PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
May 03, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2019
or

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

For the transition period from to

Commission file number 001-09718
The PNC Financial Services Group, Inc.
(Exact name of registrant as specified in its charter)

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

The Tower at PNC Plaza, 300 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2401
(Address of principal executive offices, including zip code)

(888) 762-2265
(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

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

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

As of April 19, 2019, there were 451,437,916 shares of the registrant’s common stock ($5 par value) outstanding.

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FINANCIAL REVIEW
THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Quarterly Report on Form 10-Q (the Report or Form 10-Q) and with Items 6, 7, 8 and 9A of our 2018 Annual Report on Form 10-K (2018 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following: the Risk Management section of this Financial Review and of Item 7 in our 2018 Form 10-K; Item 1A Risk Factors included in our 2018 Form 10-K; and the Legal Proceedings and Commitments Notes of the Notes To Consolidated Financial Statements included in Item 1 of this Report and Item 8 of our 2018 Form 10-K. Also, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and the Critical Accounting Estimates And Judgments section in this Financial Review and in our 2018 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 14 Segment Reporting in the Notes To Consolidated Financial Statements included in this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis. In this Report, “PNC”, “we” or “us” refers to The PNC Financial Services Group, Inc. and its subsidiaries on a consolidated basis (except when referring to PNC as a public company, its common stock or other securities issued by PNC, which just refer to The PNC Financial Services Group, Inc.). References to The PNC Financial Services Group, Inc. or to any of its subsidiaries are specifically made where applicable.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data Unaudited	Three months ended March 31 2019	2018
Financial Results (a)		
Revenue		
Net interest income	$2,475	$2,361
Noninterest income	1,811	1,750
Total revenue	4,286	4,111
Provision for credit losses	189	92
Noninterest expense	2,578	2,527
Income before income taxes and noncontrolling interests	$1,519	$1,492
Net income	$1,271	$1,239
Less:		
Net income attributable to noncontrolling interests	10	10
Preferred stock dividends	63	63
Preferred stock discount accretion and redemptions	1	1
Net income attributable to common shareholders	1,197	1,165
Less:		
Dividends and undistributed earnings allocated to participating securities	5	5
Impact of BlackRock earnings per share dilution	3	2
Net income attributable to diluted common shares	$1,189	$1,158
Diluted earnings per common share	$2.61	$2.43
Cash dividends declared per common share	$.95	$.75
Effective tax rate (b)	16.3 %	17.0 %
Performance Ratios		

Net interest margin (c)	2.98 %	2.91 %
Noninterest income to total revenue	42 %	43 %
Efficiency	60 %	61 %
Return on:		
Average common shareholders' equity	11.13 %	11.04 %
Average assets	1.34 %	1.34 %

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

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

(c) Calculated as annualized taxable-equivalent net interest income divided by average interest-earning assets. To provide more meaningful comparisons of net interest margins, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under GAAP in the Consolidated Income Statement. For additional information, see Reconciliation of Taxable-Equivalent Net Interest Income (Non-GAAP) in the Statistical Information (Unaudited) section in Item 1 of this Report.

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

Unaudited	March 31 2019	December 31 2018	March 31 2018
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$392,837	$382,315	$379,161
Loans	$232,293	$226,245	$221,614
Allowance for loan and lease losses	$2,692	$2,629	$2,604
Interest-earning deposits with banks (b)	$15,261	$10,893	$28,821
Investment securities	$83,869	$82,701	$74,562
Loans held for sale	$686	$994	$965
Equity investments (c)	$12,567	$12,894	$12,008
Mortgage servicing rights	$1,812	$1,983	$1,979
Goodwill	$9,218	$9,218	$9,218
Other assets	$34,761	$34,408	$27,949
Noninterest-bearing deposits	$71,606	$73,960	$78,303
Interest-bearing deposits	$199,615	$193,879	$186,401
Total deposits	$271,221	$267,839	$264,704
Borrowed funds	$59,860	$57,419	$58,039
Total shareholders' equity	$48,536	$47,728	$46,969
Common shareholders' equity	$44,546	$43,742	$42,983
Accumulated other comprehensive income (loss)	$(5)	$(725)	$(699)
Book value per common share	$98.47	$95.72	$91.39
Period-end common shares outstanding (in millions)	452	457	470
Loans to deposits	86%	84%	84%
Common shareholders' equity to total assets	11.3%	11.4%	11.3%
Client Assets (in billions)			
Discretionary client assets under management	$158	$148	$148
Nondiscretionary client assets under administration	130	124	129
Total client assets under administration	288	272	277
Brokerage account client assets	51	47	49
Total client assets	$339	$319	$326
Basel III Capital Ratios (d)			
Common equity Tier 1	9.8%	9.6%	9.6%
Tier 1 risk-based	10.9%	10.8%	10.8%
Total capital risk-based (e)	13.0%	13.0%	12.8%
Leverage	9.6%	9.4%	9.4%
Supplementary leverage	8.0%	7.8%	7.9%
Asset Quality			
Nonperforming loans to total loans	.71%	.75%	.83%
Nonperforming assets to total loans, OREO and foreclosed assets	.77%	.80%	.90%
Nonperforming assets to total assets	.45%	.47%	.53%
Net charge-offs to average loans (for the three months ended) (annualized)	.24%	.19%	.21%
Allowance for loan and lease losses to total loans	1.16%	1.16%	1.18%
Allowance for loan and lease losses to total nonperforming loans	163%	155%	141%
Accruing loans past due 90 days or more (in millions)	$590	$629	$628

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

(b)

Amounts include balances held with the Federal Reserve Bank of Cleveland (Federal Reserve Bank) of $15.0 billion, $10.5 billion and $28.6 billion as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

(c) Amounts include our equity interest in BlackRock.

(d) All ratios are calculated based on the standardized approach. See Basel III Capital discussion in the Capital Management portion of the Risk Management section of this Financial Review and the capital discussion in the Banking Regulation and Supervision section of Item 1 Business and Item 1A Risk Factors in our 2018 Form 10-K.

(e) The 2019 and 2018 Basel III Total risk-based capital ratios include nonqualifying trust preferred capital securities of $60 million and $80 million, respectively, that are subject to a phase-out period that runs through 2021.

EXECUTIVE SUMMARY

Headquartered in Pittsburgh, Pennsylvania, we are one of the largest diversified financial services companies in the United States. We have businesses engaged in retail banking, including residential mortgage, corporate and institutional banking and asset management, providing many of our products and services nationally. Our retail branch network is located in markets across the Mid-Atlantic, Midwest and Southeast. We also have strategic international offices in four countries outside the U.S.

Key Strategic Goals

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

We strive to expand and deepen customer relationships by offering a broad range of deposit, credit and fee-based products and services. We are focused on delivering those products and services to our customers with the goal of addressing their financial objectives and putting customers' needs first. Our business model is built on customer loyalty and engagement, understanding our customers' financial goals and offering our diverse products and services to help them achieve financial well-being. Our approach is concentrated on organically growing and deepening client relationships across our businesses that meet our risk/return measures.

We are focused on our strategic priorities, which are designed to enhance value over the long term, and consist of:

- Expanding our leading banking franchise to new markets and digital platforms;
- Deepening customer relationships by delivering a superior banking experience and financial solutions; and
- Leveraging technology to innovate and enhance products, services, security and processes.

Our capital priorities are to support client growth and business investment, maintain appropriate capital in light of economic conditions, the Basel III framework, and other regulatory expectations, and return excess capital to shareholders. For more detail, see the Capital Highlights portion of this Executive Summary and the Liquidity and Capital Management portion of the Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 Business of our 2018 Form 10-K.

Income Statement Highlights

Net income for the first quarter of 2019 increased 3% to $1.3 billion, or $2.61 per diluted common share, compared to $1.2 billion, or $2.43 per diluted common share, for the first quarter of 2018.

- Total revenue increased $175 million, or 4%, to $4.3 billion.
- Net interest income increased $114 million, or 5%, to $2.5 billion.
- Net interest margin increased to 2.98% compared to 2.91% for the first quarter of 2018.
- Noninterest income increased $61 million, or 3%, to $1.8 billion.
- Provision for credit losses was $189 million compared to $92 million for the first quarter of 2018.
- Noninterest expense increased $51 million, or 2%, to $2.6 billion.

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

Balance Sheet Highlights

Our balance sheet was strong and well positioned at March 31, 2019 and December 31, 2018. In comparison to December 31, 2018:

- Total assets increased $10.5 billion to $392.8 billion.
- Total loans increased $6.0 billion, or 3%, to $232.3 billion.
- Total commercial lending grew $6.1 billion, or 4%.

- Total consumer lending decreased $.1 billion.
- Investment securities increased $1.2 billion, or 1%, to $83.9 billion.
- Interest-earning deposits with banks, primarily with the Federal Reserve Bank, increased $4.4 billion, or 40%, to $15.3 billion.
- Total deposits increased $3.4 billion, or 1%, to $271.2 billion.

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

Credit Quality Highlights

Overall credit quality remained strong.

- At March 31, 2019 compared to December 31, 2018:
- Nonperforming assets decreased $23 million, or 1%.
- Overall loan delinquencies decreased $49 million, or 3%, to $1.4 billion.
- Net charge-offs were $136 million in the first quarter of 2019 compared to $113 million for the first quarter of 2018.
- The allowance for loan and lease losses to total loans of 1.16% at March 31, 2019 was unchanged compared to December 31, 2018.

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

Capital Highlights

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

- The Basel III common equity Tier 1 capital ratio was 9.8% at March 31, 2019, compared with 9.6% at December 31, 2018.
- In the first quarter of 2019, we returned $1.2 billion of capital to shareholders through repurchases of 5.9 million common shares for $725 million and dividends on common shares of $438 million.
- Common shareholders' equity increased to $44.5 billion at March 31, 2019 compared to $43.7 billion at December 31, 2018.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for more detail on our 2019 liquidity and capital actions as well as our capital ratios.

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Board of Governors of the Federal Reserve System (Federal Reserve) as part of the Comprehensive Capital Analysis and Review (CCAR) process. For additional information, see the Supervision and Regulation section in Item 1 Business of our 2018 Form 10-K.

Business Outlook

Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than those we are currently expecting and do not take into account potential legal and regulatory contingencies. These statements are based on our view that:

- U.S. economic growth has accelerated over the past two years to above its long-run trend.
- Growth is expected to rebound in the second quarter following a soft first quarter 2019, and slow over the remaining course of 2019 and into 2020.
- Further gradual improvement in the labor market will occur this year, including job gains and rising wages, which would be a positive indicator for consumer spending.
- Trade restrictions and geopolitical concerns are downside risks to the forecast.
- Inflation has slowed in early 2019, to below the Federal Open Market Committee's (FOMC) 2% objective, but is expected to rise in the second half of the year.
- Our baseline forecast is for no change to the federal funds rate in 2019 and 2020, with the rate staying in its current range of 2.25% to 2.50%.

For the second quarter of 2019 compared to the first quarter of 2019, we expect:

- Average loan growth to be up approximately 1%;
- Net interest income to increase by low-single digits, on a percentage basis;

- Fee income to increase by mid-single digits, on a percentage basis. Fee income consists of asset management, consumer services, corporate services, residential mortgage and service charges on deposits;
- The quarterly run rate of other noninterest income to be in the range of $275 million to $325 million, excluding net securities gains (losses) and Visa activity;
- Provision for credit losses to be between $125 million and $200 million; and
- Noninterest expense to increase by low-single digits, on a percentage basis.

For full year 2019 compared to full year 2018, we expect:

- Average loan growth to be between 3% and 4%;
- Revenue growth on the higher end of low-single digits, on a percentage basis;
- Noninterest expense to increase on the lower end of low-single digits, on a percentage basis;
- The effective tax rate to be approximately 17%; and
- To generate positive operating leverage.

See the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2018 Form 10-K for other factors that could cause future events to differ, perhaps materially, from those anticipated in these forward-looking statements.

CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for the first quarter of 2019 was $1.3 billion, or $2.61 per diluted common share, an increase of 3% compared to $1.2 billion, or $2.43 per diluted common share, for the first quarter of 2018. The increase was driven by a 4% increase in revenue, partially offset by a higher provision for credit losses and a 2% increase in noninterest expense. Higher revenue in the comparison reflected a 5% increase in net interest income and a 3% increase in noninterest income.

