PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
November 06, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of October 31, 2013, there were 532,107,975 shares of the registrant s common stock ($5 par value) outstanding.

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FINANCIAL REVIEW

TABLE 1: CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC. (PNC)

Dollars in millions, except per share data Unaudited	Three months ended September 30 2013	Three months ended September 30 2012	Nine months ended September 30 2013	Nine months ended September 30 2012
Financial Results (a)				
Revenue				
Net interest income	$ 2,234	$ 2,399	$ 6,881	$ 7,216
Noninterest income	1,686	1,689	5,058	4,227
Total revenue	3,920	4,088	11,939	11,443
Noninterest expense	2,424	2,650	7,254	7,753
Pretax, pre-provision earnings (b)	1,496	1,438	4,685	3,690
Provision for credit losses	137	228	530	669
Income before income taxes and noncontrolling interests	$ 1,359	$ 1,210	$ 4,155	$ 3,021
Net income	$ 1,039	$ 925	$ 3,166	$ 2,282
Less:				
Net income (loss) attributable to noncontrolling interests	2	(14)	(6)	(13)
Preferred stock dividends and discount accretion	71	63	199	127
Net income attributable to common shareholders	$ 966	$ 876	$ 2,973	$ 2,168
Diluted earnings per common share	$ 1.79	$ 1.64	$ 5.55	$ 4.06
Cash dividends declared per common share	$ .44	$ .40	$ 1.28	$ 1.15
Performance Ratios				
Net interest margin (c)	3.47%	3.82%	3.62%	3.93%
Noninterest income to total revenue	43	41	42	37
Efficiency	62	65	61	68
Return on:				
Average common shareholders equity	10.50	10.15	11.00	8.61
Average assets	1.36	1.23	1.40	1.04

See page 65 for a glossary of certain terms used in this Report.

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

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

(b) We believe that pretax, pre-provision earnings, a non-GAAP measure, is useful as a tool to help evaluate the ability to provide for credit costs through operations.

(c) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended September 30, 2013 and September 30, 2012 were $43 million and $36 million, respectively. The taxable-equivalent adjustments to net interest income for the nine months ended September 30, 2013 and September 30, 2012 were $123 million and $102 million, respectively.

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

Unaudited	September 30 2013	December 31 2012	September 30 2012
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$ 308,597	$ 305,107	$ 300,803
Loans (b) (c)	192,856	185,856	181,864
Allowance for loan and lease losses (b)	3,691	4,036	4,039
Interest-earning deposits with banks (b)	8,047	3,984	2,321
Investment securities (b)	57,260	61,406	62,814
Loans held for sale (c)	2,399	3,693	2,737
Goodwill and other intangible assets	11,268	10,869	10,941
Equity investments (b) (d)	10,303	10,877	10,846
Other assets (b) (c)	22,733	23,679	24,647
Noninterest-bearing deposits	68,747	69,980	64,484
Interest-bearing deposits	147,327	143,162	141,779
Total deposits	216,074	213,142	206,263
Transaction deposits	181,794	176,705	168,377
Borrowed funds (b) (c)	40,273	40,907	43,104
Shareholders equity	41,130	39,003	38,683
Common shareholders equity	37,190	35,413	35,124
Accumulated other comprehensive income	47	834	991
Book value per common share	$ 69.92	$ 67.05	$ 66.41
Common shares outstanding (millions)	532	528	529
Loans to deposits	89%	87%	88%
Client Assets (billions)			
Discretionary assets under management	$ 122	$ 112	$ 112
Nondiscretionary assets under administration	115	112	110
Total assets under administration	237	224	222
Brokerage account assets	40	38	38
Total client assets	$ 277	$ 262	$ 260
Capital Ratios			
Basel I capital ratios			
Tier 1 common	10.3%	9.6%	9.5%
Tier 1 risk-based (e)	12.3	11.6	11.7
Total risk-based (e)	15.6	14.7	14.5
Leverage (e)	11.1	10.4	10.4
Common shareholders equity to assets	12.1	11.6	11.7
Pro forma Basel III Tier 1 common (f)	8.7%	7.5%	N/A (g)
Asset Quality			
Nonperforming loans to total loans	1.66%	1.75%	1.88%
Nonperforming assets to total loans, OREO and foreclosed assets	1.87	2.04	2.20
Nonperforming assets to total assets	1.17	1.24	1.34
Net charge-offs to average loans (for the three months ended) (annualized)	.47	.67	.73
Allowance for loan and lease losses to total loans	1.91	2.17	2.22
Allowance for loan and lease losses to nonperforming loans (h)	115%	124%	118%
Accruing loans past due 90 days or more	$ 1,633	$ 2,351	$ 2,456

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

(b) Amounts include consolidated variable interest entities. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information.

(c) Amounts include assets and liabilities for which we have elected the fair value option. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information.

(d) Amounts include our equity interest in BlackRock.

(e) The minimum U.S. regulatory capital ratios under Basel I are 4.0% for Tier 1 risk-based, 8.0% for Total risk-based, and 4.0% for Leverage. The comparable well-capitalized levels are 6.0% for Tier 1 risk-based, 10.0% for Total risk-based, and 5.0% for Leverage.

(f) PNC s pro forma Basel III Tier 1 common capital ratio was estimated without the benefit of phase-ins and is based on our current understanding of the final Basel III rules issued by the U.S. banking agencies on July 2, 2013. See Table 21: Basel I Risk-Based Capital and Table 22: Estimated Pro forma Basel III Tier 1 Common Capital Ratio and related information for further detail on how this pro forma ratio differs from the Basel I Tier 1 common capital ratio. This Basel III ratio, which is calculated using PNC s estimated risk-weighted assets under the Basel III advanced approaches, will replace the current Basel I ratio for this regulatory metric when PNC exits the parallel run qualification phase.

(g) Pro forma Basel III Tier 1 common capital ratio not disclosed in our third quarter 2012 Form 10-Q.

(h) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.

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This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2012 Annual Report on Form 10-K (2012 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following sections as they appear in this Report and in our 2012 Form 10-K and our First and Second Quarter 2013 Form 10-Qs: the Risk Management and Recourse And Repurchase Obligation sections of the Financial Review portion of the respective report; Item 1A Risk Factors included in our 2012 Form 10-K and in Part II of this Report; and the Legal Proceedings and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements included in the respective report. Also, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and the Critical Accounting Estimates And Judgments section in this Financial Review and in our 2012 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 19 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis.

Executive Summary

PNC is one of the largest diversified financial services companies in the United States and is headquartered in Pittsburgh, Pennsylvania.

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

Key Strategic Goals

At PNC we manage our company for the long term. We are focused on the fundamentals of growing customers, loans, deposits and fee revenue and improving profitability, while investing for the future and managing risk, expenses and capital. We continue to invest in our products, markets and brand, and embrace our corporate responsibility to the communities where we do business.

We strive to expand and deepen customer relationships by offering convenient banking options and innovative technology solutions, providing a broad range of fee-based and credit products and services, focusing on customer service and enhancing our brand. Our approach is concentrated on organically growing and deepening client relationships that meet our risk/return measures. Our strategies for growing fee income across our lines of business are focused on achieving deeper market penetration and cross selling our diverse product mix.

Our strategic priorities are designed to enhance value over the long-term. A key priority is to drive growth in acquired and underpenetrated markets, including in the Southeast. We are seeking to attract more of the investable assets of new and existing clients. PNC is focused on redefining our retail

banking business to a more customer-centric and sustainable model while lowering delivery costs as customer banking preferences evolve. We are 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.

Our capital priorities for 2013 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 through dividends, in accordance with our capital plan included in our 2013 Comprehensive Capital Analysis and Review (CCAR) submission to the Board of Governors of the Federal Reserve System (Federal Reserve). We continue to improve our capital levels and ratios through retention of quarterly earnings and expect to build capital through retention of future earnings. During 2013, PNC does not expect to repurchase common stock through a share buyback program. PNC continues to maintain substantial liquidity positions at both PNC and PNC Bank, National Association (PNC Bank, N.A.). For more detail, see the 2013 Capital and Liquidity Actions portion of this Executive Summary, the Funding and Capital Sources portion of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 Business of our 2012 Form 10-K.

PNC faces a variety of risks that may impact various aspects of our risk profile from time to time. The extent of such impacts may vary depending on factors such as the current economic, political and regulatory environment, merger and acquisition activity and operational challenges. Many of these risks and our risk management strategies are described in more detail in our 2012 Form 10-K and elsewhere in this Report.

Recent Market and Industry Developments

There have been numerous legislative and regulatory developments and dramatic changes in the competitive landscape of our industry over the last several years. The United States and other governments have undertaken major

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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. We expect to face further increased regulation of our industry as a result of current and future initiatives intended to provide economic stimulus, financial market stability and enhanced regulation of financial services companies and to enhance the liquidity and solvency of financial institutions and markets. We also expect in many cases more intense scrutiny from our supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state levels. Compliance with new regulations will increase our costs and reduce our revenue. Some new regulations may limit our ability to pursue certain desirable business opportunities.

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.

New and evolving capital and liquidity standards will have a significant effect on banks and bank holding companies, including PNC. In July 2013, the U.S. banking agencies issued final rules that implement the Basel III capital framework in the United States and make other important changes to the U.S. regulatory capital standards. The rules are composed of three fundamental parts. The first part, referred to as the Basel III rules, materially modifies the definition of, and required deductions from, regulatory capital, and establishes the levels of regulatory capital needed to meet regulatory minimum and buffer requirements. For banking organizations subject to Basel II (such as PNC), the Basel III rules become effective on January 1, 2014, 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, which is referred to as the advanced approaches rules, and the third part, which is referred to as the standardized approach rules, materially revise the framework for the risk-weighting of assets under Basel I and Basel II, respectively. The advanced approaches rules become effective on January 1, 2014, and the standardized approach rules become effective on January 1, 2015.

