PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
May 04, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of April 22, 2016, there were 499,323,737 shares of the registrant s common stock ($5 par value) outstanding.

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FINANCIAL REVIEW

THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Report and with Items 6, 7, 8 and 9A of our 2015 Annual Report on Form 10-K (2015 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following sections as they appear in this Report and in our 2015 Form 10-K: the Risk Management section of the Financial Review portion of this report and of Item 7 in our 2015 Form 10-K; Item 1A Risk Factors included in our 2015 Form 10-K; and Note 14 Legal Proceedings and Note 15 Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements included in the respective report. Also, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and the Critical Accounting Estimates And Judgments section in this Financial Review and in our 2015 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 16 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data	Three months ended March 31	
Unaudited	2016	2015
Financial Results (a)		
Revenue		
Net interest income	$ 2,098	$ 2,072
Noninterest income	1,567	1,659
Total revenue	3,665	3,731
Noninterest expense	2,281	2,349
Pretax, pre-provision earnings (b)	1,384	1,382
Provision for credit losses	152	54
Income before income taxes and noncontrolling interests	$ 1,232	$ 1,328
Net income	$ 943	$ 1,004
Less:		
Net income (loss) attributable to noncontrolling interests	19	1
Preferred stock dividends and discount accretion and redemptions	65	70
Net income attributable to common shareholders	$ 859	$ 933
Less:		
Dividends and undistributed earnings allocated to nonvested restricted shares	6	2
Impact of BlackRock earnings per share dilution	3	5
Net income attributable to diluted common shares	$ 850	$ 926
Diluted earnings per common share	$ 1.68	$ 1.75
Cash dividends declared per common share	$ .51	$ .48
Performance Ratios		
Net interest margin (c)	2.75%	2.82%
Noninterest income to total revenue	43	44
Efficiency	62	63
Return on:		
Average common shareholders equity	8.44	9.32
Average assets	1.07	1.17

See page 42 for a glossary of certain terms used in this Report.

(a) The Executive Summary and Consolidated Income Statement Review portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.
(b) We believe that pretax, pre-provision earnings, a non-GAAP financial measure, is useful as a tool to help evaluate the ability to provide for credit costs through operations.

(c) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended March 31, 2016 and March 31, 2015 were $48 million and $49 million, respectively.

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

Unaudited	March 31 2016	December 31 2015	March 31 2015
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$ 360,985	$ 358,493	$ 350,960
Loans	207,485	206,696	204,722
Allowance for loan and lease losses	2,711	2,727	3,306
Interest-earning deposits with banks (b)	29,478	30,546	31,198
Investment securities	72,569	70,528	60,768
Loans held for sale	1,541	1,540	2,423
Goodwill	9,103	9,103	9,103
Mortgage servicing rights	1,323	1,589	1,333
Equity investments (c)	10,391	10,587	10,523
Other assets	24,585	23,092	25,538
Noninterest-bearing deposits	78,151	79,435	74,944
Interest-bearing deposits	172,208	169,567	161,559
Total deposits	250,359	249,002	236,503
Borrowed funds	54,178	54,532	56,829
Total shareholders equity	45,130	44,710	45,025
Common shareholders equity	41,677	41,258	41,077
Accumulated other comprehensive income	532	130	703
Book value per common share	$ 83.47	$ 81.84	$ 78.99
Common shares outstanding (millions)	499	504	520
Loans to deposits	83%	83%	87%
Client Assets (in billions)			
Discretionary client assets under management	$ 135	$ 134	$ 136
Nondiscretionary client assets under administration	125	125	129
Total client assets under administration (d)	260	259	265
Brokerage account client assets	43	43	44
Total client assets	$ 303	$ 302	$ 309
Capital Ratios			
Transitional Basel III (e) (f)			
Common equity Tier 1	10.6%	10.6%	10.5%
Tier 1 risk-based	11.9	12.0	12.0
Total capital risk-based	14.4	14.6	15.0
Leverage	10.2	10.1	10.5
Pro forma Fully Phased-In Basel III (f)			
Common equity Tier 1	10.1%	10.0%	10.0%
Common shareholders equity to assets	11.5%	11.5%	11.7%
Asset Quality			
Nonperforming loans to total loans	1.10%	1.03%	1.17%
Nonperforming assets to total loans, OREO and foreclosed assets	1.23	1.17	1.34
Nonperforming assets to total assets	.71	.68	.78
Net charge-offs to average loans (for the three months ended) (annualized)	.29	.23	.20
Allowance for loan and lease losses to total loans (g)	1.31	1.32	1.61
Allowance for loan and lease losses to total nonperforming loans (g) (h)	119%	128%	137%
Accruing loans past due 90 days or more (in millions)	$ 782	$ 881	$ 988

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

(b) Amounts include balances held with the Federal Reserve Bank of Cleveland (Federal Reserve Bank) of $29.0 billion, $30.0 billion, and $30.8 billion as of March 31, 2016, December 31, 2015 and March 31, 2015, respectively.

(c) Amounts include our equity interest in BlackRock.

(d) As a result of certain investment advisory services performed by one of our registered investment advisors, certain assets are reported as both discretionary client assets under management and nondiscretionary client assets under administration. The amount of such assets was approximately $7 billion, $6 billion and $5 billion as of March 31, 2016, December 31, 2015 and March 31, 2015, respectively.

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

(f) See Basel III Capital discussion in the Capital portion of the Consolidated Balance Sheet Review section of this Financial Review and the capital discussion in the Banking Regulation and Supervision section of Item 1 Business in our 2015 Form 10-K. See also the Pro forma Fully Phased-In Basel III Common Equity Tier 1 Capital Ratio 2015 Periods table in the Statistical Information section of this Report for a reconciliation of the 2015 periods ratios.
(g) See our 2015 Form 10-K for information on our change in derecognition policy effective December 31, 2015 for certain purchased impaired loans.
(h) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.

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Executive Summary

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

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

Key Strategic Goals

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

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

Our strategic priorities are designed to enhance value over the long term. A key priority is to build a leading banking franchise in our underpenetrated geographic markets. In addition, we are seeking to attract more of the investable assets of new and existing clients. PNC is focused on redefining the retail banking experience by transforming to a more customer-centric and sustainable model while lowering delivery costs as customer banking preferences evolve.

Additionally, we continue to focus on expense management while investing in technology to bolster critical business infrastructure and streamline core processes.

Our capital priorities are to support client growth and business investment, maintain appropriate capital in light of economic conditions and the Basel III framework and return excess capital to shareholders, in accordance with the currently effective capital plan included in our Comprehensive Capital Analysis and Review (CCAR) submission to the Board of Governors of the Federal Reserve System (Federal Reserve). New regulatory short-term liquidity standards became effective for PNC and PNC Bank, National Association (PNC Bank) beginning January 1, 2015. For more detail, see the Balance Sheet, Liquidity and Capital Highlights portion of this Executive Summary, the Capital portion of the Consolidated Balance Sheet Review section and the Liquidity Risk Management portion of the Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 Business of our 2015 Form 10-K.

Key Factors Affecting Financial Performance

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

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

- Domestic and global economic conditions, including the continuity, speed and stamina of the current U.S. economic expansion in general and its impact on our customers in particular;
- The monetary policy actions and statements of the Federal Reserve and the Federal Open Market Committee (FOMC);
- The level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve;
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets;

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- Changes in the competitive and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment;
- The impact of the extensive reforms enacted by the Dodd-Frank legislation and other legislative, regulatory and administrative initiatives and actions, including those outlined elsewhere in this Report, in our 2015 Form 10-K and in subsequent filings with the SEC;
- The impact of market credit spreads on asset valuations;
- Asset quality and the ability of customers, counterparties and issuers to perform in accordance with contractual terms;
- Loan demand, utilization of credit commitments and standby letters of credit; and
- Customer demand for non-loan products and services.

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

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

For additional information, see the Cautionary Statement Regarding Forward-Looking Information section in this

Financial Review and Item 1A Risk Factors in our 2015 Form 10-K.

Income Statement Highlights

Net income for the first quarter of 2016 was $943 million, or $1.68 per diluted common share, a decrease of 6%, compared to $1.0 billion, or $1.75 per diluted common share, for the first quarter of 2015. The decrease was driven by higher provision for credit losses and a decline in noninterest income, partially offset by lower noninterest expense and an increase in net interest income.

- Net interest income of $2.1 billion for the first quarter of 2016 increased 1% compared with the first quarter of 2015, primarily due to higher loan yields and higher loan and securities balances, partially offset by lower purchase accounting accretion and higher borrowing costs related to higher short-term interest rates.
- Net interest margin decreased to 2.75% for the first quarter of 2016 compared to 2.82% for the first quarter of 2015 principally as a result of lower benefit from purchase accounting accretion and higher securities balances, partially offset by lower balances on deposit with the Federal Reserve.
- Noninterest income of $1.6 billion for the first quarter of 2016 decreased $92 million, or 6%, compared to the first quarter of 2015 mainly attributable to weaker equity markets and lower capital markets activity as well as lower residential mortgage revenue.
- Noninterest expense of $2.3 billion for the first quarter of 2016 decreased $68 million compared to the first quarter of 2015 reflecting lower legal costs and lower variable compensation costs associated with lower business activity as well as a continued focus on expense management.

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

Credit Quality Highlights

Overall credit quality for the first quarter of 2016 remained relatively stable with the fourth quarter of 2015, except for certain energy related loans.

The provision for credit losses increased to $152 million for the first quarter of 2016 compared to $54 million for the first quarter of 2015. Provision for credit losses for the first quarter of 2016 included $80 million for energy related loans in the oil, gas and coal sectors.
Nonperforming assets increased $127 million, or 5%, to $2.6 billion at March 31, 2016 compared to December 31, 2015. Nonperforming assets to total assets were 0.71% at March 31, 2016, compared to 0.68% at December 31, 2015.

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- Overall loan delinquencies of $1.5 billion at March 31, 2016 decreased $143 million, or 9%, compared with December 31, 2015.
- The allowance for loan and lease losses was 1.31% of total loans and 119% of nonperforming loans at March 31, 2016, compared with 1.32% and 128% at December 31, 2015, respectively.
- Net charge-offs of $149 million for the first quarter of 2016 increased by $46 million compared to net charge-offs for the first quarter of 2015. Annualized net charge-offs were 0.29% of average loans in the first quarter of 2016 and 0.20% of average loans in the first quarter of 2015.

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

Balance Sheet, Liquidity and Capital Highlights

PNC s balance sheet was well-positioned at March 31, 2016 reflecting strong liquidity and capital positions.

- Total loans increased by $.8 billion to $207.5 billion at March 31, 2016 compared to December 31, 2015.
  - Total commercial lending grew $1.6 billion, or 1%, primarily in PNC s corporate banking and real estate businesses.
  - Total consumer lending decreased $.8 billion, or 1%, mainly due to declines in home equity and education loans as well as run-off in the non-strategic portfolio.
- Total deposits increased $1.4 billion, or 1%, to $250.4 billion at March 31, 2016 compared with December 31, 2015, reflecting growth in consumer deposits, partially offset by lower commercial deposits.
- Investment securities increased $2.0 billion, or 3%, to $72.6 billion at March 31, 2016 compared to December 31, 2015.
- PNC maintained a strong liquidity position.
  - The Liquidity Coverage Ratio at March 31, 2016 exceeded 100% for both PNC and PNC Bank, above the minimum phased-in requirement of 90% in 2016.
- PNC maintained a strong capital position.
  - The Transitional Basel III common equity Tier 1 capital ratio was 10.6% at both March 31, 2016 and December 31, 2015.
  - Pro forma fully phased-in Basel III common equity Tier 1 capital ratio was an estimated 10.1% at March 31, 2016 and 10.0% at December 31, 2015 based on the standardized approach rules. See the Capital discussion and Table 15 in the Consolidated Balance Sheet Review section of this Financial Review and the December 31, 2015 capital ratio tables in the Statistical Information (Unaudited) section of this Report for more detail.
- PNC returned capital to shareholders during first quarter 2016 through share repurchases of 5.9 million common shares for $.5 billion and dividends on common shares of $.3 billion.
  - PNC has repurchased a total of 23.8 million common shares for $2.2 billion under current share repurchase programs of up to $2.875 billion for the five quarter period ending in the second quarter of 2016.

See the Capital portion of the Consolidated Balance Sheet Review and the Liquidity Risk Management portion of the Risk Management section of this Financial Review for more detail on our other 2016 capital and liquidity actions.

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Federal Reserve as part of the CCAR process. For additional information, see the Supervision and Regulation section in Item 1 Business of our 2015 Form 10-K.

Our Consolidated Income Statement and Consolidated Balance Sheet Review sections of this Financial Review describe in greater detail the various items that impacted our results during the first quarters of 2016 and 2015 and balances at March 31, 2016 and December 31, 2015, respectively.

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Average Consolidated Balance Sheet Highlights

Table 2: Summarized Average Balance Sheet

Three months ended March 31			Change	
Dollars in millions	2016	2015	$	%
Average assets				
Interest-earning assets				
Investment securities	$ 70,269	$ 57,166	$ 13,103	23%
Loans	207,184	205,155	2,029	1%
Interest-earning deposits with banks	25,533	30,405	(4,872)	(16)%
Other	7,764	8,947	(1,183)	(13)%
Total interest-earning assets	310,750	301,673	9,077	3%
Noninterest-earning assets	45,163	46,384	(1,221)	(3)%
Total average assets	$ 355,913	$ 348,057	$ 7,856	2%
Average liabilities and equity				
Interest-bearing liabilities				
Interest-bearing deposits	$ 168,823	$ 159,911	$ 8,912	6%
Borrowed funds	53,626	56,352	(2,726)	(5)%
Total interest-bearing liabilities	222,449	216,263	6,186	3%
Noninterest-bearing deposits	77,306	73,178	4,128	6%
Other liabilities	10,255	12,586	(2,331)	(19)%
Equity	45,903	46,030	(127)	
Total average liabilities and equity	$ 355,913	$ 348,057	$ 7,856	2%

Total assets were $361.0 billion at March 31, 2016 compared with $358.5 billion at December 31, 2015. Various seasonal and other factors impact our period-end balances, whereas average balances are generally more indicative of underlying business trends apart from the impact of acquisitions and divestitures. The Consolidated Balance Sheet Review section of this Financial Review provides information on changes in selected Consolidated Balance Sheet categories at March 31, 2016 compared with December 31, 2015.

Average investment securities increased in the first three months of 2016 compared with the first three months of 2015, mainly due to increases in average agency residential mortgage-backed securities and U.S. Treasury and government agency securities. Investment securities comprised 23% of average interest-earning assets for the first quarter of 2016 and 19% for the first quarter of 2015.