Net Interest Income

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

	2019			2018		
Three months ended March 31 Dollars in millions	Average Balances	Average Yields/ Rates	Interest Income/ Expense	Average Balances	Average Yields/ Rates	Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$82,318	3.05 %	$627	$74,656	2.78 %	$519
Loans	228,545	4.61 %	2,622	221,104	4.09 %	2,250
Interest-earning deposits with banks	15,017	2.43 %	91	25,667	1.52 %	98
Other	11,068	4.14 %	115	7,904	4.11 %	80
Total interest-earning assets/interest income	$336,948	4.11 %	3,455	$329,331	3.59 %	2,947
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$195,816	.98 %	472	$183,438	.47 %	213
Borrowed funds	59,783	3.21 %	481	59,638	2.31 %	344
Total interest-bearing liabilities/interest expense	$255,599	1.50 %	953	$243,076	.91 %	557
Net interest margin/income (Non-GAAP)		2.98 %	2,502		2.91 %	2,390
Taxable-equivalent adjustments			(27)			(29)
Net interest income (GAAP)			$2,475			$2,361

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

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

Net interest income increased by $114 million, or 5%, in the first quarter of 2019 compared with the first quarter of 2018. This increase reflected higher loan and securities yields and balances, partially offset by higher deposit and borrowing costs and balances. Net interest margin increased 7 basis points reflecting the impact of higher interest

rates.

Average investment securities increased $7.7 billion, or 10%, driven by net purchase activity of agency residential mortgage-backed securities of $4.4 billion and U.S. Treasury and government agency securities of $3.9 billion.

Average investment securities increased to 24% of average interest-earning assets for the first quarter of 2019 compared to 23% for the first quarter of 2018.

Average loans grew $7.4 billion, or 3%, reflecting an increase in average commercial lending of $6.5 billion, or 4%, driven by growth in the Corporate Banking and Business Credit businesses in our Corporate & Institutional Banking segment.

Average consumer lending increased $.9 billion, or 1%. Growth in residential real estate, automobile and credit card was partially offset by declines in home equity and education loans. Lower home equity loans reflected paydowns and payoffs exceeding new originated volume. In addition, runoff of brokered home equity and government guaranteed education loans contributed to the

declines. Average loans represented 68% of average interest-earning assets for the first quarter of 2019 compared to 67% for the first quarter of 2018.

Average interest-earning deposits with banks decreased $10.7 billion, or 41%, reflecting lower average balances held with the Federal Reserve Bank as investment of liquidity continued.

Average interest-bearing deposits grew $12.4 billion, or 7%, reflecting overall deposit and customer growth. Additionally, the increase reflects a shift of commercial deposits to interest-bearing from noninterest-bearing deposits, which declined $5.8 billion to $71.4 billion, as deposit rates have risen. In total, average interest-bearing deposits increased to 77% of average interest-bearing liabilities compared to 75% for the first quarter of 2018.

Further details regarding average loans and deposits are included in the Business Segments Review section of this Financial Review.

Noninterest Income

Table 3: Noninterest Income

	Three months ended March 31			
			Change	
Dollars in millions	2019	2018	$	%
Noninterest income				
Asset management	$437	$455	$(18)	(4)%
Consumer services	371	357	14	4 %
Corporate services	462	429	33	8 %
Residential mortgage	65	97	(32)	(33)%
Service charges on deposits	168	167	1	1 %
Other	308	245	63	26 %
Total noninterest income	$1,811	$1,750	$61	3 %

Noninterest income as a percentage of total revenue was 42% for the first quarter of 2019 compared to 43% for the same period in 2018.

Asset management revenue declined due to changes in the mix of assets under management and lower earnings from our equity investment in BlackRock. PNC's discretionary client assets under management increased to $158 billion at March 31, 2019 compared to $148 billion at March 31, 2018.

Growth in consumer service fees resulted from increases in debit card, credit card, net of rewards, and brokerage fees reflecting continued momentum in customer activity in both transaction trends and customer growth.

Higher corporate services revenue was primarily driven by growth in merger and acquisition advisory fees of $15 million and treasury management product revenue of $14 million.

Residential mortgage revenue decreased as a result of a negative adjustment for residential mortgage servicing rights valuation, net of economic hedge, compared with a benefit in first quarter 2018, and lower loan sales revenue.

The increase in other noninterest income was largely attributable to higher gains on asset sales and higher revenue from private equity investments, partially offset by negative derivative fair value adjustments related to Visa Class B common shares of $31 million in the first quarter of 2019 compared to $2 million in the first quarter of 2018.

Provision For Credit Losses

The provision for credit losses increased $97 million to $189 million in the first quarter of 2019 compared to $92 million in the first quarter of 2018 reflecting loan growth, including new loans and increased utilization, and reserve increases in the auto 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

Table 4: Noninterest Expense

	Three months ended March 31			
			Change	
Dollars in millions	2019	2018	$	%
Noninterest expense				
Personnel	$1,414	$1,354	$60	4 %
Occupancy	215	218	(3)	(1)%
Equipment	273	273	—	—
Marketing	65	55	10	18 %
Other	611	627	(16)	(3)%
Total noninterest expense	$2,578	$2,527	$51	2 %

Noninterest expense increased in the comparison as investments in support of business growth were reflected in higher personnel and marketing expense, which included costs for PNC's national retail digital strategy. These increases were offset in part by a decrease in Federal Deposit Insurance Corporation (FDIC) deposit insurance as a result of the elimination of the surcharge assessment.

PNC continued to focus on disciplined expense management, and for full-year 2019 we have a goal of $300 million in cost savings through our continuous improvement program, which we expect will help fund a portion of our strategic investments.

Effective Income Tax Rate

The effective income tax rate was 16.3% in the first quarter of 2019 compared to 17.0% in the first quarter of 2018.

CONSOLIDATED BALANCE SHEET REVIEW

Table 5: Summarized Balance Sheet Data

	March 31	December 31	Change	
Dollars in millions	2019	2018	$	%
Assets				
Interest-earning deposits with banks	$15,261	$10,893	$4,368	40 %
Loans held for sale	686	994	(308)	(31)%
Investment securities	83,869	82,701	1,168	1 %
Loans	232,293	226,245	6,048	3 %
Allowance for loan and lease losses	(2,692)	(2,629)	(63)	(2)%
Mortgage servicing rights	1,812	1,983	(171)	(9)%
Goodwill	9,218	9,218	—	—
Other, net	52,390	52,910	(520)	(1)%
Total assets	$392,837	$382,315	$10,522	3 %
Liabilities				
Deposits	$271,221	$267,839	$3,382	1 %
Borrowed funds	59,860	57,419	2,441	4 %
Other	13,181	9,287	3,894	42 %
Total liabilities	344,262	334,545	9,717	3 %
Equity				
Total shareholders’ equity	48,536	47,728	808	2 %

Noncontrolling interests	39	42	(3)	(7)%
Total equity	48,575	47,770	805	2 %
Total liabilities and equity	$392,837	$382,315	$10,522	3 %

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

Our balance sheet was strong and well positioned at both March 31, 2019 and December 31, 2018.

- Total assets increased driven by loan growth, higher interest-earning deposits with banks and higher investment securities;
- Total liabilities increased due to deposit growth, higher federal funds purchased and timing of securities purchases;
- Total equity increased as higher retained earnings driven by net income and higher accumulated other comprehensive income (AOCI) was partially offset by share repurchases.

The following discussion provides additional information about the major components of our balance sheet. Information regarding our capital and regulatory compliance is included in the Liquidity and Capital Management portion of the Risk Management section in this Financial Review and in Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements included in our 2018 Form 10-K.

Loans

Table 6: Loans

	March 31	December 31	Change	
Dollars in millions	2019	2018	$	%
Commercial lending				
Commercial	$122,993	$116,834	$6,159	5 %
Commercial real estate	28,101	28,140	(39)	—
Equipment lease financing	7,348	7,308	40	1 %
Total commercial lending	158,442	152,282	6,160	4 %
Consumer lending				
Home equity	25,500	26,123	(623)	(2)%
Residential real estate	19,107	18,657	450	2 %
Automobile	14,707	14,419	288	2 %
Credit card	6,267	6,357	(90)	(1)%
Education	3,707	3,822	(115)	(3)%
Other consumer	4,563	4,585	(22)	—
Total consumer lending	73,851	73,963	(112)	—
Total loans	$232,293	$226,245	$6,048	3 %

Commercial loans increased reflecting broad-based growth across our Corporate Banking, Business Credit and Real Estate businesses within our Corporate & Institutional Banking segment. In Corporate Banking, commercial loans increased primarily driven by asset-backed finance securitizations as well as increased lending to large and midsize corporate clients. In Business Credit, commercial loans increased driven by new originations and higher utilization. In the Real Estate business, increased multifamily agency warehouse lending also contributed to the growth in commercial loans.

For commercial loans by industry and commercial real estate loans by geography, see Loan Portfolio Characteristics and Analysis in the Credit Risk Management portion of the Risk Management section in this Financial Review.

Consumer lending balances decreased as lower home equity loans, education loans, and credit card balances were partially offset by growth in residential real estate and automobile loans.

Home equity loans declined as paydowns and payoffs exceeded new originated volume and brokered home equity loans continued to runoff. Education loans declined primarily due to runoff of the guaranteed education loan portfolio. Credit card balances declined due to seasonally lower consumer spending.

Residential real estate loans increased primarily from originations of nonconforming loans, which are loans that do not meet government agency standards as a result of exceeding agency conforming loan limits. The growth in automobile loans was due to higher indirect auto loans as a result of continued new loan growth and expansion into franchised dealers in new markets.

For information on home equity and residential real estate loans, including by geography, and automobile loans, see Loan Portfolio Characteristics and Analysis in the Credit Risk Management portion of the Risk Management section in this Financial Review.

See the Credit Risk Management portion of the Risk Management section of this Financial Review, Note 3 Asset Quality and Note 4 Allowance for Loan and Lease Losses in our Notes To Consolidated Financial Statements included in this Report, and Note 1 Accounting Policies in our 2018 Form 10-K for additional information regarding our loan portfolio.

Investment Securities

Investment securities of $83.9 billion at March 31, 2019 increased $1.2 billion, or 1%, compared to December 31, 2018, driven by net purchases of U.S. Treasury and government agency securities of $.9 billion and asset-backed securities of $.6 billion, partially offset by a decline of other securities of $.5 billion.

The level and composition of the investment securities portfolio fluctuates over time based on many factors including market conditions, loan and deposit growth, and balance sheet management activities. We manage our investment securities portfolio to optimize returns, while providing a reliable source of liquidity for our banking and other activities, considering the Liquidity Coverage Ratio (LCR) and other internal and external guidelines and constraints.

Table 7: Investment Securities

	March 31, 2019		December 31, 2018		Ratings (a) as of March 31, 2019				
Dollars in millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value	AAA/ AA	A	BBB	BB and Lower	No Rating
U.S. Treasury and government agencies	$19,621	$19,778	$18,862	$18,863	100 %				
Agency residential mortgage-backed	44,866	44,750	45,153	44,407	100 %				
Non-agency residential mortgage-backed	1,983	2,278	2,076	2,365	13 %	2 %	2 %	48 %	35 %
Agency commercial mortgage-backed	2,705	2,681	2,773	2,720	100 %				
Non-agency commercial mortgage-backed (b)	3,304	3,308	3,177	3,145	88 %	5 %			7 %
Asset-backed (c)	5,682	5,739	5,115	5,155	88 %	3 %	3 %	5 %	1 %
Other (d)	5,181	5,325	5,670	5,753	72 %	15 %	9 %	1 %	3 %
Total investment securities (e)	$83,342	$83,859	$82,826	$82,408	95 %	1 %	1 %	2 %	1 %

(a) Ratings percentages allocated based on amortized cost.
(b) Collateralized primarily by retail properties, office buildings, lodging properties and multi-family housing.
(c) Collateralized primarily by corporate debt, government guaranteed education loans and other consumer credit products.
(d) Includes state and municipal securities.
(e) Includes available for sale and held to maturity securities, which are recorded on our balance sheet at fair value and amortized cost, respectively.