The Basel III rules that become effective on January 1, 2014, among other things, narrow the definition of regulatory capital; require banking organizations with $15 billion or more in assets to phase-out trust preferred securities from Tier 1 regulatory capital; establish a new Tier 1 common capital requirement for banking organizations; revise the capital levels at which a bank would be subject to prompt corrective action; require that significant common stock investments in unconsolidated financial institutions (as defined in the final rules), as well as mortgage servicing rights and deferred tax assets, be deducted from regulatory capital to the extent such items individually exceed 10%, or in the aggregate exceed 15%, of the organization s adjusted Tier 1

common capital; significantly limit 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; and, for banking organizations subject to the advanced approaches (like PNC) remove the filter that currently excludes unrealized gains and losses (other than those resulting from other-than-temporary impairments) on available for sale debt securities from affecting regulatory capital. As a result of the staggered effective dates of the final 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 effective regulatory risk-based capital ratios in 2014 for purposes of determining whether PNC is well capitalized will be based on the definitions of (and deductions from) capital under the Basel III rules (as such rules are phased-in) and the current Basel I risk-weighting asset framework, subject to certain adjustments. After PNC exits the parallel run qualification phase under the advanced approaches, PNC s regulatory capital ratios will be determined using the higher of PNC s risk-weighted assets calculated under the advanced approaches or the standardized approach. For additional information concerning the final capital rules issued in July 2013, see the Recent Market and Industry Developments portion of the Executive Summary section in our second quarter 2013 Form 10-Q.

The Federal Reserve on September 24, 2013, also adopted interim final rules to clarify how bank holding companies with $50 billion or more in total assets, including PNC, must incorporate the new final capital rules into their capital plan and stress tests submissions for the 2014 CCAR and Dodd-Frank Act stress test process. Under the interim final rules, the capital plan submissions submitted in January 2014 as part of the annual CCAR process must demonstrate how the bank holding company, under different hypothetical macro-economic scenarios, including a severely stressed scenario provided by the Federal Reserve (the supervisory severely adverse scenario), would be able to maintain throughout each quarter of the nine quarter planning horizon (i) a Tier 1 common capital ratio, calculated in accordance with the definition of Tier 1 common and the Basel I rules in effect in 2013, in excess of 5 percent; and (ii) regulatory risk-based capital ratios that exceed the minimums that are or would then be in effect for the relevant bank holding company, taking into account the final rules adopted in July 2013 and any applicable phase-in periods under those rules. The Federal Reserve may object to a bank holding company s capital plan if it is unable to demonstrate an ability to maintain capital above these levels throughout the nine quarter planning horizon, including under the supervisory severely adverse scenario, even if the company continued with the capital distributions proposed under a baseline scenario. If the Federal Reserve makes such an objection, the company may be unable to pay or increase its common stock dividends, continue, reinstate or increase any common stock repurchase programs, or redeem or issue preferred stock or other regulatory capital instruments.

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In October 2013, the U.S. banking agencies requested comment on proposed rules that would implement the Liquidity Coverage Ratio (LCR), which is a quantitative liquidity standard included in the international Basel III framework. The proposed 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 ratio. Under the proposed rules, top-tier bank holding companies (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, N.A.) would, following a phase-in period, have to maintain an LCR equal to at least 1.0 based on the entity s highest daily projected level of net cash outflows over the next 30 calendar days.

The proposed rules in several important respects are more restrictive than the LCR requirement included in the international Basel III framework. For example, the proposal would phase-in the LCR more quickly than required under the Basel III framework, with full compliance required beginning January 1, 2017. The comment period on the proposed rules is scheduled to run through January 31, 2014. Although the impact on PNC will not be fully known until the rules are final, we expect to be in compliance with the requirements when they become effective.

The need to maintain more and higher quality capital, as well as greater liquidity, 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 which 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 could require PNC to increase its 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 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.

On July 31, 2013, the United States District Court for the District of Columbia granted summary judgment to the

plaintiffs in *NACS, et al. v. Board of Governors of the Federal Reserve System.* The decision vacated the debit card interchange and network processing rules that went into effect in October 2011 and that were adopted by the Federal Reserve to implement provisions of the Dodd-Frank Act. The court found among other things that the debit card interchange fees permitted under the rules allowed card issuers to recover costs that were not permitted by the statute. The court has stayed its decision pending appeal, and the United States Court of Appeals for the District of Columbia Circuit has granted an expedited appeal. We do not now know the ultimate impact of this ruling, nor the timing of any such impact, but if the ruling were to take effect it could have a materially adverse impact on our debit card interchange revenues. Debit card interchange revenue for the year ended December 31, 2012 was approximately $305 million.

The U.S. banking agencies (together with the Department of Housing and Urban Development, Federal Housing Finance Agency, and Securities and Exchange Commission), on August 28, 2013, requested comments on new proposed rules to implement the risk retention requirement in Dodd-Frank. The new proposed rules, which replace the rules initially proposed in 2011, would generally require the sponsors of securitization transactions to retain a certain amount of exposure to the credit risk of the assets underlying the securitization transaction. The new proposed rules differ in several material respects from those issued in 2011. For example, the new rules generally base the required amount of risk retention on the fair value of the securities issued in the securitization transaction, eliminate the premium capture cash reserve account aspect of the initial proposal, and define a qualified residential mortgage (QRM) by reference to the definition of a qualified mortgage established by the Consumer Financial Protection Bureau. As under the initial proposal, securitization transactions backed by QRMs, as well as transactions backed by commercial loans, commercial mortgages, or automobile loans that meet specified standards, would not be subject to a risk retention requirement. The comment period on the new proposed rules closed on October 30, 2013. Until the rules are finalized and take effect, the ultimate impact of these rules on PNC remains unpredictable. The ultimate impact of the rules on PNC could be direct, by requiring PNC to hold interests in a securitization vehicle or other assets that represent a portion of the credit risk of the assets held by the securitization vehicle, or indirect, by impacting markets in which PNC participates and increasing the costs associated with mortgage assets that we originate.

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 Item 1 Business Supervision and Regulation, Item 1A Risk Factors and Note 23 Legal Proceedings in Item 8 of our 2012 Form 10-K, Recent Market and Industry Developments in the Executive Summary section

of the Financial Review in our First and Second Quarter 2013 Form 10-Qs, and Note 17 Legal Proceedings and Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Key Factors Affecting Financial Performance

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

- General economic conditions, including the continuity, speed and stamina of the moderate U.S. economic recovery in general and on our customers in particular,
- The ability of the U.S. government to resolve budgetary and funding issues without another government shutdown and without a default on U.S. obligations,
- 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, including those outlined elsewhere in this Report, in our 2012 Form 10-K 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 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 manage and implement strategic business objectives within the changing regulatory environment,
- A sustained focus on expense management,
- Improving our overall asset quality,
- Managing the non-strategic assets portfolio and impaired assets,
- Continuing to maintain and grow our deposit base as a low-cost funding source,
- Prudent risk and capital management related to our efforts to manage risk to acceptable levels and to meet evolving regulatory capital standards,
- Actions we take within the capital and other financial markets,
- The impact of legal and regulatory-related contingencies, and
- The appropriateness of reserves needed for critical accounting estimates and related contingencies.

For additional information, please see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2012 Form 10-K and in Part II of this Report.

Income Statement Highlights

- Net income for the third quarter of 2013 of $1.0 billion increased 12% compared to the third quarter of 2012. The increase was driven by a 9% reduction of noninterest expense and a decline in provision for credit losses, partially offset by a 4% decline in revenue, which resulted from lower net interest income as noninterest income was stable. For additional detail, please see the Consolidated Income Statement Review section in this Financial Review.
- Net interest income of $2.2 billion for the third quarter of 2013 decreased 7% compared with the third quarter of 2012, reflecting the impact of lower yields on loans and securities and lower purchase accounting accretion, partially offset by lower rates paid on borrowed funds and deposits.
- Net interest margin decreased to 3.47% for the third quarter of 2013 compared to 3.82% for the third quarter of 2012, consistent with the decline in net interest income.
- Noninterest income of $1.7 billion for the third quarter of 2013 was relatively unchanged from the third quarter of 2012. Strong growth in client fee income was offset by lower residential mortgage revenue, driven by lower loan sales revenue, and lower gains on asset sales and valuations.

The provision for credit losses decreased to $137 million for the third quarter of 2013 compared to $228 million for the third quarter of 2012 due to overall credit quality improvement.

Noninterest expense of $2.4 billion for the third quarter of 2013 decreased 9% compared with the third quarter of 2012 as we continued to focus on expense management. The decline reflected lower noncash charges related to redemption of trust preferred securities and the impact of third quarter 2012 integration costs.

CREDIT QUALITY HIGHLIGHTS

Overall credit quality continued to improve during the third quarter of 2013. The following comparisons to December 31, 2012 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. This had the overall effect of (i) accelerating charge-offs, (ii) increasing nonperforming loans and (iii), in the case of loans accounted for under the fair value option, increasing nonaccrual loans. See the Credit Risk Management section of this Financial Review for further detail.

Nonperforming assets decreased $.2 billion, or 5%, to $3.6 billion at September 30, 2013 compared to December 31, 2012, mainly due to a reduction in total commercial nonperforming loans, primarily related to commercial real estate. OREO also added to the decline in nonperforming assets due to an increase in sales. Nonperforming consumer troubled debt restructurings decreased as more loans returned to performing status upon achieving six months of performance under the restructured terms. That and other principal activity within consumer loans caused a decrease in consumer nonperforming loans. These decreases were offset by the impact from the alignment with interagency guidance for loans and lines of credit related to consumer loans which resulted in $426 million of loans being classified as nonperforming in the first quarter of 2013. Nonperforming assets to total assets were 1.17% at September 30, 2013, compared to 1.24% at December 31, 2012 and 1.34% at September 30, 2012.