Average loans increased in the first quarter of 2016 compared to the prior year quarter due to increases in average commercial real estate loans of $4.0 billion and average commercial loans of $1.2 billion mainly attributable to growth in our Corporate & Institutional Banking segment. These increases were partially offset by a decrease in average consumer loans of $3.3 billion driven by lower home equity loans, including runoff in the nonstrategic portfolio, and lower education loans, partially offset by growth in automobile and credit card loans. Average loans represented 67% of average

interest-earning assets for the first quarter of 2016 and 68% of average interest-earning assets for the first quarter of 2015.

Average interest-earning deposits with banks, which are primarily maintained with the Federal Reserve Bank, decreased in the first quarter of 2016 compared to first quarter 2015, reflecting a shift towards higher yielding assets, such as investment securities and loans.

Average total deposits increased $13.0 billion in the first quarter of 2016 compared with the prior year quarter, primarily due to higher average savings deposits, which included a shift from money market deposits to new relationship-based savings products. Additionally, average noninterest-bearing deposits and average interest-bearing demand deposits increased reflecting overall strong deposit growth. Average total deposits represented 69% of average total assets for the first quarter of 2016 and 67% for the first quarter of 2015.

Average borrowed funds decreased in the current year first quarter compared with the prior year first quarter primarily due to declines in average commercial paper, average federal funds purchased and repurchase agreements and average Federal Home Loan Bank (FHLB) borrowings, partially offset by an increase in average bank notes and senior debt. The Liquidity Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding our sources and uses of borrowed funds.

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Recent Market and Industry Developments

In March 2016, the Federal Deposit Insurance Corporation (FDIC) adopted final rules to impose a surcharge on the quarterly deposit insurance assessments of insured depository institutions with total consolidated assets of $10 billion or more (including PNC Bank) in order to fund the Dodd-Frank Act mandated increase in the Designated Reserve Ratio from 1.15 percent to 1.35 percent. The final rules take effect July 1, 2016. The surcharge, which is equal to 4.5 basis points of the institution s deposit insurance assessment base, will take effect for assessments billed after the Designated Reserve Ratio reaches 1.15 percent, and will continue until the reserve ratio reaches 1.35 percent (estimated by the FDIC to occur before the end of 2018). Based on data as of March 31, 2016, we estimate that the net effect of the proposed surcharge, together with the scheduled reduction of regular assessments that will go into effect when the Designated Reserve Ratio reaches 1.15 percent, will increase PNC Bank s quarterly assessment by approximately $22 million beginning no earlier than the third quarter of 2016.

Also in March 2016, the Federal Reserve re-proposed rules, originally proposed in December 2011, to implement the single-counterparty credit limit (SCCL) under section 165(e) of the Dodd-Frank Act. Under the proposal, the net credit exposure of a bank holding company (BHC) with total consolidated assets of $50 billion or more (covered BHC), including its subsidiaries, to any single, unaffiliated counterparty would be subject to an aggregate limit. For covered BHCs with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposures (large covered BHCs), including PNC, the applicable limit would be 25 percent of tier 1 capital and would be calculated at the end of each business day. The proposed limit would cover credit exposure resulting from, among other transactions, extensions of credit, repurchase and reverse repurchase transactions, purchases or investments in securities, and derivative transactions. Compliance with the proposed rules would be required one year after the effective date. The comment period on the proposal is scheduled to close on June 3, 2016.

In April 2016, the Department of Labor (DOL) published a final rule expanding the definition of investment advice related to retirement accounts and certain other accounts that are subject to DOL interpretive authority. The rule will increase the scope of activities that give rise to fiduciary status under the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Internal Revenue Code. The rule, which will primarily apply to aspects of PNC s retail and asset management business lines, will require new disclosures, development of policies and procedures, and contractual obligations for some account types, among other things. The rule is effective April 10, 2017 and there is a transition period between April 10, 2017 and January 1, 2018 during which time reduced requirements apply. Full compliance is required on January 1, 2018.

Also in April 2016, the FDIC and Office of the Comptroller of the Currency (OCC) requested comment on proposed rules that would implement the net stable funding ratio (NSFR). The Federal Reserve is expected to propose similar rules shortly. The proposed rules, which are based on standards developed by the Basel Committee on Banking Supervision, are designed to ensure the stability of a covered banking organization s funding profile over a one-year time horizon. The NSFR is measured as the ratio of a banking organization s available stable funding (ASF) amount to its required stable funding (RSF) amount, each as defined in the proposed rules, over a one-year horizon. The regulatory minimum ratio for all covered banking organizations is 100 percent. For BHCs with assets of $50 billion or more, but less than $250 billion, the RSF amount is scaled by a factor of 70 percent. The proposal also includes requirements for quarterly quantitative and qualitative NSFR disclosures. The requirements of the proposed rules would take effect January 1, 2018. The comment period on the proposed rules is scheduled to close on August 5, 2016. Although the impact on PNC will not be fully known until the rules are final, PNC has taken several actions to prepare for implementation of the NSFR and we expect to be in compliance with the NSFR requirements when they become effective.

In 2011, several federal regulators jointly proposed regulations required by Dodd-Frank regarding incentive-based compensation arrangements at large financial institutions. In April and May 2016, the OCC, Federal Reserve, FDIC, Federal Housing Finance Agency, and National Credit Union Administration re-proposed these regulations, and the SEC is expected to re-propose similar regulations shortly. The regulations would apply to, among other entities, bank holding companies, national banks, investment advisers and SEC-registered broker dealers with total assets of $1 billion or more (covered financial institutions). The new proposed rules would require covered financial institutions with total assets of $50 billion or more to defer the vesting of specified percentages of incentive-based compensation awarded to the institution s senior executive officers and significant risk-takers for specific periods, and require that all unvested and vested incentive-based compensation to these individuals be subject to forfeiture and clawback, respectively, under circumstances specified by the rules. PNC is currently evaluating the proposal and the comment period on the proposed rules will end on July 22, 2016. The nature, scope and terms of any final regulations could negatively affect PNC s ability to attract and retain officers and employees with appropriate skill and experience and compete with financial institutions that are either not subject to the proposed rules, or are not subject to the rules to the same extent as PNC.

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Business Segment Highlights

Total business segment earnings were $.9 billion for the first three months of 2016 and $1.0 billion for the first three months of 2015. The Business Segments Review section of this Financial Review includes further analysis of our business segment results for the first three months of 2016 and 2015, including presentation differences from Note 16 Segment Reporting in our Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Table 3: Results Of Businesses Summary (a)

(Unaudited)

Three months ended March 31 in millions	Net Income (Loss) 2016	2015	Revenue 2016	2015	Average Assets (b) 2016	2015
Retail Banking	$ 268	$ 202	$ 1,650	$ 1,526	$ 72,216	$ 74,017
Corporate & Institutional Banking	431	482	1,304	1,284	135,521	131,178
Asset Management Group	49	37	280	281	7,887	7,943
Residential Mortgage Banking	(13)	28	130	207	6,306	7,245
BlackRock	114	135	141	175	6,775	6,645
Non-Strategic Assets Portfolio	52	81	97	121	5,816	7,276
Total business segments	901	965	3,602	3,594	234,521	234,304
Other (c) (d)	42	39	63	137	121,392	113,753
Total	$ 943	$ 1,004	$ 3,665	$ 3,731	$ 355,913	$ 348,057

(a) Our business information is presented based on our internal management reporting practices. We periodically refine our internal methodologies as management reporting practices are enhanced. Net interest income in business segment results reflects PNC s internal funds transfer pricing methodology. Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product repricing characteristics, tenor and other factors.

(b) Period-end balances for BlackRock.

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

(d) Other includes differences between the total business segment financial results and our total consolidated net income. Additional detail is included in Note 16 Segment Reporting in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

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 2016 was $943 million, or $1.68 per diluted common share, a decrease of 6%, compared to $1.0 billion, or $1.75 per diluted common share, for the first quarter of 2015. The decrease was driven by higher provision for credit losses and a 2% decline in revenue, partially offset by a 3% decrease in noninterest expense. Lower revenue in the comparison reflected a 6% decline in noninterest income, partially offset by a 1% increase in net interest income.

Net Interest Income

Table 4: Net Interest Income and Net Interest Margin

Dollars in millions	Three months ended March 31 2016	2015
Net interest income	$ 2,098	$ 2,072
Net interest margin	2.75%	2.82%

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

Net interest income increased by $26 million, or 1%, in the first quarter of 2016 compared with the first quarter of 2015 due to higher loan and securities balances, partially offset by lower purchase accounting accretion and higher borrowing costs related to higher short-term interest rates.

Net interest margin of 2.75% for the first quarter of 2016 declined from 2.82% in the first quarter of 2015 due to lower benefit from purchase accounting accretion and higher securities balances, partially offset by lower balances on deposit with the Federal Reserve.

In the second quarter of 2016, we expect net interest income to increase modestly compared to the first quarter of 2016.

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

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Noninterest Income

Table 5: Noninterest Income

Three months ended March 31 Dollars in millions	2016	2015	Change $	Change %
Noninterest income				
Asset management	$ 341	$ 376	$ (35)	(9)%
Consumer services	337	311	26	8%
Corporate services	325	344	(19)	(6)%
Residential mortgage	100	164	(64)	(39)%
Service charges on deposits	158	153	5	3%
Net gains on sales of securities	9	42	(33)	(79)%
Other	297	269	28	10%
Total noninterest income	$ 1,567	$ 1,659	$ (92)	(6)%

Noninterest income decreased during the first quarter of 2016 compared to first quarter of 2015 primarily reflecting the impact of weaker equity markets and lower capital markets activity as well as lower residential mortgage revenue. Noninterest income as a percentage of total revenue was 43% in the first quarter of 2016 compared to 44% in the first quarter of 2015.

Lower asset management revenue in the first three months of 2016 was driven by decreased earnings from our BlackRock equity investment mainly attributable to the impact of lower equity markets. Discretionary client assets under management of $135 billion at March 31, 2016 were relatively stable compared to $136 billion at March 31, 2015.

Consumer service fees increased in the first quarter of 2016 compared to the prior year quarter primarily due to growth in payment-related products including debit card, credit card and merchant services, as well as increased brokerage fees.

Corporate services revenue decreased in the first quarter of 2016 compared to the first quarter of 2015, principally due to lower commercial mortgage servicing rights valuation, net of economic hedge, and lower capital markets activity.

Residential mortgage fee revenue decreased in the first three months of 2016 compared to the prior year quarter as a result of lower residential mortgage servicing rights valuation, net of economic hedge, and lower loan sales revenue, partially offset by higher servicing fee income.

Net gains on sales of securities decreased in the first quarter of 2016 compared to the first quarter of 2015 mainly due to a higher volume of securities sales in the prior year quarter.

Other noninterest income for the first quarter of 2016 included a gain of $44 million on the sale of 0.5 million Visa Class B common shares and lower gains on sales of other assets compared to first quarter 2015. There were no sales of Visa shares in first quarter 2015.

In the second quarter of 2016, we expect the fee income categories of noninterest income, consisting of asset management, consumer services, corporate services, residential mortgage and service charges on deposits, to be up approximately 10 to 12 percent, compared to the first quarter of 2016, reflecting higher anticipated business levels in the second quarter.

For full year 2016, we expect modest growth in revenue.

Provision For Credit Losses

The provision for credit losses totaled $152 million for the first quarter of 2016 compared with $54 million for the first quarter of 2015. The first quarter 2016 provision included $80 million for energy related loans in the oil, gas, and coal sectors.

We expect our provision for credit losses in the second quarter of 2016 to be between $125 million and $175 million.

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

Noninterest Expense

Noninterest expense decreased $68 million, or 3%, to $2.3 billion for the first quarter of 2016 compared with first quarter 2015 reflecting lower legal costs and lower variable compensation as well as a continued focus on expense management.

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

In the second quarter of 2016, we expect noninterest expense to increase by mid-single digits, on a percentage basis, compared to the first quarter of 2016, primarily as a result of higher anticipated business activity and seasonality.

For full year 2016, we expect noninterest expense to remain stable compared to 2015.

Effective Income Tax Rate

The effective income tax rate was 23.5% in the first quarter of 2016 compared with 24.4% in the first quarter of 2015. The effective tax rate is generally lower than the statutory rate primarily due to tax credits PNC receives from our investments in low income housing and new markets investments, as well as earnings in other tax exempt investments.

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

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CONSOLIDATED BALANCE SHEET REVIEW

Table 6: Summarized Balance Sheet Data

	March 31	December 31	Change	
Dollars in millions	2016	2015	$	%
Assets				
Interest-earning deposits with banks	$ 29,478	$ 30,546	$ (1,068)	(3)%
Loans held for sale	1,541	1,540	1	%
Investment securities	72,569	70,528	2,041	3%
Loans	207,485	206,696	789	%
Allowance for loan and lease losses	(2,711)	(2,727)	16	(1)%
Goodwill	9,103	9,103		%
Mortgage servicing rights	1,323	1,589	(266)	(17)%
Other intangible assets	353	379	(26)	(7)%
Other, net	41,844	40,839	1,005	2%
Total assets	$ 360,985	$ 358,493	$ 2,492	1%
Liabilities				
Deposits	$ 250,359	$ 249,002	$ 1,357	1%
Borrowed funds	54,178	54,532	(354)	(1)%
Other	10,120	8,979	1,141	13%
Total liabilities	314,657	312,513	2,144	1%
Equity				
Total shareholders equity	45,130	44,710	420	1%
Noncontrolling interests	1,198	1,270	(72)	(6)%
Total equity	46,328	45,980	348	1%
Total liabilities and equity	$ 360,985	$ 358,493	$ 2,492	1%

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

PNC s balance sheet reflected asset growth and strong liquidity and capital positions at March 31, 2016.

Total assets increased in the first quarter of 2016 compared to the prior year end primarily due to an increase in investment securities and loans, partially offset by lower interest-earning deposits with banks.

Total liabilities increased in the first three months of 2016 compared to 2015 year end mainly due to deposit growth.

Total equity in the first quarter of 2016 remained relatively stable compared to the prior year end mainly due to increased retained earnings driven by net income, offset by share repurchases.

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Loans

Outstanding loan balances of $207.5 billion at March 31, 2016 and $206.7 billion at December 31, 2015 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $1.4 billion at both March 31, 2016 and December 31, 2015.

