PNC FINANCIAL SERVICES GROUP, INC.
Form 10-K
March 02, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2014

Commission file number 001-09718

THE PNC FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

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

One PNC Plaza

249 Fifth Avenue

Pittsburgh, Pennsylvania 15222-2707

(Address of principal executive offices, including zip code)

Registrant s telephone number, including area code **- (412) 762-2000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $5.00	New York Stock Exchange
Depositary Shares Each Representing a 1/4,000 Interest in a Share of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series P	New York Stock Exchange
Depositary Shares Each Representing a 1/4,000 Interest in a Share of 5.375% Non-Cumulative Perpetual Preferred Stock, Series Q	New York Stock Exchange
Warrants (expiring December 31, 2018) to purchase Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

$1.80 Cumulative Convertible Preferred Stock - Series B, par value $1.00

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No __

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No X

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

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

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. __

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

Large accelerated filer X Accelerated filer __ Non-accelerated filer __ Smaller reporting company __

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

The aggregate market value of the registrant s outstanding voting common stock held by nonaffiliates on June 30, 2014, determined using the per share closing price on that date on the New York Stock Exchange of $89.05, was approximately $47.3 billion. There is no non-voting common equity of the registrant outstanding.

Number of shares of registrant s common stock outstanding at February 13, 2015: 520,689,714

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of The PNC Financial Services Group, Inc. to be filed pursuant to Regulation 14A for the 2015 annual meeting of shareholders (Proxy Statement) are incorporated by reference into Part III of this Form 10-K.

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PART I

Forward-Looking Statements: From time to time, The PNC Financial Services Group, Inc. (PNC or the Corporation) has made and may continue to make written or oral forward-looking 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 or the impact of legal, regulatory or supervisory matters on our business operations or performance. This Annual Report on Form 10-K (the Report or Form 10-K) also includes forward-looking statements. With respect to all such forward-looking statements, you should review our Risk Factors discussion in Item 1A, our Risk Management, Critical Accounting Estimates And Judgments, and Cautionary Statement Regarding Forward-Looking Information sections included in Item 7, and Note 21 Legal Proceedings and Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report. See page 99 for a glossary of certain terms used in this Report.

ITEM 1 BUSINESS

Business Overview

Headquartered in Pittsburgh, Pennsylvania, we are one of the largest diversified financial services companies in the United States. 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, North Carolina, Florida, Kentucky, Washington, D.C., Delaware, Virginia, Alabama, Missouri, Georgia, Wisconsin and South Carolina. We also provide certain products and services internationally. At December 31, 2014, our consolidated total assets, total deposits and total shareholders equity were $345.1 billion, $232.2 billion and $44.6 billion, respectively.

We were incorporated under the laws of the Commonwealth of Pennsylvania in 1983 with the consolidation of Pittsburgh National Corporation and Provident National Corporation. Since 1983, we have diversified our geographical presence, business mix and product capabilities through internal growth, strategic bank and non-bank acquisitions and equity investments, and the formation of various non-banking subsidiaries.

Review Of Business Segments

In addition to the following information relating to our lines of business, we incorporate the information under the captions Business Segment Highlights and Business Segments Review in Item 7 of this Report here by reference. Also, we include the financial and other information by business in Note 24 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report here by reference.

Assets, revenue and earnings attributable to foreign activities were not material in the periods presented. Business segment results for periods prior to 2014 have been reclassified to reflect current methodologies and current business and management structure and to present those periods on the same basis.

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, North Carolina, Florida, Kentucky, Washington, D.C., Delaware, Virginia, Alabama, Missouri, Georgia, Wisconsin and South Carolina.

Our core strategy is to acquire and retain customers who maintain their primary checking and transaction relationships with PNC. We also seek revenue growth by deepening our share of our customers financial assets, such as savings and liquidity deposits, loans and investable assets, including retirement assets. A strategic priority for PNC is to redefine the retail banking business in response to changing customer preferences. A key element of this strategy is to expand the use of lower-cost alternative distribution channels while continuing to optimize the traditional branch network. In addition, we have a disciplined process to continually improve the engagement of both our employees and customers, which is a strong indicator of customer growth, retention and relationship expansion.

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, equity capital markets advisory and related services. We also provide commercial loan servicing and real estate advisory 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.

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Corporate & Institutional Banking s strategy is to be the leading relationship-based provider of traditional banking products and services to its customers through the economic cycles. We aim to expand our market share and drive higher returns by growing and deepening customer relationships while maintaining prudent risk and expense management.

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. Hawthorn 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. Institutional clients include corporations, unions, municipalities, non-profits, foundations and endowments, primarily located in our geographic footprint.

Asset Management Group is focused on being one of the premier bank-held individual and institutional asset managers in each of the markets it serves. The business seeks to deliver high quality banking advice and trust and investment management services to our high net worth, ultra high net worth and institutional client sectors through a broad array of products and services. Asset Management Group s primary goals are to service our clients, grow the business and deliver solid financial performance with prudent risk and expense management.

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 Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks and third-party investors, or are securitized and issued under the Government National Mortgage Association (GNMA) program, as described in more detail in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in Item 8 of this Report and included here by reference. 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.

Residential Mortgage Banking is focused on adding value to the PNC franchise by building stronger customer relationships, providing quality investment loans and mortgage servicing opportunities, and delivering acceptable returns consistent with our desired risk appetite. A strategic priority for PNC is to build a stronger residential mortgage business offering seamless delivery to customers while improving efficiencies. Our national distribution capability provides volume that drives economies of scale, risk dispersion and cost-effective extension of the retail banking footprint for cross-selling opportunities.

BlackRock, in which we hold an equity investment, 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 our equity investment in BlackRock as a key component of our diversified revenue strategy. BlackRock is a publicly traded company, and additional information regarding its business is available in its filings with the Securities and Exchange Commission (SEC).

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/commercial real estate loan and lease portfolio. We obtained a significant portion of these non-strategic assets through acquisitions of other companies.

Subsidiaries

Our corporate legal structure at December 31, 2014 consisted of one domestic subsidiary bank, including its subsidiaries, and approximately 80 active non-bank subsidiaries, in addition to various affordable housing investments. Our bank subsidiary is PNC Bank, National Association (PNC Bank), a national bank headquartered in Pittsburgh, Pennsylvania. For additional information on our subsidiaries, see Exhibit 21 to this Report.

Statistical Disclosure By Bank Holding Companies

The following statistical information is included on the indicated pages of this Report and is incorporated herein by reference:

	Form 10-K page
Average Consolidated Balance Sheet And Net Interest Analysis	223-224
Analysis Of Year-To-Year Changes In Net Interest Income	225
Book Values Of Securities	43-44 and 146-151
Maturities And Weighted-Average Yield Of Securities	150-151
Loan Types	39-43, 129-130 and 226
Selected Loan Maturities And Interest Sensitivity	230
Nonaccrual, Past Due And Restructured Loans And Other Nonperforming Assets	72-79, 116-119, 128-141 and 228
Potential Problem Loans And Loans Held For Sale	45 and 72-82
Summary Of Loan Loss Experience	80-82, 128-145 and 229
Assignment Of Allowance For Loan And Lease Losses	80-82 and 229
Average Amount And Average Rate Paid On Deposits	223-224
Time Deposits Of $100,000 Or More	174 and 230
Selected Consolidated Financial Data	30-31

Short-term borrowings not included as average balances during 2014, 2013, and 2012 were less than 30% of total shareholders equity at the end of each period.

Supervision and Regulation

PNC is a bank holding company (BHC) registered under the Bank Holding Company Act of 1956 (BHC Act) and a financial holding company under the Gramm-Leach-Bliley Act (GLB Act).

We are subject to numerous governmental regulations, some of which are highlighted below. See Note 20 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information regarding our regulatory matters. Applicable laws and regulations restrict our permissible activities and investments, impose conditions and requirements on the products and services we offer and the manner in which they are offered and sold, and require compliance with protections for loan, deposit, brokerage,

fiduciary, investment management and other customers, among other things. They also restrict our ability to repurchase stock or pay dividends, or to receive dividends from our bank subsidiary, and impose capital adequacy requirements. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions.

In addition, we are subject to comprehensive supervision and periodic examination by, among other regulatory bodies, the Board of Governors of the Federal Reserve System (Federal Reserve) and the Office of the Comptroller of the Currency (OCC). These examinations consider not only compliance with applicable laws, regulations and supervisory policies of the agency, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity and various other factors. The results of examination activity by any of our federal bank regulators potentially can result in the imposition of significant limitations on our activities and growth. These regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity and take enforcement action against a regulated entity where the relevant agency determines, among other things, that such operations fail to comply with applicable law or regulations or are conducted in an unsafe or unsound manner. This supervisory framework, including the examination reports and supervisory ratings (which are not publicly available) of the agencies, could materially impact the conduct, growth and profitability of our operations.

The Consumer Financial Protection Bureau (CFPB) is responsible for examining PNC Bank and its affiliates (including PNC) for compliance with most federal consumer financial protection laws, including the laws relating to fair lending and prohibiting unfair, deceptive or abusive acts or practices in connection with the offer, sale or provision of consumer financial products or services, and for enforcing such laws with respect to PNC Bank and its affiliates. The results of the CFPB s examinations, which are not publicly available, also can result in restrictions or limitations on the operations of a regulated entity as well as enforcement actions against a regulated entity, including the imposition of monetary penalties and nonmonetary requirements.

We also are subject to regulation by the SEC by virtue of our status as a public company and by the SEC and the Commodity Futures Trading Commission (CFTC) due to the nature of some of our businesses. Our banking and securities businesses with operations outside the United States, including those conducted by BlackRock, are also subject to regulation by appropriate authorities in the foreign jurisdictions in which they do business.

As a regulated financial services firm, our relationships and good standing with regulators are of fundamental importance to the operation and growth of our businesses. The Federal Reserve, OCC, CFPB, SEC, CFTC and other domestic and foreign regulators have broad enforcement powers, and certain of the regulators have the power to approve, deny, or refuse to act upon our applications or notices to conduct new activities, acquire or divest businesses, assets or deposits, or reconfigure existing operations.

We anticipate new legislative and regulatory initiatives over the next several years, focused specifically on banking and other financial services in which we are engaged. Legislative and regulatory developments to date, as well as those that come in the future, have had and are likely to continue to have an impact on the conduct of our business. The more detailed description of the significant regulations to which we are subject included in this Report is based on the current regulatory environment and is subject to potentially material change. See also the additional information included as Risk Factors in Item 1A of this Report discussing the impact of financial regulatory reform initiatives, including Dodd-Frank and regulations promulgated to implement it, on the regulatory environment for PNC and the financial services industry.

Among other areas that have been receiving a high level of regulatory focus over the last several years are compliance with the Bank Secrecy Act and anti-money laundering laws, the oversight of arrangements with third-party vendors and suppliers, the protection of confidential customer information, and cyber-security more generally. In addition, there is an increased focus on fair lending and other consumer protection issues.

Additional legislation, changes in rules promulgated by federal financial regulators, other federal and state regulatory authorities and self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules, may directly affect the method of operation and profitability of our businesses. The profitability of our businesses could also be affected by rules and regulations that impact the business and financial communities in general, including changes to the laws governing taxation, antitrust regulation and electronic commerce.

There are numerous rules governing the regulation of financial services institutions and their holding companies. Accordingly, the following discussion is general in nature and does not purport to be complete or to describe all of the laws, regulations and supervisory policies that apply to us. To a substantial extent, the purpose of the regulation and supervision of financial services institutions and their holding companies is not to protect our shareholders and our non-customer creditors, but rather to protect our customers (including depositors) and the financial markets in general.

Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which was signed into law on July 21, 2010, comprehensively reformed the regulation of financial institutions, products and services. Dodd-Frank

requires various federal regulatory agencies to implement numerous new rules and regulations. Because federal agencies are granted broad discretion in drafting these rules and regulations, and many implementing rules have not yet been issued, have only been issued in proposed form, or have only recently been finalized, many of the details and much of the impact of Dodd-Frank may not be known for months or years. Among other things, Dodd-Frank established the CFPB; provided for new capital standards that eliminate the treatment of trust preferred securities as Tier 1 regulatory capital; required that deposit insurance assessments be calculated based on an insured depository institution s assets rather than its insured deposits; raised the minimum Designated Reserve Ratio (the balance in the Deposit Insurance Fund divided by estimated insured deposits) to 1.35%; established a comprehensive regulatory regime for the derivatives activities of financial institutions; prohibited banking entities, after a transition period, from engaging in certain types of proprietary trading, as well as having investments in, sponsoring, and maintaining certain types of relationships with hedge funds and private equity funds (through provisions commonly referred to as the Volcker Rule); placed limitations on the interchange fees charged for debit card transactions; and established new minimum mortgage underwriting standards for residential mortgages.

Financial Stability Oversight Council. Dodd-Frank also established the 10-member inter-agency Financial Stability Oversight Council (FSOC), which is charged with identifying and monitoring systemic risks and strengthening the regulation of financial holding companies and certain non-bank companies deemed to be systemically important. In extraordinary cases, the FSOC, in conjunction with the Federal Reserve, could order the break-up of financial firms that are deemed to present a grave threat to the financial stability of the United States.

Banking Regulation and Supervision

Enhanced Prudential Requirements. Dodd-Frank requires the Federal Reserve to establish enhanced prudential standards for BHCs with total consolidated assets of $50 billion or more, such as PNC, as well as systemically important non-bank financial companies designated by the FSOC for Federal Reserve supervision. For such BHCs, these enhanced standards must be more stringent than the standards and requirements applicable to BHCs with less than $50 billion in assets, and must increase in stringency based on the Federal Reserve s assessment of a BHC s risk to the financial system. The FSOC may make recommendations to the Federal Reserve concerning the establishment and refinement of these enhanced prudential standards.

The Federal Reserve in February 2014 issued final rules that establish the new enhanced prudential standards related to liquidity risk management and overall risk management for BHCs with $50 billion or more in assets. These new rules, which took effect for PNC on January 1, 2015, among other

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things, require that covered BHCs conduct liquidity stress tests at least monthly, maintain a contingency funding plan and sufficient highly liquid assets to meet net stress cash-flow needs (as projected under the company s liquidity stress tests) for 30 days, and establish certain oversight and governance responsibilities for the chief risk officer, the board of directors and the risk committee of the board of directors of a covered company. In addition, the rules implement the provisions of Dodd-Frank that require the Federal Reserve to impose a maximum 15-to-1 debt to equity ratio on a BHC if the FSOC determines that the company poses a grave threat to the financial stability of the United States and that the imposition of such a debt-to-equity requirement would mitigate such risk. The rules issued in February 2014 did not finalize the other enhanced prudential standards that the Federal Reserve proposed in December 2011, including counterparty credit exposure limits and early remediation requirements, although the Federal Reserve has indicated that these matters remain under development. See the Recent Market and Industry Developments portion of Item 7 MD&A and Item 1A Risk Factors for additional information.

Regulatory Capital Requirements, Stress Testing and Capital Planning. PNC and PNC Bank are subject to the regulatory capital requirements established by the Federal Reserve and the OCC, respectively. These requirements have changed, and will continue to change significantly, as a result of the rules adopted by the U.S. banking agencies in July 2013 to implement the new international guidelines for determining regulatory capital established by the Basel Committee on Banking Supervision (Basel Committee) known as Basel III, as well as to implement certain provisions of Dodd-Frank. The rules adopted in July 2013 generally have three fundamental parts.

The first part, referred to as the Basel III capital rule, among other things, narrows the definition of regulatory capital, requires banking organizations with $15 billion or more in assets (including PNC) to phase-out trust preferred securities from Tier 1 regulatory capital, establishes a new common equity Tier 1 capital regulatory requirement for banking organizations, and revises the capital levels at which PNC and PNC Bank would be subject to prompt corrective action. These rules also require that significant common stock investments in unconsolidated financial institutions (as defined in the rule), as well as mortgage servicing rights and deferred tax assets, be deducted from Tier 1 common regulatory capital to the extent such items individually exceed 10%, or in the aggregate exceed 15%, of the organization s adjusted Basel III common equity Tier 1 regulatory capital. We previously referred to Basel III common equity Tier 1 capital as Basel III Tier 1 common capital. The Basel III capital rule also significantly limits the extent to which minority interests in consolidated subsidiaries (including minority interests in the form of REIT preferred securities) may be included in regulatory capital. In addition, for banking organizations, like PNC, which are subject to the advanced

approaches (described below), the rule includes other comprehensive income related to both available for sale securities and pension and other post-retirement plans as a component of common equity Tier 1 capital. The Basel III capital rule became effective on January 1, 2014 for PNC and PNC Bank, although many provisions are phased-in over a period of years, with the rules generally fully phased-in as of January 1, 2019.

The second part of the rules adopted in July 2013 is referred to as the advanced approaches and materially revises the framework for the risk-weighting of assets under Basel II. The Basel II framework, which was adopted by the Basel Committee in 2004, seeks to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. The advanced approaches modifications adopted by the U.S. banking agencies became effective on January 1, 2014, and generally apply to banking organizations that have $250 billion or more in total consolidated assets or that have $10 billion or more in on-balance sheet foreign exposure. Prior to fully implementing the advanced approaches to calculate risk-weighted assets, PNC and PNC Bank must successfully complete a parallel run qualification phase. PNC and PNC Bank entered this parallel run qualification phase on January 1, 2013. Although the minimum parallel run qualification period is four quarters, the parallel run period for PNC and PNC Bank, now in its third year, is consistent with the experience of other U.S. banks that have all had multi-year parallel run periods.

The third major part of the rules adopted in July 2013 is referred to as the standardized approach and materially revises the framework for the risk-weighting of assets under Basel I. The standardized approach, for example, establishes a new framework for the risk-weighting of securitization and non-U.S. sovereign exposures, and increases the risk-weights on certain types of assets including high-volatility commercial real estate and past due corporate and retail exposures. The standardized approach took effect on January 1, 2015.

The risk-based capital and leverage rules that the federal banking regulators have adopted require the capital-to-assets ratios of banking organizations, including PNC and PNC Bank, to meet certain minimum standards. The Basel III rule generally divides regulatory capital into three components: common equity Tier 1 capital, additional Tier 1 capital (which, together with common equity Tier 1 capital, comprises Tier 1 capital) and Tier 2 capital. Common equity Tier 1 capital is generally common stock, retained earnings, qualifying minority interest and, for advanced approaches banking organizations, accumulated other comprehensive income, less the deductions required to be made from common equity Tier 1 capital. Additional Tier 1 generally includes, among other things, perpetual preferred stock and qualifying minority interests, less the deductions required to be made from additional Tier 1. Tier 2 capital generally comprises qualifying subordinated debt.

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Total capital is the sum of Tier 1 and Tier 2 capital, less the deductions required from total capital. For additional information regarding the differences between Basel III common equity Tier 1 capital and Basel I Tier 1 common capital, see the Capital section of the Consolidated Balance Sheet Review section of Item 7 of this Report.

Under the regulatory capital rules, a banking organization s risk-based capital ratios are calculated by allocating assets and specified off-balance sheet financial instruments into risk-weighted categories (with higher levels of capital being required for the categories perceived as representing greater risk), which are used to determine the amount of a banking organization s total risk-weighted assets (RWAs). Under the standardized approach, the nominal dollar amounts of assets and credit equivalent amounts of off-balance sheet items are generally multiplied by one of several risk adjustment percentages set forth in the rules and that increase as the perceived credit risk of the relevant asset increases. For certain types of exposures, such as securitization exposures, the standardized approach establishes one or more methodologies that are to be used to calculate the risk-weighted asset amount for the exposure.

As a result of the staggered effective dates of the final U.S. capital rules issued in July 2013, as well as the fact that PNC remains in the parallel run qualification phase for the advanced approaches, PNC s regulatory risk-based capital ratios in 2014 were based on the definitions of, and deductions from, capital under Basel III (as such definitions and deductions are phased-in for 2014) and Basel I risk-weighted assets (but subject to certain adjustments as defined by the Basel III rules). As of January 1, 2015, and until PNC has exited parallel run, PNC s regulatory risk-based Basel III ratios will be calculated using the standardized approach for determining risk-weighted assets, and the definitions of, and deductions from, capital under Basel III (as such definitions and deductions are phased-in through 2019). Once PNC exits parallel run, its regulatory risk-based capital ratios will be the lower of the ratios calculated under the standardized approach or the advanced approaches. We refer to the capital ratios calculated using the phased-in Basel III provisions as the Transitional Basel III ratios. The Transitional Basel III regulatory capital ratios of PNC and PNC Bank as of December 31, 2014 exceeded the applicable minimum levels in effect for 2014. For additional information regarding the Transitional Basel III capital ratios of PNC and PNC Bank as of December 31, 2014, as well as the levels necessary to exceed the regulatory minimums and those needed to be considered well capitalized , see the Capital portion of the Consolidated Balance Sheet Review section of Item 7 of this Report.

The Basel III capital rule requires that banking organizations maintain a minimum common equity Tier 1 ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0%. Moreover, when fully phased-in on January 1, 2019, the rule

will require banking organizations to maintain a common equity Tier 1 capital ratio of at least 7.0%, a Tier 1 capital ratio of at least 8.5%, and a total capital ratio of at least 10.5% to avoid limitations on capital distributions (including common stock dividends and share repurchases) and certain discretionary incentive compensation payments. For banking organizations that are subject to the advanced approaches, these higher capital conservation buffer levels above the regulatory minimums could be supplemented by a countercyclical capital buffer of up to an additional 2.5% during periods of excessive credit growth, although this buffer is initially set at zero in the United States.

In December 2014, the Federal Reserve requested comment on proposed rules that would apply an additional risk-based common equity Tier 1 capital surcharge of between 1.0% and 4.5% (when fully phased-in on January 1, 2019) to firms identified as globally systemically important banks (GSIBs) using a scoring methodology that is based on five measures of global systemic importance (size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity). Based on the methodology proposed, PNC would not be subject to the proposed GSIB surcharge. In its December 2014 release, the Federal Reserve indicated that there is a significant gap between the systemic scores of the eight U.S. BHCs that would be subject to the proposed GSIB surcharge and other BHCs (such as PNC).

The regulatory capital framework adopted by the federal banking regulators also requires that banking organizations maintain a minimum amount of Tier 1 capital to average consolidated assets, referred to as the leverage ratio. Banking organizations are required to maintain a minimum leverage ratio of Tier 1 capital to total assets of 4.0%. As of December 31, 2014, the leverage ratios of PNC and PNC Bank were above the required minimum level.

Under the Basel III capital rule, banking organizations subject to the advanced approaches (such as PNC and PNC Bank) also will be subject to a new minimum 3.0% supplementary leverage ratio that becomes effective on January 1, 2018, with public regulatory reporting of the ratio beginning in 2015. Unlike the existing leverage ratio, the denominator of the supplementary leverage ratio takes into account certain off-balance sheet items, including loan commitments and potential future exposure under derivative contracts. Consistent with the January 2014 Basel Committee revisions to the leverage ratio, the U.S. banking agencies in September 2014 adopted final rules that, among other things, revise the denominator of the supplementary leverage ratio and the supplementary leverage ratio disclosures that covered banking organizations are required to make beginning in 2015. In April 2014, the U.S. banking agencies released final rules imposing a higher supplementary leverage ratio requirement on BHCs with total consolidated assets of more than $700 billion or assets under custody of more than $10 trillion, as well as the insured depository institution subsidiaries of these BHCs.

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Based on the asset and custody thresholds adopted in the final rules, these higher supplementary leverage requirements do not apply to PNC or PNC Bank.

The Federal Reserve and the international bodies responsible for establishing globally applicable regulatory standards for banks (the Financial Stability Board (FSB) and the Basel Committee) have been working during the past few years on developing a minimum total loss absorbing capacity (TLAC) requirement that would facilitate the orderly resolution of GSIBs by requiring that such firms maintain a minimum amount of regulatory capital and eligible debt that could be converted to equity upon failure. In November 2014, the FSB requested comment on a consultative document that would establish a global framework for the implementation of such a TLAC requirement. As the proposal would apply only to firms that are identified as a GSIB by the FSB, it would not apply to PNC. The comment period on the FSB proposal ended on February 2, 2015.

Failure to meet applicable capital guidelines could subject a banking organization to a variety of enforcement remedies available to the federal bank regulatory agencies, including a limitation on the ability to pay dividends or repurchase shares, the issuance of a capital directive to increase capital and, in severe cases, the termination of deposit insurance by the FDIC, and the appointment of a conservator or receiver. In some cases, the extent of these powers depends upon whether the institution in question is considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. Generally, the smaller an institution s capital base in relation to its risk-weighted or total assets, the greater the scope and severity of the agencies powers, ultimately permitting the agencies to appoint a receiver for the institution. Business activities may also be affected by an institution s capital classification. For instance, only a well capitalized insured depository institution may accept brokered deposits without prior regulatory approval. In addition, in order to remain a financial holding company and engage in the broader range of financial activities authorized for such a company, PNC and PNC Bank must remain well capitalized. At December 31, 2014, PNC and PNC Bank exceeded the required ratios for classification as well capitalized. The Basel III capital rule revised the thresholds at which an insured depository institution is considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized. The new thresholds among other things (i) include the common equity Tier 1 capital metric; (ii) generally increase the amount of Tier 1 capital required to remain within each capital category (other than the critically undercapitalized category); and (iii) for institutions subject to the advanced approaches, include a supplementary leverage ratio threshold in the definitions of adequately capitalized and undercapitalized once the supplementary leverage ratio takes effect as a minimum requirement in 2018. The revised thresholds generally took effect on January 1, 2015. For

additional discussion of capital adequacy requirements, we refer you to the Capital portion of the Consolidated Balance Sheet Review section of Item 7 of this Report and to Note 20 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report.

In addition to these regulatory capital requirements, PNC is subject to the Federal Reserve s capital plan rule, annual capital stress testing requirements and Comprehensive Capital Analysis and Review (CCAR) process, as well as the annual and mid-year Dodd-Frank capital stress testing (DFAST) requirements of the Federal Reserve and the OCC. As part of the CCAR process, the Federal Reserve undertakes a supervisory assessment of the capital adequacy of BHCs, including PNC, that have $50 billion or more in total consolidated assets. This capital adequacy assessment is based on a review of a comprehensive capital plan submitted by each participating BHC to the Federal Reserve that describes the company s planned capital actions during the nine quarter review period, as well as the results of stress tests conducted by both the company and the Federal Reserve under different hypothetical macro-economic scenarios, including a supervisory adverse and a severely adverse scenario provided by the Federal Reserve. In evaluating a BHC s capital plan, the Federal Reserve considers a number of qualitative factors. In assessing these qualitative factors, which have become increasingly important in the CCAR process in recent years, the Federal Reserve considers whether the BHC s capital adequacy processes are supported by strong foundational risk management, effective loss and capital estimation methodologies, a sufficient capital adequacy assessment process, comprehensive capital policies and capital planning processes, robust internal controls, and effective governance. From a quantitative perspective, the Federal Reserve considers whether under different hypothetical macro-economic scenarios, including the supervisory severely adverse scenario, the company would be able to maintain throughout each quarter of the nine quarter planning horizon, even if it maintained its base case planned capital actions, (i) a projected pro forma Basel I Tier 1 common capital ratio above 5%, and (ii) regulatory risk-based and leverage capital ratios that exceed the minimums that are, or would then be, in effect for the company, taking into account the Basel III capital rules adopted in July 2013 and any applicable phase-in periods. In addition, the Federal Reserve evaluates a company s projected path towards compliance with the Basel III regulatory capital framework on a fully implemented basis. After completing its review, the Federal Reserve may object or not object to the BHC s proposed capital actions, such as plans to pay or increase common stock dividends, reinstate or increase common stock repurchase programs, or redeem preferred stock or other regulatory capital instruments. In connection with the 2015 CCAR exercise, PNC filed its capital plan and stress testing results using financial data as of September 30, 2014 with the Federal Reserve on January 5, 2015. PNC expects to receive the Federal Reserve s response (either a

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non-objection or objection) to the capital plan submitted as part of the 2015 CCAR in March 2015.

As part of the CCAR and annual DFAST processes, both the Federal Reserve and PNC release certain revenue, loss and capital results from their stress testing exercises. For the 2015 exercises, the Federal Reserve has announced that it intends to publish its supervisory revenue, loss and capital projections for participating BHCs under the supervisory adverse and severely adverse macro-economic scenarios using the common assumptions concerning capital distributions established by the Federal Reserve in its DFAST regulations (DFAST capital action assumptions), as well as capital ratio information using the firm s proposed base case capital actions. Within 15 days after the Federal Reserve publishes its DFAST results, PNC also is required to publicly disclose its own estimates of certain capital, revenue and loss information under the same hypothetical supervisory severely adverse macro-economic scenario and applying the DFAST capital action assumptions. Federal Reserve regulations also require that PNC and other large BHCs conduct a separate mid-year stress test using financial data as of March 31 and three company-derived macro-economic scenarios (base, adverse and severely adverse) and publish a summary of the results under the severely adverse scenario. For the 2015 mid-year stress test, PNC must publish its results in the period between July 5 and August 4, 2015.

In October 2014, the Federal Reserve adopted amendments to its capital plan and stress testing rules that will modify the schedule for the CCAR and DFAST processes effective January 1, 2016. Beginning in 2016, covered BHCs are required to submit their annual capital plans and company-run stress test results to the Federal Reserve by April 5 of each year (rather than by January 5 as currently required). In order to transition to this new schedule, the Federal Reserve s non-objection to a capital plan submitted in January 2015 will cover capital actions for the five quarter period from the second quarter of 2015 through and including the second quarter of 2016. Under the new schedule that becomes effective in 2016, the Federal Reserve will release its decisions on capital plans and release the results of its supervisory stress test by June 30, approximately three months later than currently. The amendments also shift the schedule for the company-run mid-cycle DFAST exercise, with PNC s submission date for this exercise shifting to October 5 (from July 5) and the release date for company results moving to October (from July).

Basel III Liquidity Requirements. The Basel III framework adopted by the Basel Committee also includes new short-term liquidity standards (the Liquidity Coverage Ratio or LCR) and long-term funding standards (the Net Stable Funding Ratio or NSFR).

In September 2014, the U.S. banking agencies released final rules to implement the LCR. The LCR rules are designed to

ensure that covered banking organizations maintain an adequate level of cash and high quality, unencumbered liquid assets (HQLA) to meet estimated net liquidity needs in a short-term stress scenario using liquidity inflow and outflow assumptions provided in the rules (net cash outflow). An institution s LCR is the amount of its HQLA, as defined and calculated in accordance with the haircuts and limitations in the rule, divided by its net cash outflow, with the quotient expressed as a percentage.

Top-tier BHCs (like PNC) that are subject to the advanced approaches for regulatory capital purposes, as well as any subsidiary depository institution of such a company that has $10 billion or more in total consolidated assets (such as PNC Bank), are subject to the full LCR (rather than the less stringent modified LCR) under the final rules that took effect January 1, 2015. However, the minimum required LCR and the requirement to calculate the LCR on a daily basis will be phased-in over a period of years. The minimum LCR PNC and PNC Bank are required to maintain in 2015 is 80% and increases to 90% in 2016 and then to 100% when fully phased-in in 2017. PNC and PNC Bank are required to calculate the LCR on a month-end basis until June 30, 2016, and then on a daily basis beginning on July 1, 2016. If an institution fails to meet the required minimum ratio, it must promptly notify its primary federal banking regulator and may be required to take remedial actions. An institution required to calculate its LCR on a month-end basis must consult with its regulator to determine whether the institution must provide a plan for achieving compliance with the minimum LCR. An institution required to calculate the LCR on a daily basis must promptly provide its regulator with a plan for achieving compliance with the minimum if its LCR is below the minimum for three consecutive business days.

For additional discussion of regulatory liquidity requirements, please refer to the Capital portion of the Consolidated Balance Sheet Review section and the Liquidity Risk Management portion of the Risk Management section of Item 7 of this Report.

The NSFR is designed to promote a stable maturity structure of assets and liabilities of banking organizations over a one-year time horizon. The Basel Committee, in October 2014, released the final NSFR framework. Under that framework, the NSFR would take effect as a minimum regulatory standard on January 1, 2018, although the U.S. banking agencies have not yet proposed rules to implement the NSFR.

Parent Company Liquidity and Dividends. The principal source of our liquidity at the parent company level is dividends from PNC Bank. PNC Bank is subject to various restrictions on its ability to pay dividends to PNC Bancorp, Inc., its direct parent, which is a wholly-owned direct subsidiary of PNC. PNC Bank is also subject to federal laws limiting extensions of credit to its parent holding company and non-bank affiliates as discussed in Note 20 Regulatory

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Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report. Further information on bank level liquidity and parent company liquidity and on certain contractual restrictions is also available in the Liquidity Risk Management portion of the Risk Management section and the Trust Preferred Securities and REIT Preferred Securities portion of the Off-Balance Sheet Arrangements And Variable Interest Entities section of Item 7 of this Report, and in Note 12 Capital Securities of a Subsidiary Trust and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Federal Reserve rules provide that a BHC is expected to serve as a source of financial strength to its subsidiary banks and to commit resources to support such banks if necessary. Consistent with the source of strength policy for subsidiary banks, the Federal Reserve has stated that, as a matter of prudent banking, a BHC generally should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears to be consistent with the corporation s capital needs, asset quality and overall financial condition. Further, in providing guidance to the large BHCs participating in the 2015 CCAR, discussed above, the Federal Reserve stated that it expects capital plans submitted in 2015 to reflect conservative dividend payout ratios and net share repurchase programs, and that requests that imply common dividend payout ratios above 30% of projected after-tax net income available to common shareholders will receive particularly close scrutiny.

Additional Powers Under the GLB Act. The GLB Act permits a qualifying BHC to become a financial holding company and thereby engage in, or affiliate with financial companies engaging in, a broader range of activities than would otherwise be permitted for a BHC. Permitted affiliates include securities underwriters and dealers, insurance companies and companies engaged in other activities that are determined by the Federal Reserve, in consultation with the Secretary of the Treasury, to be financial in nature or incidental thereto or are determined by the Federal Reserve unilaterally to be complementary to financial activities. We became a financial holding company as of March 13, 2000. In order to be and remain a financial holding company, a BHC and its subsidiary depository institutions must be well capitalized and well managed. In addition, a financial holding company generally may not engage in a new financial activity, or acquire a company engaged in a new activity, if any of its insured depository institutions received a less than Satisfactory rating at its most recent evaluation under the Community Reinvestment Act (CRA). Among other activities, we currently rely on our status as a financial holding company to conduct merchant banking activities and securities underwriting and dealing activities. As subsidiaries of a financial holding company under the GLB Act, our non-bank subsidiaries are generally allowed to conduct new financial activities, and PNC is generally permitted to acquire non-bank

financial companies that have less than $10 billion in assets, with after-the-fact notice to the Federal Reserve.

The Federal Reserve is the umbrella regulator of a financial holding company, with its operating entities, such as its subsidiary broker-dealers, investment advisers, insurance companies and banks, as well as investment companies advised by investment adviser subsidiaries of the financial holding company, also being subject to the jurisdiction of various federal and state functional regulators with normal regulatory responsibility for companies in their lines of business.

In addition, the GLB Act permits qualifying national banks to engage in expanded activities through the formation of a financial subsidiary. PNC Bank has filed a financial subsidiary certification with the OCC and currently engages in insurance agency activities through financial subsidiaries. PNC Bank may also generally engage through a financial subsidiary in any activity that is determined to be financial in nature or incidental to a financial activity by the Secretary of the Treasury, in consultation with the Federal Reserve. Certain activities, however, are impermissible for a financial subsidiary of a national bank, including certain insurance underwriting activities, insurance company investment activities, real estate investment or development, and merchant banking. In order to have a financial subsidiary, a national bank and each of its depository institution affiliates must be and remain well capitalized and well managed. In addition, a financial subsidiary generally may not engage in a new financial activity, or acquire a company engaged in a new financial activity, if the national bank or any of its insured depository institution affiliates received a less than Satisfactory rating at its most recent evaluation under the CRA.

Volcker Rule. In December 2013, the U.S. banking agencies, SEC and CFTC issued final rules to implement the Volcker Rule provisions of Dodd-Frank. The rules prohibit banks and their affiliates (collectively, banking entities) from trading as principal on a short-term basis in securities, derivatives and certain other financial instruments, but also includes several important exclusions and exemptions from this prohibition. These exclusions and exemptions, for example, permit banking entities, subject to a variety of conditions and restrictions, to trade as principal for market making, risk-mitigating hedging, and securities underwriting purposes, and to trade in U.S. government and municipal securities. The rules also prohibit banking entities from investing in, sponsoring, and having certain relationships with private funds (such as, for example, private equity or hedge funds) that would be an investment company for purposes of the Investment Company Act of 1940 but for the exemptions in sections 3(c)(1) or 3(c)(7) of that act (covered funds). Again there are exemptions from these restrictions which themselves are subject to a variety of conditions. Moreover, the rules prohibit banking entities from engaging in permitted trading

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or covered fund activities if the activity would involve or result in a material conflict of interest between the banking entity and its clients, customers, or counterparties, result in a material exposure by the banking entity to a high-risk asset or a high-risk trading strategy, or pose a threat to the safety and soundness of the banking entity or to the financial stability of the United States. Banking entities, like PNC, that have $50 billion or more in total assets are required to establish and maintain an enhanced compliance program designed to ensure that the entity complies with the requirements of the final rule. Based on the level of PNC s trading assets and liabilities, PNC is not subject to the metrics reporting requirements of the final rules.

The Volcker rule s prohibitions and restrictions generally become effective on July 21, 2015. In December 2014, the Federal Reserve granted an extension of the conformance period to give all banking entities until July 21, 2016 to conform their investments in, and relationships with, covered funds that were in place prior to December 31, 2013 (legacy covered funds). Moreover, the Federal Reserve indicated its intent to grant an additional one-year extension of the conformance period for legacy covered funds, which would give banking entities until July 21, 2017 to conform their ownership interests in, and relationships with, legacy covered funds. The Federal Reserve also has the ability to provide up to an additional 5-year conformance period for investments held as of May 1, 2010 in qualifying illiquid funds. For additional information concerning the potential impact of the Volcker Rule on PNC s operations, please refer to Item 1A Risk Factors of this Report.

Other Federal Reserve and OCC Regulation and Supervision. The federal banking agencies possess broad powers to take corrective action as deemed appropriate for an insured depository institution and its holding company.

Laws and regulations limit the scope of our permitted activities and investments. National banks (such as PNC Bank) and their operating subsidiaries generally may engage only in activities that are determined by the OCC to be part of or incidental to the business of banking, although a financial subsidiary may engage in a broader range of activities as described above.

Moreover, examination ratings of 3 or lower, lower capital ratios than peer group institutions, regulatory concerns regarding management, controls, assets, operations or other factors, can all potentially result in practical limitations on the ability of a bank or BHC to engage in new activities, grow, acquire new businesses, repurchase its stock or pay dividends, or to continue to conduct existing activities. The OCC, moreover, has been applying certain heightened risk management and governance expectations in its supervision of large national banks, including PNC Bank. In September 2014, the OCC incorporated these expectations into final enforceable guidelines established under section 39 of the

Federal Deposit Insurance Act (FDI Act). The guidelines establish minimum standards for the design and implementation of a risk governance framework at large insured national banks, including PNC Bank. The guidelines describe the appropriate risk management roles and responsibilities of front line units, independent risk management, internal audit, and the board of directors, and provide that a bank should have a comprehensive written statement that articulates its risk appetite and serves as a basis for the framework (a risk appetite statement). PNC Bank is required to be in compliance with the guidelines by May 10, 2015. If the OCC determines that a national bank is not in compliance with these or other guidelines established under section 39 of the FDI Act, the OCC may require the bank to submit a corrective action plan and may initiate enforcement action against the bank if an acceptable plan is not submitted or the bank fails to comply with an approved plan.