Overall delinquencies of $2.7 billion decreased $1.1 billion, or 29%, compared with December 31, 2012. The reduction was due to a reduction in government insured residential real estate accruing loans past due 90 days or more of approximately $370 million along with a decline in total consumer loan delinquencies of $395 million during the first quarter of 2013, pursuant to alignment with interagency guidance whereby loans were moved from various delinquency categories to either nonperforming or, in the case of loans accounted for under the fair value option, nonaccruing, or charged off.

Net charge-offs of $224 million decreased $107 million, or 32%, compared to the third quarter of 2012, primarily due to improving credit quality. On an annualized basis, net charge-offs were 0.47% of average loans for the third quarter of 2013 and 0.73% of average loans for the third quarter of 2012. Net charge-offs for the first nine months of 2013 were $888 million, down from net charge-offs for the first nine months of 2012 of $979 million, due to improving credit quality in the second and third quarters of 2013, which was partially offset by the impact of alignment with interagency guidance in the first quarter of 2013. On an annualized basis, net charge-offs for the first nine months of 2013 were
0.63% of average loans and 0.75% of average loans for the first nine months of 2012.

The allowance for loan and lease losses was 1.91% of total loans and 115% of nonperforming loans at September 30, 2013, compared with 2.17% and 124% at December 31, 2012, respectively. The decrease in the allowance compared with year end resulted from improved overall credit quality and the impact of alignment with interagency guidance.

BALANCE SHEET HIGHLIGHTS

- Total loans increased by $7.0 billion to $193 billion at September 30, 2013 compared to December 31, 2012.
  - Total commercial lending increased by $5.5 billion, or 5%, from December 31, 2012, as a result of growth in commercial loans to new and existing customers.
  - Total consumer lending increased $1.5 billion, or 2%, from December 31, 2012, primarily from growth in automobile and home equity loans, partially offset by paydowns of education loans.
- Total deposits increased by $2.9 billion to $216 billion at September 30, 2013 compared with December 31, 2012, driven by growth in transaction deposits.
- PNC s well-positioned balance sheet remained core funded with a loans to deposits ratio of 89% at September 30, 2013.
- PNC had a strong capital position at September 30, 2013.
  - The Basel I Tier 1 common capital ratio increased to 10.3% compared with 9.6% at December 31, 2012.
  - The pro forma fully phased-in Basel III Tier 1 common capital ratio increased to an estimated 8.7% at September 30, 2013 compared with 7.5% at December 31, 2012 and was calculated using PNC s estimated risk-weighted assets under the Basel III advanced approaches.
    - The Federal Reserve announced final rules implementing Basel III on July 2, 2013. Our estimate of Basel III capital is based on our current understanding of the final Basel III rules.
    - See the Capital discussion and Table 22: Estimated Pro forma Basel III Tier 1 Common Capital Ratio in the Consolidated Balance Sheet Review section of this Financial Review for more detail.

Our Consolidated Income Statement and Consolidated Balance Sheet Review sections of this Financial Review describe in greater detail the various items that impacted our results for the first nine months of 2013 and 2012 and balances at September 30, 2013 and December 31, 2012, respectively.

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2013 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 2013 CCAR, PNC submitted its capital plan, approved by its board of directors, to the Federal Reserve and our primary bank regulators in January 2013. As we announced on March 14, 2013, 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 2013. In April 2013, our board of directors approved an increase to PNC s quarterly common stock dividend from 40 cents per common share to 44 cents per common share. A share repurchase program for 2013 was not included in the capital plan primarily as a result of PNC s 2012 acquisition of RBC Bank (USA) and expansion into Southeastern markets. For additional information concerning the CCAR process and the factors the Federal Reserve takes into consideration in evaluating capital plans, see Item 1 Business Supervision and Regulation included in our 2012 Form 10-K.

See the Liquidity Risk Management portion of the Risk Management section of this Financial Review, as well as Note 20 Subsequent Events in the Notes To Consolidated Financial Statements in this Report, for more detail on our 2013 capital and liquidity actions.

2012 Acquisition and Divestiture Activity

See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in this Report for information regarding our March 2, 2012 RBC Bank (USA) acquisition and other 2012 acquisition and divestiture activity.

Average Consolidated Balance Sheet Highlights

Table 2: Summarized Average Balance Sheet

Nine months ended September 30

Dollars in millions	2013	2012
Average assets		
Interest-earning assets		
Investment securities	$ 57,304	$ 61,293
Loans	188,419	174,410
Other	11,606	11,142
Total interest-earning assets	257,329	246,845
Other	45,597	45,794
Total average assets	$ 302,926	$ 292,639
Average liabilities and equity		
Interest-bearing liabilities		
Interest-bearing deposits	$ 145,041	$ 139,272
Borrowed funds	38,994	42,362
Total interest-bearing liabilities	184,035	181,634
Noninterest-bearing deposits	65,485	60,295
Other liabilities	11,301	11,288
Equity	42,105	39,422
Total average liabilities and equity	$ 302,926	$ 292,639

Various seasonal and other factors impact our period-end balances, whereas average balances are generally more indicative of underlying business trends apart from the impact of acquisitions and divestitures. The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at September 30, 2013 compared with December 31, 2012.

Total average assets increased to $302.9 billion for the first nine months of 2013 compared with $292.6 billion for the first nine months of 2012, primarily due to an increase of $10.5 billion in average interest-earning assets driven by an increase in average total loans. Total assets were $308.6 billion at September 30, 2013 compared with $305.1 billion at December 31, 2012.

Average total loans increased by $14.0 billion to $188.4 billion for the first nine months of 2013 compared with the first nine months of 2012, including increases in average commercial loans of $10.1 billion, average consumer loans of $2.6 billion and average commercial real estate loans of $1.2 billion. The overall increase in loans reflected organic loan growth, primarily in our Corporate & Institutional Banking segment.

Loans represented 73% of average interest-earning assets for the first nine months of 2013 and 71% of average interest-earning assets for the first nine months of 2012.

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Average investment securities decreased $4.0 billion to $57.3 billion in the first nine months of 2013 compared with the first nine months of 2012, primarily as a result of principal payments, including prepayments and maturities, partially offset by net purchase activity. Total investment securities comprised 22% of average interest-earning assets for the first nine months of 2013 and 25% for the first nine months of 2012.

Average noninterest-earning assets decreased $.2 billion to $45.6 billion in the first nine months of 2013 compared with the first nine months of 2012. The decline reflected decreased unsettled securities sales, partially offset by the impact of higher adjustments for net unrealized gains on securities, both of which are included in noninterest-earning assets for average balance sheet purposes.

Average total deposits increased $11.0 billion to $210.5 billion in the first nine months of 2013 compared with the first nine months of 2012, primarily due to an increase of $15.7 billion in average transaction deposits, which grew to $174.9 billion for the first nine months of 2013. Higher average interest-bearing demand deposits, average noninterest-bearing deposits and average money market deposits drove the increase in average transaction deposits, driven by organic growth. These increases were partially offset by a decrease of $4.7 billion in average retail certificates of deposit attributable to runoff of maturing accounts. Total deposits at September 30, 2013 were $216.1 billion compared with $213.1 billion at December 31, 2012 and are further discussed within the Consolidated Balance Sheet Review section of this Financial Review.

Average total deposits represented 69% of average total assets for the first nine months of 2013 and 68% for the first nine months of 2012.

Average borrowed funds decreased by $3.4 billion to $39.0 billion for the first nine months of 2013 compared with the first nine months of 2012, primarily due to lower average Federal Home Loan Bank (FHLB) borrowings, lower average federal funds purchased and repurchase agreements, and lower average commercial paper. Total borrowed funds at September 30, 2013 were $40.3 billion compared with $40.9 billion at December 31, 2012 and are further discussed within the Consolidated Balance Sheet Review section of this Financial Review. The Liquidity Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding our borrowed funds.

Business Segment Highlights

Total business segment earnings were $3.0 billion for the first nine months of 2013 and $2.6 billion for the first nine months of 2012. The Business Segments Review section of this Financial Review includes further analysis of our business segment results over the first nine months of 2013 and 2012, including presentation differences from Note 19 Segment Reporting in our Notes To Consolidated Financial Statements of this Report. Note 19 Segment Reporting presents results of businesses for the three months and nine months ended September 30, 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 19 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

Table 3: Results Of Businesses Summary

(Unaudited)

	Net Income (Loss)		Revenue		Average Assets (a)	
Nine months ended September 30 in millions	2013	2012	2013	2012	2013	2012
Retail Banking	$ 443	$ 475	$ 4,600	$ 4,651	$ 74,620	$ 72,048
Corporate & Institutional Banking	1,695	1,679	4,117	4,121	112,152	100,907
Asset Management Group	126	111	771	726	7,289	6,666
Residential Mortgage Banking	93	(116)	773	468	10,170	11,663
BlackRock	338	283	442	366	6,102	5,727
Non-Strategic Assets Portfolio	260	178	575	625	10,238	12,276
Total business segments	2,955	2,610	11,278	10,957	220,571	209,287
Other (b) (c) (d)	211	(328)	661	486	82,355	83,352

Total	$ 3,166	$ 2,282	$ 11,939	$ 11,443	$ 302,926	$ 292,639

(a) Period-end balances for BlackRock.