Table 7: Details Of Loans

	March 31	December 31	Change	
Dollars in millions	2016	2015	$	%
Commercial lending				
Commercial				
Manufacturing	$ 20,104	$ 19,014	$ 1,090	6%
Retail/wholesale trade	16,736	16,661	75	%
Service providers	14,141	13,970	171	1%
Real estate related (a)	12,153	11,659	494	4%
Health care	9,106	9,210	(104)	(1)%
Financial services	6,084	7,234	(1,150)	(16)%
Other industries	20,992	20,860	132	1%
Total commercial	99,316	98,608	708	1%
Commercial real estate				
Real estate projects (b)	16,199	15,697	502	3%
Commercial mortgage	12,031	11,771	260	2%
Total commercial real estate	28,230	27,468	762	3%
Equipment lease financing	7,584	7,468	116	2%
Total commercial lending	135,130	133,544	1,586	1%
Consumer lending				
Home equity				
Lines of credit	18,458	18,828	(370)	(2)%
Installment	13,000	13,305	(305)	(2)%
Total home equity	31,458	32,133	(675)	(2)%
Residential real estate				
Residential mortgage	14,425	14,162	263	2%
Residential construction	247	249	(2)	(1)%
Total residential real estate	14,672	14,411	261	2%
Credit card	4,746	4,862	(116)	(2)%
Other consumer				
Automobile	11,177	11,157	20	%
Education	5,701	5,881	(180)	(3)%
Other	4,601	4,708	(107)	(2)%
Total consumer lending	72,355	73,152	(797)	(1)%
Total loans	$ 207,485	$ 206,696	$ 789	%

(a) Includes loans to customers in the real estate and construction industries.
(b) Includes both construction loans and intermediate financing for projects.

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

Loans represented 57% of total assets at March 31, 2016 and 58% at December 31, 2015. Commercial lending represented 65% of the loan portfolio at both March 31, 2016 and December 31, 2015. Consumer lending represented 35% of the loan portfolio at both March 31, 2016 and December 31,

2015. See the Credit Risk Management portion of the Risk Management section of this Financial Review for additional information regarding our loan portfolio.

Total loans above include purchased impaired loans of $3.4 billion, or 2% of total loans, at March 31, 2016, and $3.5 billion, or 2% of total loans, at December 31, 2015.

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

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Allowance for Loan and Lease Losses (ALLL)

Information regarding our higher risk loans and ALLL is included in the Credit Risk Management portion of the Risk Management section of this Financial Review and Note 1 Accounting Policies, Note 3 Asset Quality and Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in Part 1, Item 1 of this Report.

Purchased Impaired Loans

A description of our purchased impaired loans is included in Note 4 Purchased Loans in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report. Information on our accounting policies related to purchased impaired loans is provided in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

We currently expect to collect total cash flows of $4.2 billion on purchased impaired loans, representing the $3.1 billion net investment at March 31, 2016 and accretable net interest of $1.1 billion.

The table below provides the weighted average life (WAL) for each of the purchased impaired portfolios as of March 31, 2016.

Table 8: Weighted Average Life of the Purchased Impaired Portfolios

As of March 31, 2016

Dollars in millions	Recorded Investment	WAL (a)
Commercial	$ 29	2.2 years
Commercial real estate	120	1.5 years
Consumer (b)	1,338	3.6 years
Residential real estate	1,893	4.5 years
Total	$ 3,380	4.0 years

(a) Weighted average life represents the average number of years for which each dollar of unpaid principal remains outstanding.
(b) Portfolio primarily consists of nonrevolving home equity products.

Commitments to Extend Credit

Commitments to extend credit comprise the following:

Table 9: Commitments to Extend Credit (a)

In millions	March 31 2016	December 31 2015
Total commercial lending	$ 101,434	$ 101,252
Home equity lines of credit	17,311	17,268
Credit card	20,814	19,937
Other	4,399	4,032
Total	$ 143,958	$ 142,489

(a) Commitments to extend credit, or net unfunded loan commitments, represent arrangements to lend funds or provide liquidity subject to specified contractual conditions.

In addition to the credit commitments set forth in the table above, our net outstanding standby letters of credit totaled $9.0 billion at March 31, 2016 and $8.8 billion at December 31, 2015. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

Information regarding our commitments to extend credit and our allowance for unfunded loan commitments and letters of credit is included in Note 1 Accounting Policies, Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 15 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part 1, Item 1 of this Report.

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Investment Securities

The following table presents the distribution of our investment securities portfolio by credit rating. We have included credit ratings information because we believe that the information is an indicator of the degree of credit risk to which we are exposed. Changes in credit ratings classifications could indicate increased or decreased credit risk and could be accompanied by a reduction or increase in the fair value of our investment securities portfolio.

Table 10: Investment Securities

	March 31, 2016		December 31, 2015		Ratings (a) As of March 31, 2016				
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	$ 10,497	$ 10,789	$ 10,022	$ 10,172	100%				
Agency residential mortgage-backed	35,350	35,981	34,250	34,408	100				
Non-agency residential mortgage-backed	4,063	4,189	4,225	4,392	11	1%	3%	80%	5%
Agency commercial mortgage-backed	2,972	3,039	3,045	3,086	100				
Non-agency commercial mortgage-backed (b)	5,410	5,444	5,624	5,630	80	10	2	2	6
Asset-backed (c)	6,345	6,325	6,134	6,130	90	3		6	1
State and municipal	3,897	4,130	3,936	4,126	89	5			6
Other debt	2,662	2,713	2,211	2,229	53	32	15		
Corporate stock and other	413	413	590	589					100
Total investment securities (d)	$ 71,609	$ 73,023	$ 70,037	$ 70,762	90%	2%	1%	5%	2%

(a) Ratings percentages allocated based on amortized cost.
(b) Collateralized primarily by retail properties, office buildings, lodging properties and multi-family housing.
(c) Collateralized primarily by corporate debt, government guaranteed student loans and other consumer credit products.
(d) Includes available for sale and held to maturity securities.

Investment securities represented 20% of total assets at both March 31, 2016 and December 31, 2015.

We evaluate our investment securities portfolio in light of changing market conditions and other factors and, where appropriate, take steps to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. At March 31, 2016, 90% of the securities in the portfolio were rated AAA/AA, with U.S. Treasury and government agencies, agency residential mortgage-backed and agency commercial mortgage-backed securities collectively representing 68% of the portfolio.

The investment securities portfolio includes both available for sale and held to maturity securities. Securities classified as available for sale are carried at fair value with net unrealized gains and losses, representing the difference between amortized cost and fair value, included in Shareholders equity as Accumulated other comprehensive income or loss, net of tax, on our Consolidated Balance Sheet. Securities classified as held to maturity are carried at amortized cost. As of March 31, 2016, the amortized cost and fair value of available for sale securities totaled $56.5 billion and $57.4 billion, respectively, compared to an amortized cost and fair value as of December 31, 2015 of $55.3 billion and $55.8 billion, respectively. The amortized cost and fair value of held to maturity securities were $15.2 billion and $15.6 billion, respectively, at March 31, 2016, compared to $14.8 billion and $15.0 billion, respectively, at December 31, 2015.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa. Net unrealized gains in the total investment securities portfolio increased to $1.4 billion at March 31, 2016 from $.7 billion at December 31, 2015. The comparable amounts for the securities available for sale portfolio were $1.0 billion at March 31, 2016 and $.5 billion at December 31, 2015.

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

The duration of investment securities was 2.3 years at March 31, 2016. We estimate that, at March 31, 2016, the effective duration of investment securities was 2.4 years for an immediate 50 basis points parallel increase in interest rates and 2.1 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2015 for

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the effective duration of investment securities were 2.8 years and 2.6 years, respectively.

Based on current interest rates and expected prepayment speeds, the weighed-average expected maturity of the investment securities portfolio (excluding corporate stock and other) was 4.3 years at March 31, 2016 compared to 4.8 years at December 31, 2015. The weighted-average expected maturities of mortgage and other asset-backed debt securities were as follows as of March 31, 2016:

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

March 31, 2016	Years
Agency residential mortgage-backed securities	3.8
Non-agency residential mortgage-backed securities	5.3
Agency commercial mortgage-backed securities	3.1
Non-agency commercial mortgage-backed securities	3.5
Asset-backed securities	2.7

At least quarterly, we conduct a comprehensive security-level impairment assessment on all securities. If economic conditions, including home prices, were to deteriorate from current levels, and if market volatility and liquidity were to deteriorate from current levels, or if market interest rates were to increase or credit spreads were to widen appreciably, the valuation of our investment securities portfolio would likely be adversely affected and we could incur additional OTTI credit losses that would impact our Consolidated Income Statement. For those securities on our balance sheet at March 31, 2016, where during our quarterly security-level impairment assessments we determined losses represented other-than-temporary impairment (OTTI), we have recorded cumulative credit losses of $1.1 billion in earnings and accordingly have reduced the amortized cost of our securities. The majority of these cumulative impairment charges related to non-agency residential mortgage-backed and asset-backed securities rated BB or lower.

Additional information regarding our investment securities is included in Note 6 Investment Securities and Note 7 Fair Value in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

Loans Held for Sale

Table 12: Loans Held For Sale

In millions	March 31 2016	December 31 2015
Commercial mortgages	$ 667	$ 668
Residential mortgages	833	850
Other	41	22
Total	$ 1,541	$ 1,540

We sold $.6 billion of commercial mortgage loans to agencies during the first three months of 2016 compared to $1.0 billion during the first three months of 2015. Total revenue of $17 million was recognized on the valuation and sale of commercial mortgage loans held for sale, net of hedges, during the first three months of 2016 and $15 million during the first three months of 2015. These amounts are included in Other noninterest income on the Consolidated Income Statement.

Residential mortgage loan origination volume was $1.9 billion during the first three months of 2016 compared to $2.6 billion in the same period in 2015. The majority of such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $1.4 billion of loans and recognized loan sales revenue of $64 million during the first quarter of 2016. The comparable amounts for 2015 were $1.9 billion and $104 million, respectively. These loan sales revenue amounts are included in Residential mortgage noninterest income on the Consolidated Income Statement.

Interest income on loans held for sale was $16 million and $23 million during the first three months of 2016 and 2015, respectively. These amounts are included in Other interest income on the Consolidated Income Statement.

Additional information regarding our loan sale and servicing activities is included in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities and Note 7 Fair Value in our Notes To Consolidated Financial Statements included in Part 1, Item 1 of this Report.

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Funding Sources

Table 13: Details Of Funding Sources

	March 31	December 31	Change	
Dollars in millions	2016	2015	$	%
Deposits				
Money market	$ 114,710	$ 118,079	$ (3,369)	(3)%
Demand	90,182	90,038	144	%
Savings	26,412	20,375	6,037	30%
Retail certificates of deposit	17,189	17,405	(216)	(1)%
Time deposits in foreign offices and other time deposits	1,866	3,105	(1,239)	(40)%
Total deposits	250,359	249,002	1,357	1%
Borrowed funds				
Federal funds purchased and repurchase agreements	2,495	1,777	718	40%
FHLB borrowings	19,058	20,108	(1,050)	(5)%
Bank notes and senior debt	21,594	21,298	296	1%
Subordinated debt	8,707	8,556	151	2%
Other	2,324	2,793	(469)	(17)%
Total borrowed funds	54,178	54,532	(354)	(1)%
Total funding sources	$ 304,537	$ 303,534	$ 1,003	%

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

Total deposits increased in the comparison mainly due to growth in savings deposits reflecting in part a shift from money market deposits to new relationship-based savings products. Interest-bearing deposits represented 69% of total deposits at March 31, 2016 and 68% at December 31, 2015.

Total borrowed funds decreased in the comparison as maturities of FHLB borrowings were partially offset by higher federal funds purchased and repurchase agreements.

Capital

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

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

assessments of capital adequacy and capital planning processes undertaken by the Federal Reserve as part of the CCAR process.

In connection with the 2016 CCAR process, we filed our capital plan and stress testing results in April 2016 using financial data as of December 31, 2015 with the Federal Reserve. We expect to receive the Federal Reserve s response (either a non-objection or objection) to the capital plan submitted as part of the 2016 CCAR in June 2016.

In the first quarter of 2016, we repurchased 5.9 million common shares for $.5 billion. We have repurchased a total of 23.8 million common shares for $2.2 billion under current share repurchase programs of up to $2.875 billion for the five quarter period ending in the second quarter of

2016. These repurchases were included in the capital plan accepted by the Federal Reserve as part of our 2015 CCAR submission.

We paid dividends on common stock of $.3 billion, or 51 cents per common share, during the first quarter of 2016. On April 4, 2016, the PNC board of directors declared a quarterly common stock cash dividend of 51 cents per share payable on May 5, 2016.

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

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Table 14: Shareholders Equity

	March 31	December 31	Change	
Dollars in millions	2016	2015	$	%
Shareholders equity				
Preferred stock (a)				
Common stock	$ 2,708	$ 2,708	$	%
Capital surplus preferred stock	3,453	3,452	1	%
Capital surplus common stock and other	12,586	12,745	(159)	(1)%
Retained earnings	29,642	29,043	599	2%
Accumulated other comprehensive income	532	130	402	309%
Common stock held in treasury at cost	(3,791)	(3,368)	(423)	(13)%
Total shareholders equity	$ 45,130	$ 44,710	$ 420	1%

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

The increase in total shareholders equity compared to December 31, 2015 was mainly due to a $.6 billion increase in retained earnings and higher accumulated other comprehensive income primarily related to net securities gains, partially offset by common share repurchases of $.5 billion. The increase in retained earnings was driven by net income of $.9 billion, reduced by $.3 billion of common and preferred dividends declared. Common shares outstanding were 499 million and 504 million at March 31, 2016 and December 31, 2015, respectively.

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Table 15: Basel III Capital

Dollars in millions	March 31, 2016 2016 Transitional Basel III (a)	Pro forma Fully Phased-In Basel III (estimated) (b)(c)
Common equity Tier 1 capital		
Common stock plus related surplus, net of treasury stock	$ 11,503	$ 11,503
Retained earnings	29,642	29,642
Accumulated other comprehensive income for securities currently and previously held as available for sale	388	647
Accumulated other comprehensive income for pension and other postretirement plans	(328)	(546)
Goodwill, net of associated deferred tax liabilities	(8,837)	(8,837)
Other disallowed intangibles, net of deferred tax liabilities	(186)	(311)
Other adjustments/(deductions)	(139)	(148)
Total common equity Tier 1 capital before threshold deductions	32,043	31,950
Total threshold deductions	(678)	(1,139)
Common equity Tier 1 capital	31,365	30,811
Additional Tier 1 capital		
Preferred stock plus related surplus	3,453	3,453
Trust preferred capital securities		
Noncontrolling interests (d)	418	44
Other adjustments/(deductions)	(86)	(107)
Tier 1 capital	35,150	34,201
Additional Tier 2 capital		
Qualifying subordinated debt	4,362	4,149
Trust preferred capital securities	119	
Allowance for loan and lease losses included in Tier 2 capital	2,992	8
Other (d)	6	10
Total Basel III capital	$ 42,629	$ 38,368
Risk-weighted assets		
Basel III standardized approach risk-weighted assets (e)	$ 295,555	$ 303,805
Basel III advanced approaches risk-weighted assets (f)	N/A	283,297
Average quarterly adjusted total assets	345,269	344,652
Supplementary leverage exposure (g)	408,695	408,078
Basel III risk-based capital and leverage ratios		
Common equity Tier 1	10.6%	10.1% (h)(j)
Tier 1	11.9	11.3 (h)(k)
Total	14.4	13.5 (i)(l)
Leverage (m)	10.2	9.9
Supplementary leverage ratio (n)	8.6	8.4

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

(b) PNC utilizes the pro forma fully phased-in Basel III capital ratios to assess its capital position (without the benefit of phase-ins), including comparison to similar estimates made by other financial institutions. Pro forma fully phased-in capital amounts, ratios and risk-weighted and leverage-related assets are estimated.