The Federal Reserve s prior approval is required whenever we propose to acquire all or substantially all of the assets of any bank or thrift, to acquire direct or indirect ownership or control of more than 5% of any class of voting securities of any bank or thrift, or to merge or consolidate with any other BHC or thrift holding company. The BHC Act enumerates the factors the Federal Reserve must consider when reviewing the merger of BHCs, the acquisition of banks, or the acquisition of voting securities of a bank or BHC. These factors include the competitive effects of the proposal in the relevant geographic markets; the financial and managerial resources and future prospects of the companies and banks involved in the transaction; the effect of the transaction on the financial stability of the United States; the organizations compliance with anti-money laundering laws and regulations; the convenience and needs of the communities to be served; and the records of performance under the CRA of the insured depository institutions involved in the transaction. In cases involving interstate bank acquisitions, the Federal Reserve also must consider the concentration of deposits nationwide and in certain individual states. Under Dodd-Frank, a BHC also is generally prohibited from merging or consolidating with, or acquiring, another company if the resulting company s liabilities upon consummation would exceed 10% of the aggregate liabilities of the U.S. financial sector (including the U.S. liabilities of foreign financial companies). OCC prior approval is required for PNC Bank to acquire another insured bank or thrift by merger or to acquire deposits or substantially all of the assets of such institutions. In deciding whether to approve such a transaction, the OCC is required to consider factors similar to those that must be considered by the Federal Reserve. Our ability to grow through acquisitions could be limited by these approval requirements.

At December 31, 2014, PNC Bank had an Outstanding rating with respect to CRA.

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Because of PNC s ownership interest in BlackRock, BlackRock is subject to the supervision and regulation of the Federal Reserve.

FDIC Insurance and Related Matters. PNC Bank is insured by the FDIC and subject to premium assessments. Regulatory matters could increase the cost of FDIC deposit insurance premiums to an insured bank as FDIC deposit insurance premiums are risk based. Therefore, higher fee percentages would be charged to banks that have lower capital ratios or higher risk profiles. These risk profiles take into account, among other things, weaknesses that are found by the primary banking regulator through its examination and supervision of the bank and the bank s holdings of assets or liabilities classified as higher risk by the FDIC. For example, the amount of brokered deposits (as defined under the FDI Act) held by an insured depository institution can adversely affect the institution s deposit insurance assessments. A negative evaluation by the FDIC or a bank s primary federal banking regulator could increase the costs to a bank and result in an aggregate cost of deposit funds higher than that of competing banks in a lower risk category. The methodology for the deposit insurance base calculation currently uses average assets less average tangible equity.

On January 5, 2015, the FDIC issued guidance in the form of frequently asked questions regarding the definition of brokered deposits under the FDI Act, as well as the acceptance and regulatory reporting of brokered deposits by insured depository institutions. Federal banking laws and regulations apply a variety of requirements or restrictions on insured depository institutions with respect to brokered deposits. For example, only a well capitalized insured depository institution may accept 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.

Resolution Planning. Dodd-Frank requires BHCs that have $50 billion or more in assets, such as PNC, to periodically submit to the Federal Reserve and the FDIC a resolution plan that includes, among other things, an analysis of how the company could be resolved in a rapid and orderly fashion if the company were to fail or experience material financial distress. The Federal Reserve and the FDIC may jointly impose restrictions on a covered BHC, including additional capital requirements or limitations on growth, if the agencies jointly determine that the company s plan is not credible or would not facilitate a rapid and orderly resolution of the company under the U.S. Bankruptcy Code (or other applicable resolution framework), and additionally could require the company to divest assets or take other actions if the company did not submit an acceptable resolution plan within two years after any such restrictions were imposed. The FDIC also has adopted a rule that requires large insured depository institutions, including PNC Bank, to periodically submit a resolution plan to the FDIC that includes, among other things,

an analysis of how the institution could be resolved under the FDI Act in a manner that protects depositors and limits losses or costs to creditors of the bank in accordance with the FDI Act. Depending on how the agencies conduct their review of the resolution plans submitted by PNC and PNC Bank, these requirements could affect the ways in which PNC structures and conducts its business and result in higher compliance and operating costs. PNC and PNC Bank submitted their 2014 resolution plans under these rules in December 2014.

CFPB Regulation and Supervision. As noted above, Dodd-Frank gives the CFPB authority to examine PNC and PNC Bank for compliance with a broad range of federal consumer financial laws and regulations, including the laws and regulations that relate to credit card, deposit, mortgage, automobile loans and other consumer financial products and services we offer. In addition, Dodd-Frank gives the CFPB broad authority to take corrective action against PNC Bank and PNC as it deems appropriate. The CFPB also has the power to issue regulations and take enforcement actions to prevent and remedy acts and practices relating to consumer financial products and services that it deems to be unfair, deceptive or abusive, and to impose new disclosure requirements for any consumer financial product or service. These authorities are in addition to the authority the CFPB assumed on July 21, 2011 under existing consumer financial law governing the provision of consumer financial products and services. While the CFPB concentrated much of its initial rulemaking efforts on a variety of mortgage related topics required under Dodd-Frank, including ability-to-repay and qualified mortgage standards, mortgage servicing standards, loan originator compensation standards, high-cost mortgage requirements, appraisal and escrow standards and requirements for higher-priced mortgages, and disclosure requirements, it is also engaged in rulemakings relating to other products and services offered by PNC Bank, including prepaid cards.

In January 2014, new rules issued by the CFPB for mortgage origination and mortgage servicing became effective. The rules require lenders to conduct a reasonable and good faith determination at or before consummation of a residential mortgage loan that the borrower will have a reasonable ability to repay the loan. The regulations also define criteria for making Qualified Mortgages which entitle the lender and any assignee to either a conclusive or rebuttable presumption of compliance with the ability to repay rule. The new mortgage servicing rules include new standards for notices to consumers, loss mitigation procedures, and consumer requests for information. Both the origination and servicing rules create new private rights of action for consumers in the event of certain violations. In August 2015, broad new regulations take effect concerning the disclosures we provide to prospective residential mortgage customers. These regulations, among other things, require the provision of new disclosures near the time a prospective borrower submits an application and three days prior to closing of a mortgage loan. In addition to the

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exercise of its rulemaking authority, the CFPB is continuing its ongoing examination and supervisory activities with respect to a number of consumer businesses and products.

Securities and Derivatives Regulation

Our registered broker-dealer and investment adviser subsidiaries are subject to rules and regulations promulgated by the SEC.

Several of our subsidiaries are registered with the SEC as investment advisers and may provide investment advisory services to clients, other PNC affiliates or related entities, including registered investment companies. Certain of these advisers are registered as investment advisers to private equity funds under rules adopted under Dodd-Frank.

Broker-dealer subsidiaries are subject to the requirements of the Securities Exchange Act of 1934 and related regulations. The Financial Industry Regulatory Authority (FINRA) is the primary self-regulatory organization (SRO) for our registered broker-dealer subsidiaries. Investment adviser subsidiaries are subject to the requirements of the Investment Advisers Act of 1940 and related regulations. An investment adviser to a registered investment company is also subject to the requirements of the Investment Company Act of 1940 and related regulations. Our broker-dealer and investment adviser subsidiaries also are subject to additional regulation by states or local jurisdictions.

Over the past several years, the SEC and other regulatory agencies have increased their focus on the asset management, mutual fund and broker-dealer industries. Congress and the SEC have adopted regulatory reforms and are considering additional reforms that have increased, and are likely to continue to increase, the extent of regulation of the mutual fund and broker-dealer industries and impose additional compliance obligations and costs on our subsidiaries involved with those industries. Under provisions of the federal securities laws applicable to broker-dealers, investment advisers and registered investment companies and their service providers, a determination by a court or regulatory agency that certain violations have occurred at a company or its affiliates can result in fines, restitution, a limitation on permitted activities, disqualification to continue to conduct certain activities and an inability to rely on certain favorable exemptions. Certain types of infractions and violations can also affect a public company in its timing and ability to expeditiously issue new securities into the capital markets. In addition, certain changes in the activities of a broker-dealer require approval from FINRA, and FINRA takes into account a variety of considerations in acting upon applications for such approval, including internal controls, capital levels, management experience and quality, prior enforcement and disciplinary history and supervisory concerns.

Title VII of Dodd-Frank imposes new comprehensive and significant regulations on the activities of financial institutions

that are active in the U.S. over-the-counter derivatives and foreign exchange markets. Title VII was enacted to (i) address systemic risk issues, (ii) bring greater transparency to the derivatives markets, (iii) provide enhanced disclosures and protection to customers, and (iv) promote market integrity. Among other things, Title VII: (i) requires the registration of both swap dealers and major swap participants with one or both of the CFTC (in the case of non security-based swaps) and the SEC (in the case of security-based swaps); (ii) requires that most standardized swaps be centrally cleared through a regulated clearing house and traded on a centralized exchange or swap execution facility; (iii) subjects swap dealers and major swap participants to capital and margin requirements in excess of historical practice; (iv) subjects swap dealers and major swap participants to comprehensive new recordkeeping and real-time public reporting requirements; (v) subjects swap dealers and major swap participants to new business conduct requirements, including the provision of daily marks to counterparties and disclosing to counterparties (pre-execution) the material risks, material incentives, and any conflicts of interest associated with their swap; and (vi) imposes special duties on swap dealers and major swap participants when transacting a swap with a special entity (*e.g.*, governmental agency (federal, state or local) or political subdivision thereof, pension plan or endowment).

Based on the definition of a swap dealer under Title VII, PNC Bank registered with the CFTC as a swap dealer on January 31, 2013. As a result, PNC Bank is subject to the regulations and requirements imposed on registered swap dealers, and the CFTC will have a meaningful supervisory role with respect to PNC Bank s derivatives and foreign exchange businesses. Because of the limited volume of our security-based swap activities, PNC Bank has not registered with the SEC as a security-based swap dealer. The regulations and requirements applicable to swap dealers will collectively impose implementation and ongoing compliance burdens on PNC Bank and will introduce additional legal risks (including as a result of newly applicable antifraud and anti-manipulation provisions and private rights of action).

As originally enacted, the so-called swap push-out provisions of Section 716 of Dodd-Frank required an insured depository institution that is a swaps entity (defined to include a registered swap dealer like PNC Bank) to cease engaging in certain types of swaps by July 16, 2013, although the institution s appropriate Federal banking agency could extend this transition period. In 2013, PNC Bank received such an extension of the transition period to July 16, 2015 from its appropriate Federal banking agency. In December 2014, the U.S. Congress significantly narrowed the push-out restrictions of Section 716. These amendments generally allow insured depository institutions that are a swaps entity to engage in all types of swaps other than structured finance swaps (defined as a swap that references either an asset-backed security or a group or index primarily comprised of

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asset-backed securities). However, an insured depository institution is permitted to engage in structured finance swaps for hedging or other risk mitigating purposes. An insured depository institution that fails to comply with the restrictions in Section 716 could face restrictions on the institution s access to the Federal Reserve s discount window or FDIC deposit insurance or guarantees.

In addition, an investment adviser to private funds or to registered investment companies may be required to register with the CFTC as a commodity pool operator. Registration could impose significant new regulatory compliance burdens. Presently, we expect our subsidiaries that serve as investment advisers to such entities to be eligible for exemptions from registration as a commodity pool operator.

BlackRock has subsidiaries in securities and related businesses subject to SEC, other governmental agencies, state, local and FINRA regulation, and a federally chartered nondepository trust company subsidiary subject to supervision and regulation by the OCC. For additional information about the regulation of BlackRock by these agencies and otherwise, we refer you to the discussion under the Regulation section of Item 1 Business in BlackRock s most recent Annual Report on Form 10-K, which may be obtained electronically at the SEC s website at www.sec.gov.

Competition

We are subject to intense competition from other regulated banking organizations, as well as various other types of financial institutions and non-bank entities that can offer a number of similar products and services without being subject to bank regulatory supervision and restrictions.

In making loans, PNC Bank competes with traditional banking institutions as well as consumer finance companies, leasing companies and other non-bank lenders, and institutional investors including collateralized loan obligation (CLO) managers, hedge funds, mutual fund complexes and private equity firms. Loan pricing, structure and credit standards are extremely important in the current environment as we seek to achieve appropriate risk-adjusted returns. Traditional deposit-taking activities are also subject to pricing pressures and to customer migration as a result of intense competition for deposits and investments.

PNC Bank competes for deposits with:

- Other commercial banks,
- Savings banks,
- Savings and loan associations,
- Credit unions,
- Treasury management service companies,
- Insurance companies, and
- Issuers of commercial paper and other securities, including mutual funds.

Our various non-bank businesses engaged in investment banking and alternative investment activities compete with:

- Commercial banks,
- Investment banking firms,
- Merchant banks,
- Insurance companies,
- Private equity firms, and
- Other investment vehicles.

In providing asset management services, our businesses compete with:

- Investment management firms,
- Large banks and other financial institutions,
- Brokerage firms,
- Mutual fund complexes, and
- Insurance companies.

We include here by reference the additional information regarding competition and factors affecting our competitive position included in the Item 1A Risk Factors section of this Report.

Employees

Employees totaled 53,587 at December 31, 2014. This total includes 49,745 full-time and 3,842 part-time employees, of which 22,216 full-time and 3,274 part-time employees were employed by our Retail Banking business.

SEC Reports and Corporate Governance Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 (Exchange Act) and, in accordance with the Exchange Act, we file annual, quarterly and current reports, proxy statements, and other information with the SEC. Our SEC File Number is 001-09718. You may read and copy this information at the SEC s Public Reference Room located at 100 F Street NE, Room 1580, Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

You can also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street NE, Washington, D.C. 20549, at prescribed rates.

The SEC also maintains an internet website that contains reports, including exhibits, proxy and information statements, and other information about issuers, like us, who file electronically with the SEC. The address of that site is www.sec.gov. You can also inspect reports, proxy statements and other information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

We also make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed with or furnished to the

SEC pursuant to Section 13(a) or 15(d) of the Exchange Act available free of charge on our internet website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. PNC s corporate internet address is www.pnc.com and you can find this information at www.pnc.com/secfilings. Shareholders and bondholders may also obtain copies of these filings without charge by contacting Shareholder Services at 800-982-7652 or via the online contact form at www.computershare.com/contactus for copies without exhibits, and by contacting Shareholder Relations at 800-843-2206 or via e-mail at investor.relations@pnc.com for copies of exhibits, including financial statement and schedule exhibits where applicable. The interactive data file (XBRL) exhibit is only available electronically.

Information about our Board of Directors and its committees and corporate governance at PNC is available on PNC s corporate website at www.pnc.com/corporategovernance. Our PNC Code of Business Conduct and Ethics is available on our corporate website at www.pnc.com/corporategovernance. In addition, any future amendments to, or waivers from, a provision of the PNC Code of Business Conduct and Ethics that applies to our directors or executive officers (including our principal executive officer, principal financial officer, and principal accounting officer or controller) will be posted at this internet address.

Shareholders who would like to request printed copies of the PNC Code of Business Conduct and Ethics or our Corporate Governance Guidelines or the charters of our Board s Audit, Nominating and Governance, Personnel and Compensation, or Risk Committees (all of which are posted on the PNC corporate website at www.pnc.com/corporategovernance) may do so by sending their requests to PNC s Corporate Secretary at corporate headquarters at One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707. Copies will be provided without charge to shareholders.

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol PNC.

Internet Information

The PNC Financial Services Group, Inc. s financial reports and information about its products and services are available on the internet at www.pnc.com. We provide information for investors on our corporate website under About Us Investor Relations, such as Investor Events, SEC Filings, Financial Information (including Quarterly Earnings, Annual Reports, Proxy Statements and Regulatory Disclosures), Financial Press Releases, Message from the Chairman and Corporate Governance. Under Investor Relations, we will from time to time post information that we believe may be important or useful to investors. We use our Twitter account, @pncnews, as an additional way of disseminating public information from time to time to investors. We generally post the following on our corporate website shortly before or promptly following its

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

PNC is also required to provide additional public disclosure regarding estimated income, losses and pro forma regulatory capital ratios in March 2015 under a supervisory hypothetical severely adverse economic scenario and in September 2015 under a PNC-developed hypothetical severely adverse economic scenario, as well as information concerning its capital stress testing processes, pursuant to the stress testing regulations adopted by the Federal Reserve and the OCC. The timing of these disclosures will change beginning in 2016, as discussed in Regulatory Capital Requirements, Stress Testing and Capital Planning in the Supervision and Regulation section above. PNC also is required to make certain market risk-related public disclosures and certain additional regulatory capital-related disclosures under the regulatory capital rules adopted by the Federal banking agencies. Under these regulations, PNC may be able to satisfy at least a portion of these requirements through postings on its website, and PNC has done so and expects to continue to do so without also providing disclosure of this information through filings with the Securities and Exchange Commission. We also post on our website communications to our shareholders, such as the letter to shareholders that accompanies the Form 10-K mailed to shareholders, and may not file them as exhibits to filings with the SEC when not expressly required.

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

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ITEM 1A RISK FACTORS

We are subject to a number of risks potentially impacting our business, financial condition, results of operations and cash flows. As a financial services organization, certain elements of risk are inherent in our transactions and operations and are present in the business decisions we make. Thus, we encounter risk as part of the normal course of our business, and we design risk management processes to help manage these risks.

Our success is dependent on our ability to identify, understand and manage the risks presented by our business activities so that we can appropriately balance revenue generation and profitability. These risks include, but are not limited to, credit risk, market risk, liquidity risk, operational risk, model risk, technology, compliance and legal risk, and strategic and reputation risk. We discuss our principal risk management processes and, in appropriate places, related historical performance in the Risk Management section included in Item 7 of this Report.

The following are the key risk factors that affect us. Any one or more of these risk factors could have a material adverse impact on our business, financial condition, results of operations or cash flows, in addition to presenting other possible adverse consequences, including those described below. These risk factors and other risks are also discussed further in other sections of this Report.

Difficult economic conditions or volatility in the financial markets would likely have an adverse effect on our business, financial position and results of operations.

As a financial services company, PNC s business and overall financial performance are vulnerable to the impact of poor or weak economic conditions, particularly in the United States but also to some extent in the global economy. Recessionary conditions, particularly if severe such as was experienced starting in 2007 and ending in 2009, are likely to have a negative financial impact across the financial services industry, including on PNC. Recessionary economic conditions can lead to turmoil and volatility in financial markets, which can increase the adverse impact on financial institutions such as PNC, with the impact increased to the extent the conditions are more severe. A return to recessionary economic conditions in the United States would likely adversely affect PNC, its business and financial performance, with the impact potentially as or more detrimental than that of the last recession.

The economic recovery from the last recession continued in 2014, but at a slower pace than for recoveries from prior recessions. Although unemployment rates have dropped significantly from the highest levels during the recession, employment is not yet at robust levels. Consumer and business confidence is improving but remains in the cautious zone.

Although Congress and the President have recently been able to reach agreement on budgets and the U.S. government s debt ceiling, significant long-term issues remain with respect to federal budgetary and spending matters, and it is unclear whether agreements to resolve these issues will be reached, particularly in light of the divided state of the U.S. government. Uncertainty resulting from these issues and recent difficulties in resolving these types of matters could contribute to slower economic growth. Another period where the Congress and the President cannot reach resolution of key federal budgetary and spending matters, leading to events such as actual or threatened government shutdowns or defaults, could adversely affect the U.S. economy. In recent years, a downgrade in the ratings for U.S. Treasury securities by a credit rating agency, an extended government shutdown, and substantial spending cuts through sequestration have resulted from government stalemate on budgetary issues.

The global recession and disruption of the financial markets led to concerns over the solvency of certain European countries, affecting these countries capital markets access and in some cases sovereign credit ratings, as well as market perception of financial institutions that have significant direct or indirect exposure to these countries. These concerns continue even as the global economy is recovering and some previously stressed European economies have experienced at least partial recoveries from their lowpoint during the recession. If measures to address sovereign debt and financial sector problems in Europe are inadequate, they may delay or weaken economic recovery, or result in the exit of one or more member states from the Eurozone or more severe economic and financial conditions. If realized, these risk scenarios could contribute to severe financial market stress or a global recession, likely affecting the economy and capital markets in the United States as well.

Other Risk Factors, presented below, address specific ways in which we may be adversely impacted by economic conditions.

Our business and financial results are subject to risks associated with the creditworthiness of our customers and counterparties.

Credit risk is inherent in the financial services business and results from, among other things, extending credit to customers, purchasing securities, and entering into financial derivative transactions and certain guarantee contracts. Credit risk is one of our most significant risks, particularly given the high percentage of our assets represented directly or indirectly by loans and the importance of lending to our overall business. We manage credit risk by assessing and monitoring the creditworthiness of our customers and counterparties and by diversifying our loan portfolio. Many factors impact credit risk.

A borrower s ability to repay a loan can be adversely affected by several factors, such as business performance, job losses or

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health issues. A weak or deteriorating economy and changes in the United States or global markets also could adversely impact the ability of our borrowers to repay outstanding loans. Any decrease in our borrowers ability to repay loans would result in higher levels of nonperforming loans, net charge-offs, provision for credit losses and valuation adjustments on loans held for sale.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, and other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default of our counterparty or client.

Despite maintaining a diversified loan portfolio, in the ordinary course of business, we may have concentrated credit exposure to a particular person or entity, industry, region or counterparty. Events adversely affecting specific customers, industries, regions or markets, a decrease in the credit quality of a customer base, or an adverse change in the risk profile of a market, industry, or group of customers could adversely affect us.

Our credit risk may be exacerbated when collateral held by us to secure obligations to us cannot be realized upon or is liquidated at prices that are not sufficient to recover the full amount of the loan or derivative exposure due us.

In part due to improvement in economic conditions, as well as actions taken by PNC to manage its portfolio, PNC s provision for credit losses has declined substantially every year since the end of the recent recession. If we were to once again experience higher levels of provision for credit losses, it could result in lower levels of net income.

Our business and financial performance is impacted significantly by market interest rates and movements in those rates. The monetary, tax and other policies of governmental agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance over which we have no control and which we may not be able to predict adequately.

As a result of the high percentage of our assets and liabilities that are in the form of interest-bearing or interest-related instruments, changes in interest rates, in the shape of the yield curve, or in spreads between different market interest rates can have a material effect on our business, our profitability and the value of our financial assets and liabilities. For example:

- Changes in interest rates or interest rate spreads can affect the difference between the interest that we earn on assets and the interest that we pay on liabilities,
which impacts our overall net interest income and profitability.
- Such changes can affect the ability of borrowers to meet obligations under variable or adjustable rate loans and other debt instruments, and can, in turn, affect our loss rates on those assets.
- Such changes may decrease the demand for interest rate-based products and services, including loans and deposit accounts.
- Such changes can also affect our ability to hedge various forms of market and interest rate risk and may decrease the effectiveness of those hedges in helping to manage such risks.
- Movements in interest rates also affect mortgage prepayment speeds and could result in impairments of mortgage servicing assets or otherwise affect the profitability of such assets.

The monetary, tax and other policies of the government and its agencies, including the Federal Reserve, have a significant impact on interest rates and overall financial market performance. These governmental policies can thus affect the activities and results of operations of banking companies such as PNC. An important function of the Federal Reserve is to regulate the national supply of bank credit and certain interest rates. The actions of the Federal Reserve influence the rates of interest that we charge on loans and that we pay on borrowings and interest-bearing deposits and can also affect the value of our on-balance sheet and off-balance sheet financial instruments. Both due to the impact on rates and by controlling access to direct funding from the Federal Reserve Banks, the Federal Reserve s policies also influence, to a significant extent, our cost of funding. We cannot predict the nature or timing of future changes in monetary, tax and other policies or the effects that they may have on our activities and financial results. The current very low interest rate environment has had a negative impact on our ability to increase our net interest income, and its continuation, which is expected at least through mid-year 2015 based on statements by the Chair of the Federal Reserve, could affect consumer and business behavior in ways that are adverse to us in addition to continuing to affect our net interest income. Even once the Federal Reserve begins increasing the interest rates it directly influences, there may be a prolonged period before interest rates return to more historically typical levels.

In addition, monetary and fiscal policy actions by governmental and regulatory decision makers in other countries or in the European Union could have an impact on global interest rates, affecting rates in the United States as well as rates on instruments denominated in currencies other than the United States dollar, any of which could have one or more of the potential effects on PNC described above.

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Our business and financial performance are vulnerable to the impact of changes in the values of financial assets.

As a financial institution, a substantial majority of PNC s assets and liabilities are financial in nature (items such as loans, securities, servicing rights, deposits and borrowings). Such assets and liabilities will fluctuate in value, often significantly, due to movements in the financial markets or market volatility as well as developments specific to the asset or liability in question.

Credit-based assets and liabilities will fluctuate in value due to changes in the perceived creditworthiness of the borrowers and also due to changes in market interest rates. A lessening of confidence in the creditworthiness of the United States or other governments whose securities we hold could impact the value of those holdings. Changes in loan prepayment speeds, usually based on fluctuations in market interest rates, could adversely impact the value of our mortgage servicing rights. The financial strength of counterparties, with whom we have hedged some of our exposure to certain types of assets, could affect the value of such transactions and assets. Additionally, the underlying value of an asset under lease may decrease due to supply and demand for the asset or the condition of the asset at the end of the lease. This could cause our recorded lease value to decline.

In many cases, PNC marks its assets and liabilities to market on its financial statements, either through its Net income and Retained earnings or through adjustments to Accumulated other comprehensive income on its balance sheet. We may need to record losses in the value of financial assets even where our expectation of realizing the face value of the underlying instrument has not changed.

In addition, asset management revenue is primarily based on a percentage of the value of the assets being managed and thus is impacted by general changes in market valuations. Thus, although we are not directly impacted by changes in the value of such assets, decreases in the value of those assets would affect related fee income.

Our business and financial performance are dependent on our ability to attract and retain customers for our products and services, which may be negatively impacted by a lack of consumer and business economic confidence as well as our actions, including our ability to anticipate and satisfy customer demands for products and services.

As a financial institution, our performance is subject to risks associated with the loss of customer confidence and demand. Economic and market developments, in the United States, Europe or elsewhere, may affect consumer and business confidence levels. If customers lose confidence due to a weak or deteriorating economy or uncertainty surrounding the future

of the economy, the demand for our products and services could suffer.

We may also fail to attract or retain customers if we are unable to develop and market products and services that meet evolving customer needs or demands or if we are unable to deliver them effectively and securely to our customers, particularly to the extent that our competitors are able to do so.

News or other publicity that impairs our reputation, or the reputation of our industry generally, also could cause a loss of customers.

If we fail to attract and retain customers, demand for our loans and other financial products and services could decrease and we could experience adverse changes in payment patterns. We could lose interest income from a decline in credit usage and fee income from a decline in product sales, investments and other transactions. PNC s customers could remove money from checking and savings accounts and other types of deposit accounts in favor of other banks or other types of investment products. Deposits are a low cost source of funds. Therefore, losing deposits could increase our funding costs and reduce our net interest income.

For several years, the United States has been in a very low interest rate environment. This situation has decreased the attractiveness of alternatives to bank checking and savings accounts, which may lack deposit insurance and some of the convenience associated with more traditional banking products and which may no longer be able to offer much higher interest rates. If interest rates were to rise significantly, customers may be less willing to maintain balances in non-interest bearing or low interest bank accounts, which could result in a loss of deposits or a relatively higher cost of funds to PNC. This could also result in a loss of fee income.

In our asset management business, investment performance is an important factor influencing the level of assets that we manage. Poor investment performance could impair revenue and growth as existing clients might withdraw funds in favor of better performing products. Additionally, the ability to attract funds from existing and new clients might diminish. Overall economic conditions may limit the amount that customers are able or willing to invest as well as the value of the assets they do invest. The failure or negative performance of products of other financial institutions could lead to a loss of confidence in similar products offered by us without regard to the performance of our products. Such a negative contagion could lead to withdrawals, redemptions and liquidity issues in such products and have a material adverse impact on our assets under management and asset management revenues and earnings.

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As a regulated financial services firm, we are subject to numerous governmental regulations, and the financial services industry as a whole is subject to significant regulatory reform initiatives in the United States and elsewhere.

PNC is a bank holding company (BHC) and a financial holding company and is subject to numerous governmental regulations involving both its business and organization.

Our businesses are subject to regulation by multiple banking, consumer protection, securities and derivatives regulatory bodies. Applicable laws and regulations restrict our ability to repurchase stock or to receive dividends from subsidiaries that operate in the banking and securities businesses and impose capital adequacy requirements. PNC s ability to service its obligations and pay dividends to shareholders is largely dependent on the receipt of dividends and advances from its subsidiaries, primarily PNC Bank. The Federal Reserve requires a BHC to act as a source of financial and managerial strength for its subsidiary banks. The Federal Reserve could require PNC to commit resources to PNC Bank when doing so is not otherwise in the interests of PNC or its shareholders or creditors.

Applicable laws and regulations restrict permissible activities and investments and require compliance with protections for loan, deposit, brokerage, fiduciary, mutual fund and other customers, and for the protection of customer information, among other things. We are also subject to laws and regulations designed to combat money laundering, terrorist financing, and transactions with persons, companies or foreign governments designated by U.S. authorities.

Starting shortly after the beginning of the financial crisis in 2007, we have faced, and expect to continue to face for the foreseeable future, increased regulation of the financial services industry as a result of initiatives intended to promote the safety and soundness of financial institutions, financial market stability, the transparency and liquidity of financial markets, and consumer and investor protection. We also expect, in many cases, more intense scrutiny from bank, consumer protection and other supervisors in the examination process and more aggressive enforcement of laws and regulations on both the federal and state levels. Compliance with regulations and other supervisory initiatives will likely increase the company s costs and reduce its revenue, and may limit the company s ability to pursue certain desirable business opportunities. New reforms will also introduce additional legal risk (including as a result of newly applicable antifraud and anti-manipulation provisions and private rights of action) and affect regulatory oversight, applicable capital and liquidity requirements, and residential mortgage and other consumer financial products. The consequences of noncompliance with applicable laws and regulations can include substantial monetary and nonmonetary sanctions as well as damage to our reputation and businesses.

A number of reform provisions are likely to significantly impact the ways in which banks and BHCs, including PNC, do business. Some of the reform initiatives have led to the formation of new regulatory bodies, such as the CFPB, which has authority to regulate consumer financial products and services sold by banks and non-bank companies and to supervise banks with assets of more than $10 billion and their affiliates for compliance with federal consumer protection laws. Other agencies have significant new powers relevant to PNC, such as the authority now held by the CFTC to regulate non security-based swaps, which, among other things, led PNC Bank to register with the CFTC as a swap dealer in early 2013.

See Supervision and Regulation in Item 1 of this Report for more information concerning the regulation of PNC and recent initiatives to reform financial institution regulation, including some of the matters discussed in this Risk Factor. Note 20 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report also discusses some of the regulation applicable to PNC.

The following describes the key risks associated with some of the initiatives recently undertaken as part of the regulatory reform initiatives affecting the financial services industry, either where pending rules have not yet been finalized or where the impact of new rules has not been substantially realized.

In December 2013, the U.S. banking agencies, the SEC and the CFTC adopted regulations implementing the Volcker Rule provisions of Dodd-Frank. The Volcker Rule prohibits banks and their affiliates from engaging in some types of proprietary trading and restricts the ability of banks and their affiliates to sponsor, invest in or have specified other financial relationships with certain types of private funds (referred to as covered funds). We discuss the Volcker Rule in the Supervision and Regulation section included in Item 1 of this Report. PNC discontinued its designated proprietary trading operations several years ago. We currently do not expect the proprietary trading aspects of the final regulations to have a material effect on PNC s businesses or revenue. Nevertheless, the Volcker Rule regulations place limits and conditions on many types of permissible trading activities, including transactions conducted for purposes of hedging, liquidity management, underwriting or to facilitate customer transactions. These limits and restrictions could cause PNC to forego engaging in hedging or other transactions that it would otherwise undertake in the ordinary course of business and, thus, to some extent, may limit the ability of PNC to most effectively hedge its risks, manage its balance sheet or provide products or services to its customers.

In addition, as of December 31, 2014, PNC held interests in private equity and hedge funds that are

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covered funds subject to the Volcker Rule regulations totaling approximately $579 million, including $140 million of sponsored funds. Certain of PNC s REIT Preferred Securities also were issued by statutory trusts that, as currently structured, are considered covered funds. As of December 31, 2014, PNC also held approximately $1.5 billion of senior debt interests in collateralized loan obligations and certain other investment securities that may be considered ownership interests in covered funds. The unrealized loss associated with these securities was approximately $11 million. In December 2014, the Federal Reserve extended the conformance period for the Volcker Rule, which generally goes into effect on July 21, 2015, to give all banking entities until July 21, 2016 to conform their investments in, and relationships with, covered funds that were in place prior to December 31, 2013 (legacy covered funds). Moreover, the Federal Reserve also indicated its intent to grant an additional one-year extension of the conformance period for legacy covered funds in order to permit banking entities until July 21, 2017 to conform their ownership interests in, and relationships with, these funds. Substantially all of PNC s interests in covered funds qualify for the extended conformance period granted for holdings in legacy covered funds. Moreover, certain of PNC s legacy covered funds may qualify for an additional 5-year conformance period (*i.e.,* until July 21, 2022), subject to Federal Reserve approval. It is likely that at least some of the amounts invested in legacy covered funds will reduce over time in the ordinary course before compliance is required. A forced sale or restructuring of PNC s investments due to the Volcker Rule would likely result in PNC receiving less value than it would otherwise have received or experiencing other adverse consequences.

In February 2014, the Federal Reserve issued final rules establishing new enhanced prudential standards relating to liquidity risk and overall risk management for BHCs (like PNC) that have $50 billion or more in consolidated total assets. The Federal Reserve, however, continues to develop the other enhanced prudential standards that are required under Dodd-Frank for bank holding companies with $50 billion or more in consolidated total assets, including the counterparty credit exposure limits and early remediation requirements that were the subject of proposed rules issued in December 2011. Under these proposed rules, PNC could be subject to increasingly stringent actions by the Federal Reserve if its financial condition or risk management deteriorated as reflected by the company s current or projected post-stress capital levels, compliance with supervisory liquidity and risk management standards and, in some instances, market-based indicators, such as credit default swap spreads. In addition, the Federal Reserve has indicated that it intends to continue to develop the set of enhanced prudential standards that apply to large bank holding companies in order to further promote the resiliency of such firms and the U.S. financial system. Until the Federal Reserve s rules and initiatives to establish these enhanced prudential standards are completed, we are unable to fully estimate their impact on PNC, although we expect these initiatives will result in increased compliance costs.

In October 2014, six federal agencies (the Federal Reserve, OCC, FDIC, SEC, Federal Housing Finance Agency and the Department of Housing and Urban Development) adopted final rules to implement the credit risk retention requirements of Section 941 of Dodd-Frank for asset-backed securitization transactions. The regulations specify when and how securitizers of different types of asset-backed securitizations, including transactions backed by residential mortgages, commercial mortgages, and commercial, credit card and auto loans, must comply with the Dodd-Frank requirement that they retain at least five percent of the credit risk of the assets being securitized. The final rules also implement the exemptions from these credit risk retention requirements for transactions that are backed by qualified residential mortgages or other high-quality commercial mortgage, commercial or automobile loans, each as defined in the final rules. The regulations will take effect on December 24, 2015 with respect to new securitization transactions backed by residential mortgages and on December 24, 2016 with respect to new securitization transactions backed by other types of assets. The final rules are likely to have an impact on PNC both directly as well as indirectly. The extent and magnitude of these impacts is not yet known and will, to some extent, depend on how the markets and market participants (including PNC) adjust to the new rules.

On the indirect impact side, PNC originates loans of a variety of types, including residential and commercial mortgages, credit card, auto, and student, that historically have commonly been securitized, and PNC is also a significant servicer of residential and commercial mortgages held by others, including securitization vehicles. PNC anticipates that the risk retention requirements will impact the market for loans of types that historically have been securitized, potentially affecting the volumes of loans securitized, the types of loan products made available, the terms on which loans are offered, consumer and business demand for loans, and the market for third-party loan servicers. The risk retention rules also could have the effect of slowing the rebound in the securitization markets. One effect of having substantially reduced

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opportunities to securitize loans would likely be a reduction in the willingness of banks, including PNC, to make loans due to balance sheet management requirements. Any of these potential impacts of the Dodd-Frank risk retention rules could affect the way in which PNC conducts its business, including its product offerings.

Even after new rules are finalized and become effective, it still may take a period of time before the manner in which the rules will be interpreted and administered by the relevant agencies becomes clarified and known. A failure to comply, or to have adequate policies and procedures designed to comply, with these and other regulatory requirements could expose us to damages, fines and regulatory penalties and other regulatory actions, which could be significant, and could also injure our reputation with customers and others with whom we do business.

New capital and liquidity standards will result in banks and bank holding companies needing to maintain more and higher quality capital and greater liquidity than has historically been the case.

We are subject to regulatory capital and liquidity requirements established by the Federal Reserve and the OCC, and discuss these requirements and standards in the Supervision and Regulation section included in Item 1 of this Report.

The regulatory capital requirements applicable to banks and BHCs have undergone, and continue to undergo, significant changes. For example, the final rules adopted by the U.S. banking agencies in July 2013 to implement the new international guidelines for determining regulatory capital established by the Basel Committee known as Basel III , as well as to implement certain provisions of Dodd-Frank, fundamentally altered the U.S. regulatory capital requirements for U.S. BHCs and banks. Significant parts of these rules became effective for PNC on January 1, 2014 and on January 1, 2015, although as a result of the staggered effective dates of the rules many provisions are phased-in over a period of years, with the rules generally fully phased-in as of January 1, 2019. The Basel Committee, moreover, continues to consider additional, significant changes to the international capital framework for banking organizations, including modifications that would significantly alter the international frameworks governing the market risk capital requirements for trading positions and the standardized risk weighting approach for credit risk, establish a capital floor for banking organizations subject to the advanced approaches for the risk weighting of assets, modify the treatment of securitization positions, and seek to enhance the transparency and consistency of capital requirements amongst banks and jurisdictions. It is unclear how these or other initiatives by the Basel Committee may be finalized and implemented in the

United States and, thus, we are unable to estimate what potential impact such initiatives may have on PNC.

