016, provision included \$128 million related to energy loans in the oil, gas, and coal sectors, of which \$48 million was included in the second quarter.

Nonperforming assets at June 30, 2016 increased \$90 million compared with December 31, 2015 due to higher nonperforming commercial loans driven by energy related loans, partially offset by declining home equity and residential real estate nonperforming loans, and lower OREO and foreclosed assets. Nonperforming assets were 0.70% of total assets at June 30, 2016 compared with 0.68% at December 31, 2015.

Overall loan delinquencies totaled \$1.5 billion at June 30, 2016, a decrease of \$179 million, or 11%, from year-end 2015. The reduction was due in large part to a decrease in accruing government insured consumer lending past due loans of \$129 million. Net charge-offs for the second quarter of 2016 increased to \$134 million compared to \$67 million for the second quarter of 2015. For the six months ended June 30, 2016, net charge-offs increased to \$283 million compared with \$170 million for the six months ended June 30, 2015. Increases were driven by higher commercial loan net charge-offs.

The level of ALLL remained at \$2.7 billion at both June 30, 2016 and 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 24. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further detail of nonperforming asset categories.

Table 24: Nonperforming Assets By Type

	June 30	December 31	Change	
Dollars in millions	2016	2015	\$	%
Nonperforming loans				
Commercial lending	\$ 768	\$ 545	\$ 223	41%
Consumer lending (a)	1,496	1,581	(85)	(5)%
Total nonperforming loans (b) (c)	2,264	2,126	138	6%
OREO and foreclosed assets	251	299	(48)	(16)%
Total nonperforming assets	\$ 2,515	\$ 2,425	\$ 90	4%
Amount of TDRs included in nonperforming loans	\$ 1,240	\$ 1,119	\$ 121	11%
Percentage of total nonperforming loans	55%	53%		
Nonperforming loans to total loans	1.08%	1.03%		
Nonperforming assets to total loans, OREO and foreclosed assets	1.20%	1.17%		
Nonperforming assets to total assets	.70%	.68%		
Allowance for loan and lease losses to total nonperforming loans	119%	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 June 30, 2016 and December 31, 2015, respectively. Both periods included \$.3 billion of loans that are government insured/guaranteed.

Table 25: Change in Nonperforming Assets

In millions	2016	2015
January 1	\$ 2,425	\$ 2,880
New nonperforming assets	947	708
Charge-offs and valuation adjustments	(319)	(253)
Principal activity, including paydowns and payoffs	(247)	(377)
Asset sales and transfers to loans held for sale	(166)	(190)

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Returned to performing status	(125)	(190)
June 30	\$ 2,515	\$ 2,578

As of June 30, 2016, approximately 84% of total nonperforming loans were secured by collateral which lessens reserve requirements and is expected to reduce credit losses in the event of default. As of June 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. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on these loans.

Within consumer nonperforming loans, residential real estate TDRs comprise 71% of total residential real estate nonperforming loans at June 30, 2016, up from 68% at December 31, 2015. Home equity TDRs comprise 52% of home equity nonperforming loans at June 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 June 30, 2016, our largest nonperforming asset was \$41 million in the Real Estate, Rental and Leasing Industry and our average nonperforming loan associated with commercial lending was less than \$1 million. The ten largest outstanding nonperforming assets are from the commercial lending portfolio and represent 41% and 13% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of June 30, 2016.

Table 26: OREO and Foreclosed Assets

In millions	June 30	December 31	Change	
	2016	2015	\$	%
Other real estate owned (OREO):				
Residential properties	\$ 125	\$146	\$ (21)	(14)%
Residential development properties	24	31	(7)	(23)%
Commercial properties	90	102	(12)	(12)%
Total OREO	239	279	(40)	(14)%
Foreclosed and other assets	12	20	(8)	(40)%
Total OREO and foreclosed assets	\$ 251	\$299	\$ (48)	(16)%

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

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 27: Accruing Loans Past Due (a)

Dollars in millions	Amount		Change	Percentage of Total Loans Outstanding		
	June 30	December 31		June 30	December 31	
	2016	2015	\$	%	2016	2015
Early stage loan delinquencies						
Accruing loans past due 30 to 59 days	\$ 464	\$ 511	\$ (47)	(9)%	.22%	.25%
Accruing loans past due 60 to 89 days	243	248	(5)	(2)%	.12%	.12%
Total	707	759	(52)	(7)%	.34%	.37%
Late stage loan delinquencies						
Accruing loans past due 90 days or more	754	881	(127)	(14)%	.36%	.43%
Total	\$ 1,461	\$1,640	\$ (179)	(11)%	.70%	.80%

(a) Past due loan amounts at June 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 June 30, 2016 compared to December 31, 2015 due primarily to reductions in consumer early stage delinquencies.

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Accruing loans past due 90 days or more decreased at June 30, 2016 compared to December 31, 2015 driven by declines in government insured consumer lending loans. These loans 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 \$.2 billion and \$.1 billion at June 30, 2016 and December 31, 2015, respectively.

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 additional information regarding our nonperforming loan and nonaccrual policies and further information on loan delinquencies.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled \$30.9 billion as of June 30, 2016, or 15% of the total loan portfolio. Of that total, \$18.2 billion, or 59%, were outstanding under primarily variable-rate home equity lines of credit and \$12.7 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 June 30, 2016.

As of June 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 2% of the portfolio. The remaining 44% 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 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 June 30, 2016, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

Table 28: Home Equity Lines of Credit Draw Period End Dates

In millions	Interest Only Product	Principal and Interest Product
Remainder of 2016	\$ 476	\$ 156
2017	1,927	500
2018	863	689
2019	601	531
2020	480	478
2021 and thereafter	2,876	5,767
Total (a) (b)	\$ 7,223	\$8,121

(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 \$18 million, \$42 million, \$31 million, \$23 million, \$75 million and \$436 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 June 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 \$11.4 billion as of June 30, 2016, or 5% of our total loan portfolio. Of that total, \$9.9 billion resides in the indirect auto portfolio, \$1.1 billion in the direct auto portfolio, and \$.4 billion in acquired or securitized portfolios, which has been declining as no pools have been recently acquired. The indirect auto portfolio is the largest segment and generates auto loan applications 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 759 for indirect auto loans and 773 for direct auto loans. As of June 30, 2016, 0.3% of the portfolio was nonperforming and 0.4% of our auto loan portfolio was accruing past due. We offer both new and used automobile financing to customers through our various channels. The

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portfolio comprised 59% new vehicle loans and 41% used vehicle loans at June 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 \$2.7 billion as of June 30, 2016, or 1% of our total loan portfolio and 2% of our total commercial lending portfolio. This portfolio comprised approximately \$1.1 billion in the midstream and downstream sectors, \$.9 billion to oil services companies and \$.7 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 June 30, 2016 totaled \$187 million, or 7% of total nonperforming assets.

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Our portfolio of loans outstanding in the coal industry totaled \$.5 billion as of June 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 June 30, 2016 totaled \$106 million, or 4% of total nonperforming assets.

Our ALLL at June 30, 2016 included the impact of our lending exposure to energy companies. Higher reserves for oil, gas and coal exposure drove the overall increase in the provision for credit losses. For the first six months of 2016, \$128 million, or 46%, of the provision was related to these sectors. For the second quarter of 2016, these amounts were \$48 million and 38%, respectively. Net charge-offs related to energy loans totaled \$72 million for the six months ended June 30, 2016, or 25% of total net-charge-offs. For the second quarter of 2016, these amounts were \$47 million and 35%, respectively.

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. Additional detail on TDRs is discussed below as well as in Note 3 Asset Quality in our 2015 Form 10-K.

A temporary modification, with a term between 3 and 24 months, involves a change in original loan terms for a period of time and reverts to a calculated exit rate for the remaining term of the loan as of a specific date. A permanent modification, with a term greater than 24 months, is a modification in which the terms of the original loan are changed. Permanent 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.

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

Table 29: Consumer Real Estate Related Loan Modifications

Dollars in millions	June 30, 2016		December 31, 2015	
	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Temporary modifications (a)	3,893	\$ 293	4,469	\$ 337
Permanent modifications				
Home equity	15,467	1,104	15,268	1,088
Residential real estate	8,398	1,626	8,787	1,721
Total permanent modifications	23,865	2,730	24,055	2,809
Total consumer real estate related loan modifications	27,758	\$3,023	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 re-pay. Due to the short term nature of the payment plan, there is a minimal impact to the ALLL.

Under a HAMP trial payment period, we establish an alternate payment, generally at an amount less than the contractual payment amount, for the borrower during this short time period. This allows a borrower to demonstrate successful payment performance before permanently restructuring the loan into a HAMP modification. Subsequent to successful borrower performance under the trial payment period, we will

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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. Additional detail on TDRs is discussed below as well as in Note 3 Asset Quality in our 2015 Form 10-K.

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 June 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 that is discharged from personal liability to PNC and a court approved Chapter 13 bankruptcy repayment plan).

TDRs totaled \$2.4 billion at June 30, 2016, an increase of \$97 million, or 4%, during the first six 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 June 30, 2016 and December 31, 2015, respectively. Nonperforming TDRs represent approximately 55% and 53% of total nonperforming loans, and 51% and 48% of total TDRs at June 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.

See Note 1 Accounting Policies in our 2015 Form 10-K and Note 3 Asset Quality in Part I, Item 1 of this report for additional information on loan modifications and TDRs.

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

Table 30: Loan Charge-Offs And Recoveries

Six months ended June 30	Net			Percent of Average Loans (annualized)
	Gross Charge-offs	Recoveries	Charge-offs / (Recoveries)	
Dollars in millions				
2016				
Commercial	\$ 164	\$ 61	\$ 103	.21%
Commercial real estate	20	25	(5)	(.04)%
Equipment lease financing	3	2	1	.03%
Home equity	76	38	38	.24%
Residential real estate	8	5	3	.04%
Credit card	83	9	74	3.12%
Other consumer	95	26	69	.64%
Total	\$ 449	\$ 166	\$ 283	.27%
2015				
Commercial	\$ 82	\$ 97	\$ (15)	(.03)%
Commercial real estate	25	35	(10)	(.08)%
Equipment lease financing	1	2	(1)	(.03)%
Home equity	102	44	58	.34%
Residential real estate	6	6		
Credit card	84	11	73	3.30%
Other consumer	92	27	65	.59%

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Total	\$	392	\$	222	\$	170	.17%
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Net charge-offs increased by \$113 million, or 66%, in the first six months of 2016 compared to the first six 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 \$2.7 billion at June 30, 2016 consisted of \$1.6 billion and \$1.1 billion established for the commercial lending and consumer

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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. Our PDs and LGDs are primarily determined using internal commercial loan loss data. This internal data is supplemented with third-party data and management judgment, as deemed necessary. We continue to evaluate and enhance our use of internal commercial loss data and will periodically update our PDs and LGDs as well as consider third-party data, regulatory guidance and management judgment.

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. Additionally, guarantees on loans greater than \$1 million and owner guarantees for small business loans do not significantly impact our ALLL.

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

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

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

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 June 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. We have allocated approximately \$1.6 billion, or 60%, of the ALLL at June 30, 2016 to the commercial lending category. Consumer lending allocations are made based on historical loss experience adjusted for recent activity. Approximately \$1.1 billion, or 40%, of the ALLL at June 30, 2016 has been allocated to these consumer lending categories.

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.

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We refer you to 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.

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Table 31: Allowance for Loan and Lease Losses

Dollars in millions	2016	2015
January 1	\$ 2,727	\$ 3,331
Total net charge-offs	(283)	(170)
Provision for credit losses	279	100
Net change in allowance for unfunded loan commitments and letters of credit	(42)	13
Net recoveries of purchased impaired loans	4	
Other		(2)
June 30	\$ 2,685	\$ 3,272
Net charge-offs to average loans (for the six months ended) (annualized)	.27%	.17%
Total allowance for loan and lease losses to total loans (a)	1.28%	1.59%
Commercial lending (net charge-offs) / recoveries	\$ (99)	\$ 26
Consumer lending net charge-offs	(184)	(196)
Total net charge-offs	\$ (283)	\$ (170)
<u>Net charge-offs / (recoveries) to average loans (for the six months ended) (annualized)</u>		
Commercial lending	.15%	(.04)%
Consumer lending	.51%	.53%

(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 \$279 million for the first six months of 2016 compared to \$100 million for the first six months of 2015, primarily driven by reserves for energy related exposure. For the first six months of 2016, the provision for commercial lending credit losses increased by \$133 million from the first six months of 2015. The provision for consumer lending credit losses increased \$46 million from the first six months of 2015.

At June 30, 2016, total ALLL to total nonperforming loans was 119%. The comparable amount for December 31, 2015 was 128%. These ratios are 90% and 98%, respectively, when excluding the \$.6 billion of ALLL at both June 30, 2016 and December 31, 2015 allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded consumer loans and lines of credit not secured by real estate as they are charged off after 120 to 180 days past due and not placed on nonperforming status. Additionally, we have excluded purchased impaired loans as they are considered performing regardless of their delinquency status as interest is accreted in accordance with ASC 310-30 based on the recorded investment balance. See Table 24 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 six months of 2016, overall credit

quality remained relatively stable offsetting impacts from certain energy related loans, which resulted in an essentially flat ALLL balance as of June 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. For PNC and PNC Bank, the LCR became effective January 1, 2015. The minimum required LCR will be phased-in over a period of years. The minimum LCR that PNC and PNC Bank were required to maintain was 80% in 2015 and such minimum increased to 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.

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As of June 30, 2016, the LCR for PNC and PNC Bank exceeded 100 percent.

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 June 30, 2016, there were approximately \$10.7 billion of bank borrowings with contractual maturities of less than one year, including \$2.3 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.

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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 \$249.8 billion at June 30, 2016 from \$249.0 billion at December 31, 2015, driven by growth in savings 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 June 30, 2016, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling \$30.2 billion and securities available for sale totaling \$56.9 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 \$87.1 billion, we had \$4.3 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, \$5.4 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, PNC Bank may from time to time offer 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. On May 27, 2016, PNC Bank increased the capacity of this program by \$10.0 billion to a maximum aggregate principal amount at any one time outstanding of \$40.0 billion. The \$40.0 billion of notes authorized to be issued and outstanding at any one time 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 June 30, 2016, PNC Bank had \$25.9 billion of notes outstanding under this program of which \$19.7 billion was senior bank notes and \$6.2 billion was subordinated bank notes. The following table details all issuances during 2016:

Table 32: 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.