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

(d) Primarily includes REIT preferred securities for 2016 Transitional Basel III and Pro forma fully phased-in Basel III capital ratios.

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

(f) Basel III advanced approaches risk-weighted assets are estimated based on the Basel III advanced approaches rules, and include credit, market, and operational risk-weighted assets. During the parallel run qualification phase PNC has refined the data, models, and internal processes used as part of the advanced approaches for determining risk-weighted assets. Refinements made in the fourth quarter of 2015 reduced Estimated Basel III advanced approaches risk-weighted assets and refinements made in the first quarter of 2016 increased Estimated Basel III advanced approaches risk-weighted assets. We anticipate additional refinements to this estimate through the parallel run qualification phase.

(g) Supplementary leverage exposure is the sum of Adjusted average assets and certain off-balance sheet exposures including undrawn credit commitments and derivative potential future exposures.
(h) Pro forma fully phased-in Basel III capital ratio based on Basel III standardized approach risk-weighted assets and rules.
(i) Pro forma fully phased-in Basel III capital ratio based on Basel III advanced approaches risk-weighted assets and rules.

(continued on following page)

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(j) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Common equity Tier 1 capital ratio estimate is 10.9%. This capital ratio is calculated using pro forma fully phased-in Common equity Tier 1 capital and dividing by Basel III advanced approaches risk-weighted assets.
(k) For comparative purposes only, the pro forma fully phased-in advanced approaches Basel III Tier 1 risk-based capital ratio estimate is 12.1%. This capital ratio is calculated using fully phased-in Tier 1 capital and dividing by Basel III advanced approaches risk-weighted assets.
(l) For comparative purposes only, the pro forma fully phased-in standardized approaches Basel III Total capital risk-based capital ratio estimate is 13.6%. This ratio is calculated using fully phased-in additional Tier 2 capital which, under the standardized approach, reflects allowance for loan and lease losses of up to 1.25% of credit risk related risk-weighted assets and dividing by estimated Basel III standardized approach risk-weighted assets.
(m) Leverage ratio is calculated based on Tier 1 capital divided by Average quarterly adjusted total assets.
(n) Supplementary leverage ratio is calculated based on Tier 1 capital divided by Supplementary leverage exposure. As advanced approaches banking organizations, PNC and PNC Bank will be subject to a 3% minimum supplementary leverage ratio effective January 1, 2018.

The Basel II framework, which was adopted by the Basel Committee on Banking Supervision in 2004, seeks to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. The U.S. banking agencies initially adopted rules to implement the Basel II capital framework in 2004. In July 2013, the U.S. banking agencies adopted final rules (referred to as the advanced approaches) that modified the Basel II framework effective January 1, 2014. See the Supervision and Regulation section in Item 1 Business and Item 1A Risk Factors of our 2015 Form 10-K for additional information. Prior to fully implementing the advanced approaches to calculate risk-weighted assets, PNC and PNC Bank must successfully complete a parallel run qualification phase. Both PNC and PNC Bank entered this parallel run phase on January 1, 2013. Although the minimum parallel run qualification period is four quarters, the parallel run period for PNC and PNC Bank, now in its fourth year, is consistent with the experience of other U.S. advanced approaches banks that have all had multi-year parallel run periods. After PNC exits parallel run, its regulatory risk-based capital ratio for each measure (*e.g.*, Common equity Tier 1 capital ratio) will be the lower of the ratios as calculated under the standardized approach and the advanced approaches.

As a result of the staggered effective dates of the final U.S. Basel III regulatory capital rules (Basel III rules), as well as the fact that PNC remains in the parallel run qualification phase for the advanced approaches, PNC s regulatory risk-based ratios in 2016 are calculated using the standardized approach for determining risk-weighted assets, and the definitions of, and deductions from, regulatory capital under the Basel III rules (as such definitions and deductions are phased-in for 2016). We refer to the capital ratios calculated using the phased-in Basel III provisions in effect for 2016 and, for the risk-based ratios, standardized approach risk-weighted assets, as the 2016 Transitional Basel III ratios. Under the standardized approach for determining credit risk-weighted assets, exposures are generally assigned a pre-defined risk weight. Exposures to high volatility commercial real estate, past due exposures, equity exposures and securitization exposures are generally subject to higher risk weights than other types of exposures.

Under the Basel III rules adopted by the U.S. banking agencies, significant common stock investments in unconsolidated financial institutions, mortgage servicing

rights and deferred tax assets must be deducted from capital (subject to a phase-in schedule and net of associated deferred tax liabilities) to the extent they individually exceed 10%, or in the aggregate exceed 15%, of the institution s adjusted common equity Tier 1 capital. Also, Basel III regulatory capital includes (subject to a phase-in schedule) accumulated other comprehensive income related to securities currently and previously held as available for sale, as well as pension and other postretirement plans.

Federal banking regulators have stated that they expect the largest U.S. bank holding companies, including PNC, to have a level of regulatory capital well in excess of the regulatory minimum and have required the largest U.S. bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet the credit needs of their customers through estimated stress scenarios. We seek to manage our capital consistent with these regulatory principles, and believe that our March 31, 2016 capital levels were aligned with them.

At March 31, 2016, PNC and PNC Bank, our sole bank subsidiary, were both considered well capitalized, based on applicable U.S. regulatory capital ratio requirements. To qualify as well capitalized , PNC must have Transitional Basel III capital ratios of at least 6% for Tier 1 risk-based capital and 10% for Total risk-based capital, and PNC Bank must have Transitional Basel III capital ratios of at least 6.5% for Common equity Tier 1 risk-based capital, 8% for Tier 1 risk-based capital, 10% for Total risk-based capital, and a Leverage ratio of at least 5%.

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

We provide additional information regarding regulatory capital requirements and some of their potential impacts on PNC in the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors and Note 19 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of our 2015 Form 10-K.

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Off-Balance Sheet Arrangements and Variable Interest Entities

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

- Commitments, including contractual obligations and other commitments, included within the Risk Management section of this Financial Review,
- Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements, and
- Note 15 Commitments and Guarantees in the Notes To Consolidated Financial Statements.

PNC consolidates variable interest entities (VIEs) when we are deemed to be the primary beneficiary. The primary beneficiary of a VIE is determined to be the party that meets

both of the following criteria: (i) has the power to make decisions that most significantly affect the economic performance of the VIE and (ii) has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE.

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

Trust Preferred Securities and REIT Preferred Securities

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

Fair Value Measurements

In addition to the following, see Note 7 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for further information regarding fair value.

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at March 31, 2016 and December 31, 2015, respectively, and the portions of such assets and liabilities that are classified within Level 3 of the valuation hierarchy. Level 3 assets and liabilities are those where the fair value is estimated using significant unobservable inputs.

Table 16: Fair Value Measurements Summary

	March 31, 2016		December 31, 2015	
Dollars in millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	$ 72,182	$ 8,029	$ 68,804	$ 8,606
Total assets at fair value as a percentage of consolidated assets	20%		19%	
Level 3 assets as a percentage of total assets at fair value		11%		13%
Level 3 assets as a percentage of consolidated assets		2%		2%
Total liabilities	$ 6,168	$ 355	$ 4,892	$ 495
Total liabilities at fair value as a percentage of consolidated liabilities	2%		2%	
Level 3 liabilities as a percentage of total liabilities at fair value		6%		10%
Level 3 liabilities as a percentage of consolidated liabilities		<1%		<1%

BUSINESS SEGMENTS REVIEW

We have six reportable business segments:

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

Business segment results, including the basis of presentation of inter-segment revenues, and a description of each business are included in Note 16 Segment Reporting included in the

Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. Certain amounts included in this Business Segments Review and the Business Segments Highlights in the Executive Summary section of this Financial Review differ from those amounts shown in Note 16, primarily due to the presentation in this Financial Review of business net interest revenue on a taxable-equivalent basis.

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

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Retail Banking

(Unaudited)

Table 17: Retail Banking Table

Three months ended March 31 Dollars in millions, except as noted	2016	2015
Income Statement		
Net interest income	$ 1,113	$ 1,038
Noninterest income	537	488
Total revenue	1,650	1,526
Provision for credit losses	77	49
Noninterest expense	1,150	1,158
Pretax earnings	423	319
Income taxes	155	117
Earnings	$ 268	$ 202
Average Balance Sheet		
Loans		
Consumer		
Home equity	$ 26,743	$ 28,152
Automobile	10,787	10,341
Education	5,865	6,626
Credit cards	4,722	4,444
Other	1,823	1,896
Total consumer	49,940	51,459
Commercial and commercial real estate	12,551	12,867
Residential mortgage	596	734
Total loans	$ 63,087	$ 65,060
Total assets	$ 72,216	$ 74,017
Deposits		
Noninterest-bearing demand	$ 26,209	$ 22,591
Interest-bearing demand	37,860	35,650
Money market	50,405	53,105
Savings	21,780	12,888
Certificates of deposit	15,350	17,318
Total deposits	$ 151,604	$ 141,552
Performance Ratios		
Return on average assets	1.51%	1.11%
Noninterest income to total revenue	33%	32%
Efficiency	70%	76%
Supplemental Noninterest Income Information		
Service charges on deposits	$ 151	$ 146
Brokerage	$ 75	$ 67
Consumer services	$ 254	$ 233
Other Information (a)		
Customer-related statistics (average):		
Non-teller deposit transactions (b)	47%	40%
Digital consumer customers (c)	56%	50%
Credit-related statistics:		
Nonperforming assets (d)	$ 1,023	$ 1,174
Net charge-offs	$ 96	$ 99
Annualized net charge-off ratio	.61%	.62%
Other statistics:		
ATMs	8,940	8,754
Branches (e)	2,613	2,660
Brokerage account client assets (billions) (f)	$ 43	$ 44

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

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

(c) Represents consumer checking relationships that process the majority of their transactions through non-teller channels.
(d) Includes nonperforming loans of $1.0 billion at March 31, 2016 and $1.1 billion at March 31, 2015.
(e) Excludes satellite offices (*e.g.*, drive-ups, electronic branches and retirement centers) that provide limited products and/or services.
(f) Amounts include cash and money market balances.

Retail Banking earned $268 million in the first three months of 2016 compared with earnings of $202 million for the same period a year ago. The increase in earnings was driven by higher net interest income and noninterest income, partially offset by higher provision for credit losses. Retail Banking continues to enhance the customer experience with refinements to product offerings that drive product value for consumers and small businesses. We are focused on growing customer share of wallet through the sale of liquidity, banking, and investment products that meet the broad range of financial needs of our customers.

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

- In the first three months of 2016, approximately 56% of consumer customers used non-teller channels for the majority of their transactions compared with 50% for the same period in 2015.
- Deposit transactions via ATM and mobile channels increased to 47% of total deposit transactions in the first quarter of 2016 compared with 40% for the same period in 2015.
- Integral to PNC s retail branch transformation strategy, approximately 14% of branches operate under the universal model designed to enhance sales opportunities for branch personnel, in part, by driving higher ATM and mobile deposits. PNC had a network of 2,613 branches and 8,940 ATMs at March 31, 2016.
- Instant debit card issuance, which enables us to print a customer s debit card in minutes, is now available in nearly 900 branches, over 34% of the branch network.

Total revenue for the first three months of 2016 increased $124 million compared to the same period in 2015, driven by increases in both net interest income and noninterest income. Net interest income increased $75 million in the comparison due to growth in deposit balances and interest rate spread on the value of deposits, partially offset by lower loan balances and interest rate spread compression on the value of loans.

Noninterest income increased $49 million in the first quarter of 2016 compared to the same period a year ago. Execution on our share of wallet strategy resulted in growth in consumer service fee income from payment-related products, specifically in debit card, credit card and merchant services, as well as increased brokerage fees. Increased noninterest income in the comparison also reflected a gain of $44 million on the sale of 0.5 million Visa Class B common shares in the first quarter of 2016.

Provision for credit losses increased $28 million and net charge-offs declined $3 million in the first three months of 2016, compared to the same period in 2015. The increase in provision for credit losses reflected slowing credit quality improvement.

The deposit strategy of Retail Banking is to remain disciplined on pricing, focused on growing and retaining relationship-based balances, executing on market specific deposit growth strategies, and providing a source of low-cost funding and liquidity to PNC.

In the first three months of 2016, average total deposits of $151.6 billion increased $10.0 billion, or 7%, compared to the same period a year ago, driven by organic growth in the following deposit categories:

- Savings deposits increased $8.9 billion, or 69%, to $21.8 billion.
- Demand deposits increased $5.8 billion, or 10%, to $64.1 billion.

The increase in savings deposits was partially offset by lower money market deposits, which declined $2.7 billion, or 5%, reflecting a shift to new relationship-based savings products. Certificates of deposit, declined $2.0 billion, or 11%, in the comparison, from the net runoff of maturing accounts.

Retail Banking continued to focus on a relationship-based lending strategy that targets specific products and markets for growth. In the first three months of 2016, average total loans

declined $2.0 billion, or 3%, compared to the same period in 2015, driven by a decline in home equity loans and runoff of non-strategic portions of the portfolios, as more fully described below.

- Average home equity loans decreased $1.4 billion, or 5%, as pay-downs and payoffs on loans exceeded new booked volume, consistent with lower mortgage refinance demand. Retail Banking s home equity loan portfolio is relationship based, with over 97% of the portfolio attributable to borrowers in our primary geographic footprint. The weighted-average updated FICO scores for this portfolio was 750 at March 31, 2016 compared to 752 at December 31, 2015.
- Average commercial and commercial real estate loans declined $316 million, or 2%, as pay-downs and payoffs on loans exceeded new volume.
- Average automobile loans, comprised of both direct and indirect auto loans, increased $446 million, or 4%, primarily due to portfolio growth in previously underpenetrated markets.
- Average credit card balances increased $278 million, or 6%, as a result of efforts to increase credit card share of wallet through organic growth.
- In the first three months of 2016, average loan balances for the remainder of the portfolio declined $972 million, or 11%, compared to the same period in 2015, driven by declines in the discontinued government guaranteed education, indirect other, and residential mortgage portfolios, which are primarily runoff portfolios.