The U.S. banking agencies also recently have implemented rules that significantly strengthen and alter the framework for liquidity regulation in the United States. In September 2014, the U.S. banking agencies adopted final rules to implement the LCR, a new, short-term quantitative liquidity requirement. These rules require PNC and PNC Bank to maintain an amount of qualifying high-quality liquid assets sufficient to cover the entity s projected net cash outflows over a 30-day stress period using inflow, outflow and maturity assumptions included in the rule. The LCR rules became effective for PNC and PNC Bank on January 1, 2015, and the minimum required LCR and the requirement to calculate the LCR on a daily basis will be phased-in over a period of years, with the standard being fully implemented on January 1, 2017. In anticipation of the final rules, PNC undertook several actions to prepare for implementation of the LCR. The Federal Reserve s new liquidity risk management requirements for bank holding companies with $50 billion or more in consolidated total assets (like PNC) also became effective on January 1, 2015. The new rules require covered BHCs to, among other things, conduct internal liquidity stress tests over a range of time horizons, maintain a buffer of highly liquid assets sufficient to meet projected net outflows under the BHC s 30-day liquidity stress test, and maintain a contingency funding plan that meets detailed requirements.

Additional liquidity standards also are expected to be implemented in the coming years. For example, the Basel Committee, in October 2014, released the final framework for the NSFR standard, which is designed to ensure that banking organizations maintain a stable, long-term funding profile in relation to their asset composition and off-balance sheet activities. Under that framework, the NSFR would take effect as a minimum regulatory standard on January 1, 2018, although the U.S. banking agencies have not yet proposed rules to implement the NSFR.

The need to maintain more and higher quality capital, as well as greater liquidity, going forward than historically has been required could limit PNC s business activities, including lending, and its ability to expand, either organically or through acquisitions. It could also result in PNC taking steps to increase its capital that may be dilutive to shareholders or being limited in its ability to pay dividends or otherwise return capital to shareholders, or selling or refraining from acquiring assets, the capital requirements for which are inconsistent with the assets underlying risks. In addition, the new liquidity standards require PNC to maintain holdings of highly liquid short-term investments, thereby reducing PNC s ability to invest in longer-term or less liquid assets even if more desirable from a balance sheet or interest rate risk management perspective. Moreover, although these new requirements are being phased in over time, U.S. federal

banking agencies have been taking into account expectations regarding the ability of banks to meet these new requirements, including under stressed conditions, in approving actions that represent uses of capital, such as dividend increases, share repurchases and acquisitions. Moreover, PNC, as a BHC that is subject to the advanced approaches for regulatory capital purposes, is subject to a higher LCR requirement than other BHCs that have more than $50 billion in total assets but are not subject to the advanced approaches. Until the scope and terms of pending or future rulemakings relating to capital, liquidity, or liability composition are known, the extent to which such rules may apply to PNC and the potential impact of such rules on PNC will remain uncertain.

We depend on information systems, both internally and through third-parties, to conduct our business and could suffer a material adverse impact from interruptions in the effective operation of, or security breaches affecting, those systems.

As a large financial company, we handle a substantial volume of customer and other financial transactions virtually on a continuous basis. As a result, we rely heavily on information systems to conduct our business and to process, record, and monitor our transactions. In recent years, PNC has increased substantially in size, scope and complexity. We have also seen more customer usage of technological solutions for financial needs and higher expectations of customers and regulators regarding effective and safe systems operation. We expect these trends to continue for the foreseeable future. The need to ensure proper functioning of these systems has become more challenging, and the costs involved in that effort are greater than ever.

The risks to these systems result from a variety of factors, both internal and external. In some cases, these factors are largely outside of our control, including the potential for bad acts on the part of hackers, criminals, employees and others. In other cases, our systems could fail to operate as needed due to factors such as design or performance issues, human error, unexpected transaction volumes, or inadequate measures to protect against unauthorized access or transmissions. We are also at risk for the impact of natural or other disasters, terrorism, international hostilities and the like on our systems or for the effect of outages or other failures involving power or communications systems operated by others. In addition, we face a variety of types of cyber attacks, some of which are discussed in more detail below. Cyber attacks often include efforts to disrupt our ability to provide services or to gain access to confidential company and customer information.

We rely on other companies for the provision of a broad range of products and services. Many of these products and services include information systems themselves or involve the use of such systems in connection with providing the products or services. In some cases, these other companies provide the infrastructure that supports electronic communications. These

other companies are generally subject to many of the same risks we face with respect to our systems. To the extent we rely on these other companies, we could be adversely affected if they are impacted by system failures, cyber attacks or employee misconduct.

All of these types of events, whether resulting from cyber attacks or other internal or external sources, expose customer and other confidential information to security risks. They also could disrupt our ability to use our accounting, deposit, loan and other systems and could cause errors in transactions with customers, vendors or other counterparties.

In addition, our customers often use their own devices, such as computers, smartphones and tablets, to do business with us. We have limited ability to assure the safety and security of our customers transactions with us to the extent they are utilizing their own devices.

We are faced with ongoing efforts by others to breach data security at financial institutions or with respect to financial transactions. Some of these involve efforts to enter our systems directly by going through or around our security protections. Others involve the use of schemes such as phishing to gain access to identifying customer information, often from customers themselves. Most corporate and commercial transactions are now handled electronically, and our retail customers increasingly use online access and mobile devices to bank with us. The ability to conduct business with us in this manner depends on the transmission of confidential information, which increases the risk of data security breaches.

Starting in late 2012, there have been several well-publicized series of apparently related denial of service attacks on large financial services companies, including PNC. In a denial of service attack, individuals or organizations flood commercial websites with extraordinarily high volumes of traffic, with the goal of disrupting the ability of commercial enterprises to process transactions and possibly making their websites unavailable to customers for extended periods of time. The attacks against PNC have resulted in temporary disruptions in customers ability to access the corporate website and to perform on-line banking transactions. To date, no customer data has been lost or compromised as a result of these attacks and these efforts have not had a material impact on PNC. We cannot, however, provide assurance that future attacks of this type might not have a greater effect on PNC.

As our customers regularly use PNC-issued credit and debit cards to pay for transactions with retailers and other businesses, there is the risk of data security breaches at those other businesses covering PNC account information. When our customers use PNC-issued cards to make purchases from those businesses, card account information may be provided to the business. If the business s systems that process or store card account information are subject to a data security breach, holders of our cards who have made purchases from that business may experience fraud on their card accounts. PNC may suffer losses associated with reimbursing our customers for such fraudulent transactions on customers card accounts, as well as for other costs related to data security compromise events, such as replacing cards associated with compromised card accounts. In addition, PNC provides card transaction processing services to some merchant customers under agreements we have with payment networks such as Visa and MasterCard. Under these agreements, we may be responsible for certain losses and penalties if one of our merchant customers suffers a data security breach.

Over the last several years, several large retailers, prominently including Target and Home Depot, disclosed that they had suffered substantial data security breaches compromising millions of card accounts. To date, PNC s losses and costs related to these breaches have not been material, but other similar events in the future could be more significant to PNC.

There have been other recent publicly announced cyber attacks that were not focused on gaining access to credit card information but instead sought access to a range of other types of confidential information including internal emails and other forms of customer financial information or sought to capture and possibly shutdown systems and devices maintained by target companies. Notable examples include attacks in 2014 on JP Morgan Chase and Sony Pictures and in early 2015 on Anthem. These other attacks have generally not had any financial impact on PNC but demonstrate the risks to confidential information and systems operations potentially posed by cyber attacks.

Methods used by others to attack information systems change frequently (with generally increasing sophistication), often are not recognized until launched against a target, may be supported by foreign governments or other well-financed entities, and may originate from less regulated and remote areas around the world. As a result, we may be unable to address these methods in advance of attacks, including by implementing adequate preventive measures.

We have policies, procedures and systems (including business continuity programs) designed to prevent or limit the effect of possible failures, interruptions or breaches in security of information systems. We design our business continuity and other information and technology risk management programs to manage our capabilities to provide services in the case of an event resulting in material disruptions of business activities affecting our employees, facilities, technology or suppliers. We regularly seek to test the effectiveness of and enhance these policies, procedures and systems.

Our ability to mitigate the adverse consequences of such occurrences is in part dependent on the quality of our business continuity planning and our ability to anticipate the timing and nature of any such event that occurs. The adverse impact of

natural and other disasters, terrorist activities, international hostilities and the like could be increased to the extent that there is a lack of preparedness on the part of national or regional governments, including emergency responders, or on the part of other organizations and businesses with which we deal, particularly those on which we depend but have no control over.

In recent years, we have incurred significant expense towards improving the reliability of our systems and their security against external and internal threats. Nonetheless, there remains the risk that an adverse event might occur. If one does occur, we might not be able to remediate the event or its consequences timely or adequately. To the extent that the risk relates to products or services provided by others, we seek to engage in due diligence and monitoring to limit the risk, but here as well we cannot eliminate it. Should an adverse event affecting another company s systems occur, we may not have indemnification or other protection from the other company sufficient to compensate us or otherwise protect us from the consequences.

The occurrence of any failure, interruption or security breach of any of our information or communications systems, or the systems of other companies on which we rely, could result in a wide variety of adverse consequences to PNC. This risk is greater if the issue is widespread or results in financial losses to our customers. Possible adverse consequences include damage to our reputation or a loss of customer business. We also could face litigation or additional regulatory scrutiny. Litigation or regulatory actions in turn could lead to liability or other sanctions, including fines and penalties or reimbursement of customers adversely affected by a systems problem or security breach. Even if we do not suffer any material adverse consequences as a result of events affecting us directly, successful attacks or systems failures at other financial institutions could lead to a general loss of customer confidence in financial institutions, including PNC. Also, systems problems, including those resulting from third party attacks, whether at PNC or at our competitors, would likely increase regulatory and customer concerns regarding the functioning, safety and security of such systems generally. In that case, we would expect to incur even higher levels of costs with respect to prevention and mitigation of these risks.

We continually encounter technological change and we could falter in our ability to remain competitive in this arena.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. We have been investing in technology and connectivity to automate functions previously performed manually, to facilitate the ability of customers to engage in financial

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transactions, and otherwise to enhance the customer experience with respect to our products and services. On the retail side, this has included developments such as more sophisticated ATMs and expanded access to banking transactions through the internet, smart phones, tablets and other remote devices. These efforts have all been in response to actual and anticipated customer behavior and expectations. Our continued success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that satisfy customer demands and create efficiencies in our operations. A failure to maintain or enhance our competitive position with respect to technology, whether because we fail to anticipate customer expectations or because our technological developments fail to perform as desired or are not rolled out in a timely manner, may cause us to lose market share or incur additional expense.

There are risks resulting from the extensive use of models in our business.

PNC relies on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, and calculating economic and regulatory capital levels, as well as to estimate the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating models will be adversely affected due to the inadequacy of that information. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our shareholders, could be affected adversely due to their perception that the quality of the models used to generate the relevant information is insufficient. See the Model Risk Management portion of the Risk Management section included in Item 7 of this Report.

Our asset and liability valuations and the determination of the amount of loss allowances and impairments taken on our assets are highly subjective, and inaccurate estimates could materially impact our results of operations or financial position.

We must use estimates, assumptions, and judgments when assets and liabilities are measured and reported at fair value. Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Changes in underlying factors or assumptions in any of the areas underlying our estimates could materially impact our future financial condition and results of operations. During periods of market disruption, it may be more difficult to value certain of our assets if trading becomes less frequent and/or market data becomes less observable. There may be certain asset

classes that were historically in active markets with significant observable data that rapidly become illiquid due to market volatility, a loss in market confidence or other factors. Further, rapidly changing and unprecedented market conditions in any particular market could materially impact the valuation of assets as reported within our consolidated financial statements.

The determination of the amount of loss allowances and asset impairments varies by asset type and is based upon our periodic evaluation and assessment of known and inherent risks associated with the respective asset class. Management updates its evaluations regularly and reflects changes in allowances and impairments in operations as such evaluations are revised. Although we have policies and procedures in place to determine loss allowance and asset impairments, due to the substantial subjective nature of this area, there can be no assurance that our management has accurately assessed the level of impairments taken and allowances reflected in our financial statements. Furthermore, additional impairments may need to be taken or allowances provided for in the future. Historical trends may not be indicative of future impairments or allowances.

Our business and financial results could be impacted materially by adverse results in legal proceedings.

Many aspects of our business involve substantial risk of legal liability. We have been named or threatened to be named as defendants in various lawsuits arising from our business activities (and in some cases from the activities of companies we have acquired). In addition, we are regularly the subject of governmental investigations and other forms of regulatory inquiry. We also are at risk when we have agreed to indemnify others for losses related to legal proceedings, including litigation and governmental investigations and inquiries, they face, such as in connection with the sale of a business or assets by us. The results of these legal proceedings could lead to significant monetary damages or penalties, restrictions on the way in which we conduct our business, or reputational harm.

Although we establish accruals for legal proceedings 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, we do not have accruals for all legal proceedings where we face a risk of loss. In addition, due to the inherent subjectivity of the assessments and unpredictability of the outcome of legal proceedings, amounts accrued may not represent the ultimate loss to us from the legal proceedings in question. Thus, our ultimate losses may be higher, and possibly significantly so, than the amounts accrued for legal loss contingencies.

We discuss further the unpredictability of legal proceedings and describe certain of our pending legal proceedings in Note 21 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report.

PNC faces legal and regulatory risk arising out of its residential mortgage businesses.

Numerous federal and state governmental, legislative and regulatory authorities are investigating practices in the business of mortgage and home equity loan lending and servicing and in the mortgage-related insurance and reinsurance industries. PNC has received inquiries from governmental, legislative and regulatory authorities on these topics and is responding to these inquiries. These inquiries and investigations could lead to administrative, civil or criminal proceedings, possibly resulting in remedies including fines, penalties, restitution, alterations in our business practices and additional expenses and collateral costs. They could also result in reputational harm to PNC, either individually or as part of the overall industry, regardless of the extent to which PNC is penalized.

In addition to governmental or regulatory inquiries and investigations, PNC, like other companies with residential mortgage and home equity loan origination and servicing operations, faces the risk of class actions, other litigation and claims from: the owners of, investors in, or purchasers of such loans originated or serviced by PNC (or securities backed by such loans), homeowners involved in foreclosure proceedings or various mortgage-related insurance programs, downstream purchasers of homes sold after foreclosure, title insurers, and other potential claimants. Included among these claims are claims from purchasers of mortgage and home equity loans seeking the repurchase of loans where the loans allegedly breached origination covenants and representations and warranties made to the purchasers in the purchase and sale agreements.

At this time PNC cannot predict the ultimate overall cost to or effect upon PNC from governmental, legislative or regulatory actions and private litigation or claims arising out of residential mortgage and home equity loan lending, servicing or reinsurance practices, although such actions, litigation and claims could, individually or in the aggregate, result in significant expense. See Note 21 Legal Proceedings and Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information regarding federal and state governmental, legislative and regulatory inquiries and investigations and additional information regarding potential repurchase obligations relating to mortgage and home equity loans.

There is a continuing risk of incurring costs related to further remedial and related efforts required by governmental or regulatory authorities and related to repurchase requests arising out of either the foreclosure process or origination issues. Reputational damage arising out of this industry-wide inquiry could also have an adverse effect upon our existing mortgage and home equity loan business and could reduce future business opportunities. Investors in mortgage loans and

other assets that we sell are more likely to seek indemnification from us against losses or otherwise seek to have us share in such losses.

The CFPB has issued new rules for mortgage origination and mortgage servicing. Both the origination and servicing rules create new private rights of action for consumers against lenders and servicers like PNC in the event of certain violations. For additional information concerning the mortgage rules, see Supervision and Regulation in Item 1 of this Report.

Additionally, two government-sponsored enterprises (GSEs) (FHLMC and FNMA) are currently in conservatorship, with its primary regulator acting as a conservator. We cannot predict when or if the conservatorships will end or whether, as a result of legislative or regulatory action, there will be any associated changes to the structure of these GSEs or the housing finance industry more generally, including, but not limited to, changes to the relationship among these GSEs, the government and the private markets. The effects of any such reform on our business and financial results are uncertain.

Our regional concentrations make us at risk to adverse economic conditions in our primary retail banking footprint.

Our retail banking business is primarily concentrated within our retail branch network footprint. Although our other businesses are national in scope, to a lesser extent these other businesses also have a greater presence within these primary geographic markets. Thus, we are particularly vulnerable to adverse changes in economic conditions in the Mid-Atlantic, Midwest, and Southeast regions.

We grow our business in part by acquiring other financial services companies or assets from time to time, and these acquisitions present a number of risks and uncertainties related both to the acquisition transactions themselves and to the integration of the acquired businesses into PNC after closing.

Acquisitions of other financial services companies, financial assets and related deposits and other liabilities present risks and uncertainties to PNC in addition to those presented by the nature of the business acquired.

In general, acquisitions may be substantially more expensive or take longer to complete than anticipated (including unanticipated costs incurred in connection with the integration of the acquired company). Anticipated benefits (including anticipated cost savings and strategic gains, for example resulting from being able to offer product sets to a broader potential customer base) may be significantly harder or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events.

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Our ability to achieve anticipated results from acquisitions is often dependent also on the extent of credit losses in the acquired loan portfolios and the extent of deposit attrition, which are, in part, related to the state of economic and financial markets.

Also, litigation and governmental investigations that may be pending at the time of the acquisition or be filed or commenced thereafter, as a result of an acquisition or otherwise, could impact the timing or realization of anticipated benefits to PNC. Note 21 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report describes several legal proceedings related to pre-acquisition activities of companies we have acquired, including National City. Other such legal proceedings may be commenced in the future.

Integration of an acquired company s business and operations into PNC, including conversion of the acquired company s different systems and procedures, may take longer than anticipated or be more costly than anticipated or have unanticipated adverse results relating to the acquired company s or PNC s existing businesses. In some cases, acquisitions involve our entry into new businesses or new geographic or other markets, and these situations also present risks and uncertainties in instances where we may be inexperienced in these new areas.

Our ability to analyze the risks presented by prospective acquisitions, as well as our ability to prepare in advance of closing for integration, depends, in part, on the information we can gather with respect to the target, which is more limited than the information we have regarding companies we already own.

As a regulated financial institution, our ability to pursue or complete attractive acquisition opportunities could be negatively impacted by regulatory delays or other regulatory issues. In addition, our ability to make large acquisitions in the future may be negatively impacted by regulatory rules or future regulatory initiatives designed to limit the potential for a financial institution to become too big to fail.

We operate in a highly competitive environment, in terms of the products and services we offer and the geographic markets in which we conduct business, as well as in our labor markets where we compete for talented employees. Competition could adversely impact our customer acquisition, growth and retention, as well as our credit spreads and product pricing, causing us to lose market share and deposits and revenues.

We are subject to intense competition from various financial institutions as well as from non-bank entities that engage in many similar activities without being subject to bank regulatory supervision and restrictions. This competition is described in Item 1 of this Report under Competition.

Competition in our industry could intensify as a result of the increasing consolidation of financial services companies, in connection with current market conditions or otherwise.

In all, the principal bases for competition are pricing (including the interest rates charged on loans or paid on interest-bearing deposits), product structure, the range of products and services offered, and the quality of customer service (including convenience and responsiveness to customer needs and concerns). The ability to access and use technology is an increasingly important competitive factor in the financial services industry, and it is a critically important component to customer satisfaction as it affects our ability to deliver the right products and services.

Another increasingly competitive factor in the financial services industry is the competition to attract and retain talented employees across many of our business and support areas. This competition leads to increased expenses in many business areas and can also cause us to not pursue certain business opportunities. Limitations on the manner in which regulated financial institutions can compensate their officers and employees may make it more difficult for regulated financial institutions to compete with unregulated financial institutions for talent.

A failure to adequately address the competitive pressures we face could make it harder for us to attract and retain customers across our businesses. On the other hand, meeting these competitive pressures could require us to incur significant additional expense or to accept risk beyond what we would otherwise view as desirable under the circumstances. In addition, in our interest rate sensitive businesses, pressures to increase rates on deposits or decrease rates on loans could reduce our net interest margin with a resulting negative impact on our net interest income.

Our business and financial performance could be adversely affected, directly or indirectly, by disasters, natural or otherwise, by terrorist activities or by international hostilities.

Neither the occurrence nor the potential impact of disasters (such as earthquakes, hurricanes, tornadoes, floods and other severe weather conditions, pandemics, dislocations, fires, explosions, and other catastrophic accidents or events), terrorist activities and international hostilities can be predicted. However, these occurrences could impact us directly (for example, by causing significant damage to our facilities or preventing us from conducting our business in the ordinary course), or indirectly as a result of their impact on our borrowers, depositors, other customers, suppliers or other counterparties. We could also suffer adverse consequences to the extent that disasters, terrorist activities or international hostilities affect the financial markets or the economy in general or in any particular region. These types of impacts could lead, for example, to an increase in delinquencies,

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bankruptcies or defaults that could result in our experiencing higher levels of nonperforming assets, net charge-offs and provisions for credit losses.

Our ability to mitigate the adverse consequences of such occurrences is in part dependent on the quality of our resiliency planning, and our ability, if any, to anticipate the nature of any such event that occurs. The adverse impact of disasters or terrorist activities or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon but have no control over.

ITEM 1B UNRESOLVED STAFF COMMENTS

There are no SEC staff comments regarding PNC s periodic or current reports under the Exchange Act that are pending resolution.

ITEM 2 PROPERTIES

Our executive and primary administrative offices are currently located at One PNC Plaza, Pittsburgh, Pennsylvania. The 30-story structure is owned by PNC Bank, National Association.

We own or lease numerous other premises for use in conducting business activities, including operations centers, offices, and branch and other facilities. We consider the facilities owned or occupied under lease by our subsidiaries to be adequate for the purposes of our business operations. We include here by reference the additional information regarding our properties in Note 9 Premises, Equipment and Leasehold Improvements in the Notes To Consolidated Financial Statements in Item 8 of this Report.

ITEM 3 LEGAL PROCEEDINGS

See the information set forth in Note 21 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report, which is incorporated here by reference.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding each of our executive officers as of February 23, 2015 is set forth below. Executive officers do not have a stated term of office. Each executive officer has held the position or positions indicated or another executive position with the same entity or one of its affiliates for the past five years unless otherwise indicated below.

Name	Age	Position with PNC	Year Employed (a)
William S. Demchak	52	Chairman, Chief Executive Officer and President (b)	2002
Joseph C. Guyaux	64	Senior Vice Chairman and Chief Executive Officer and President of PNC Mortgage	1972
Orlando C. Esposito	56	Executive Vice President and Head of Asset Management Group	1988
Neil F. Hall	66	Executive Vice President and Head of Retail Banking	1995
Michael J. Hannon	58	Executive Vice President and Chief Credit Officer	1982
Vicki C. Henn	46	Executive Vice President and Chief Human Resources Officer	1994
Gregory B. Jordan	55	Executive Vice President, General Counsel and Head of Regulatory and Government Affairs	2013

Stacy M. Juchno	39	Executive Vice President and General Auditor	2009
Karen L. Larrimer	52	Executive Vice President and Chief Customer Officer	1995
Michael P. Lyons	44	Executive Vice President and Head of Corporate & Institutional Banking	2011
E. William Parsley, III	49	Executive Vice President, Chief Investment Officer, and Treasurer	2003
Robert Q. Reilly	50	Executive Vice President and Chief Financial Officer	1987
Joseph E. Rockey	50	Executive Vice President and Chief Risk Officer	1999
Steven Van Wyk	56	Executive Vice President and Head of Technology and Operations	2013
Gregory H. Kozich	51	Senior Vice President and Controller	2010

(a) Where applicable, refers to year employed by predecessor company.

(b) Mr. Demchak also serves as a director. Biographical information for Mr. Demchak is included in Election of Directors (Item 1) in our proxy statement for the 2015 annual meeting of shareholders. See Item 10 of this Report.

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Joseph C. Guyaux has served as Senior Vice Chairman since February 2012 and was appointed chief executive officer and president of PNC Mortgage in January 2015. Mr. Guyaux was Chief Risk Officer from February 2012 to January 2015, prior to which he served as President.

Orlando C. Esposito was appointed Executive Vice President and head of PNC s Asset Management Group in April 2013. Prior to being named to his current position, he held numerous leadership positions including Executive Vice President of Corporate Banking from November 2006 to April 2013.

Neil F. Hall has been an Executive Vice President since April 2012 and head of PNC s Retail Banking since February 2012. Prior to being named to his current position, Mr. Hall led the delivery of sales and service to PNC s retail and small business customers, directed branch banking, business banking, community development and PNC Investments.

Michael J. Hannon has served as Executive Vice President since February 2009, prior to which he served as Senior Vice President. He has served as Chief Credit Officer since November 2001. He also served as Interim Chief Risk Officer from December 2011 to February 2012.

Vicki C. Henn has served as Executive Vice President and Chief Human Resources Officer of PNC since July 2014. Ms. Henn joined PNC in 1994 and has held numerous management positions. Prior to being named to her current position, Ms. Henn was a Senior Vice President, responsible for Human Resources for Retail Banking.

Gregory B. Jordan joined PNC as Executive Vice President, General Counsel and Head of Regulatory and Government Affairs in October 2013. Prior to joining PNC, he served as the Global Managing Partner for the last 13 years of his 29 year tenure at Reed Smith LLP.

Stacy M. Juchno has served as Executive Vice President and General Auditor of PNC since April 2014. Ms. Juchno joined PNC in 2009 and previously served as a Senior Vice President and Finance Governance and Oversight Director.

Karen L. Larrimer was appointed Executive Vice President in May 2013. She has served as Chief Customer Officer since April 2014, prior to which she served as Chief Marketing Officer.

Michael P. Lyons has been an Executive Vice President since November 2011 and is head of Corporate and Institutional Banking. Prior to joining PNC in October 2011, from May 2010 until October 2011, Mr. Lyons was head of corporate development and strategic planning for Bank of America. Prior to joining Bank of America, from September 2004 to May 2010, Mr. Lyons held various positions at Maverick Capital, most recently as a principal focused on financial institutions investments.

E. William Parsley, III has served as Treasurer and Chief Investment Officer since January 2004. He was appointed Executive Vice President in February 2009.

Robert Q. Reilly was appointed Chief Financial Officer in August 2013. He served as the head of PNC s Asset Management Group from 2005 until April 2013. Previously, he held numerous management roles in both Corporate Banking and Asset Management. He was appointed Executive Vice President in February 2009.

Joseph E. Rockey was appointed Chief Risk Officer in January 2015. Prior to his appointment, Mr. Rockey led enterprise risk management and the Basel office within PNC s risk management organization. Mr. Rockey joined PNC in 1999 and was appointed Executive Vice President in January 2015.

Steven Van Wyk joined PNC as Head of Technology and Operations in January 2013. From 2007 until joining PNC, Mr. Van Wyk served as Global Chief Operating Officer for ING. He was appointed Executive Vice President of PNC in February 2013.

Gregory H. Kozich has served as a Senior Vice President and Controller of PNC since 2011. Mr. Kozich joined PNC as Senior Vice President of PNC Bank in October 2010. Prior to joining PNC, Mr. Kozich was with FNMA from 2005 until late 2010, most recently serving as its corporate controller.

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DIRECTORS OF THE REGISTRANT

The name, age and principal occupation of each of our directors as of February 23, 2015 and the year he or she first became a director is set forth below:

Richard O. Berndt, 72, Managing Partner of Gallagher, Evelius & Jones LLP (*law firm*) (2007)
Charles E. Bunch, 65, Chairman and Chief Executive Officer of PPG Industries, Inc. (*coatings, sealants and glass products*) (2007)
Paul W. Chellgren, 72, Operating Partner, Snow Phipps Group, LLC (*private equity*) (1995)
Marjorie Rodgers Cheshire, 46, President and Chief Operating Officer, A&R Development Corp. *(real estate development company)* (2014)
William S. Demchak, 52, Chairman, Chief Executive Officer and President of PNC (2013)
Andrew T. Feldstein, 50, Chief Executive Officer and Co-Chief Investment Officer of BlueMountain Capital Management, LLC (*asset management firm)* (2013)
Kay Coles James, 65, President and Founder of The Gloucester Institute (*non-profit*) (2006)
Richard B. Kelson, 68, Chairman, President and Chief Executive Officer, ServCo LLC (*strategic sourcing, supply chain management*) (2002)
Anthony A. Massaro, 70, Retired Chairman and Chief Executive Officer of Lincoln Electric Holdings, Inc. (*manufacturer of welding and cutting products*) (2002)
Jane G. Pepper, 69, Retired President of the Pennsylvania Horticultural Society (*non-profit*) (1997)
Donald J. Shepard, 68, Retired Chairman of the Executive Board and Chief Executive Officer of AEGON N.V. (*insurance*) (2007)
Lorene K. Steffes, 69, Independent Business Advisor (*executive, business management and technical expertise*) (2000)
Dennis F. Strigl, 68, Retired President and Chief Operating Officer of Verizon Communications Inc. (*telecommunications*) (2001)
Thomas J. Usher, 72, Non-executive Chairman of Marathon Petroleum Corporation (*oil and gas industry*) (1992)
George H. Walls, Jr., 72, former Chief Deputy Auditor for the State of North Carolina (2006)
Helge H. Wehmeier, 72, Retired Vice Chairman of Bayer Corporation (*international life sciences, polymers and specialty chemicals*) (1992)

PART II

ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) (1) Our common stock is listed on the New York Stock Exchange and is traded under the symbol PNC. At the close of business on February 18, 2015, there were 69,964 common shareholders of record.

Holders of PNC common stock are entitled to receive dividends when declared by the Board of Directors out of funds legally available for this purpose. Our Board of Directors may not pay or set apart dividends on the common stock until dividends for all past dividend periods on any series of outstanding preferred stock have been paid or declared and set apart for payment. The Board presently intends to continue the policy of paying quarterly cash dividends. The amount of any future dividends will depend on economic and market conditions, our financial condition and operating results, and other factors, including contractual restrictions and applicable government regulations and policies (such as those relating to the ability of bank and non-bank subsidiaries to pay dividends to the parent company and regulatory capital limitations). The amount of our dividend is also currently subject to the results of the supervisory assessment of capital adequacy and capital planning processes undertaken by the Federal Reserve and our primary bank regulators as part of the 2015 Comprehensive Capital Analysis and Review (CCAR) process as described in the Supervision and Regulation section in Item 1 of this Report.

The Federal Reserve has the power to prohibit us from paying dividends without its approval. For further information concerning dividend restrictions and other factors that could limit PNC s ability to pay dividends, as well as restrictions on loans, dividends or advances from bank subsidiaries to the parent company, see the Supervision and Regulation section in Item 1, Item 1A Risk Factors, the Capital portion of the Consolidated Balance Sheet Review section, the Liquidity Risk Management portion of the Risk Management section, and the Trust Preferred Securities and REIT Preferred Securities portion of the Off-Balance Sheet Arrangements And Variable Interest Entities section in Item 7, and Note 12 Capital Securities of a Subsidiary Trust and Perpetual Trust Securities and Note 20 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report, which we include here by reference.

We include here by reference additional information relating to PNC common stock under the Common Stock Prices/Dividends Declared section in the Statistical Information (Unaudited) section of Item 8 of this Report.

We include here by reference the information regarding our compensation plans under which PNC equity securities are authorized for issuance as of December 31, 2014 in the table (with introductory paragraph and notes) that appears in Item 12 of this Report.

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Our stock transfer agent and registrar is:

Computershare Trust Company, N.A.

250 Royall Street

Canton, MA 02021

800-982-7652

Registered shareholders may contact the above phone number regarding dividends and other shareholder services.

We include here by reference the information that appears under the Common Stock Performance Graph caption at the end of this Item 5.

(a)(2) None.
(b) Not applicable.
(c) Details of our repurchases of PNC common stock during the fourth quarter of 2014 are included in the following table:

In thousands, except per share data

2014 period	Total shares purchased (a)	Average price paid per share	Total shares purchased as part of publicly announced programs (b)	Maximum number of shares that may yet be purchased under the programs (b)
October 1 31	2,772	$ 82.77	2,734	11,417
November 1 30	1,311	$ 87.63	1,309	10,108
December 1 31	2,026	$ 90.38	2,022	8,086
Total	6,109	$ 86.33	6,065	

(a) Includes PNC common stock purchased in connection with our various employee benefit plans generally related to forfeitures of unvested restricted stock awards and shares used to cover employee payroll tax withholding requirements. Note 13 Employee Benefit Plans and Note 14 Stock Based Compensation Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report include additional information regarding our employee benefit and equity compensation plans that use PNC common stock.

(b) On October 4, 2007, our Board of Directors authorized the repurchase of up to 25 million shares of PNC common stock. The repurchases are made in open market or privately negotiated transactions and the repurchase program will remain in effect until fully utilized or until modified, superseded or terminated. The timing and exact amount of common stock repurchases will depend on a number of factors including, among others, market and general economic conditions, economic capital and regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, and contractual and regulatory limitations, including the results of the supervisory assessment of capital adequacy and capital planning processes undertaken by the Federal Reserve and our primary bank regulators as part of the CCAR process.
Our 2014 capital plan, submitted as part of the CCAR process and approved by the Federal Reserve, included share repurchase programs of up to $1.5 billion for the four quarter period beginning with the second quarter of 2014. This amount does not include share repurchases in connection with various employee benefit plans referenced in note (a). In the fourth quarter of 2014, in accordance with the 2014 capital plan, we repurchased 6.065 million shares of common stock on the open market, with an average price of $86.41 per share and an aggregate repurchase price of $524 million.

Common Stock Performance Graph

This graph shows the cumulative total shareholder return (*i.e.*, price change plus reinvestment of dividends) on our common stock during the five-year period ended December 31, 2014, as compared with: (1) a selected peer group as set forth below and referred to as the Peer Group; (2) an overall stock market index, the S&P 500 Index; and (3) a published industry

index, the S&P 500 Banks. The yearly points marked on the horizontal axis of the graph correspond to December 31 of that year. The stock performance graph assumes that $100 was invested on January 1, 2010 for the five-year period and that any dividends were reinvested. The table below the graph shows the resultant compound annual growth rate for the performance period.

	Base Period	Assumes $100 investment at Close of Market on December 31, 2009 Total Return = Price change plus reinvestment of dividends					5-Year Compound Growth Rate
	Dec. 09	Dec. 10	Dec. 11	Dec. 12	Dec. 13	Dec. 14	
PNC	100	115.81	112.26	116.38	158.80	191.07	13.83%
S&P 500 Index	100	115.06	117.48	136.27	180.39	205.07	15.45%
S&P 500 Banks	100	119.84	107.00	132.74	180.15	208.10	15.79%
Peer Group	100	120.80	104.59	137.49	186.35	216.01	16.65%

The Peer Group for the preceding chart and table consists of the following companies: BB&T Corporation; Comerica Inc.; Fifth Third Bancorp; KeyCorp; The PNC Financial Services Group, Inc.; SunTrust Banks, Inc.; U.S. Bancorp; Regions Financial Corporation; Wells Fargo & Company; Capital One Financial, Inc.; Bank of America Corporation; M&T Bank; and JP Morgan Chase and Company. This Peer Group was approved for 2014 by the Board s Personnel and Compensation Committee. Such Committee has approved a peer group of twelve for 2015, consisting of all of the same companies as those in the 2014 Peer Group other than Comerica Inc.

Each yearly point for the Peer Group is determined by calculating the cumulative total shareholder return for each company in the Peer Group from December 31, 2009 to December 31 of that year (End of Month Dividend Reinvestment Assumed) and then using the median of these returns as the yearly plot point.

In accordance with the rules of the SEC, this section, captioned Common Stock Performance Graph, shall not be incorporated by reference into any of our future filings made under the Securities Exchange Act of 1934 or the Securities Act of 1933. The Common Stock Performance Graph, including its accompanying table and footnotes, is not deemed to be soliciting material or to be filed under the Exchange Act or the Securities Act.

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ITEM 6 SELECTED FINANCIAL DATA

	Year ended December 31				
Dollars in millions, except per share data	2014 (a)	2013 (a)	2012 (a)	2011	2010
SUMMARY OF OPERATIONS					
Interest income	$ 9,431	$ 10,007	$ 10,734	$ 10,194	$ 11,150
Interest expense	906	860	1,094	1,494	1,920
Net interest income	8,525	9,147	9,640	8,700	9,230
Noninterest income	6,850	6,865	5,872	5,626	5,946
Total revenue	15,375	16,012	15,512	14,326	15,176
Provision for credit losses	273	643	987	1,152	2,502
Noninterest expense (b)	9,488	9,681	10,486	9,022	8,529
Income from continuing operations before income taxes and noncontrolling interests	5,614	5,688	4,039	4,152	4,145
Income taxes (b)	1,407	1,476	1,045	1,087	1,127
Income from continuing operations before noncontrolling interests	4,207	4,212	2,994	3,065	3,018
Income from discontinued operations (net of income taxes of zero, zero, zero, zero and $338) (c)					373
Net income (b)	4,207	4,212	2,994	3,065	3,391
Less: Net income (loss) attributable to noncontrolling interests (b)	23	11	(7)	16	(11)
Preferred stock dividends (d)	232	237	177	56	146
Preferred stock discount accretion and redemptions (d)	5	12	4	2	255
Net income attributable to common shareholders (d)	$ 3,947	$ 3,952	$ 2,820	$ 2,991	$ 3,001
PER COMMON SHARE					
Basic earnings					
Continuing operations (b)	$ 7.44	$ 7.45	$ 5.33	$ 5.69	$ 5.06
Discontinued operations (c)					.72
Net income	$ 7.44	$ 7.45	$ 5.33	$ 5.69	$ 5.78
Diluted earnings					
Continuing operations (b)	$ 7.30	$ 7.36	$ 5.28	$ 5.62	$ 5.00
Discontinued operations (c)					.72
Net income	$ 7.30	$ 7.36	$ 5.28	$ 5.62	$ 5.72
Book value (b)	$ 77.61	$ 72.07	$ 66.95	$ 61.44	$ 56.22
Cash dividends declared	$ 1.88	$ 1.72	$ 1.55	$ 1.15	$ .40

(a) Includes the impact of RBC Bank (USA), which we acquired on March 2, 2012.

(b) Amounts for prior periods have been updated to reflect the first quarter 2014 adoption of Accounting Standards Update (ASU) 2014-01 related to investments in low income housing tax credits.

(c) Includes results of operations for PNC Global Investment Servicing Inc. (GIS) through June 30, 2010 and the related after-tax gain on sale. We sold GIS effective July 1, 2010, resulting in a gain of $639 million, or $328 million after taxes, recognized during the third quarter of 2010.

(d) We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of $250 million in the first quarter of 2010. This resulted in a noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share. The Series N Preferred Stock was issued on December 31, 2008.

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

This Selected Financial Data should be reviewed in conjunction with the Consolidated Financial Statements and Notes included in Item 8 of this Report as well as the other disclosure in this Report concerning our historical financial performance, our future prospects and the risks associated with our business and financial performance.