Total senior and subordinated debt of PNC Bank increased to \$27.9 billion at June 30, 2016 from \$25.5 billion at December 31, 2015 due to the following activity in the period.

Table 33: PNC Bank Senior and Subordinated Debt

In billions	2016
January 1	\$ 25.5
Issuances	2.9
Calls and maturities	(1.0)
Other	.5
June 30	\$ 27.9

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See Note 15 Subsequent Events in the Notes to Consolidated Financial Statements of this Report for information on the issuance of senior notes by PNC Bank on July 29, 2016.

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 June 30, 2016, our unused secured borrowing capacity was \$25.0 billion with the FHLB-Pittsburgh. Total FHLB borrowings decreased to \$18.1 billion at June 30, 2016 from \$20.1 billion at December 31, 2015 due to the following activity in the period.

Table 34: FHLB Borrowings

In billions	2016
January 1	\$ 20.1
Issuances	3.0
Calls and maturities	(5.0)
June 30	\$ 18.1

The FHLB-Pittsburgh also periodically provides standby letters of credit on behalf of PNC Bank to secure certain public deposits. PNC Bank began using standby letters of credit issued by the FHLB-Pittsburgh for these purposes in response to the regulatory liquidity standards finalized during 2014. 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 June 30, 2016, standby letters of credit issued on our behalf by the FHLB-Pittsburgh totaled \$4.9 billion.

PNC Bank has the ability to offer up to \$10.0 billion of its commercial paper to provide additional liquidity. As of June 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 June 30, 2016, our unused secured borrowing capacity was \$16.1 billion with the Federal Reserve Bank.

Parent Company Liquidity

As of June 30, 2016, available parent company liquidity totaled \$4.8 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 June 30, 2016, there were approximately \$1.9 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 Note 15 Subsequent Events in the Notes To Consolidated Financial Statements of this Report for information on the redemption notice issued on July 18, 2016 with respect to Senior Notes issued by PNC Funding Corp.

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 second quarter repurchase of 6.1 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,

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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 \$1.3 billion at June 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.

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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 increased to \$7.7 billion at June 30, 2016 from \$7.5 billion at December 31, 2015 due to the following activity in the period.

Table 35: Parent Company Senior and Subordinated Debt and Hybrid Capital Instruments

In billions	2016
January 1	\$ 7.5
Other	.2
June 30	\$ 7.7

The parent company has the ability to offer up to \$5.0 billion of commercial paper to provide additional liquidity. As of June 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 36: Credit Ratings as of June 30, 2016 for PNC and PNC Bank

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

Contractual Obligations and Commitments

We have contractual obligations representing required future payments on borrowed funds, time deposits, leases, pension and postretirement benefits, and purchase obligations. See the Liquidity 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:

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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 second quarters of 2016 and 2015 follow:

Table 37: Interest Sensitivity Analysis

	Second Quarter 2016	Second Quarter 2015
Net Interest Income Sensitivity Simulation (a)		
Effect on net interest income in first year from gradual interest rate change over the following 12 months of:		
100 basis point increase	3.1%	1.7%
100 basis point decrease	(3.2)%	(.5)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	8.1%	5.7%
100 basis point decrease	(8.5)%	(4.6)%
Duration of Equity Model (a)		
Base case duration of equity (in years)	(8.5)	(3.5)
Key Period-End Interest Rates		
One-month LIBOR	.47%	.19%
Three-year swap	.81%	1.25%

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

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. Table 38 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 38: Net Interest Income Sensitivity to Alternative Rate Scenarios (Second Quarter 2016)

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	2.9%	.7%	(2.0)%
Second year sensitivity	9.8%	1.8%	(7.0)%

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 37 and 38 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 39: Alternate Interest Rate Scenarios: One Year Forward

The second 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 six 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 decreased to \$89 million for the first six months of 2016 compared with \$102 million for the first six months of 2015. This decrease was primarily due to market interest rate changes impacting credit valuations for customer-related derivatives.

Customer-related trading revenue decreased to \$50 million for the second quarter of 2016 compared with \$53 million for the second quarter of 2015. This decrease was primarily due to market interest rate changes impacting credit valuations for customer-related derivatives, partially offset by higher derivative client sales and improved client-related trading 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.

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

A summary of our equity investments follows:

Table 40: Equity Investments Summary

	June 30	December 31	Change	
In millions	2016	2015	\$	%
BlackRock	\$ 6,710	\$ 6,626	\$ 84	1%
Tax credit investments	2,093	2,254	(161)	(7)%
Private equity	1,398	1,441	(43)	(3)%
Visa	2	31	(29)	(94)%
Other	266	235	31	13%
Total	\$ 10,469	\$ 10,587	\$ (118)	(1)%

PNC owned approximately 35 million common stock equivalent shares of BlackRock equity at June 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 \$671 million and \$669 million at June 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 June 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

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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 and the Recent Market and Industry Developments portion of the Executive Summary section of this Financial Review 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 \$131 million at June 30, 2016 compared with \$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 the Notes To Consolidated Financial Statements in this Report for more detail on the status of the pending interchange litigation.

During the first six 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 June 30, 2016, our investment in Visa Class B common shares totaled approximately 3.5 million shares. Based on the June 30, 2016 closing price of \$74.17 for the Visa Class A common shares, the fair value of our total investment was approximately \$430 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

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 six months of 2016 and 2015.

Our unfunded commitments related to other investments at June 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 June 30, 2016 and December 31, 2015.

Table 41: Financial Derivatives Summary

In millions	June 30, 2016		December 31, 2015	
	Notional/ Contractual Amount	Net Fair Value (a)	Notional/ Contractual Amount	Net Fair Value (a)
Derivatives designated as hedging instruments under GAAP				
Total derivatives designated as hedging instruments	\$ 53,982	\$ 1,660	\$ 52,074	\$ 985
Derivatives not designated as hedging instruments under GAAP				
Total derivatives used for residential mortgage banking activities	77,058	561	73,891	376
Total derivatives used for commercial mortgage banking activities	10,557	90	24,091	36
Total derivatives used for customer-related activities	209,394	155	192,621	151
Total derivatives used for other risk management activities	5,734	(307)	5,299	(409)
Total derivatives not designated as hedging instruments	302,743	499	295,902	154
Total Derivatives	\$ 356,725	\$ 2,159	\$ 347,976	\$ 1,139

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

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of June 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.

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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 June 30, 2016, and that there has been no change in PNC's internal control over financial reporting that occurred during the second 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.

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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 lower short-term interest rates and bond yields in the aftermath of Brexit will hold fairly steady before gradually rising late this year. 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 first quarter 2016 Form 10-Q 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 June 30		Six months ended June 30	
In millions, except per share data	2016	2015	2016	2015
Interest Income				
Loans	\$ 1,829	\$ 1,791	\$ 3,672	\$ 3,593
Investment securities	456	407	918	813
Other	99	107	201	218
Total interest income	2,384	2,305	4,791	4,624
Interest Expense				
Deposits	104	98	209	190
Borrowed funds	212	155	416	310
Total interest expense	316	253	625	500
Net interest income	2,068	2,052	4,166	4,124
Noninterest Income				
Asset management	377	416	718	792
Consumer services	354	334	691	645
Corporate services	403	369	728	713
Residential mortgage	165	164	265	328
Service charges on deposits	163	156	321	309
Net gains on sales of securities	4	8	13	50
Other	260	367	557	636
Total noninterest income	1,726	1,814	3,293	3,473
Total revenue	3,794	3,866	7,459	7,597
Provision For Credit Losses	127	46	279	100
Noninterest Expense				
Personnel	1,226	1,200	2,371	2,357
Occupancy	215	209	436	425
Equipment	240	231	474	453
Marketing	61	67	115	129
Other	618	659	1,245	1,351
Total noninterest expense	2,360	2,366	4,641	4,715
Income before income taxes and noncontrolling interests	1,307	1,454	2,539	2,782
Income taxes	318	410	607	734
Net income	989	1,044	1,932	2,048
Less: Net income (loss) attributable to noncontrolling interests	23	4	42	5
Preferred stock dividends and discount accretion and redemptions	43	48	108	118
Net income attributable to common shareholders	\$ 923	\$ 992	\$ 1,782	\$ 1,925
Earnings Per Common Share				
Basic	\$ 1.84	\$ 1.92	\$ 3.54	\$ 3.71
Diluted	\$ 1.82	\$ 1.88	\$ 3.49	\$ 3.63
Average Common Shares Outstanding				
Basic	497	517	499	519
Diluted	503	525	505	527

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited	Three months ended		Six months ended	
	June 30		June 30	
In millions	2016	2015	2016	2015
Net income	\$ 989	\$ 1,044	\$ 1,932	\$ 2,048
Other comprehensive income (loss), before tax and net of reclassifications into Net income:				
Net unrealized gains (losses) on non-OTTI securities	273	(365)	777	(291)
Net unrealized gains (losses) on OTTI securities	17	4	(21)	7
Net unrealized gains (losses) on cash flow hedge derivatives	63	(170)	263	69
Pension and other postretirement benefit plan adjustments	3	(10)	15	50
Other	12	(9)	(15)	(36)
Other comprehensive income (loss), before tax and net of reclassifications into Net income	368	(550)	1,019	(201)
Income tax benefit (expense) related to items of other comprehensive income	(164)	226	(413)	77
Other comprehensive income (loss), after tax and net of reclassifications into Net income	204	(324)	606	(124)
Comprehensive income	1,193	720	2,538	1,924
Less: Comprehensive income (loss) attributable to noncontrolling interests	23	4	42	5
Comprehensive income attributable to PNC	\$ 1,170	\$ 716	\$ 2,496	\$ 1,919

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited

In millions, except par value	June 30 2016	December 31 2015
Assets		
Cash and due from banks (a)	\$ 4,196	\$ 4,065
Federal funds sold and resale agreements (b)	1,476	1,369
Trading securities	2,006	1,726
Interest-earning deposits with banks (a)	26,750	30,546
Loans held for sale (b)	2,296	1,540
Investment securities	71,801	70,528
Loans (b)	209,056	206,696
Allowance for loan and lease losses	(2,685)	(2,727)
Net loans (a)	206,371	203,969
Goodwill	9,103	9,103
Mortgage servicing rights	1,222	1,589
Other intangible assets	329	379
Equity investments (a)	10,469	10,587
Other (a) (b)	25,316	23,092
Total assets	\$ 361,335	\$ 358,493
Liabilities		
Deposits		
Noninterest-bearing	\$ 77,866	\$ 79,435
Interest-bearing	171,912	169,567
Total deposits	249,778	249,002
Borrowed funds		
Federal funds purchased and repurchase agreements	1,620	1,777
Federal Home Loan Bank borrowings	18,055	20,108
Bank notes and senior debt	23,588	21,298
Subordinated debt	8,764	8,556
Other (c) (d)	2,544	2,793
Total borrowed funds	54,571	54,532
Allowance for unfunded loan commitments and letters of credit	303	261
Accrued expenses (c)	5,080	4,975
Other (c)	4,904	3,743
Total liabilities	314,636	312,513
Equity		
Preferred stock (e)		
Common stock (\$5 par value, authorized 800 shares, issued 542 shares)	2,709	2,708
Capital surplus preferred stock	3,455	3,452
Capital surplus common stock and other	12,653	12,745
Retained earnings	30,309	29,043
Accumulated other comprehensive income (loss)	736	130
Common stock held in treasury at cost: 49 and 38 shares	(4,304)	(3,368)
Total shareholders equity	45,558	44,710
Noncontrolling interests	1,141	1,270
Total equity	46,699	45,980
Total liabilities and equity	\$ 361,335	\$ 358,493

- (a) Our consolidated assets at June 30, 2016 included the following assets of certain variable interest entities (VIEs): Equity investments of \$220 million and Other assets of \$47 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 June 30, 2016 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 \$2.1 billion, Loans of \$9 billion, and Other assets of \$349 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 June 30, 2016 included liabilities of \$11 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 June 30, 2016 and December 31, 2015 included Other borrowed funds of \$70 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited	Six months ended June 30	
In millions	2016	2015
<i>Operating Activities</i>		
Net income	\$ 1,932	\$ 2,048
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for credit losses	279	100
Depreciation and amortization	561	530
Deferred income taxes	(68)	109
Net gains on sales of securities	(13)	(50)
Changes in fair value of mortgage servicing rights	527	43
Gain on sales of Visa Class B common shares	(126)	(79)
Undistributed earnings of BlackRock	(148)	(196)
Net change in		
Trading securities and other short-term investments	(865)	(22)
Loans held for sale	(728)	(391)
Other assets	(2,516)	22
Accrued expenses and other liabilities	2,179	(186)
Other	(253)	(272)
Net cash provided (used) by operating activities	761	1,656
<i>Investing Activities</i>		
Sales		
Securities available for sale	2,084	2,402
Loans	875	958
Repayments/maturities		
Securities available for sale	4,895	3,933
Securities held to maturity	1,251	1,054
Purchases		
Securities available for sale	(7,182)	(9,706)
Securities held to maturity	(1,587)	(3,049)
Loans	(504)	(355)
Net change in		
Federal funds sold and resale agreements	(107)	(119)
Interest-earning deposits with banks	3,796	(2,190)
Loans	(3,659)	(1,017)
Other	49	(394)
Net cash provided (used) by investing activities	(89)	(8,483)

(continued on following page)

CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

(continued from previous page)

Unaudited	Six months ended June 30	
In millions	2016	2015
Financing Activities		
Net change in		
Noninterest-bearing deposits	\$ (1,113)	\$ 3,909
Interest-bearing deposits	2,345	3,580
Federal funds purchased and repurchase agreements	(157)	(1,320)
Commercial paper		(158)
Other borrowed funds	524	712
Sales/issuances		
Federal Home Loan Bank borrowings		2,250
Bank notes and senior debt	2,856	4,932
Commercial paper		1,393
Other borrowed funds	133	586
Common and treasury stock	29	109
Repayments/maturities		
Federal Home Loan Bank borrowings	(2,053)	(62)
Bank notes and senior debt	(993)	(2,134)
Subordinated debt	38	39
Commercial paper	(14)	(3,274)
Other borrowed funds	(461)	(1,532)
Preferred stock redemption		(500)
Acquisition of treasury stock	(1,054)	(1,020)
Preferred stock cash dividends paid	(105)	(115)
Common stock cash dividends paid	(516)	(516)
Net cash provided (used) by financing activities	(541)	6,879
Net Increase (Decrease) In Cash And Due From Banks	131	52
Cash and due from banks at beginning of period	4,065	4,360
Cash and due from banks at end of period	\$ 4,196	\$ 4,412
Supplemental Disclosures		
Interest paid	\$ 664	\$ 503
Income taxes paid	\$ 284	\$ 191
Income taxes refunded	\$ 35	\$ 1
Non-cash Investing and Financing Items		
Transfer from (to) loans to (from) loans held for sale, net	\$ 367	\$ 3
Transfer from loans to foreclosed assets	\$ 158	\$ 227
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. The consolidated financial statements include certain adjustments to correct immaterial errors related to previously reported periods.