(b) Other average assets include investment securities associated with asset and liability management activities.

(c) Other includes differences between the total business segment financial results and our total consolidated net income. Additional detail is included in the Business Segments Review section of this Financial Review and in Note 19 Segment Reporting in the Notes To Consolidated Financial Statements in this Report.

(d) The increase in net income for the 2013 period compared to the 2012 period for Other primarily reflects lower noncash charges related to redemptions of trust preferred securities in the 2013 periods compared to the prior year periods, as well as the impact of integration costs recorded in the 2012 periods.

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Consolidated Income Statement Review

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

Net income for the first nine months of 2013 was $3.2 billion, compared with net income of $2.3 billion for the first nine months of 2012. The increase in year-over-year net income was driven by revenue growth of 4%, a decline in noninterest expense of 6% and a decrease in provision for credit losses. Higher revenue for the first nine months of 2013 reflected lower provision for residential mortgage repurchase obligations, strong client fee income and higher gains on asset valuations and was partially offset by lower net interest income and lower gains on asset sales.

Net income for the third quarter of 2013 was $1.0 billion compared with $.9 billion for the third quarter of 2012. The increase in net income was due to a 9% reduction in noninterest expense and a decline in provision for credit losses, partially offset by a 4% decline in revenue. Lower revenue in the comparison resulted from lower net interest income while noninterest income was stable.

Net Interest Income

Table 4: Net Interest Income and Net Interest Margin

	Nine months ended September 30		Three months ended September 30	
Dollars in millions	2013	2012	2013	2012
Net interest income	$ 6,881	$ 7,216	$ 2,234	$ 2,399
Net interest margin	3.62%	3.93%	3.47%	3.82%

Changes in net interest income and margin result from the interaction of the volume and composition of interest-earning assets and related yields, interest-bearing liabilities and related rates paid, and noninterest-bearing sources of funding. See the Statistical Information (Unaudited) Average Consolidated Balance Sheet And Net Interest Analysis section of this Report and the discussion of purchase accounting accretion of purchased impaired loans in the Consolidated Balance Sheet review of this Report for additional information.

Net interest income decreased by $335 million, or 5%, in the first nine months of 2013 compared with the first nine months of 2012 and decreased by $165 million, or 7%, in the third quarter of 2013 compared with the third quarter of 2012. The declines in both comparisons reflected lower purchase accounting accretion, 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. The nine months period comparison was also positively impacted by the March 2012 RBC Bank (USA) acquisition.

The declines in net interest margin for both the first nine months and third quarter of 2013 compared with the 2012 periods reflected lower yields on earning assets and lower purchase accounting accretion. The decrease for the first nine months of 2013 included a 44 basis point decrease in the yield on total interest-earning assets, partially offset by a decrease in the weighted-average rate accrued on total interest-bearing liabilities of 15 basis points. In the third quarter comparison, the yield on total interest-earning assets decreased 45 basis points, partially offset by a decrease in the weighted-average rate accrued on total interest-bearing liabilities of 12 basis points.

The decreases in the yield on interest-earning assets were primarily due to lower rates on new loans and purchased securities in the ongoing low rate environment. The decreases in the rate accrued on interest-bearing liabilities were primarily due to redemptions and maturities of higher-rate bank notes and senior debt and subordinated debt, including the redemption of trust preferred and hybrid capital securities.

In the fourth quarter of 2013, we expect net interest income to be down modestly reflecting the anticipated continued decline in total purchase accounting accretion, which is expected to total approximately $175 million for the fourth quarter of 2013 compared to $199 million for the third quarter of 2013.

For the full year 2013, we expect total purchase accounting accretion to decline by approximately $300 million compared with 2012, less than we had anticipated earlier, due to elevated cash recoveries. We expect total purchase accounting accretion to be down approximately $300 million in 2014 compared with 2013.

Noninterest Income

Table 5: Noninterest Income

Dollars in millions	Nine months ended September 30 2013	2012	Three months ended September 30 2013	2012
Noninterest income				
Asset management	$ 978	$ 867	$ 330	$ 305
Consumer services	926	842	316	288
Corporate services	909	817	306	295
Residential mortgage	600	284	199	227
Service charges on deposits	439	423	156	152
Net gains on sales of securities	96	159	21	40
Net other-than-temporary impairments	(16)	(96)	(2)	(24)
Other	1,126	931	360	406
Total noninterest income	$ 5,058	$ 4,227	$ 1,686	$ 1,689

Noninterest income increased by $831 million, or 20%, during the first nine months of 2013 compared to the first nine months of 2012. The increase in the comparison reflected

higher residential mortgage revenue, 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 gains on asset sales. Noninterest income as a percentage of total revenue was 42% for the first nine months of 2013, up from 37% for the first nine months of 2012.

Noninterest income for the third quarter was relatively flat from the third quarter 2012. Strong growth in client fee income was offset by lower residential mortgage revenue, which was driven by lower loan sales revenue, and lower gains on asset sales and valuations. Noninterest income as a percentage of total revenue was 43% for the third quarter of 2013 compared to 41% for the third quarter of 2012.

Asset management revenue, including BlackRock, increased $111 million, or 13%, in the first nine months of 2013 compared to the first nine months of 2012. The comparison included an increase of $25 million, or 8%, in the third quarter compared to the prior year quarter. Both increases were due to higher earnings from our BlackRock investment, stronger average equity markets in the respective periods and positive net flows, after adjustments to total net flows for cyclical client activities. Discretionary assets under management increased to $122 billion at September 30, 2013 compared with $112 billion at September 30, 2012 driven by higher equity markets and positive net flows due to strong sales performance.

Consumer service fees increased $84 million, or 10%, in the first nine months of 2013 compared to the first nine months of 2012 and increased $28 million, or 10%, in the third quarter of 2013 compared to the third quarter of 2012. Both increases reflected growth in brokerage fees and the impact of higher customer-initiated fee based transactions.

Corporate services revenue increased by $92 million, or 11%, in the first nine months of 2013 compared to the first nine months of 2012. This increase included the impact of higher valuation gains from rising interest rates on commercial mortgage servicing rights valuations. These valuation gains were $73 million for the first nine months of 2013, including $18 million in the third quarter of 2013, compared to $15 million for the first nine months of 2012, which included $16 million for the third quarter of 2012. The increase in corporate services revenue also reflected higher commercial mortgage servicing revenue, which was partially offset by lower merger and acquisition advisory fees.

In the third quarter of 2013, corporate services revenue increased by $11 million compared to the third quarter of 2012. The increase reflected higher syndication revenues and merger and acquisition advisory fees.

Residential mortgage revenue increased to $600 million in the first nine months of 2013 compared with $284 million in the

first nine months of 2012, as a result of lower provision for residential mortgage repurchase obligations of $71 million compared to $507 million for the first nine months of 2012. See the Recourse And Repurchase Obligations section of this Financial Review for further detail. The impact of the reduced provision was partially offset by lower loan sales revenue in the comparison.

Third quarter 2013 residential mortgage revenue declined to $199 million compared with $227 million in the third quarter of 2012. The decline in the comparison reflected lower loan sales revenue driven by lower volumes and gain on sale margins, partially offset by higher net hedging gains on residential mortgage servicing rights and improvement in the provision for residential mortgage repurchase obligations, which was a benefit of $6 million in the third quarter of 2013, reflecting a small reserve release, compared with a provision of $37 million in the third quarter 2012. See the Recourse And Repurchase Obligations section of this Financial Review for further detail.

Other noninterest income totaled $1.1 billion for the first nine months of 2013 compared with $.9 billion for the first nine months of 2012. The increase reflected higher gains on sale of Visa Class B common shares, which increased to $168 million on the sale of 4 million shares for the 2013 period compared to $137 million on the sale of 5 million shares in the 2012 period, and higher revenue from credit valuations related to customer-initiated hedging activities as higher market interest rates reduced the fair value of PNC s credit exposure on these activities. The year-over-year impact to the comparison due to these credit valuations was revenue of $40 million in the first nine months of 2013 compared to a loss of $10 million in the first nine months of 2012. The overall comparison also reflected higher revenue associated with commercial mortgage banking activity.

In the third quarter of 2013, other noninterest income declined to $360 million compared to $406 million for the third quarter of 2012. The decrease reflected lower gains on sale of Visa Class B Common shares, which were $85 million on the sale of 2 million shares and $137 million on the sale of 5 million shares for the third quarter of 2013 and 2012, respectively, and lower revenue from credit valuations related to customer-initiated hedging activities, which were not significant for the third quarter of 2013 compared to $18 million of revenue in the third quarter of 2012. The overall decrease also reflected a decrease in the market value of investments related to deferred compensation obligations. These decreases were partially offset by higher revenue derived from commercial mortgage loans intended for sale.

We continue to hold approximately 10 million Visa Class B common shares with a fair value of approximately $833 million and recorded investment of $158 million as of September 30, 2013.

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

We continue to expect both full year 2013 noninterest income and total revenue to increase compared with 2012.

Provision For Credit Losses

The provision for credit losses totaled $530 million for the first nine months of 2013 compared with $669 million for the first nine months of 2012. The provision for credit losses was $137 million for the third quarter of 2013 compared with $228 million for the third quarter of 2012. The declines in the comparisons were driven primarily by continued improvement in overall credit quality including improvement in our purchased impaired loan portfolio.

We expect our provision for credit losses for the fourth quarter of 2013 to be between $150 million and $225 million as we expect the pace of overall credit improvement to ease and continued growth in our loan portfolio.