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	At or for the year ended December 31				
Dollars in millions, except as noted	2014 (a)	2013 (a)	2012 (a)	2011	2010
Balance Sheet Highlights					
Assets (b) (c)	$ 345,072	$ 320,192	$ 305,029	$ 271,141	$ 264,230
Loans (c) (d)	204,817	195,613	185,856	159,014	150,595
Allowance for loan and lease losses (c)	3,331	3,609	4,036	4,347	4,887
Interest-earning deposits with banks (c) (e)	31,779	12,135	3,984	1,169	1,610
Investment securities (c)	55,823	60,294	61,406	60,634	64,262
Loans held for sale (d)	2,262	2,255	3,693	2,936	3,492
Goodwill and other intangible assets	10,947	11,290	10,869	10,144	10,753
Equity investments (b) (c) (f)	10,728	10,560	10,799	10,070	9,166
Noninterest-bearing deposits	73,479	70,306	69,980	59,048	50,019
Interest-bearing deposits	158,755	150,625	143,162	128,918	133,371
Total deposits	232,234	220,931	213,142	187,966	183,390
Transaction deposits (g)	198,267	186,391	176,705	147,637	134,654
Borrowed funds (c) (d) (h)	56,768	46,105	40,907	36,704	39,488
Total shareholders equity (b)	44,551	42,334	38,948	34,010	30,206
Common shareholders equity (b)	40,605	38,392	35,358	32,374	29,560
Client Investment Assets (billions)					
Discretionary client assets under management	$ 135	$ 127	$ 112	$ 107	$ 108
Nondiscretionary client assets under management	128	120	112	103	104
Total client assets under administration	263	247	224	210	212
Brokerage account client assets	43	41	38	34	34
Total	$ 306	$ 288	$ 262	$ 244	$ 246
Selected Ratios					
Net interest margin (i)	3.08%	3.57%	3.94%	3.92%	4.14%
Noninterest income to total revenue	45	43	38	39	39
Efficiency (b)	62	60	68	63	56
Return on					
Average common shareholders equity (b)	9.91	10.85	8.29	9.56	10.87
Average assets (b)	1.28	1.38	1.02	1.16	1.28
Loans to deposits	88	89	87	85	82
Dividend payout (b)	25.3	23.1	29.1	20.2	6.8
Transitional Basel III common equity Tier 1 capital ratio (j) (k)	10.9	N/A	N/A	N/A	N/A
Transitional Basel III Tier 1 risk-based capital ratio (j) (k)	12.6	N/A	N/A	N/A	N/A
Pro forma fully phased-in Basel III common equity Tier 1 capital ratio (k) (l) (m)	10.0	9.4	7.5	N/A	N/A
Basel I Tier 1 common capital ratio (m)	N/A	10.5	9.6	10.3	9.8
Basel I Tier 1 risk-based capital ratio (m)	N/A	12.4	11.6	12.6	12.1
Common shareholders equity to total assets (b)	11.8	12.0	11.6	11.9	11.2
Average common shareholders equity to average assets (b)	12.1	11.9	11.5	11.9	10.4
Selected Statistics					
Employees	53,587	54,433	56,285	51,891	50,769
Retail Banking branches	2,697	2,714	2,881	2,511	2,470
ATMs	8,605	7,445	7,282	6,806	6,673
Residential mortgage servicing portfolio Serviced for Third Parties (in billions)	$ 108	$ 114	$ 119	$ 118	$ 125
Commercial mortgage servicing portfolio Serviced for PNC and Others (in billions)	$ 336	$ 308	$ 282	$ 267	$ 266

(a) Includes the impact of RBC Bank (USA), which we acquired on March 2, 2012.

(b) Amounts for prior periods have been updated to reflect the first quarter 2014 adoption of Accounting Standards Update (ASU) 2014-01 related to investments in low income housing tax credits.

(c) Amounts include consolidated variable interest entities. See Consolidated Balance Sheet in Item 8 of this Report for additional information.

(d) Amounts include assets and liabilities for which we have elected the fair value option. See Consolidated Balance Sheet in Item 8 of this Report for additional information.

(e) Amounts include balances held with the Federal Reserve Bank of Cleveland of $31.4 billion, $11.7 billion, $3.5 billion, $.4 billion and $1.0 billion as of December 31, 2014, 2013, 2012, 2011 and 2010, respectively.

(f) Amounts include our equity interest in BlackRock.

(g) Represents the sum of interest-bearing money market deposits, interest-bearing demand deposits, and noninterest-bearing deposits.

(h) Includes long-term borrowings of $41.5 billion, $27.6 billion, $19.3 billion, $20.9 billion and $24.8 billion for 2014, 2013, 2012, 2011 and 2010, respectively. Borrowings which mature more than one year after December 31, 2014 are considered to be long-term.

(i) Calculated as 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 accounting principles generally accepted in the United States of America (GAAP) on the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the years 2014, 2013, 2012, 2011 and 2010 were $189 million, $168 million, $144 million, $104 million and $81 million, respectively.

(j) Calculated using the regulatory capital methodology applicable to PNC during 2014.

(k) See capital ratios discussion in the Supervision and Regulation section of Item 1 and in the Consolidated Balance Sheet Review section in Item 7 of this Report for additional discussion on these capital ratios.

(l) Pro forma ratios as of December 31, 2014 and December 31, 2013 were calculated under the standardized approach and the pro forma ratio as of December 31, 2012 was calculated under the advanced approaches. The prior period ratios have not been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.

(m) See additional information on the pro forma ratios and Basel I ratios in the Statistical Information (Unaudited) section in Item 8 of this Report.

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

EXECUTIVE SUMMARY

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 needs. Our approach is concentrated on organically growing and deepening client relationships that meet our risk/return measures. Our strategies for growing fee income across our lines of business are focused on achieving deeper market penetration and cross selling our diverse product mix.

Our strategic priorities are designed to enhance value over the long term. A key priority is to drive growth in acquired and underpenetrated geographic markets, including in the Southeast. In addition, we are seeking to attract more of the investable assets of new and existing clients. PNC is focused on transforming our retail banking business to a more customer-centric and sustainable model while lowering delivery costs as customer banking preferences evolve. We are also working to build a stronger residential mortgage banking business with the goal of becoming the provider of choice for our customers. Additionally, we continue to focus on expense management while investing in technology and business infrastructure and streamlining our processes.

Our capital priorities are to support client growth and business investment, maintain appropriate capital in light of economic uncertainty and the Basel III framework and return excess capital to shareholders, in accordance with the capital plan included in our 2015 Comprehensive Capital Analysis and Review (CCAR) submission to the Board of Governors of the Federal Reserve System (Federal Reserve). We continue to maintain a strong capital position and expect to build capital through retention of future earnings net of dividend payments and share repurchases. PNC has increased its liquidity positions at both PNC and PNC Bank, National Association (PNC Bank). For more detail, see the Capital and Liquidity Actions 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 Item 7 and the Supervision and Regulation section in Item 1 Business of this Report.

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 elsewhere in this Report.

Recent Market and Industry Developments

There have been numerous legislative and regulatory developments and significant changes in the competitive landscape of our industry over the last several years. The United States and other governments have undertaken major reform of the regulation of the financial services industry, including engaging in new efforts to impose requirements designed to strengthen the stability of the financial system and protect consumers and investors. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), enacted in July 2010, mandates the most wide-ranging overhaul of financial industry regulation in decades. Many parts of the law are now in effect, and others are now in the implementation stage, which is likely to continue for several years. We expect to face further increased regulation of our industry as a result of Dodd-Frank as well as other current and future initiatives intended to enhance the regulation of financial services companies, the stability of the financial system, the protection of consumers and investors, and the liquidity and solvency of financial institutions and markets. We also expect in many cases more intense scrutiny from our supervisors in the examination process and more aggressive enforcement of laws and regulations on both the federal and state levels. Compliance with new regulations will increase our costs and reduce our revenue. Some new regulations may limit our ability to pursue certain desirable business opportunities.

On January 20, 2015, the U.S. Supreme Court denied a writ of certiorari in *NACS v. Board of Governors of the Federal Reserve System*, with the effect that the decision of the U.S. Court of Appeals for the D.C. Circuit in this case will stand. In March 2014, the court of appeals had upheld the Federal Reserve s network processing rule and its interchange fee rule except as to the issue of transaction monitoring costs, which it remanded to the Federal Reserve for further explanation. The court of appeals decision reversed the grant of summary judgment in July 2013 by the U.S. District Court for the District of Columbia in favor of the plaintiffs in this case vacating these rules.

For additional information concerning recent legislative and regulatory developments, as well as certain governmental, legislative and regulatory inquiries and investigations that may affect PNC, please see the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors, and Note 21 Legal

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Proceedings and Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Key Factors Affecting Financial Performance

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

- General economic conditions, including the continuity, speed and stamina of the current U.S. economic expansion in general and on our customers in particular,
- The monetary policy actions and statements of the Federal Reserve and the Federal Open Market Committee (FOMC),
- The level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve,
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets,
- Loan demand, utilization of credit commitments and standby letters of credit, and asset quality,
- Customer demand for non-loan products and services,
- Changes in the competitive and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment,
- The impact of the extensive reforms enacted in the Dodd-Frank legislation and other legislative, regulatory and administrative initiatives and actions, including those outlined elsewhere in this Report and in our other SEC filings, and
- The impact of market credit spreads on asset valuations.

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

- Focused execution of strategic priorities for organic customer growth opportunities,
- Further success in growing profitability through the acquisition and retention of customers and deepening relationships,
- Driving growth in acquired and underpenetrated geographic markets, including our Southeast markets,
- Our ability to effectively manage PNC s balance sheet and generate net interest income,
- Revenue growth from fee income and our ability to provide innovative and valued products to our customers,
- Our ability to utilize technology to develop and deliver products and services to our customers and protect PNC s systems and customer information,
- Our ability to bolster our critical infrastructure and streamline our core processes,
- Our ability to manage and implement strategic business objectives within the changing regulatory environment,
- A sustained focus on expense management,
- Improving our overall asset quality,
- Managing the non-strategic assets portfolio and impaired assets,
- Continuing to maintain and grow our deposit base as a low-cost funding source,
- Prudent risk and capital management related to our efforts to manage risk to acceptable levels and to meet evolving CCAR compliance, regulatory capital and liquidity standards,
- Actions we take within the capital and other financial markets,
- The impact of legal and regulatory-related contingencies, and
- The appropriateness of reserves needed for critical accounting estimates and related contingencies.

For additional information, please see the Cautionary Statement Regarding Forward-Looking Information section in this Item 7 and Item 1A Risk Factors in this Report.

Table 1: Summary Financial Results

Year ended December 31	2014	2013
Net income (millions)	$ 4,207	$ 4,212
Diluted earnings per common share from net income	$ 7.30	$ 7.36
Return from net income on:		
Average common shareholders equity	9.91%	10.85%
Average assets	1.28%	1.38%

Income Statement Highlights

Our performance in 2014 included the following:

Net income for 2014 of $4.2 billion was stable compared with 2013, as a 4% decrease in revenue was mostly offset by a reduction in provision for credit losses and a 2% decline in noninterest expense. Lower revenue in the comparison was driven by a 7% decline in net interest income, as noninterest income was essentially unchanged. For additional detail, please see the Consolidated Income Statement Review section in this Item 7.

Net interest income of $8.5 billion for 2014 decreased 7% compared with 2013, as lower yields on loans and investment securities, a decline in investment securities balances and a reduction in purchase accounting accretion were partially offset by commercial and commercial real estate loan growth.

Net interest margin decreased to 3.08 % for 2014 compared to 3.57 % for 2013. The decline reflected the impact of lower loan and securities yields in the ongoing low rate environment, lower purchase accounting accretion and the impact of higher interest-earning deposits with the Federal Reserve Bank.

Noninterest income was $6.9 billion for 2014 and 2013, as strong overall client fee income was offset by lower residential mortgage revenue, declines in asset valuations and reduced sales of securities.
The provision for credit losses decreased to $273 million for 2014 compared to $643 million for 2013 due to overall credit quality improvement.
Noninterest expense was $9.5 billion for 2014, a decrease of 2% compared with 2013, primarily reflecting well managed expenses.

Credit Quality Highlights

Asset quality trends in 2014 improved from 2013. For additional detail, see the Credit Risk Management portion of the Risk Management section of this Item 7.
Nonperforming assets decreased $.6 billion, or 17%, to $2.9 billion at December 31, 2014 compared to December 31, 2013.
Nonperforming assets to total assets were 0.83% at December 31, 2014, compared to 1.08% at December 31, 2013.
Overall loan delinquencies of $1.9 billion at December 31, 2014 decreased $.5 billion, or 22%, compared with December 31, 2013.
The allowance for loan and lease losses was 1.63% of total loans and 133% of nonperforming loans at December 31, 2014, compared with 1.84% and 117% at December 31, 2013, respectively.
Net charge-offs of $.5 billion in 2014 declined 51% compared to net charge-offs of $1.1 billion for 2013. Net charge-offs were 0.27% of average loans in 2014 and 0.57% of average loans in 2013. These comparisons were impacted by alignment with interagency guidance in the first quarter of 2013 on practices for loans and lines of credit related to consumer lending. In the first quarter 2013, this alignment had the overall effect of (i) accelerating charge-offs, (ii) increasing nonperforming loans and (iii) in the case of loans accounted for under the fair value option, increasing nonaccrual loans.

Balance Sheet Highlights

Total loans increased by $9.2 billion to $205 billion at December 31, 2014 compared to December 31, 2013.
Total commercial lending increased by $11.2 billion, or 10%, as a result of growth in commercial and commercial real estate loans.
Total consumer lending decreased $2.0 billion, or 3%, due to lower home equity, education and residential mortgage loans, partially offset by growth in automobile loans.
Total deposits increased by $11.3 billion, or 5%, to $232 billion at December 31, 2014 compared with December 31, 2013, driven by growth in transaction deposits.
PNC further increased its liquidity position as reflected in higher deposit balances maintained with the Federal Reserve Bank.
The regulatory short-term Liquidity Coverage Ratio became effective for PNC as an advanced approaches bank beginning January 1, 2015, with a minimum phased-in requirement of 80% in 2015, calculated as of month end. The estimated pro forma ratio at December 31, 2014 exceeded 100% and 95% for PNC and PNC Bank, respectively.
PNC s well-positioned balance sheet remained core funded with a loans to deposits ratio of 88% at December 31, 2014.
The Transitional Basel III common equity Tier 1 capital ratio, calculated using the regulatory capital methodology applicable to PNC during 2014, was 10.9% at December 31, 2014.
Pro forma fully phased-in Basel III common equity Tier 1 capital ratio increased to an estimated 10.0% at December 31, 2014 from 9.4% at December 31, 2013 based on the standardized approach rules. See the Capital discussion and Table 18 in the Consolidated Balance Sheet Review section of this Item 7 and the December 31, 2013 capital ratio tables in the Statistical Information (Unaudited) section in Item 8 of this Report for more detail.

Our Consolidated Income Statement and Consolidated Balance Sheet Review sections of this Item 7 describe in greater detail the various items that impacted our results during 2014 and 2013 and balances at December 31, 2014 and December 31, 2013, respectively.

Capital and Liquidity Actions

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Federal Reserve and our primary bank regulators as part of the CCAR process.

In connection with the 2014 CCAR, PNC submitted its 2014 capital plan, as approved by its Board of Directors, to the Federal Reserve in January 2014. As we announced on March 26, 2014, the Federal Reserve accepted the capital plan and did not object to our proposed capital actions, which included a recommendation to increase the quarterly common stock dividend in the second quarter of 2014. The capital plan also included share repurchase programs of up to $1.5 billion for the four quarter period beginning in the second quarter of 2014 under PNC s existing common stock repurchase authorization. These programs include repurchases of up to $200 million to mitigate the financial impact of employee benefit plan transactions. In the last three quarters of 2014, in

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accordance with the 2014 capital plan, we repurchased 12.9 million shares of common stock on the open market, with an average price of $85.95 per share and an aggregate repurchase price of $1.1 billion.

On April 3, 2014, consistent with our 2014 capital plan, our Board of Directors approved an increase to PNC s quarterly common stock dividend from 44 cents per common share to 48 cents per common share beginning with the May 5, 2014 dividend payment.

In connection with the 2015 CCAR, PNC submitted its 2015 capital plan, as approved by its Board of Directors, to the Federal Reserve in January 2015. PNC expects to receive the Federal Reserve s response (either a non-objection or objection) to the capital plan submitted as part of the 2015 CCAR in March 2015. For additional information concerning the CCAR process and the factors the Federal Reserve takes into consideration in evaluating capital plans, see the Supervision and Regulation section of Item 1 of this Report.

See the Liquidity Risk Management portion of the Risk Management section of this Item 7 for more detail on our 2014 capital and liquidity actions.

Average Consolidated Balance Sheet Highlights

Table 2: Summarized Average Balance Sheet

Year ended December 31			Change	
Dollars in millions	2014	2013	$	%
Average assets				
Interest-earning assets				
Investment securities	$ 55,820	$ 57,319	$ (1,499)	(3)%
Loans	199,648	189,973	9,675	5%
Interest-earning deposits with banks	19,204	4,910	14,294	291%
Other	8,633	8,443	190	2%
Total interest-earning assets	283,305	260,645	22,660	9%
Noninterest-earning assets	44,548	45,019	(471)	(1)%
Total average assets	$ 327,853	$ 305,664	$ 22,189	7%
Average liabilities and equity				
Interest-bearing liabilities				
Interest-bearing deposits	$ 152,814	$ 146,000	$ 6,814	5%
Borrowed funds	48,817	40,022	8,795	22%
Total interest-bearing liabilities	201,631	186,022	15,609	8%
Noninterest-bearing deposits	70,108	66,168	3,940	6%
Other liabilities	10,768	11,159	(391)	(4)%
Equity	45,346	42,315	3,031	7%
Total average liabilities and equity	$ 327,853	$ 305,664	$ 22,189	7%

Total assets were $345.1 billion at December 31, 2014 compared with $320.2 billion at December 31, 2013. The increase from year end 2013 was primarily due to higher interest-earning deposits with banks and loan growth, partially offset by lower investment securities.

Various seasonal and other factors impact our period-end balances, whereas average balances are generally more indicative of underlying business trends apart from the impact of acquisitions and divestitures. The Consolidated Balance Sheet Review section of this Item 7 provides information on changes in selected Consolidated Balance Sheet categories at December 31, 2014 compared with December 31, 2013.

Average investment securities decreased during 2014 compared with 2013, primarily due to a net decline in average residential and commercial mortgage-backed securities from principal payments, partially offset by an increase in average U.S. Treasury and government agencies securities, which was largely driven by purchases to enhance our liquidity position.

Total investment securities comprised 20% of average interest-earning assets in 2014 and 22% in 2013.

Average loans grew in 2014, driven by increases in average commercial loans of $6.4 billion and average commercial real estate loans of $3.2 billion. The overall increase in loans reflected organic loan growth, primarily in our Corporate & Institutional Banking segment.

Loans represented 70% of average interest-earning assets for 2014 and 73% of average interest-earning assets for 2013.

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Average interest-earning deposits with banks, which are primarily maintained with the Federal Reserve Bank, increased significantly in the comparison to the prior year period as we continued to enhance our liquidity position.

Average noninterest-earning assets decreased in 2014 compared with 2013, primarily reflecting lower unsettled securities sales, partially offset by higher investment securities valuation adjustments, both of which are included in noninterest-earning assets for average balance sheet purposes.

Average total deposits increased $10.8 billion in 2014 compared with the prior year, driven by an increase of $12.1 billion in average transaction deposits, which grew to $189 billion in 2014. Higher average money market deposits, average noninterest-bearing deposits, and average interest-bearing demand deposits drove the increase in both commercial and consumer average transaction deposits. These increases were partially offset by a decrease of $2.6 billion in average retail certificates of deposit attributable to runoff of

maturing accounts. Total deposits at December 31, 2014 were $232.2 billion compared with $220.9 billion at December 31, 2013 and are further discussed within the Consolidated Balance Sheet Review section of this Item 7.

Average total deposits represented 68% of average total assets for 2014 and 69% for 2013.

Average borrowed funds increased in 2014 compared with 2013 primarily due to increases in average Federal Home Loan Bank (FHLB) borrowings, average bank notes and senior debt, and average subordinated debt, in part to enhance our liquidity position. These increases were partially offset by a decline in average commercial paper. Total borrowed funds at December 31, 2014 were $56.8 billion compared with $46.1 billion at December 31, 2013 and are further discussed within the Consolidated Balance Sheet Review section of this Item 7. The Liquidity Risk Management portion of the Risk Management section of this Item 7 includes additional information regarding our borrowed funds.

Business Segment Highlights

Total business segment earnings were $3.9 billion in 2014 and $4.0 billion in 2013. The Business Segments Review section of this Item 7 includes further analysis of our business segment results during 2014 and 2013, including presentation differences from Note 24 Segment Reporting in our Notes To Consolidated Financial Statements in Item 8 of this Report. Note 24 Segment Reporting presents results of businesses for 2014, 2013 and 2012.

We provide a reconciliation of total business segment earnings to PNC total consolidated net income as reported on a GAAP basis in Note 24 Segment Reporting in our Notes To Consolidated Financial Statements in Item 8 of this Report.

Table 3: Results Of Businesses Summary

(Unaudited)

Year ended December 31	Net Income (a)		Revenue		Average Assets (a) (b)	
In millions	2014	2013	2014	2013	2014	2013
Retail Banking	$ 728	$ 550	$ 6,049	$ 6,100	$ 75,046	$ 74,971
Corporate & Institutional Banking	2,106	2,264	5,476	5,506	122,927	112,970
Asset Management Group	181	162	1,107	1,040	7,745	7,366
Residential Mortgage Banking	35	148	800	1,100	7,857	9,896
BlackRock	530	469	703	621	6,640	6,272
Non-Strategic Assets Portfolio	367	379	587	742	8,338	9,987
Total business segments	3,947	3,972	14,722	15,109	228,553	221,462
Other (c) (d) (e)	260	240	653	903	99,300	84,202
Total	$ 4,207	$ 4,212	$ 15,375	$ 16,012	$ 327,853	$ 305,664

(a) Amounts for 2013 period have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.

(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 24 Segment Reporting in the Notes To Consolidated Financial Statements in Item 8 of this Report.
(e) Net income for Other in 2014 increased slightly compared to 2013 as lower noninterest expense due to a reduction in benefits costs was mostly offset by lower interest income from investment securities.

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Consolidated Income Statement Review

Our Consolidated Income Statement is presented in Item 8 of this Report.

Net income for 2014 of $4.2 billion was stable compared with 2013, as a 4% decrease in revenue was mostly offset by a reduction in provision for credit losses and a 2% decline in noninterest expense. Lower revenue in the comparison was driven by a 7% decline in net interest income, as noninterest income was essentially unchanged.

Net Interest Income

Table 4: Net Interest Income and Net Interest Margin

	Year ended December 31	
Dollars in millions	2014	2013
Net interest income	$ 8,525	$ 9,147
Net interest margin	3.08%	3.57%

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 and Analysis Of Year-To-Year Changes In Net Interest Income in Item 8 of this Report and the discussion of purchase accounting accretion on purchased impaired loans in the Consolidated Balance Sheet review in this Item 7 for additional information.

Net interest income decreased by $622 million, or 7%, in 2014 compared with 2013 reflecting the ongoing low rate environment. Lower yields on loans and investment securities, a decline in investment securities balances and a reduction in purchase accounting accretion were partially offset by commercial and commercial real estate loan growth. Lower net interest income also included the impact from the second quarter 2014 correction to reclassify certain commercial facility fees from net interest income to noninterest income.

Net interest margin decreased in the comparison to the prior year, driven by a 50 basis point decline in the yield on total interest-earning assets, which included the impact of lower purchase accounting accretion, continued spread compression, and repricing of new and existing loans and securities in the ongoing low rate environment. The decline also included the impact of the second quarter 2014 correction to reclassify certain commercial facility fees and the impact of higher interest-earning deposits maintained with the Federal Reserve Bank.

We expect net interest income for the first quarter of 2015 to remain stable with fourth quarter 2014. However, for full year 2015, we expect purchase accounting accretion to be down approximately $225 million compared to 2014.

Noninterest Income

Table 5: Noninterest Income

Year ended December 31			Change	
Dollars in millions	2014	2013	$	%
Noninterest income				
Asset management	$ 1,513	$ 1,342	$ 171	13%
Consumer services	1,254	1,253	1	
Corporate services	1,415	1,210	205	17%
Residential mortgage	618	871	(253)	(29)%
Service charges on deposits	662	597	65	11%

Net gains on sales of securities	4	99	(95)	(96)%
Net other-than-temporary impairments	(11)	(16)	5	(31)%
Other	1,395	1,509	(114)	(8)%
Total noninterest income	$ 6,850	$ 6,865	$ (15)	

Noninterest income remained relatively stable in 2014 compared to the prior year, as strong overall client fee income was offset by lower residential mortgage revenue, declines in asset valuations and reduced sales of securities. Noninterest income as a percentage of total revenue was 45% for 2014, up from 43% for 2013.

Asset management revenue increased in 2014 compared to 2013, driven by increased earnings from our BlackRock investment, as well as stronger average equity markets and positive net flows, after adjustments for cyclical client activities. Discretionary client assets under management in the Asset Management Group increased to $135 billion at December 31, 2014 compared with $127 billion at December 31, 2013.

Consumer service fees were relatively unchanged in 2014 compared to the prior year, as higher consumer service fees in Retail Banking were offset by lower revenue from previously discontinued insurance programs, as well as the termination of our debit card rewards program in the fourth quarter of 2013, which resulted in a prior year benefit and consequently diluted the year-over-year growth comparison.

Corporate service fees increased to $1.4 billion in 2014 compared to $1.2 billion in 2013, driven by higher merger and acquisition advisory fees from a record year for our mergers and acquisition advisory firm, Harris Williams, and the impact of the second quarter 2014 correction to reclassify certain commercial facility fees from net interest income to noninterest income. These increases were partially offset by lower net commercial mortgage servicing rights valuation gains, which were $38 million in 2014 compared to $68 million in 2013.

Residential mortgage revenue decreased to $618 million in 2014 from $871 million in 2013, primarily due to lower loan sales revenue from a reduction in origination volume and significantly lower net hedging gains on residential mortgage servicing rights, partially offset by higher loan servicing fee revenue and the impact of second quarter 2014 gains on sales of previously underperforming portfolio loans.

Lower residential mortgage revenue in the comparison also reflected the impact of the 2013 net benefit from release of reserves for residential mortgage repurchase obligations of $53 million, as the impact to 2014 was not significant. This net release of reserves in 2013 was largely the result of agreements with two government-sponsored enterprises (GSEs), FHLMC and FNMA, for loans sold into agency securitizations. See the Recourse And Repurchase Obligations section of this Item 7 for further detail.

Service charges on deposits increased in 2014, benefitting from changes in product offerings and higher customer-related activity.

Other noninterest income decreased to $1.4 billion in 2014 compared to $1.5 billion in 2013. The decline was driven by a reduction in asset valuations, lower revenue associated with private equity investments, decreased revenue due to the lower market value of investments related to deferred compensation obligations, and lower revenue associated with customer-related derivative activities, including credit valuations. These decreases were partially offset by higher gains on sales of other assets.

The decline in revenue from credit valuations for customer-related derivatives activities was driven primarily by market interest rate changes impacting the valuations. The 2013 impact of these customer-related derivatives activities was $56 million, while the 2014 impact was not significant.

Higher gains on sales of other assets in the comparison included $94 million on the fourth quarter 2014 sale of PNC s Washington, D.C. regional headquarters building, as well as increased gains on sales of Visa Class B Common shares, which were $209 million on sales of 3.5 million shares in 2014 compared to $168 million on the sale of 4 million shares in 2013. As of December 31, 2014, we held approximately 7 million Visa Class B common shares with a fair value of approximately $742 million and a recorded investment of approximately $77 million.

Other noninterest income typically fluctuates from period to period depending on the nature and magnitude of transactions completed. Further details regarding our customer-related trading activities are included in the Market Risk Management Customer-Related Trading Risk portion of the Risk Management section of this Item 7. Further details regarding private and other equity investments are included in the Market Risk Management Equity And Other Investment Risk section, and further details regarding gains or losses related to our equity investment in BlackRock are included in the Business Segments Review section of this Item 7.

In the first quarter of 2015, we expect fee income to be down mid-single digits, on a percentage basis, compared with the fourth quarter of 2014 due to seasonality.

For full year 2015, we expect revenue to continue to be under pressure compared with 2014, as we expect the combined revenue growth from our businesses to partially offset the decline in purchase accounting accretion.

Provision For Credit Losses

The provision for credit losses totaled $273 million in 2014 compared with $643 million in 2013. The decrease in provision reflected improved overall credit quality, including lower consumer loan delinquencies. A contributing economic factor was the increasing value of residential real estate, which improved expected cash flows from our purchased impaired loans.

We currently expect our provision for credit losses in the first quarter of 2015 to be between $50 million and $100 million.

The Credit Risk Management portion of the Risk Management section of this Item 7 includes additional information regarding factors impacting the provision for credit losses.

Noninterest Expense

Noninterest expense was $9.5 billion for 2014, a decrease of $.2 billion, or 2%, from $9.7 billion for 2013, reflecting overall disciplined expense management. The decline was driven by a decrease in personnel expense related to lower headcount and benefits costs, partially offset by investments in technology and infrastructure. Additionally, noncash charges of $57 million in 2013 for unamortized discounts related to redemption of trust preferred securities contributed to the decline. See Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in Item 8 of our 2013 Form 10-K for additional detail on the 2013 redemption of trust preferred securities.

During 2014, we completed actions and exceeded our 2014 continuous improvement goal of $500 million in cost savings. These cost savings are funding investments in our infrastructure, including those related to cybersecurity and our datacenters, and investments in our diversified businesses, including our Retail Banking transformation, consistent with our strategic priorities.

In 2015, we expect to continue this approach and have a goal of an additional $400 million in cost savings through our Continuous Improvement Program, which again we expect will help to fund our business and technology investments.

For the first quarter of 2015, we expect noninterest expense to be down by high-single digits on a percentage basis compared with the fourth quarter of 2014.

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Effective Income Tax Rate

The effective income tax rate was 25.1% for 2014 compared with 25.9% for 2013. The effective tax rate is generally lower than the statutory rate primarily due to tax credits PNC receives from our investments in low income housing and new markets investments, as well as earnings in other tax exempt investments.

The effective tax rates for both 2014 and 2013 reflect the adoption of Accounting Standards Update (ASU) 2014-01, which relates to amortization of investments in low income housing tax credits. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report for further detail. The retrospective application of this guidance resulted in increased income tax expenses in both periods due to the reclassification of noninterest expense associated with these investments.

Consolidated Balance Sheet Review

Table 6: Summarized Balance Sheet Data

	December 31	December 31	Change	
Dollars in millions	2014	2013	$	%
Assets				
Interest-earning deposits with banks	$ 31,779	$ 12,135	$ 19,644	162%
Loans held for sale	2,262	2,255	7	%
Investment securities	55,823	60,294	(4,471)	(7)%
Loans	204,817	195,613	9,204	5%
Allowance for loan and lease losses	(3,331)	(3,609)	278	(8)%
Goodwill	9,103	9,074	29	%
Other intangible assets	1,844	2,216	(372)	(17)%
Other, net	42,775	42,214	561	1%
Total assets	$ 345,072	$ 320,192	$ 24,880	8%
Liabilities				
Deposits	$ 232,234	$ 220,931	$ 11,303	5%
Borrowed funds	56,768	46,105	10,663	23%
Other	9,996	9,119	877	10%
Total liabilities	298,998	276,155	22,843	8%
Equity				
Total shareholders equity	44,551	42,334	2,217	5%
Noncontrolling interests	1,523	1,703	(180)	(11)%
Total equity	46,074	44,037	2,037	5%
Total liabilities and equity	$ 345,072	$ 320,192	$ 24,880	8%

The summarized balance sheet data above is based upon our Consolidated Balance Sheet in Item 8 of this Report.

The increase in total assets was primarily due to higher interest-earning deposits with banks and loan growth, partially offset by lower investment securities. The increase in interest-earning deposits with banks was driven by higher deposit balances maintained with the Federal Reserve Bank due to regulatory short-term liquidity standards that became effective for PNC as an advanced approaches bank beginning January 1, 2015. Interest-earning deposits with banks included balances held with the Federal Reserve Bank of Cleveland of $31.4 billion and $11.7 billion at December 31, 2014 and December 31, 2013, respectively. The increase in liabilities was largely due to growth in deposits and higher Federal Home Loan Bank borrowings and issuances of bank notes and senior debt and subordinated debt, partially offset by a decline in federal funds purchased and repurchase agreements. An analysis of changes in selected balance sheet categories follows.

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Loans

Outstanding loan balances of $204.8 billion at December 31, 2014 and $195.6 billion at December 31, 2013 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $1.7 billion at December 31, 2014 and $2.1 billion at December 31, 2013, respectively. The balances include purchased impaired loans but do not include future accretable net interest (*i.e.*, the difference between the undiscounted expected cash flows and the carrying value of the loan) on those loans.

Table 7: Details Of Loans

Dollars in millions	December 31 2014	December 31 2013	Change $	Change %
Commercial lending				
Commercial				
Retail/wholesale trade	$ 16,972	$ 15,530	$ 1,442	9%
Manufacturing	18,744	16,208	2,536	16%
Service providers	14,103	13,052	1,051	8%
Real estate related (a)	10,812	10,729	83	1%
Financial services	6,178	4,927	1,251	25%
Health care	9,017	8,690	327	4%
Other industries	21,594	19,242	2,352	12%
Total commercial	97,420	88,378	9,042	10%
Commercial real estate				
Real estate projects (b)	14,577	13,613	964	7%
Commercial mortgage	8,685	7,578	1,107	15%
Total commercial real estate	23,262	21,191	2,071	10%
Equipment lease financing	7,686	7,576	110	1%
Total commercial lending (c)	128,368	117,145	11,223	10%
Consumer lending				
Home equity				
Lines of credit	20,361	21,696	(1,335)	(6)%
Installment	14,316	14,751	(435)	(3)%
Total home equity	34,677	36,447	(1,770)	(5)%
Residential real estate				
Residential mortgage	13,885	14,418	(533)	(4)%
Residential construction	522	647	(125)	(19)%
Total residential real estate	14,407	15,065	(658)	(4)%
Credit card	4,612	4,425	187	4%
Other consumer				
Education	6,626	7,534	(908)	(12)%
Automobile	11,616	10,827	789	7%
Other	4,511	4,170	341	8%
Total consumer lending	76,449	78,468	(2,019)	(3)%
Total loans	$ 204,817	$ 195,613	$ 9,204	5%

(a) Includes loans to customers in the real estate and construction industries.
(b) Includes both construction loans and intermediate financing for projects.
(c) Construction loans with interest reserves and A/B Note restructurings are not significant to PNC.

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The increase in loans was driven by the increase in commercial lending as a result of growth in commercial and commercial real estate loans, primarily from new customers and organic growth. The decline in consumer lending resulted from lower home equity, education and residential mortgage loans, partially offset by growth in automobile loans.

Loans represented 59% of total assets at December 31, 2014 and 61% at December 31, 2013. Commercial lending represented 63% of the loan portfolio at December 31, 2014 and 60% at December 31, 2013. Consumer lending represented 37% of the loan portfolio at December 31, 2014 and 40% at December 31, 2013.

Commercial real estate loans represented 11% of total loans at both December 31, 2014 and December 31, 2013 and represented 7% of total assets at both December 31, 2014 and December 31, 2013. See the Credit Risk Management portion of the Risk Management section of this Item 7 for additional information regarding our loan portfolio.

Total loans above include purchased impaired loans of $4.9 billion, or 2% of total loans, at December 31, 2014, and $6.1 billion, or 3% of total loans, at December 31, 2013.

Our loan portfolio continued to be diversified among numerous industries, types of businesses and consumers across our principal geographic markets.

Allowance for Loan and Lease Losses (ALLL)

Our total ALLL of $3.3 billion at December 31, 2014 consisted of $1.6 billion and $1.7 billion established for the commercial lending and consumer lending categories, respectively. The ALLL included what we believe to be appropriate loss coverage on all loans, including higher risk loans, in the commercial and consumer portfolios. We do not consider government insured or guaranteed loans to be higher risk as defaults have historically been materially mitigated by payments of insurance or guarantee amounts for approved claims. Additional information regarding our higher risk loans is included in the Credit Risk Management portion of the Risk Management section of this Item 7 and Note 1 Accounting Policies, Note 3 Asset Quality and Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in Item 8 of this Report.

Purchase Accounting Accretion and Valuation of Purchased Impaired Loans

Information related to purchase accounting accretion and accretable yield for 2014 and 2013 follows. Additional information is provided in Note 4 Purchased Loans in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

Table 8: Accretion Purchased Impaired Loans

In millions	2014	2013
Accretion on purchased impaired loans		
Scheduled accretion	$ 460	$ 580
Reversal of contractual interest on impaired loans	(253)	(314)
Scheduled accretion net of contractual interest	207	266
Excess cash recoveries (a)	127	115
Total	$ 334	$ 381

(a) Relates to excess cash recoveries for purchased impaired commercial loans.

Table 9: Purchased Impaired Loans Accretable Yield

In millions	2014	2013
January 1	$ 2,055	$ 2,166
Scheduled accretion	(460)	(580)
Excess cash recoveries	(127)	(115)
Net reclassification to accretable from non-accretable and other activity (a)	90	584
December 31 (b)	$ 1,558	$ 2,055

(a) Approximately 93% and 37% of the net reclassifications for the years ended December 31, 2014 and 2013, respectively, were driven by the commercial portfolio and were due to improvements of cash expected to be collected on acquired loans in future periods, with the remainder predominantly due to future cash flow changes in the consumer portfolio.

(b) As of December 31, 2014, we estimate that the reversal of contractual interest on purchased impaired loans will total approximately $.9 billion in future periods. This will partially offset the total net accretable interest in future interest income of $1.6 billion on purchased impaired loans.

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

Table 10: Valuation of Purchased Impaired Loans

	December 31, 2014		December 31, 2013	
Dollars in millions	Balance	Net Investment	Balance	Net Investment
Commercial and commercial real estate loans:				
Outstanding balance (a)	$ 466		$ 937	
Recorded investment	$ 310		$ 673	
Allowance for loan losses	(79)		(133)	
Net investment/Carrying value	$ 231	50%	$ 540	58%
Consumer and residential mortgage loans:				
Outstanding balance (a)	$ 4,541		$ 5,548	
Recorded investment	$ 4,548		$ 5,433	
Allowance for loan losses	(793)		(871)	
Net investment/Carrying value	$ 3,755	83%	$ 4,562	82%
Total purchased impaired loans:				
Outstanding balance (a)	$ 5,007		$ 6,485	
Recorded investment	$ 4,858		$ 6,106	
Allowance for loan losses	(872)		(1,004)	
Net investment/Carrying value	$ 3,986	80%	$ 5,102	79%

(a) Outstanding balance represents the balance on the loan servicing system for active loans. It is possible for the outstanding balance to be lower than the recorded investment for certain loans due to the use of pool accounting. See Note 4 Purchased Loans for more information on purchased impaired loans.

At December 31, 2014, our largest individual purchased impaired loan had a recorded investment of $9 million. We currently expect to collect total cash flows of $5.6 billion on purchased impaired loans, representing the $4.0 billion net investment at December 31, 2014 and the accretable net interest of $1.6 billion shown in Table 9.

Weighted Average Life of the Purchased Impaired Portfolios

The table below provides the weighted average life (WAL) for each of the purchased impaired portfolios as of December 31, 2014.

Table 11: Weighted Average Life of the Purchased Impaired Portfolios

As of December 31, 2014

Dollars in millions	Recorded Investment	WAL (a)
Commercial	$ 74	1.8 years
Commercial real estate	236	1.3 years
Consumer (b)	1,989	3.9 years
Residential real estate	2,559	4.8 years
Total	$ 4,858	4.1 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.