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 second quarter of 2016.

NOTE 2 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES

Loan Sale and Servicing Activities

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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.

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

Table 42: Cash Flows Associated with Loan Sale and Servicing Activities

In millions	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/Lines (b)
CASH FLOWS Three months ended June 30, 2016			
Sales of loans (c)	\$ 1,408	\$ 804	
Repurchases of previously transferred loans (d)	\$ 103		
Servicing fees (e)	\$ 93	\$ 32	\$ 3
Servicing advances recovered/(funded), net	\$ 48	\$ (24)	\$ (4)
Cash flows on mortgage-backed securities held (f)	\$ 417	\$ 92	
CASH FLOWS Three months ended June 30, 2015			
Sales of loans (c)	\$ 2,015	\$ 1,159	
Repurchases of previously transferred loans (d)	\$ 134		
Servicing fees (e)	\$ 82	\$ 36	\$ 4
Servicing advances recovered/(funded), net	\$ 47	\$ 21	\$ 1
Cash flows on mortgage-backed securities held (f)	\$ 429	\$ 54	
CASH FLOWS Six months ended June 30, 2016			
Sales of loans (c)	\$ 2,846	\$ 1,454	
Repurchases of previously transferred loans (d)	\$ 263		
Servicing fees (e)	\$ 186	\$ 62	\$ 6
Servicing advances recovered/(funded), net	\$ 76	\$ 7	\$ 20
Cash flows on mortgage-backed securities held (f)	\$ 769	\$ 197	
CASH FLOWS Six months ended June 30, 2015			
Sales of loans (c)	\$ 3,955	\$ 2,179	
Repurchases of previously transferred loans (d)	\$ 303		\$ 2
Servicing fees (e)	\$ 165	\$ 68	\$ 8
Servicing advances recovered/(funded), net	\$ 38	\$ 28	\$ 25
Cash flows on mortgage-backed securities held (f)	\$ 669	\$ 114	

(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 \$6.4 billion in residential mortgage-backed securities and \$1.1 billion in commercial mortgage-backed securities at June 30, 2016 and \$5.6 billion in residential mortgage-backed securities and \$1.2 billion in commercial mortgage-backed securities at June 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 43: Principal Balance, Delinquent Loans, and**Net Charge-offs Related to Serviced Loans For Others**

In millions	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/Lines (b)
June 30, 2016			
Total principal balance	\$ 69,268	\$ 49,625	\$ 2,533
Delinquent loans (c)	\$ 1,555	\$ 1,035	\$ 893
December 31, 2015			
Total principal balance	\$ 72,898	\$ 53,789	\$ 2,806
Delinquent loans (c)	\$ 1,923	\$ 1,057	\$ 904
Three months ended June 30, 2016			
Net charge-offs (d)	\$ 28	\$ 157	\$ 9
Three months ended June 30, 2015			
Net charge-offs (d)	\$ 37	\$ 148	\$ 8
Six months ended June 30, 2016			
Net charge-offs (d)	\$ 54	\$ 1,069	\$ 16
Six months ended June 30, 2015			
Net charge-offs (d)	\$ 69	\$ 255	\$ 15

(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 June 30, 2016 and December 31, 2015, respectively. Amounts presented for June 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 44: Consolidated VIEs Carrying Value (a)

June 30, 2016 (b)

In millions	Total
Assets	
Equity investments	\$ 220
Other assets	47
Total assets	\$ 267
Total liabilities	\$ 11
Noncontrolling interests	\$ 123

December 31, 2015

In millions	Total
Assets	

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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
Other assets	402
Total assets	\$ 1,893
Liabilities	
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 June 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 45 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 45. These loans are included as part of the asset quality disclosures that we make in Note 3 Asset Quality.

Table 45: Non-Consolidated VIEs

In millions	PNC Risk of Loss (a)	Carrying Value of Assets Owned by PNC	Carrying Value of Liabilities Owned by PNC
June 30, 2016 (b)			
Commercial Mortgage-Backed Securitizations (c)	\$ 1,284	\$ 1,284 (d)	
Residential Mortgage-Backed Securitizations (c)	6,406	6,406 (d)	\$ 1 (f)
Tax Credit Investments and Other	3,042	2,963 (e)	771 (g)
Total	\$ 10,732	\$ 10,653	\$ 772
December 31, 2015			
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 June 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 six months ended June 30, 2016, we recognized \$105 million of amortization, \$111 million of tax credits, and \$38 million of other tax benefits associated with qualified investments in low income housing tax credits within Income taxes. The amounts for the second quarter of 2016 were \$53 million, \$55 million and \$19 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.

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

Table 46: Analysis of Loan Portfolio (a)

Dollars in millions	Accruing					Total Past Due (b)	Nonperforming Loans	Fair Value Option Nonaccrual Loans (c)	Purchased Impaired Loans	Total Loans (d) (e)
	Current or Less Than 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due					
June 30, 2016										
Commercial Lending										
Commercial	\$ 99,797	\$ 61	\$ 34	\$ 38	\$ 133	\$ 606		\$ 26	\$ 100,562	
Commercial real estate	28,569	5	11		16	143		112	28,840	
Equipment lease financing	7,596	1	4		5	19			7,620	
Total commercial lending	135,962	67	49	38	154	768		138	137,022	
Consumer Lending										
Home equity	28,604	63	27		90	926		1,263	30,883	
Residential real estate (f)	11,554	128	65	489	682	513	\$ 215	1,835	14,799	
Credit card	4,820	25	17	30	72	4			4,896	
Other consumer (g)	20,940	181	85	197	463	53			21,456	
Total consumer lending	65,918	397	194	716	1,307	1,496	215	3,098	72,034	
Total	\$ 201,880	\$ 464	\$ 243	\$ 754	\$ 1,461	\$ 2,264	\$ 215	\$ 3,236	\$ 209,056	
Percentage of total loans	96.57%	.22%	.12%	.36%	.70%	1.08%	.10%	1.55%	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 (f)	10,918	142	65	566	773	549	\$ 225	1,946	14,411	
Credit card	4,779	28	19	33	80	3			4,862	
Other consumer (g)	21,181	180	96	237	513	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 accreting interest income over the expected life of the loans.
- (c) Consumer loans accounted for under the fair value option for which we do not expect to collect substantially all principal and interest are subject to nonaccrual accounting and classification upon meeting any of our nonaccrual policies. Given that these loans are not accounted for at amortized cost, these loans have been excluded from the nonperforming loan population.
- (d) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling \$1.4 billion at both June 30, 2016 and December 31, 2015.
- (e) Future accretable yield related to purchased impaired loans is not included in the analysis of loan portfolio.
- (f) Past due loan amounts at June 30, 2016 include government insured or guaranteed Residential real estate mortgages totaling \$57 million for 30 to 59 days past due, \$47 million for 60 to 89 days past due and \$466 million for 90 days or more past due. Past due loan amounts at December 31, 2015 include government insured or guaranteed Residential real estate mortgages totaling \$56 million for 30 to 59 days past due, \$45 million for 60 to 89 days past due and \$545 million for 90 days or more past due.
- (g) Past due loan amounts at June 30, 2016 include government insured or guaranteed Other consumer loans totaling \$110 million for 30 to 59 days past due, \$64 million for 60 to 89 days past due and \$184 million for 90 days or more past due. Past due loan amounts at December 31, 2015 include government insured or guaranteed Other consumer loans totaling \$116 million for 30 to 59 days past due, \$75 million for 60 to 89 days past due and \$220 million for 90 days or more past due.

At June 30, 2016, we pledged \$20.9 billion of commercial loans to the Federal Reserve Bank (FRB) and \$58.1 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

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at December 31, 2015 were \$20.2 billion and \$56.4 billion, respectively.

Table 47: Nonperforming Assets

Dollars in millions	June 30 2016	December 31 2015
Nonperforming loans		
Total commercial lending	\$ 768	\$ 545
Total consumer lending (a)	1,496	1,581
Total nonperforming loans (b) (c)	2,264	2,126
OREO and foreclosed assets		
Other real estate owned (OREO)	239	279
Foreclosed and other assets	12	20
Total OREO and foreclosed assets	251	299
Total nonperforming assets	\$ 2,515	\$ 2,425
Nonperforming loans to total loans	1.08%	1.03%
Nonperforming assets to total loans, OREO and foreclosed assets	1.20	1.17
Nonperforming assets to total assets	.70	.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 June 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 June 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 June 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 is comprised of multiple loan classes. Classes are characterized by similarities in initial measurement, risk attributes and the manner in which we monitor and assess credit risk. The Commercial Lending segment is comprised of the commercial, commercial real estate, equipment lease financing, and commercial purchased impaired loan classes. The Consumer Lending segment is comprised 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 (SAC), ongoing outreach, contact, and assessment of obligor financial conditions, collateral inspection and appraisal.

Table 48: Commercial Lending Asset Quality Indicators (a) (b)

In millions	Pass Rated	Special Mention (c)	Criticized Commercial Loans		Total Loans
			Substandard (d)	Doubtful (e)	
June 30, 2016					
Commercial	\$ 94,962	\$ 2,174	\$ 3,237	\$ 163	\$ 100,536
Commercial real estate	28,251	68	398	11	28,728
Equipment lease financing	7,336	56	219	9	7,620
Purchased impaired loans	35	1	91	11	138
Total commercial lending	\$ 130,584	\$ 2,299	\$ 3,945	\$ 194	\$ 137,022
December 31, 2015					
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 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 49: Home Equity and Residential Real Estate Balances

In millions	June 30 2016	December 31 2015
Home equity and residential real estate loans excluding purchased impaired loans (a)	\$ 41,750	\$ 42,268
Home equity and residential real estate loans purchased impaired loans (b)	3,379	3,684
Government insured or guaranteed residential real estate mortgages (a)	834	923
Difference between outstanding balance and recorded investment in purchased impaired loans	(281)	(331)
Total home equity and residential real estate loans (a)	\$ 45,682	\$ 46,544

(a) Represents recorded investment.

(b) Represents outstanding balance.

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

June 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	\$ 213	\$ 815	\$ 227	\$ 1,255
Less than or equal to 660 (d) (e)	35	148	51	234
Missing FICO	1	6	9	16
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	553	1,541	444	2,538
Less than or equal to 660 (d) (e)	78	260	105	443
Missing FICO	3	3	12	18
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	626	1,357	561	2,544
Less than or equal to 660	81	203	82	366
Missing FICO	1	2	16	19
Less than 90% and updated FICO scores:				
Greater than 660	13,928	7,631	9,734	31,293
Less than or equal to 660	1,257	842	600	2,699
Missing FICO	24	12	287	323
Missing LTV and updated FICO scores:				
Greater than 660			2	2
Total home equity and residential real estate loans	\$ 16,800	\$ 12,820	\$ 12,130	\$ 41,750

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

(a) Excludes purchased impaired loans of approximately \$3.1 billion and \$3.4 billion in recorded investment, certain government insured or guaranteed residential real estate mortgages of approximately \$.8 billion and \$.9 billion, and loans held for sale at June 30, 2016 and December 31, 2015, respectively. 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)

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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 June 30, 2016: New Jersey 16%, Pennsylvania 12%, Illinois 11%, Ohio 11%, Florida 7%, Maryland 7% and Michigan 4%. The remainder of the states had lower than 4% of the higher risk loans individually, and collectively they represent approximately 32% 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 51: Home Equity and Residential Real Estate Asset Quality Indicators Purchased Impaired Loans (a)

June 30, 2016 in millions	Home Equity (b) (c)		Residential Real Estate (b) (c)	Total
	1st Liens	2nd Liens		
Current estimated LTV ratios (d)				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	\$ 5	\$ 138	\$ 162	\$ 305
Less than or equal to 660	5	62	60	127
Missing FICO		2	4	6
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	9	314	165	488
Less than or equal to 660	8	126	104	238
Missing FICO		2	6	8
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	8	158	122	288
Less than or equal to 660	5	71	66	142
Missing FICO		1	3	4
Less than 90% and updated FICO scores:				
Greater than 660	116	325	609	1,050
Less than or equal to 660	81	168	421	670
Missing FICO	1	3	26	30
Missing LTV and updated FICO scores:				
Greater than 660	2		15	17
Less than or equal to 660	1		4	5
Missing FICO			1	1
Total home equity and residential real estate loans	\$ 241	\$ 1,370	\$ 1,768	\$ 3,379

December 31, 2015 in millions	Home Equity (b) (c)		Residential Real Estate (b) (c)	Total
	1st Liens	2nd Liens		
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

(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 June 30, 2016: 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. The following states had the highest percentage of purchased impaired loans at 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). 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

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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 52: 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
June 30, 2016				
FICO score greater than 719	\$ 2,979	61%	\$ 9,765	66%
650 to 719	1,362	28	3,594	24
620 to 649	196	4	507	3
Less than 620	207	4	584	4
No FICO score available or required (c)	152	3	368	3
Total loans using FICO credit metric	4,896	100%	14,818	100%
Consumer loans using other internal credit metrics (b)			6,638	
Total loan balance	\$ 4,896		\$ 21,456	
Weighted-average updated FICO score (d)		735		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 June 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 June 30, 2016 balance related to higher risk credit card loans was geographically distributed throughout the following areas: Ohio 17%, Pennsylvania 16%, Michigan 8%, New Jersey 8%, Florida 7%, Illinois 6%, Maryland 5%, Kentucky 4%, and Indiana 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 53: Summary of Troubled Debt Restructurings**

In millions	June 30 2016	December 31 2015
Total commercial lending	\$ 588	\$ 434
Total consumer lending	1,860	1,917
Total TDRs	\$ 2,448	\$ 2,351

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Nonperforming	\$ 1,240	\$ 1,119
Accruing (a)	1,208	1,232
Total TDRs	\$ 2,448	\$ 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 \$.4 billion and \$.3 billion at June 30, 2016 and December 31, 2015, respectively, for the total TDR portfolio.