Table 7 presents the distribution of our total investment securities portfolio by amortized cost and fair value, as well as by credit rating. We have included credit ratings information because we believe that the information is an indicator of the degree of credit risk to which we are exposed, which could affect our risk-weighted assets and, therefore, our risk-based regulatory capital ratios under the current regulatory capital rules. Changes in credit ratings classifications could indicate increased or decreased credit risk and could be accompanied by a reduction or increase in the fair value of our investment securities portfolio.

The duration of investment securities was 3.1 years at March 31, 2019. We estimate that at March 31, 2019 the effective duration of investment securities was 3.3 years for an immediate 50 basis points parallel increase in interest rates and 2.9 years for an immediate 50 basis points parallel decrease in interest rates.

Based on expected prepayment speeds, the weighted-average expected maturity of the investment securities portfolio was 4.9 years at March 31, 2019 compared to 5.3 years at December 31, 2018.

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

March 31, 2019	Years
Agency residential mortgage-backed	5.6
Non-agency residential mortgage-backed	6.2
Agency commercial mortgage-backed	4.1
Non-agency commercial mortgage-backed	2.7
Asset-backed	2.1

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

Funding Sources
Table 9: Details of Funding Sources

	March 31	December 31	Change	
Dollars in millions	2019	2018	$	%
Deposits				
Noninterest-bearing	$71,606	$73,960	$(2,354)	(3)%
Interest-bearing				
Money market	53,037	53,368	(331)	(1)%
Demand	65,643	65,211	432	1 %
Savings	61,315	56,793	4,522	8 %
Time deposits	19,620	18,507	1,113	6 %
Total interest-bearing deposits	199,615	193,879	5,736	3 %
Total deposits	271,221	267,839	3,382	1 %
Borrowed funds				
Federal Home Loan Bank (FHLB) borrowings	20,501	21,501	(1,000)	(5)%
Bank notes and senior debt	25,598	25,018	580	2 %
Subordinated debt	5,977	5,895	82	1 %
Other	7,784	5,005	2,779	56 %
Total borrowed funds	59,860	57,419	2,441	4 %
Total funding sources	$331,081	$325,258	$5,823	2 %

Total deposits increased as growth in interest-bearing deposits was partially offset by a decrease in noninterest-bearing deposits. The increase in interest-bearing deposits reflected consumer deposit growth, including from the national retail digital strategy. Noninterest-bearing deposits decreased due to seasonal declines in commercial deposits as well as a shift of commercial deposits to interest-bearing.

Borrowed funds increased due to higher federal funds purchased, included in other borrowed funds, and bank notes and senior debt, which were partially offset by decreases in FHLB borrowings. The level and composition of borrowed funds fluctuates over time based on many factors including market conditions, loan, investment securities and deposit growth, and capital considerations. We manage our borrowed funds to provide a reliable source of liquidity for our banking and other activities, considering our LCR and other internal and external guidelines and constraints.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for additional information regarding our 2019 liquidity and capital activities.

Shareholders’ Equity
Total shareholders’ equity was $48.5 billion at March 31, 2019, an increase of $.8 billion compared to December 31, 2018. The increase resulted from net income of $1.3 billion and higher AOCI of $.7 billion related to net unrealized securities gains, partially offset by common share repurchases of $725 million and common and preferred dividends of $438 million.

Common shares outstanding were 452 million and 457 million at March 31, 2019 and December 31, 2018, respectively, as repurchases of 5.9 million shares during the period were partially offset by stock-based compensation activity.
BUSINESS SEGMENTS REVIEW

We have four reportable business segments:

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

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

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

Total business segment financial results differ from total consolidated net income. The impact of these differences is reflected in the “Other” category as shown in Table 71 in Note 14 Segment Reporting in Item 1 of this Report. “Other” includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as asset and liability management activities including net securities gains or losses, other-than-temporary impairment of investment securities, certain trading activities, certain runoff consumer loan portfolios, private equity investments, intercompany eliminations, certain corporate overhead, tax adjustments that are not allocated to business segments, gains or losses related to BlackRock transactions, exited businesses, and differences between business segment performance reporting and financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests as the segments’ results exclude their portion of net income attributable to noncontrolling interests.

Retail Banking

Retail Banking's core strategy is to acquire and retain customers who maintain their primary checking and transaction relationships with us. We seek to deepen relationships by meeting the broad range of our customers’ financial needs with savings, liquidity, lending, investment and retirement solutions. A strategic priority for us is to differentiate the customer experience and drive transformation and automation. A key element of our strategy is to expand the use of lower-cost alternative distribution channels, with an emphasis on digital capabilities, while continuing to optimize the traditional branch network. In addition, we have a disciplined process to continually improve the engagement of both our employees and customers, which is a strong driver of customer growth, retention and relationship expansion. In 2018, we launched our national retail digital strategy designed to grow customers with digitally-led banking and an ultra-thin branch network in markets outside of our existing retail branch network.

Table 10: Retail Banking Table
(Unaudited)

Three months ended March 31			Change	
Dollars in millions, except as noted	2019	2018	$	%
Income Statement				
Net interest income	$1,349	$1,218	$131	11 %
Noninterest income	595	635	(40)	(6)%
Total revenue	1,944	1,853	91	5 %
Provision for credit losses	128	69	59	86 %
Noninterest expense	1,468	1,456	12	1 %
Pretax earnings	348	328	20	6 %
Income taxes	84	79	5	6 %
Earnings	$264	$249	$15	6 %
Average Balance Sheet				
Loans held for sale	$441	$652	$(211)	(32)%
Loans				
Consumer				
Home equity	$22,990	$24,608	$(1,618)	(7)%
Automobile	14,608	13,105	1,503	11 %
Education	3,816	4,409	(593)	(13)%
Credit cards	6,204	5,619	585	10 %
Other	2,068	1,765	303	17 %
Total consumer	49,686	49,506	180	—
Commercial and commercial real estate	10,461	10,527	(66)	(1)%
Residential mortgage	15,034	13,420	1,614	12 %

Total loans	$75,181	$73,453	$1,728	2 %
Total assets	$91,255	$88,734	$2,521	3 %
Deposits				
Noninterest-bearing demand	$30,389	$29,779	$610	2 %
Interest-bearing demand	42,477	41,939	538	1 %
Money market	26,773	32,330	(5,557)	(17)%
Savings	53,100	43,838	9,262	21 %
Certificates of deposit	12,381	12,082	299	2 %
Total deposits	$165,120	$159,968	$5,152	3 %
Performance Ratios				
Return on average assets	1.17 %	1.14 %		
Noninterest income to total revenue	31 %	34 %		
Efficiency	76 %	79 %		

Three months ended March 31			Change	
Dollars in millions, except as noted	2019	2018	$	%
Supplemental Noninterest Income Information				
Consumer services	$277	$266	$11	4 %
Brokerage	$89	$86	$3	3 %
Residential mortgage	$65	$97	$(32)	(33)%
Service charges on deposits	$162	$160	$2	1 %
Residential Mortgage Information				
Residential mortgage servicing statistics (in billions, except as noted) (a)				
Serviced portfolio balance (b)	$123	$125	$(2)	(2)%
Serviced portfolio acquisitions	$1	$1	—	—
MSR asset value (b)	$1.1	$1.3	$(.2)	(15)%
MSR capitalization value (in basis points) (b)	92	101	(9)	(9)%
Servicing income: (in millions)				
Servicing fees, net (c)	$53	$51	$2	4 %
Mortgage servicing rights valuation, net of economic hedge	$(9)	$9	$(18)	(200)%
Residential mortgage loan statistics				
Loan origination volume (in billions)	$1.7	$1.7	—	—
Loan sale margin percentage	2.35 %	2.83 %		
Percentage of originations represented by:				
Purchase volume (d)	56 %	56 %		
Refinance volume	44 %	44 %		
Other Information (b)				
Customer-related statistics (average)				
Non-teller deposit transactions (e)	57 %	54 %		
Digital consumer customers (f)	68 %	64 %		
Credit-related statistics				
Nonperforming assets (g)	$1,109	$1,131	$(22)	(2)%
Net charge-offs	$132	$100	$32	32 %
Other statistics				
ATMs	9,112	9,047	65	1 %
Branches (h)	2,347	2,442	(95)	(4)%
Brokerage account client assets (in billions) (i)	$51	$49	$2	4 %

(a) Represents mortgage loan servicing balances for third parties and the related income.

(b) Presented as of March 31, except for customer-related statistics, which are averages for the three months ended, and net charge-offs, which are for the three months ended.

(c) Servicing fees net of impact of decrease in MSR value due to passage of time, including the impact from both regularly scheduled loan prepayments and loans that were paid down or paid off during the period.

(d) Mortgages with borrowers as part of residential real estate purchase transactions.

(e) Percentage of total consumer and business banking deposit transactions processed at an ATM or through our mobile banking application.

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

(g) Includes nonperforming loans of $1.0 billion and $1.1 billion at March 31, 2019 and March 31, 2018, respectively.

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

(i) Includes cash and money market balances.

Retail Banking earned $264 million in the first three months of 2019 compared with $249 million for the same period in 2018. The increase in earnings was attributable to higher net interest income partially offset by lower noninterest income and increased noninterest expense and provision for credit losses.

Net interest income increased primarily due to wider interest rate spreads on the value of deposits.

The decrease in noninterest income was largely attributed to lower residential mortgage noninterest income, reflecting a negative adjustment for residential mortgage servicing rights valuation, net of economic hedge, compared with a benefit in first quarter 2018, and a decline in loan sales revenue. The decline in loan sales revenue reflected lower gain on sales margins as a result of increased competition in the marketplace. In addition, the impact of negative derivative fair value adjustments related to Visa Class B common shares of $31 million for the first quarter of 2019 compared with $2 million in the same period in 2018 also contributed to the decrease in noninterest income. These decreases were partially offset by growth in consumer service fees, including higher debit and credit card fees, as well as higher brokerage fees and service charges on deposits.

Provision for credit losses increased in 2019 compared to 2018 primarily due to portfolio growth and reserve increases in the auto portfolio.
Higher noninterest expense primarily resulted from an increase in marketing activity, customer-related transactional costs and investments in equipment and technology.

The deposit strategy of Retail Banking is to remain disciplined on pricing and focused on growing and retaining relationship-based balances, executing on market-specific deposit growth strategies and providing a source of low-cost funding and liquidity to PNC. In the first quarter of 2019, average total deposits increased compared to the same period in 2018, as both interest-bearing and noninterest-bearing demand deposits increased. Savings deposits increased, reflecting, in part, a shift from money market deposits to relationship-based savings products as well as growth in consumer deposits, including from the national retail digital strategy. Certificates of deposit increased slightly due to shifts in consumer preferences to time deposits.

Retail Banking average total loans increased in the first quarter of 2019 compared with the same period in 2018.

- Average residential mortgages increased as a result of growth in nonconforming residential mortgage loans.
- Average automobile loans increased primarily due to strong new indirect auto loan volumes, including in our Southeast and new markets, as well as growth in direct auto loans.
- Average credit card balances increased as we continued to focus on our long-term objective of deepening penetration within our existing customer base.
- Average home equity loans decreased as paydowns and payoffs on loans exceeded new originated volume.
- Average education loans decreased driven by a decline in the runoff portfolio of government guaranteed education loans.
- Average commercial and commercial real estate loans declined as paydowns and payoffs on loans exceeded new volume.

Retail Banking continues to enhance the customer experience with refinements to product and service offerings that drive value for consumers and small businesses. We are focused on meeting the financial needs of our customers by providing a broad range of liquidity, banking and investment products. In 2018, Retail Banking launched its national retail digital strategy by offering a high yield savings account in markets outside of our existing retail branch network and opened a retail location in Kansas City. Deposit balances generated through the national retail digital strategy totaled $1.2 billion as of March 31, 2019.

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

- Approximately 68% of consumer customers used non-teller channels for the majority of their transactions in the first three months of 2019 compared with 64% for the same period in 2018.
- Deposit transactions via ATM and mobile channels increased to 57% of total deposit transactions versus 54% for the same period in 2018.

Retail Banking continues to make progress on its multi-year initiative to redesign the home lending process. In 2019, the home equity origination cycle will be the focus as we enhance current capabilities in order to improve speed of delivery and convenience for customers.

Corporate & Institutional Banking

Corporate & Institutional Banking's strategy is to be the leading relationship-based provider of traditional banking products and services to its customers through the economic cycles. We aim to grow our market share and drive higher returns by delivering value-added solutions that help our clients better run their organizations, all while maintaining prudent risk and expense management. We continue to focus on building client relationships where the risk-return profile is attractive.