Purchased Impaired Loans Accretable Difference Sensitivity Analysis

The following table provides a sensitivity analysis on the Total Purchased Impaired Loans portfolio. The analysis reflects hypothetical changes in key drivers for expected cash flows over the life of the loans under declining and improving conditions at a point in time. Any unusual significant economic events or changes, as well as other variables not considered below (*e.g.*, natural or widespread disasters), could result in impacts outside of the ranges represented below. Additionally, commercial and commercial real estate loan settlements or sales proceeds can vary widely from appraised values due to a number of factors including, but not limited to, special use considerations, liquidity premiums and improvements/deterioration in other income sources.

Table 12: Accretable Difference Sensitivity   Total Purchased Impaired Loans

In billions	December 31, 2014	Declining Scenario (a)	Improving Scenario (b)
Expected cash flows	$ 5.6	$ (.2)	$ .2
Accretable difference	1.6		
Allowance for loan and lease losses	(.9)	(.1)	.2

(a) Declining Scenario   Reflects hypothetical changes that would decrease future cash flow expectations. For consumer loans, we assume home price forecast decreases by ten percent and unemployment rate forecast increases by two percentage points; for commercial loans, we assume that collateral values decrease by ten percent.

(b) Improving Scenario   Reflects hypothetical changes that would increase future cash flow expectations. For consumer loans, we assume home price forecast increases by ten percent, unemployment rate forecast decreases by two percentage points and interest rate forecast increases by two percentage points; for commercial loans, we assume that collateral values increase by ten percent.

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The present value impact of declining cash flows is primarily reflected as an immediate impairment charge to the provision for credit losses, resulting in an increase to the allowance for loan and lease losses. The present value impact of increased cash flows is first recognized as a reversal of the allowance with any additional cash flow increases reflected as an increase in accretable yield over the life of the loan.

Net unfunded credit commitments are comprised of the following:

Table 13: Net Unfunded Loan Commitments

In millions	December 31 2014	December 31 2013
Total commercial lending (a)	$ 99,837	$ 90,104
Home equity lines of credit	17,839	18,754
Credit card	17,833	16,746
Other	4,178	4,266
Total	$ 139,687	$ 129,870

(a) Less than 5% of net unfunded loan commitments relate to commercial real estate at each date.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions.

Standby bond purchase agreements totaled $1.1 billion at December 31, 2014 and $1.3 billion at December 31, 2013 and are included in the preceding table, primarily within the Total commercial lending category.

In addition to the credit commitments set forth in the table above, our net outstanding standby letters of credit totaled $10.0 billion at December 31, 2014 and $10.5 billion at December 31, 2013. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Information regarding our credit extension commitments and our allowance for unfunded loan commitments and letters of credit is included in Note 1 Accounting Policies, Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Investment Securities

The following table presents the distribution of our investment securities portfolio. We have included credit ratings information because the information is an indicator of the degree of credit risk to which we are exposed. Changes in credit ratings classifications could indicate increased or decreased credit risk and could be accompanied by a reduction or increase in the fair value of our investment securities portfolio. For those securities, where during our quarterly security-level impairment assessments we determined losses represented other-than-temporary impairment (OTTI), we have recorded cumulative credit losses of $1.2 billion in earnings and accordingly have reduced the amortized cost of our securities. See Table 78 in Note 6 Investment Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report for more detail. The majority of these cumulative impairment charges related to non-agency residential mortgage-backed and asset-backed securities rated BB or lower.

Table 14: Investment Securities

					Ratings (a)				
	December 31, 2014		December 31, 2013		As of December 31, 2014				
Dollars in millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value	AAA/ AA	A	BBB	BB and	No Rating

								Lower	
U.S. Treasury and government agencies	$ 5,485	$ 5,714	$ 4,229	$ 4,361	100%				
Agency residential mortgage-backed (b)	23,382	23,935	27,370	27,535	100				
Non-agency residential mortgage-backed	4,993	5,225	5,750	5,894	10	1%	3%	81%	5%
Agency commercial mortgage-backed (b)	3,378	3,440	2,996	3,063	100				
Non-agency commercial mortgage-backed (c)	5,095	5,191	5,624	5,744	77	7	7	4	5
Asset-backed (d)	5,900	5,940	6,763	6,773	90	2		7	1
State and municipal	3,995	4,191	3,664	3,678	86	7			7
Other debt	2,099	2,142	2,845	2,891	65	23	11		1
Corporate stock and other	442	441	434	433					100
Total investment securities (e)	$ 54,769	$ 56,219	$ 59,675	$ 60,372	85%	2%	1%	10%	2%

(a) Ratings percentages allocated based on amortized cost.

(b) These line items were corrected for the prior period due to a misclassification of Government National Mortgage Association (GNMA) securities collateralized by project loans. $1.1 billion was previously reported as residential mortgage-backed agency securities and was reclassified to commercial mortgage-backed agency securities.

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

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

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

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Investment securities represented 16% of total assets at December 31, 2014 and 19% at December 31, 2013.

We evaluate our investment securities portfolio in light of changing market conditions and other factors and, where appropriate, take steps to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. At December 31, 2014, 85% 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 59% 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 December 31, 2014, the amortized cost and fair value of available for sale securities totaled $43.2 billion and $44.2 billion, respectively, compared to an amortized cost and fair value as of December 31, 2013 of $48.0 billion and $48.6 billion, respectively. The amortized cost and fair value of held to maturity securities were $11.6 billion and $12.0 billion, respectively, at December 31, 2014, compared to $11.7 billion and $11.8 billion, respectively, at December 31, 2013.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa. Net unrealized gains in the total investment securities portfolio increased to $1.5 billion at December 31, 2014 from $.7 billion at December 31, 2013 primarily due to the impact of market interest rates and credit spreads. The comparable amounts for the securities available for sale portfolio were $1.1 billion and $.6 billion, respectively.

Unrealized gains and losses on available for sale debt securities do not impact liquidity. However these gains and losses do affect risk-based capital under the regulatory capital rules that became effective beginning in 2014 for PNC. Also, a change in the securities credit ratings could impact the liquidity of the securities and may be indicative of a change in credit quality, which could affect our risk-weighted assets and, therefore, our regulatory capital ratios under the regulatory capital rules in effect starting with 2014. In addition, the amount representing the credit-related portion of OTTI on available for sale securities would reduce our earnings and regulatory capital ratios.

During the second quarter of 2014, we transferred securities with a fair value of $1.4 billion from available for sale to held to maturity. We changed our intent and committed to hold these high-quality securities to maturity in order to reduce the impact of price volatility on Accumulated other comprehensive income and certain capital measures, after taking into consideration market conditions and regulatory capital requirements under Basel III capital standards. See additional discussion of this transfer in Note 6 Investment Securities in our Notes To Consolidated Financial Statements included in Item 8 of this Report.

The duration of investment securities was 2.2 years at December 31, 2014. We estimate that, at December 31, 2014, the effective duration of investment securities was 2.2 years for an immediate 50 basis points parallel increase in interest rates and 2.1 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2013 for the effective duration of investment securities were 3.0 years and 2.8 years, respectively.

At least quarterly, we conduct a comprehensive security-level impairment assessment on all securities. For securities in an unrealized loss position, we determine whether the loss represents OTTI. For debt securities that we neither intend to sell nor believe we will be required to sell prior to expected recovery, we recognize the credit portion of OTTI charges in current earnings and include the noncredit portion of OTTI in Net unrealized gains (losses) on OTTI securities on our Consolidated Statement of Comprehensive Income and net of tax in Accumulated other comprehensive income (loss) on our Consolidated Balance Sheet. In 2014 and 2013 we recognized OTTI credit losses of $11 million and $16 million, respectively. The credit losses related to residential mortgage-backed and asset-backed securities collateralized by non-agency residential loans.

If economic conditions, including housing values, were to deteriorate from current levels, and if market volatility and illiquidity were to deteriorate from current levels, or if market interest rates were to increase or credit spreads were to widen appreciably, the valuation of our investment securities portfolio would likely be adversely affected and we could incur additional OTTI credit losses that would impact our Consolidated Income Statement.

Additional information regarding our investment securities is included in Note 6 Investment Securities and Note 7 Fair Value in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

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Loans Held for Sale

Table 15: Loans Held For Sale

In millions	December 31 2014	December 31 2013
Commercial mortgages at fair value	$ 893	$ 586
Commercial mortgages at lower of cost or fair value	29	281
Total commercial mortgages	922	867
Residential mortgages at fair value	1,261	1,315
Residential mortgages at lower of cost or fair value	18	41
Total residential mortgages	1,279	1,356
Other	61	32
Total	$ 2,262	$ 2,255

As of September 1, 2014, we have elected to apply the fair value option to commercial mortgage loans held for sale to agencies. This election applies to all new commercial mortgage loans held for sale originated for sale to the agencies effective on or after September 1, 2014. The election of fair value option aligns the accounting for the commercial mortgages with the related commitments to sell the loans.

We sold $3.5 billion of commercial mortgage loans to agencies in 2014 compared to $2.8 billion in 2013. Total gains of $80 million were recognized on the valuation and sale of commercial mortgage loans held for sale, net of hedges, in 2014, and $79 million in 2013. These amounts are included in

Other noninterest income on our Consolidated Income Statement.

Residential mortgage loan origination volume was $9.5 billion in 2014 compared to $15.1 billion in 2013. The majority of such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $8.3 billion of loans and recognized loan sales revenue of $420 million in 2014. The comparable amounts for 2013 were $14.7 billion and $568 million.

Interest income on loans held for sale was $99 million in 2014 and $157 million in 2013. These amounts are included in Other interest income on our Consolidated Income Statement.

Additional information regarding our loan sale and servicing activities is included in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities and Note 7 Fair Value in our Notes To Consolidated Financial Statements included in Item 8 of this Report.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $10.9 billion at December 31, 2014 and $11.3 billion at December 31, 2013. The decrease of $.4 billion was primarily due to fair value changes of mortgage servicing rights, partially offset by new additions, including purchases of mortgage servicing rights. See additional information regarding our goodwill and intangible assets in Note 8 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Funding Sources

Table 16: Details Of Funding Sources

Dollars in millions	December 31 2014	December 31 2013	Change $	Change %
Deposits				
Money market	$ 115,438	$ 108,631	$ 6,807	6%
Demand	82,829	77,756	5,073	7%
Retail certificates of deposit	18,544	20,795	(2,251)	(11)%
Savings	12,571	11,078	1,493	13%
Time deposits in foreign offices and other time deposits	2,852	2,671	181	7%
Total deposits	232,234	220,931	11,303	5%
Borrowed funds				
Federal funds purchased and repurchase agreements	3,510	4,289	(779)	(18)%
Federal Home Loan Bank borrowings	20,005	12,912	7,093	55%
Bank notes and senior debt	15,750	12,603	3,147	25%
Subordinated debt	9,151	8,244	907	11%
Commercial paper	4,995	4,997	(2)	%
Other	3,357	3,060	297	10%
Total borrowed funds	56,768	46,105	10,663	23%
Total funding sources	$ 289,002	$ 267,036	$ 21,966	8%

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See the Liquidity Risk Management portion of the Risk Management section of this Item 7 for additional information regarding our 2014 capital and liquidity activities.

Total deposits increased $11.3 billion at December 31, 2014 compared with December 31, 2013 due to strong growth in demand and money market, partially offset by lower retail certificates of deposit. Interest-bearing deposits represented 68% of total deposits at both December 31, 2014 and December 31, 2013. Total borrowed funds increased $10.7 billion since December 31, 2013 as higher Federal Home Loan Bank borrowings and issuances of bank notes and senior debt and subordinated debt were partially offset by a decline in federal funds purchased and repurchase agreements.

Capital

Table 17: Shareholders Equity

Dollars in millions	December 31 2014	December 31 2013	Change $	Change %
Shareholders equity				
Preferred stock (a)				
Common stock	$ 2,705	$ 2,698	$ 7	%
Capital surplus preferred stock	3,946	3,941	5	%
Capital surplus common stock and other	12,627	12,416	211	2%
Retained earnings	26,200	23,251	2,949	13%
Accumulated other comprehensive income	503	436	67	15%
Common stock held in treasury at cost	(1,430)	(408)	(1,022)	(250)%
Total shareholders equity	$ 44,551	$ 42,334	$ 2,217	5%

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

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

The increase in total shareholders equity compared to the prior year end reflected an increase in retained earnings, partially offset by share repurchases of $1.2 billion under PNC s existing common stock repurchase authorization. The increase in retained earnings was driven by net income of $4.2 billion, reduced by $1.2 billion of common and preferred dividends declared. Accumulated other comprehensive income increased slightly as the impact of market interest rates and credit spreads on securities available for sale and derivatives that are part of cash flow hedging strategies were mostly offset by the impact of pension and other postretirement benefit plan adjustments. Common shares outstanding were 523 million at December 31, 2014 and 533 million at December 31, 2013.

Our current common stock repurchase program authorization permits us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, contractual and regulatory limitations, and the results of the supervisory assessment of capital adequacy

and capital planning processes undertaken by the Federal Reserve and our primary bank regulators as part of the CCAR process. The Federal Reserve accepted our 2014 capital plan and did not object to our proposed capital actions. The capital plan included share repurchase programs of up to $1.5 billion for the four quarter period beginning in the second quarter of 2014 under PNC s existing common stock repurchase authorization. These programs include repurchases of up to $200 million to mitigate the financial impact of employee benefit plan transactions. Under the capital plan authorization, PNC repurchased 2.6 million common shares for $223 million in the second quarter of 2014, 4.2 million common shares for $360 million in the third quarter of 2014 and 6.1 million common shares for $524 million in the fourth quarter of 2014. Under the de minimis safe harbor of the Federal Reserve s capital plan rule, PNC may make limited repurchases of common stock or other capital distributions in amounts that exceed the amounts included in its most recently approved capital plan, provided that, among other things, such distributions do not exceed, in the aggregate, 1% of PNC s Tier 1 capital and the Federal Reserve does not object to the additional repurchases or distributions. Under this de minimis safe harbor, PNC repurchased $50 million of common shares to mitigate the financial impact of employee benefit plan transactions in the first quarter of 2014. See the Supervision and Regulation section of Item 1 Business in this Report for further information concerning the CCAR process and the factors the Federal Reserve takes into consideration in its evaluation of capital plans and the Capital and Liquidity Actions portion of the Executive Summary section of this Item 7 for the impact of the Federal Reserve s current supervisory assessment of the capital adequacy program.

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Table 18: Basel III Capital

	December 31, 2014	
Dollars in millions	Transitional Basel III (a)	Pro forma Fully Phased-In Basel III (b)(c)
Common equity Tier 1 capital		
Common stock plus related surplus, net of treasury stock	$ 13,903	$ 13,903
Retained earnings	26,200	26,200
Accumulated other comprehensive income for securities currently and previously held as available for sale	144	721
Accumulated other comprehensive income for pension and other postretirement plans	(104)	(520)
Goodwill, net of associated deferred tax liabilities	(8,855)	(8,855)
Other disallowed intangibles, net of deferred tax liabilities	(84)	(421)
Other adjustments/(deductions)	(63)	(121)
Total common equity Tier 1 capital before threshold deductions	31,141	30,907
Total threshold deductions	(212)	(1,081)
Common equity Tier 1 capital	30,929	29,826
Additional Tier 1 capital		
Preferred stock plus related surplus	3,946	3,946
Trust preferred capital securities	99	
Noncontrolling interests (d)	790	43
Other adjustments/(deductions)	(77)	(104)
Tier 1 capital	35,687	33,711
Additional Tier 2 capital		
Qualifying subordinated debt	5,473	4,764
Trust preferred capital securities	99	
Allowance for loan and lease losses included in Tier 2 capital	3,521	215
Other	2	10
Total Basel III capital	$ 44,782	$ 38,700
Risk-weighted assets (e)		
Basel I risk-weighted assets calculated in accordance with transition rules for 2014 (f)	$ 284,018	N/A
Estimated Basel III standardized approach risk-weighted assets (g)	N/A	$ 298,786
Estimated Basel III advanced approaches risk-weighted assets (h)	N/A	285,870
Average quarterly adjusted total assets	329,827	328,562
Basel III risk-based capital and leverage ratios		
Common equity Tier 1	10.9%	10.0% (i)(k)
Tier 1	12.6	11.3 (i)(l)
Total	15.8	13.5 (j)(m)
Leverage (n)	10.8	10.3

(a) Calculated using the regulatory capital methodology applicable to PNC during 2014.
(b) PNC utilizes the pro forma fully phased-in Basel III capital ratios to assess its capital position (without the benefit of phase-ins), including comparison to similar estimates made by other financial institutions.
(c) Basel III capital ratios and estimates may be impacted by additional regulatory guidance or analysis and, in the case of those ratios calculated using the advanced approaches, the ongoing evolution, validation and regulatory approval of PNC s models integral to the calculation of advanced approaches risk-weighted assets.
(d) Primarily includes REIT Preferred Securities.
(e) Calculated as of period end.
(f) Includes credit and market risk-weighted assets.
(g) Estimated based on Basel III standardized approach rules and includes credit and market risk-weighted assets.
(h) Estimated based on Basel III advanced approaches rules and includes credit, market and operational risk-weighted assets.
(i) Pro forma fully phased-in Basel III capital ratio based on estimated Basel III standardized approach risk-weighted assets and rules.
(j) Pro forma fully phased-in Basel III capital ratio based on estimated Basel III advanced approaches risk-weighted assets and rules.
(k) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Common equity Tier 1 capital ratio is 10.4%. This capital ratio is calculated using Common equity Tier 1 capital and dividing by estimated Basel III advanced approaches risk-weighted assets.
(l) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Tier 1 risk-based capital ratio is 11.8%. This capital ratio is calculated using Tier 1 capital and dividing by estimated Basel III advanced approaches risk-weighted assets.

(m) For comparative purposes only, the pro forma fully phased-in standardized approach Basel III Total capital risk-based capital ratio is 14.1%. This ratio is calculated using additional Tier 2 capital which, under the standardized approach, reflects allowance for loan and lease losses of up to 1.25% of credit risk related risk-weighted assets and dividing by estimated Basel III standardized approach risk-weighted assets.

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

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The Basel II framework, which was adopted by the Basel Committee on Banking Supervision in 2004, seeks to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. The U.S. banking agencies initially adopted rules to implement the Basel II capital framework in 2004. In July 2013, the U.S. banking agencies adopted final rules (referred to as the advanced approaches) that modified the Basel II framework effective January 1, 2014. See the Supervision and Regulation section in Item 1 Business and Item 1A Risk Factors in this Report. Prior to fully implementing the advanced approaches to calculate risk-weighted assets, PNC and PNC Bank must successfully complete a parallel run qualification phase. Both PNC and PNC Bank entered this parallel run phase on January 1, 2013. Although the minimum parallel run qualification period is four quarters, the parallel run period for PNC and PNC Bank, now in its third year, is consistent with the experience of other U.S. banks that have all had multi-year parallel run periods. After PNC exits parallel run, its regulatory risk-based capital ratio for each measure (*e.g.*, Common equity Tier 1 ratio) will be the lower of the ratios as calculated under the standardized approach and the advanced approaches.

As a result of the staggered effective dates of the final U.S. capital rules issued in July 2013, as well as the fact that PNC remains in the parallel run qualification phase for the advanced approaches, PNC s regulatory risk-based capital ratios in 2014 were based on the definitions of, and deductions from, capital under Basel III (as such definitions and deductions are phased-in for 2014) and Basel I risk-weighted assets (subject to certain adjustments as defined by the Basel III rules). We refer to the capital ratios calculated using the Basel III phased-in provisions and applicable risk-weighted assets as the Transitional Basel III ratios.

Federal banking regulators have stated that they expect the largest U.S. bank holding companies, including PNC, to have a level of regulatory capital well in excess of the regulatory minimum and have required the largest U.S. bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet the credit needs of their customers through estimated stress scenarios. We seek to manage our capital consistent with these regulatory principles, and believe that our December 31, 2014 capital levels were aligned with them.

At December 31, 2014, PNC and PNC Bank, our domestic bank subsidiary, were both considered well capitalized, based on applicable U.S. regulatory capital ratio requirements. To qualify as well capitalized, PNC and PNC Bank were required during 2014 to maintain Transitional Basel III capital ratios of at least 6% for Tier 1 risk-based and 10% for Total risk-based, and PNC Bank was required to have a Transitional Basel III leverage ratio of at least 5%.

Common equity Tier 1 capital as defined under the Basel III rules adopted by the U.S. banking agencies differs materially from Basel I. For example, under Basel III, significant common stock investments in unconsolidated financial institutions, mortgage servicing rights and deferred tax assets must be deducted from capital to the extent they individually exceed 10%, or in the aggregate exceed 15%, of the institution s adjusted Common equity Tier 1 capital. Also, Basel I regulatory capital excludes accumulated other comprehensive income related to securities currently and previously held as available for sale, as well as pension and other postretirement plans, whereas under Basel III these items are a component of PNC s capital. The Basel III final rules also eliminate the Tier 1 treatment of trust preferred securities for bank holding companies with $15 billion or more in assets. In 2013, we completed the redemption of several series of trust preferred securities previously assumed through acquisitions. PNC still holds trust preferred securities in one Trust, which would not be included within Common equity Tier 1 capital under the Basel III final rules. See Note 12 Capital Securities of a Subsidiary Trust and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report for more detail on this Trust.

The access to and cost of funding for new business initiatives, the ability to undertake new business initiatives including acquisitions, the ability to engage in expanded business activities, the ability to pay dividends or repurchase shares or other capital instruments, the level of deposit insurance costs, and the level and nature of regulatory oversight depend, in large part, on a financial institution s capital strength.

We provide additional information regarding regulatory capital requirements and some of their potential impacts on PNC in the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors and Note 20 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report.

PNC s Basel I ratios as of December 31, 2013, which were PNC s effective regulatory capital ratios as of that date, were 10.5% for Tier 1 common capital ratio, 12.4% for Tier 1 risk-based capital ratio, 15.8% for Total risk-based capital ratio and 11.1% for leverage ratio. Our 2013 Form 10-K included additional information regarding our Basel I capital ratios.

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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 the following sections of this Report:

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Item 7,
- Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements included in Item 8 of this Report,
- Note 12 Capital Securities of a Subsidiary Trust and Perpetual Trust Securities in the Notes To Consolidated Financial Statements included in Item 8 of this Report, and
- Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

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 December 31, 2014 and December 31, 2013 is included in Note 2 in the Notes To Consolidated Financial Statements included in Item 8 of this Report.

Trust Preferred Securities and REIT Preferred Securities

We are subject to certain restrictions, including restrictions on dividend payments, in connection with $206 million in principal amount of an outstanding junior subordinated debenture associated with $200 million of trust preferred securities (both amounts as of December 31, 2014) that were issued by PNC Capital Trust C, a subsidiary statutory trust. Generally, if there is (i) an event of default under the debenture, (ii) PNC elects to defer interest on the debenture, (iii) PNC exercises its right to defer payments on the related trust preferred security issued by the statutory trust, or (iv) there is a default under PNC s guarantee of such payment obligations, as specified in the applicable governing documents, then PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreement with PNC Preferred Funding Trust II. See Note 12 Capital Securities of a Subsidiary Trust and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on contractual limitations on dividend payments resulting from securities issued by PNC Preferred Funding Trust I and PNC Preferred Funding Trust II and additional discussion of trust preferred securities.

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Fair Value Measurements

In addition to the following, see Note 7 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report for further information regarding fair value.

The following table summarizes the assets and liabilities measured at fair value at December 31, 2014 and December 31, 2013, respectively, and the portions of such assets and liabilities that are classified within Level 3 of the valuation hierarchy. Level 3 assets and liabilities are those where the fair value is estimated using significant unobservable inputs.

Table 19: Fair Value Measurements Summary

	December 31, 2014		December 31, 2013	
Dollars in millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	$ 58,973	$ 10,257	$ 63,221	$ 10,650
Total assets at fair value as a percentage of consolidated assets	17%		20%	
Level 3 assets as a percentage of total assets at fair value		17%		17%
Level 3 assets as a percentage of consolidated assets		3%		3%
Total liabilities	$ 5,799	$ 716	$ 5,585	$ 638
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		12%		11%
Level 3 liabilities as a percentage of consolidated liabilities		<1%		<1%

The majority of assets recorded at fair value are included in the securities available for sale portfolio. The majority of Level 3 assets represent non-agency residential mortgage-backed securities in the securities available for sale portfolio, equity investments and mortgage servicing rights.

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. For additional information regarding the transfers of assets or liabilities between hierarchy levels, see Note 7 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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 24 Segment Reporting included in the Notes To Consolidated Financial Statements in Item 8 of this Report. Certain amounts included in this Business Segments Review section and the Business Segment Highlights in the Executive Summary section of this Item 7 differ from those amounts shown in Note 24, primarily due to the presentation in Item 7 of this Report of business net interest revenue on a taxable-equivalent basis. Note 24 presents results of businesses for 2014, 2013 and 2012.

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Retail Banking

(Unaudited)

Table 20: Retail Banking Table

Year ended December 31

Dollars in millions, except as noted	2014	2013
Income Statement		
Net interest income	$ 3,924	$ 4,079
Noninterest income		
Service charges on deposits	633	570
Brokerage	240	224
Consumer services	961	935
Other	291	292
Total noninterest income	2,125	2,021
Total revenue	6,049	6,100
Provision for credit losses	277	657
Noninterest expense	4,625	4,576
Pretax earnings	1,147	867
Income taxes	419	317
Earnings	$ 728	$ 550
Average Balance Sheet		
Loans		
Consumer		
Home equity	$ 28,852	$ 29,300
Indirect auto	9,122	7,746
Indirect other	703	909
Education	7,208	7,923
Credit cards	4,364	4,142
Other	2,238	2,148
Total consumer	52,487	52,168
Commercial and commercial real estate	10,867	11,266
Floor plan	2,215	2,055
Residential mortgage	601	741
Total loans	66,170	66,230
Goodwill and other intangible assets	6,034	6,116
Other assets	2,842	2,625
Total assets	$ 75,046	$ 74,971
Deposits		
Noninterest-bearing demand	$ 22,134	$ 21,248
Interest-bearing demand	33,992	31,811
Money market	50,263	48,784
Total transaction deposits	106,389	101,843
Savings	11,847	10,835
Certificates of deposit	18,972	21,488
Total deposits	137,208	134,166
Other liabilities	469	337
Total liabilities	$ 137,677	$ 134,503

Year ended December 31

Dollars in millions, except as noted	2014	2013
Performance Ratios		
Return on average assets	.97%	.73%
Noninterest income to total revenue	35	33
Efficiency	76	75
Other Information (a)		
Credit-related statistics:		
Commercial nonperforming assets	$ 139	$ 208

Consumer nonperforming assets	1,059	1,077
Total nonperforming assets (b)	$ 1,198	$ 1,285
Purchased impaired loans (c)	$ 575	$ 692
Commercial lending net charge-offs	$ 31	$ 89
Credit card lending net charge-offs	142	156
Consumer lending (excluding credit card) net charge-offs	285	468
Total net charge-offs	$ 458	$ 713
Commercial lending net charge-off ratio	.24%	.67%
Credit card lending net charge-off ratio	3.25%	3.77%
Consumer lending (excluding credit card) net charge-off ratio (d)	.58%	.96%
Total net charge-off ratio (d)	.69%	1.08%
Home equity portfolio credit statistics: (e)		
% of first lien positions at origination (f)	54%	52%
Weighted-average loan-to-value ratios (LTVs) (f) (g)	77%	81%
Weighted-average updated FICO scores (h)	748	745
Net charge-off ratio (d)	.54%	1.14%
Delinquency data % of total loans: (i)		
Loans 30 59 days past due	.20%	.20%
Loans 60 89 days past due	.09%	.09%
Accruing loans past due	.29%	.29%
Nonperforming loans	3.13%	3.15%
Other statistics:		
ATMs	8,605	7,445
Branches (j)	2,697	2,714
Brokerage account client assets (in billions) (k)	$ 43	$ 41
Customer-related statistics (average):		
Non-teller deposit transactions (l)	35%	25%
Digital consumer customers (m)	46%	38%

(a) Presented as of December 31, except for net charge-offs, net charge-off ratios and customer-related statistics, which are for the year ended.
(b) Includes nonperforming loans of $1.1 billion at December 31, 2014 and $1.2 billion at December 31, 2013.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Ratio for 2013 includes additional consumer charge-offs taken as a result of alignment with interagency guidance on practices for loans and lines of credit that we implemented in the first quarter of 2013.
(e) Lien position, LTV and FICO statistics are based upon customer balances.
(f) Lien position and LTV calculations reflect management assumptions where data limitations exist.
(g) LTV statistics are based upon current information.
(h) Represents FICO scores that are updated at least quarterly.
(i) Data based upon recorded investment. Past due amounts exclude purchased impaired loans, even if contractually past due, as we are currently accreting interest income over the expected life of the loans.
(j) Excludes satellite offices (*e.g.*, drive-ups, electronic branches and retirement centers) that provide limited products and/or services.
(k) Amounts include cash and money market balances.
(l) Percentage of total consumer and business banking deposit transactions processed at an ATM or through our mobile banking application.
(m) Represents consumer checking relationships that process the majority of their transactions through non-teller channels.

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Retail Banking earned $728 million in 2014 compared with earnings of $550 million in 2013. The increase in earnings was driven by a lower provision for credit losses, and increased noninterest income due to strong fee income growth. These increases in earnings were partially offset by lower net interest income driven by lower yields on loans, interest rate spread compression on the value of deposits, and lower purchase accounting accretion.

Retail Banking continues to augment and refine its core checking account products to enhance the customer experience and grow value. In 2014, we completed the conversion of consumer and business banking customers from free checking. We also focused on product value for consumers and small businesses and growing customer share of wallet through the sale of liquidity, banking and investment products.

- Completed the market rollout of PNC Total Insight℠, an integrated online banking and investing experience for our customers.
- Offered Apple Pay™ to our customers as a convenient payment option.
- Enhanced business banking Cash Flow Insight℠ features and customer experience.
- Introduced relationship pricing for business banking customers.

Retail Banking also continued to focus on serving more customers through cost effective channels that meet their evolving preferences for convenience.

- In 2014, approximately 46% of consumer customers used non-teller channels for the majority of their transactions compared with 38% for 2013.
- Deposit transactions via ATM and mobile channels increased to 35% of total deposit transactions in 2014 compared with 25% for 2013.
- As part of PNC s retail branch transformation strategy, we continue to evolve our network. We converted 156 branches to universal branches in 2014; additional branches will be converted in 2015. In 2014, 48 branches were closed or consolidated.
- Retail Banking s primary geographic footprint extends across 17 states and Washington, D.C. Our retail branch network covers nearly half the U.S. population, with 2,697 branches and 8,605 ATMs.

Total revenue declined $51 million to $6.0 billion in 2014. Net interest income of $3.9 billion decreased $155 million compared with 2013. The decrease resulted primarily from lower yields on loans, interest rate spread compression on the value of deposits, and lower purchase accounting accretion on loans and deposits.

Noninterest income of $2.1 billion increased $104 million, or 5%, compared to 2013. Noninterest income included strong customer-related fee income growth primarily resulting from changes in product offerings, increases in customer-initiated transactions, and increased brokerage and merchant processing revenue. Gains on sales of Visa Class B common shares totaled $209 million in 2014 compared to $168 million in 2013; 3.5 million shares were sold in 2014 compared to four million shares in 2013.

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The provision for credit losses was $277 million and net charge-offs were $458 million in 2014 compared with $657 million and $713 million, respectively, for 2013. Provision for credit losses decreased due to improved credit metrics. The decrease in the net charge-offs was attributable to the impact of additional consumer charge-offs taken as a result of alignment with interagency guidance in the first quarter of 2013 and improved credit quality during 2014.

Noninterest expense of $4.6 billion was $49 million, or 1%, higher than 2013. Increases in technology investments, customer transaction-related costs, and non-credit losses were offset by reduced branch network expenses as a result of transaction migration to lower cost digital and ATM channels.

Growing core checking deposits is key to Retail Banking s growth and to providing a source of low-cost funding and liquidity to PNC. The deposit product strategy of Retail Banking is to remain disciplined on pricing, target specific products and markets for growth, and focus on the retention and growth of customer balances. In 2014, average total deposits of $137.2 billion increased $3.0 billion, or 2%, compared with 2013.

- Average transaction deposits grew $4.5 billion, or 4%, and average savings deposit balances grew $1.0 billion, or 9%, over 2013 as a result of organic deposit growth. In 2014, average demand deposits increased $3.1 billion, or 6%, to $56.1 billion and average money market deposits increased $1.5 billion, or 3%, to $50.3 billion.
- Total average certificates of deposit decreased $2.5 billion, or 12%, compared to 2013. The decline in average certificates of deposit was due to the expected run-off of maturing accounts.

Retail Banking continued to focus on a relationship-based lending strategy that targets specific products and markets for growth, small businesses, and auto dealerships. In 2014, average total loans declined $60 million to $66.2 billion as growth in specific products was offset by declines from run-off of non-strategic portions of the portfolios.

- Average indirect auto loans increased $1.4 billion, or 18%, compared to 2013. The increase was primarily due to increases in auto sales as well as the expansion of our indirect sales force and product introduction into the Southeast market.
- Average credit card balances increased $222 million, or 5%, over 2013 as a result of efforts to increase credit card share of wallet through organic growth.
- Average auto dealer floor plan loans grew $160 million, or 8%, in 2014, primarily resulting from sales growth and additional dealer relationships.
- Average home equity loans decreased $448 million compared to 2013. The decrease in lines of credit of approximately $1.0 billion was partially offset by an increase of approximately $600 million in term loans. The overall portfolio declines resulted from reduced refinance activity. Retail Banking s home equity loan portfolio is relationship based, with 97% of the portfolio attributable to borrowers in our primary geographic footprint.
- Average loan balances for the remainder of the portfolio declined a net $1.4 billion, driven by declines in the education portfolio of $715 million and commercial & commercial real estate of $399 million. The discontinued government guaranteed education loan, indirect other and residential mortgage portfolios are primarily run-off portfolios. In December 2014 we sold $148 million of education loans. The impacts of the sale to 2014 average loans and earnings were not significant.

Nonperforming assets totaled $1.2 billion at December 31, 2014, a decrease of $87 million, or 7%, over 2013. The decrease was driven by declines in both commercial and consumer non-performing loans.

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Corporate & Institutional Banking

(Unaudited)

Table 21: Corporate & Institutional Banking Table

Year ended December 31 Dollars in millions, except as noted	2014	2013
INCOME STATEMENT		
Net interest income	$ 3,733	$ 3,804
Noninterest income		
Corporate service fees	1,295	1,097
Other	448	605
Noninterest income	1,743	1,702
Total revenue	5,476	5,506
Provision for credit losses (benefit)	107	(25)
Noninterest expense	2,064	1,999
Pretax earnings	3,305	3,532
Income taxes	1,199	1,268
Earnings	$ 2,106	$ 2,264
AVERAGE BALANCE SHEET		
Loans		
Commercial	$ 78,688	$ 72,256
Commercial real estate	21,127	17,668
Equipment lease financing	6,892	6,642
Total commercial lending	106,707	96,566
Consumer	1,198	947
Total loans	107,905	97,513
Goodwill and other intangible assets	3,826	3,804
Loans held for sale	1,006	1,017
Other assets	10,190	10,636
Total assets	$ 122,927	$ 112,970
AVERAGE BALANCE SHEET (CONTINUED)		
Deposits		
Noninterest-bearing demand	$ 44,210	$ 41,514
Money market	21,377	18,168
Other	7,958	7,124
Total deposits	73,545	66,806
Other liabilities	7,551	14,465
Total liabilities	$ 81,096	$ 81,271
PERFORMANCE RATIOS		
Return on average assets	1.71%	2.00%
Noninterest income to total revenue	32	31
Efficiency	38	36
COMMERCIAL MORTGAGE SERVICING PORTFOLIO SERVICED FOR PNC AND OTHERS (in billions)		
Beginning of period	$ 308	$ 282
Acquisitions/additions	96	83
Repayments/transfers	(68)	(57)
End of period	$ 336	$ 308
OTHER INFORMATION		
Consolidated revenue from: (a)		
Treasury Management (b)	$ 1,288	$ 1,260
Capital Markets (c)	$ 777	$ 722
Commercial mortgage banking activities		
Commercial mortgage loans held for sale (d)	$ 126	$ 133
Commercial mortgage loan servicing income (e)	222	226
Commercial mortgage servicing rights valuation, net of economic hedge (f)	38	68
Total	$ 386	$ 427
Year ended December 31	2014	2013

Dollars in millions, except as noted		
Average Loans (by C&IB business)		
Corporate Banking	$ 54,341	$ 50,620
Real Estate	27,740	22,287
Business Credit	13,270	11,678
Equipment Finance	10,474	9,994
Other	2,080	2,934
Total average loans	$ 107,905	$ 97,513
Total loans (g)	$ 113,935	$ 101,773
Net carrying amount of commercial mortgage servicing rights (g)	$ 506	$ 549
Credit-related statistics:		
Nonperforming assets (g) (h)	$ 557	$ 804
Purchased impaired loans (g) (i)	$ 246	$ 515
Net charge-offs	$ 8	$ 105

(a) 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.
(b) Includes amounts reported in net interest income and corporate service fees.
(c) Includes amounts reported in net interest income, corporate service fees and other noninterest income.
(d) 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.
(e) Includes net interest income and noninterest income, primarily in corporate services fees, from loan servicing and ancillary services, net of changes in fair value on commercial mortgage servicing rights due to time and payoffs for 2014 and net of commercial mortgage servicing rights amortization for 2013. Commercial mortgage servicing rights valuation, net of economic hedge is shown separately.
(f) Includes amounts reported in corporate services fees.
(g) As of December 31.
(h) Includes nonperforming loans of $.5 billion at December 31, 2014 and $.7 billion at December 31, 2013.
(i) Recorded investment of purchased impaired loans related to acquisitions.

Corporate & Institutional Banking earned $2.1 billion in 2014, a decrease of $158 million compared with 2013. The decrease in earnings was due to narrower spreads on loans and deposits, lower purchase accounting accretion, an increase in the provision for credit losses, and decreases in asset valuations, partially offset by the impact of higher average loans and deposits. We continue to focus on building client relationships where the risk-return profile is attractive, including the Southeast.

Net interest income was $3.7 billion in 2014, a decrease of $71 million from 2013 primarily due to continued spread compression on loans and deposits, lower purchase accounting accretion and the impact from the second quarter 2014 correction to reclassify certain commercial facility usage fees from net interest income to corporate service fees, partially offset by the impact of higher average loans and deposits.

Corporate service fees were $1.3 billion in 2014, increasing $198 million compared to 2013. This increase was primarily due to higher merger and acquisition advisory fees and the impact of the second quarter 2014 correction to reclassify certain commercial facility fees from net interest income to corporate service fees, partially offset by a lower commercial mortgage servicing rights valuation, net of economic hedge.

Other noninterest income was $448 million in 2014 compared with $605 million in 2013. The decrease of $157 million was driven by lower revenue associated with credit valuations for customer-related derivatives activities, lower gains on asset sales and lower derivatives sales.