Table 54 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 six months and second 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 54: Financial Impact and TDRs by Concession Type (a)

	Pre-TDR		Post-TDR Recorded Investment (c)			Total
	Number of Loans	Recorded Investment (b)	Principal Forgiveness (d)	Rate Reduction (e)	Other (f)	
During the three months ended June 30, 2016						
Dollars in millions						
Total commercial lending	30	\$ 204		\$ 42	\$ 141	\$ 183
Total consumer lending	2,670	57		38	16	54
Total TDRs	2,700	\$ 261		\$ 80	\$ 157	\$ 237
During the three months ended June 30, 2015						
Dollars in millions						
Total commercial lending	37	\$ 42	\$ 4	\$ 3	\$ 21	\$ 28
Total consumer lending	2,769	86		47	36	83
Total TDRs	2,806	\$ 128	\$ 4	\$ 50	\$ 57	\$ 111

Table 54: Financial Impact and TDRs by Concession Type (Continued) (a)

	Pre-TDR		Post-TDR Recorded Investment (c)			Total
	Number of Loans	Recorded Investment (b)	Principal Forgiveness (d)	Rate Reduction (e)	Other (f)	
During the six months ended June 30, 2016						
Dollars in millions						
Total commercial lending	72	\$ 372		\$ 52	\$ 283	\$ 335
Total consumer lending	5,635	125		82	36	118
Total TDRs	5,707	\$ 497		\$ 134	\$ 319	\$ 453
During the six months ended June 30, 2015						
Dollars in millions						
Total commercial lending (d)	75	\$ 105	\$ 6	\$ 3	\$ 72	\$ 81
Total consumer lending	5,386	155		88	61	149
Total TDRs	5,461	\$ 260	\$ 6	\$ 91	\$ 133	\$ 230

(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 six months ended June 30, 2016 totaled \$38 million and \$59 million, respectively. The comparable amounts for the three months and six months ended June 30, 2015 totaled \$27 million and \$45 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. Nonperforming equipment lease financing loans of \$19 million and \$7 million at June 30, 2016 and December 31, 2015, respectively, are excluded from impaired loans pursuant to authoritative lease accounting guidance. We did not recognize any interest income on impaired loans that have not returned to performing status, while they were impaired during the six months ended June 30, 2016 and June 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 55: Impaired Loans

In millions	Unpaid Principal Balance	Recorded Investment	Associated Allowance (a)	Average Recorded Investment (b)
June 30, 2016				
<u>Impaired loans with an associated allowance</u>				
Commercial	\$ 661	\$ 489	\$ 140	\$ 395
Commercial real estate	200	97	27	110
Home equity	919	875	196	904
Residential real estate	246	245	31	258
Credit card	104	104	26	106
Other consumer	27	24	1	25
Total impaired loans with an associated allowance	\$ 2,157	\$ 1,834	\$ 421	\$ 1,798
<u>Impaired loans without an associated allowance</u>				
Commercial	\$ 328	\$ 230		\$ 222
Commercial real estate	201	144		152
Home equity	471	215		200
Residential real estate	509	389		389
Other consumer	23	8		8
Total impaired loans without an associated allowance	\$ 1,532	\$ 986		\$ 971
Total impaired loans	\$ 3,689	\$ 2,820	\$ 421	\$ 2,769
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 \$.4 billion and \$.3 billion for TDRs at June 30, 2016 and December 31, 2015, respectively.

(b) Average recorded investment is for the six months ended June 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 56: Rollforward of Allowance for Loan and Lease Losses and Associated Loan Data

In millions	Commercial Lending	Consumer Lending	Total
June 30, 2016			
<u>Allowance for Loan and Lease Losses</u>			
January 1	\$ 1,605	\$ 1,122	\$ 2,727
Charge-offs	(187)	(262)	(449)
Recoveries	88	78	166
Net (charge-offs) / recoveries	(99)	(184)	(283)
Provision for credit losses	153	126	279
Net change in allowance for unfunded loan commitments and letters of credit	(41)	(1)	(42)
Net recoveries of purchased impaired loans		4	4
June 30	\$ 1,618	\$ 1,067	\$ 2,685
TDRs individually evaluated for impairment	\$ 103	\$ 254	\$ 357
Other loans individually evaluated for impairment	64		64
Loans collectively evaluated for impairment	1,407	532	1,939
Purchased impaired loans	44	281	325
June 30	\$ 1,618	\$ 1,067	\$ 2,685
<u>Loan Portfolio</u>			
TDRs individually evaluated for impairment (a)	\$ 588	\$ 1,860	\$ 2,448
Other loans individually evaluated for impairment	372		372
Loans collectively evaluated for impairment (b)	135,924	66,225	202,149
Fair value option loans (c)		851	851
Purchased impaired loans	138	3,098	3,236
June 30	\$ 137,022	\$ 72,034	\$ 209,056
Portfolio segment ALLL as a percentage of total ALLL	60%	40%	100%
Ratio of the allowance for loan and lease losses to total loans (d)	1.18%	1.48%	1.28%
June 30, 2015			
<u>Allowance for Loan and Lease Losses</u>			
January 1	\$ 1,571	\$ 1,760	\$ 3,331
Charge-offs	(108)	(284)	(392)
Recoveries	134	88	222
Net charge-offs	26	(196)	(170)
Provision for credit losses	20	80	100
Net change in allowance for unfunded loan commitments and letters of credit	13		13
Other	(2)		(2)
June 30	\$ 1,628	\$ 1,644	\$ 3,272
TDRs individually evaluated for impairment	\$ 35	\$ 274	\$ 309
Other loans individually evaluated for impairment	65		65
Loans collectively evaluated for impairment	1,461	582	2,043
Purchased impaired loans	67	788	855
June 30	\$ 1,628	\$ 1,644	\$ 3,272
<u>Loan Portfolio</u>			
TDRs individually evaluated for impairment (a)	\$ 414	\$ 2,002	\$ 2,416
Other loans individually evaluated for impairment	282		282
Loans collectively evaluated for impairment (b)	129,791	67,258	197,049
Fair value option loans (c)		941	941
Purchased impaired loans	235	4,230	4,465
June 30	\$ 130,722	\$ 74,431	\$ 205,153
Portfolio segment ALLL as a percentage of total ALLL	50%	50%	100%
Ratio of the allowance for loan and lease losses to total loans	1.25%	2.21%	1.59%

- (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 \$149 million of loans collectively evaluated for impairment based upon collateral values and written down to the respective collateral value less costs to sell at June 30, 2016. Accordingly, there is no allowance recorded on these loans. The comparative amount as of June 30, 2015 was \$174 million.
- (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 57: 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	42	(13)
June 30	\$ 303	\$ 246

NOTE 5 INVESTMENT SECURITIES*Table 58: Investment Securities Summary*

In millions	Amortized Cost	Unrealized Gains Losses		Fair Value
June 30, 2016				
Securities Available for Sale				
Debt securities				
U.S. Treasury and government agencies	\$ 9,794	\$ 323	\$ (19)	\$ 10,098
Residential mortgage-backed				
Agency	25,216	568	(16)	25,768
Non-agency	3,555	214	(80)	3,689
Commercial mortgage-backed				
Agency	1,740	26	(3)	1,763
Non-agency	4,559	70	(25)	4,604
Asset-backed	5,682	55	(40)	5,697
State and municipal	1,984	119	(3)	2,100
Other debt	2,616	69	(4)	2,681
Total debt securities	55,146	1,444	(190)	56,400
Corporate stocks and other	483	1		484
Total securities available for sale	\$ 55,629	\$ 1,445	\$ (190)	\$ 56,884
Securities Held to Maturity (a)				
Debt securities				
U.S. Treasury and government agencies	\$ 263	\$ 68		\$ 331
Residential mortgage-backed				
Agency	10,058	245	\$ (3)	10,300
Non-agency	217	14		231
Commercial mortgage-backed				
Agency	1,109	46		1,155
Non-agency	612	26		638
Asset-backed	705		(8)	697
State and municipal	1,931	175		2,106
Other debt	22			22
Total securities held to maturity	\$ 14,917	\$ 574	\$ (11)	\$ 15,480
December 31, 2015				
Securities Available for Sale				
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 Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Held to Maturity (a)				
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				
State and municipal	717		(10)	707
Other debt	1,954	116		2,070
Total securities held to maturity	204		(1)	203
	\$ 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 \$84 million and \$97 million at June 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 June 30, 2016, Accumulated other comprehensive income included pretax gains of \$98 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 59 presents gross unrealized losses on securities available for sale at June 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 June 30, 2016 when compared to December 31, 2015 was due to a decline in market interest rates.

Table 59: 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
June 30, 2016						
Debt securities						
U.S. Treasury and government agencies	\$ (6)	\$ 1,030	\$ (13)	\$ 2,445	\$ (19)	\$ 3,475
Residential mortgage-backed						
Agency	(3)	662	(13)	879	(16)	1,541
Non-agency	(6)	344	(74)	1,292	(80)	1,636
Commercial mortgage-backed						
Agency	(2)	122	(1)	186	(3)	308
Non-agency	(5)	1,006	(20)	1,169	(25)	2,175
Asset-backed	(8)	1,081	(32)	1,567	(40)	2,648
State and municipal	(3)	239	(a)	55	(3)	294
Other debt	(2)	79	(2)	102	(4)	181
Total debt securities	(35)	4,563	(155)	7,695	(190)	12,258
Corporate stocks and other			(a)	15	(a)	15
Total	\$ (35)	\$ 4,563	\$ (155)	\$ 7,710	\$ (190)	\$ 12,273
December 31, 2015						
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 \$10 million at June 30, 2016, with less than \$.5 million of the loss related to securities with a fair value of \$.2 billion that had been in a continuous loss position less than 12 months and \$10 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 \$.55 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 59, as of June 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 June 30, 2016. During the first six 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 60: Gains (Losses) on Sales of Securities Available for Sale

Six months ended June 30

In millions	Proceeds	Gross Gains	Gross Losses	Net Gains	Tax Expense
2016	\$ 2,093	\$14	\$(1)	\$13	\$5
2015	\$ 2,441	\$51	\$(1)	\$50	\$17

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

Table 61: Contractual Maturity of Debt Securities

June 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
Securities Available for Sale					
U.S. Treasury and government agencies	\$ 445	\$ 5,014	\$ 3,260	\$ 1,075	\$ 9,794
Residential mortgage-backed					
Agency		129	849	24,238	25,216
Non-agency		3		3,552	3,555
Commercial mortgage-backed					
Agency	6	122	282	1,330	1,740
Non-agency	50	21	8	4,480	4,559
Asset-backed	13	1,801	1,833	2,035	5,682
State and municipal	2	147	349	1,486	1,984
Other debt	272	1,910	303	131	2,616
Total debt securities available for sale	\$ 788	\$ 9,147	\$ 6,884	\$ 38,327	\$ 55,146
Fair value	\$ 794	\$ 9,305	\$ 7,033	\$ 39,268	\$ 56,400
Weighted-average yield, GAAP basis	2.44%	2.21%	2.31%	2.89%	2.70%
Securities Held to Maturity					
U.S. Treasury and government agencies				\$ 263	\$ 263
Residential mortgage-backed					
Agency		\$ 11	\$ 382	9,665	10,058
Non-agency				217	217
Commercial mortgage-backed					
Agency	\$ 157	774	121	57	1,109
Non-agency				612	612
Asset-backed		2	589	114	705
State and municipal	4	57	979	891	1,931

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Other debt			22			22				
Total debt securities held to maturity	\$	161	\$	866	\$	2,071	\$	11,819	\$	14,917
Fair value	\$	161	\$	901	\$	2,184	\$	12,234	\$	15,480
Weighted-average yield, GAAP basis		3.25%		3.47%		3.27%		3.40%		3.39%

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Weighted-average yields are based on historical cost with effective yields weighted for the contractual maturity of each security. At June 30, 2016, there were no securities of a single issuer, other than FHLMC and FNMA, that exceeded 10% of Total shareholders' equity. The FHLMC investments had a total amortized cost of \$4.7 billion and fair value of \$4.8 billion. The FNMA investments had a total amortized cost of \$23.3 billion and fair value of \$23.8 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 62: Fair Value of Securities Pledged and Accepted as Collateral

In millions	June 30 2016	December 31 2015
Pledged to others	\$ 9,699	\$ 9,674
Accepted from others:		
Permitted by contract or custom to sell or repledge	\$ 1,183	\$ 1,100
Permitted amount repledged to others	\$ 1,023	\$ 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 63: Fair Value Measurements Recurring Basis Summary