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

Noninterest Expense

Noninterest expense was $7.3 billion for the first nine months of 2013, a decrease of $.5 billion, or 6%, from $7.8 billion for the first nine months of 2012 as we continued to focus on expense management. The decline reflected the impact of integration costs of $232 million in the first nine months of 2012 and a reduction in noncash charges related to redemption of trust preferred securities to $57 million for the first nine months of 2013 from $225 million for the first nine months of 2012. Additionally, residential mortgage foreclosure-related expenses declined to $39 million from $134 million in the same comparison. These decreases to noninterest expense were partially offset by the impact of higher operating expense for the March 2012 RBC Bank (USA) acquisition during the first nine months of 2013 compared to the first nine months of 2012.

Noninterest expense decreased $.2 billion, or 9%, to $2.4 billion for the third quarter of 2013 compared with the third quarter of 2012. Noninterest expense for the 2013 quarter included $27 million of noncash charges related to redemption of trust preferred securities and $21 million of residential mortgage foreclosure-related expenses, while the comparable prior year quarter included $95 million of noncash charges related to redemption of trust preferred securities, $53 million of residential mortgage foreclosure-related expenses and $35 million of integration costs. The decline in noninterest expense also reflected lower expense for other real estate owned and legal reserves.

In the third quarter 2013, we concluded redemptions of discounted trust preferred securities assumed in our acquisitions. Over the past two years, we have redeemed a total of $3.2 billion of these higher-rate trust preferred securities, resulting in noncash charges totaling approximately $550 million.

Due to our continued commitment to disciplined expense management, we currently expect to exceed our $700 million continuous improvement savings goal for 2013, as we have already met this goal as of September 30, 2013, and we have started to identify continuous improvement opportunities for 2014.

As a result of our focus on expense management, we expect full year 2013 noninterest expense to be below noninterest expense for 2012 by more than 5 percent. For the fourth quarter of 2013, we currently expect noninterest expense to be stable compared with the third quarter of 2013.

Effective Income Tax Rate

The effective income tax rate was 23.8% in the first nine months of 2013 compared with 24.5% in the first nine months of 2012. For the third quarter of 2013, our effective income tax rate was 23.5% compared with 23.6% for the third quarter of 2012. The decrease in the effective tax rate for the first nine months of 2013 compared to the 2012 period resulted from increased tax exempt investments, tax benefits from tax audit settlements, and a one-time tax benefit attributable to an assertion under ASC 740 Income Taxes that the earnings of certain non-U.S. subsidiaries will be permanently reinvested, partially offset by higher levels of pretax income.

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.

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Consolidated Balance Sheet Review

Table 6: Summarized Balance Sheet Data

In millions	September 30 2013	December 31 2012
Assets		
Loans held for sale	$ 2,399	$ 3,693
Investment securities	57,260	61,406
Loans	192,856	185,856
Allowance for loan and lease losses	(3,691)	(4,036)
Goodwill	9,074	9,072
Other intangible assets	2,194	1,797
Other, net	48,505	47,319
Total assets	$ 308,597	$ 305,107
Liabilities		
Deposits	$ 216,074	$ 213,142
Borrowed funds	40,273	40,907
Other	9,430	9,293
Total liabilities	265,777	263,342
Equity		
Total shareholders equity	41,130	39,003
Noncontrolling interests	1,690	2,762
Total equity	42,820	41,765
Total liabilities and equity	$ 308,597	$ 305,107

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

Total assets increased $3.5 billion, or more than 1%, at September 30, 2013 compared with December 31, 2012. The increase was primarily due to loan growth and higher interest-earning deposits with banks (which is included in Other, net in the preceding table), partially offset by lower investment securities and a decline in loans held for sale. The increase in interest-earning deposits with banks was to enhance PNC s liquidity position in light of anticipated regulatory requirements. Total liabilities increased $2.4 billion, or less than 1%, in the same comparison. The increase in liabilities was largely due to growth in deposits and issuances of bank notes and senior debt, partially offset by a decline in commercial paper and lower FHLB borrowings. An analysis of changes in selected balance sheet categories follows.

Loans

A summary of the major categories of loans outstanding follows. Outstanding loan balances of $192.9 billion at September 30, 2013 and $185.9 billion at December 31, 2012 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums of $2.2 billion at September 30, 2013 and $2.7 billion at December 31, 2012, 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

In millions	September 30 2013	December 31 2012
Commercial lending		
Commercial		
Retail/wholesale trade	$ 15,178	$ 14,353
Manufacturing	15,406	14,841
Service providers	12,973	12,606
Real estate related (a)	10,554	10,616

Financial services	5,685	4,356
Health care	8,266	7,763
Other industries	18,928	18,505
Total commercial (b)	86,990	83,040
Commercial real estate		
Real estate projects (c)	13,036	12,347
Commercial mortgage	7,095	6,308
Total commercial real estate	20,131	18,655
Equipment lease financing	7,314	7,247
Total commercial lending (d)	114,435	108,942
Consumer lending		
Home equity		
Lines of credit	22,043	23,576
Installment	14,548	12,344
Total home equity	36,591	35,920
Residential real estate		
Residential mortgage	14,709	14,430
Residential construction	683	810
Total residential real estate	15,392	15,240
Credit card	4,242	4,303
Other consumer		
Education	7,711	8,238
Automobile	10,259	8,708
Other	4,226	4,505
Total consumer lending	78,421	76,914
Total loans	$ 192,856	$ 185,856

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

(b) During the third quarter of 2013, PNC revised its policy to classify commercial loans initiated through a Special Purpose Entity (SPE) to be reported based upon the industry of the sponsor of the SPE. This resulted in a reclassification of loans amounting to $4.7 billion at December 31, 2012 that were previously classified as Financial Services to other categories within Commercial Lending.

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

(d) Construction loans with interest reserves and A/B Note restructurings are not significant to PNC.

The increase in loans of $7.0 billion from December 31, 2012 included an increase in commercial lending of $5.5 billion and an increase in consumer lending of $1.5 billion. The increase in commercial lending was the result of growth in commercial and commercial real estate loans, primarily from an increase in loan commitments to new customers and organic growth. The increase in consumer lending resulted from growth in automobile and home equity loans and purchases of residential real estate loans, partially offset by paydowns of education loans.

Loans represented 62% of total assets at September 30, 2013 and 61% of total assets at December 31, 2012. Commercial lending represented 59% of the loan portfolio at both September 30, 2013 and December 31, 2012. Consumer lending represented 41% of the loan portfolio at both September 30, 2013 and December 31, 2012.

Commercial real estate loans represented 10% of total loans at both September 30, 2013 and December 31, 2012 and represented 7% and 6% of total assets at September 30, 2013 and December 31, 2012, respectively. See the Credit Risk Management portion of the Risk Management section of this Financial Review for additional information regarding our loan portfolio.

Total loans above include purchased impaired loans of $6.4 billion, or 3% of total loans, at September 30, 2013, and $7.4 billion, or 4% of total loans, at December 31, 2012.

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

The Allowance for Loan and Lease Losses (ALLL) and the Allowance for Unfunded Loan Commitments and Letters of Credit are sensitive to changes in assumptions and judgments and are inherently subjective as they require material estimates, all of which may be susceptible to significant change, including, among others:

- Probability of default,
- Loss given default,
- Exposure at date of default,
- Movement through delinquency stages,
- Amounts and timing of expected 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 historical results.

Higher Risk Loans

Our total ALLL of $3.7 billion at September 30, 2013 consisted of $1.6 billion and $2.1 billion established for the commercial lending and consumer lending categories, respectively. The ALLL included what we believe to be appropriate loss coverage on higher risk loans in the commercial and consumer portfolios. We do not consider government insured or guaranteed loans to be higher risk as defaults have historically been materially mitigated by payments of insurance or guarantee amounts for approved claims. Additional information regarding our higher risk loans is included in the Credit Risk Management portion of the Risk

Management section of this Financial Review and in Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

Purchase Accounting Accretion and Valuation of Purchased Impaired Loans

Information related to purchase accounting accretion and accretable yield for the third quarter and first nine months of 2013 and 2012 follows. Additional information is provided in Note 6 Purchased Loans in the Notes To Consolidated Financial Statements in this Report.

Table 8: Accretion Purchased Impaired Loans

	Three months ended September 30		Nine months ended September 30	
In millions	2013	2012	2013	2012
Accretion on purchased impaired loans				
Scheduled accretion	$ 145	$ 175	$ 452	$ 511
Reversal of contractual interest on impaired loans	(82)	(103)	(250)	(311)
Scheduled accretion net of contractual interest	63	72	202	200
Excess cash recoveries	26	21	87	112
Total	$ 89	$ 93	$ 289	$ 312

Table 9: Purchased Impaired Loans Accretable Yield

In millions	2013	2012
January 1	$ 2,166	$ 2,109
Addition of accretable yield due to RBC Bank (USA) acquisition on March 2, 2012		587
Scheduled accretion	(452)	(511)
Excess cash recoveries	(87)	(112)
Net reclassifications to accretable from non-accretable and other activity (a)	557	191
September 30 (b)	$ 2,184	$ 2,264

(a) Approximately 60% of the net reclassifications for the first nine months of 2013 were driven by the consumer portfolio and were due to improvements of cash expected to be collected on both RBC Bank (USA) and National City loans in future periods. The remaining net reclassifications were predominantly due to future cash flow changes in the commercial portfolio.

(b) As of September 30, 2013, we estimate that the reversal of contractual interest on purchased impaired loans will total approximately $1.2 billion in future periods. This will offset the total net accretable interest in future interest income of $2.2 billion on purchased impaired loans.

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Information related to the valuation of purchased impaired loans at September 30, 2013 and December 31, 2012 follows.