The provision for credit losses was $107 million in 2014 compared with a benefit of $25 million in 2013 reflecting portfolio growth over recent quarters paired with the slowing of the reserve releases related to credit quality improvement. Net charge-offs were $8 million in 2014, which represents a decrease of $97 million compared with 2013 primarily attributable to a decrease in commercial and commercial real estate charge-offs.

Nonperforming assets were $557 million, a 31% decrease from December 31, 2013 resulting from continued improving credit quality.

Noninterest expense was $2.1 billion in 2014, an increase of $65 million primarily driven by higher incentive compensation costs associated with business activity.

Average loans were $107.9 billion in 2014 compared with $97.5 billion in 2013, an increase of 11% reflecting strong growth in Corporate Banking, Real Estate, Business Credit and Equipment Finance:

- Corporate Banking business provides lending, treasury management and capital markets-related products and services to mid-sized and large corporations, government and not-for-profit entities. Average loans for this business increased $3.7 billion, or 7%, in 2014 compared with 2013, primarily due to an increase in loan commitments from specialty lending businesses.
- PNC Real Estate provides commercial real estate and real estate-related lending through both conventional and affordable multifamily financing. Average loans for this business increased $5.5 billion, or 24%, in 2014 compared with 2013 due to increased originations.
- 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 increased $1.6 billion, or 14%, in 2014 compared with 2013 due to increasing deal sizes and higher utilization.
- PNC Equipment Finance provides equipment financing solutions with $11.9 billion in equipment finance assets as of December 31, 2014. Average equipment finance assets in 2014 were $11.2 billion, an increase of $.6 billion or 5% compared with 2013.

Loan commitments increased 8%, or $16.2 billion, to $212.3 billion at December 31, 2014 compared to $196.1 billion at December 31, 2013, primarily due to growth in our Real Estate, Corporate Banking and Business Credit businesses.

Period-end loan balances increased by 12%, or $12.2 billion, to $113.9 billion at December 31, 2014 compared with $101.8 billion at December 31, 2013.

Average deposits were $73.5 billion in 2014, an increase of $6.7 billion, or 10%, compared with 2013 as a result of business growth and inflows into money market and noninterest-bearing deposits.

The commercial mortgage servicing portfolio was $336 billion at December 31, 2014, an increase of 9% compared with December 31, 2013 as servicing additions exceeded 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 other 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 21 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, totaled $1.3 billion in 2014 compared with $1.3 billion in 2013. Higher average deposit balances were offset by lower spreads on deposits.

Capital markets revenue includes merger and acquisition advisory fees, loan syndications, derivatives, foreign exchange, asset-backed finance revenue, fixed income and equity capital markets advisory activities. Revenue from capital markets-related products and services totaled $777 million in 2014 compared with $722 million in 2013. The increase in the comparison was driven by higher merger and acquisition advisory fees and to a lesser extent higher loan syndications and foreign exchange revenue, which was partially offset by lower revenue associated with credit valuations for customer-related derivatives activities and related derivatives sales.

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 resulted in revenue of $386 million in 2014 compared with $427 million in 2013. The decrease in the comparison was mainly due to lower net commercial mortgage servicing rights valuations.

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Asset Management Group

(Unaudited)

Table 22: Asset Management Group Table

Year ended December 31 Dollars in millions, except as noted	2014	2013
INCOME STATEMENT		
Net interest income	$ 289	$ 288
Noninterest income	818	752
Total revenue	1,107	1,040
Provision for credit losses (benefit)	(1)	10
Noninterest expense	821	774
Pretax earnings	287	256
Income taxes	106	94
Earnings	$ 181	$ 162
AVERAGE BALANCE SHEET		
Loans		
Consumer	$ 5,457	$ 5,025
Commercial and commercial real estate	986	1,047
Residential mortgage	809	776
Total loans	7,252	6,848
Goodwill and other intangible assets	259	293
Other assets	234	225
Total assets	$ 7,745	$ 7,366
Deposits		
Noninterest-bearing demand	$ 1,366	$ 1,311
Interest-bearing demand	3,954	3,491
Money market	3,944	3,754
Total transaction deposits	9,264	8,556
CDs/IRAs/savings deposits	454	438
Total deposits	9,718	8,994
Other liabilities	51	60
Total liabilities	$ 9,769	$ 9,054
PERFORMANCE RATIOS		
Return on average assets	2.34%	2.20%
Noninterest income to total revenue	74	72
Efficiency	74	74
OTHER INFORMATION		
Total nonperforming assets (a) (b)	$ 66	$ 75
Purchased impaired loans (a) (c)	$ 83	$ 99
Total net charge-offs	$ 3	$ 1

Year ended December 31 Dollars in millions, except as noted	2014	2013
CLIENT ASSETS UNDER ADMINISTRATION (in billions) (a) (d)		
Personal	$ 115	$ 111
Institutional	148	136
Total	$ 263	$ 247
Asset Type		
Equity	$ 151	$ 142
Fixed Income	72	70
Liquidity/Other	40	35
Total	$ 263	$ 247
Discretionary client assets under management		
Personal	$ 87	$ 83
Institutional	48	44
Total	$ 135	$ 127

Asset Type		
Equity	$ 75	$ 70
Fixed Income	40	39
Liquidity/Other	20	18
Total	$ 135	$ 127
Nondiscretionary client assets under administration		
Personal	$ 28	$ 28
Institutional	100	92
Total	$ 128	$ 120
Asset Type		
Equity	$ 76	$ 72
Fixed Income	32	31
Liquidity/Other	20	17
Total	$ 128	$ 120

(a) As of December 31.

(b) Includes nonperforming loans of $62 million at December 31, 2014 and $70 million at December 31, 2013.

(c) Recorded investment of purchased impaired loans related to acquisitions.

(d) Excludes brokerage account client assets.

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Asset Management Group earned $181 million in 2014 compared with $162 million in 2013. Client assets under administration were $263 billion as of December 31, 2014 compared to $247 billion as of December 31, 2013. Earnings increased due to higher noninterest income from higher assets, partially offset by higher noninterest expense from strategic growth.

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 including additions to staff in high opportunity markets. Wealth Management and Hawthorn have over 100 offices operating in 7 out of the 10 most affluent states in the U.S. with a majority co-located with retail banking branches. The businesses 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 the Corporate Bank to drive growth and is focused on building retirement capabilities and expanding product solutions for all customers.

Client assets under administration of $263 billion increased $16 billion compared to a year ago. Discretionary client assets under management were $135 billion at December 31, 2014 increased $8 billion compared with December 31, 2013. The increase was driven by higher equity markets, new sales, and positive net flows, after adjustments for cyclical client activities.

Total revenue for 2014 increased $67 million to $1.1 billion compared with $1.0 billion for 2013, primarily relating to noninterest income due to stronger average equity markets and positive net flows, after adjustments for cyclical client activities.

Noninterest expense was $821 million in 2014, an increase of $47 million, or 6%, from the prior year. The increase was primarily attributable to compensation expense from increases in headcount and investments in technology. Over the last 12 months, total full-time headcount has increased by approximately 43 positions, or 1%. Asset Management Group remains focused on disciplined expense management as it invests in strategic growth opportunities.

Average deposits for 2014 increased $.7 billion, or 8%, from the prior year. Average transaction deposits grew 8% to $9.3 billion compared with 2013 and were partially offset by the run-off of maturing certificates of deposit. Average loan balances of $7.3 billion increased $.4 billion, or 6%, from the prior year due to continued growth in the consumer loan portfolio.

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Residential Mortgage Banking

(Unaudited)

Table 23: Residential Mortgage Banking Table

Year ended December 31 Dollars in millions, except as noted	2014	2013
INCOME STATEMENT		
Net interest income	$ 149	$ 194
Noninterest income		
Loan servicing revenue		
Servicing fees	224	174
Mortgage servicing rights valuation, net of economic hedge	12	121
Loan sales revenue		
Benefit / (Provision) for residential mortgage repurchase obligations		53
Loan sales revenue	420	568
Other	(5)	(10)
Total noninterest income	651	906
Total revenue	800	1,100
Provision for credit losses (benefit)	(2)	21
Noninterest expense	746	845
Pretax earnings	56	234
Income taxes	21	86
Earnings	$ 35	$ 148
AVERAGE BALANCE SHEET		
Portfolio loans	$ 1,689	$ 2,376
Loans held for sale	1,120	1,896
Mortgage servicing rights (MSR)	1,014	938
Other assets	4,034	4,686
Total assets	$ 7,857	$ 9,896
Deposits	$ 2,285	$ 2,920
Borrowings and other liabilities	2,879	3,142
Total liabilities	$ 5,164	$ 6,062
PERFORMANCE RATIOS		
Return on average assets	.45%	1.50%
Noninterest income to total revenue	81	82
Efficiency	93	77

Year ended December 31 Dollars in millions, except as noted	2014	2013
RESIDENTIAL MORTGAGE SERVICING PORTFOLIO SERVICED FOR THIRD PARTIES (in billions)		
Beginning of period	$ 114	$ 119
Acquisitions	4	10
Additions	8	15
Repayments/transfers	(18)	(30)
End of period	$ 108	$ 114
Servicing portfolio third-party statistics: (a)		
Fixed rate	94%	93%
Adjustable rate/balloon	6%	7%
Weighted-average interest rate	4.47%	4.59%
MSR asset value (in billions)	$ 0.8	$ 1.1
MSR capitalization value (in basis points)	78	95
Weighted-average servicing fee (in basis points)	27	28

Residential Mortgage Repurchase Reserve		
Beginning of period	$ 131	$ 614
(Benefit)/ Provision		(53)
Agency settlements		(191)
Losses loan repurchases	(24)	(239)
End of Period	$ 107	$ 131
Other Information		
Loan origination volume (in billions)	$ 9.5	$ 15.1
Loan sale margin percentage	4.41%	3.76%
Percentage of originations represented by:		
Purchase volume (b)	45%	30%
Refinance volume	55%	70%
Total nonperforming assets (a) (c)	$ 120	$ 189

(a) As of December 31.
(b) Mortgages with borrowers as part of residential real estate purchase transactions.
(c) Includes nonperforming loans of $79 million at December 31, 2014 and $143 million at December 31, 2013.

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Residential Mortgage Banking earned $35 million in 2014 compared with $148 million in 2013. Earnings declined from the prior year primarily as a result of decreased loan sales revenue and lower net hedging gains on residential mortgage servicing rights, partially offset by increased servicing fees and lower origination and servicing expenses.

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 were $9.5 billion for 2014 compared with $15.1 billion for 2013. Loans continue to be originated primarily through direct channels under Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Housing Administration (FHA)/Department of Veterans Affairs agency guidelines. Refinancings were 55% of originations for 2014 and 70% in 2013. During 2014, 21% of loan originations were under the original or revised Home Affordable Refinance Program (HARP or HARP 2).

Investors having purchased mortgage loans may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. At December 31, 2014, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $107 million compared with $131 million at December 31, 2013. See the Recourse And Repurchase Obligations section of this Item 7 and Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements under Item 8 of this Report for additional information.

Residential mortgage loans serviced for others totaled $108 billion at December 31, 2014 and $114 billion at December 31, 2013 as payoffs continued to outpace new direct loan origination volume and acquisitions.

Noninterest income was $651 million in 2014 compared with $906 million in 2013. Decreased loan sales revenue and lower net hedging gains on residential mortgage servicing rights were partially offset by increased servicing fees. In addition, the comparison was impacted by a residential mortgage repurchase obligation benefit of $53 million recorded in 2013.

Provision for credit losses in 2014 was a $2 million benefit, compared with an expense of $21 million in 2013.

Net interest income was $149 million in 2014 compared with $194 million in 2013. The decrease in net interest income was primarily due to the decline in origination volume.

Noninterest expense was $746 million in 2014 compared with $845 million in 2013. Lower origination and servicing costs, as well as lower residential mortgage foreclosure-related costs, drove the decline in expenses.

BlackRock

(Unaudited)

Table 24: BlackRock Table

Information related to our equity investment in BlackRock follows:

Year ended December 31 Dollars in millions	2014	2013
Business segment earnings (a)	$ 530	$ 469
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 December 31.

In billions	December 31 2014	December 31 2013
Carrying value of PNC s investment in BlackRock (c)	$ 6.3	$ 6.0
Market value of PNC s investment in BlackRock (d)	12.6	11.3

(c)

PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $2.1 billion at December 31, 2014 and $2.0 billion at December 31, 2013. Our voting interest in BlackRock common stock was approximately 21% at December 31, 2014.

(d) Does not include liquidity discount.

At December 31, 2014, we held approximately 1.3 million shares of BlackRock Series C Preferred Stock, which are available to fund our obligation in connection with certain BlackRock long-term incentive plan (LTIP) programs. Additional information regarding our BlackRock LTIP shares obligation is included in Note 14 Stock Based Compensation Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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 7 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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Non-Strategic Assets Portfolio

(Unaudited)

Table 25: Non-Strategic Assets Portfolio Table

Year ended December 31 Dollars in millions	2014	2013
INCOME STATEMENT		
Net interest income	$ 547	$ 689
Noninterest income	40	53
Total revenue	587	742
Provision for credit losses (benefit)	(119)	(21)
Noninterest expense	125	163
Pretax earnings	581	600
Income taxes	214	221
Earnings	$ 367	$ 379
AVERAGE BALANCE SHEET		
Commercial Lending:		
Commercial/Commercial real estate	$ 180	$ 382
Lease financing	675	687
Total commercial lending	855	1,069
Consumer Lending:		
Home equity	3,396	3,993
Residential real estate	4,812	5,613
Total consumer lending	8,208	9,606
Total portfolio loans	9,063	10,675
Other assets (a)	(725)	(688)
Total assets	$ 8,338	$ 9,987
Deposits and other liabilities	$ 225	$ 236
Total liabilities	$ 225	$ 236
PERFORMANCE RATIOS		
Return on average assets	4.40%	3.79%
Noninterest income to total revenue	7	7
Efficiency	21	22
OTHER INFORMATION		
Nonperforming assets (b) (c)	$ 710	$ 834
Purchased impaired loans (b) (d)	$ 3,943	$ 4,797
Net charge-offs	$ 47	$ 172
Net charge-off ratio	.52%	1.61%
Loans (b)		
Commercial Lending		
Commercial/Commercial real estate	$ 130	$ 236
Lease financing	625	680
Total commercial lending	755	916
Consumer Lending		
Home equity	3,091	3,692
Residential real estate	4,290	5,267
Total consumer lending	7,381	8,959
Total loans	$ 8,136	$ 9,875

(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 December 31.
(c) Includes nonperforming loans of $.6 billion at December 31, 2014 and $.7 billion at December 31, 2013.
(d) Recorded investment of purchased impaired loans related to acquisitions. At December 31, 2014, this segment contained 80% of PNC s purchased impaired loans.

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 wind-down of the portfolios while maximizing the value and mitigating risk.

Non-Strategic Assets Portfolio had earnings of $367 million in 2014 compared with $379 million in 2013. Earnings decreased year-over-year due to lower income driven by a smaller portfolio partially offset by an increased benefit from the provision for credit losses, driven by improved economic conditions and, lower non-interest expense.

Non-Strategic Assets Portfolio overview:

- Net interest income was $547 million in 2014 compared with $689 million in 2013. The decrease was driven by lower purchase accounting accretion and interest earned on a declining average loan portfolio.
- Noninterest income was $40 million in 2014 compared with $53 million in 2013. The decrease was driven by lower loss reimbursements on insured loans and higher provision for estimated losses on repurchase obligations on home equity loans and lines.
- The 2014 period reflected a benefit from the provision for credit losses of $119 million compared to a benefit of $21 million in 2013. The decline in provision reflected overall improvement in credit quality. A contributing economic factor was the increasing value of residential real estate that improved expected cash flows on purchased impaired loans.
- Noninterest expense in 2014 was $125 million compared with $163 million in 2013. A smaller portfolio and improving market conditions drove lower cost on nonaccrual residential mortgages and lower commercial OREO expense.
- Average portfolio loans declined to $9.1 billion in 2014 compared with $10.7 billion in 2013. The overall decline was driven by customer payment activity and portfolio management activities to reduce under-performing assets.

Critical Accounting Estimates and Judgments

Our consolidated financial statements are prepared by applying certain accounting policies. Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Item 8 of this Report describes the most significant accounting policies that we use. 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.

Fair Value Measurements

We must use estimates, assumptions, and judgments when assets and liabilities are required to be recorded at, or adjusted to reflect, fair value.

Assets and liabilities carried at fair value inherently result in a higher degree of financial statement volatility. Fair values and the information used to record valuation adjustments for certain assets and liabilities are based on either quoted market prices or are provided by independent third-party sources, including appraisers and valuation specialists, when available. When such third-party information is not available, we estimate fair value primarily by using cash flow and other financial modeling techniques. Changes in underlying factors, assumptions, or estimates in any of these areas could materially impact our future financial condition and results of operations.

PNC applies ASC 820 Fair Value Measurements. This guidance defines fair value as the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. This guidance requires a three level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable.

The following sections of this Report provide further information on this type of activity:

- Fair Value Measurements included within this Item 7, and
- Note 7 Fair Value included in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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

We maintain the ALLL and the Allowance for Unfunded Loan Commitments and Letters of Credit at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolios and on these unfunded credit facilities as of the balance sheet date. Our determination of the allowances is based on periodic evaluations of the loan and lease portfolios and unfunded credit facilities and other relevant factors. These critical estimates include significant use of PNC s own historical data and complex methods to interpret them. We have an ongoing process to evaluate and enhance the quality, quantity and timeliness of our data and interpretation methods used in the determination of these allowances. These evaluations are inherently subjective, as they require material estimates and may be susceptible to significant change, and include, among others:

- Probability of default (PD),
- Loss given default (LGD),
- Outstanding balance of the loan,
- Movement through delinquency stages,
- Amounts and timing of expected future cash flows,
- Value of collateral, which may be obtained from third parties, and
- Qualitative factors, such as changes in current economic conditions, that may not be reflected in modeled results.

For all loans, the ALLL is the sum of three components: (i) asset specific/individual impaired reserves, (ii) quantitative (formulaic or pooled) reserves and (iii) qualitative (judgmental) reserves. 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 portfolio performance experience, the financial strength of the borrower, and economic conditions. For unfunded commitments, the reserve estimate also includes estimation of the probability of funding. Key reserve assumptions are periodically updated.

To the extent actual outcomes differ from our estimates, additional provision for credit losses may be required that would reduce future earnings. See the following for additional information:

- Allowances For Loan And Lease Losses And Unfunded Loan Commitments And Letters Of Credit in the Credit Risk Management section of this Item 7, and
- Note 1 Accounting Policies and Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements and Allocation of Allowance for Loan and Lease Losses in the Statistical

Information (Unaudited) section of Item 8 of this Report.

Estimated Cash Flows On Purchased Impaired Loans

ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly SOP 03-3) provides the GAAP guidance for the accounting for purchased impaired loans. These loans have experienced a deterioration of credit quality from origination to acquisition for which it is probable that the investor will be unable to collect all contractually required payments receivable, including both principal and interest.

In our assessment of credit quality deterioration, we must make numerous assumptions, interpretations and judgments, using internal and third-party credit quality information to determine whether it is probable that we will be able to collect all contractually required payments. This point in time assessment is inherently subjective due to the nature of the available information and judgment involved.

Those loans that qualify under ASC 310-30 are recorded at fair value at acquisition, which involves estimating the expected cash flows to be received. Measurement of the fair value of the loan is based on the provisions of ASC 820. ASC 310-30 prohibits the carryover or establishment of an allowance for loan losses on the acquisition date.

Subsequent to the acquisition of the loan, we are required to continue to estimate cash flows expected to be collected over the life of the loan (or pool of loans). The measurement of expected cash flows involves assumptions and judgments as to credit risk, interest rate risk, prepayment risk, default rates, loss severity, payment speeds and collateral values. All of these factors are inherently subjective and can result in significant changes in the cash flow estimates over the life of the loan. Such changes in expected cash flows could increase future earnings volatility.

See Note 1 Accounting Policies, Note 4 Purchased Loans, and Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Goodwill

Goodwill arising from business acquisitions represents the value attributable to unidentifiable intangible elements in the business acquired. Most of our goodwill relates to value inherent in the Retail Banking and Corporate & Institutional Banking businesses. The value of this goodwill is dependent upon our ability to provide quality, cost-effective services in the face of competition from other market participants on a national and, with respect to some products and services, an international basis. We also rely upon continuing investments in processing systems, the development of value-added service features, and the ease of access by customers to our services.

As such, the value of goodwill is supported by earnings, which is driven by transaction volume and, for certain businesses, the market value of assets under administration or for which processing services are provided. Lower earnings resulting from a lack of growth or our inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could result in a current period charge to earnings. At least annually, in the fourth quarter, or more frequently if events occur or circumstances have changed significantly from the annual test date, management reviews the current operating environment and strategic direction of each reporting unit taking into consideration any events or changes in circumstances that may have an effect on the unit. For this review, inputs are generated and used in calculating the fair value of the reporting unit, which is compared to its carrying amount (Step 1 of the goodwill impairment test) as further discussed below. The fair values of the majority of our reporting units are determined using a discounted cash flow valuation model with assumptions based upon market comparables. Additionally, we may also evaluate certain financial metrics that are indicative of fair value, including market quotes, price to earnings ratios and recent acquisitions involving other financial institutions. A reporting unit is defined as an operating segment or one level below an operating segment. If the fair value of the reporting unit exceeds its carrying amount, the reporting unit is not considered impaired. However, if the fair value of the reporting unit is less than its carrying amount, the reporting unit s goodwill would be evaluated for impairment. In this circumstance, the implied fair value of reporting unit goodwill would be compared to the carrying amount of that goodwill (Step 2 of the goodwill impairment test). If the carrying amount of goodwill exceeds the implied fair value of goodwill, the difference is recognized as an impairment loss. The implied fair value of reporting unit goodwill is determined by assigning the fair value of a reporting unit to its assets and liabilities (including any unrecognized intangible assets) with the residual amount equal to the implied fair value of goodwill as if the reporting unit had been acquired in a business combination.

A reporting unit s carrying amount is based upon assigned economic capital as determined by PNC s internal management methodologies. Additionally, in performing Step 1 of our goodwill impairment testing, we utilize three equity metrics:

- Assigned reporting unit economic capital as determined by our internal management methodologies, inclusive of goodwill.
- A 7% fully phased-in Basel III common equity Tier 1 capital ratio for the reporting unit consistent with PNC s risk framework guidelines.
- The capital levels for comparable companies (as reported in comparable company public financial statements), adjusted for differences in risk characteristics between the comparable companies and the reporting unit.

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In determining a reporting unit s fair value and comparing it to its carrying value, we generally utilize the highest of these three amounts (the targeted equity) in our discounted cash flow methodology. Under this methodology, if necessary, we will infuse capital to achieve the targeted equity amount. As of October 1, 2014 (annual impairment testing date), unallocated excess capital (difference between shareholders equity minus total economic capital assigned and increased by the incremental targeted equity capital infusion) represented capital reserved for potential future capital needs.

The results of our annual 2014 impairment test indicated that the estimated fair values of our reporting units exceeded their carrying values by at least 10% and are not considered to be at risk of not passing Step 1. By definition, assumptions utilized in estimating the fair value of a reporting unit are judgmental and inherently uncertain, but absent a significant change in economic conditions of a reporting unit, we would not expect the fair values of these reporting units to decrease below their respective carrying values. Similarly, there were no impairment charges related to goodwill in 2013.

During 2012, our residential mortgage banking business, similar to other residential mortgage banking businesses, experienced higher operating costs and increased uncertainties such as elevated indemnification and repurchase liabilities and foreclosure related issues. As a result of our annual impairment test, we determined that the carrying amount of goodwill relating to the Residential Mortgage Banking reporting unit was impaired. We recorded an impairment charge of $45 million within noninterest expense which reduced the carrying value of goodwill attributed to Residential Mortgage Banking to zero.

See Note 8 Goodwill and Other Intangible Assets in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Lease Residuals

We provide financing for various types of equipment, including aircraft, energy and power systems, and vehicles through a variety of lease arrangements. Direct financing leases are carried at the sum of lease payments and the estimated residual value of the leased property, less unearned income. Residual values are subject to judgments as to the value of the underlying equipment that can be affected by changes in economic and market conditions and the financial viability of the residual guarantors. Residual values are derived from historical remarketing experience, secondary market contacts, and industry publications. To the extent not guaranteed or assumed by a third-party, we bear the risk of ownership of the leased assets. This includes the risk that the actual value of the leased assets at the end of the lease term will be less than the estimated residual value, which could result in an impairment charge and reduce earnings in the

future. Residual values are reviewed for impairment at least annually.

Revenue Recognition

We earn net interest and noninterest income from various sources, including:

- Lending,
- Securities portfolio,
- Asset management,
- Customer deposits,
- Loan sales and servicing,
- Brokerage services,
- Sale of loans and securities,
- Certain private equity activities, and
- Securities, derivatives and foreign exchange activities.

We also earn fees and commissions from issuing loan commitments, standby letters of credit and financial guarantees, selling various insurance products, providing treasury management services, providing merger and acquisition advisory and related services, and participating in certain capital markets transactions. Revenue earned on interest-earning assets, including the accretion of discounts recognized on acquired or purchased loans recorded at fair value, is recognized based on the constant effective yield of the financial instrument or based on other applicable accounting guidance.

The timing and amount of revenue that we recognize in any period is dependent on estimates, judgments, assumptions, and interpretation of contractual terms. Changes in these factors can have a significant impact on revenue recognized in any period due to changes in products, market conditions or industry norms.

Residential And Commercial Mortgage Servicing Rights

We elect to measure our residential mortgage servicing rights (MSRs) at fair value. This election was made to be consistent with our risk management strategy to hedge changes in the fair value of these assets as described below. The fair value of residential MSRs is estimated by using a cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors which are determined based on current market conditions.

As of January 1, 2014, PNC made an irrevocable election to subsequently measure all classes of commercial MSRs at fair value in order to eliminate any potential measurement mismatch between our economic hedges and the commercial MSRs. The impact of this election was not material. The fair value of commercial MSRs is estimated by using a discounted cash flow model incorporating inputs for assumptions as to constant prepayment rates, discount rates and other factors determined based on current market conditions and

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expectations. We recognize gain/(loss) on changes in the fair value of commercial MSRs as a result of that election. Commercial MSRs are subject to declines in value from actual or expected prepayment of the underlying loans and also from defaults. We manage this risk by economically hedging the fair value of commercial MSRs with securities and derivatives instruments which are expected to increase (or decrease) in value when the value of commercial MSRs declines (or increases). Prior to 2014, commercial MSRs were initially recorded at fair value and subsequently accounted for at the lower of amortized cost or fair value. Commercial MSRs were periodically evaluated for impairment. For purposes of impairment, the commercial MSRs were stratified based on asset type, which characterizes the predominant risk of the underlying financial asset.

PNC employs risk management strategies designed to protect the value of MSRs from changes in interest rates and related market factors. The values of the residential MSRs are economically hedged with securities and derivatives, including interest-rate swaps, options, and forward mortgage-backed and futures contracts. As interest rates change, these financial instruments are expected to have changes in fair value negatively correlated to the change in fair value of the hedged residential MSRs portfolio. The hedge relationships are actively managed in response to changing market conditions over the life of the residential MSRs. Commercial MSRs are economically hedged at a macro level or with specific derivatives and securities to protect against a significant decline in interest rates. Selecting appropriate financial instruments to economically hedge residential or commercial MSRs requires significant management judgment to assess how mortgage rates and prepayment speeds could affect the future values of MSRs. Hedging results can frequently be less predictable in the short term, but over longer periods of time are expected to protect the economic value of the MSRs.

The following sections of this Report provide further information on residential and commercial MSRs:

- Note 7 Fair Value included in the Notes To Consolidated Financial Statements in Item 8 of this Report.
- Note 8 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Income Taxes

In the normal course of business, we and our subsidiaries enter into transactions for which the tax treatment is unclear or subject to varying interpretations. In addition, filing requirements, methods of filing and the calculation of taxable income in various state and local jurisdictions are subject to differing interpretations.

We evaluate and assess the relative risks and merits of the tax treatment of transactions, filing positions, filing methods and taxable income calculations after considering statutes, regulations, judicial precedent, and other information, and maintain tax accruals consistent with our evaluation of these relative risks and merits. The result of our evaluation and assessment is by its nature an estimate. We and our subsidiaries are routinely subject to audit and challenges from taxing authorities. In the event we resolve a challenge for an amount different than amounts previously accrued, we will account for the difference in the period in which we resolve the matter.

Recently Issued Accounting Standards

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-04, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. This ASU clarifies that an in substance repossession or foreclosure is considered to have occurred, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. We adopted this guidance as of January 1, 2015. Adoption of this ASU did not have a material effect on our results of operations or financial position.

In May 2014, the FASB issued 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. The ASU is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The requirements within the ASU 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 the ASU recognized at the date of initial application. We are currently evaluating the impact of this ASU on our results of operations and financial position.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.* This ASU changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The ASU also requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (*i.e.*, a repurchase financing), which will result in secured borrowing treatment for the repurchase agreement. We adopted this guidance as of January 1, 2015. Adoption of this ASU did not have a material effect on our results of operations or financial position.

In August 2014, the FASB issued ASU 2014-14, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): *Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)*. This ASU requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure when a) the loan has a government guarantee that is not separable from the loan before foreclosure; b) the creditor has the intent to convey the real estate to the guarantor and make a claim on the guarantee and the creditor has the ability to recover under that claim at the time of foreclosure; and c) any amount of the claim that is determined upon the basis of the real estate is fixed at the time of foreclosure. The receivable should be measured based on the loan balance (inclusive of principal and interest) that is expected to be recovered from the guarantor. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The ASU may be adopted using either a prospective or modified retrospective transition method consistent with the method elected to adopt ASU 2014-04, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. We adopted this guidance as of January 1, 2015. Adoption of this ASU did not have a material effect on our results of operations or financial position.

In November 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): *Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force)*. This ASU clarifies that an entity should consider all relevant terms and features, inclusive of the embedded derivative feature being evaluated for bifurcation, when evaluating whether the nature of the host contract in a hybrid financial instrument issued in the form of a share, is debt-like or equity-like. When making this determination, the ASU also clarifies that the substance of the economic characteristics of the relevant terms and features, and circumstances under which the instrument was issued should be considered. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015 and should be applied on a modified retrospective basis to existing hybrid

financial instruments issued in the form of a share as of the beginning of the period of adoption. Retrospective application is permitted to all relevant prior periods. We are currently evaluating the impact of this ASU on our results of operations and financial position.

Recently Adopted Accounting Pronouncements

See Note 1 Accounting Policies in the Notes To the Consolidated Financial Statements in Item 8 of this Report regarding the impact of new accounting pronouncements which we have adopted.

STATUS OF QUALIFIED DEFINED BENEFIT PENSION PLAN

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are applied as a percentage of eligible compensation. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants. Consistent with our investment strategy, plan assets are primarily invested in equity investments and fixed income instruments. Plan fiduciaries determine and review the plan s investment policy, which is described more fully in Note 13 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report.

We calculate the expense associated with the pension plan and the assumptions and methods that we use include a policy of reflecting plan assets at their fair market value. On an annual basis, we review the actuarial assumptions related to the pension plan. The primary assumptions used to measure pension obligations and costs are the discount rate, mortality, compensation increase and expected long-term return on plan assets. Among these, the compensation increase assumption does not significantly affect pension expense.

ASC 715-30 and ASC 715-60 stipulate that each individual assumption, including mortality, should reflect the plan sponsor s best estimate. PNC has historically utilized a version of the Society of Actuaries (SOA) published mortality tables in developing its best estimate of mortality. On October 27, 2014, the SOA published a new study on mortality rates that included updated mortality tables and mortality improvement scale, which both reflect longer life expectancy. Based on an evaluation of the mortality experience of PNC s qualified pension plan participants in conjunction with the updated SOA mortality study, PNC adopted an adjusted version of the SOA s new mortality table and improvement scale for purposes of measuring the plan s benefit obligations at December 31, 2014. This change to the mortality assumption increased the qualified pension plan s benefit obligations by approximately $115 million at December 31, 2014.

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The discount rate used to measure pension obligations is determined by comparing the expected future benefits that will be paid under the plan with yields available on high quality corporate bonds of similar duration. The impact on pension expense of a .5% decrease in discount rate in the current environment is an increase of $18 million per year. This sensitivity depends on the economic environment and amount of unrecognized actuarial gains or losses on the measurement date.

The expected long-term return on assets assumption also has a significant effect on pension expense. The expected return on plan assets is a long-term assumption established by considering historical and anticipated returns of the asset classes invested in by the pension plan and the asset allocation policy currently in place. For purposes of setting and reviewing this assumption, long term refers to the period over which the plan s projected benefit obligations will be disbursed. We review this assumption at each measurement date and adjust it if warranted. Our selection process references certain historical data and the current environment, but primarily utilizes qualitative judgment regarding future return expectations.

To evaluate the continued reasonableness of our assumption, we examine a variety of viewpoints and data. Various studies have shown that portfolios comprised primarily of U.S. equity securities have historically returned approximately 9% annually over long periods of time, while U.S. debt securities have returned approximately 6% annually over long periods. Application of these historical returns to the plan s allocation ranges for equities and bonds produces a result between 6.50% and 7.25% and is one point of reference, among many other factors, that is taken into consideration. We also examine the plan s actual historical returns over various periods and consider the current economic environment. Recent experience is considered in our evaluation with appropriate consideration that, especially for short time periods, recent returns are not reliable indicators of future returns. While annual returns can vary significantly (actual returns for 2014, 2013 and 2012 were +6.50%, +15.48%, and +15.29%, respectively), the selected assumption represents our estimated long-term average prospective returns.

Acknowledging the potentially wide range for this assumption, we also annually examine the assumption used by other companies with similar pension investment strategies, so that we can ascertain whether our determinations markedly differ from others. In all cases, however, this data simply informs our process, which places the greatest emphasis on our qualitative judgment of future investment returns, given the conditions existing at each annual measurement date.

Taking into consideration all of these factors, the expected long-term return on plan assets for determining net periodic pension cost for 2014 was 7.00%, down from 7.50% for 2013. After considering the views of both internal and external

capital market advisors, particularly with regard to the effects of the recent economic environment on long-term prospective fixed income returns, we are reducing our expected long-term return on assets to 6.75% for determining pension cost for 2015.

Under current accounting rules, the difference between expected long-term returns and actual returns is accumulated and amortized to pension expense over future periods. Each one percentage point difference in actual return compared with our expected return can cause expense in subsequent years to increase or decrease by up to $9 million as the impact is amortized into results of operations.

We currently estimate pretax pension expense of $9 million in 2015 compared with pretax income of $7 million in 2014. This year-over-year expected increase in expense reflects the effects of the lower expected return on asset assumption, improved mortality, and the lower discount rate required to be used in 2015. These factors will be partially offset by the favorable impact of the increase in plan assets at December 31, 2014 and the assumed return on a $200 million voluntary contribution to the plan made in February 2015.

The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2015 estimated expense as a baseline.

Table 26: Pension Expense Sensitivity Analysis

Change in Assumption (a)	Estimated Increase/(Decrease) to 2015 Pension Expense

		(In millions)
.5% decrease in discount rate	$	18
.5% decrease in expected long-term return on assets	$	22
.5% increase in compensation rate	$	2

(a) The impact is the effect of changing the specified assumption while holding all other assumptions constant.

Our pension plan contribution requirements are not particularly sensitive to actuarial assumptions. Investment performance has the most impact on contribution requirements and will drive the amount of required contributions in future years. Also, current law, including the provisions of the Pension Protection Act of 2006, sets limits as to both minimum and maximum contributions to the plan. Notwithstanding the voluntary contribution made in February 2015 noted above, we do not expect to be required to make any contributions to the plan during 2015.

We maintain other defined benefit plans that have a less significant effect on financial results, including various nonqualified supplemental retirement plans for certain employees, which are described more fully in Note 13 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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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 Item 8 of this Report, PNC has sold commercial mortgage, residential mortgage and home equity loans 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.

Commercial Mortgage Loan Recourse Obligations

We originate, close and service certain multi-family commercial mortgage loans which are sold to FNMA under FNMA s Delegated Underwriting and Servicing (DUS) program. We participated in a similar program with the FHLMC. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment. For more information regarding our commercial mortgage loan recourse obligations, see the Recourse and Repurchase Obligations section of Note 22 Commitments and Guarantees included in the Notes To Consolidated Financial Statements in Item 8 of this Report.

Residential Mortgage and Home Equity Repurchase Obligations

As a result of alleged breaches of loan covenants and representations and warranties, investors may request PNC to indemnify them against losses on certain loans or to repurchase loans. Indemnification and repurchase claims are often settled on an individual basis through make whole payments or loan repurchases, although we may also negotiate pooled settlements with investors. In connection with pooled settlements, we typically do not repurchase loans and the consummation of such transactions generally results in us no longer having indemnification and repurchase exposure with the investor in the transaction.

Residential Mortgage Repurchase Obligations

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to situations where PNC is alleged to have breached certain origination covenants and representations and warranties made to purchasers of the loans in the respective purchase and sale agreements. Residential mortgage loans covered by these loan repurchase obligations include first and second-lien mortgage loans we have sold through Agency securitizations, Non-Agency securitizations, and loan sale transactions. As discussed in Note 2 in the Notes To Consolidated Financial Statements in Item 8 of this Report, Agency securitizations consist of mortgage loan sale transactions with FNMA, FHLMC and the Government National Mortgage Association (GNMA), while Non-Agency securitizations consist of

mortgage loan sale transactions with private investors. Mortgage loan sale transactions that are not part of a securitization may involve FNMA, FHLMC or private investors. Our historical exposure and activity associated with Agency securitization repurchase obligations has primarily been related to transactions with FNMA and FHLMC, as indemnification and repurchase losses associated with FHA and VA-insured and uninsured loans pooled in GNMA securitizations historically have been minimal. In addition to indemnification and repurchase risk, we face other risks of loss with respect to our participation in these programs, some of which are described in Note 21 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of this Report with respect to governmental inquiries related to FHA-insured loans. Repurchase obligation activity associated with residential mortgages is reported in the Residential Mortgage Banking segment.

Origination and sale of residential mortgages is an ongoing business activity and, accordingly, management continually assesses the need to recognize indemnification and repurchase liabilities pursuant to the associated investor sale agreements. We establish indemnification and repurchase liabilities for estimated losses on sold first and second-lien mortgages for which indemnification is expected to be provided or for loans that are expected to be repurchased. For the first and second-lien mortgage sold portfolio, we have established an indemnification and repurchase liability pursuant to investor sale agreements based on claims made and our estimate of future claims on a loan by loan basis. To estimate the mortgage repurchase liability arising from breaches of representations and warranties, we consider the following factors: (i) borrower performance in our historically sold portfolio (both actual and estimated future defaults); (ii) the level of outstanding unresolved repurchase claims; (iii) estimated probable future repurchase claims, considering information about expected investor behaviors, delinquent and liquidated loans, resolved and unresolved mortgage insurance rescission notices and our historical experience with claim rescissions; (iv) the potential ability to cure the defects identified in the repurchase claims (rescission rate) and (v) the estimated severity of loss upon repurchase of the loan or collateral, make-whole settlement or indemnification.

For more information on our Residential Mortgage Repurchase Obligations, see Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report.