Nonperforming assets declined $151 million, or 13%, at March 31, 2016 compared to March 31, 2015. The decrease was driven by declines in both consumer and commercial nonperforming loans.

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Corporate & Institutional Banking

(Unaudited)

Table 18: Corporate & Institutional Banking Table

Three months ended March 31 Dollars in millions, except as noted	2016	2015
Income Statement		
Net interest income	$ 870	$ 855
Noninterest income	434	429
Total revenue	1,304	1,284
Provision for credit losses	107	17
Noninterest expense	521	514
Pretax earnings	676	753
Income taxes	245	271
Earnings	$ 431	$ 482
Average Balance Sheet		
Loans held for sale	$ 708	$ 1,106
Loans		
Commercial	$ 86,645	$ 84,712
Commercial real estate	25,817	22,090
Equipment lease financing	6,783	6,914
Total commercial lending	119,245	113,716
Consumer	499	1,352
Total loans	$ 119,744	$ 115,068
Total assets	$ 135,521	$ 131,178
Deposits		
Noninterest-bearing demand	$ 46,962	$ 46,976
Money market	21,229	22,286
Other	11,316	9,340
Total deposits	$ 79,507	$ 78,602
Performance Ratios		
Return on average assets	1.29%	1.49%
Noninterest income to total revenue	33%	33%
Efficiency	40%	40%
Other Information		
Commercial loan servicing portfolio (a) (b)	$ 453	$ 390
Consolidated revenue from: (c)		
Treasury Management (d)	$ 377	$ 319
Capital Markets (d)	$ 152	$ 180
Commercial mortgage banking activities		
Commercial mortgage loans held for sale (e)	$ 26	$ 26
Commercial mortgage loan servicing income (f)	66	56
Commercial mortgage servicing rights valuation, net of economic hedge (g)	1	16
Total	$ 93	$ 98
Average Loans (by C&IB business)		
Corporate Banking	$ 56,166	$ 58,227
Real Estate	35,784	29,918
Business Credit	14,672	14,217
Equipment Finance	11,014	10,941
Other	2,108	1,765
Total average loans	$ 119,744	$ 115,068
Net carrying amount of commercial mortgage servicing rights (a)	$ 460	$ 494
Credit-related statistics:		
Nonperforming assets (a) (h)	$ 701	$ 516
Net charge-offs (recoveries)	$ 41	$ (1)

(a) As of March 31.
(b) Represents loans serviced for PNC and others.
(c)

Represents consolidated PNC amounts. See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of the Corporate & Institutional Banking portion of this Business Segments Review section.
(d) Includes amounts reported in net interest income, corporate service fees and other noninterest income.
(e) Includes other noninterest income for valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(f) Includes net interest income and noninterest income (primarily in corporate services fees) from loan servicing net of reduction in commercial mortgage servicing rights due to time decay and payoffs. Commercial mortgage servicing rights valuation, net of economic hedge is shown separately.
(g) Amounts reported in corporate services fees.
(h) Includes nonperforming loans of $.6 billion at March 31, 2016 and $.4 billion at March 31, 2015.

Corporate & Institutional Banking earned $431 million in the first quarter of 2016, a decrease of $51 million, or 11%, compared with the first quarter of 2015. The decrease in earnings was primarily due to an increase in the provision for credit losses, partially offset by increased net interest income. We continue to focus on building client relationships where the risk-return profile is attractive, including the Southeast.

Net interest income increased $15 million, or 2%, in the first three months of 2016 compared to the first three months of 2015. The increase primarily reflects the impact of higher average loans and deposits as well as interest rate spread expansion on deposits, partially offset by continued interest rate spread compression on loans and lower purchase accounting accretion.

Noninterest income increased slightly in the first three months of 2016 compared to the first three months of 2015 reflecting an equity investment gain, lower commercial mortgage servicing rights valuation, net of economic hedge, and lower capital markets activity.

Overall credit quality for the first quarter of 2016 remained relatively stable, except for deterioration related to certain energy related loans, which was the primary driver for the increase in provision for credit losses of $90 million, net charge-offs of $42 million and nonperforming assets of $185 million in the year over year comparisons. Increased provision for credit losses also reflected the impact of continued loan growth.

Average loans increased $4.7 billion, or 4%, for the first quarter of 2016 compared to the prior year quarter, reflecting solid growth in Real Estate and Business Credit, partially offset by a decline in Corporate Banking:

PNC Real Estate provides banking, financing and servicing solutions for commercial real estate clients across the country. Average loans for this business increased $5.9 billion, or 20%, in the first quarter of 2016 compared with the first quarter of 2015, primarily due to growth in commercial lending driven by higher term, REIT and agency warehouse lending.

- 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 $455 million, or 3%, in the first three months of 2016 compared to the first three months of 2015, due to new originations.
- Corporate Banking provides lending, treasury management and capital markets-related products and services to midsized and large corporations, government and not-for-profit entities. Average loans for this business decreased $2.1 billion, or 4%, in the first quarter of 2016 compared with the first quarter of 2015, reflecting the impact of ongoing capital and liquidity management activities, partially offset by increased lending to large corporate clients.
- PNC Equipment Finance provides equipment financing solutions for clients throughout the U.S. and Canada. Average loans and operating leases were $11.8 billion in the first quarter of 2016, unchanged compared with the first quarter of 2015.

Average deposits for the first quarter of 2016 increased $.9 billion, or 1%, compared with the first quarter of 2015, as a result of interest-bearing demand deposit growth, partially offset by a decrease in money market deposits.

The commercial loan servicing portfolio increased $63 billion, or 16%, at March 31, 2016 compared to March 31, 2015, as servicing additions from new and existing customers exceeded portfolio run-off.

Product Revenue

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

Treasury management revenue, comprised of fees and net interest income from customer deposit balances, increased $58 million, or 18%, in the first quarter of 2016 compared with the first quarter of 2015, driven by liquidity-related revenue.

Capital markets-related products and services include foreign exchange, derivatives, securities, loan syndications, mergers and acquisitions advisory, equity capital markets advisory activities and related services. Revenue from capital markets-related products and services decreased $28 million, or 16%, in the first three months of 2016 compared with the first three months of 2015. The decrease in the comparison was primarily driven by lower merger and acquisition advisory fees, decreased corporate securities underwriting activity and lower loan syndication 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 decreased $5 million, or 5%, in the first quarter of 2016 compared with the first quarter of 2015. The decrease in the comparison was mainly due to lower commercial mortgage servicing rights valuation, net of economic hedge, largely offset by higher mortgage servicing revenue.

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Asset Management Group

(Unaudited)

Table 19: Asset Management Group Table

Three months ended March 31 Dollars in millions, except as noted	2016	2015
Income Statement		
Net interest income	$ 77	$ 73
Noninterest income	203	208
Total revenue	280	281
Provision for credit losses (benefit)	(3)	12
Noninterest expense	206	210
Pretax earnings	77	59
Income taxes	28	22
Earnings	$ 49	$ 37
Average Balance Sheet		
Loans		
Consumer	$ 5,630	$ 5,650
Commercial and commercial real estate	788	932
Residential mortgage	1,003	865
Total loans	$ 7,421	$ 7,447
Total assets	$ 7,887	$ 7,943
Deposits		
Noninterest-bearing demand	$ 1,407	$ 1,345
Interest-bearing demand	4,280	4,241
Money market	4,758	4,621
Savings	1,563	165
Other	275	290
Total deposits	$ 12,283	$ 10,662
Performance Ratios		
Return on average assets	2.52%	1.89%
Noninterest income to total revenue	73%	74%
Efficiency	74%	75%
Other Information		
Total nonperforming assets (a) (b)	$ 54	$ 63
Total net charge-offs	$ 4	$ 4
Client Assets Under Administration (a) (c) (d) (in billions)		
Discretionary client assets under management	$ 135	$ 136
Nondiscretionary client assets under administration	125	129
Total	$ 260	$ 265
Discretionary client assets under management		
Personal	$ 84	$ 88
Institutional	51	48
Total	$ 135	$ 136
Equity	$ 72	$ 75
Fixed Income	40	41
Liquidity/Other	23	20
Total	$ 135	$ 136

(a) As of March 31.
(b) Includes nonperforming loans of $49 million at March 31, 2016 and $59 million at March 31, 2015.
(c) Excludes brokerage account client assets.
(d) As a result of certain investment advisory services performed by one of our registered investment advisors, certain assets are reported as both discretionary client assets under management and nondiscretionary client assets under administration. The amount of such assets was approximately $7 billion at March 31,

2016 and $5 billion at March 31, 2015.

Asset Management Group earned $49 million in the first quarter of 2016 and $37 million in the first quarter of 2015. Earnings increased compared with the prior year quarter as a reduction in the provision for credit losses and lower noninterest expense was partially offset by a decline in noninterest income.

Total revenue for the first quarter of 2016 decreased slightly compared to the first quarter of 2015, as a decline in noninterest income from lower average equity markets was largely offset by an increase in net interest income.

Noninterest expense decreased $4 million, or 2%, in the first quarter of 2016 compared to the first quarter of 2015. Asset Management Group remains focused on disciplined expense management as it invests in strategic growth opportunities.

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

Institutional Asset Management provides advisory, custody, and retirement administration services to institutional clients primarily within our banking footprint. The business also offers PNC proprietary mutual funds and investment strategies. Institutional Asset Management is strengthening its partnership with Corporate and Institutional Banking and other internal channels to drive growth and is focused on building retirement capabilities and expanding product solutions for all customers.

Assets under administration were $260 billion as of March 31, 2016 compared with $265 billion as of March 31, 2015 largely due to a decline in nondiscretionary client assets under administration. Discretionary client assets under management decreased $1 billion compared to March 31, 2015.

Average deposits for the first quarter of 2016 increased $1.6 billion, or 15%, from the prior year first quarter, primarily driven by an increase in savings products. Average loan balances of $7.4 billion remained stable compared to the prior year quarter.

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Residential Mortgage Banking

(Unaudited)

Table 20: Residential Mortgage Banking Table

Three months ended March 31

Dollars in millions, except as noted	2016	2015
Income Statement		
Net interest income	$ 25	$ 30
Noninterest income	105	177
Total revenue	130	207
Provision for credit losses (benefit)	(1)	2
Noninterest expense	152	161
Pretax earnings (loss)	(21)	44
Income taxes (benefit)	(8)	16
Earnings (loss)	$ (13)	$ 28
Average Balance Sheet		
Loans held for sale	$ 800	$ 1,147
Loans	$ 1,028	$ 1,282
Mortgage servicing rights (MSR)	$ 995	$ 843
Total assets	$ 6,306	$ 7,245
Total deposits	$ 2,330	$ 2,215
Performance Ratios		
Return on average assets	(.84)%	1.57%
Noninterest income to total revenue	81%	86%
Efficiency	117%	78%
Supplemental Noninterest Income Information		
Loan servicing revenue		
Servicing fees	$ 62	$ 48
Mortgage servicing rights valuation, net of economic hedge	$ (21)	$ 25
Loan sales revenue	$ 64	$ 104
Residential Mortgage Servicing Portfolio (in billions) (a)		
Serviced portfolio balance (b)	$ 125	$ 113
Portfolio acquisitions	$ 5	$ 8
MSR asset value (b)	$ .9	$ .8
MSR capitalization value (in basis points) (b)	69	74
Other Information		
Loan origination volume (in billions)	$ 1.9	$ 2.6
Loan sale margin percentage	3.21%	4.09%
Percentage of originations represented by:		
Purchase volume (c)	40%	31%
Refinance volume	60%	69%
Total nonperforming assets (b) (d)	$ 75	$ 105

(a) Represents loans serviced for third parties.
(b) As of March 31.
(c) Mortgages with borrowers as part of residential real estate purchase transactions.
(d) Includes nonperforming loans of $44 million at March 31, 2016 and $65 million at March 31, 2015.

Residential Mortgage Banking reported a loss of $13 million in the first three months of 2016 compared with earnings of $28 million in the first three months of 2015, primarily driven by a decline in noninterest income, partially offset by lower noninterest expense. The decline in noninterest income reflected lower residential mortgage servicing rights valuation, net of economic hedge, as well as lower loan sales revenue in the comparison, partially offset by increased servicing fee income.

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

Residential Mortgage Banking overview:

- Total loan originations decreased $.7 billion in first quarter 2016 compared to first quarter 2015. Loans continue to be originated primarily through direct channels under Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Housing Administration (FHA)/Department of Veterans Affairs agency guidelines. Refinancings were 60% of originations in the first 3 months of 2016 and 69% in the first three months 2015.
- Residential mortgage loans serviced for others increased by $12 billion at March 31, 2016 compared to March 31, 2015. During the first three months of 2016, $5 billion of residential mortgage servicing rights were acquired, compared with $8 billion in the comparable period of 2015.
- Net interest income decreased $5 million in the first three months in 2016 compared with the 2015 period. This decline was primarily due to lower originations and lower balances of portfolio loans held for investment.
- Noninterest income declined $72 million in the first three months of 2016 compared with the prior year period, as increased servicing fee income was more than offset by lower residential mortgage servicing rights valuation, net of economic hedge, as well as lower loan sales revenue.
- Noninterest expense declined $9 million in the first three months of 2016 compared with the 2015 period, primarily as a result of lower mortgage servicing and compliance costs.

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BlackRock

(Unaudited)

Table 21: BlackRock Table

Information related to our equity investment in BlackRock follows:

Three months ended March 31

Dollars in millions	2016	2015
Business segment earnings (a)	$ 114	$ 135
PNC s economic interest in BlackRock (b)	22%	22%

(a) Includes PNC s share of BlackRock s reported GAAP earnings and additional income taxes on those earnings incurred by PNC.
(b) At March 31.

In billions	March 31 2016	December 31 2015
Carrying value of PNC s investment in BlackRock (c)	$ 6.7	$ 6.7
Market value of PNC s investment in BlackRock (d)	12.0	12.0

(c) PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $2.2 billion at both March 31, 2016 and December 31, 2015. Our voting interest in BlackRock common stock was approximately 21% at March 31, 2016.
(d) Does not include liquidity discount.

In addition to our investment in BlackRock reflected in Table 21, at March 31, 2016, we held approximately 0.8 million shares of BlackRock Series C Preferred Stock valued at $208 million, which are available to fund our obligation in connection with certain BlackRock long-term incentive plan (LTIP) programs. We account for the BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock. The fair value amount of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 7 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and in Note 7 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of our 2015 Form 10-K.