Table 11: Corporate & Institutional Banking Table
(Unaudited)

Three months ended March 31			Change	
Dollars in millions	2019	2018	$	%
Income Statement				
Net interest income	$898	$882	$16	2 %
Noninterest income	576	547	29	5 %
Total revenue	1,474	1,429	45	3 %
Provision for credit losses	71	41	30	73 %
Noninterest expense	686	653	33	5 %
Pretax earnings	717	735	(18)	(2)%
Income taxes	165	172	(7)	(4)%
Earnings	$552	$563	$(11)	(2)%
Average Balance Sheet				
Loans held for sale	$347	$1,189	$(842)	(71)%
Loans				
Commercial	$108,641	$100,802	$7,839	8 %
Commercial real estate	25,971	26,732	(761)	(3)%
Equipment lease financing	7,264	7,845	(581)	(7)%
Total commercial lending	141,876	135,379	6,497	5 %
Consumer	20	77	(57)	(74)%
Total loans	$141,896	$135,456	$6,440	5 %
Total assets	$157,169	$151,909	$5,260	3 %
Deposits				
Noninterest-bearing demand	$39,551	$45,896	$(6,345)	(14)%
Money market	25,630	23,406	2,224	10 %
Other	23,374	18,592	4,782	26 %
Total deposits	$88,555	$87,894	$661	1 %
Performance Ratios				
Return on average assets	1.42 %	1.50 %		
Noninterest income to total revenue	39 %	38 %		
Efficiency	47 %	46 %		
Other Information				
Consolidated revenue from: (a)				
Treasury Management (b)	$445	$419	$26	6 %
Capital Markets (b)	$246	$258	$(12)	(5)%
Commercial mortgage banking activities:				
Commercial mortgage loans held for sale (c)	$15	$14	$1	7 %
Commercial mortgage loan servicing income (d)	54	55	(1)	(2)%
Commercial mortgage servicing rights valuation, net of economic hedge (e)	5	4	1	25 %
Total	$74	$73	$1	1 %

Commercial mortgage servicing rights asset value (f)	$681	$723	$(42)	(6)%
Average Loans by C&IB business (g)				
Corporate Banking	$71,089	$65,548	$5,541	8 %
Real Estate	36,357	37,252	(895)	(2)%
Business Credit	21,728	20,197	1,531	8 %
Commercial Banking	8,118	8,118	—	—
Other	4,604	4,341	263	6 %
Total average loans	$141,896	$135,456	$6,440	5 %
Credit-related statistics				
Nonperforming assets (f) (h)	$388	$508	$(120)	(24)%
Net charge-offs	$5	$9	$(4)	(44)%

(a) See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of this Corporate & Institutional Banking section.
(b) Includes amounts reported in net interest income and noninterest income.
(c) Includes other noninterest income for valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, originations fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(d) Includes net interest income and noninterest income (primarily in corporate service fees) from loan servicing net of reduction in commercial mortgage servicing rights due to amortization expense and payoffs. Commercial mortgage servicing rights valuation, net of economic hedge is shown separately.
(e) Amounts are reported in corporate service fees.
(f) As of March 31.
(g) As a result of our first quarter 2019 C&IB business realignment, average loans previously reported as Equipment Finance were reclassified to other C&IB businesses for all periods presented.
(h) Includes nonperforming loans of $.4 billion at both March 31, 2019 and March 31, 2018.

Corporate & Institutional Banking earned $552 million in the first three months of 2019 compared to $563 million for the same period in 2018. The decrease was primarily due to higher noninterest expense and a higher provision for credit losses, partially offset by higher revenue.

Net interest income increased in the comparison, primarily due to wider interest rate spreads on the value of deposits and higher average loan balances, partially offset by narrower interest rate spreads on the value of loans.

Growth in noninterest income was primarily driven by higher merger and acquisition advisory fees and treasury management product revenue. An equity investment gain in the first quarter of 2019 also contributed to the increase in noninterest income. These increases were partially offset by lower revenue from credit valuations on customer-related derivative activities.

The increase in provision for credit losses reflected loan growth, including new loans and increased utilization. Overall, credit quality remained stable, as nonperforming assets and net charge-offs declined in the comparison.

Noninterest expense increased largely due to investments in strategic initiatives and variable costs associated with increased business activity.

Average loans increased primarily due to strong growth in Corporate Banking and Business Credit:

- Corporate Banking provides lending, treasury management and capital markets-related products and services to mid-sized and large corporations, and government and not-for-profit entities. Average loans for this business grew in the comparison reflecting increased lending to large and mid-sized corporate clients as well as strong production in asset-backed financing.
- PNC Real Estate provides banking, financing and servicing solutions for commercial real estate clients across the country. Average loans for this business decreased primarily driven by project loan payoffs, partially offset by higher commercial mortgage balances.
- PNC Business Credit provides asset-based lending. The loan portfolio is relatively high yielding, with acceptable risk as the loans are mainly secured by short-term assets. Average loans for this business increased in the comparison as increased utilization and new originations were partially offset by payoffs.
- Commercial Banking provides lending, treasury management and capital markets-related products and services to smaller corporations and businesses. Average loans for this business were relatively unchanged.

The deposit strategy of Corporate & Institutional Banking is to remain disciplined on pricing and focused on growing and retaining relationship-based balances over time, executing on customer and segment-specific deposit growth strategies and continuing to provide funding and liquidity to PNC. Average total deposits increased in the comparison driven by growth in interest-bearing deposits reflecting, in part, a shift from noninterest-bearing deposits in the rising rate environment. We continue to monitor and balance the relationship between increases to rates paid and the overall profitability of our deposit balances.

Corporate & Institutional Banking is expanding its Corporate Banking business, focused on the middle market and larger sectors. We plan to expand into the Boston and Phoenix markets in 2019. This follows expansion into Denver, Houston and Nashville in 2018 and Dallas, Kansas City and Minneapolis in 2017. These locations complement Corporate & Institutional Banking national businesses with a significant presence in these cities, and build on past successes in the markets where PNC’s retail banking presence was limited, such as in the Southeast. Our full suite of commercial products and services is offered in these locations.

Product Revenue

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

The Treasury Management business provides payables, receivables, deposit and account services, liquidity and investments, and online and mobile banking products and services to our clients. Treasury management revenue is reported in noninterest income and net interest income. Noninterest income includes treasury management product revenue less earnings credits provided to customers on compensating deposit balances used to pay for products and services. Net interest income primarily includes revenue from all treasury management customer deposit balances. Compared with the first three months of 2018, treasury management revenue increased primarily due to interest rate spread expansion on deposit balances and higher product revenue.

Capital markets-related products and services include foreign exchange, derivatives, securities underwriting, loan syndications, mergers and acquisitions advisory and equity capital markets advisory related services. Capital markets-related revenue decreased in the comparison, primarily due to lower revenue from credit valuations on customer-related derivatives activities, loan syndications and corporate securities, partially offset by higher merger and acquisition advisory fees.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income) and revenue derived from commercial mortgage loans held for sale and related hedges. Total revenue from commercial mortgage banking activities was stable with the first quarter of 2018.

Asset Management Group

Asset Management Group is focused on being a premier bank-held individual and institutional asset manager in each of the markets it serves. The business seeks to deliver high quality banking, trust and investment management services to our high net worth, ultra high net worth and institutional client sectors through a broad array of products and services. Asset Management Group’s priorities are to serve our clients' financial objectives, grow and deepen customer relationships and deliver solid financial performance with prudent risk and expense management.

Table 12: Asset Management Group Table
(Unaudited)

Three months ended March 31			Change	
Dollars in millions, except as noted	2019	2018	$	%
Income Statement				
Net interest income	$70	$74	$(4)	(5)%
Noninterest income	217	226	(9)	(4)%
Total revenue	287	300	(13)	(4)%
Provision for credit losses (benefit)	(1)	(7)	6	*
Noninterest expense	230	225	5	2 %
Pretax earnings	58	82	(24)	(29)%
Income taxes	13	20	(7)	(35)%
Earnings	$45	$62	$(17)	(27)%
Average Balance Sheet				
Loans				
Consumer	$4,362	$4,785	$(423)	(9)%
Commercial and commercial real estate	752	733	19	3 %
Residential mortgage	1,723	1,517	206	14 %
Total loans	$6,837	$7,035	$(198)	(3)%
Total assets	$7,259	$7,499	$(240)	(3)%
Deposits				
Noninterest-bearing demand	$1,388	$1,466	$(78)	(5)%
Interest-bearing demand	3,076	3,540	(464)	(13)%
Money market	2,036	2,577	(541)	(21)%
Savings	5,723	4,613	1,110	24 %
Other	697	305	392	129 %
Total deposits	$12,920	$12,501	$419	3 %
Performance Ratios				
Return on average assets	2.51 %	3.35 %		
Noninterest income to total revenue	76 %	75 %		
Efficiency	80 %	75 %		
Supplemental Noninterest Income Information				
Asset management fees	$212	$222	$(10)	(5)%
Other Information				
Nonperforming assets (a) (b)	$48	$52	$(4)	(8)%
Net charge-offs	$1	$6	$(5)	(83)%
Client Assets Under Administration (in billions) (a) (c)				
Discretionary client assets under management	$158	$148	$10	7 %
Nondiscretionary client assets under administration	130	129	1	1 %
Total	$288	$277	$11	4 %
Discretionary client assets under management				

Personal	$95	$92	$3	3 %
Institutional	63	56	7	13 %
Total	$158	$148	$10	7 %

* - Not meaningful
(a) As of March 31.
(b) Includes nonperforming loans of $47 million at both March 31, 2019 and March 31, 2018.
(c) Excludes brokerage account client assets.

Asset Management Group earned $45 million in the first three months of 2019 compared to $62 million for the same period in 2018. Earnings decreased due to a decline in revenue and an increase in noninterest expense and the provision for credit losses.

Lower revenue was driven by a decline in asset management fees due to changes in the mix of assets under management.

Noninterest expense increased primarily attributable to higher personnel expenses.

Asset Management Group's discretionary client assets under management increased in the comparison to the prior year, primarily attributable to higher equity markets as of March 31, 2019 and the impact of net business activities.

The Asset Management Group strives to be the leading relationship-based provider of investment, planning, banking and fiduciary services to wealthy individuals and institutions by proactively delivering value-added ideas, solutions and exceptional service.

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

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

BlackRock

We hold an equity investment in BlackRock, a leading publicly-traded investment management firm. Information related to our equity investment in BlackRock follows:

Table 13: BlackRock Table
(Unaudited)

Three months ended March 31 Dollars in millions	2019	2018
Business segment earnings (a)	$197	$197
PNC's economic interest in BlackRock (b)	22 %	22 %

(a) Includes our share of BlackRock's reported GAAP earnings net of income taxes on those earnings incurred by us.
(b) At March 31.

In billions	March 31, 2019	December 31, 2018
Carrying value of our investment in BlackRock (c)	$8.2	$ 8.2
Market value of our investment in BlackRock (d)	$14.9	$ 13.7

(c) We account for our investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $1.7 billion at both March 31, 2019 and December 31, 2018. Our voting interest in BlackRock common stock was approximately 22% at March 31, 2019.
(d) Does not include liquidity discount.

In addition, in the first quarter of 2019 we transferred to BlackRock our remaining 143,458 shares of BlackRock Series C Preferred Stock, which were available to fund our obligation in connection with certain BlackRock long-term incentive plan (LTIP) programs.

Our 2018 Form 10-K includes additional information about our investment in BlackRock.

RISK MANAGEMENT

The Risk Management section included in Item 7 of our 2018 Form 10-K describes our enterprise risk management framework including risk culture, enterprise strategy, risk governance and framework, risk identification, risk assessment, risk controls and monitoring, and risk aggregation and reporting. Additionally, our 2018 Form 10-K provides an analysis of our key areas of risk, which include but are not limited to credit, liquidity and capital, market, operational and compliance.

Credit Risk Management

See the Credit Risk Management portion of the Risk Management section in our 2018 Form 10-K for additional discussion regarding credit risk.

Loan Portfolio Characteristics and Analysis

Table 14: Details of Loans
In billions
We use several asset quality indicators, as further detailed in Note 3 Asset Quality, to monitor and measure our exposure to credit risk within our loan portfolio. The following provides additional information about our significant loan classes.