The following tables present the unpaid principal balance of repurchase claims by vintage and total unresolved repurchase claims for the quarter ended and as of December 31, 2014, respectively, compared to the quarter ended and as of December 31, 2013, respectively. These comparisons reflect the impact of settlement agreements reached late in the fourth quarter of 2013.

Table 27: Analysis of Quarterly Residential Mortgage Repurchase Claims by Vintage

Three months ended Dollars in millions	December 31 2014	December 31 2013
2004 & Prior	$ 3	$ 66
2005	2	88
2006	2	27
2007	2	35
2008		9
Subtotal 2008 & Prior	9	225
2009 2014	16	19
Total	$ 25	$ 244
FNMA, FHLMC and GNMA %	81%	96%

Table 28: Analysis of Residential Mortgage Unresolved Asserted Indemnification and Repurchase Claims

Dollars in millions	December 31 2014	December 31 2013
FNMA, FHLMC and GNMA securitizations	$ 12	$ 13
Private investors (a)	32	22
Total unresolved claims	$ 44	$ 35
FNMA, FHLMC and GNMA %	27%	37%

(a) Activity relates to loans sold through Non-Agency securitization and loan sale transactions.

The table below details our indemnification and repurchase claim settlement activity during 2014 and 2013.

Table 29: Analysis of Residential Mortgage Indemnification and Repurchase Claim Settlement Activity

	2014			2013		
Year ended December 31 In millions	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
FNMA, FHLMC and GNMA securitizations	$ 47	$ 17	$ 15	$ 378	$ 399	$ 89
Private investors (e)	10	7	2	47	31	6
Total indemnification and repurchase settlements	$ 57	$ 24	$ 17	$ 425	$ 430	$ 95

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date. Excluded from these balances are amounts associated with pooled settlement payments as loans are typically not repurchased in these transactions.
(b) Represents both i) amounts paid for indemnification/settlement payments and ii) the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability.
(c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification/settlement payments are made to investors.
(d) Repurchase activity associated with insured loans, government-guaranteed loans and loans repurchased through the exercise of our removal of account provision (ROAP) option are excluded from this table. Refer to Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Item 8 of this Report for further discussion of ROAPs.
(e) Activity relates to loans sold through Non-Agency securitizations and loan sale transactions.

Residential mortgages that we service through FNMA, FHLMC and GNMA securitizations, and for which we could experience a loss if required to repurchase a delinquent loan due to a breach in representations or warranties, were $49 billion at December 31, 2014, of which $251 million was 90 days or more delinquent. These amounts were $48 billion and $253 million, respectively, at December 31, 2013.

In the fourth quarter of 2013, PNC reached agreements with both FNMA and FHLMC to resolve their repurchase claims with respect to loans sold between 2000 and 2008. PNC paid a total of $191 million related to these settlements. The volume of new repurchase demand claims dropped significantly in 2014 compared to the same period in 2013 as a result of the settlement agreements in the fourth quarter of 2013. Additionally, the liability for estimated losses on indemnification and repurchase claims for residential mortgages decreased to $107 million at December 31, 2014 from $131 million at December 31, 2013.

We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all residential mortgage loans sold and outstanding as of December 31, 2014 and December 31, 2013. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. See Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Home Equity Repurchase Obligations

PNC s repurchase obligations include obligations with respect to certain brokered home equity loans/lines of credit that were sold to a limited number of private investors in the financial services industry by National City prior to our acquisition of National City. PNC is no longer engaged in the brokered home equity lending business, and our exposure under these loan repurchase obligations is limited to repurchases of the loans sold in these transactions. Repurchase activity associated with brokered home equity loans/lines of credit is reported in the Non-Strategic Assets Portfolio segment.

Loan covenants and representations and warranties were established through loan sale agreements with various investors to provide assurance that loans PNC sold to the investors were of sufficient investment quality. Key aspects of such covenants and representations and warranties include the loan s compliance with any applicable loan criteria established for the transaction, including underwriting standards, delivery of all required loan documents to the investor or its designated party, sufficient collateral valuation, and the validity of the lien securing the loan. As a result of alleged breaches of these contractual obligations, investors may request PNC to indemnify them against losses on certain loans or to repurchase loans.

Investor indemnification or repurchase claims are typically settled on an individual loan basis through make-whole payments or loan repurchases; however, on occasion we may negotiate pooled settlements with investors. In connection with pooled settlements, we typically do not repurchase loans and the consummation of such transactions generally results in us no longer having indemnification and repurchase exposure with the investor in the transaction.

An indemnification and repurchase liability for estimated losses for which indemnification is expected to be provided or for loans that are expected to be repurchased was established at the acquisition of National City. Management s evaluation of these indemnification and repurchase liabilities is based upon trends in indemnification and repurchase claims, actual loss experience, risks in the underlying serviced loan

portfolios, current economic conditions and the periodic negotiations that management may enter into with investors to settle existing and potential future claims.

Indemnification and repurchase liabilities, which are included in Other liabilities on the Consolidated Balance sheet, are evaluated by management on a quarterly basis. Initial recognition and subsequent adjustments to the indemnification are recognized in Other noninterest income on the Consolidated Income Statement. For more information regarding our Home Equity Repurchase Obligations, see Note 22 Commitments and Guarantees in the Notes To Consolidated Statements in Item 8 of this Report.

RISK MANAGEMENT

Enterprise Risk Management

PNC encounters risk as part of the normal course of operating our business. Accordingly, we design risk management processes to help manage this risk. We take risks we understand in order to optimize long term shareholder value.

This Risk Management section describes our risk framework, including risk appetite and strategy, culture, governance, risk identification, controls and reporting. The overall Risk Management section of this Item 7 also provides an analysis of our key areas of risk, which include but are not limited to credit, operational, compliance, market, liquidity and model. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the risk management section.

PNC operates within a rapidly evolving regulatory environment. Accordingly, we are actively focused on the timely adoption of regulatory pronouncements within our Enterprise Risk Management (ERM) Framework.

We view risk management as a cohesive combination of the following risk elements which form PNC s ERM Framework:

Risk Appetite and Strategy

PNC manages risk in light of our risk appetite to optimize long term shareholder value while supporting our employees, customers, and communities. PNC s risk appetite represents the organization s desired enterprise risk position, set within our capital-based risk and liquidity capacity to achieve our strategic objectives and business plans. Reviewed periodically through the risk reporting and Strategic Planning processes, the risk appetite serves as an operating guide for making balanced risk decisions that support our business strategies; it will adjust over time to reflect the current and anticipated economic environment, growth objectives, risk capacity and our risk profile.

We establish guiding principles for each of the risks within our taxonomy to support the Risk Appetite Statement. The guiding principles are qualitative statements that guide risk-taking activities and are supported by quantitative metrics, risk limits, and risk appetite descriptions as defined in policy and managed through the ERM framework.

Risk Culture

All employees are considered risk managers, and are responsible for understanding PNC s Risk Appetite Statement, guiding principles and ERM framework and how they apply to their respective roles. PNC s governance structure establishes clear roles and responsibilities for risk management throughout the organization. All employees are encouraged to collaborate across groups to identify and mitigate risks and elevate issues as required. PNC reinforces risk management responsibilities through a performance management system where employee performance goals include risk management objectives. Incentives for eligible employees incorporate risk management results through balanced measures of risk-adjusted performance.

Proactive communication, between groups and up to the Board of Directors, facilitates timely identification and resolution of risk issues. PNC s multi-level risk committee structure provides a formal channel to identify, decision, and report risk. Risk committee membership includes representatives from business and risk stakeholder groups that are responsible for helping ensure risk issues are proactively identified, decisioned, monitored, communicated and managed appropriately within the enterprise risk management framework.

Risk Organization and Governance

PNC employs a comprehensive risk management governance structure to help ensure that risks are identified, balanced decisions are made that consider risk and return, and risks are adequately monitored and managed. Risk committees established within this governance structure provide oversight for risk management activities at the Board, corporate, and business levels. Committee composition is designed to provide effective oversight balanced across the three lines of defense in accordance with the OCC s heightened risk management and governance expectations and guidelines. See

further discussion in the Supervision and Regulation section in Item 1 of this Report. Within the three lines of defense, the risk organization has sufficient authority to influence material decisions. The Board oversees enterprise risk management of PNC for any material changes to the risk profile and periodically reviews core elements of enterprise risk including the Risk Appetite Statement, Risk Capacity, Appetite and Strategy, and Risk Controls and Limits.

We use our governance structure to assess the effectiveness of our risk management practices on an ongoing basis, based on how we manage our day-to-day business activities and on our development and execution of more specific strategies to mitigate risks. Specific responsibilities include:

Board of Directors The Board oversees enterprise risk management. The Risk Committee of the Board of Directors evaluates PNC s risk appetite, management s assessment of the enterprise risk profile, and the enterprise-wide risk structure and processes established by management to identify, measure, monitor, and manage risk. The Audit Committee of the Board also has responsibility for select areas of risk (*e.g.*, Financial Reporting, Ethics and Internal Controls over Financial Reporting).

Corporate Committees The corporate committees are responsible for overseeing risk standards and strategies, recommending risk limits, policies and metrics, monitoring risk exposures, reviewing risk profiles and key risk issues, and approving significant transactions and initiatives. At the management level, PNC has established several senior management-level committees to facilitate the review, evaluation, and management of risk. The management-level Executive Committee (EC) is the corporate committee that is responsible for developing enterprise-wide strategy and achieving PNC s strategic objectives. The EC evaluates risk management, in part, by monitoring risk reporting from the other corporate committees, which are the supporting committees for EC.

Working Committees The working committees are generally subcommittees of the corporate committees and include risk management committees for each of PNC s major businesses or functions. Working committees are intended to define, design and develop the risk management framework, including risk appetite, at the business or function level. The working committees help to implement key enterprise-level activities within a business or function. These committees recommend risk management policies for the business or function that are consistent with the enterprise-wide risk management objectives and policies. The business level committees are also responsible for approving significant initiatives under a certain threshold.

Working Groups Where appropriate, management will also form ad hoc groups (working groups) to address specific risk topics and report to a working committee or corporate committee. These working groups generally have a more narrow scope and may be limited in their duration.

Policies and Procedures PNC has established risk management policies and procedures to provide direction, guidance, and clarity on roles and responsibilities to management and the Board of Directors. These policies and procedures are organized in a multi-tiered framework and require periodic review and approval by relevant committees within the governance structure.

Business Activities Our businesses strive to enhance risk management and internal control processes. Integrated and comprehensive processes are designed to adequately identify, measure, manage, monitor, and report risks which may significantly impact each business.

Risk Identification and Quantification

Risk identification takes place across a variety of risk types throughout the organization. These risk types consist of, but are not limited to, credit, operational, compliance, market, liquidity and model. Risks are identified based on a balanced use of analytical tools and management judgment for both on- and off-balance sheet exposures. Our governance structure supports risk identification by facilitating assessment of key risk issues, emerging risks, and idiosyncratic risks and implementation of mitigation strategies as appropriate. These risks are prioritized based on quantitative and qualitative analysis and assessed against the risk appetite. Multiple tools and approaches are used to help identify and prioritize risks, including Risk Appetite Metrics, Key Risk Indicators (KRIs), Key Performance Indicators (KPIs), Risk Control and Self-Assessments (RCSAs), scenario analysis, stress testing, special investigations and controls.

Risks are aggregated and assessed within and across risk functions or businesses. The aggregated risk information is reviewed and reported at an enterprise level for adherence to the risk appetite as established through the policy framework and approved by the Board of Directors or by appropriate managing committees. This enterprise aggregation and reporting approach promotes the identification and appropriate escalation of material risks across the organization and supports an understanding of the cumulative impact of risk in relation to our risk appetite.

Risk Control and Limits

PNC uses a multi-tiered risk policy, procedure, and committee charter framework to provide direction and guidance for identifying, decisioning, monitoring, communicating and managing risk, including appropriate processes to escalate control parameter exceptions when applicable.

Risk controls and limits provide the linkage from PNC s Risk Appetite Statement and associated guiding principles to the risk taking activities of our businesses. Risk limits are quantitative measures, including forward looking assumptions, which allocate the firm s aggregate risk appetite statement to lines of business and functional risk areas. They are established within policy across risk categories and are embedded within each risk appetite description.

When setting risk limits, PNC considers major risks, aligns with the established risk appetite, balances risk-reward, leverages analytics including stressed scenarios along with historical data, and adjusts limits in a timely manner in response to changes in internal and external environments. Quantitative and qualitative operating guidelines support risk limits and serve as an early warning system for potential violations of the limits. These operating guidelines trigger mitigation strategies and management escalation protocols if limits are breached.

PNC s control structure is balanced in terms of efficiency and effectiveness with the risks that we are willing to take, as defined by our risk appetite. Controls are in place across the risk taxonomy to monitor established risk limits.

Risk Monitoring and Reporting

PNC uses similar tools to monitor and report risk as when performing Risk Identification. These tools include Risk Appetite Metrics, KRIs, KPIs, RCSAs, scenario analysis, stress testing, special investigations and controls.

The risk identification and quantification processes, the risk control and limits reviews, and the tools used for risk monitoring provide the basis for risk reporting. The objective of risk reporting is comprehensive risk aggregation and transparent communication of aggregated risks, issues, risk level compared to appetite, outlook as well as mitigation strategies where appropriate, to the Risk Committee of the Board of Directors, Corporate Committees, Working Committees and other designated parties for effective decision making.

Risk reports are produced at the line of business level, functional risk level and the enterprise level. The enterprise level risk report aggregates risks identified in the functional and business reports to define the enterprise risk profile. The enterprise risk profile is a point-in-time assessment of enterprise risk. The risk profile represents PNC s overall risk position in relation to the desired enterprise risk appetite and overall risk capacity. The determination of the enterprise risk profile is based on analysis of quantitative reporting of risk limits and other measures along with qualitative assessments. Quarterly aggregation of our risk profile enables a clear view of our risk level relative to our quantitative risk appetite and overall risk capacity. The enterprise level report is provided through the governance structure to the Board of Directors.

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Credit Risk Management

Credit risk represents the possibility that a customer, counterparty or issuer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers, purchasing securities, and entering into financial derivative transactions and certain guarantee contracts. Credit risk is one of our most significant risks. Our processes for managing credit risk are embedded in PNC s risk culture and in our decision-making processes using a systematic approach whereby credit risks and related exposures are identified and assessed, managed through specific policies and processes, measured and evaluated against our risk appetite and credit concentration limits, and reported, along with specific mitigation activities, to management and the Board through our governance structure.

Asset Quality Overview

Asset quality trends in 2014 improved from 2013.

- Nonperforming assets at December 31, 2014 decreased $577 million compared with December 31, 2013 as a result of improvements in both consumer and commercial nonperforming loans. Consumer lending nonperforming loans decreased $224 million, commercial real estate nonperforming loans declined $184 million and commercial nonperforming loans decreased $167 million. Nonperforming assets were 0.83% of total assets at December 31, 2014 compared with 1.08% at December 31, 2013.
- Overall loan delinquencies of $1.9 billion decreased $.5 billion, or 22%, from year-end 2013 levels. The reduction was due in large part to a reduction in accruing government insured residential real estate loans past due 90 days or more of $.3 billion, the majority of which we took possession of and conveyed the real estate, or are in the process of conveyance and claim resolution.
- Net charge-offs were $.5 billion in 2014, down 51% from net charge-offs in 2013 of $1.1 billion, due primarily to improved overall credit quality. Net charge-offs for 2013 included $134 million of charge-offs due to the impact of alignment with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013.
- Provision for credit losses in 2014 decreased to $273 million compared with $643 million in 2013. The smaller provision is attributed to improved overall credit quality, including lower consumer loan delinquencies, and the increasing value of residential real estate which resulted in greater expected cash flows from our purchased impaired loans.
- The level of ALLL decreased to $3.3 billion at December 31, 2014 from $3.6 billion at December 31, 2013.

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 Item 8 of this Report. The major categories of nonperforming assets are presented in Table 30.

In the first quarter of 2013, we completed our alignment of certain nonaccrual and charge-off policies consistent with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending. This alignment primarily related to (i) subordinate consumer loans (home equity loans and lines of credit and residential mortgages) where the first-lien loan was 90 days or more past due, (ii) government guaranteed loans where the guarantee may not result in collection of substantially all contractual principal and interest and (iii) certain loans with borrowers in or discharged from bankruptcy. In the first quarter of 2013, nonperforming loans increased by $426 million and net charge-offs increased by $134 million as a result of completing the alignment of the aforementioned policies. Additionally, overall delinquencies decreased $395 million due to loans now being reported as either nonperforming or, in the case of loans accounted for under the fair value option, nonaccruing or having been charged off. Certain consumer nonperforming loans were charged-off to the respective collateral value less costs to sell, and any associated allowance at the time of charge-off was reduced to zero. As the interagency guidance was adopted, incremental provision for credit losses was recorded if the related loan charge-off exceeded the associated allowance. Subsequent declines in collateral value for these loans will result in additional charge-offs to maintain recorded investment at collateral value less costs to sell.

At December 31, 2014, TDRs included in nonperforming loans were $1.4 billion, or 55%, of total nonperforming loans compared to $1.5 billion, or 49%, of total nonperforming loans as of December 31, 2013. Within consumer nonperforming loans, residential real estate TDRs comprise 60% of total residential real estate nonperforming loans at December 31, 2014, up from 59% at December 31, 2013. Home equity TDRs comprise 54% of home equity nonperforming loans at both December 31, 2014 and at December 31, 2013. 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 December 31, 2014, our largest nonperforming asset was $35 million in the Real Estate, Rental and Leasing Industry and our average nonperforming loans associated with commercial lending were under $1 million. All of the ten largest outstanding nonperforming assets are from the commercial lending portfolio and represent 21% and 4% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of December 31, 2014.

Table 30: Nonperforming Assets By Type

Dollars in millions	December 31 2014	December 31 2013
Nonperforming loans		
Commercial lending		
Commercial		
Retail/wholesale trade	$ 48	$ 57
Manufacturing	59	58
Service providers	67	108
Real estate related (a)	66	124
Financial services	4	7
Health care	28	19
Other industries	18	84
Total commercial	290	457
Commercial real estate		
Real estate projects (b)	290	436
Commercial mortgage	44	82
Total commercial real estate	334	518
Equipment lease financing	2	5
Total commercial lending	626	980
Consumer lending (c)		
Home equity	1,112	1,139
Residential real estate		
Residential mortgage	694	890
Residential construction	12	14
Credit card	3	4
Other consumer	63	61
Total consumer lending	1,884	2,108
Total nonperforming loans (d)	2,510	3,088
OREO and foreclosed assets		
Other real estate owned (OREO) (e)	351	360
Foreclosed and other assets	19	9
Total OREO and foreclosed assets	370	369
Total nonperforming assets	$ 2,880	$ 3,457
Amount of TDRs included in nonperforming loans	$ 1,370	$ 1,511
Percentage of total nonperforming loans	55%	49%
Nonperforming loans to total loans	1.23%	1.58%
Nonperforming assets to total loans, OREO and foreclosed assets	1.40	1.76
Nonperforming assets to total assets	0.83	1.08
Allowance for loan and lease losses to total nonperforming loans (f)	133	117

(a) Includes loans related to customers in the real estate and construction industries.
(b) Includes both construction loans and intermediate financing for projects.
(c) 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.
(d) 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.
(e) OREO excludes $194 million and $245 million at December 31, 2014 and December 31, 2013, respectively, related to commercial and residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the FHA or guaranteed by the VA or guaranteed by the Department of Housing and Urban Development.
(f) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. See Note 1 Accounting Policies and Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Table 31: OREO and Foreclosed Assets

In millions	December 31 2014	December 31 2013
Other real estate owned (OREO):		
Residential properties	$ 183	$ 164
Residential development properties	48	74
Commercial properties	120	122
Total OREO	351	360
Foreclosed and other assets	19	9
Total OREO and foreclosed assets	$ 370	$ 369

Total OREO and foreclosed assets increased $1 million during 2014 from $369 million at December 31, 2013 to $370 million at December 31, 2014 and is 13% of total nonperforming assets at December 31, 2014. As of December 31, 2014 and December 31, 2013, 62% and 64%, respectively, of our OREO and foreclosed assets were comprised of residential related properties.

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Table 32: Change in Nonperforming Assets

In millions	2014	2013
January 1	$ 3,457	$ 3,794
New nonperforming assets (a)	2,127	3,343
Charge-offs and valuation adjustments (b)	(585)	(1,002)
Principal activity, including paydowns and payoffs	(1,001)	(1,016)
Asset sales and transfers to loans held for sale	(570)	(492)
Returned to performing status	(548)	(1,170)
December 31	$ 2,880	$ 3,457

(a) New nonperforming assets in the 2013 period include $560 million of loans added in the first quarter of 2013 due to the alignment with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending.

(b) Charge-offs and valuation adjustments in the 2013 period include $134 million of charge-offs due to the alignment with interagency supervisory guidance discussed in footnote (a) above.

The table above presents nonperforming asset activity during 2014 and 2013, respectively. Nonperforming assets decreased $577 million from $3.5 billion at December 31, 2013 to $2.9 billion at December 31, 2014, as a result of improvements in both consumer and commercial lending. Consumer lending nonperforming loans decreased $224 million, commercial real estate nonperforming loans declined $184 million and commercial nonperforming loans decreased $167 million. As of December 31, 2014, approximately 90% 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 December 31, 2014, commercial lending nonperforming loans were carried at approximately 65% 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 Item 8 of this Report for additional information on these loans.

Purchased impaired loans are considered performing, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we accrete interest income over the expected life of the loans. The accretable yield represents the excess of the expected cash flows on the loans at the measurement date over the carrying value. Generally decreases, other than interest rate decreases for variable rate notes, in the net present value of expected cash flows of individual commercial or pooled purchased impaired loans would result in an impairment charge to the provision for credit losses in the period in which the change is deemed probable. Generally increases in the net present value of expected cash flows of purchased impaired loans would

first result in a recovery of previously recorded allowance for loan losses, to the extent applicable, and then an increase to accretable yield for the remaining life of the purchased impaired loans. Total nonperforming loans and assets in the tables above are significantly lower than they would have been due to this accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of nonperforming loans to total loans and a higher ratio of ALLL to nonperforming loans. See Note 4 Purchased Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on these loans.

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.

Total early stage loan delinquencies (accruing loans past due 30 to 89 days) decreased from $1.0 billion at December 31, 2013 to $0.8 billion at December 31, 2014. The reduction in both consumer and commercial lending early stage delinquencies resulted from improved credit quality. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements of this Report for additional information regarding our nonperforming loan and nonaccrual policies.

Accruing loans past due 90 days or more are referred to as late stage delinquencies. These loans are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral, and/or are in the process of collection, are managed in homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines, or are certain government insured or guaranteed loans. These loans decreased $.4 billion, or 26%, from $1.5 billion at December 31, 2013 to $1.1 billion at December 31, 2014, mainly due to a decline in government insured residential real estate loans of $.3 billion, the majority of which we took possession of and conveyed the real estate, or are in the process of conveyance and claim resolution. The following tables display the delinquency status of our loans at December 31, 2014 and December 31, 2013. Additional information regarding accruing loans past due is included in Note 3 Asset Quality in the Notes To Consolidated

Financial Statements of this Report.

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Table 33: Accruing Loans Past Due 30 To 59 Days (a)

	Amount		Percentage of Total Outstandings	
Dollars in millions	December 31 2014	December 31 2013	December 31 2014	December 31 2013
Commercial	$ 73	$ 81	.07%	.09%
Commercial real estate	23	54	.10	.25
Equipment lease financing	11	31	.14	.41
Home equity	70	86	.20	.24
Residential real estate				
Non government insured	95	112	.66	.74
Government insured	68	105	.47	.70
Credit card	28	29	.61	.66
Other consumer				
Non government insured	62	62	.27	.28
Government insured	152	154	.67	.68
Total	$ 582	$ 714	.28	.37

(a) Amounts in table represent recorded investment.

Table 34: Accruing Loans Past Due 60 To 89 Days (a)

	Amount		Percentage of Total Outstandings	
Dollars in millions	December 31 2014	December 31 2013	December 31 2014	December 31 2013
Commercial	$ 24	$ 20	.02%	.02%
Commercial real estate	2	11	.01	.05
Equipment lease financing	1	2	.01	.03
Home equity	32	34	.09	.09
Residential real estate				
Non government insured	25	30	.17	.20
Government insured	43	57	.30	.38
Credit card	20	19	.43	.43
Other consumer				
Non government insured	19	18	.08	.08
Government insured	93	94	.41	.42
Total	$ 259	$ 285	.13	.15

(a) Amounts in table represent recorded investment.

Table 35: Accruing Loans Past Due 90 Days Or More (a)

	Amount		Percentage of Total Outstandings	
Dollars in millions	December 31 2014	December 31 2013	December 31 2014	December 31 2013
Commercial	$ 37	$ 42	.04%	.05%
Commercial real estate		2		.01
Residential real estate				
Non government insured	23	35	.16	.23
Government insured	719	1,025	4.99	6.80
Credit card	33	34	.72	.77
Other consumer				
Non government insured	16	14	.07	.06

Government insured	277	339	1.22	1.50
Total	$ 1,105	$ 1,491	.54	.76

(a) Amounts in table represent recorded investment.

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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 at both December 31, 2014 and December 31, 2013.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $34.7 billion as of December 31, 2014, or 17% of the total loan portfolio. Of that total, $20.4 billion, or 59%, was outstanding under primarily variable-rate home equity lines of credit and $14.3 billion, or 41%, consisted of closed-end home equity installment loans. Approximately 3% of the home equity portfolio was on nonperforming status as of December 31, 2014.

As of December 31, 2014, we are in an originated first lien position for approximately 51% of the total portfolio and, where originated as a second lien, we currently hold or service the first lien position for approximately an additional 2% of the portfolio. The remaining 47% of the portfolio was secured by second liens where we do not hold the first lien position. The credit performance of the majority of the home equity portfolio where we are in, hold or service the first lien position, is superior to the portion of the portfolio where we hold the second lien position but do not hold the first lien.

Lien position information is generally based upon original LTV at the time of origination. However, after origination PNC is not typically notified when a senior lien position that is not held by PNC is satisfied. Therefore, information about the current lien status of junior lien loans is less readily available in cases where PNC does not also hold the senior lien. Additionally, PNC is not typically notified when a junior lien position is added after origination of a PNC first lien. This updated information for both junior and senior liens must be obtained from external sources, and therefore, PNC has contracted with an industry-leading third-party service provider to obtain updated loan, lien and collateral data that is aggregated from public and private sources.

We track borrower performance monthly, including obtaining original LTVs, updated FICO scores at least quarterly, updated LTVs semi-annually, and other credit metrics at least quarterly, including the historical performance of any mortgage loans regardless of lien position that we do or do not hold. This information is used for internal reporting and risk management. For internal reporting and risk management we also segment the population into pools based on product type (*e.g.*, home equity loans, brokered home equity loans, home equity lines of credit, brokered home equity lines of credit). As part of our overall risk analysis and monitoring, we segment the home equity portfolio based upon the delinquency, modification status and bankruptcy status of

these loans, as well as the delinquency, modification status and bankruptcy status of any mortgage loan with the same borrower (regardless of whether it is a first lien senior to our second lien).

In establishing our ALLL for non-impaired loans, we primarily utilize a delinquency roll-rate methodology for pools of loans. In accordance with accounting principles, under this methodology, we establish our allowance based upon incurred losses, not lifetime expected losses. The roll-rate methodology estimates transition/roll of loan balances from one delinquency state (*e.g.*, 30-59 days past due) to another delinquency state (*e.g.*, 60-89 days past due) and ultimately to charge-off. The roll through to charge-off is based on PNC s actual loss experience for each type of pool. Each of our home equity pools contains both first and second liens. Our experience has been that the ratio of first to second lien loans has been consistent over time and the charge-off amounts for the pools, used to establish our allowance, include losses on both first and second liens loans.

Generally, our variable-rate home equity lines of credit have either a seven or ten year draw period, followed by a 20-year amortization term. During the draw period, we have home equity lines of credit where borrowers pay either interest 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 December 31, 2014, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

Table 36: Home Equity Lines of Credit Draw Period End Dates

In millions	Interest Only Product	Principal and Interest Product
2015	$ 1,597	$ 541
2016	1,366	437

2017	2,434	596
2018	1,072	813
2019 and thereafter	3,880	5,391
Total (a)(b)	$ 10,349	$ 7,778

(a) Includes all home equity lines of credit that mature in 2015 or later, including those with borrowers where we have terminated borrowing privileges.

(b) Includes approximately $154 million, $48 million, $57 million, $42 million and $564 million of home equity lines of credit with balloon payments, including those where we have terminated borrowing privileges, with draw periods scheduled to end in 2015, 2016, 2017, 2018 and 2019 and thereafter, respectively.

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Based upon outstanding balances, and excluding purchased impaired loans, at December 31, 2014, 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. 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 Note 3 Asset Quality in the Notes To Consolidated Financial Statements of this Report for additional information.

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 the Notes To Consolidated Financial Statements of this Report.

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 primarily include the government-created Home Affordable Modification Program (HAMP) and PNC-developed HAMP-like modification programs.

For home equity lines of credit, we will enter into a temporary modification when the borrower has indicated a temporary hardship and a willingness to bring current the delinquent loan balance. Examples of this situation often include delinquency due to illness or death in the family or loss of employment. Permanent modifications are entered into when it is confirmed that the borrower does not possess the income necessary to continue making loan payments at the current amount, but our expectation is that the borrower can make payments at a lower amount.

We also monitor the success rates and delinquency status of our loan modification programs to assess their effectiveness in serving our customers needs while mitigating credit losses. Table 37 provides the number of accounts and unpaid principal balance of modified consumer real estate related loans at the end of each year presented and Table 38 provides the number of accounts and unpaid principal balance of modified loans that were 60 days or more past due as of six months, nine months, twelve months and fifteen months after the modification date.

Table 37: Consumer Real Estate Related Loan Modifications

	December 31, 2014		December 31, 2013	
Dollars in millions	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Home equity				
Temporary Modifications	5,346	$ 417	6,683	$ 539
Permanent Modifications	13,128	968	11,717	889
Total home equity	18,474	1,385	18,400	1,428
Residential Mortgages				
Permanent Modifications	5,876	1,110	7,397	1,445
Non-Prime Mortgages				
Permanent Modifications	4,358	611	4,400	621
Residential Construction				

Permanent Modifications	2,292	629	2,260	763
Total Consumer Real Estate Related Loan Modifications	31,000	$ 3,735	32,457	$ 4,257

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Table 38: Consumer Real Estate Related Loan Modifications Re-Default by Vintage (a) (b)

December 31, 2014 Dollars in thousands	Six Months Number of Accounts Re-defaulted	Six Months % of Vintage Re-defaulted	Nine Months Number of Accounts Re-defaulted	Nine Months % of Vintage Re-defaulted	Twelve Months Number of Accounts Re-defaulted	Twelve Months % of Vintage Re-defaulted	Fifteen Months Number of Accounts Re-defaulted	Fifteen Months % of Vintage Re-defaulted	Unpaid Principal Balance (c)
Permanent Modifications									
Home Equity									
Second Quarter 2014	16	2.8%							$ 1,053
First Quarter 2014	19	2.7	29	4.2%					1,749
Fourth Quarter 2013	29	2.5	47	4.0	66	5.7%			4,539
Third Quarter 2013	30	2.6	44	3.7	60	5.1	65	5.5%	6,376
Second Quarter 2013	25	2.0	43	3.5	63	5.1	87	7.0	10,046
Residential Mortgages									
Second Quarter 2014	29	7.9							4,538
First Quarter 2014	50	6.1	96	11.8					14,143
Fourth Quarter 2013	84	9.4	121	13.6	173	19.4			24,450
Third Quarter 2013	97	8.9	150	13.8	216	19.8	255	23.4	40,999
Second Quarter 2013	137	16.4	163	19.5	187	22.4	227	27.2	42,977
Non-Prime Mortgages									
Second Quarter 2014	12	13.8							2,174
First Quarter 2014	29	16.4	42	23.7					6,383
Fourth Quarter 2013	18	9.9	35	19.2	40	22.0			5,817
Third Quarter 2013	23	13.7	26	15.5	38	22.6	47	28.0	6,119
Second Quarter 2013	24	18.8	35	27.3	41	32.0	43	33.6	8,927
Residential Construction									
Second Quarter 2014	3	2.5							757
First Quarter 2014	3	2.2	3	2.2					469
Fourth Quarter 2013	1	0.7	3	2.2	4	2.9			2,354
Third Quarter 2013	1	0.7	1	0.7	1	0.7	1	0.7	50
Second Quarter 2013	1	0.5	2	1.1	4	2.1	6	3.2	1,166
Temporary Modifications									
Home Equity									
Second Quarter 2014	12	37.5%							$ 779
First Quarter 2014	3	15.8	3	15.8%					249
Fourth Quarter 2013	10	19.6	12	23.5	13	25.5%			1,442
Third Quarter 2013	4	9.8	9	22.0	11	26.8	13	31.7%	925
Second Quarter 2013	11	14.9	18	24.3	18	24.3	17	23.0	1,757

(a) An account is considered in re-default if it is 60 days or more delinquent after modification. The data in this table represents loan modifications completed during the quarters ending June 30, 2013 through June 30, 2014 and represents a vintage look at all quarterly accounts and the number of those modified accounts (for each quarterly vintage) 60 days or more delinquent at six, nine, twelve, and fifteen months after modification. Account totals include active and inactive accounts that were delinquent when they achieved inactive status. Accounts that are no longer 60 days or more delinquent, or were re-modified since prior period, are removed from re-default status in the period in which they are cured or re-modified.

(b) Vintage refers to the quarter in which the modification occurred.

(c) Reflects December 31, 2014 unpaid principal balances of the re-defaulted accounts for the Second Quarter 2014 vintage at Six Months, for the First Quarter 2014 vintage at Nine Months, for the Fourth Quarter 2013 vintage at Twelve Months, and for the Third Quarter 2013 and prior vintages at Fifteen Months.

In addition to temporary loan modifications, we may make available to a borrower a payment plan or a HAMP trial payment period. 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

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before permanently restructuring the loan into a HAMP modification. Subsequent to successful borrower performance under the trial payment period, we will capitalize the original contractual amount past due, to include accrued interest and fees receivable, and restructure the loan s contractual terms, along with bringing the restructured account current. As the borrower is often already delinquent at the time of participation in the HAMP trial payment period, generally enrollment in the program does not significantly increase the ALLL. If the trial payment period is unsuccessful, the loan will be evaluated for further action based upon our existing policies.

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under PNC-developed programs, which in some cases may operate similarly to HAMP. These programs first require a reduction of the interest rate followed by an extension of term and, if appropriate, deferral of principal payments. As of December 31, 2014 and December 31, 2013, 6,349 accounts with a balance of $.9 billion and 5,834 accounts with a balance of $.9 billion, respectively, of residential real estate loans had been modified under HAMP and were still outstanding on our balance sheet.

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 the Notes To Consolidated Financial Statements of this Report.

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 December 31, 2014 and December 31, 2013, $34 million and $47 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $12 million and $16 million have been determined to be TDRs as of December 31, 2014 and December 31, 2013, respectively.

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 borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC. For the twelve months ended December 31, 2014, $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, were excluded from the TDR population. The comparable amount for the twelve months ended December 31, 2013 was $2.3 billion.

Table 39: Summary of Troubled Debt Restructurings (a)

In millions	December 31 2014	December 31 2013
Consumer lending:		
Real estate-related	$ 1,864	$ 1,939
Credit card	130	166
Other consumer	47	56
Total consumer lending	2,041	2,161
Total commercial lending	542	578
Total TDRs	$ 2,583	$ 2,739
Nonperforming	$ 1,370	$ 1,511
Accruing (b)	1,083	1,062
Credit card	130	166
Total TDRs	$ 2,583	$ 2,739

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

(b) Accruing loans 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 principal and interest payments under the restructured terms are not returned to accrual status.

Total TDRs decreased $156 million, or 6%, during 2014. Nonperforming TDRs totaled $1.4 billion, which represents approximately 55% of total nonperforming loans, and 53% of total TDRs.

TDRs that are performing, including credit card loans, are excluded from nonperforming loans. These TDRs decreased $15 million, or 1%, during 2014 to $1.2 billion as of December 31, 2014. Generally, the accruing category is comprised of loans where borrowers have been performing under the restructured terms for at least six consecutive months. 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. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for additional information.

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Allowances For Loan And Lease Losses And Unfunded Loan Commitments And Letters Of Credit

We recorded $.5 billion in net charge-offs for 2014, compared to $1.1 billion for 2013. Commercial lending net charge-offs decreased from $249 million in 2013 to $55 million in 2014. Consumer lending net charge-offs decreased from $828 million in 2013, which included $134 million due to the impact of alignment with interagency supervisory guidance, to $476 million in 2014.

Table 40: Loan Charge-Offs And Recoveries

Year ended December 31 Dollars in millions	Gross Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	Percent of Average Loans
2014				
Commercial	$ 276	$ 207	$ 69	.07%
Commercial real estate	70	84	(14)	(.06)
Equipment lease financing	14	14		
Home equity	275	78	197	.56
Residential real estate	40	26	14	.10
Credit card	163	21	142	3.24
Other consumer	183	60	123	.54
Total	$ 1,021	$ 490	$ 531	.27
2013				
Commercial	$ 395	$ 248	$ 147	.17%
Commercial real estate	203	93	110	.57
Equipment lease financing	8	16	(8)	(.11)
Home equity	486	73	413	1.14
Residential real estate	133	4	129	.86
Credit card	178	22	156	3.75
Other consumer	185	55	130	.60
Total	$ 1,588	$ 511	$ 1,077	.57

Total net charge-offs are lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. See Note 4 Purchased Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on net charge-offs related to these 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. 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 PD and 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 continues to demonstrate lower LGD compared to loans not secured by collateral. Further, the large investment grade or equivalent portion of the loan portfolio has performed well and has not been subject to significant deterioration. 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,

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- Timing of available information, including the performance of first lien positions, and
- Limitations of available historical data.

PNC s determination of the ALLL for non-impaired loans is sensitive to the risk grades assigned to commercial loans and loss rates for consumer loans. There are several other qualitative and quantitative factors considered in determining the ALLL. This sensitivity analysis does not necessarily reflect the nature and extent of future changes in the ALLL. It is intended to provide insight into the impact of adverse changes to risk grades and loss rates only and does not imply any expectation of future deterioration in the risk ratings or loss rates. Given the current processes used, we believe the risk grades and loss rates currently assigned are appropriate. In the hypothetical event that the aggregate weighted average commercial loan risk grades would experience a 1% deterioration, assuming all other variables remain constant, the allowance for commercial loans would increase by approximately $35 million as of December 31, 2014. In the hypothetical event that consumer loss rates would increase by 10%, assuming all other variables remain constant, the allowance for consumer loans would increase by approximately $37 million at December 31, 2014.

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 December 31, 2014, we had established reserves of $.9 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. See Note 4 Purchased Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

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 47%, of the ALLL at December 31, 2014 to the commercial lending category. Consumer lending allocations are made based on historical loss experience adjusted for recent activity. Approximately $1.7 billion, or 53%, of the ALLL at December 31, 2014 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.

We refer you to Note 1 Accounting Policies and Note 3 Asset Quality in the Notes To Consolidated Financial Statements in Item 8 of this Report for further information on certain key asset quality indicators that we use to evaluate our portfolios and establish the allowances.