Table 10: Valuation of Purchased Impaired Loans

	September 30, 2013		December 31, 2012	
Dollars in millions	Balance	Net Investment	Balance	Net Investment
Commercial and commercial real estate loans:				
Unpaid principal balance	$ 1,071		$ 1,680	
Purchased impaired mark	(289)		(431)	
Recorded investment	782		1,249	
Allowance for loan losses	(154)		(239)	
Net investment	628	59%	1,010	60%
Consumer and residential mortgage loans:				
Unpaid principal balance	5,805		6,639	
Purchased impaired mark	(189)		(482)	
Recorded investment	5,616		6,157	
Allowance for loan losses	(907)		(858)	
Net investment	4,709	81%	5,299	80%
Total purchased impaired loans:				
Unpaid principal balance	6,876		8,319	
Purchased impaired mark	(478)		(913)	
Recorded investment	6,398		7,406	
Allowance for loan losses	(1,061)		(1,097)	
Net investment	$ 5,337	78%	$ 6,309	76%

The unpaid principal balance of purchased impaired loans decreased to $6.9 billion at September 30, 2013 from $8.3 billion at December 31, 2012 due to payments, disposals and charge-offs of amounts determined to be uncollectible. The remaining purchased impaired mark at September 30, 2013 was $478 million, which was a decrease from $913 million at December 31, 2012. The associated allowance for loan losses remained relatively flat at $1.1 billion. The net investment of $5.3 billion at September 30, 2013 decreased $1.0 billion from $6.3 billion at December 31, 2012. At September 30, 2013, our largest individual purchased impaired loan had a recorded investment of $18 million.

We currently expect to collect total cash flows of $7.5 billion on purchased impaired loans, representing the $5.3 billion net investment at September 30, 2013 and the accretable net interest of $2.2 billion shown in Table 9: Purchased Impaired Loans Accretable Yield.

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 the third quarter of 2013.

Table 11: Weighted Average Life of the Purchased Impaired Portfolios

As of September 30, 2013

In millions	Recorded Investment	WAL (a)
Commercial	$ 186	2.0 years
Commercial real estate	596	1.8 years
Consumer (b)	2,388	4.5 years
Residential real estate	3,228	5.0 years
Total	$ 6,398	4.4 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.

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Purchased Impaired Loans Accretable Difference Sensitivity Analysis

The following table provides a sensitivity analysis on the 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	September 30, 2013	Declining Scenario (a)	Improving Scenario (b)
Expected Cash Flows	$ 7.5	$ (.3)	$ .4
Accretable Difference	2.2	(.1)	.1
Allowance for Loan and Lease Losses	(1.1)	(.2)	.3

(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.

The impact of declining cash flows is primarily reflected as immediate impairment (allowance for loan losses). The impact of increased cash flows is first recognized as a reversal of the allowance with any additional cash flow increases reflected as an increase in accretable yield over the life of the loan.

Net Unfunded Credit Commitments

Net unfunded credit commitments are comprised of the following:

Table 13: Net Unfunded Credit Commitments

In millions	September 30 2013	December 31 2012
Total commercial lending (a)	$ 86,248	$ 78,703
Home equity lines of credit	18,911	19,814
Credit card	16,971	17,381
Other	4,447	4,694
Total	$ 126,577	$ 120,592

(a) Less than 5% of total net unfunded credit 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. Commercial commitments reported above exclude syndications, assignments and participations, primarily to financial institutions, totaling $23.5 billion at September 30, 2013 and $22.5 billion at December 31, 2012.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $1.4 billion at both September 30, 2013 and December 31, 2012 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 $10.6 billion at September 30, 2013 and $11.5 billion at December 31, 2012. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Information regarding our Allowance for unfunded loan commitments and letters of credit is included in Note 7 Allowance for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

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INVESTMENT SECURITIES

Table 14: Investment Securities

	September 30, 2013		December 31, 2012	
In millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Total securities available for sale (a)	$ 45,046	$ 45,762	$ 49,447	$ 51,052
Total securities held to maturity	11,498	11,702	10,354	10,860
Total securities	$ 56,544	$ 57,464	$ 59,801	$ 61,912

(a) Includes $318 million of both amortized cost and fair value of securities classified as corporate stocks and other at September 30, 2013. Comparably, at December 31, 2012, amortized cost and fair value of these corporate stocks and other was $367 million. The remainder of securities available for sale are debt securities.

The carrying amount of investment securities totaled $57.3 billion at September 30, 2013, which was made up of $45.8 billion of securities available for sale carried at fair value and $11.5 billion of securities held to maturity carried at amortized cost. Comparably, at December 31, 2012, the carrying value of investment securities totaled $61.4 billion of which $51.0 billion represented securities available for sale carried at fair value and $10.4 billion of securities held to maturity carried at amortized cost.

The decrease in the carrying amount of investment securities of $4.1 billion since December 31, 2012 resulted primarily from a decline in agency residential mortgage-backed securities due to principal payments partially offset by net purchase activity. Investment securities represented 19% of total assets at September 30, 2013 and 20% at December 31, 2012.

We evaluate our portfolio of investment securities 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. U.S. Treasury and government agencies, agency residential mortgage-backed, and agency commercial mortgage-backed securities collectively represented 56% of the investment securities portfolio at September 30, 2013.

During the third quarter of 2013, we transferred securities with a fair value of $1.9 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, taking into consideration market conditions and changes to

regulatory capital requirements under Basel III capital standards. See additional discussion of this transfer in Note 8 Investment Securities in our Notes To Consolidated Financial Statements included in Part I, Item I of this Report.

At September 30, 2013, the securities available for sale portfolio included a net unrealized gain of $.7 billion, which represented the difference between fair value and amortized cost. The comparable balance at December 31, 2012 was $1.6 billion. The decrease in the net unrealized gain since December 31, 2012 resulted from an increase in market interest rates and widening asset spreads. 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 and losses in the securities available for sale portfolio are included in Shareholders equity as Accumulated other comprehensive income or loss, net of tax, on our Consolidated Balance Sheet.

Additional information regarding our investment securities is included in Note 8 Investment Securities and Note 9 Fair Value in our Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

Unrealized gains and losses on available for sale securities do not impact liquidity or risk-based capital under currently effective capital rules. However, reductions in the credit ratings of these securities could have an impact on the liquidity of the securities or the determination of risk-weighted assets, which could reduce our regulatory capital ratios under currently effective capital rules. In addition, the amount representing the credit-related portion of other-than-temporary impairment (OTTI) on available for sale securities would reduce our earnings and regulatory capital ratios.

The weighted-average expected life of investment securities (excluding corporate stocks and other) was 4.6 years at September 30, 2013 and 4.0 years at December 31, 2012.

The duration of investment securities was 2.8 years at September 30, 2013. We estimate that, at September 30, 2013, the effective duration of investment securities was 2.9 years for an immediate 50 basis points parallel increase in interest rates and 2.7 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2012 were 2.3 years and 2.2 years, respectively.

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The following table provides details regarding the vintage, current credit rating and FICO score of the underlying collateral at origination, where available, for residential mortgage-backed, commercial mortgage-backed and other asset-backed securities held in the available for sale and held to maturity portfolios:

Table 15: Vintage, Current Credit Rating and FICO Score for Asset-Backed Securities

As of September 30, 2013	Agency		Non-agency		
Dollars in millions	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Residential Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	Asset-Backed Securities (a)
Fair Value Available for Sale	$ 22,612	$ 673	$ 5,645	$ 3,666	$ 5,915
Fair Value Held to Maturity	5,178	1,310	297	2,154	1,082
Total Fair Value	$ 27,790	$ 1,983	$ 5,942	$ 5,820	$ 6,997
% of Fair Value:					
By Vintage					
2013	19%	5%	6%	13%	
2012	16%	1%	1%	12%	
2011	20%	47%		5%	
2010	20%	11%	1%	5%	2%
2009	9%	18%		2%	1%
2008	2%	3%			1%
2007	2%	2%	24%	10%	1%
2006	1%	3%	19%	18%	6%
2005 and earlier	5%	10%	47%	35%	5%
Not Available	6%		2%		84%
Total	100%	100%	100%	100%	100%
By Credit Rating (at September 30, 2013)					
Agency	100%	100%			
AAA			8%	67%	66%
AA			1%	12%	24%
A			1%	10%	1%
BBB			3%	4%	
BB			11%	2%	
B			6%	1%	1%
Lower than B			66%		8%
No rating			4%	4%	
Total	100%	100%	100%	100%	100%
By FICO Score (at origination)					
>720			53%		
<720 and >660			35%		6%
<660					2%
No FICO score			12%		92%
Total			100%		100%

(a) Available for sale asset-backed securities include $2 million of available for sale agency asset-backed securities.

We conduct a comprehensive security-level impairment assessment quarterly on all securities. For those securities in an unrealized loss position, we determine whether the loss represents OTTI. Our assessment considers the security structure, recent security collateral performance metrics, external credit ratings, failure of the issuer to make scheduled interest or principal payments, our judgment and expectations of future performance, and relevant independent industry research, analysis and forecasts.

We also consider the severity of the impairment and the length of time that the security has been impaired in our assessment. Results of the periodic assessment are reviewed by a cross-functional senior management team representing Asset &

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Liability Management, Finance and Market Risk Management. The senior management team considers the results of the assessments, as well as other factors, in determining whether the impairment is other-than-temporary.

For those debt securities where we do not intend to sell and believe we will not be required to sell the securities prior to expected recovery, we recognize the credit portion of OTTI charges in current earnings and the noncredit portion of OTTI is included 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.