In millions	June 30, 2016			Total Fair Value	December 31, 2015			Total Fair Value
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
Assets								
Securities available for sale								
U.S. Treasury and government agencies	\$ 9,483	\$ 615		\$ 10,098	\$ 9,267	\$ 607		\$ 9,874
Residential mortgage-backed								
Agency		25,768		25,768		24,820		24,820
Non-agency		132	\$ 3,557	3,689		143	\$ 4,008	4,151
Commercial mortgage-backed								
Agency		1,763		1,763		1,918		1,918
Non-agency		4,604		4,604		4,903		4,903
Asset-backed		5,261	436	5,697		4,941	482	5,423
State and municipal		2,085	15	2,100		2,041	15	2,056
Other debt		2,648	33	2,681		1,996	30	2,026
Total debt securities	9,483	42,876	4,041	56,400	9,267	41,369	4,535	55,171
Corporate stocks and other	421	63		484	527	62		589
Total securities available for sale	9,904	42,939	4,041	56,884	9,794	41,431	4,535	55,760
Financial derivatives (a) (b)								
Interest rate contracts		7,761	47	7,808		4,626	29	4,655
Other contracts		415	4	419		284	2	286
Total financial derivatives		8,176	51	8,227		4,910	31	4,941
Residential mortgage loans held for sale (c)		1,110	6	1,116		838	5	843
Trading securities (d)								
Debt	799	1,193	2	1,994	987	727	3	1,717
Equity	12			12	9			9
Total trading securities	811	1,193	2	2,006	996	727	3	1,726
Residential mortgage servicing rights			774	774			1,063	1,063
Commercial mortgage servicing rights			448	448			526	526
Commercial mortgage loans held for sale (c)			981	981			641	641
Equity investments direct investments			1,120	1,120			1,098	1,098
Equity investments indirect investments (e) (f)			233	281				347
Customer resale agreements (g)		137		137		137		137
Loans (h)		534	317	851		565	340	905
Other assets								
BlackRock Series C Preferred Stock (i)			209	209			357	357
Other	254	165	6	425	254	199	7	460
Total other assets	254	165	215	634	254	199	364	817
Total assets	\$ 10,969	\$ 54,254	\$ 8,188	\$ 73,459	\$ 11,044	\$ 48,807	\$ 8,606	\$ 68,804
Liabilities								
Financial derivatives (b) (j)								
Interest rate contracts	\$ 3	\$ 5,455	\$ 11	\$ 5,469	\$ 1	\$ 3,124	\$ 7	\$ 3,132
BlackRock LTIP			209	209			357	357
Other contracts		225	165	390		204	109	313
Total financial derivatives	3	5,680	385	6,068	1	3,328	473	3,802
Trading securities sold short (k)								
Debt	1,036	10		1,046	960	27		987
Total trading securities sold short	1,036	10		1,046	960	27		987
Other borrowed funds		62	8	70		81	12	93
Other liabilities			13	13			10	10
Total liabilities	\$ 1,039	\$ 5,752	\$ 406	\$ 7,197	\$ 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 June 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. At June 30, 2016 and December 31, 2015, the net asset amounts were \$3.0 billion and \$1.8 billion, respectively, and the net liability amounts were \$.6 billion and \$.6 billion, respectively.
- (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) Fair value includes net unrealized gains of \$79 million at June 30, 2016 compared with net unrealized gains of \$23 million at December 31, 2015.
- (e) 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.
- (f) 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 June 30, 2016 related to indirect equity investments was \$109 million and related to direct equity investments was \$22 million, respectively. Comparable amounts at December 31, 2015 were \$103 million and \$23 million, respectively.
- (g) Included in Federal funds sold and resale agreements on the Consolidated Balance Sheet. PNC has elected the fair value option for these items.
- (h) Included in Loans on the Consolidated Balance Sheet.
- (i) PNC has elected the fair value option for these shares.
- (j) Included in Other liabilities on the Consolidated Balance Sheet.
- (k) 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 six months ended June 30, 2016 and 2015 follow:

Table 64: Reconciliation of Level 3 Assets and Liabilities

Three Months Ended June 30, 2016

Unrealized
gains /
losses

on
assets
and
liabilities
held on

Consolidated
Balance
Sheet at
June 30,
2016
(a) (b)

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Total realized /
unrealized
gains or losses for
the period (a)

Assets											
Securities available for sale											
Residential mortgage- backed											
non-agency	\$ 3,810	\$ 11	\$ 17		\$ (60)		\$ (221)				\$ 3,557
Asset-backed	451	3	4				(22)				436
State and municipal	14		1								15
Other debt	30			\$ 7	(2)		(2)				33
Total securities available for sale	4,305	14	Included	7	(62)		(245)				4,041
Financial derivatives	Fair	35	in	1			(26)	Transfers	Transfers	Fair	\$ 32
Level 3 Instruments Only	Value		Other	3				\$ into	\$ out of	Value	
Residential mortgage loans held for sale	Mar. 31	included	comprehensive					Level	Level	June 30	
Trading securities	281	Earnings	income	Purchases	Sales	Issuance	Settlements			2019	(113)
Residential mortgage servicing rights	460	(9)		6		14	(23)			448	(9)
Commercial mortgage servicing rights	655	21			(805)	1,129	(19)			981	12
Commercial mortgage loans held for sale											
Equity investments											
Direct investments	1,156	15		95	(146)					1,120	13
Indirect investments								233 (c)		233	
Loans	329	1		22	(6)		(17)		(12)	317	1
Other assets											
BlackRock Series C Preferred Stock	208	1								209	1
Other	6									6	
Total other assets	214	1								215	1
Total assets	\$ 8,029	\$ (35) (d)	\$ 22	\$ 187	\$ (1,019)	\$ 1,155	\$ (371)	\$ 236	\$ (16)	\$ 8,188	\$ (63) (e)
Liabilities											
Financial derivatives (f)	\$ 333	\$ 62			\$ 1		\$ (11)			\$ 385	\$ 65
Other borrowed funds	8					\$ 17	(17)			8	
Other liabilities	14	1				34	(36)			13	
Total liabilities	\$ 355	\$ 63 (d)			\$ 1	\$ 51	\$ (64)			\$ 406	\$ 65 (e)

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Three Months Ended June 30, 2015

Level 3 Instruments Only	Fair Value Included		Total realized / unrealized gains or losses for the period (a)		Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Unrealized gains / losses on assets and liabilities held on Consolidated Balance Sheet at June 30, 2015 (a) (b)	
	Mar. 31, 2015	Earnings	Incomprehensive income	Other							Fair Value June 30, 2015	Balance June 30, 2015 (b)
Assets												
Securities available for sale												
Residential mortgage-backed non-agency	\$ 4,624	\$ 30	\$ (8)				\$ (222)				\$ 4,424	
Commercial mortgage-backed non-agency		1					(1)					
Asset-backed	548	5	5				(27)				531	
State and municipal	133						(117)				16	
Other debt	33										33	
Total securities available for sale	5,338	36	(3)				(367)				5,004	
Financial derivatives	54	16					(34)				36	\$ 33
Residential mortgage loans held for sale	7			\$ 11	\$ (2)		(1)	\$ 1	\$ (6)		10	
Trading securities Debt	3										3	
Residential mortgage servicing rights	839	135		67		\$ 21	(47)				1,015	134
Commercial mortgage servicing rights	494	34		17		20	(22)				543	34
Commercial mortgage loans held for sale	975	23				(1,215)	1,008	(34)			757	
Equity investments - direct investments	1,149	27		95	(80)						1,191	22
Loans	383	5		23	(4)		(35)	6	(13)		365	1
Other assets												
BlackRock Series C Preferred Stock	384	(21)									363	(21)
Other	10				(2)		(1)				7	
Total other assets	394	(21)			(2)		(1)				370	(21)
Total assets	\$ 9,636	\$ 255 (d)	\$ (3)	\$ 213	\$ (1,303)	\$ 1,049	\$ (541)	\$ 7	\$ (19)		\$ 9,294	\$ 203(e)
Liabilities												
Financial derivatives (f)	\$ 529	\$ (15)				\$ 1	\$ (17)				\$ 498	\$ (25)
Other borrowed funds	171	3				\$ 21	(30)				165	
Other liabilities	10										10	
Total liabilities	\$ 710	\$ (12) (d)				\$ 1	\$ 21	\$ (47)			\$ 673	\$ (25)(e)

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Six Months Ended June 30, 2016

Level 3 Instruments Only	Fair Value Dec. 31, 2015	Included Earnings incomprehensive	Included in Other income Purchases		Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Fair Value June 30, 2016	Unrealized gains / losses on assets and liabilities held on Consolidated Balance Sheet at June 30, 2016 (a)	(b)
			\$	\$								
Assets												
Securities available for sale												
Residential mortgage-backed												
non-agency	\$ 4,008	\$ 33	\$ (28)		\$ (60)		\$ (396)			\$ 3,557	\$ (1)	
Asset-backed	482	6	(8)				(44)			436		
State and municipal	15									15		
Other debt	30			\$ 9	(4)		(2)			33		
Total securities available for sale	4,535	39	(36)	9	(64)		(442)			4,041	(1)	
Financial derivatives	31	69		1			(50)			51	65	
Residential mortgage loans held for sale												
	5			6	(1)			\$ 5	\$ (9)	6		
Trading securities Debt	3						(1)			2		
Residential mortgage servicing rights												
	1,063	(339)		105		\$ 23	(78)			774	(336)	
Commercial mortgage servicing rights												
	526	(64)		9			23	(46)		448	(64)	
Commercial mortgage loans held for sale												
	641	37			(1,454)	1,776	(19)			981	13	
Equity investments												
Direct investments	1,098	66		118	(162)					1,120	63	
Indirect investments								233(c)		233		
Loans	340	3		55	(14)		(42)		(25)	317	2	
Other assets												
BlackRock Series C												
Preferred Stock	357	(10)					(138)			209	(10)	
Other	7	2	(2)		(1)					6		
Total other assets	364	(8)	(2)	(2)	(1)		(138)			215	(10)	
Total assets	\$ 8,606	\$ (197)(d)	\$ (38)	\$ 303	\$ (1,696)	\$ 1,822	\$ (816)	\$ 238	\$ (34)	\$ 8,188	\$ (268)(e)	
Liabilities												
Financial derivatives (f)	\$ 473	\$ 69			\$ 3		\$ (160)			\$ 385	\$ 69	
Other borrowed funds	12					\$ 40	(44)			8		
Other liabilities	10	1				72	(70)			13		
Total liabilities	\$ 495	\$ 70(d)			\$ 3	\$ 112	\$ (274)			\$ 406	\$ 69(e)	

Six Months Ended June 30, 2015

Level 3 Instruments Only	Total realized / unrealized gains or losses for the period (a)							Unrealized gains / losses on assets and liabilities held on Consolidated Balance Sheet at			
	Fair Value Dec. 31, 2014	Included Earnings	in Other comprehensive income	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Value June 30, 2015	June 30, 2015 (a) (b)
Assets											
Securities available for sale											
Residential mortgage- backed non-agency	\$ 4,798	\$ 55	\$ (22)				\$ (407)			\$ 4,424	\$ (1)
Commercial mortgage- backed non-agency		8					(8)				
Asset-backed	563	11	9				(52)			531	
State and municipal	134		(1)				(117)			16	
Other debt	30	1		\$ 3			(1)			33	
Total securities available for sale	5,525	75	(14)	3			(585)			5,004	(1)
Financial derivatives	42	87		1			(94)			36	76
Residential mortgage loans held for sale	6			17	\$ (2)		(1)	\$ 2	\$ (12)	10	
Trading securities - Debt	32						(29)			3	
Residential mortgage servicing rights	845	68		150		\$ 38	(86)			1,015	72
Commercial mortgage servicing rights	506	18		28			(43)			543	18
Commercial mortgage loans held for sale	893	44			(2,235)	2,091	(36)			757	2
Equity investments - direct investments	1,152	56		138	(155)					1,191	40
Loans	397	15		55	(8)		(72)	11	(33)	365	9
Other assets											
BlackRock Series C											
Preferred Stock	375	(12)								363	(12)
Other	15				(7)		(1)			7	
Total other assets	390	(12)			(7)		(1)			370	(12)
Total assets	\$ 9,788	\$ 351 (d)	\$ (14)	\$ 392	\$ (2,407)	\$ 2,163	\$ (947)	\$ 13	\$ (45)	\$ 9,294	\$ 204(e)
Liabilities											
Financial derivatives (f)	\$ 526	\$ 26			\$ 1		\$ (55)			\$ 498	\$ (17)
Other borrowed funds	181	3				\$ 46	(65)			165	
Other liabilities	9	1								10	
Total liabilities	\$ 716	\$ 30 (d)			\$ 1	\$ 46	\$ (120)			\$ 673	\$ (17)(e)

(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) Reflects transfers into Level 3 associated with a change in valuation methodology.

(d) Net losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities were \$98 million for the second quarter of 2016, while for the first six months of 2016 there were \$267 million of net losses (realized and unrealized) included in earnings. The comparative amounts included net gains (realized and unrealized) of \$267 million for the second quarter of 2015 and net gains (realized and unrealized) of \$321 million for the first six 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.

(e)

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Net unrealized losses relating to those assets and liabilities held at the end of the reporting period were \$128 million for the second quarter of 2016, while for the first six months of 2016 there were \$337 million of net unrealized losses. The comparative amounts included net unrealized gains of \$228 million for the second quarter of 2015 and net unrealized gains of \$221 million for the first six months of 2015. These amounts were included in Noninterest income on the Consolidated Income Statement.

(f) Includes swaps entered into in connection with sales of certain Visa Class B common shares.