Commercial
Commercial loans comprised 53% and 52% of our total loan portfolio at March 31, 2019 and December 31, 2018, respectively. The majority of our commercial loans are secured by collateral that provides a secondary source of repayment for the loan should the borrower experience cash generation difficulties. Examples of this collateral include short-term assets, such as accounts receivable, inventory and securities, and long-lived assets, such as equipment, real estate and other business assets.

We actively manage our commercial loans to assess any changes (both positive and negative) in the level of credit risk at both the borrower and portfolio level. To evaluate the level of credit risk, we assign internal risk ratings reflecting our estimates of the borrower's probability of default (PD) and loss given default (LGD) for each related credit facility. This two-dimensional credit risk rating methodology provides granularity in the risk monitoring process and is updated on an ongoing basis through our credit risk management processes. In addition to continual monitoring of the level of credit risk, we also monitor concentrations of credit risk pertaining to both specific industries and geography that may exist in our portfolio. Our portfolio remains stable and well-diversified as shown in the following table which provides a breakout of our commercial loans by industry classification (classified based on the North American Industry Classification System (NAICS)).

Table 15: Commercial Loans by Industry

	March 31, 2019		December 31, 2018	
Dollars in millions	Amount	% of Total	Amount	% of Total
Commercial				
Manufacturing	$22,575	18 %	$21,207	18 %
Retail/wholesale trade	21,655	18	20,850	18
Service providers	15,266	12	14,869	13
Real estate related (a)	12,287	10	12,312	11
Financial services	10,475	9	9,500	8
Health care	8,731	7	8,886	8
Transportation and warehousing	6,744	5	5,781	5
Other industries	25,260	21	23,429	19
Total commercial loans	$122,993	100%	$116,834	100%

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

Commercial Real Estate
Commercial real estate loans comprised $6.3 billion of real estate project loans, $6.9 billion of intermediate term financing loans and $14.9 billion related to commercial mortgages as of March 31, 2019. Comparable amounts were $6.6 billion, $7.1 billion and $14.4 billion, respectively, as of December 31, 2018.

We monitor credit risk associated with our commercial real estate loans similar to commercial loans by analyzing PD and LGD. Additionally, risks associated with these types of credit activities tend to be correlated to the loan structure, collateral location, project progress and business environment. These attributes are also monitored and utilized in assessing credit risk. The portfolio is geographically diverse due to the nature of our business involving clients throughout the U.S. The following table presents our commercial real estate loans by geographic market and property type.

Table 16: Commercial Real Estate Loans by Geography and Property Type

	March 31, 2019		December 31, 2018	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography				
California	$4,131	15 %	$4,154	15 %
Florida	2,235	8	2,157	8
Maryland	1,922	7	1,966	7
Virginia	1,683	6	1,682	6
Texas	1,689	6	1,531	5
Illinois	1,211	4	1,368	5
Pennsylvania	1,068	4	1,214	4
New York	1,065	4	1,151	4
Ohio	1,146	4	1,053	4
North Carolina	899	3	915	3
All other states	11,052	39	10,949	39
Total commercial real estate loans	$28,101	100%	$28,140	100%
Property Type				
Multifamily	$8,588	31 %	$8,770	31 %
Office	7,398	26	7,279	26
Retail	3,980	14	4,065	14
Hotel/Motel	1,666	6	1,686	6
Industrial/Warehouse	1,803	6	1,678	6
Senior Housing	1,201	4	1,092	4
Mixed Use	964	3	933	3
Other	2,501	10	2,637	10
Total commercial real estate loans	$28,101	100%	$28,140	100%

Home Equity

Home equity loans comprised $15.0 billion of primarily variable-rate home equity lines of credit and $10.5 billion of closed-end home equity installment loans at March 31, 2019. Comparable amounts were $15.5 billion and $10.6 billion, respectively, as of December 31, 2018.

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

The portfolio is primarily originated within markets located in the Mid-Atlantic, Midwest, and Southeast, with less than 5% of the portfolio in states outside of those markets at March 31, 2019. The credit quality of newly originated loans over the last twelve months was strong overall as evidenced by a weighted-average LTV on originations of 67% and a weighted-average FICO score of 772.

The credit performance of the majority of the home equity portfolio where we hold the first lien position is superior to the portion of the portfolio where we hold the second lien position, but do not hold the first lien. Lien position information is generally based upon original LTV at the time of origination. We use an industry-leading third-party service provider to obtain updated loan, lien and collateral data that is aggregated from public and private sources.

The following table presents our home equity loans by geographic market and lien type.

Table 17: Home Equity Loans by Geography and by Lien Priority

	March 31, 2019		December 31, 2018	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography				
Pennsylvania	$5,989	23 %	$6,160	24 %
New Jersey	3,837	15	3,935	15
Ohio	3,012	12	3,095	12
Illinois	1,587	6	1,634	6
Maryland	1,450	6	1,481	6
Michigan	1,311	5	1,340	5
Florida	1,216	5	1,227	5
North Carolina	1,126	4	1,161	4
Kentucky	1,012	4	1,040	4
Indiana	826	3	845	3
All other states	4,134	17	4,205	16
Total home equity loans	$25,500	100%	$26,123	100%
Lien type				
1st lien		58 %		58 %
2nd lien		42		42
Total		100%		100%

Residential Real Estate

Residential real estate loans primarily consisted of residential mortgage loans at both March 31, 2019 and December 31, 2018.

We track borrower performance of this portfolio monthly similar to home equity loans. This information is used for internal reporting and risk management. For internal reporting and risk management we also segment the mortgage portfolio into pools based on product type (e.g., nonconforming, conforming). As part of our overall risk analysis and monitoring, we also segment the portfolio based upon loan delinquency, nonperforming status, modification and bankruptcy status, FICO scores, LTV and geographic concentrations. Loan performance is evaluated by source originators and loan servicers.

The credit quality of newly originated loans that we retained on our balance sheet over the last twelve months was strong overall as evidenced by a weighted-average LTV on originations of 71% and a weighted-average FICO score of 769.

The following table presents our residential real estate loans by geographic market.

Table 18: Residential Real Estate Loans by Geography

	March 31, 2019		December 31, 2018	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography				
California	$4,975	26 %	$4,666	25 %

New Jersey	1,679	9	1,649	9
Florida	1,540	8	1,544	8
Illinois	1,145	6	1,161	6
Pennsylvania	1,039	5	1,031	6
New York	955	5	956	5
Maryland	906	5	913	5
North Carolina	850	4	854	5
Virginia	834	4	825	4
Ohio	681	4	682	4
All other states	4,503	24	4,376	23
Total residential real estate loans	$19,107	100%	$18,657	100%

We originate residential mortgage loans nationwide through our national mortgage business as well as within our branch network. Residential mortgage loans underwritten to government agency standards, including conforming loan amount limits, are typically sold

with servicing retained by us. We also originate nonconforming residential mortgage loans that do not meet government agency standards, which we retain on our balance sheet. The nonconforming residential mortgage portfolio had strong credit quality at March 31, 2019 with an average original LTV of 70% and an average original FICO score of 772. Our portfolio of nonconforming residential mortgage loans totaled $13.1 billion at March 31, 2019 with 32% located in California.

Automobile

Within auto loans, $13.2 billion resided in the indirect auto portfolio while $1.5 billion were in the direct auto portfolio as of March 31, 2019. Comparable amounts as of December 31, 2018 were $12.9 billion and $1.5 billion, respectively. The indirect auto portfolio relates to loan applications originated through franchised automobile dealers. This business is strategically aligned with our core retail banking business.

We continue to focus on borrowers with strong credit profiles as evidenced by a weighted-average loan origination FICO score over the last twelve months of 742 for indirect auto loans and 763 for direct auto loans. The weighted-average term of loan originations over the last twelve months was 74 months for indirect auto loans and 62 months for direct auto loans. We offer both new and used automobile financing to customers through our various channels. At both March 31, 2019 and December 31, 2018, the portfolio was composed of 53% new vehicle loans and 47% used vehicle loans.

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

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets

Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming troubled debt restructurings (TDRs), other real estate owned (OREO) and foreclosed assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonperforming loans and nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in our 2018 Form 10-K. A summary of the major categories of nonperforming assets are presented in Table 19. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further detail of nonperforming asset categories.

Table 19: Nonperforming Assets by Type

Dollars in millions	March 31, 2019	December 31, 2018	Change $	Change %
Nonperforming loans				
Commercial lending	$430	$432	$(2)	—
Consumer lending (a)	1,223	1,262	(39)	(3)%
Total nonperforming loans	1,653	1,694	(41)	(2)%
OREO and foreclosed assets	132	114	18	16 %
Total nonperforming assets	$1,785	$1,808	$(23)	(1)%
TDRs included in nonperforming loans	$869	$863	$6	1 %
Percentage of total nonperforming loans	53 %	51 %		

Nonperforming loans to total loans	.71 %	.75 %
Nonperforming assets to total loans, OREO and foreclosed assets	.77 %	.80 %
Nonperforming assets to total assets	.45 %	.47 %
Allowance for loan and lease losses to total nonperforming loans	163 %	155 %

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

Table 20: Change in Nonperforming Assets

In millions	2019	2018
January 1	$1,808	$2,035
New nonperforming assets	287	249
Charge-offs and valuation adjustments	(164)	(137)
Principal activity, including paydowns and payoffs	(92)	(81)
Asset sales and transfers to loans held for sale	(13)	(29)
Returned to performing status	(41)	(33)
March 31	$1,785	$2,004

As of March 31, 2019, approximately 87% of total nonperforming loans were secured by collateral which lessened reserve requirements and is expected to reduce credit losses in the event of default. As of March 31, 2019, commercial lending nonperforming loans were carried at approximately 72% of their unpaid principal balance, due to charge-offs recorded to date, before consideration of the Allowance for loan and lease losses (ALLL).

Within consumer lending nonperforming loans, residential real estate TDRs comprised 77% and 81% of total residential real estate nonperforming loans at March 31, 2019 and December 31, 2018, respectively. Home equity TDRs comprised 47% of home equity nonperforming loans at both March 31, 2019 and December 31, 2018. TDRs generally remain in nonperforming status until a borrower has made at least six consecutive months of both principal and interest payments under the modified terms or ultimate resolution occurs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to us and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status.

At March 31, 2019, our largest nonperforming asset was $35 million in the Information industry and the ten largest individual nonperforming assets represented 11% of total nonperforming assets.

Loan Delinquencies

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

Table 21: Accruing Loans Past Due (a)

	Amount				Percentage of Total Loans Outstanding	
	March 31 2019	December 31 2018	Change		March 31 2019	December 31 2018
Dollars in millions			$	%		
Early stage loan delinquencies						
Accruing loans past due 30 to 59 days	$634	$ 585	$49	8 %	.27 %	.26 %
Accruing loans past due 60 to 89 days	212	271	(59)	(22)%	.09 %	.12 %
Total	846	856	(10)	(1)%	.36 %	.38 %
Late stage loan delinquencies						
Accruing loans past due 90 days or more	590	629	(39)	(6)%	.25 %	.28 %
Total	$1,436	$ 1,485	$(49)	(3)%	.62 %	.66 %

(a) Past due loan amounts include government insured or guaranteed loans of $.6 billion at March 31, 2019 and $.7 billion at December 31, 2018.

Accruing loans past due 90 days or more are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral and are in the process of collection, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines, or are certain government insured or guaranteed loans.

Troubled Debt Restructurings and Loan Modifications

Troubled Debt Restructurings

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs result from our loss mitigation activities and include rate reductions, principal forgiveness, postponement/reduction of scheduled amortization and extensions, which are intended to minimize economic loss and to avoid foreclosure or repossession of

collateral. Additionally, TDRs also result from court imposed concessions (e.g., a Chapter 7 bankruptcy where the debtor is discharged from personal liability to us and a court approved Chapter 13 bankruptcy repayment plan).