We recognized OTTI for the third quarter and first nine months of 2013 and 2012 as follows:

Table 16: Other-Than-Temporary Impairments

	Three months ended September 30		Nine months ended September 30	
In millions	2013	2012	2013	2012
Credit portion of OTTI losses (a)				
Non-agency residential mortgage-backed		$ 23	$ 10	$ 86
Asset-backed	$ 2	1	6	9
Other debt				1
Total credit portion of OTTI losses	2	24	16	96
Noncredit portion of OTTI losses (recoveries) (b)		2	(3)	(22)
Total OTTI losses	$ 2	$ 26	$ 13	$ 74

(a) Reduction of Noninterest income on our Consolidated Income Statement.
(b) Included in Accumulated other comprehensive income (loss), net of tax, on our Consolidated Balance Sheet and in Net unrealized gains (losses) on OTTI securities on our Consolidated Statement of Comprehensive Income.

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The following table summarizes net unrealized gains and losses recorded on non-agency residential and commercial mortgage-backed securities and other asset-backed securities, which represent our most significant categories of securities not backed by the U.S. government or its agencies. A summary of all OTTI credit losses recognized for the first nine months of 2013 by investment type is included in Note 8 Investment Securities in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Table 17: Net Unrealized Gains and Losses on Non-Agency Securities

As of September 30, 2013	Residential Mortgage-Backed Securities		Commercial Mortgage-Backed Securities		Asset-Backed Securities (a)	
In millions	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain	Fair Value	Net Unrealized Gain (Loss)
Available for Sale Securities (Non-Agency)						
Credit Rating Analysis						
AAA	$ 167	$ (1)	$ 1,937	$ 37	$ 3,778	$ 9
Other Investment Grade (AA, A, BBB)	311	25	1,327	75	1,540	13
Total Investment Grade	478	24	3,264	112	5,318	22
BB	648	(65)	138	4	4	
B	382	(10)	58	3	42	
Lower than B	3,908	109			524	(5)
Total Sub-Investment Grade	4,938	34	196	7	570	(5)
Total No Rating	229	17	206	3	25	(11)
Total	$ 5,645	$ 75	$ 3,666	$ 122	$ 5,913	$ 6
OTTI Analysis						
Investment Grade:						
OTTI has been recognized						
No OTTI recognized to date	$ 478	$ 24	$ 3,264	$ 112	$ 5,318	$ 22
Total Investment Grade	478	24	3,264	112	5,318	22
Sub-Investment Grade:						
OTTI has been recognized	3,319	(36)			538	(5)
No OTTI recognized to date	1,619	70	196	7	32	
Total Sub-Investment Grade	4,938	34	196	7	570	(5)
No Rating:						
OTTI has been recognized	131	1			25	(11)
No OTTI recognized to date	98	16	206	3		
Total No Rating	229	17	206	3	25	(11)
Total	$ 5,645	$ 75	$ 3,666	$ 122	$ 5,913	$ 6
Securities Held to Maturity (Non-Agency)						
Credit Rating Analysis						
AAA	$ 297	$ 1	$ 1,948	$ 20	$ 847	$ (2)
Other Investment Grade (AA, A, BBB)			206	7	226	2
Total Investment Grade	297	1	2,154	27	1,073	
BB					9	
B						
Lower than B						
Total Sub-Investment Grade					9	
Total No Rating						
Total	$ 297	$ 1	$ 2,154	$ 27	$ 1,082	$

(a) Excludes $2 million of available for sale agency asset-backed securities.

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Residential Mortgage-Backed Securities

At September 30, 2013, our residential mortgage-backed securities portfolio was comprised of $27.8 billion fair value of U.S. government agency-backed securities and $5.9 billion fair value of non-agency (private issuer) securities. The residential mortgage-backed securities are generally collateralized by 1-4 family fixed and floating-rate residential mortgages**.** The mortgage loans underlying the securities generally have interest rates that are fixed for a period of time, after which the rate adjusts to a floating rate based upon a contractual spread that is indexed to a market rate (i.e., a hybrid ARM), or interest rates that are fixed for the term of the loan.

Substantially all of the non-agency securities are senior tranches in the securitization structure and at origination had credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts.

During the first nine months of 2013, we recorded OTTI credit losses of $10 million on non-agency residential mortgage-backed securities. All of the losses were associated with securities rated below investment grade or with no rating. As of September 30, 2013, the net unrealized loss recorded in Accumulated other comprehensive income for non-agency residential mortgage-backed securities for which we have recorded an OTTI credit loss totaled $35 million and the related securities had a fair value of $3.5 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of September 30, 2013 totaled $1.6 billion, with unrealized net gains of $70 million. Based on the results of our security-level assessments, we anticipate recovering the cost basis of these securities.

Commercial Mortgage-Backed Securities

The fair value of the non-agency commercial mortgage-backed securities portfolio was $5.8 billion at September 30, 2013 and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings and multi-family housing. The agency commercial mortgage-backed securities portfolio had a fair value of $2.0 billion at September 30, 2013 and consisted of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

There were no OTTI credit losses on commercial mortgage-backed securities during the first nine months of 2013.

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $7.0 billion at September 30, 2013. The portfolio consisted of fixed-rate and floating-rate securities collateralized by various consumer credit products, primarily student loans and residential mortgage loans, as well as securities backed by

corporate debt. Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts. Substantially all of the student loans in the securitizations are guaranteed by an agency of the U.S. government.

We recorded OTTI credit losses of $6 million on asset-backed securities during the first nine months of 2013. All of the securities are collateralized by first and second lien residential mortgage loans and are rated below investment grade. As of September 30, 2013, the net unrealized loss recorded in Accumulated other comprehensive income for asset-backed securities for which we have recorded an OTTI credit loss totaled $16 million and the related securities had a fair value of $563 million.

For the sub-investment grade investment securities for which we have not recorded an OTTI loss through September 30, 2013, the fair value was $41 million, with no unrealized net losses recorded. Based on the results of our security-level assessments, we anticipate recovering the cost basis of these securities.

Note 8 Investment Securities in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report provides additional information on OTTI losses and further details regarding our process for assessing OTTI.

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

Loans Held for Sale

Table 18: Loans Held For Sale

In millions	September 30 2013	December 31 2012
Commercial mortgages at fair value	$ 612	$ 772
Commercial mortgages at lower of cost or fair value	173	620
Total commercial mortgages	785	1,392
Residential mortgages at fair value	1,554	2,096
Residential mortgages at lower of cost or fair value	59	124
Total residential mortgages	1,613	2,220
Other	1	81
Total	$ 2,399	$ 3,693

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For commercial mortgages held for sale designated at fair value, we stopped originating these and continue to pursue opportunities to reduce these positions. At September 30, 2013, the balance relating to these loans was $612 million compared to $772 million at December 31, 2012. For commercial mortgages held for sale carried at lower of cost or fair value, we sold $2.1 billion during the first nine months of 2013 compared to $1.4 billion during the first nine months of 2012. All of these loan sales were to government agencies. Total gains of $57 million were recognized on the valuation and sale of commercial mortgage loans held for sale, net of hedges, during the first nine months of 2013, including $14 million in the third quarter. Comparable amounts were $13 million during the first nine months of 2012 and modest losses in the third quarter.

Residential mortgage loan origination volume was $12.6 billion in the first nine months of 2013 compared to $10.8 billion for the first nine months of 2012. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $12.1 billion of loans and recognized related gains of $470 million during the first nine months of 2013, of which $108 million occurred in the third quarter. The comparable amounts for the first nine months of 2012 were $10.5 billion and $534 million, respectively, including $216 million in the third quarter.

Interest income on loans held for sale was $126 million in the first nine months of 2013, including $41 million in the third quarter. Comparable amounts for 2012 were $127 million and $32 million, respectively. These amounts are included in Other interest income on our Consolidated Income Statement.

Additional information regarding our loan sale and servicing activities is included in Note 3 Loan Sales and Servicing Activities and Variable Interest Entities and Note 9 Fair Value in our Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $11.3 billion at September 30, 2013 and $10.9 billion at December 31, 2012. The increase of $.4 billion was primarily due to additions and changes in value of mortgage and other loan servicing rights. See additional information regarding our goodwill and intangible assets in Note 10 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

FUNDING AND CAPITAL SOURCES

Table 19: Details Of Funding Sources

In millions	September 30 2013	December 31 2012
Deposits		
Money market	$ 107,827	$ 102,706
Demand	73,963	73,995
Retail certificates of deposit	21,488	23,837
Savings	10,957	10,350
Time deposits in foreign offices and other time deposits	1,839	2,254
Total deposits	216,074	213,142
Borrowed funds		
Federal funds purchased and repurchase agreements	3,165	3,327
Federal Home Loan Bank borrowings	8,479	9,437
Bank notes and senior debt	11,924	10,429
Subordinated debt	7,829	7,299
Commercial paper	6,994	8,453
Other	1,882	1,962
Total borrowed funds	40,273	40,907
Total funding sources	$ 256,347	$ 254,049

See the Liquidity Risk Management portion of the Risk Management section of this Financial Review and Note 20 Subsequent Events in the Notes To Consolidated Financial Statements of this Report for additional information regarding our 2013 capital and liquidity activities.

Total funding sources increased $2.3 billion at September 30, 2013 compared with December 31, 2012.

Total deposits increased $2.9 billion at September 30, 2013 compared with December 31, 2012 due to increases in money market and savings accounts, partially offset by decreases in retail certificates of deposit and time deposits in foreign offices and other time deposits. Interest-bearing deposits represented 68% of total deposits at September 30, 2013 compared to 67% at December 31, 2012. Total borrowed funds decreased $.6 billion since December 31, 2012 as a result of declines in commercial paper and FHLB borrowings, partially offset by higher bank notes and senior debt as well as subordinated debt.