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 65: Fair Value Measurements Recurring Quantitative Information

June 30, 2016

Level 3 Instruments Only

Dollars in millions	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Residential mortgage-backed non-agency securities	\$ 3,557	Priced by a third-party vendor using a discounted cash flow pricing model (a)	Constant prepayment rate (CPR)	1.0%-24.2% (7.0%) (a)
			Constant default rate (CDR)	0.0%-16.7% (5.4%) (a)
			Loss severity	10.0%-98.5% (53.3%) (a)
			Spread over the benchmark curve (b)	284bps weighted average (a)
Asset-backed securities	436	Priced by a third-party vendor using a discounted cash flow pricing model (a)	Constant prepayment rate (CPR)	1.0%-14.0% (6.3%) (a)
			Constant default rate (CDR)	1.7%-13.9% (6.5%) (a)
			Loss severity	24.2%-100% (78.1%) (a)
			Spread over the benchmark curve (b)	394bps weighted average (a)
Residential mortgage servicing rights	774	Discounted cash flow	Constant prepayment rate (CPR)	0.0%-45.3% (19.2%)
			Spread over the benchmark curve (b)	252bps-1,828bps (865bps)
Commercial mortgage servicing rights			Constant prepayment rate (CPR)	6.3%-51.5% (8.2%)
	448	Discounted cash flow	Discount rate	5.0%-7.6% (7.4%)
Commercial mortgage loans held for sale			Spread over the benchmark curve (b)	
	981	Discounted cash flow	Estimated servicing cash flows	59bps-14,570bps (487bps) 0.3%-5.6% (1.9%)
Equity investments Direct investments	1,120	Multiple of adjusted earnings	Multiple of earnings	4.5x-12.0x (7.4x)
Equity investments Indirect investments	233	Consensus pricing (c)	Liquidity discount	0.0%-40.0%
Loans Residential real estate	125	Consensus pricing (c)	Cumulative default rate	11.0%-100% (87.7%)
			Loss severity	0.0%-100% (24.7%)
	104	Discounted cash flow	Discount rate	4.7%-6.7% (5.1%)
			Loss severity	8.0% weighted average
			Discount rate	3.7% weighted average
Loans Home equity	88	Consensus pricing (c)	Credit and Liquidity discount	0.0%-99.0% (57.0%)
BlackRock Series C Preferred Stock	209	Consensus pricing (c)	Liquidity discount	20.0%
BlackRock LTIP	(209)	Consensus pricing (c)	Liquidity discount	20.0%
Swaps related to sales of certain Visa Class B common shares	(158)	Discounted cash flow	Estimated conversion factor of Class B shares into Class A shares	164.3%
			Estimated growth rate of Visa	
			Class A share price	14.0%
Insignificant Level 3 assets, net of liabilities (d)	74			

Total Level 3 assets, net of liabilities (e) \$ 7,782

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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)	1.0%-24.2% (7.0%) (a)
			Constant default rate (CDR)	0.0%-16.7% (5.4%) (a)
			Loss severity	10.0%-98.5% (53.3%) (a)
			Spread over the benchmark curve (b)	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)	1.0%-14.0% (6.3%) (a)
			Constant default rate (CDR)	1.7%-13.9% (6.8%) (a)
			Loss severity	24.2%-100.0% (77.5%) (a)
			Spread over the benchmark curve (b)	324bps weighted average (a)
Residential mortgage servicing rights			Constant prepayment rate (CPR)	
				0.3%-46.5% (10.6%)
	1,063	Discounted cash flow	Spread over the benchmark curve (b)	559bps-1,883bps (893bps)
Commercial mortgage servicing rights	526	Discounted cash flow	Constant prepayment rate (CPR)	3.9%-26.5% (5.7%)
			Discount rate	2.6%-7.7% (7.5%)
Commercial mortgage loans held for sale	641	Discounted cash flow	Spread over the benchmark curve (b)	85bps-4,270bps (547bps)
			Estimated servicing cash flows	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	2.0%-100.0% (85.1%)
			Loss severity	0.0%-100.0% (27.3%)
			Discount rate	4.9%-7.0% (5.2%)
	116	Discounted cash flow	Loss severity	8.0% weighted average
			Discount rate	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%
			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 June 30, 2016 totaling \$3,018 million and \$405 million, 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 \$3,379 million and \$448 million, 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 June 30, 2016 of \$539 million and \$31 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) Consisted of total Level 3 assets of \$8,188 million and total Level 3 liabilities of \$406 million as of June 30, 2016 and \$8,606 million and \$495 million as of December 31, 2015, respectively.

Financial Assets Accounted for at Fair Value on a Nonrecurring Basis

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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 66 and Table 67. 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 66: Fair Value Measurements – Nonrecurring

In millions	Fair Value (a)		Gains (Losses) Three months ended		Gains (Losses) Six months ended	
	June 30 2016	December 31 2015	June 30 2016	June 30 2015	June 30 2016	June 30 2015
Assets						
Nonaccrual loans	\$ 184	\$ 30	\$(51)	\$(15)	\$(58)	\$(15)
OREO and foreclosed assets	103	137	(6)	(12)	(12)	(18)
Insignificant assets (b)	7	28	(1)	(5)	(4)	(13)
Total assets	\$ 294	\$ 195	\$(58)	\$(32)	\$(74)	\$(46)

(a) All Level 3 as of June 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 67: Fair Value Measurements – Nonrecurring Quantitative Information

Level 3 Instruments Only

Dollars in millions	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
June 30, 2016				
Assets				
Nonaccrual loans	\$ 82	LGD percentage (a)	Loss severity	3.2%-70.1% (32.2%)
	102	Fair value of property or collateral	Appraised value/sales price	Not meaningful
OREO and foreclosed assets	103	Fair value of property or collateral	Appraised value/sales price	Not meaningful
Insignificant assets	7			
Total assets	\$294			
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 68: Fair Value Option – Changes in Fair Value (a)

In millions	Gains (Losses) Three months ended		Gains (Losses) Six months ended	
	June 30 2016	June 30 2015	June 30 2016	June 30 2015
Assets				
Commercial mortgage loans held for sale	\$ 22	\$ 31	\$ 49	\$ 56
Residential mortgage loans held for sale	\$ 59	\$ 25	\$ 106	\$ 71

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Residential mortgage loans portfolio	\$ 11	\$ 13	\$ 17	\$ 29
BlackRock Series C Preferred Stock	\$ 1	\$ (21)	\$ (10)	\$ (12)
Other assets	\$ (4)	\$ 1	\$ (20)	\$ 2
Liabilities				
Other borrowed funds		\$ (2)		\$ (2)

(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 69: Fair Value Option Fair Value and Principal Balances

In millions	Fair Value	Aggregate Unpaid Principal Balance	Difference
June 30, 2016			
Assets			
Customer resale agreements	\$ 137	\$ 133	\$ 4
Residential mortgage loans held for sale			
Performing loans	1,104	1,052	52
Accruing loans 90 days or more past due	3	3	
Nonaccrual loans	9	9	
Total	1,116	1,064	52
Commercial mortgage loans held for sale (a)			
Performing loans	978	980	(2)
Nonaccrual loans	3	5	(2)
Total	981	985	(4)
Residential mortgage loans portfolio			
Performing loans	234	282	(48)
Accruing loans 90 days or more past due	402	402	
Nonaccrual loans	215	349	(134)
Total	851	1,033	(182)
Other assets	140	148	(8)
Liabilities			
Other borrowed funds	\$ 70	\$ 71	\$ (1)
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 June 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 June 30, 2016 and December 31, 2015.

Table 70: Additional Fair Value Information Related to Other Financial Instruments

In millions	Carrying		Fair Value		
	Amount	Total	Level 1	Level 2	Level 3
June 30, 2016					
Assets					
Cash and due from banks	\$ 4,196	\$ 4,196	\$ 4,196		
Short-term assets	29,532	29,532		\$ 29,532	
Securities held to maturity	14,917	15,480	331	15,143	\$ 6
Loans held for sale	199	200		159	41
Net loans (excludes leases)	197,887	201,083			201,083
Other assets	1,711	2,139		1,709	430(a)
Total assets	\$ 248,442	\$ 252,630	\$ 4,527	\$ 46,543	\$ 201,560
Liabilities					
Demand, savings and money market deposits	\$ 230,727	\$ 230,727		\$ 230,727	
Time deposits	19,051	19,180		19,180	
Borrowed funds	53,736	54,584		53,138	\$ 1,446
Unfunded loan commitments and letters of credit	286	286			286
Other liabilities	47	47		47	
Total liabilities	\$ 303,847	\$ 304,824		\$ 303,092	\$ 1,732
December 31, 2015					
Assets					
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(a)
Total assets	\$ 249,244	\$ 252,101	\$ 4,363	\$ 49,465	\$ 198,273
Liabilities					
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
Total liabilities	\$ 303,008	\$ 303,210		\$ 301,541	\$ 1,669

(a) Represents estimated fair value of Visa Class B common shares, which was estimated solely based upon the June 30, 2016 and December 31, 2015 closing price for the Visa Class A common shares, respectively, and the Visa Class B common share conversion rate, which reflects adjustments in respect of all litigation funding by Visa as of that date. The transfer restrictions on the Visa Class B common shares could impact the aforementioned estimate, until they can be converted to Class A common shares. See Note 21 Commitments and Guarantees in our 2015 Form 10-K for additional information.

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 values of financial instruments, Table 70 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 70, 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 of 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. MSR are purchased or originated when loans are sold with servicing retained. MSR totaled \$1.2 billion and \$1.6 billion at June 30, 2016 and December 31, 2015, respectively, and consisted of loan servicing contracts for commercial and residential mortgages measured at fair value.

MSR 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 MSR with securities and derivative instruments which are expected to increase (or decrease) in value when the value of MSR 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 MSR. Refer to Note 8 Goodwill and Intangible Assets in our 2015 Form 10-K for more information on our accounting and measurement of MSR.

Changes in the commercial and residential MSR follow:

Table 71: Mortgage Servicing Rights

In millions	Commercial MSR		Residential MSR	
	2016	2015	2016	2015
January 1	\$ 526	\$ 506	\$ 1,063	\$ 845
Additions:				
From loans sold with servicing retained	23	34	23	38
Purchases	9	28	105	150
Changes in fair value due to:				
Time and payoffs (a)	(46)	(43)	(78)	(86)
Other (b)	(64)	18	(339)	68
June 30	\$ 448	\$ 543	\$ 774	\$ 1,015
Related unpaid principal balance at June 30	\$ 142,968	\$ 144,416	\$ 126,172	\$ 115,454
Servicing advances at June 30	\$ 244	\$ 271	\$ 335	\$ 463

(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 MSR and significant inputs to the valuation models as of June 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 MSR. 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

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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 MSR's 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 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 MSR's 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

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changes in prepayment rate estimates, could result in changes in the interest rate spread), which could either magnify or counteract the sensitivities.

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

Table 72: Commercial Mortgage Loan Servicing Rights Key Valuation Assumptions

	June 30	December 31
Dollars in millions	2016	2015
Fair value	\$ 448	\$ 526
Weighted-average life (years)	4.5	4.7
Weighted-average constant prepayment rate	8.19%	5.71%
Decline in fair value from 10% adverse change	\$ 10	\$ 10
Decline in fair value from 20% adverse change	\$ 19	\$ 19
Effective discount rate	7.44%	7.49%
Decline in fair value from 10% adverse change	\$ 12	\$ 14
Decline in fair value from 20% adverse change	\$ 24	\$ 29

Table 73: Residential Mortgage Loan Servicing Rights Key Valuation Assumptions

	June 30	December 31
Dollars in millions	2016	2015
Fair value	\$ 774	\$ 1,063
Weighted-average life (years)	4.1	6.3
Weighted-average constant prepayment rate	19.19%	10.61%
Decline in fair value from 10% adverse change	\$ 50	\$ 44
Decline in fair value from 20% adverse change	\$ 95	\$ 85
Weighted-average option adjusted spread	865bps	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 June 30, 2016 and 2015 and \$.3 billion and \$.2 billion for the six months ended June 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 MSR's 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 of 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.

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

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Table 74: Net Periodic Pension and Postretirement Benefit Costs

Three months ended June 30	Qualified Pension Plan		Nonqualified Retirement Plans		Postretirement Benefits	
	2016	2015	2016	2015	2016	2015
In millions						
Net periodic cost consists of:						
Service cost	\$ 25	\$ 26	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	47	45	3	3	3	3
Expected return on plan assets	(71)	(74)			(1)	
Amortization of prior service credit	(1)	(2)			(1)	
Amortization of actuarial losses	11	8	1	1		
Net periodic cost/(benefit)	\$ 11	\$ 3	\$ 5	\$ 5	\$ 3	\$ 5

Six months ended June 30	Qualified Pension Plan		Nonqualified Retirement Plans		Postretirement Benefits	
	2016	2015	2016	2015	2016	2015
In millions						
Net periodic cost consists of:						
Service cost	\$ 51	\$ 53	\$ 1	\$ 1	\$ 3	\$ 3
Interest cost	93	89	6	6	7	7
Expected return on plan assets	(141)	(148)			(2)	
Amortization of prior service credit	(3)	(4)			(1)	
Amortization of actuarial losses	22	15	2	3		
Net periodic cost/(benefit)	\$ 22	\$ 5	\$ 9	\$ 10	\$ 7	\$ 10

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 of 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 75: Total Gross Derivatives

In millions	June 30, 2016			December 31, 2015		
	Notional/ Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)	Notional/ Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)
Derivatives designated as hedging instruments under GAAP	\$ 53,982	\$ 2,011	\$ 351	\$ 52,074	\$ 1,159	\$ 174
Derivatives not designated as hedging instruments under GAAP	302,743	6,216	5,717	295,902	3,782	3,628
Total gross derivatives	\$ 356,725	\$ 8,227	\$ 6,068	\$ 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 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 76: Derivatives Designated As Hedging Instruments under GAAP

In millions	June 30, 2016			December 31, 2015		
	Notional/ Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)	Notional/ Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)
Interest rate contracts:						
Fair value hedges:						
Receive-fixed swaps	\$ 27,692	\$ 1,234		\$ 25,756	\$ 699	\$ 18
Pay-fixed swaps (c)	5,502		\$ 351	5,934	13	153
Subtotal	33,194	1,234	351	31,690	712	171
Cash flow hedges:						
Receive-fixed swaps	16,871	604		17,879	412	2
Forward purchase commitments	2,900	34		1,400	4	1
Subtotal	19,771	638		19,279	416	3
Foreign exchange contracts:						
Net investment hedges	1,017	139		1,105	31	
Total derivatives designated as hedging instruments	\$ 53,982	\$ 2,011	\$ 351	\$ 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 77: Gains (Losses) on Derivatives and Related Hedged Items - Fair Value Hedges (a)

In millions	Hedged Items	Location	Three months ended				Six months ended			
			Gain (Loss) on Derivatives Recognized in Income	Gain (Loss) on Derivatives Recognized in Income	Gain (Loss) on Derivatives Recognized in Income	Gain (Loss) on Derivatives Recognized in Income	Gain (Loss) on Derivatives Recognized in Income	Gain (Loss) on Derivatives Recognized in Income	Gain (Loss) on Derivatives Recognized in Income	Gain (Loss) on Derivatives Recognized in Income
			June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015

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			in		in		in		in	
			Income		Income		Income		Income	
Interest rate contracts	U.S. Treasury and Government Agencies and Other Debt Securities	Investment securities (interest income)	\$ (55)	\$ 56	\$ 64	\$ (66)	\$ (209)	\$ 214	\$ 12	\$ (12)
Interest rate contracts	Subordinated Debt and Bank Notes and Senior Debt	Borrowed funds (interest expense)	155	(168)	(264)	259	562	(600)	(107)	87
Total (a)			\$ 100	\$ (112)	\$ (200)	\$ 193	\$ 353	\$ (386)	\$ (95)	\$ 75

(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.