Table 22: Summary of Troubled Debt Restructurings (a)

Dollars in millions	March 31 2019	December 31 2018	Change $	Change %
Total commercial lending	$456	$ 409	$47	11 %
Total consumer lending	1,412	1,442	(30)	(2)%
Total TDRs	$1,868	$ 1,851	$17	1 %
Nonperforming	$869	$ 863	$6	1 %
Accruing (b)	999	988	11	1 %
Total TDRs	$1,868	$ 1,851	$17	1 %

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

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

Excluded from TDRs are $1.1 billion of consumer loans held for sale, loans accounted for under the fair value option and pooled purchased impaired loans, as well as certain government insured or guaranteed loans at both March 31, 2019 and December 31, 2018. Nonperforming TDRs represented approximately 53% and 51% of total nonperforming loans at March 31, 2019 and December 31, 2018, respectively, while representing 47% of total TDRs at both March 31, 2019 and December 31, 2018. The remaining portion of TDRs represents TDRs that have been returned to accrual status after performing under the restructured terms for at least six consecutive months.

See Note 3 Asset Quality in the Notes to Consolidated Financial Statements in this Report for additional information on TDRs. See the Credit Risk Management portion of the Risk Management section in our 2018 Form 10-K for information related to loan modifications.

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

We maintain an ALLL to absorb losses from the loan and lease portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan and lease portfolio. Our total ALLL of $2.7 billion at March 31, 2019 consisted of $1.7 billion and $1.0 billion established for the commercial lending and consumer lending categories, respectively. We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolio as of the balance sheet date. The reserve calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan and lease portfolio performance experience, the financial strength of the borrower and economic conditions. Key reserve assumptions and estimation processes are periodically updated.

Reserves are established for non-impaired commercial loan classes based primarily on PD and LGD.

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

as consider third-party data, regulatory guidance and management judgment.
Allowances for non-impaired consumer loan classes are primarily based upon transition matrices, including using a roll-rate model. The roll-rate model uses statistical relationships, calculated from historical data that estimate the movement of loan outstandings through the various stages of delinquency and ultimately charge-off.

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

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

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

Our determination of the ALLL for non-impaired loans is sensitive to the risk grades assigned to commercial loans and loss rates for consumer loans. There are several other qualitative and quantitative factors considered in determining the ALLL. Periodically, reserve sensitivity analyses are performed. Such analyses provide insight into the impact of adverse changes to risk grades and loss rates. Given the current processes used, we believe the risk grades and loss rates currently assigned are appropriate.

Purchased impaired loans are initially recorded at fair value and applicable accounting guidance prohibits the carryover or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At March 31, 2019, we had established reserves of $.3 billion for purchased impaired loans. In addition, loans (purchased impaired and non-impaired) acquired after January 1, 2009 were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at the date of acquisition.

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

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

See Note 1 Accounting Policies in our 2018 Form 10-K and Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further information on certain key asset quality indicators that we use to evaluate our portfolios and establish the allowances.

Table 23: Allowance for Loan and Lease Losses

Dollars in millions	2019	2018
January 1	$2,629	$2,611
Total net charge-offs	(136)	(113)
Provision for credit losses	189	92
Net decrease / (increase) in allowance for unfunded loan commitments and letters of credit	6	7

Other	4	7
March 31	$2,692	$2,604
Net charge-offs to average loans (for the three months ended) (annualized)	.24 %	.21 %
Ratio of ALLL to total loans	1.16 %	1.18 %
Commercial lending net charge-offs	$(12)	$(10)
Consumer lending net charge-offs	(124)	(103)
Total net charge-offs	$(136)	$(113)
Net charge-offs to average loans (for the three months ended) (annualized)		
Commercial lending	.03 %	.03 %
Consumer lending	.68 %	.57 %

The ALLL balance increases or decreases across periods in relation to fluctuating risk factors, including asset quality trends, net charge-offs and changes in aggregate portfolio balances. During the first three months of 2019, overall credit quality remained strong, which resulted in an essentially flat ALLL balance as of March 31, 2019 compared to December 31, 2018.

The following table summarizes our loan charge-offs and recoveries.
Table 24: Loan Charge-Offs and Recoveries

Three months ended March 31 Dollars in millions	Gross Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	Percent of Average Loans (Annualized)
2019				
Commercial	$ 25	$ 14	$ 11	.04 %
Commercial real estate	3	3		
Equipment lease financing	3	2	1	.06 %
Home equity	23	18	5	.08 %
Residential real estate	2	3	(1)	(.02)%
Automobile	58	26	32	.89 %
Credit card	67	7	60	3.91 %
Education	6	2	4	.43 %
Other consumer	28	4	24	2.13 %
Total	$ 215	$ 79	$ 136	.24 %
2018				
Commercial	$ 28	$ 16	$ 12	.04 %
Commercial real estate	6	6		
Equipment lease financing	2	4	(2)	(.10)%
Home equity	28	21	7	.10 %
Residential real estate	2	4	(2)	(.05)%
Automobile	38	17	21	.65 %
Credit card	56	6	50	3.60 %
Education	9	2	7	.64 %
Other consumer	24	4	20	1.85 %
Total	$ 193	$ 80	$ 113	.21 %

See Note 1 Accounting Policies in our 2018 Form 10-K and Note 4 Allowance for Loan and Lease Losses in the Notes To Consolidated Financial Statements in this Report for additional information on the ALLL.

Liquidity and Capital Management

Liquidity risk, including our liquidity monitoring measures and tools, is described in further detail in the Liquidity and Capital Management section of our 2018 Form 10-K.

One of the ways we monitor our liquidity is by reference to the LCR, a regulatory minimum liquidity requirement designed to ensure that covered banking organizations maintain an adequate level of liquidity to meet net liquidity needs over the course of a hypothetical 30-day stress scenario. The LCR is calculated by dividing the amount of an institution's high quality, unencumbered liquid assets (HQLA), as defined and calculated in accordance with the LCR rules, by its estimated net cash outflows, with net cash outflows determined by applying the assumed outflow factors in the LCR rules. The resulting quotient is expressed as a percentage. The minimum LCR that PNC and PNC Bank are required to maintain is 100%. PNC and PNC Bank calculate the LCR daily, and as of March 31, 2019, the LCR for PNC and PNC Bank exceeded the requirement of 100%.

We provide additional information regarding regulatory liquidity requirements and their potential impact on us in the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors of our 2018 Form 10-K.

Sources of Liquidity

Our largest source of liquidity on a consolidated basis is the customer deposit base generated by our banking businesses. These deposits provide relatively stable and low-cost funding. Total deposits increased to $271.2 billion at

March 31, 2019 from $267.8 billion at December 31, 2018 driven by growth in interest-bearing deposits partially offset by a decrease in noninterest-bearing deposits. See the Funding Sources portion of the Consolidated Balance Sheet Review section of this Financial Review for additional information related to our deposits. Additionally, certain assets determined by us to be liquid as well as unused borrowing capacity from a number of sources are also available to manage our liquidity position.

At March 31, 2019, our liquid assets consisted of short-term investments (federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling $21.3 billion and securities available for sale totaling $65.1 billion. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and balance sheet

management activities. Our liquid assets included $1.6 billion of securities available for sale and trading securities pledged as collateral to secure public and trust deposits, repurchase agreements and for other purposes. In addition, $4.4 billion of securities held to maturity were also pledged as collateral for these purposes.

We also obtain liquidity through various forms of funding, including long-term debt (senior notes, subordinated debt and FHLB borrowings) and short-term borrowings (securities sold under repurchase agreements, commercial paper and other short-term borrowings). See Note 10 Borrowed Funds in our 2018 Form 10-K and the Funding Sources section of the Consolidated Balance Sheet Review for additional information related to our borrowings.
Total senior and subordinated debt, on a consolidated basis, increased due to the following activity:

Table 25: Senior and Subordinated Debt

In billions	2019
January 1	$30.9
Issuances	2.1
Calls and maturities	(1.8)
Other	.4
March 31	$31.6

Bank Liquidity

Under PNC Bank's 2014 bank note program, as amended, PNC Bank may from time to time offer up to $40.0 billion aggregate principal amount outstanding at any one time of its unsecured senior and subordinated notes with maturity dates more than nine months (in the case of senior notes) and five years or more (in the case of subordinated notes) from their date of issue. At March 31, 2019, PNC Bank had $23.8 billion of notes outstanding under this program of which $19.6 billion were senior bank notes and $4.2 billion were subordinated bank notes. The following table details issuances for the three months ended March 31, 2019.

Table 26: PNC Bank Notes Issued

Issuance Date	Amount	Description of Issuance
March 12, 2019	$1.1 billion	Floating rate senior notes with a maturity date of March 12, 2021. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .35% on March 12, June 12, September 12 and December 12 of each year, beginning on June 12, 2019.

PNC Bank maintains additional secured borrowing capacity with the FHLB-Pittsburgh and through the Federal Reserve Bank discount window. The Federal Reserve Bank, however, is not viewed as a primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. At March 31, 2019, our unused secured borrowing capacity at the FHLB-Pittsburgh and the Federal Reserve Bank totaled $42.1 billion.

PNC Bank has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of March 31, 2019, there were no issuances outstanding under this program.

Parent Company Liquidity

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

As of March 31, 2019, available parent company liquidity totaled $5.2 billion. Parent company liquidity is primarily held in intercompany short-term investments, the terms of which provide for the availability of cash in 31 days or less. Investments with longer durations may also be acquired, but if so, the related maturities are aligned with scheduled cash needs, such as the maturity of parent company debt obligations.

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

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

There are statutory and regulatory limitations on the ability of a national bank to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. The amount available for dividend payments by PNC Bank to the parent company without prior regulatory approval was approximately $2.7 billion at March 31, 2019. See Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements in our 2018 Form 10-K for a further discussion of these limitations.

In addition to dividends from PNC Bank, other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. We can also generate liquidity for the parent company and PNC's non-bank subsidiaries through the issuance of debt and equity securities, including certain capital instruments, in public or private markets and commercial paper. The parent company has the ability to offer up to $5.0 billion of commercial paper to provide additional liquidity. As of March 31, 2019, there were no commercial paper issuances outstanding.

The parent company has an effective shelf registration statement pursuant to which we can issue additional debt, equity and other capital instruments. Under this shelf registration statement, on January 23, 2019, the parent company issued $750 million in senior notes with a maturity date of January 23, 2024. Interest is payable semi-annually at a fixed rate of 3.50% per annum, on January 23 and July 23 of each year, beginning July 23, 2019. On February 15, 2019 the parent company issued an additional $300 million of these notes bringing the outstanding principal amount of the series to $1.05 billion.

Parent company senior and subordinated debt outstanding totaled $7.8 billion and $6.7 billion at March 31, 2019 and December 31, 2018, respectively.

Contractual Obligations and Commitments

We have contractual obligations representing required future payments on borrowed funds, time deposits, leases, pension and postretirement benefits and purchase obligations. See the Liquidity and Capital Management portion of the Risk Management section in our 2018 Form 10-K for more information on these future cash outflows. Additionally, in the normal course of business we have various commitments outstanding, certain of which are not included on our Consolidated Balance Sheet. We provide information on our commitments in Note 13 Commitments in the Notes To Consolidated Financial Statements of this Report.

Credit Ratings

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

In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current legislative and regulatory environment, including implied government support. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect liquidity and financial condition.

Table 27: Credit Ratings for PNC and PNC Bank

	March 31, 2019		
	Moody's	Standard & Poor's	Fitch
PNC			
Senior debt	A3	A-	A+
Subordinated debt	A3	BBB+	A
Preferred stock	Baa2	BBB-	BBB-
PNC Bank			
Senior debt	A2	A	A+

Subordinated debt	A3	A-	A
Long-term deposits	Aa2	A	AA-
Short-term deposits	P-1	A-1	F1+
Short-term notes	P-1	A-1	F1

Capital Management

Detailed information on our capital management processes and activities, including additional information on our previous CCAR submissions and capital plans, is included in the Capital Management portion of the Risk Management section in our 2018 Form 10-K.

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

In connection with the capital plan accepted by the Federal Reserve as part of our 2018 CCAR submission, we repurchased 5.9 million common shares for $725 million in the first quarter of 2019. As of March 31, 2019, PNC has repurchased a total of 15.3 million shares for $2.0 billion under current share repurchase programs that will end June 30, 2019.

We paid dividends on common stock of $438 million, or $.95 per common share, during the first quarter of 2019. On April 4, 2019, the PNC Board of Directors declared a quarterly common stock cash dividend of $.95 per share with a payment date of May 5, 2019.