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Capital

Table 20: Shareholders Equity

In millions	September 30 2013	December 31 2012
Shareholders equity		
Preferred stock (a)		
Common stock	$ 2,695	$ 2,690
Capital surplus preferred stock	3,940	3,590
Capital surplus common stock and other	12,310	12,193
Retained earnings	22,561	20,265
Accumulated other comprehensive income (loss)	47	834
Common stock held in treasury at cost	(423)	(569)
Total shareholders equity	$ 41,130	$ 39,003

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

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

Total shareholders equity increased $2.1 billion, to $41.1 billion at September 30, 2013, compared with December 31, 2012 primarily reflecting an increase in retained earnings of $2.3 billion (driven by net income of $3.2 billion and the impact of $.9 billion of dividends declared) and an increase of

$.4 billion in capital surplus-preferred stock due to the net issuances of preferred stock. These increases were partially offset by the decline of accumulated other comprehensive income of $.8 billion primarily due to the impact of an increase in market interest rates and widening asset spreads on securities available for sale and derivatives that are part of cash flow hedging strategies. Common shares outstanding were 532 million at September 30, 2013 and 528 million at December 31, 2012.

See the Liquidity Risk Management portion of the Risk Management section of this Financial Review for additional information regarding our April 2013 redemption of our Series L Preferred Stock and our May 2013 issuance of our Series R Preferred Stock.

Our current common stock repurchase program 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 and the potential impact on our credit ratings. We do not expect to repurchase any shares under this program in 2013. We did not include any such share repurchases in our 2013 capital plan submitted to the Federal Reserve, primarily as a result of PNC s 2012 acquisition of RBC Bank (USA) and expansion into Southeastern markets.

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Table 21: Basel I Risk-Based Capital

Dollars in millions	September 30 2013	December 31 2012
Capital components		
Shareholders equity		
Common	$ 37,190	$ 35,413
Preferred	3,940	3,590
Trust preferred capital securities	199	331
Noncontrolling interests	986	1,354
Goodwill and other intangible assets (a)	(9,690)	(9,798)
Eligible deferred income taxes on goodwill and other intangible assets	340	354
Pension and other postretirement benefit plan adjustments	730	777
Net unrealized securities (gains)/losses, after-tax	(499)	(1,052)
Net unrealized (gains)/losses on cash flow hedge derivatives, after-tax	(312)	(578)
Other	(219)	(165)
Tier 1 risk-based capital	32,665	30,226
Subordinated debt	5,696	4,735
Eligible allowance for credit losses	3,341	3,276
Total risk-based capital	$ 41,702	$ 38,237
Tier 1 common capital		
Tier 1 risk-based capital	$ 32,665	$ 30,226
Preferred equity	(3,940)	(3,590)
Trust preferred capital securities	(199)	(331)
Noncontrolling interests	(986)	(1,354)
Tier 1 common capital	$ 27,540	$ 24,951
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	$ 266,698	$ 260,847
Adjusted average total assets	293,421	291,426
Basel I capital ratios		
Tier 1 common	10.3%	9.6%
Tier 1 risk-based	12.3	11.6
Total risk-based	15.6	14.7
Leverage	11.1	10.4

(a) Excludes commercial and residential mortgage servicing rights of $1.6 billion at September 30, 2013 and $1.1 billion at December 31, 2012. These assets are included in risk-weighted assets at their applicable risk weights except for a haircut that is included in Other which is a deduction from capital.

Federal banking regulators have stated that they expect all bank holding companies to have a level and composition of Tier 1 capital well in excess of the 4% Basel I regulatory minimum, and they 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. They have also stated their view that common equity should be the dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels. We seek to manage our capital consistent with these regulatory principles, and believe that our September 30, 2013 capital levels were aligned with them.

The Basel III final rules that become effective on January 1, 2014 would, among other things, eliminate the Tier 1 treatment of trust preferred securities for bank holding companies with $15 billion or more in assets following a phase-in period that begins in 2014. In the third quarter of 2013, we concluded our redemptions of the discounted trust preferred securities assumed in our acquisitions. See Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in Item 8 of our 2012 Form 10-K and Note 11 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in this Report for additional discussion of our previous redemptions of trust preferred securities.

Our Basel I Tier 1 common capital ratio was 10.3% at September 30, 2013, compared with 9.6% at December 31, 2012. Our Basel I Tier 1 risk-based capital ratio increased 70 basis points to 12.3% at September 30, 2013 from 11.6% at December 31, 2012. Our

Basel I total risk-based capital ratio increased 90 basis points to 15.6% at September 30, 2013 from 14.7% at December 31, 2012. Basel I capital ratios increased in all comparisons primarily due to growth in retained earnings. The net issuance of preferred stock during the nine months ended September 30, 2013 partially offset by the redemption of trust preferred securities favorably impacted the September 30, 2013 Basel I Tier 1 risk-based and Basel I total risk-based capital ratios. Basel I risk-weighted assets increased $5.9 billion to $266.7 billion at September 30, 2013.

At September 30, 2013, PNC and PNC Bank, N.A., our domestic bank subsidiary, were both considered well capitalized based on U.S. regulatory capital ratio requirements under Basel I. To qualify as well-capitalized, regulators currently require bank holding companies and banks to maintain Basel I capital ratios of at least 6% for Tier 1 risk-based, 10% for total risk-based, and 5% for leverage. We believe PNC and PNC Bank, N.A. will continue to meet these requirements during the remainder of 2013.

PNC and PNC Bank, N.A. entered the parallel run qualification phase under the Basel II capital framework on January 1, 2013. 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 modify the Basel II risk-weighting framework. See Recent Market and Industry Developments in the Executive Summary section of this Financial Review and Item 1 Business Supervision and Regulation and Item 1A Risk Factors in our 2012 Form 10-K. Prior to fully implementing the advanced approaches established by these rules to calculate risk-weighted assets, PNC and PNC Bank, N.A. must successfully complete a parallel run qualification phase. This phase must last at least four consecutive quarters, although, consistent with the experience of other U.S. banks, we currently anticipate a multi-year parallel run period.

We provide information below regarding PNC s pro forma fully phased-in Basel III Tier 1 common capital ratio and how it differs from the Basel I Tier 1 common capital ratio. This Basel III ratio, which is calculated using PNC s estimated Basel III advanced approaches risk-weighted assets, will replace the current Basel I ratio for this regulatory metric when PNC exits the parallel run qualification phase.

The Federal Reserve Board announced final rules implementing Basel III on July 2, 2013. Our estimate of Basel III capital information set forth below is based on our current understanding of the final Basel III rules.

Table 22: Estimated Pro forma Basel III Tier 1 Common Capital Ratio

Dollars in millions	September 30 2013	December 31 2012
Basel I Tier 1 common capital	$ 27,540	$ 24,951
Less regulatory capital adjustments:		
Basel III quantitative limits	(2,011)	(2,330)
Accumulated other comprehensive income (a)	(231)	276
All other adjustments	(49)	(396)
Estimated Basel III Tier 1 common capital	$ 25,249	$ 22,501
Estimated Basel III risk-weighted assets	289,063	301,006
Pro forma Basel III Tier 1 common capital ratio	8.7%	7.5%

(a) Represents net adjustments related to accumulated other comprehensive income for available for sale securities and pension and other postretirement benefit plans.

Tier 1 common capital as defined under the Basel III rules 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 Tier 1 common capital. Also, Basel I regulatory capital excludes certain other comprehensive income related to both available for sale securities and pension and other postretirement plans, whereas under Basel III these items are a component of PNC s capital. Basel III risk-weighted assets were estimated under the advanced approaches included in the Basel III rules and application of Basel II.5, and reflect credit, market and operational risk.

PNC utilizes this capital ratio estimate to assess its Basel III capital position (without the benefit of phase-ins), including comparison to similar estimates made by other financial institutions. This Basel III capital estimate is likely to be impacted by any additional regulatory guidance, continued analysis by PNC as to the application of the rules to PNC, and the ongoing evolution, validation and regulatory approval of PNC s models integral to the calculation of advanced approaches risk-weighted assets.

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 enhanced capital requirements and some of their potential impacts on PNC in Item 1A Risk Factors included in our 2012 Form 10-K.

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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 our 2012 Form 10-K and in the following sections of this Report:

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Financial Review,
- Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements,
- Note 11 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements, and
- Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements.

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

A summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements, as of September 30, 2013 and December 31, 2012 is included in Note 3 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 that were issued by a subsidiary statutory trust (both amounts as of September 30, 2013). 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, as described in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in our 2012 Form 10-K. See the Liquidity Risk Management portion of the Risk Management section of this Financial Review for additional information regarding our first quarter 2013 redemption of the REIT Preferred Securities issued by PNC Preferred Funding Trust III and additional discussion of redemptions of trust preferred securities.

Fair Value Measurements

In addition to the following, see Note 9 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and in our 2012 Form 10-K for further information regarding fair value.

The following table summarizes the assets and liabilities measured at fair value at September 30, 2013 and December 31, 2012, respectively, and the portions of such assets and liabilities that are classified within Level 3 of the valuation hierarchy.

Table 23: Fair Value Measurements Summary

	September 30, 2013		December 31, 2012	
In millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	$ 59,976	$ 10,662	$ 68,352	$ 10,988
Total assets at fair value as a percentage of consolidated assets	19%		22%	
Level 3 assets as a percentage of total assets at fair value		18%		16%
Level 3 assets as a percentage of consolidated assets		3%		4%
Total liabilities	$ 5,045	$ 570	$ 7,356	$ 376

Total liabilities at fair value as a percentage of consolidated liabilities	2%	3%
Level 3 liabilities as a percentage of total liabilities at fair value	11%	5%
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 and asset-backed securities in the securities available for sale portfolio for which there was limited market activity.