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 June 30, 2016, we expect to reclassify from the amount currently reported in Accumulated other comprehensive income, net derivative gains of \$216 million pretax, or \$140 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 June 30, 2016. The maximum length of time over which forecasted loan cash flows are hedged is 6 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 June 30, 2016, we expect to reclassify from the amount currently reported in Accumulated other comprehensive income, net derivative gains of \$65 million pretax, or \$42 million after-tax, as adjustments of yield on investment securities. As of June 30, 2016, the maximum length of time over which forecasted purchase contracts are hedged is 3 months.

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 six 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 78: Gains (Losses) on Derivatives and Related Cash Flows – Cash Flow Hedges (a) (b)

In millions	Three months ended		Six months ended	
	June 30 2016	2015	June 30 2016	2015
Gains (losses) on derivatives recognized in OCI (effective portion)	\$ 126	\$ (102)	\$ 391	\$ 196
Less: Gains (losses) reclassified from accumulated OCI into income (effective portion)				
Interest income	64	72	129	140
Noninterest income	(1)	(4)	(1)	(13)
Total gains (losses) reclassified from accumulated OCI into income (effective portion)	\$ 63	\$ 68	\$ 128	\$ 127
Net unrealized gains (losses) on cash flow hedge derivatives	\$ 63	\$ (170)	\$ 263	\$ 69

(a) All cash flow hedge derivatives are interest rate contracts as of June 30, 2016 and June 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 six months of 2016 and 2015, there was no net investment hedge ineffectiveness. Gains (losses) on net investment hedge derivatives recognized in OCI was net gains

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of \$80 million for the three months ended June 30, 2016 and net gains of \$109 million for the six months ended June 30, 2016 compared with net losses of \$65 million for the three months ended June 30, 2015 and net losses of \$11 million for the six months ended June 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 79: Derivatives Not Designated As Hedging Instruments under GAAP

	June 30, 2016			December 31, 2015		
	Notional /	Asset Fair Value (a)	Liability Fair Value (b)	Notional /	Asset Fair Value (a)	Liability Fair Value (b)
In millions	Contract Amount			Contract Amount		
Derivatives used for residential mortgage banking activities:						
Residential mortgage servicing						
Interest rate contracts:						
Swaps	\$ 37,741	\$ 1,514	\$ 1,003	\$ 37,505	\$ 758	\$ 416
Swaptions	584	17	7	650	27	14
Futures (c)	12,935			17,653		
Futures options	14,000		3	6,000		1
Mortgage-backed securities commitments	3,765	36	3	3,920	4	8
Subtotal	69,025	1,567	1,016	65,728	789	439
Loan sales						
Interest rate contracts:						
Futures (c)	15			20		
Bond options	150			200	2	
Mortgage-backed securities commitments	5,680	17	37	6,363	16	8
Residential mortgage loan commitments	2,188	30		1,580	16	
Subtotal	8,033	47	37	8,163	34	8
Subtotal	\$ 77,058	\$ 1,614	\$ 1,053	\$ 73,891	\$ 823	\$ 447
Derivatives used for commercial mortgage banking activities:						
Interest rate contracts:						
Swaps	\$ 4,186	\$ 156	\$ 73	\$ 3,945	\$ 77	\$ 46
Swaptions				439		
Futures (c)	4,449			18,454		
Commercial mortgage loan commitments	1,878	15	8	1,176	11	6
Subtotal	10,513	171	81	24,014	88	52
Credit contracts	44			77		
Subtotal	\$ 10,557	\$ 171	\$ 81	\$ 24,091	\$ 88	\$ 52
Derivatives used for customer-related activities:						
Interest rate contracts:						
Swaps	\$ 169,547	\$ 3,936	\$ 3,952	\$ 157,041	\$ 2,507	\$ 2,433
Caps/floors Sold	5,169		6	5,337		11
Caps/floors Purchased	6,635	21		6,383	18	
Swaptions	5,154	185	13	4,363	86	13
Futures (c)	2,204			1,673		
Futures options	292	5	5			
Mortgage-backed securities commitments	2,375	5	8	1,910	5	2
Subtotal	191,376	4,152	3,984	176,707	2,616	2,459
Foreign exchange contracts	11,734	192	202	10,888	194	198
Credit contracts	6,284	4	7	5,026	2	4
Subtotal	\$ 209,394	\$ 4,348	\$ 4,193	\$ 192,621	\$ 2,812	\$ 2,661
Derivatives used for other risk management activities:						
Foreign exchange contracts	\$ 3,158	\$ 83	\$ 23	\$ 2,742	\$ 59	\$ 6
Other contracts (d)	2,576		367	2,557		462
Subtotal	\$ 5,734	\$ 83	\$ 390	\$ 5,299	\$ 59	\$ 468
Total derivatives not designated as hedging instruments	\$ 302,743	\$ 6,216	\$ 5,717	\$ 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 80: Gains (Losses) on Derivatives Not Designated As Hedging Instruments under GAAP

In millions	Three months ended		Six months ended	
	June 30		June 30	
	2016	2015	2016	2015
Derivatives used for residential mortgage banking activities:				
Residential mortgage servicing				
Interest rate contracts	\$ 141	\$ (83)	\$ 336	\$ 15
Loan sales				
Interest rate contracts	4	47	(3)	68
Gains (losses) included in residential mortgage banking activities (a)	\$ 145	\$ (36)	\$ 333	\$ 83
Derivatives used for commercial mortgage banking activities:				
Interest rate contracts (b) (c)	\$ 27	\$ (25)	\$ 80	\$ 5
Credit contracts (c)		1		
Gains (losses) from commercial mortgage banking activities	\$ 27	\$ (24)	\$ 80	\$ 5
Derivatives used for customer-related activities:				
Interest rate contracts	\$ 1	\$ 30	\$ (3)	\$ 34
Foreign exchange contracts	17	32	46	33
Gains (losses) from customer-related activities (c)	\$ 18	\$ 62	\$ 43	\$ 67
Derivatives used for other risk management activities:				
Interest rate contracts		\$ 1		\$ 1
Foreign exchange contracts	\$ 66	(69)	\$ (29)	114
Other contracts (d)	(62)	14	(66)	7
Gains (losses) from other risk management activities (c)	\$ 4	\$ (54)	\$ (95)	\$ 122
Total gains (losses) from derivatives not designated as hedging instruments	\$ 194	\$ (52)	\$ 361	\$ 277

(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 \$3.7 billion at June 30, 2016 and \$2.5 billion at December 31, 2015. Assuming all underlying third party customers referenced in the swap contracts defaulted at June 30, 2016, the exposure from these agreements would be \$202 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 81 shows the impact legally enforceable master netting agreements had on our derivative assets and derivative liabilities as of June 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 81: Derivative Assets and Liabilities Offsetting

June 30, 2016	Amounts Offset on the Consolidated Balance Sheet			Net Fair Value	Securities Collateral Held / (Pledged)	
	Gross Fair Value	Offset Amount	Cash Collateral		Under Master Netting Agreements	Net Amounts
In millions						
Derivative assets						
Interest rate contracts:						
Cleared	\$ 2,446	\$ 2,066	\$ 283	\$ 97		\$ 97
Over-the-counter	5,362	2,068	595	2,699	\$411	2,288
Foreign exchange contracts	415	209	27	179	4	175
Credit contracts	4	2	1	1		1
Total derivative assets	\$ 8,227	\$ 4,345	\$ 906	\$ 2,976(a)	\$415	\$ 2,561
Derivative liabilities						
Interest rate contracts:						
Cleared	\$ 2,523	\$ 2,065	\$ 410	\$ 48		\$ 48
Exchange-traded	3			3		3
Over-the-counter	2,943	2,155	701	87		87
Foreign exchange contracts	224	119	27	78		78
Credit contracts	8	6	2			
Other contracts	367			367		367
Total derivative liabilities	\$ 6,068	\$ 4,345	\$ 1,140	\$ 583(b)		\$ 583
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 June 30, 2016, we held cash, U.S. government securities and mortgage-backed securities totaling \$1.4 billion under master netting agreements and other collateral agreements to collateralize net derivative assets due from counterparties, and we pledged cash totaling \$1.7 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 June 30, 2016 was \$1.3 billion for which PNC had posted collateral of \$1.2 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 June 30, 2016 would be \$1 billion.

NOTE 10 EARNINGS PER SHARE

Table 82: Basic and Diluted Earnings per Common Share

In millions, except per share data	Three months ended		Six months ended	
	June 30		June 30	
	2016	2015	2016	2015
Basic				
Net income	\$ 989	\$ 1,044	\$ 1,932	\$ 2,048
Less:				
Net income (loss) attributable to noncontrolling interests	23	4	42	5
Preferred stock dividends and discount accretion and redemptions	43	48	108	118
Net income attributable to common shares	923	992	1,782	1,925
Less:				
Dividends and undistributed earnings allocated to participating securities	6		12	2
Net income attributable to basic common shares	\$ 917	\$ 992	\$ 1,770	\$ 1,923
Basic weighted-average common shares outstanding	497	517	499	519
Basic earnings per common share (a)	\$ 1.84	\$ 1.92	\$ 3.54	\$ 3.71
Diluted				
Net income attributable to basic common shares	\$ 917	\$ 992	\$ 1,770	\$ 1,923
Less: Impact of BlackRock earnings per share dilution	3	5	6	10
Net income attributable to diluted common shares	\$ 914	\$ 987	\$ 1,764	\$ 1,913
Basic weighted-average common shares outstanding	497	517	499	519
Dilutive potential common shares	6	8	6	8
Diluted weighted-average common shares outstanding	503	525	505	527
Diluted earnings per common share (a)	\$ 1.82	\$ 1.88	\$ 3.49	\$ 3.63

(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 six months of 2015 and 2016 follows:

Table 83: Rollforward of Total Equity

In millions	Shareholders' Equity								Total Equity
	Shares Outstanding Common Stock	Common Stock	Capital Surplus Preferred Stock	Capital Surplus Common Stock and Other	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interests	
Balance at January 1, 2015	523	\$ 2,705	\$ 3,946	\$ 12,627	\$ 26,200	\$ 503	\$ (1,430)	\$ 1,523	\$ 46,074
Net income					2,043			5	2,048
Other comprehensive income (loss), net of tax						(124)			(124)
Cash dividends declared									
Common (\$0.99 per share)					(516)				(516)
Preferred					(115)				(115)
Preferred stock discount accretion			3		(3)				
Common stock activity	1	3		34					37
Treasury stock activity	(8)			(55)			(832)		(887)
Preferred stock redemption Series K			(500)						(500)
Other				26				(131)	(105)
Balance at June 30, 2015 (a)	516	\$ 2,708	\$ 3,449	\$ 12,632	\$ 27,609	\$ 379	\$ (2,262)	\$ 1,397	\$ 45,912
Balance at January 1, 2016	504	\$ 2,708	\$ 3,452	\$ 12,745	\$ 29,043	\$ 130	\$ (3,368)	\$ 1,270	\$ 45,980
Net income					1,890			42	1,932
Other comprehensive income (loss), net of tax						606			606
Cash dividends declared									
Common (\$1.02 per share)					(516)				(516)
Preferred					(105)				(105)
Preferred stock discount accretion			3		(3)				
Common stock activity (b)		1		10					11
Treasury stock activity	(11)			(13)			(936)		(949)
Other				(89)				(171)	(260)
Balance at June 30, 2016 (a)	493	\$ 2,709	\$ 3,455	\$ 12,653	\$ 30,309	\$ 736	\$ (4,304)	\$ 1,141	\$ 46,699

(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 June 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 84: Other Comprehensive Income

In millions	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Net unrealized gains (losses) on non-OTTI securities				
Increase in net unrealized gains (losses) on non-OTTI securities	\$ 286	\$ (346)	\$ 805	\$ (214)
Less: Net gains (losses) realized as a yield adjustment reclassified to investment securities interest income	8	7	14	14
Less: Net gains (losses) realized on sales of securities reclassified to noninterest income	5	12	14	63
Net increase (decrease), pre-tax	273	(365)	777	(291)
Effect of income taxes	(100)	134	(285)	107
Net increase (decrease), after-tax	173	(231)	492	(184)
Net unrealized gains (losses) on OTTI securities				
Increase in net unrealized gains (losses) on OTTI securities	17	3	(22)	5
Less: OTTI losses realized on securities reclassified to noninterest income		(1)	(1)	(2)
Net increase (decrease), pre-tax	17	4	(21)	7
Effect of income taxes	(6)	(2)	8	(3)
Net increase (decrease), after-tax	11	2	(13)	4
Net unrealized gains (losses) on cash flow hedge derivatives				
Increase in net unrealized gains (losses) on cash flow hedge derivatives	126	(102)	391	196
Less: Net gains (losses) realized as a yield adjustment reclassified to loan interest income	56	64	116	128
Less: Net gains (losses) realized as a yield adjustment reclassified to investment securities interest income	8	8	13	12
Less: Net gains (losses) realized on sales of securities reclassified to noninterest income	(1)	(4)	(1)	(13)
Net increase (decrease), pre-tax	63	(170)	263	69
Effect of income taxes	(23)	63	(96)	(25)
Net increase (decrease), after-tax	40	(107)	167	44
Pension and other postretirement benefit plan adjustments				
Net pension and other postretirement benefit activity	(7)	(17)	(5)	36
Amortization of actuarial loss (gain) reclassified to other noninterest expense	12	9	24	18
Amortization of prior service cost (credit) reclassified to other noninterest expense	(2)	(2)	(4)	(4)
Net increase (decrease), pre-tax	3	(10)	15	50
Effect of income taxes	(1)	4	(5)	(18)
Net increase (decrease), after-tax	2	(6)	10	32
Other				
PNC's portion of BlackRock's OCI	13	(9)	(12)	(34)
Net investment hedge derivatives	80	(65)	109	(11)
Foreign currency translation adjustments and other (a)	(81)	65	(112)	9
Net increase (decrease), pre-tax	12	(9)	(15)	(36)
Effect of income taxes (a)	(34)	27	(35)	16
Net increase (decrease), after-tax	(22)	18	(50)	(20)
Total other comprehensive income, pre-tax	368	(550)	1,019	(201)
Total other comprehensive income, tax effect	(164)	226	(413)	77
Total other comprehensive income, after-tax	\$ 204	\$ (324)	\$ 606	\$ (124)