Table 41: Allowance for Loan and Lease Losses

Dollars in millions	2014	2013
January 1	$ 3,609	$ 4,036
Total net charge-offs (a)	(531)	(1,077)
Provision for credit losses	273	643
Net change in allowance for unfunded loan commitments and letters of credit	(17)	8
Other	(3)	(1)
December 31	$ 3,331	$ 3,609
Net charge-offs to average loans (for the year ended) (a)	.27%	.57%
Allowance for loan and lease losses to total loans	1.63	1.84
Commercial lending net charge-offs	$ (55)	$ (249)
Consumer lending net charge-offs (a)	(476)	(828)
Total net charge-offs	$ (531)	$ (1,077)
<u>Net charge-offs to average loans (for the year ended)</u>		
Commercial lending	.04%	.22%
Consumer lending (a)	0.62	1.07

(a) Includes charge-offs of $134 million taken pursuant to alignment with interagency guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013.

The provision for credit losses totaled $273 million for 2014 compared to $643 million for 2013. The primary drivers of the decrease to the provision were improved overall credit quality, including lower consumer loan delinquencies, and the increasing value of residential real estate which resulted in greater expected cash flows from our purchased impaired loans. For 2014, the provision for commercial lending credit losses increased by $64 million, or 178%, from 2013 primarily due to continued growth in the commercial book, paired with slowing of the reserve releases related to credit quality improvement. The provision for consumer lending credit losses decreased $434 million, or 71%, from 2013.

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At December 31, 2014, total ALLL to total nonperforming loans was 133%. The comparable amount for December 31, 2013 was 117%. These ratios are 85% and 72%, respectively, when excluding the $1.2 billion and $1.4 billion, respectively, of ALLL at December 31, 2014 and December 31, 2013 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. Additional allowance is recorded when the net present value of expected cash flows is lower than the recorded investment balance. See Table 30 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 2014, improved asset quality trends, including, but not limited to, delinquency status and improving economic conditions, as well as reduced net charge-offs and overall portfolio growth combined to result in the ALLL balance declining $.3 billion, or 8% to $3.3 billion as of December 31, 2014 compared to December 31, 2013.

See Note 1 Accounting Policies and Note 4 Purchased Loans in the Notes To Consolidated Financial Statements in Item 8 of this Report regarding changes in the ALLL and in the allowance for unfunded loan commitments and letters of credit.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems, human factors, or external events. This includes losses that may arise as a result of non-compliance with laws or regulations, failure to fulfill fiduciary responsibilities, as well as litigation or other legal actions. Operational risk may occur in any of our business activities and manifests itself in various ways, including but not limited to:

- Transaction processing errors,
- Unauthorized transactions and fraud by employees or third parties,
- Material disruption in business activities,
- System breaches and misuse of sensitive information,
- Regulatory or governmental actions, fines or penalties, and
- Significant legal expenses, judgments or settlements.

PNC s Operational Risk Management is inclusive of Technology Risk Management and Business Continuity Risk. Enterprise Compliance is responsible for coordinating the

compliance risk component of PNC s Operational Risk framework. Operational Risk Management focuses on balancing business needs, regulatory expectations and risk management priorities through an adaptive and proactive program that is designed to provide a strong governance model, sound and consistent risk management processes and transparent operational risk reporting across the enterprise.

The PNC Board determines the strategic approach to operational risk via establishment of guiding principles, risk appetite and appropriate risk management structure. This includes establishment of risk metrics and limits and operational risk committee hierarchy and reporting structure to identify, understand and manage operational risks.

Executive Management has responsibility for operational risk management. The executive management team is responsible for monitoring significant risks, key controls and related issues through management reporting and a governance structure of risk committees, to help ensure that objectives are pursued within the bounds of our risk appetite.

Within the Independent Risk Management function, Operational Risk Management (ORM) is responsible for developing and maintaining the policies, methodologies, tools, and technology utilized across the enterprise to identify, assess, monitor, and report operational risks. ORM monitors enterprise-wide adherence with related policies and procedures and regularly assesses overall program effectiveness. In addition, ORM independently challenges the results and conclusions generated by the business units during the execution of the operational risk management program.

Business Unit management is responsible for the day-to-day management of operational risks inherent in the products, services, and activities for which they are responsible. Business Unit management is also responsible for adhering to PNC s enterprise-wide operational risk management policies and procedures including regularly identifying, measuring, and monitoring operational risks in their respective areas, as well as capturing, analyzing and reporting operational risks and issues.

Management of operational risk is based upon a comprehensive framework designed to enable PNC to determine the enterprise and individual business unit s operational risk profile in comparison to the established risk appetite and identify operational risks that may require further mitigation. This framework is established around a set of enterprise-wide policies and a system of internal controls that are designed to manage risk and to provide management with timely and accurate information about the operations of PNC. This framework employs a number of techniques to manage operational risk, including:

Risk and Control Self Assessments (RCSAs) that are performed at least annually across PNC s businesses, processes, systems and products. RCSA methodology

is a standard process for business units to document and assess operational risks, evaluate key control design and operating effectiveness, and determine if control enhancements are required,
A Scenario Analysis program that is leveraged to proactively evaluate operational risks with the potential for severe business, financial, operational or regulatory impact on the company or a major business unit. This methodology leverages standard processes and tools to evaluate a wide range of business and operational risks encompassing both external and internal events relevant to the company. Based upon scenario analysis conclusions, management may implement additional controls or risk management activities to reduce exposure to an acceptable level,
A Metrics and Key Risk Indicator framework that allows management to proactively monitor and assess shifts in operational risk exposure or key control effectiveness compared to expectations and thresholds. Enterprise-level Operational Risk Appetite metrics support PNC s Operational Risk Management framework and guiding principles with the objective of maintaining a risk profile within risk appetite. A broad set of operational risk indicators are in place to monitor and report exposures across the different inherent operational risk types. Lastly, business-specific risk indicators are established to monitor the most significant risks and controls identified in the individual risk and control self assessments, and
Operational loss events as well as technology and operational breakdowns that do not result in direct loss (near miss events) across the enterprise are continuously captured and maintained in a central repository. This information is analyzed and used to help determine the root causes of these events and to identify trends that could indicate changes in the company s risk exposure or control effectiveness. PNC s External Loss Event program utilizes a number of sources to monitor and identify external loss events occurring across the financial services industry. Relevant external events are evaluated by appropriate business and risk management personnel to determine whether PNC is exposed to similar events, and if so, whether appropriate controls are in place.

We continue to refine our methodology to estimate capital requirements for operational risk using a proprietary version of an Advanced Measurement Approach (AMA) as prescribed in Basel II. Under the AMA, the results of the program elements described above are key inputs directly incorporated into the capital calculation methodology.

Risk professionals from Operational Risk, Technology Risk Management, Compliance and Legal work closely with business areas to evaluate risks and challenge that appropriate

key controls are established prior to the introduction of new or enhanced products, services and technologies. These risk professionals also challenge Business Units design and implementation of mitigation strategies to address risks and issues identified through ongoing assessment and monitoring activities.

PNC s Technology Risk Management (TRM) program is aligned with the operational risk framework. Technology risk represents the risk associated with the use, ownership, operation, involvement, influence and adoption of technology within an enterprise.

Management of technology risk is embedded into the culture and decision-making processes of PNC through an information and technology risk management framework designed to help ensure secure, sound, and compliant IT systems and infrastructure in support of business strategies and goals. The management of technology risk is a core business skill and an integral part of day-to-day activity.

Cybersecurity is a principal concern for financial institutions and is a very high priority for PNC. The ever changing and complex threat landscape is closely monitored and PNC participates in proactive information sharing with intelligence sources, law enforcement, and the private sector. The cyber security program is based on a continuous improvement strategy by assessing current and emerging threats to protect our critical business functions, as well as the integrity, privacy, and confidentiality of data. We continue to strengthen our controls, processes and systems to help protect our networks, computers, software, and data from attack, damage or unauthorized access. See Item 1A Risk Factors in this Report for additional information regarding the risk of a material adverse impact from interruptions in the effective operation of, or security breaches affecting, those systems.

Managers and staff at all levels are responsible for applying risk management policies, procedures, and strategies in their areas of responsibility. PNC s TRM function supports enterprise management of technology risk by independently assessing technology and information security risks, and by serving in an oversight role by measuring, monitoring, and challenging enterprise technology capabilities. Specifically, Technology Risk Management has the following objectives:

A sound control infrastructure is in place to effectively manage technology risks to help drive informed business decisions,
Technology risks related to ongoing business and operational activities are identified, assessed, and monitored,
Technology risks related to new key initiatives are assessed and appropriately managed, and
Emerging technology risks are monitored and assessed to verify their potential impact to PNC s overall risk profile.

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To support PNC s overall risk profile within risk appetite and the Enterprise Risk Appetite Statement, Technology Risk Management has established governance, operating structures, metrics, and guiding principles designed to ensure that technology risk is distinctly considered in business activities and strategic decision making processes.

PNC has defined an enterprise-wide business continuity program that provides structure and guidelines to ensure resiliency and recovery of PNC s facilities, employees, suppliers and technology should there be a business disruption. It is a comprehensive program based upon a life cycle containing repeatable activities to identify and mitigate internal and external business disruptive threats. It is the responsibility of PNC s business units to execute and comply with the business continuity program. The program is administered by a separate group, with governance and oversight being provided by additional resources in the Independent Risk Management function.

PNC s Corporate Insurance Group is responsible for managing insurance risk across the organization, and is aligned within the enterprise risk management governance framework. PNC retains select corporate risks through its wholly-owned captive insurance company Alpine Indemnity Limited, and transfers excess risk through the purchase of insurance where appropriate, to mitigate the effects of operational loss events. PNC s risks associated with its participation as an insurer for these programs are mitigated through policy and annual aggregate limits. Decisions surrounding PNC s retention of its operating risks through deductibles or captive participation are made in conjunction with the enterprise risk management governance framework.

The Corporate Insurance Group monitors and manages insurable risks through a combination of risk mitigation, retention and transfer consistent with the organization s risk appetite and philosophy. To ensure the lines of business have a clear understanding of insurance risk and the ability to retain or transfer risk, management holds regular meetings with the lines of business regarding risk evaluation and the utilization of insurance as a risk transfer technique. Furthermore, Corporate Insurance management and the Insurance Risk Committee have primary oversight of reporting insurance related activities through the governance structure that allows management to fully vet risk information.

Quarterly, an enterprise operational risk report is developed to report key operational risks to senior management and the Board of Directors. The report encompasses key operational risk management conclusions, including the overall operational risk level, risk management effectiveness and outlook, grounded in quantitative measures and qualitative factors. Key enterprise operational risks are also included in the enterprise risk report. In addition, operational risk is an integrated part of the quarterly business-specific risk reports.

Compliance Risk

Enterprise Compliance is responsible for coordinating the compliance risk component of PNC s Operational Risk framework. Compliance issues are identified and tracked through enterprise-wide monitoring and tracking programs. Key compliance risk issues are escalated through a comprehensive risk reporting process at both a business and enterprise level and incorporated, as appropriate, into the development and assessment of the firm s operational risk profile. The Compliance, Conflicts & Ethics Policy Committee, chaired by the Chief Compliance Officer, provides oversight for compliance, conflicts and ethics programs and strategies across PNC. This committee also oversees the compliance processes related to fiduciary and investment risk. In order to help understand, and where appropriate, proactively address emerging regulatory issues, Enterprise Compliance communicates regularly with various regulators with supervisory or regulatory responsibilities with respect to PNC, its subsidiaries or businesses and participates in forums focused on regulatory and compliance matters in the financial services industry.

Risk professionals from Operational Risk, Technology Risk Management, Compliance and Legal work closely with business areas to evaluate risks and challenge that appropriate key controls are established prior to the introduction of new or enhanced products, services and technologies. These risk professionals also challenge Business Units design and implementation of mitigation strategies to address risks and issues identified through ongoing assessment and monitoring activities.

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Model Risk Management

PNC relies on quantitative models to measure risks, to estimate certain financial values, and to support or inform certain business decisions. Models may be used in processes such as determining the pricing of various products, grading and granting loans, measuring interest rate risks and other market risks, predicting losses, and assessing capital adequacy, as well as to estimate the value of financial instruments and balance sheet items.

There are risks involved in the use of models as they have the potential to provide inaccurate output or results, could be used for purposes other than those for which they have been designed, or may be operated in an uncontrolled environment where unauthorized changes can take place and where other control risks exist.

The Model Risk Management Group is responsible for policies and procedures describing how model risk is evaluated and managed, and the application of the governance process to implement these practices throughout the enterprise. The Model Risk Management Group, a subgroup of the Enterprise Risk Management Committee, oversees all aspects of model risk, including PNC s compliance with regulatory requirements related to model risk management, and approves exceptions to policy when appropriate.

To better manage our business, our practices around the use of models, and to comply with regulatory guidance and requirements, we have policies and procedures in place that define our governance processes for assessing and controlling model risk. These processes focus on identifying, reporting and remediating any problems with the soundness, accuracy, improper use or operating environment of our models. We recognize that models must be monitored over time to ensure their continued accuracy and functioning, and our policies also address the type and frequency of performance monitoring that is appropriate according to the importance of each model. PNC also monitors key metrics designed to assess our level of model risk and its alignment with our risk appetite.

There are a number of practices we undertake to identify and control model risk. A primary consideration is that models be well understood by those who use them as well as by other parties. Our policies require detailed written model documentation for significant models to assist in making their use transparent and understood by users, independent reviewers, and regulatory and auditing bodies. The documentation must include details on the data and methods used to develop each model, assumptions utilized within the model, an assessment of model performance and a description of model limitations and circumstances in which a model should not be relied upon.

Our modeling methods and data are reviewed by independent model reviewers not involved in the development of the model to identify possible errors or areas where the soundness of the model could be in question. Issues identified by the independent reviewer are tracked and reported using our existing governance structure until the issue has been fully remediated.

It is important that models operate in a controlled environment where access to code or the ability to make changes is limited to those who are authorized to do so. Additionally, proper back-up and recovery mechanisms are needed for the ongoing functioning of models. Our use of independent model control reviewers aids in the evaluation of the existing control mechanisms to help ensure that controls are appropriate and are functioning properly.

Liquidity Risk Management

Liquidity risk has two fundamental components. The first is potential loss assuming we were unable to meet our funding requirements at a reasonable cost. The second is the potential inability to operate our businesses because adequate contingent liquidity is not available. We manage liquidity risk at the consolidated company level (bank, parent company, and nonbank subsidiaries combined) to help ensure that we can obtain cost-effective funding to meet current and future obligations under both normal business as usual and stressful circumstances, and to help ensure that we maintain an appropriate level of contingent liquidity.

Management monitors liquidity through a series of early warning indicators that may indicate a potential market, or PNC-specific, liquidity stress event. In addition, management performs a set of liquidity stress tests over multiple time horizons with varying levels of severity and maintains a contingency funding plan to address a potential stress event. In the most severe liquidity stress simulation, we assume that PNC s liquidity position is under pressure, while the market in general is under systemic pressure. The simulation considers, among other things, the impact of restricted access to both secured and unsecured external sources of funding, accelerated run-off of customer deposits, valuation pressure on assets and heavy demand to fund contingent obligations. Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet our parent company obligations over the succeeding 24-month period. Liquidity-related risk limits are established within our Enterprise Liquidity Management Policy and supporting policies. Management committees, including the Asset and Liability Committee, and the Board of Directors and its Risk Committee regularly review compliance with key established limits.

In addition to these liquidity monitoring measures and tools described above, PNC also monitors its liquidity by reference to the LCR, a new 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 haircuts and limitations of the LCR rules, by its estimated net cash outflow, with net cash outflows determined by applying 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 and the requirement to calculate the LCR on a daily basis will be phased-in over a period of years. For 2015, PNC and PNC Bank are required to calculate the LCR on a month-end basis and the minimum LCR that PNC and PNC Bank are required to maintain is 80%.

As of January 31, 2015, PNC and PNC Bank exceeded the minimum LCR requirement in effect for 2015. The estimated January 31, 2015 LCR calculation and the underlying components are based on PNC s current interpretation and understanding of the final LCR rules and are subject to, among other things, further regulatory guidance.

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 this Report.

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 December 31, 2014, there were approximately $7.2 billion of bank borrowings with contractual maturities of less than one year. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary. See the Bank Level Liquidity Sources section below.

Bank Level Liquidity Sources

Our largest source of bank liquidity on a consolidated basis is the deposit base generated by our retail and commercial businesses. Total deposits increased to $232.2 billion at December 31, 2014 from $220.9 billion at December 31, 2013, primarily driven by growth in transaction 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 December 31, 2014, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling $36.0 billion and securities available for sale totaling $44.2 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 $80.2 billion, we had $6.1 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, $4.8 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 and subordinated debt and FHLB advances) and short-term borrowings (Federal funds purchased, securities sold under repurchase agreements, commercial paper issuances and other short-term borrowings).

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On January 16, 2014, PNC Bank established a new bank note program under which it may from time to time offer up to $25 billion aggregate principal amount at any one time outstanding of its unsecured senior and subordinated notes due more than nine months from their date of issue (in the case of senior notes) and due five years or more from their date of issue (in the case of subordinated notes). The $25 billion of notes authorized to be issued and outstanding at any one time includes notes issued by PNC Bank prior to January 16, 2014 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 new program do not affect any of the bank notes issued prior to January 16, 2014. At December 31, 2014, PNC Bank had $16.0 billion of bank notes outstanding. The following table details all issuances during 2014:

Table 42: PNC Bank Bank Notes Issued During 2014

Issuance Date	Amount	Description of Issuance
January 28, 2014	$1.0 billion	Senior notes with a maturity date of January 27, 2017. Interest is payable semi-annually, at a fixed rate of 1.125% on January 27 and July 27 of each year, beginning on July 27, 2014.
January 28, 2014	$750 million	Senior notes with a maturity date of January 28, 2019. Interest is payable semi-annually, at a fixed rate of 2.200% on January 28 and July 28 of each year, beginning on July 28, 2014.
March 28, 2014	$1.0 billion (a)	Senior extendible floating rate bank notes issued to an affiliate with an initial maturity date of April 15, 2015, subject to the holder s monthly option to extend, and a final maturity date of April 15, 2016. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .235%, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder. Interest is payable on January 15, April 15, July 15 and October 15 of each year, beginning on July 15, 2014.
June 20, 2014	$1.0 billion	Senior notes with a maturity date of July 2, 2019. Interest is payable semi-annually, at a fixed rate of 2.25% on January 2 and July 2 of each year, beginning on January 2, 2015.
June 20, 2014	$900 million (a)	Senior extendible floating rate bank notes with an initial maturity date of July 20, 2015, subject to the holder s monthly option to extend, and a final maturity date of July 20, 2016. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .235%, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder. Interest is payable on March 20, June 20, September 20 and December 20 of each year, beginning on September 20, 2014.
June 27, 2014	$1.0 billion (a)	Senior extendible floating rate bank notes issued to an affiliate with an initial maturity date of July 15, 2015, subject to the holder s monthly option to extend, and a final maturity date of July 15, 2016. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .235%, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder. Interest is payable on January 15, April 15, July 15 and October 15 of each year, beginning on October 15, 2014.
August 1, 2014	$300 million	Floating rate senior notes with a maturity date of August 1, 2017. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .30% on February 1, May 1, August 1 and November 1 of each year beginning on November 1, 2014.
August 18, 2014	$1.25 billion (a)	Senior extendible floating rate bank notes issued to an affiliate with an initial maturity date of September 18, 2015, subject to the holder s monthly option to extend, and a final maturity date of August 18, 2016. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .235%, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder. Interest is payable on February 18, May 18, August 18 and November 18 of each year, beginning on November 18, 2014.
September 18, 2014	$500 million	Senior notes with a maturity date of October 18, 2017. Interest is payable semi-annually, at a fixed rate of 1.500% on April 18 and October 18 of each year, beginning on April 18, 2015.
September 18, 2014 and	$500 million	Senior notes with a maturity date of October 18, 2019. Interest is payable semi-annually, at a fixed rate of 2.40% on April 18 and October 18 of each year,

October 30, 2014 (reopening)	$750 million	beginning on April 18, 2015.
October 30, 2014	$500 million	Senior notes with a maturity date of October 30, 2024. Interest is payable semi-annually, at a fixed rate of 3.30% on April 30 and October 30 of each year, beginning on April 30, 2015.
November 26, 2014	$1.25 billion	Floating rate senior notes issued to an affiliate with a maturity date of August 18, 2016. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .25% on February 18, May 18, August 18 and November 18 of each year, beginning on February 18, 2015.

(a) These issuances were called in the fourth quarter of 2014.

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Total senior and subordinated debt of PNC Bank increased to $17.5 billion at December 31, 2014 from $14.6 billion at December 31, 2013 due to the following activity in the period.

Table 43: PNC Bank Senior and Subordinated Debt

In billions	2014
January 1	$ 14.6
Issuances	10.7
Calls and maturities	(8.0)
Other	.2
December 31	$ 17.5

On February 6, 2015, PNC Bank issued $600 million of floating rate senior notes with a maturity date of January 26, 2017 to an affiliate. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .30%, on January 26, April 26, July 26 and October 26 of each year, beginning on April 26, 2015. These floating rate notes were subsequently purchased by PNC. See the Parent Company Liquidity Uses portion of this Liquidity Risk Management section for further detail.

See Note 25 Subsequent Events in the Notes To Consolidated Financial Statements in Item 8 of this Report for information on the issuance of senior notes of $750 million and $1.0 billion on February 23, 2015.

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 December 31, 2014, our unused secured borrowing capacity was $13.9 billion with FHLB-Pittsburgh. Total FHLB borrowings increased to $20.0 billion at December 31, 2014 from $12.9 billion at December 31, 2013 due to the following activity in the period.

Table 44: FHLB Borrowings

In billions	2014
January 1	$ 12.9
Issuances	15.7
Calls and maturities	(8.6)
December 31	$ 20.0

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 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 both December 31, 2014 and December 31, 2013, standby letters of credit issued on our behalf by the FHLB-Pittsburgh totaled $6.2 billion.

PNC Bank has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of December 31, 2014, there was $5.0 billion outstanding under this program. During the fourth quarter of 2013, PNC finalized the wind down of Market Street Funding LLC (Market Street), a multi-seller asset-backed commercial paper conduit administered by PNC Bank. As part of the wind down process, the commitments and outstanding loans of Market Street were assigned to PNC Bank, which will fund these commitments and loans by utilizing its diversified funding sources. In conjunction with the assignment of commitments and loans, the associated liquidity facilities were terminated along with the program-level credit enhancement provided to Market Street. The wind down did not have a material impact to PNC s financial condition or results of operations.

PNC Bank can also borrow from the Federal Reserve Bank of Cleveland s (Federal Reserve Bank) discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the 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 December 31, 2014, our unused secured borrowing capacity was $15.6 billion with the Federal Reserve Bank.

Parent Company Liquidity

As of December 31, 2014, available parent company liquidity totaled $7.1 billion. Parent company liquidity is primarily held in 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 December 31, 2014, there were approximately $2.5 billion of parent company borrowings with contractual maturities of less than one year. Additionally, the parent company maintains adequate liquidity to fund discretionary activities such as paying dividends to PNC shareholders, share repurchases, and acquisitions. See the Parent Company Liquidity Sources section below.

See Capital and Liquidity Actions in the Executive Summary section of this Item 7 for information on our 2014 capital plan that was accepted by the Federal Reserve, which included certain share repurchases that are described in more detail in the Capital portion of the Consolidated Balance Sheet Review section in this Item 7 and the dividend increase described below.

On April 3, 2014, consistent with our 2014 capital plan, our Board of Directors approved an increase to PNC s quarterly common stock dividend from 44 cents per common share to 48 cents per common share beginning with the May 5, 2014 dividend payment.

In connection with the 2015 CCAR, PNC submitted its 2015 capital plan, as approved by its Board of Directors, to the Federal Reserve in January 2015. PNC expects to receive the Federal Reserve s response (either a non-objection or objection) to the capital plan submitted as part of the 2015 CCAR in March 2015.

See the Supervision and Regulation section in Item 1 of this Report 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.

See Table 42 for information on affiliate purchases of notes issued by PNC Bank during 2014.

On February 6, 2015, PNC used $600 million of parent company/non-bank subsidiary cash to purchase floating rate senior notes that were issued by PNC Bank to an affiliate on that same date.

Parent Company Liquidity Sources

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

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

There are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. The amount available for dividend payments by PNC Bank to the parent company without prior regulatory approval was approximately $1.5 billion at December 31, 2014. See Note 20 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of this Report for a further discussion of these limitations. We provide additional information on certain contractual restrictions in Note 12 Capital Securities of a Subsidiary Trust and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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. We have an effective shelf registration statement pursuant to which we can issue additional debt, equity and other capital instruments.

During 2014, we issued the following parent company debt under our shelf registration statement:

- $750 million of subordinated notes with a maturity date of April 29, 2024. Interest is payable semi-annually, at a fixed rate of 3.90%, on April 29 and October 29 of each year, beginning on October 29, 2014.

Total parent company senior and subordinated debt and hybrid capital instruments decreased to $10.1 billion at December 31, 2014 from $10.7 billion at December 31, 2013 due to the following activity in the period.

Table 45: Parent Company Senior and Subordinated Debt and Hybrid Capital Instruments

In billions	2014
January 1	$ 10.7
Issuances	.8
Maturities	(1.4)

December 31	$ 10.1

On October 16, 2014, the parent company established a $5.0 billion commercial paper program to provide additional liquidity. As of December 31, 2014, there were no issuances outstanding under this program. Following the establishment of this parent company program, PNC Funding Corp terminated its $3.0 billion commercial paper program.

Note 17 Equity in the Notes To Consolidated Financial Statements in Item 8 of this Report describes the 16,885,192 warrants outstanding, each to purchase one share of PNC common stock at an exercise price of $67.33 per share. These warrants were sold by the U.S. Treasury in a secondary public offering in May 2010 after the U.S. Treasury exchanged its TARP Warrant. These warrants will expire December 31, 2018, and are considered in the calculation of diluted earnings per common share in Note 16 Earnings Per Share in the Notes To Consolidated Financial Statements in Item 8 of this Report.

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 debt ratings.

In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current legislative and regulatory environment, including implied government support. In

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addition, rating agencies themselves have been subject to scrutiny arising from the most recent financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes. Potential changes in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above, could impact our liquidity and financial condition. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect liquidity and financial condition.

Table 46: Credit Ratings as of December 31, 2014 for PNC and PNC Bank

	Moody s	Standard & Poor s	Fitch
The PNC Financial Services Group, Inc.			
Senior debt	A3	A-	A+
Subordinated debt	Baa1	BBB+	A
Preferred stock	Baa3	BBB-	BBB-
PNC Bank			
Senior debt	A2	A	A+
Subordinated debt	A3	A-	A
Long-term deposits	A2	A	AA-
Short-term deposits	P-1	A-1	F1+

Commitments

The following tables set forth contractual obligations and various other commitments as of December 31, 2014 representing required and potential cash outflows.

Table 47: Contractual Obligations

		Payment Due By Period			
December 31, 2014 in millions	Total	Less than one year	One to three years	Four to five years	After five years
Remaining contractual maturities of time deposits (a)	$ 21,396	$ 15,185	$ 2,709	$ 694	$ 2,808
Borrowed funds (a) (b)	56,768	15,243	19,116	13,291	9,118
Minimum annual rentals on noncancellable leases	2,655	376	622	478	1,179
Nonqualified pension and postretirement benefits	519	56	109	108	246
Purchase obligations (c)	703	468	144	63	28
Total contractual cash obligations	$ 82,041	$ 31,328	$ 22,700	$ 14,634	$ 13,379

(a) Includes purchase accounting adjustments.
(b) Includes basis adjustment relating to accounting hedges.
(c) Includes purchase obligations for goods and services covered by noncancellable contracts and contracts including cancellation fees.

At December 31, 2014, we had unrecognized tax benefits of $77 million, which represents a reserve for tax positions that we have taken in our tax returns which ultimately may not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimate has been excluded from the contractual obligations table. See Note 19 Income Taxes in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information.

Our contractual obligations totaled $73.5 billion at December 31, 2013. The increase in the comparison is primarily attributable to an increase in borrowed funds partially offset by the decline in time deposits. See Funding Sources in the Consolidated Balance Sheet Review section of this Item 7 for additional information regarding our funding sources.

Table 48: Other Commitments (a)

December 31, 2014 in millions	Total Amounts Committed	Amount Of Commitment Expiration By Period: Less than one year	One to three years	Four to five years	After five years
Net unfunded loan commitments	$ 139,687	$ 53,849	$ 47,180	$ 37,873	$ 785
Net outstanding standby letters of credit (b)	9,991	4,973	4,043	973	2
Reinsurance agreements (c)	4,342	2,071	20	36	2,215
Other commitments (d)	962	693	236	32	1
Total commitments	$ 154,982	$ 61,586	$ 51,479	$ 38,914	$ 3,003

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of syndications, assignments and participations.

(b) Includes $5.2 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.

(c) Reinsurance agreements are with third-party insurers related to insurance sold to or placed on behalf of our customers. Balances represent estimates based on availability of financial information.

(d) Includes unfunded commitments related to equity investments of $169 million that were not on our Consolidated Balance Sheet, of which $140 million relate to private equity investments. The remaining $793 million of commitments were included in Other liabilities on our Consolidated Balance Sheet, of which $717 million related to tax credit investments.

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Our total commitments totaled $146.8 billion at December 31, 2013. The increase in the comparison is primarily due to an increase in exposure on net unfunded loan commitments partially offset by a decline in reinsurance agreements and net outstanding standby letters of credit. See Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information on net unfunded loan commitments, our reinsurance agreements, net outstanding standby letters of credit, and certain other commitments.

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 and equity prices. We are exposed to market risk primarily by our involvement in the following activities, among others:

- Traditional banking activities of taking 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 these limits and 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 fourth quarters of 2014 and 2013 follow:

Table 49: Interest Sensitivity Analysis

	Fourth Quarter 2014	Fourth Quarter 2013
Net Interest Income Sensitivity Simulation (a)		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	2.1%	2.2%
100 basis point decrease	(1.0)%	(.9)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	5.8%	7.4%
100 basis point decrease	(5.7)%	(3.8)%
Duration of Equity Model (a)		
Base case duration of equity (in years)	(4.6)	(1.2)
Key Period-End Interest Rates		
One-month LIBOR	.17%	.17%
Three-year swap	1.30%	.88%

(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 50 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 50: Net Interest Income Sensitivity to Alternative Rate Scenarios (Fourth Quarter 2014)

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	1.3%	1.0%	(1.0)%
Second year sensitivity	5.3%	3.6%	(4.8)%

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 49 and 50 above.

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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 51: Alternate Interest Rate Scenarios: One Year Forward

The fourth quarter 2014 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. We calculate a diversified VaR at a 95% confidence interval. 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.

During 2014, our 95% VaR ranged between $.8 million and $3.9 million, averaging $2.1 million. During 2013, our 95% VaR ranged between $1.7 million and $5.5 million, averaging $3.5 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process

known as backtesting. The backtesting process consists of comparing actual observations of gains or losses against the VaR levels that were calculated at the close of the prior day. This assumes that market exposures remain constant throughout the day and that recent historical market variability is a good predictor of future variability. Our customer-related trading activity includes customer revenue and intraday hedging which helps to reduce losses, and may reduce the number of instances of actual losses exceeding the prior day VaR measure. There were two instances during 2014 under our diversified VaR measure where actual losses exceeded the prior day VaR measure. In comparison, there was one such instance during 2013. We use a 500 day look back period for backtesting and include customer-related trading revenue.

The following graph shows a comparison of enterprise-wide gains and losses against prior day diversified VaR for the period indicated.

Table 52: Enterprise   Wide Gains/Losses Versus Value-at-Risk

Total customer-related trading revenue was as follows:

Table 53: Customer-Related Trading Revenue (a)

Year ended December 31

In millions	2014	2013
Net interest income	$ 31	$ 30
Noninterest income	147	234
Total customer-related trading revenue	$ 178	$ 264
Securities trading (b)	$ 33	$ 21
Foreign exchange	96	98
Financial derivatives and other	49	145
Total customer-related trading revenue	$ 178	$ 264

(a) Customer-related trading revenues exclude underwriting fees for both periods presented.

(b) Includes changes in fair value for certain loans accounted for at fair value.

Customer-related trading revenues for 2014 decreased $86 million compared with 2013. The decrease was primarily due to market interest rate changes impacting credit valuations for customer-related derivatives activities and reduced derivatives client sales revenues, which were partially offset by improved securities and foreign exchange client sales results.

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Market Risk Management   Equity And Other Investment Risk

Equity investment risk is the risk of potential losses associated with investing in both private and public equity markets. In addition to extending credit, taking deposits, securities underwriting and trading financial instruments, we make and manage direct investments in a variety of transactions, including management buyouts, recapitalizations and growth financings in a variety of industries. We also have investments in affiliated and non-affiliated funds that make similar investments in private equity 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 7 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report 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 54: Equity Investments Summary

In millions	December 31 2014	December 31 2013
BlackRock	$ 6,265	$ 5,940
Tax credit investments (a)	2,616	2,572
Private equity	1,615	1,656
Visa	77	158
Other	155	234
Total	$ 10,728	$ 10,560

(a) The December 31, 2013 amount has been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.

BlackRock

PNC owned approximately 35 million common stock equivalent shares of BlackRock equity at December 31, 2014, 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 Item 7 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 which totaled $2.6 billion at both December 31, 2014 and December 31, 2013. These equity investment balances include unfunded commitments totaling $717 million and $802 million at December 31, 2014 and December 31, 2013, 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 this Report 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.

Private equity investments carried at estimated fair value totaled $1.6 billion at December 31, 2014 and $1.7 billion at December 31, 2013. As of December 31, 2014, $1.1 billion was invested directly in a variety of companies and $.5 billion was invested indirectly through various private equity funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The noncontrolling interests of these funds totaled $212 million as of December 31, 2014. 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 of this Report for discussion 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 $140 million at December 31, 2014 compared with $164 million at December 31, 2013.

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Visa

During 2014, we sold 3.5 million Visa Class B common shares, in addition to the 13 million shares sold in the previous two years. We have entered into swap agreements with the purchaser of the shares as part of these sales. See Note 7 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of this Report for additional information. At December 31, 2014, our investment in Visa Class B common shares totaled approximately 7 million shares and had a carrying value of $77 million. Based on the December 31, 2014 closing price of $262.20 for the Visa Class A common shares, the fair value of our total investment was approximately $742 million at the current conversion rate, which reflects adjustments in respect of all litigation funding by Visa to date. The Visa Class B common shares that we own are transferable only under limited circumstances (including those applicable to the sales in 2014 and the previous two years) until they can be converted into shares of the publicly traded class of stock, which cannot happen until the settlement of all of the specified litigation.

Note 21 Legal Proceedings and Note 22 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Item 8 of this Report have additional information regarding the October 2007 Visa restructuring, our involvement with judgment and loss sharing agreements with Visa and certain other banks, and the status of pending interchange litigation.

Other Investments

We also make 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. At December 31, 2014, other investments totaled $155 million compared with $234 million at December 31, 2013. We recognized net gains related to these investments of $19 million during 2014, compared with $39 million during 2013.

Given the nature of these investments, if market conditions affecting their valuation were to worsen, we could incur future losses.

Our unfunded commitments related to other investments were immaterial at both December 31, 2014 and December 31, 2013.

See the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors of this Report for additional information on the potential impact of the Volcker Rule on PNC s investments in and relationships with private funds that are covered by that rule, as well as PNC s ability to maximize the value of its investments in such funds.

Impact of Inflation

Our assets and liabilities are primarily financial in nature and typically have varying maturity dates. Accordingly, future changes in prices do not affect the obligations to pay or receive fixed and determinable amounts of money. However, during periods of inflation, there may be a subsequent impact affecting certain fixed costs or expenses, an erosion of consumer and customer purchasing power, and fluctuations in the need or demand for our products and services. Should significant levels of inflation occur, our business could potentially be impacted by, among other things, reducing our tolerance for extending credit or causing us to incur additional credit losses resulting from possible increased default rates.

Financial Derivatives

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

Financial derivatives involve, to varying degrees, market and credit risk. For interest rate swaps and total return swaps, options and futures contracts, only periodic cash payments and, with respect to options, premiums are exchanged. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments.

Further information on our financial derivatives is presented in Note 1 Accounting Policies, Note 7 Fair Value and Note 15 Financial Derivatives in the Notes To Consolidated Financial Statements in Item 8 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.

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The following table summarizes the notional or contractual amounts and net fair value of financial derivatives at December 31, 2014 and December 31, 2013.

Table 55: Financial Derivatives Summary

In millions	December 31, 2014 Notional/ Contractual Amount	December 31, 2014 Net Fair Value (a)	December 31, 2013 Notional/ Contractual Amount	December 31, 2013 Net Fair Value (a)
Derivatives designated as hedging instruments under GAAP				
Total derivatives designated as hedging instruments	$ 49,061	$ 1,075	$ 36,197	$ 825
Derivatives not designated as hedging instruments under GAAP				
Total derivatives used for residential mortgage banking activities	$ 76,102	$ 409	$ 119,679	$ 330
Total derivatives used for commercial mortgage banking activities	26,290	26	53,149	(12)
Total derivatives used for customer-related activities	183,474	122	169,534	138
Total derivatives used for other risk management activities	5,390	(425)	2,697	(422)
Total derivatives not designated as hedging instruments	$ 291,256	$ 132	$ 345,059	$ 34
Total Derivatives	$ 340,317	$ 1,207	$ 381,256	$ 859

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

2013 VERSUS 2012

Consolidated Income Statement Review

Summary Results

Net income for 2013 was $4.2 billion, or $7.36 per diluted common share, compared with $3.0 billion, or $5.28 per diluted common share, for 2012. The increase was driven by an 8% decline in noninterest expense, a 3% increase in revenue and lower provision for credit losses. The decline in noninterest expense reflected our continued focus on disciplined expense management. Higher revenue in the comparison was driven by improvement in the provision for residential mortgage repurchase obligations, strong client fee income and higher gains on asset valuations, partially offset by lower net interest income and lower gains on asset sales.

Net Interest Income

Net interest income decreased by $493 million, or 5%, in 2013 compared with 2012, reflecting a decline in purchase accounting accretion in the comparison, the impact of lower yields on loans and securities, and the impact of lower securities balances. These decreases were partially offset by higher loan balances, reflecting commercial and consumer loan growth over the period, and lower rates paid on borrowed funds and deposits. Total purchase accounting accretion was $.8 billion for 2013 compared to $1.1 billion in 2012.

Net interest margin declined 37 basis points in 2013 compared with 2012 due to lower purchase accounting accretion and lower yields on interest-earning assets, which decreased 48 basis points, partially offset by a decrease in the weighted-average rate paid on total interest-bearing liabilities of 14 basis points.

The decrease in the yield on interest-earning assets was primarily due to lower rates on new loans and purchased

securities in the ongoing low interest rate environment, as well as the impact of higher levels of interest-earning deposits with banks maintained in light of anticipated regulatory requirements. The decrease in the rate paid on interest-bearing liabilities was primarily due to redemptions of hi