On February 1, 2016, we transferred 0.5 million shares of BlackRock Series C Preferred Stock to BlackRock to satisfy a portion of our LTIP obligation. The transfer reduced Other assets and Other liabilities on our Consolidated Balance Sheet by $138 million.

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

Non-Strategic Assets Portfolio

(Unaudited)

Table 22: Non-Strategic Assets Portfolio Table

Three months ended March 31

Dollars in millions	2016	2015
Income Statement		
Net interest income	$ 75	$ 112
Noninterest income	22	9

Total revenue	97	121
Provision for credit losses (benefit)	(7)	(31)
Noninterest expense	21	24
Pretax earnings	83	128
Income taxes	31	47
Earnings	$ 52	$ 81
Average Balance Sheet		
Loans		
Commercial Lending	$ 708	$ 750
Consumer Lending		
Home equity	2,144	3,021
Residential real estate	3,245	4,184
Total consumer lending	5,389	7,205
Total loans	6,097	7,955
Other assets (a)	(281)	(679)
Total assets	$ 5,816	$ 7,276
Performance Ratios		
Return on average assets	3.63%	4.51%
Noninterest income to total revenue	23	7
Efficiency	22	20
Other Information		
Nonperforming assets (b) (c)	$ 499	$ 669
Purchased impaired loans (b) (d)	$ 2,737	$ 3,808
Net charge-offs	$ 8	$
Loans (b)		
Commercial Lending	$ 703	$ 746
Consumer Lending		
Home equity	2,088	2,944
Residential real estate	3,190	4,139
Total consumer lending	5,278	7,083
Total loans	$ 5,981	$ 7,829

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

(b) As of March 31.

(c) Includes nonperforming loans of $.4 billion at March 31, 2016 and $.5 billion at March 31, 2015.

(d) Recorded investment of purchased impaired loans related to acquisitions. This segment contained 81% of PNC s purchased impaired loans at both March 31, 2016 and March 31, 2015.

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

Non-Strategic Assets Portfolio had earnings of $52 million in the first three months of 2016 compared with $81 million in the first three months of 2015. Earnings decreased year-over-year primarily due to a declining loan portfolio and a reduced benefit from the provision for credit losses.

Non-Strategic Assets Portfolio overview:

- Net interest income declined $37 million, or 33%, in the first three months of 2016 compared with the first three months of 2015, resulting from lower purchase accounting accretion and the impact of the declining average balance of the loan portfolio.
- Noninterest income increased $13 million in the first three months of 2016 compared to the first three months of 2015 driven by a release of excess reserves for estimated losses on repurchase obligations in the first quarter of 2016 related to a settlement.
- Provision for credit losses was a benefit in both the first three months of 2016 and the first three months of 2015, reflecting improved actual and expected purchased impaired loan losses.
- Noninterest expense declined $3 million, or 13%, in the first three months of 2016 compared with the first three months of 2015, due to lower costs of managing and servicing the loan portfolios, as the portfolio continues to decline.
- Average portfolio loans declined $1.9 billion, or 23%, in the first three months of 2016 compared to the first three months of 2015, due to customer payment activity and portfolio management activities to reduce under-performing assets. The decline also reflects the impact of our change in derecognition policy effective December 31, 2015 for certain purchased impaired loans.

Critical Accounting Estimates and Judgments

Note 1 Accounting Policies in Item 8 of our 2015 Form 10-K and in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report describe the most significant accounting policies that we use to prepare our consolidated financial statements. Certain of these policies require us to make estimates or economic assumptions that may vary under different assumptions or conditions and such variations may significantly affect our reported results and financial position for the period or in future periods.

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

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

The following critical accounting policies and judgments are described in more detail in Critical Accounting Estimates and Judgments in Item 7 of our 2015 Form 10-K:

- Fair Value Measurements
- Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit
- Estimated Cash Flows on Purchased Impaired Loans
- Goodwill
- Lease Residuals
- Revenue Recognition
- Residential and Commercial Mortgage Servicing Rights
- Income Taxes
- Recently Issued Accounting Standards

We provide additional information about many of these items in the Notes To Consolidated Financial Statements included in Part I, Item l of this Report.

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Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU clarifies the principles for recognizing revenue and replaces nearly all existing revenue recognition guidance in U.S. GAAP with one accounting model. The core principle of the guidance is that an entity should recognize revenue to depict the satisfaction of a performance obligation by transfer of promised goods or services to customers. The ASU also requires additional qualitative and quantitative disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has subsequently released several amendments to ASU 2014-09. In August 2015, the FASB issued guidance deferring the mandatory effective date of the ASU for one year, to annual reporting periods beginning after December 15, 2017. In March 2016, the FASB issued guidance clarifying how an entity should assess whether it is a principal or an agent with respect to the delivery of promised goods or services to customers, which impacts whether revenue should be recorded on a gross or net basis. Finally, in April 2016, the FASB issued additional guidance on identifying performance obligations and licensing. The requirements within ASU 2014-09 and its subsequent amendments should be applied retrospectively to each prior period presented (with several practical expedients for certain completed contracts) or retrospectively with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application. We plan to adopt the ASU consistent with the deferred mandatory effective date. Based on our evaluation to date, we do not expect the adoption of this standard to have a significant impact on our consolidated results of operations or our consolidated financial position.

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

the effective date and are currently evaluating the impact of this ASU on our results of operations and financial position.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842*)*. The primary change in the new guidance is the recognition of lease assets and lease liabilities by lessees for operating leases. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases with lease terms of more than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. The ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018 using a modified retrospective approach through a cumulative-effect adjustment. Early adoption is permitted. We are currently evaluating the impact of adopting this standard.

Recently Adopted Accounting Standards

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

Status of Qualified Defined Benefit Pension Plan

We have a noncontributory, qualified defined benefit pension plan (plan or pension plan) covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are applied as a percentage of eligible compensation. We calculate the expense associated with the pension plan and the assumptions and methods that we use include a policy of reflecting plan assets at their fair market value. Annually, we review the actuarial assumptions for the pension plan.

We currently estimate pretax pension expense of $43 million for 2016 compared with pretax expense of $9 million in 2015. This year-over-year expected increase in expense is mainly due to lower than expected asset returns during 2015, which reduced year-end pension asset balances and increased the amortization of actuarial losses in 2016.

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The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2016 estimated expense as a baseline.

Table 23: Pension Expense Sensitivity Analysis

Change in Assumption (a) (In millions)	Estimated Increase to 2016 Pension Expense
.5% decrease in discount rate	$ 18
.5% decrease in expected long-term return on assets	$ 21
.5% increase in compensation rate	$ 2

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

We provide additional information on our pension plan in Note 12 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of our 2015 Form 10-K.

Recourse and Repurchase Obligations

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

Risk Management

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

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

Credit Risk Management

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

Asset Quality Overview

Asset quality trends remained relatively stable during the first three months of 2016, except for certain energy related loans.

- Provision for credit losses for the first quarter of 2016 increased to $152 million compared to $54 million for the first quarter of 2015. The first quarter 2016 provision included $80 million for energy related loans in the oil, gas, and coal sectors.
- Nonperforming assets at March 31, 2016 increased $127 million compared with December 31, 2015 due to higher nonperforming commercial loans driven by energy related loans, partially offset by declining commercial real estate and consumer lending nonperforming loans. Nonperforming assets were 0.71% of total assets at March 31, 2016 compared with 0.68% at December 31, 2015.
- Overall loan delinquencies totaled $1.5 billion at March 31, 2016, a decrease of $143 million, or 9%, from year-end 2015. The reduction was due in large part to a reduction in accruing government insured consumer lending loans past due of $95 million.
- Net charge-offs were $149 million in the first quarter of 2016, up 45%, or $46 million, from net charge-offs in the first quarter of 2015 due to higher commercial loan net charge-offs.

The level of ALLL remained at $2.7 billion at both March 31, 2016 and December 31, 2015.

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets, including OREO and Foreclosed Assets

Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming troubled debt restructurings (TDRs), OREO and foreclosed assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonperforming loans and nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. A summary of the major categories of nonperforming assets are presented in Table 24. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further detail of nonperforming asset categories.

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Table 24: Nonperforming Assets By Type

Dollars in millions	March 31 2016	December 31 2015
Nonperforming loans		
Commercial lending	$ 732	$ 545
Consumer lending (a)	1,549	1,581
Total nonperforming loans (b)(c)	2,281	2,126
OREO and foreclosed assets	271	299
Total nonperforming assets	$ 2,552	$ 2,425
Amount of TDRs included in nonperforming loans	$ 1,172	$ 1,119
Percentage of total nonperforming loans	51%	53%
Nonperforming loans to total loans	1.10%	1.03%
Nonperforming assets to total loans, OREO and foreclosed assets	1.23	1.17
Nonperforming assets to total assets	.71	.68
Allowance for loan and lease losses to total nonperforming loans	119	128

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

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

(c) The recorded investment of loans collateralized by residential real estate property that are in process of foreclosure was $.5 billion and $.6 billion at March 31, 2016 and December 31, 2015, respectively. Both periods included $.3 billion of loans that are government insured/guaranteed.

Table 25: Change in Nonperforming Assets

In millions	2016	2015
January 1	$ 2,425	$ 2,880
New nonperforming assets	542	336
Charge-offs and valuation adjustments	(161)	(124)
Principal activity, including paydowns and payoffs	(98)	(170)
Asset sales and transfers to loans held for sale	(90)	(93)
Returned to performing status	(66)	(75)
March 31	$ 2,552	$ 2,754

Nonperforming assets increased $127 million at March 31, 2016 compared to December 31, 2015. Commercial lending nonperforming loans increased $187 million and consumer lending nonperforming loans decreased $32 million. As of March 31, 2016, approximately 83% of total nonperforming loans were secured by collateral which lessens reserve requirements and is expected to reduce credit losses in the event of default. As of March 31, 2016, commercial lending nonperforming loans were carried at approximately 67% of their unpaid principal balance, due to charge-offs recorded to date, before consideration of the ALLL. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on these loans.

Within consumer nonperforming loans, residential real estate TDRs comprise 70% of total residential real estate nonperforming loans at March 31, 2016, up from 68% at December 31, 2015. Home equity TDRs comprise 53% of home equity nonperforming loans at March 31, 2016, up from 51% at December 31, 2015. TDRs generally remain in nonperforming status until a borrower has made at least six consecutive months of both principal and interest payments under the modified terms or ultimate resolution occurs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status.

At March 31, 2016, our largest nonperforming asset was $55 million in the Mining, Quarrying, Oil and Gas Extraction Industry and our average nonperforming loan associated with commercial lending was less than $1 million. The ten largest outstanding nonperforming assets are from the commercial lending portfolio and represent 42% and 12% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of March 31, 2016.

Table 26: OREO and Foreclosed Assets

In millions	March 31 2016	December 31 2015
Other real estate owned (OREO):		
Residential properties	$ 135	$ 146
Residential development properties	27	31
Commercial properties	97	102
Total OREO	259	279
Foreclosed and other assets	12	20
Total OREO and foreclosed assets	$ 271	$ 299

Total OREO and foreclosed assets decreased $28 million during the first three months of 2016 and were 11% of total nonperforming assets at March 31, 2016. As of March 31, 2016 and December 31, 2015, 60% and 59%, respectively, of our OREO and foreclosed assets were comprised of residential related properties.

Loan Delinquencies

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

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Table 27: Accruing Loans Past Due (a) (b)

	Amount		Percentage of Total Outstandings	
Dollars in millions	March 31 2016	December 31 2015	March 31 2016	December 31 2015
Early stage loan delinquencies				
Accruing loans past due 30 to 59 days	$ 506	$ 511	.24%	.25%
Accruing loans past due 60 to 89 days	209	248	.10%	.12%
Total	715	759	.34%	.37%
Late stage loan delinquencies				
Accruing loans past due 90 days or more	782	881	.38%	.43%
Total	$ 1,497	$ 1,640	.72%	.80%

(a) Amounts in table represent recorded investment.

(b) Past due loan amounts at March 31, 2016 include government insured or guaranteed loans of $178 million, $108 million, and $676 million for accruing loans past due 30 to 59 days, past due 60 to 89 days, and past due 90 days or more, respectively. The comparative amounts as of December 31, 2015 were $172 million, $120 million, and $765 million, respectively.

Total early stage loan delinquencies (accruing loans past due 30 to 89 days) decreased $44 million, or 6%, at March 31, 2016 compared to December 31, 2015, driven by reductions in consumer early stage delinquencies.

Accruing loans past due 90 days or more decreased $99 million, or 11 %, at March 31, 2016 compared to December 31, 2015 due to declines in government insured consumer lending loans of $89 million. Accruing loans past due 90 days or more are referred to as late stage loan delinquencies. These loans are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral and are in the process of collection, or are managed in homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines, or are certain government insured or guaranteed loans.

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

See Note 1 Accounting Policies and Note 3 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information regarding our nonperforming loan and nonaccrual policies and further information on loan delinquencies.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $31.5 billion as of March 31, 2016, or 15% of the total loan portfolio. Of that total, $18.5 billion, or 59%, was outstanding under primarily variable-rate home equity lines of credit and $13.0 billion, or 41%, consisted of closed-end home equity installment loans. Approximately 4% of the home equity portfolio was purchased impaired and 3% of the home equity portfolio was on nonperforming status as of March 31, 2016.

As of March 31, 2016, we are in an originated first lien position for approximately 54% of the total outstanding portfolio and, where originated as a second lien, we currently hold or service the first lien position for an additional 2% of the portfolio. The remaining 44% of the portfolio was secured by second liens where we do not hold the first lien position. The credit performance of the majority of the home equity portfolio where we are in, hold or service the first lien position, is superior to the portion of the portfolio where we hold the second lien position but do not hold the first lien.

Generally, our variable-rate home equity lines of credit have either a seven or ten year draw period, followed by a 20-year amortization term. During the draw period, we have home equity lines of credit where borrowers pay either interest or principal and interest. We view home equity lines of credit where borrowers are paying principal and interest under the draw period as less risky than those where the borrowers are paying interest only, as these borrowers have a demonstrated ability to make some level of principal and interest payments. The risk associated with the borrower s ability to satisfy the loan terms upon the draw period ending is considered in establishing our ALLL. Based upon outstanding balances at March 31, 2016, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

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

In millions	Interest Only Product	Principal and Interest Product
Remainder of 2016	$ 801	$ 270
2017	2,025	522
2018	898	711
2019	623	553
2020	494	494
2021 and thereafter	2,842	5,445
Total (a) (b)	$ 7,683	$ 7,995

(a) Includes all home equity lines of credit that mature in the remainder 2016 or later, including those with borrowers where we have terminated borrowing privileges.