(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 85: Accumulated Other Comprehensive Income (Loss) Components

In millions, after-tax	Net unrealized gains (losses) on non-OTTI securities	Net unrealized gains (losses) on OTTI securities	Net unrealized gains (losses) on cash flow hedge derivatives	Pension and other postretirement benefit plan adjustments	Other	Total
Balance at March 31, 2015	\$ 694	\$ 76	\$ 501	\$ (482)	\$ (86)	\$ 703
Net activity	(231)	2	(107)	(6)	18	(324)
Balance at June 30, 2015	\$ 463	\$ 78	\$ 394	\$ (488)	\$ (68)	\$ 379
Balance at March 31, 2016	\$ 605	\$ 42	\$ 557	\$ (546)	\$ (126)	\$ 532
Net activity	173	11	40	2	(22)	204
Balance at June 30, 2016	\$ 778	\$ 53	\$ 597	\$ (544)	\$ (148)	\$ 736
Balance at December 31, 2014	\$ 647	\$ 74	\$ 350	\$ (520)	\$ (48)	\$ 503
Net activity	(184)	4	44	32	(20)	(124)
Balance at June 30, 2015	\$ 463	\$ 78	\$ 394	\$ (488)	\$ (68)	\$ 379
Balance at December 31, 2015	\$ 286	\$ 66	\$ 430	\$ (554)	\$ (98)	\$ 130
Net activity	492	(13)	167	10	(50)	606
Balance at June 30, 2016	\$ 778	\$ 53	\$ 597	\$ (544)	\$ (148)	\$ 736

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 and in Note 14 Legal Proceedings in Part I, Item 1 of our first 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 June 30, 2016, we estimate that it is reasonably possible that we could incur losses in an aggregate amount of up to approximately \$550 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; discovery has not started or is not complete; there are significant facts in dispute; we have not engaged in meaningful settlement discussions; 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 it is reasonably possible that we could incur 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.

Interchange Litigation

In June 2016, the U.S. Court of Appeals for the Second Circuit reached a decision on the appeal of the approval of a settlement of the antitrust lawsuits pending against Visa®, MasterCard®, and several major financial institutions, including cases naming National City (since merged into PNC) and its subsidiary, National City Bank of Kentucky (since merged into National City Bank which in turn was merged into PNC Bank, N.A.), that have been consolidated for pretrial proceedings in the U.S. District Court for the Eastern District of New York under the caption *In re Payment Card Interchange Fee and Merchant-Discount Antitrust Litigation* (Master File No. 1:05-md-1720-JG-JO). In its decision, the court of appeals reversed approval of the settlement and remanded for further proceedings. As a result, the class litigation is expected to resume in the district court.

Lender Placed Insurance Litigation

In February 2014, a class action lawsuit (*Montoya, et al. v. PNC Bank, N.A., et al.* (Case No. 1:14-cv-20474-JEM)) was filed in the U.S. District Court for the Southern District of Florida against PNC Bank, American Security Insurance Company (ASIC), a provider of property and casualty insurance to PNC for certain residential mortgages, and its parent, Assurant, Inc. relating to the administration of PNC Bank's program for placement of insurance for borrowers who fail to obtain hazard insurance coverages required by the terms of their mortgages. In their complaint, the plaintiffs asserted breach of contract by PNC, breach of its duty of good faith and fair dealing, unjust enrichment, breach of a fiduciary duty, and violations of Florida and New Jersey statutes pertaining to deceptive and unfair trade practices. They also asserted claims under the federal TILA and RICO statutes. The plaintiffs sought a nationwide class on all claims except the state law statutory claims, for which they sought to certify subclasses of Florida and New Jersey residents, respectively. The plaintiffs sought, among other things, damages (including treble damages), disgorgement of unjust benefits, injunctive relief, interest and attorneys' fees. PNC filed a motion to dismiss the complaint in May 2014. In August 2014, the court granted in part and denied in part PNC's motion to dismiss. Specifically,

the court dismissed the breach of contract, Florida deceptive and unfair trade practices, and federal TILA and RICO claims, although it allowed the RICO claims to be re-pled. The remaining claims were state claims for breach of the covenant of good faith, unjust enrichment, the New Jersey Consumer Fraud Act, and breach of fiduciary duty. Thereafter, in September 2014, a third amended complaint was filed. In October 2014, PNC moved to partially dismiss the third amended complaint. The motion to dismiss sought dismissal of the re-pleaded RICO claims and a state law claim for breach of the covenant of good faith and fair dealing and breach of fiduciary duty. At the same time, PNC also moved to strike nationwide class allegations with respect to the state law claims. Shortly thereafter, the plaintiffs stipulated to this relief, as a result of which the plaintiffs' state law claims were brought solely as statewide class action claims in the states in which the plaintiffs reside. In January 2015, the plaintiffs filed a motion for class certification. In March 2015, the court denied PNC's motion to dismiss, except that it granted the motion as to the state law good faith and fair dealing claim.

In May 2015, the parties reached an agreement to settle this case on a nationwide settlement class basis. In connection with the settlement agreement, the plaintiffs also filed a fourth amended complaint, which, among other things, added claims regarding wind and flood insurance. The settlement provided for certification of a class of borrowers who were charged by PNC under a hazard, flood, flood gap or wind only lender placed insurance policy for residential property during the period January 1, 2008 through the date of preliminary approval of the settlement. The court granted final approval of the settlement in April 2016. An appeal of this approval filed by an objector has been voluntarily dismissed, as a result of which the case has been concluded. The overall cost of the settlement has been reflected in our reserves and will not be material to PNC.

Other cases making similar allegations were previously dismissed, with plaintiffs in those cases being added as plaintiffs in this case.

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 banking, securities and other financial services businesses, in some cases as part of reviews of specified activities at multiple industry participants. Over the last few years, we have experienced an increase in regulatory and governmental investigations, audits and other inquiries. Areas of current regulatory or governmental inquiry with respect to PNC include consumer protection, fair lending, mortgage origination and servicing, mortgage and non mortgage-related insurance and reinsurance, municipal finance activities, conduct by broker-dealers, automobile

lending practices, employment practices, and participation in government insurance or guarantee programs, some of which are described

in Prior Disclosure. These inquiries, including those described 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.

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

Other

In addition to the proceedings or other matters described above and in Prior Disclosure, 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.

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 June 30, 2016 and December 31, 2015, respectively.

Table 86: Commitments to Extend Credit and Other Commitments

In millions	June 30 2016	December 31 2015
Commitments to extend credit		
Total commercial lending	\$ 102,120	\$ 101,252
Home equity lines of credit	17,331	17,268
Credit card	21,298	19,937
Other	4,367	4,032
Total commitments to extend credit	145,116	142,489
Net outstanding standby letters of credit (a)	9,089	8,765
Reinsurance agreements (b)	1,917	2,010
Standby bond purchase agreements (c)	872	911
Other commitments (d)	965	966
Total commitments to extend credit and other commitments	\$ 157,959	\$ 155,141

(a) Net outstanding standby letters of credit include \$4.6 billion and \$4.7 billion which support remarketing programs at June 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 June 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 June 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 87: Internal Credit Ratings Related to Net Outstanding Standby Letters of Credit

	June 30 2016	December 31 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.

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 June 30, 2016 had terms ranging from less than 1 year to 9 years.

As of June 30, 2016, assets of \$1.1 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 June 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.

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Enforceability is evidenced by obtaining a legal opinion that supports, with sufficient confidence, the enforceability of the master netting agreement in bankruptcy.

Table 88 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 88.

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

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Table 88: Resale and Repurchase Agreements Offsetting

In millions	Gross Resale / Repurchase Agreements	Amounts Offset on the Consolidated Balance Sheet	Net Resale / Repurchase Agreements (a)	Securities Collateral Held / Pledged Under Master Netting Agreements (b)	Net Amounts
Resale Agreements					
June 30, 2016	\$ 1,157		\$ 1,157	\$ 1,083	\$ 74 (c)
December 31, 2015	\$ 1,082		\$ 1,082	\$ 1,008	\$ 74 (c)
Repurchase Agreements (d)					
June 30, 2016	\$ 1,617		\$ 1,617	\$ 1,001	\$ 616 (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 June 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 June 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 investment management, custody administration and retirement administration services. The business also offers PNC proprietary mutual funds. 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, 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 June 30, 2016, our economic interest in BlackRock was 22%. PNC received cash dividends from BlackRock of \$165 million and \$160 million during the first six 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 89: Results Of Businesses

Three months ended June 30	Non-Strategic Assets							Other Consolidated (a)
	Retail Banking	Corporate & Institutional Banking	Asset Management Group	Residential Mortgage Banking	BlackRock	Portfolio		
In millions								
2016								
Income Statement								
Net interest income	\$ 1,117	\$ 822	\$ 76	\$ 28		\$ 73	\$ (48)	\$ 2,068
Noninterest income	564	533	213	182	\$ 170	5	59	1,726
Total revenue	1,681	1,355	289	210	170	78	11	3,794
Provision for credit losses	29	69	6	1		13	9	127
Depreciation and amortization	41	37	12	3			122	215
Other noninterest expense	1,127	512	194	133		20	159	2,145
Income (loss) before income taxes and noncontrolling interests	484	737	77	73	170	45	(279)	1,307
Income taxes (benefit)	177	247	29	27	36	16	(214)	318
Net income (loss)	\$ 307	\$ 490	\$ 48	\$ 46	\$ 134	\$ 29	\$ (65)	\$ 989
Average Assets (b)	\$ 71,544	\$ 138,305	\$ 7,756	\$ 5,768	\$ 6,919	\$ 5,539	\$ 123,159	\$ 358,990
2015								
Income Statement								
Net interest income	\$ 1,045	\$ 837	\$ 71	\$ 30		\$ 100	\$ (31)	\$ 2,052
Noninterest income	590	492	243	176	\$ 175	9	129	1,814
Total revenue	1,635	1,329	314	206	175	109	98	3,866
Provision for credit losses (benefit)	45	20	1	(2)		(5)	(13)	46
Depreciation and amortization	42	37	12	4			106	201
Other noninterest expense	1,168	510	203	174		26	84	2,165
Income (loss) before income taxes and noncontrolling interests	380	762	98	30	175	88	(79)	1,454
Income taxes (benefit)	139	254	36	11	40	32	(102)	410
Net income	\$ 241	\$ 508	\$ 62	\$ 19	\$ 135	\$ 56	\$ 23	\$ 1,044
Average Assets (b)	\$ 73,369	\$ 132,239	\$ 8,005	\$ 7,136	\$ 6,760	\$ 6,914	\$ 118,217	\$ 352,640
Six months ended June 30								
In millions								
2016								
Income Statement								
Net interest income	\$ 2,230	\$ 1,660	\$ 153	\$ 53		\$ 148	\$ (78)	\$ 4,166
Noninterest income	1,101	967	416	287	\$ 311	27	184	3,293
Total revenue	3,331	2,627	569	340	311	175	106	7,459
Provision for credit losses (benefit)	106	176	3			6	(12)	279
Depreciation and amortization	81	72	23	6			235	417
Other noninterest expense	2,237	998	389	282		41	277	4,224
Income (loss) before income taxes and noncontrolling interests	907	1,381	154	52	311	128	(394)	2,539
Income taxes (benefit)	332	460	57	19	65	47	(373)	607
Net income (loss)	\$ 575	\$ 921	\$ 97	\$ 33	\$ 246	\$ 81	\$ (21)	\$ 1,932
Average Assets (b)	\$ 71,880	\$ 136,913	\$ 7,822	\$ 6,037	\$ 6,919	\$ 5,677	\$ 122,203	\$ 357,451
2015								
Income Statement								
Net interest income	\$ 2,082	\$ 1,660	\$ 144	\$ 60		\$ 212	\$ (34)	\$ 4,124
Noninterest income	1,078	921	451	353	\$ 351	18	301	3,473
Total revenue	3,160	2,581	595	413	351	230	267	7,597
Provision for credit losses (benefit)	94	37	13			(36)	(8)	100
Depreciation and amortization	85	73	23	7			206	394
Other noninterest expense	2,283	988	402	332		50	266	4,321
Income (loss) before income taxes and noncontrolling interests	698	1,483	157	74	351	216	(197)	2,782
Income taxes (benefit)	255	493	58	27	82	79	(260)	734
Net income	\$ 443	\$ 990	\$ 99	\$ 47	\$ 269	\$ 137	\$ 63	\$ 2,048
Average Assets (b)	\$ 73,691	\$ 131,711	\$ 7,974	\$ 7,190	\$ 6,760	\$ 7,094	\$ 115,941	\$ 350,361

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- (a) There were no material intersegment revenues for the three and six months ended June 30, 2016 and 2015.
- (b) Period-end balances for BlackRock.

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NOTE 15 SUBSEQUENT EVENTS

On July 18, 2016, we announced the redemption on August 22, 2016 of all of the outstanding Senior Notes due September 19, 2016 issued by PNC Funding Corp in the amount of \$1.25 billion. The securities have a distribution rate of 2.70%. The redemption price will be equal to \$1,000 per \$1,000 in principal amount, plus any accrued and unpaid distributions to the redemption date.

On July 29, 2016, PNC Bank issued \$1.0 billion of senior notes with a maturity date of July 29, 2019. Interest is payable semi-annually at a fixed rate of 1.450%, beginning on January 29, 2017.

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STATISTICAL INFORMATION (UNAUDITED)

The PNC Financial Services Group, Inc.

Average Consolidated Balance Sheet And Net Interest Analysis (a) (b) (c)

	Average Balances	Six months ended June 30	
		2016	2015
Taxable-equivalent basis		Interest	
Dollars in millions		Income/ Expense	