Table 28: Basel III Capital

Dollars in millions	Basel III March 31, 2019
Common equity Tier 1 capital	
Common stock plus related surplus, net of treasury stock	$4,810
Retained earnings	39,742
Accumulated other comprehensive income (loss) for securities currently, and those transferred from, available for sale	419
Accumulated other comprehensive income (loss) for pension and other postretirement plans	(418)
Goodwill, net of associated deferred tax liabilities	(9,021)
Other disallowed intangibles, net of deferred tax liabilities	(239)
Other adjustments/(deductions)	(163)
Total common equity Tier 1 capital before threshold deductions	35,130
Total threshold deductions	(3,074)
Common equity Tier 1 capital	$32,056
Additional Tier 1 capital	
Preferred stock plus related surplus	3,990
Other adjustments/(deductions)	(157)
Tier 1 capital	$35,889
Additional Tier 2 capital	
Qualifying subordinated debt	3,731
Trust preferred capital securities	60
Eligible credit reserves includable in Tier 2 capital	2,971
Total Basel III capital	$42,651
Risk-weighted assets	
Basel III standardized approach risk-weighted assets (a)	$328,128
Basel III advanced approaches risk-weighted assets (b)	$298,889
Average quarterly adjusted total assets	$373,374
Supplementary leverage exposure (c)	$448,129
Basel III risk-based capital and leverage ratios (d)	
Common equity Tier 1	9.8 %
Tier 1	10.9 %
Total (e)	13.0 %
Leverage (f)	9.6 %
Supplementary leverage ratio (g)	8.0 %

(a) Includes credit and market risk-weighted assets.
(b) Basel III advanced approaches risk-weighted assets are calculated based on the Basel III advanced approaches rules, and include credit, market, and operational risk-weighted assets. During the parallel run qualification phase, PNC has refined the data, models, and internal processes used as part of the advanced approaches for determining

risk-weighted assets.

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

(d) For comparative purposes only, the advanced approaches Basel III Common equity Tier 1, Tier 1 risk-based and Total risk-based ratios for March 31, 2019 were 10.7%, 12.0% and 13.3%, respectively.

(e) The 2019 Basel III Total risk-based capital ratio includes nonqualifying trust preferred capital securities of $60 million that are subject to a phase-out period that runs through 2021. For comparative purposes only, as of March 31, 2019 the ratio was 13.0%, assuming nonqualifying trust preferred capital securities are phased out.

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

(g) Supplementary leverage ratio is calculated based on Tier 1 capital divided by Supplementary leverage exposure.

Because PNC remains in the parallel run qualification phase for the advanced approaches, our regulatory risk-based capital ratios in 2019 are calculated using the standardized approach for determining risk-weighted assets. Under the standardized approach for determining credit risk-weighted assets, exposures are generally assigned a pre-defined risk weight. Exposures to high volatility commercial real estate, past due exposures and equity exposures are generally subject to higher risk weights than other types of

exposures. Once we exit parallel run, our regulatory risk-based capital ratios will be the lower of the ratios calculated under the standardized approach and the advanced approaches.

Under the Basel III rules applicable to PNC, significant common stock investments in unconsolidated financial institutions (for PNC, primarily BlackRock), mortgage servicing rights and deferred tax assets must be deducted from capital (net of associated deferred tax liabilities) to the extent they individually exceed 10%, or in the aggregate exceed 15%, of the institution's adjusted common equity Tier 1 capital. Also, Basel III regulatory capital includes AOCI related to securities currently, and those transferred from, available for sale, as well as pension and other postretirement plans.

Federal banking regulators have stated that they expect the largest U.S. bank holding companies (BHCs), including PNC, to have a level of regulatory capital well in excess of the regulatory minimum and have required the largest U.S. BHCs, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet the credit needs of their customers through estimated stress scenarios. We seek to manage our capital consistent with these regulatory principles, and believe that our March 31, 2019 capital levels were aligned with them.

At March 31, 2019, PNC and PNC Bank, our sole bank subsidiary, were both considered “well capitalized,” based on applicable U.S. regulatory capital ratio requirements. To qualify as “well capitalized”, PNC must have Basel III capital ratios of at least 6% for Tier 1 risk-based capital and 10% for Total risk-based capital, and PNC Bank must have Basel III capital ratios of at least 6.5% for Common equity Tier 1 risk-based capital, 8% for Tier 1 risk-based capital, 10% for Total risk-based capital and a Leverage ratio of at least 5%.

We provide additional information regarding regulatory capital requirements and some of their potential impacts on us in the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors and Note 18 Regulatory Matters in our 2018 Form 10-K.

Market Risk Management
See the Market Risk Management portion of the Risk Management Section in our 2018 Form 10-K for additional discussion regarding market risk.

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

The interest rates that we pay on customer deposits have risen in recent quarters as a result of higher short-term market interest rates. The rates paid on commercial deposits have had a higher correlation to increases in short-term interest rates, as compared to the rates paid on consumer deposits. During the remainder of 2019, we anticipate that the rates paid on our consumer deposits will continue to reflect any increases in short-term interest rates, although at a slower pace than previous years given the current Federal Reserve interest rate outlook. The rates paid on customer deposits are also impacted by factors including the level of interest rates, competition for deposits, new product offerings, changes in business strategies and customer migration to higher rate accounts.

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

Sensitivity results and market interest rate benchmarks for the first quarters of 2019 and 2018 follow.

Table 29: Interest Sensitivity Analysis

	First Quarter 2019	First Quarter 2018
Net Interest Income Sensitivity Simulation (a)		
Effect on net interest income in first year from gradual interest rate change over the following 12 months of:		
100 basis point increase	1.5 %	2.5 %
100 basis point decrease	(2.2)%	(3.1)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	4.0 %	4.3 %
100 basis point decrease	(6.6)%	(7.0)%
Duration of Equity Model (a)		
Base case duration of equity (in years)	(3.7)	(.7)
Key Period-End Interest Rates		
One-month LIBOR	2.49 %	1.88 %
Three-month LIBOR	2.60 %	2.31 %
Three-year swap	2.31 %	2.66 %

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

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. Table 30 reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist's most likely rate forecast, (ii) implied market forward rates and (iii) yield curve slope flattening (a 100 basis point yield curve slope flattening between one-month and ten-year rates superimposed on current base rates) scenario.

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

Table 30: Net Interest Income Sensitivity to Alternative Rate Scenarios

	March 31, 2019		
	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	.3 %	.3 %	(.8)%
Second year sensitivity	1.4 %	(.3)%	(3.7)%

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in Tables 29 and 30. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates.

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

Table 31: Alternate Interest Rate Scenarios: One Year Forward

The first quarter 2019 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates and an upward sloping interest rate yield curve. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

Market Risk Management – Customer-Related Trading Risk

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

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in customer-related trading activities. VaR is used to estimate the probability of portfolio losses based on the statistical analysis of historical market risk factors. A diversified VaR reflects empirical correlations across different asset classes. We calculate a diversified VaR at a 95% confidence interval and the results for the first three months of 2019 and 2018 were within our acceptable limits.

See the Market Risk Management – Customer-Related Trading Risk section of our 2018 Form 10-K for more information on our models used to calculate VaR and our backtesting process.

Customer related trading revenue was $48 million for the first quarter of 2019 compared to $77 million for the first quarter in 2018. The decrease was primarily due to the impact of changes in credit valuations for customer-related derivative activities and lower foreign exchange and derivative client sales revenue.

Market Risk Management – Equity And Other Investment Risk

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

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

A summary of our equity investments follows:

Table 32: Equity Investments Summary

Dollars in millions	March 31 2019	December 31 2018	Change $	Change %
BlackRock	$8,080	$ 8,016	$64	1 %
Tax credit investments	2,057	2,219	(162)	(7)%
Private equity and other	2,430	2,659	(229)	(9)%
Total	$12,567	$ 12,894	$(327)	(3)%

BlackRock

We owned approximately 35 million common stock equivalent shares of BlackRock equity at March 31, 2019, accounted for under the equity method. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

Tax Credit Investments
Included in our equity investments are direct tax credit investments and equity investments held by consolidated entities. These tax credit investment balances included unfunded commitments totaling $.7 billion and $.8 billion at March 31, 2019 and December 31, 2018, respectively. These unfunded commitments are included in Other liabilities on our Consolidated Balance Sheet.

Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in our 2018 Form 10-K has further information on Tax Credit Investments.

Private Equity and Other
The majority of our other equity investments consists of our private equity portfolio. The private equity portfolio is an illiquid portfolio consisting of mezzanine and equity investments that vary by industry, stage and type of investment. Private equity investments carried at estimated fair value totaled $1.4 billion and $1.5 billion at March 31, 2019 and December 31, 2018, respectively. As of March 31, 2019, $1.2 billion was invested directly in a variety of companies and $.2 billion was invested indirectly through various private equity funds. See the Supervision and Regulation section in Item 1 of our 2018 Form 10-K for discussion of the potential impacts of the Volcker Rule provisions of Dodd-Frank on our interests in and of private funds covered by the Volcker Rule.

Included in our other equity investments are Visa Class B common shares, which are recorded at cost. Visa Class B common shares that we own are transferable only under limited circumstances until they can be converted into shares of the publicly-traded Class A common shares, which cannot happen until the resolution of the pending interchange litigation. Based upon the March 31, 2019 per share closing price of $156.19 for a Visa Class A common share, the estimated value of our total investment in the Class B common shares was approximately $895 million at the current conversion rate of Visa B shares to Visa A shares, while our cost basis was not significant. See Note 6 Fair Value and Note 19 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of our 2018 10-K for additional information regarding our Visa agreements. The estimated value does not represent fair value of the Visa B common shares given the share’s limited transferability and the lack of observable transactions in the marketplace.

We also have certain other equity investments, the majority of which represent investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. Net gains related to these investments were not significant at March 31, 2019 and March 31, 2018.

Financial Derivatives
We use a variety of financial derivatives as part of the overall asset and liability risk management process to help manage exposure to market (primarily interest rate) and credit risk inherent in our business activities. We also enter into derivatives with customers to facilitate their risk management activities.

Financial derivatives involve, to varying degrees, market and credit risk. Derivatives represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another type of asset to the other party based on a notional and an underlying as specified in the contract. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments.

Further information on our financial derivatives is presented in Note 1 Accounting Policies and Note 6 Fair Value in our Notes To Consolidated Financial Statements in our 2018 Form 10-K and in Note 6 Fair Value and Note 9 Financial Derivatives in the Notes To Consolidated Financial Statements in this Report.

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

RECENT REGULATORY DEVELOPMENTS

On March 6, 2019, the Federal Reserve released a final rule amending its capital plan rule. Under the final rule, the capital plan that PNC files in connection with the annual CCAR exercise, including the capital plan submitted on April 5, 2019 in connection with the 2019 CCAR exercise, is no longer subject to a potential objection by the Federal Reserve based on qualitative factors.

In a separate action on the same date, the Federal Reserve also affirmed a countercyclical capital buffer of 0% applicable under its regulatory capital rules to PNC and other BHCs with at least $250 billion in total consolidated assets or more than $10 billion in on-balance sheet foreign exposure. For more information on the capital plan rule, the CCAR exercise and the countercyclical capital buffer see the Supervision and Regulation section in Item 1 Business of our 2018 Form 10-K.

On March 29, 2019, the FDIC released two proposals for public comment that would amend its (i) enhanced deposit insurance recordkeeping requirements for insured depository institutions (IDIs) with at least 2 million deposit accounts, including PNC Bank,

and (ii) deposit insurance recordkeeping requirements for joint deposit accounts applicable to all IDIs. Among other things, the proposals would revise the attestation requirement under the deposit insurance recordkeeping rules and allow covered IDIs to elect to extend the April 1, 2020 compliance date for the deposit insurance recordkeeping requirements by up to one year.

In April, the Federal Reserve and FDIC requested public comment on proposed rules that would tailor the resolution plan requirements for BHCs with at least $100 billion in total consolidated assets under Sec. 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Under the proposal, PNC generally would be required to submit a resolution plan to the Federal Reserve and FDIC on a triennial cycle, with the scope of the submissions alternating between a full and a targeted submission from one triennial cycle to the next. The agencies, however, could jointly adjust the timeline for submissions or request interim updates between filings. As proposed, these changes would become effective no later than November 24, 2019 and, once effective, PNC's first full resolution plan submission under the proposal would be due July 1, 2021.