(b) Includes approximately $30 million, $46 million, $32 million, $25 million, $76 million and $447 million of home equity lines of credit with balloon payments, including those where we have terminated borrowing privileges, with draw periods scheduled to end in the remainder of 2016, 2017, 2018, 2019, 2020 and 2021 and thereafter, respectively.

Based upon outstanding balances, and excluding purchased impaired loans, at March 31, 2016, for home equity lines of credit for which the borrower can no longer draw (*e.g.*, draw period has ended or borrowing privileges have been terminated), approximately 3% were 30-89 days past due and approximately 5% were 90 days or more past due. Generally, when a borrower becomes 60 days past due, we terminate borrowing privileges and those privileges are not subsequently reinstated. At that point, we continue our collection/recovery processes, which may include loan modification resulting in a loan that is classified as a TDR.

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

Auto Loan Portfolio

The auto loan portfolio totaled $11.2 billion as of March 31, 2016, or 5% of our total loan portfolio. Of that total, $9.6 billion resides in the indirect auto portfolio, $1.1 billion in the direct auto portfolio, and $.5 billion in acquired or securitized portfolios, which has been declining as no pools have been recently acquired. The indirect auto portfolio is the largest segment and generates auto loan applications from franchised automobile dealers. This business is strategically aligned with our core retail business.

We have elected not to pursue non-prime auto lending as evidenced by an average new loan origination FICO score over the last twelve months of 759 for indirect auto loans and 773 for direct auto loans. As of March 31, 2016, 0.3% of the portfolio was nonperforming and 0.4% of our auto loan portfolio was accruing past due. We offer both new and used automobile financing to customers through our various channels. The portfolio comprised 59% new vehicle loans and 41% used vehicle loans at March 31, 2016.

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

Energy Related Loan Portfolio

Our portfolio of loans outstanding in the oil and gas industry totaled $2.7 billion as of March 31, 2016, or 1% of our total loan portfolio and 2% of our total commercial lending portfolio. This portfolio comprised approximately $1.0 billion in the midstream and downstream sectors, $.9 billion to oil services companies and $.8 billion to upstream sectors. Of the

oil services portfolio, approximately $.2 billion is not asset-based or investment grade. Nonperforming loans in the oil and gas sector as of March 31, 2016 totaled $161 million, or 6% of total nonperforming assets.

Our portfolio of loans outstanding in the coal industry totaled $.5 billion as of March 31, 2016, or less than 1% of both our total loan portfolio and our total commercial lending portfolio. Nonperforming loans in the coal industry as of March 31, 2016 totaled $140 million, or 5% of total nonperforming assets.

Our ALLL at March 31, 2016 reflects the incremental impact of the continued decline in energy prices. Higher reserves for oil, gas and coal exposure drove the overall increase in the provision for credit losses. For the first quarter of 2016, $80 million, or 53%, of the provision was related to these sectors. Net charge-offs related to energy loans totaled $25 million for the three months ended March 31, 2016, or 17% of total net-charge-offs.

Loan Modifications and Troubled Debt Restructurings

Consumer Loan Modifications

We modify loans under government and PNC-developed programs based upon our commitment to help eligible homeowners and borrowers avoid foreclosure, where appropriate. Initially, a borrower is evaluated for a modification under a government program. If a borrower does not qualify under a government program, the borrower is then evaluated under a PNC program. Our programs utilize both temporary and permanent modifications and typically reduce the interest rate, extend the term and/or defer principal. Loans that are either temporarily or permanently modified under programs involving a change to loan terms are generally classified as TDRs. Further, loans that have certain types of payment plans and trial payment arrangements which do not include a contractual change to loan terms may be classified as TDRs. Additional detail on TDRs is discussed below as well as in Note 3 Asset Quality in our 2015 Form 10-K.

A temporary modification, with a term between 3 and 24 months, involves a change in original loan terms for a period of time and reverts to a calculated exit rate for the remaining term of the loan as of a specific date. A permanent modification, with a term greater than 24 months, is a modification in which the terms of the original loan are changed. Permanent modification programs, including both government-created Home Affordable Modification Program (HAMP) and PNC-developed modification programs, generally result in principal forgiveness, interest rate reduction, term extension, capitalization of past due amounts, interest only period or deferral of principal.

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We also monitor the success rates and delinquency status of our loan modification programs to assess their effectiveness in serving our borrowers and servicing customers needs while

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

Table 29: Consumer Real Estate Related Loan Modifications

	March 31, 2016		December 31, 2015	
Dollars in millions	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Temporary modifications (a)	4,083	$ 309	4,469	$ 337
Permanent modifications				
Home equity	15,339	1,099	15,268	1,088
Residential real estate	8,474	1,649	8,787	1,721
Total permanent modifications	23,813	2,748	24,055	2,809
Total consumer real estate related loan modifications	27,896	$ 3,057	28,524	$ 3,146

(a) All temporary modifications are home equity loans.

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

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

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

Commercial Loan Modifications and Payment Plans

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

Modified commercial loans are usually already nonperforming prior to modification. We evaluate these modifications for TDR classification based upon whether we granted a concession to a borrower experiencing financial difficulties. Additional detail on TDRs is discussed below as well as in Note 3 Asset Quality in our 2015 Form 10-K.

We have established certain commercial loan modification and payment programs for small business loans, Small Business Administration loans, and investment real estate loans. As of March 31, 2016 and December 31, 2015, $22 million and $23 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $8 million and $9 million have been determined to be TDRs as of March 31, 2016 and December 31, 2015, respectively.

Troubled Debt Restructurings

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs result from our loss mitigation activities and include rate reductions, principal forgiveness, postponement/reduction of scheduled amortization and extensions, which are intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Additionally, TDRs also result from court imposed concessions (e.g. a Chapter 7 bankruptcy that is discharged from personal liability to PNC and a court approved Chapter 13 bankruptcy repayment plan).

TDRs totaled $2.4 billion at March 31, 2016, an increase of $40 million, or 2%, during the first three months of 2016. Excluded from TDRs are $1.2 billion of consumer loans held for sale, loans accounted for under the fair value option and pooled purchased impaired loans, as well as certain government insured or guaranteed loans at both March 31, 2016 and December 31, 2015. Nonperforming TDRs represent approximately 51% and 53% of total nonperforming loans, and 49% and 48% of total TDRs at March 31, 2016 and

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December 31, 2015, respectively. The remaining portion of TDRs represents TDRs that have been returned to accrual accounting after performing under the restructured terms for at least six consecutive months.

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

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

Table 30: Loan Charge-Offs And Recoveries

Three months ended March 31 Dollars in millions	Gross Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	Percent of Average Loans (annualized)
2016				
Commercial	$ 78	$ 33	$ 45	.18%
Commercial real estate	10	12	(2)	(.03)
Equipment lease financing	1	1		
Home equity	48	21	27	.34
Residential real estate	8	3	5	.14
Credit card	42	4	38	3.23
Other consumer	49	13	36	.67
Total	$ 236	$ 87	$ 149	.29
2015				
Commercial	$ 34	$ 32	$ 2	.01%
Commercial real estate	12	12		
Equipment lease financing		1	(1)	(.05)
Home equity	52	20	32	.38
Residential real estate		2	(2)	(.06)
Credit card	43	5	38	3.46
Other consumer	48	14	34	.61
Total	$ 189	$ 86	$ 103	.20

Net charge-offs increased by $46 million, or 45%, in the first quarter of 2016 compared to the first quarter of 2015 due to higher commercial loan net charge-offs. Total net charge-offs exclude write-offs and recoveries related to purchased impaired loans.

We maintain an ALLL to absorb losses from the loan and lease portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan and lease portfolio. Our total ALLL of $2.7 billion at March 31, 2016 consisted of $1.6 billion and $1.1 billion established for the commercial lending and consumer lending categories, respectively. We maintain the

ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolio as of the balance sheet date. The reserve calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan and lease portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions are periodically updated.

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

Reserves allocated to non-impaired commercial loan classes are based on PD and LGD credit risk ratings.

Our commercial pool reserve methodology is sensitive to changes in key risk parameters such as PD and LGD. The results of these parameters are then applied to the loan balance and unfunded loan commitments and letters of credit to determine the amount of the respective reserves. Our PDs and LGDs are primarily determined using internal commercial loan loss data. This internal data is supplemented with third-party data and management judgment, as deemed necessary. We continue to evaluate and enhance our use of internal commercial loss data and will periodically update our PDs and LGDs as well as consider third-party data, regulatory guidance and management judgment.

The majority of the commercial portfolio is secured by collateral, including loans to asset-based lending customers, which generally demonstrate lower LGD compared to loans not secured by collateral. Additionally, guarantees on loans greater than $1 million and owner guarantees for small business loans do not significantly impact our ALLL.

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

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

- Industry concentrations and conditions,
- Recent credit quality trends,
- Recent loss experience in particular portfolios,

- Recent macro-economic factors,
- Model imprecision,
- Changes in lending policies and procedures,
- Timing of available information, including the performance of first lien positions, and
- Limitations of available historical data.

Purchased impaired loans are initially recorded at fair value and applicable accounting guidance prohibits the carry over or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At March 31, 2016, we had reserves of $.3 billion for purchased impaired loans. In addition, loans (purchased impaired and non-impaired) acquired after January 1, 2009 were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at the date of acquisition. See Note 4 Purchased Loans in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans. We also allocate reserves to provide coverage for probable losses incurred in the portfolio at the balance sheet date based upon current market conditions, which may not be reflected in historical loss data. Commercial lending is the largest category of credits and is sensitive to changes in assumptions and judgments underlying the determination of the ALLL. We have allocated approximately $1.6 billion, or 60%, of the ALLL at March 31, 2016 to the commercial lending category. Consumer lending allocations are made based on historical loss experience adjusted for recent activity. Approximately $1.1 billion, or 40%, of the ALLL at March 31, 2016 has been allocated to these consumer lending categories.

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

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

Table 31: Allowance for Loan and Lease Losses

Dollars in millions	2016	2015
January 1	$ 2,727	$ 3,331
Total net charge-offs	(149)	(103)
Provision for credit losses	152	54
Net change in allowance for unfunded loan commitments and letters of credit	(21)	25
Net recoveries of purchased impaired loans	1	
Other	1	(1)
March 31	$ 2,711	$ 3,306
Net charge-offs to average loans (for the three months ended) (annualized)	.29%	.20%
Total allowance for loan and lease losses to total loans (a)	1.31	1.61
Commercial lending net charge-offs	$ (43)	$ (1)
Consumer lending net charge-offs	(106)	(102)
Total net charge-offs	$ (149)	$ (103)
Net charge-offs to average loans (for the three months ended) (annualized)		
Commercial lending	.13%	.00%
Consumer lending	.59	.55

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

The provision for credit losses increased to $152 million for the first three months of 2016 compared to $54 million for the first three months of 2015, primarily driven by reserves for energy related exposure. For the first three months of 2016, the provision for commercial lending credit losses increased by $86 million from the first three months of 2015. The provision for consumer lending credit losses increased $12 million, or 21%, from the first three months of 2015.

At March 31, 2016, total ALLL to total nonperforming loans was 119%. The comparable amount for December 31, 2015 was 128%. These ratios are 91% and 98%, respectively, when excluding the $.6 billion of ALLL at both March 31, 2016 and December 31, 2015 allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded consumer loans and lines of credit not secured by real estate as they are charged off after 120 to 180 days past due and not placed on nonperforming status. Additionally, we have excluded purchased impaired loans as they are considered performing regardless of their delinquency status as interest is accreted in accordance with ASC 310-30 based on the recorded investment balance. See Table 24 within this Credit Risk Management section for additional information.

The ALLL balance increases or decreases across periods in relation to fluctuating risk factors, including asset quality trends, net charge-offs and changes in aggregate portfolio balances. During the first three months of 2016, overall credit

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quality remained relatively stable offsetting impacts from certain energy related loans, which resulted in an essentially flat ALLL balance as of March 31, 2016 compared to December 31, 2015.

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

Liquidity Risk Management

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

One of the ways PNC monitors its liquidity is by reference to the Liquidity Coverage Ratio (LCR), a regulatory minimum liquidity requirement designed to ensure that covered banking organizations maintain an adequate level of liquidity to meet net liquidity needs over the course of a 30-day stress scenario. The LCR is calculated by dividing the amount of an institution s high quality, unencumbered liquid assets (HQLA), as defined and calculated in accordance with the LCR rules, by its estimated net cash outflow, with net cash outflows determined by applying the assumed outflow factors in the LCR rules. The resulting quotient is expressed as a percentage. For PNC and PNC Bank, the LCR became effective January 1, 2015. The minimum required LCR will be phased-in over a period of years. The minimum LCR that PNC and PNC Bank were required to maintain was 80% in 2015 and such minimum increased to 90% in 2016. Between January 1, 2016 and June 30, 2016, PNC and PNC Bank are required to calculate the LCR on a month-end basis. Effective July 1, 2016, PNC and PNC Bank must begin calculating their respective LCR ratios on a daily basis.

As of March 31, 2016, the LCR for PNC and PNC Bank exceeded 100 percent.

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

Bank Level Liquidity Uses

At the bank level, primary contractual obligations include funding loan commitments, satisfying deposit withdrawal requests and maturities and debt service related to bank borrowings. As of March 31, 2016, there were approximately $9.8 billion of bank borrowings with contractual maturities of less than one year, including $2.3 billion in borrowings from an affiliate. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary.

Bank Level Liquidity Sources

Our largest source of bank liquidity on a consolidated basis is the deposit base generated by our retail and commercial banking businesses. Total deposits increased to $250.4 billion at March 31, 2016 from $249.0 billion at December 31, 2015, driven by growth in savings deposits, partially offset by a decline in money market deposits and time deposits in foreign offices and other time deposits. Assets determined by PNC to be liquid (liquid assets) and unused borrowing capacity from a number of sources are also available to maintain our liquidity position. Borrowed funds come from a diverse mix of short-term and long-term funding sources.

At March 31, 2016, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling $32.5 billion and securities available for sale totaling $57.4 billion. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and balance sheet management activities. Of our total liquid assets of $89.9 billion, we had $4.9 billion of securities available for sale and trading securities pledged as collateral to secure public and trust deposits, repurchase agreements and for other purposes. In addition to the liquid assets we pledged, $6.1 billion of securities held to maturity were also pledged as collateral for these purposes.