On April 16, 2019, the FDIC requested comment on an advance notice of proposed rulemaking that would alter the FDIC's separate resolution plan requirements for IDIs with total consolidated assets of at least $50 billion (covered IDIs), including PNC Bank. Under the proposal, covered IDIs would potentially be grouped into three categories. The proposal requests comment on what metrics or characteristics could be used to classify covered IDIs into these groups. The proposal would also potentially change the content and submission requirements of resolution plans for some of the groups. The proposal also would delay the requirement for PNC Bank (as well as other covered IDIs) to file a resolution plan under the FDIC's current rules until a future date to be specified by the FDIC. For more information on the resolution planning requirements applicable to PNC and PNC Bank see the Supervision and Regulation section in Item 1 Business of our 2018 Form 10-K.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Note 1 Accounting Policies of our 2018 Form 10-K describes the most significant accounting policies that we use to prepare our consolidated financial statements. Certain of these policies require us to make estimates or economic assumptions that may vary under different assumptions or conditions and such variations may significantly affect our reported results and financial position for the period or in future periods.

The following critical accounting policies and judgments are described in more detail in Critical Accounting Estimates and Judgments in Item 7 of our 2018 Form 10-K:

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

Recently Issued Accounting Standards

Accounting Standards Update (ASU)	Description	Financial Statement Impact
Credit Losses - ASU 2016-13 Issued June 2016	• Required effective date of January 1, 2020.[a] • Requires the use of an expected credit loss methodology; specifically, current expected credit losses (CECL) for the remaining life of the asset will be recognized at the time of origination or acquisition. • Methodology will apply to loans, debt securities, and other financial assets and net investment in leases not accounted for at fair value through net income. It will also apply to off-balance sheet credit exposures except for unconditionally cancellable commitments. • In-scope assets will be presented at the net amount expected to be collected after deducting the allowance for credit losses from the amortized cost basis of the assets. • Requires enhanced credit quality disclosures including disaggregation of credit quality indicators by vintage. • Requires a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.	• We did not adopt the standard at its early adoption date of January 2019. • We established a company-wide, cross-functional governance structure in the third quarter of 2016, which oversees overall strategy for implementation of CECL. • We have prepared preliminary CECL accounting policies and interpretations, and continue to refine and test our models, estimation techniques, data, operational processes and controls to be used in preparing the CECL estimates. • We expect that we will be able to test-run our key processes by the end of the second quarter of 2019, pending any unforeseen circumstances or significant changes to the requirements. During 2019, we expect to continually address any gaps in our interpretations, methodology, data and operational processes based upon our reviews and tests. • We are also participating in the FASB's standard setting activity related to CECL. The FASB has issued a proposed ASU for technical corrections related to financial instruments, which has an impact on the implementation of CECL related to treatment of recoveries, accrued interest receivables and some disclosure requirements. We are awaiting final guidance from the FASB, and expect to be able to implement any changes. • We believe that given current conditions, our credit loss reserves will increase primarily for longer duration consumer loans, due to the difference between loss emergence periods currently used versus the remaining life of the asset required under CECL. We will continue to refine our estimates throughout 2019, as CECL models and techniques are implemented and the results are vetted. We continue to believe that total credit loss reserves will increase at the adoption date and that the magnitude of the increase will depend upon the nature and characteristics of the portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that date.
Goodwill - ASU 2017-04 Issued January 2017	• Required effective date of January 1, 2020.[a] • Eliminates Step 2 from the goodwill impairment test to simplify the subsequent measurement of goodwill under which a loss was recognized only if the estimated implied fair value of the goodwill is below its carrying value.	• We plan to adopt the standard on its effective date and we do not expect the adoption of this standard to impact our consolidated results of operations or our consolidated financial position.

• Requires impairment to be recognized if the carrying amount exceeds the reporting unit's fair value.

(a) Early adoption is permitted.

Recently Adopted Accounting Standards

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

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

We engage in a variety of activities that involve entities that are not consolidated or otherwise reflected in our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. Additional information on these types of activities is included in our 2018 Form 10-K and in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities and Note 13 Commitments in the Notes To Consolidated Financial Statements included in this Report.

A summary and further description of variable interest entities (VIEs) is included in Note 1 Accounting Policies and Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in our 2018 Form 10-K.

Trust Preferred Securities

See Note 10 Borrowed Funds in the Notes To Consolidated Financial Statements in our 2018 Form 10-K for additional information on trust preferred securities issued by PNC Capital Trust C including information on contractual limitations potentially imposed on payments (including dividends) with respect to PNC's equity securities.

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of March 31, 2019, we performed an evaluation under the supervision of and with the participation of our management, including the Chairman, President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chairman, President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were effective as of March 31, 2019, and that there has been no change in PNC’s internal control over financial reporting that occurred during the first quarter of 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

GLOSSARY OF TERMS

For a glossary of terms commonly used in our filings, please see the glossary of terms included in our 2018 Form 10-K.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

- Our businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:
  - Changes in interest rates and valuations in debt, equity and other financial markets.
  - Disruptions in the U.S. and global financial markets.
  - Actions by the Federal Reserve Board, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.
  - Changes in customer behavior due to recently enacted tax legislation, changing business and economic conditions or legislative or regulatory initiatives.
  - Changes in customers’, suppliers’ and other counterparties’ performance and creditworthiness.
  - Impact of tariffs and other trade policies of the U.S. and its global trading partners.
  - Slowing or reversal of the current U.S. economic expansion.
  - Commodity price volatility.
- Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than those we are currently expecting and do not take into account potential legal and regulatory contingencies. These statements are based on our views that:
  - U.S. economic growth has accelerated over the past two years to above its long-run trend.
  -

- Growth is expected to rebound in the second quarter following a soft first quarter 2019, and slow over the remaining course of 2019 and into 2020.
- Further gradual improvement in the labor market will occur this year, including job gains and rising wages, which would be a positive indicator for consumer spending.
- Trade restrictions and geopolitical concerns are downside risks to the forecast.
- Inflation has slowed in early 2019, to below the FOMC's 2% objective, but is expected to rise in the second half of the year.
- Our baseline forecast is for no change to the federal funds rate in 2019 and 2020, with the rate staying in its current range of 2.25 to 2.50%.

- Our ability to take certain capital actions, including returning capital to shareholders, is subject to review by the Federal Reserve Board as part of our comprehensive capital plan for the applicable period in connection with the Federal Reserve Board's CCAR process and to the acceptance of such capital plan and non-objection to such capital actions by the Federal Reserve Board.
- Our regulatory capital ratios in the future will depend on, among other things, the company's financial performance, the scope and terms of final capital regulations then in effect and management actions affecting the composition of our balance sheet. In addition, our ability to determine, evaluate and forecast regulatory capital ratios, and to take actions (such as capital distributions) based on actual or forecasted capital ratios, will be dependent at least in part on the development, validation and regulatory approval of related models.
- Legal and regulatory developments could have an impact on our ability to operate our businesses, financial condition, results of operations, competitive position, reputation, or pursuit of attractive acquisition opportunities. Reputational impacts could affect matters such as business generation and retention, liquidity, funding, and ability to attract and retain management. These developments could include:
  - Changes resulting from legislative and regulatory reforms, including changes affecting oversight of the financial services industry, consumer protection, pension, bankruptcy and other industry aspects, and changes in accounting policies and principles.
  - Changes to regulations governing bank capital and liquidity standards.
  - Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. These matters may result in monetary judgments or settlements or other remedies, including fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to us.
  - Results of the regulatory examination and supervision process, including our failure to satisfy requirements of agreements with governmental agencies.
  - Impact on business and operating results of any costs associated with obtaining rights in intellectual property claimed by others and of adequacy of our intellectual property protection in general.
- Business and operating results are affected by our ability to identify and effectively manage risks inherent in our businesses, including, where appropriate, through effective use of systems and controls, third-party insurance, derivatives, and capital management techniques, and to meet evolving regulatory capital and liquidity standards.
- Business and operating results also include impacts relating to our equity interest in BlackRock, Inc. and rely to a significant extent on information provided to us by BlackRock. Risks and uncertainties that could affect BlackRock are discussed in more detail by BlackRock in its SEC filings.
- We grow our business in part through acquisitions and new strategic initiatives. Risks and uncertainties include those presented by the nature of the business acquired and strategic initiative, including in some cases those associated with our entry into new businesses or new geographic or other markets and risks resulting from our inexperience in those new areas, as well as risks and uncertainties related to the acquisition transactions themselves, regulatory issues, and the integration of the acquired businesses into PNC after closing.
- Competition can have an impact on customer acquisition, growth and retention and on credit spreads and product pricing, which can affect market share, deposits and revenues. Our ability to anticipate and respond to technological changes can also impact our ability to respond to customer needs and meet competitive demands.
- Business and operating results can also be affected by widespread natural and other disasters, pandemics, dislocations, terrorist activities, system failures, security breaches, cyberattacks or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically.

We provide greater detail regarding these as well as other factors in our 2018 Form 10-K and elsewhere in this Report, including in the Risk Factors and Risk Management sections and the Legal Proceedings and Commitments Notes of the Notes To Consolidated Financial Statements in these reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

CONSOLIDATED INCOME STATEMENT
THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited	Three months ended March 31	
In millions, except per share data	2019	2018
Interest Income		
Loans	$2,602	$2,228
Investment securities	620	512
Other	206	178
Total interest income	3,428	2,918
Interest Expense		
Deposits	472	213
Borrowed funds	481	344
Total interest expense	953	557
Net interest income	2,475	2,361
Noninterest Income		
Asset management	437	455
Consumer services	371	357
Corporate services	462	429
Residential mortgage	65	97
Service charges on deposits	168	167
Other	308	245
Total noninterest income	1,811	1,750
Total revenue	4,286	4,111
Provision For Credit Losses	189	92
Noninterest Expense		
Personnel	1,414	1,354
Occupancy	215	218
Equipment	273	273
Marketing	65	55
Other	611	627
Total noninterest expense	2,578	2,527
Income before income taxes and noncontrolling interests	1,519	1,492
Income taxes	248	253
Net income	1,271	1,239
Less: Net income attributable to noncontrolling interests	10	10
Preferred stock dividends	63	63
Preferred stock discount accretion and redemptions	1	1
Net income attributable to common shareholders	$1,197	$1,165
Earnings Per Common Share		
Basic	$2.62	$2.45
Diluted	$2.61	$2.43
Average Common Shares Outstanding		
Basic	455	473
Diluted	456	476

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited In millions	Three months ended March 31	
	2019	2018
Net income	$1,271	$1,239
Other comprehensive income (loss), before tax and net of reclassifications into Net income:		
Net unrealized gains (losses) on non-OTTI securities	639	(646)
Net unrealized gains (losses) on OTTI securities	9	14
Net unrealized gains (losses) on cash flow hedge derivatives	100	(193)
Pension and other postretirement benefit plan adjustments	145	63
Other	34	27
Other comprehensive income (loss), before tax and net of reclassifications into Net income	927	(735)
Income tax benefit (expense) related to items of other comprehensive income	(207)	178
Other comprehensive income (loss), after tax and net of reclassifications into Net income	720	(557)
Comprehensive income	1,991	682
Less: Comprehensive income (loss) attributable to noncontrolling interests	10	10
Comprehensive income attributable to PNC	$1,981	$672

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET
THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited In millions, except par value	March 31 2019	December 31 2018
Assets		
Cash and due from banks	$5,062	$5,608
Interest-earning deposits with banks	15,261	10,893
Loans held for sale (a)	686	994
Investment securities – available for sale	65,051	63,389
Investment securities – held to maturity	18,818	19,312
Loans (a)	232,293	226,245
Allowance for loan and lease losses	(2,692)	(2,629)
Net loans	229,601	223,616
Equity investments (b)	12,567	12,894
Mortgage servicing rights	1,812	1,983
Goodwill	9,218	9,218
Other (a)	34,761	34,408
Total assets	$392,837	$382,315
Liabilities		
Deposits		
Noninterest-bearing	$71,606	$73,960
Interest-bearing	199,615	193,879
Total deposits	271,221	267,839
Borrowed funds		
Federal Home Loan Bank borrowings	20,501	21,501
Bank notes and senior debt	25,598	25,018
Subordinated debt	5,977	5,895
Other (c)	7,784	5,005
Total borrowed funds	59,860	57,419