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

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Under PNC Bank s 2014 bank note program, dated January 16, 2014 and amended May 22, 2015, PNC Bank may from time to time offer up to $30.0 billion aggregate principal amount at any one time outstanding of its unsecured senior and subordinated notes with maturity dates more than nine months (in the case of senior notes) and five years or more (in the case of subordinated notes) from their date of issue. The $30.0 billion of notes includes notes issued by PNC Bank under the 2004 bank note program and those notes PNC Bank has assumed through the acquisition of other banks, in each case for so long as such notes remain outstanding. The terms of the 2014 bank note program, as amended, do not affect any of the bank notes issued prior to January 16, 2014. At March 31, 2016 , PNC Bank had $24.1 billion of notes outstanding under this program of which $17.9 billion was senior bank notes and $6.2 billion was subordinated bank notes. The following table details all issuances during 2016:

Table 32: PNC Bank Notes Issued During 2016

Issuance Date	Amount	Description of Issuance
March 4, 2016	$1.0 billion	Senior notes with a maturity date of March 4, 2019. Interest is payable semi-annually at a fixed rate of 1.950% on March 4 and September 4 of each year, beginning September 4, 2016.

Total senior and subordinated debt of PNC Bank increased to $25.9 billion at March 31, 2016 from $25.5 billion at December 31, 2015 due to the following activity in the period.

Table 33: PNC Bank Senior and Subordinated Debt

In billions	2016
January 1	$ 25.5
Issuances	1.0
Calls and maturities	(1.0)
Other	.4
March 31	$ 25.9

See Note 17 Subsequent Events in the Notes to Consolidated Financial Statements of this Report for information on the issuances of senior notes by PNC Bank on April 29, 2016.

PNC Bank is a member of the FHLB-Pittsburgh and, as such, has access to advances from FHLB-Pittsburgh secured generally by residential mortgage loans, other mortgage-related loans and commercial mortgage-backed securities. At March 31, 2016, our unused secured borrowing capacity was $22.7 billion with the FHLB-Pittsburgh. Total FHLB borrowings decreased to $19.1 billion at March 31, 2016 from $20.1 billion at December 31, 2015 due to the following activity in the period.

Table 34: FHLB Borrowings

In billions	2016
January 1	$ 20.1
Issuances	2.0
Calls and maturities	(3.0)
March 31	$ 19.1

The FHLB-Pittsburgh also periodically provides standby letters of credit on behalf of PNC Bank to secure certain public deposits. PNC Bank began using standby letters of credit issued by the FHLB-Pittsburgh for these purposes in response to the regulatory liquidity standards finalized during 2014. If the FHLB-Pittsburgh is required to make payment for a beneficiary s draw, the payment amount is converted into a collateralized advance to PNC Bank. At March 31, 2016, standby letters of credit issued on our behalf by the FHLB-Pittsburgh totaled $5.3 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, 2016, there was approximately $1 million outstanding under this program.

PNC Bank can also borrow from the Federal Reserve Bank discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by commercial loans. At March 31, 2016, our unused secured borrowing capacity was $15.8 billion with the Federal Reserve Bank.

Parent Company Liquidity

As of March 31, 2016, available parent company liquidity totaled $4.8 billion. Parent company liquidity is primarily held in intercompany short-term investments, the terms of which provide for the availability of cash in 31 days or less. Investments with longer durations may also be acquired, but if so, the related maturities are aligned with scheduled cash needs, such as the maturity of parent company debt obligations.

Parent Company Liquidity Uses

The parent company s contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. As of March 31, 2016, there were approximately $1.9 billion of parent company borrowings with contractual maturities of less than one year. Additionally, the parent company maintains adequate liquidity to fund discretionary activities such as paying dividends to PNC shareholders, share repurchases, and acquisitions.

See the Capital portion of the Consolidated Balance Sheet Review in this Financial Review for more information on our share repurchase programs, including detail on our first quarter repurchase of 5.9 million common shares for $.5 billion.

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

Parent Company Liquidity Sources

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

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

There are statutory and regulatory limitations on the ability of a national bank to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. The amount available for dividend payments by PNC Bank to the parent company without prior regulatory approval was approximately $1.1 billion at March 31, 2016. See Note 19 Regulatory Matters in our 2015 Form 10-K for a further discussion of these limitations. We provide additional information on certain contractual restrictions in Note 16 Equity in our 2015 Form 10-K.

In addition to dividends from PNC Bank, other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments.

We can also generate liquidity for the parent company and PNC s non-bank subsidiaries through the issuance of debt and equity securities, including certain capital instruments, in public or private markets and commercial paper.

Total parent company senior and subordinated debt and hybrid capital instruments increased to $7.6 billion at March 31, 2016 from $7.5 billion at December 31, 2015 due to the following activity in the period.

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

In billions	2016
January 1	$ 7.5
Other	.1
March 31	$ 7.6

The parent company has the ability to offer up to $5.0 billion of commercial paper to provide additional liquidity. As of March 31, 2016, there were no issuances outstanding under this program.

Status of Credit Ratings

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

Table 36: Credit Ratings as of March 31, 2016 for PNC and PNC Bank

	Moody s	Standard & Poor s	Fitch
PNC			

Senior debt	A3	A-	A+
Subordinated debt	A3	BBB+	A
Preferred stock	Baa2	BBB-	BBB-
PNC Bank			
Senior debt	A2	A	A+
Subordinated debt	A3	A-	A
Long-term deposits	Aa2	A	AA-
Short-term deposits	P-1	A-1	F1+
Short-term notes	P-1	A-1	F1

Contractual Obligations and Commitments

We have contractual obligations representing required future payments on borrowed funds, time deposits, leases, pension and postretirement benefits, and purchase obligations. See the Liquidity Risk Management portion of the Risk Management section in our 2015 Form 10-K for more information on these future cash outflows. Additionally, in the normal course of business we have various commitments outstanding, certain of which are not included on our Consolidated Balance Sheet. We provide information on our commitments in Note 15 Commitments and Guarantees in Part I, Item 1 of this Report.

Market Risk Management

Market risk is the risk of a loss in earnings or economic value due to adverse movements in market factors such as interest rates, credit spreads, foreign exchange rates, commodity prices and equity prices. We are exposed to market risk primarily by our involvement in the following activities, among others:

- Traditional banking activities of gathering deposits and extending loans,
- Equity and other investments and activities whose economic values are directly impacted by market factors, and
- Fixed income securities, derivatives and foreign exchange activities, as a result of customer activities and securities underwriting.

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We have established enterprise-wide policies and methodologies to identify, measure, monitor and report market risk. Market Risk Management provides independent oversight by monitoring compliance with established guidelines, and reporting significant risks in the business to the Risk Committee of the Board.

Market Risk Management Interest Rate Risk

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

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

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

Table 37: Interest Sensitivity Analysis

	First Quarter 2016	First Quarter 2015
Net Interest Income Sensitivity Simulation (a)		
Effect on net interest income in first year from gradual interest rate change over the following 12 months of:		
100 basis point increase	2.7%	2.1%
100 basis point decrease	(2.9)%	(1.2)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	6.7%	6.2%
100 basis point decrease	(7.8)%	(6.0)%
Duration of Equity Model (a)		
Base case duration of equity (in years)	(7.1)	(6.2)
Key Period-End Interest Rates		
One-month LIBOR	.44%	.18%
Three-year swap	.95%	1.11%

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

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. Table 38 reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist s most likely rate forecast, (ii) implied market forward rates and (iii) Yield Curve Slope Flattening (a 100 basis point yield curve slope flattening between 1-month and ten-year rates superimposed on current base rates) scenario.

Table 38: Net Interest Income Sensitivity to Alternative Rate Scenarios (First Quarter 2016)

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	3.4%	1.1%	(2.0)%
Second year sensitivity	9.6%	2.3%	(6.4)%

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

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in Tables 37 and 38 above. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates. We also consider forward projections of purchase accounting accretion when forecasting net interest income.

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

Table 39: Alternate Interest Rate Scenarios: One Year Forward

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

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Market Risk Management   Customer-Related Trading Risk

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

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in customer-related trading activities. VaR is used to estimate the probability of portfolio losses based on the statistical analysis of historical market risk factors. A diversified VaR reflects empirical correlations across different asset classes. We calculate a diversified VaR at a 95% confidence interval and the results for the first three months of 2016 and 2015 were within our acceptable limits.

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

Customer-related trading revenue decreased to $39 million for the first quarter of 2016 compared with $49 million for the first quarter of 2015. The decrease was primarily due to reduced client-related trading results, lower derivative client sales revenues and market interest rate changes impacting credit valuations for customer-related derivatives.

Market Risk Management   Equity And Other Investment Risk

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

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

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

A summary of our equity investments follows:

Table 40: Equity Investments Summary

In millions	March 31 2016	December 31 2015
BlackRock	$ 6,567	$ 6,626
Tax credit investments	2,061	2,254
Private equity	1,500	1,441
Visa	19	31
Other	244	235
Total	$ 10,391	$ 10,587

BlackRock

PNC owned approximately 35 million common stock equivalent shares of BlackRock equity at March 31, 2016, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

Tax Credit Investments

Included in our equity investments are direct tax credit investments and equity investments held by consolidated partnerships which totaled $2.1 billion at March 31, 2016 and $2.3 billion at December 31, 2015. These equity investment balances include unfunded commitments totaling $655 million and $669 million at March 31, 2016 and December 31, 2015, respectively. These unfunded commitments are included in Other Liabilities on our Consolidated Balance Sheet.

Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Item 8 of our 2015 Form 10-K has further information on Tax Credit Investments.

Private Equity

The private equity portfolio is an illiquid portfolio comprised of mezzanine and equity investments that vary by industry, stage and type of investment. Private equity investments carried at estimated fair value totaled $1.5 billion at March 31, 2016 and $1.4 billion at December 31, 2015. As of March 31, 2016, $1.2 billion was invested directly in a variety of companies and $.3 billion was invested indirectly through various private equity funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The interests held in indirect private equity funds are not redeemable, but PNC may receive distributions over the life of the partnership from liquidation of the underlying investments. See Item 1

Business Supervision and Regulation and Item 1A Risk Factors included in our 2015 Form 10-K for discussion of the potential impacts of the Volcker Rule provisions of Dodd-Frank on our interests in and sponsorship of private funds covered by the Volcker Rule.

Our unfunded commitments related to private equity totaled $133 million at March 31, 2016 compared with $126 million at December 31, 2015.

Visa

Our 2015 Form 10-K includes information regarding the October 2007 Visa restructuring, our involvement with judgment and loss sharing agreements with Visa and certain other banks, the status of pending interchange litigation, the sales of portions of our Visa Class B common shares and the related swap agreements with the purchaser.

During the first three months of 2016, we sold .5 million Visa Class B common shares, in addition to the 18.5 million shares sold in previous years. We have entered into swap agreements with the purchasers of the shares as part of these sales. At March 31, 2016, our investment in Visa Class B common shares totaled approximately 4.4 million shares and had a carrying value of $19 million. Based on the March 31, 2016 closing price of $76.48 for the Visa Class A common shares, the fair value of our total investment was approximately $550 million at the current conversion rate. The Visa Class B common shares that we own are transferable only under limited circumstances until they can be converted into shares

of the publicly traded class of stock, which cannot happen until the final resolution of all of the specified litigation.

Other Investments

We also have certain other equity investments, the majority of which represent investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. Given the nature of these investments, if market conditions affecting their valuation were to worsen, we could incur future losses. Net gains related to these investments were not significant for the first three months of 2016 and 2015.

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

Financial Derivatives

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

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

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

Table 41: Financial Derivatives Summary

	March 31, 2016		December 31, 2015	
In millions	Notional/ Contractual Amount	Net Fair Value (a)	Notional/ Contractual Amount	Net Fair Value (a)
Derivatives designated as hedging instruments under GAAP				
Total derivatives designated as hedging instruments	$ 51,508	$ 1,362	$ 52,074	$ 985

Derivatives not designated as hedging instruments under GAAP				
Total derivatives used for residential mortgage banking activities	$ 88,207	$ 470	$ 73,891	$ 376
Total derivatives used for commercial mortgage banking activities	21,074	67	24,091	36
Total derivatives used for customer-related activities	202,157	185	192,621	151
Total derivatives used for other risk management activities	5,550	(389)	5,299	(409)
Total derivatives not designated as hedging instruments	$ 316,988	$ 333	$ 295,902	$ 154
Total Derivatives	$ 368,496	$ 1,695	$ 347,976	$ 1,139

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

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Internal Controls and Disclosure Controls and Procedures

As of March 31, 2016, we performed an evaluation under the supervision of and with the participation of our management, including the Chairman, President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chairman, President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934) were effective as of March 31, 2016, and that there has been no change in PNC s internal control over financial reporting that occurred during the first quarter of 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Glossary of Terms

Accretable net interest (Accretable yield) The excess of cash flows expected to be collected on a purchased impaired loan over the carrying value of the loan. The accretable net interest is recognized into interest income over the remaining life of the loan using the constant effective yield method.

Adjusted average total assets Primarily comprised of total average quarterly (or annual) assets plus (less) unrealized losses (gains) on investment securities, less goodwill and certain other intangible assets (net of eligible deferred taxes).

Annualized Adjusted to reflect a full year of activity.

Basel III common equity Tier 1 capital Common stock plus related surplus, net of treasury stock, plus retained earnings, plus accumulated other comprehensive income for securities currently and previously held as available for sale, plus accumulated other comprehensive income for pension and other postretirement benefit plans, less goodwill, net of associated deferred tax liabilities, less other disallowed intangibles, net of deferred tax liabilities and plus/less other adjustments.

Basel III common equity Tier 1 capital ratio Common equity Tier 1 capital divided by period-end risk-weighted assets (as applicable).

Basel III Tier 1 capital Common equity Tier 1 capital, plus preferred stock, plus certain trust preferred capital securities, plus certain noncontrolling interests that are held by others and plus/less other adjustments.

Basel III Tier 1 capital ratio Tier 1 capital divided by period-end risk-weighted assets (as applicable).

Basel III Total capital Tier 1 capital plus qualifying subordinated debt, plus certain trust preferred securities, plus, under the Basel III transitional rules and the standardized approach, the allowance for loan and lease losses included in Tier 2 capital and other.

Basel III Total capital ratio Total capital divided by period-end risk-weighted assets (as applicable).

Basis point One hundredth of a percentage point.

Carrying value of purchased impaired loans The net value on the balance sheet which represents the recorded investment less any valuation allowance.

Cash recoveries Cash recoveries used in the context of purchased impaired loans represent cash payments for a single purchased impaired loan not included within a pool of loans from customers that exceeded the recorded investment of that loan.

Charge-off Process of removing a loan or portion of a loan from our balance sheet because it is considered uncollectible. We also record a charge-off when a loan is transferred from portfolio holdings to held for sale by reducing the loan carrying amount to the fair value of the loan, if fair value is less than carrying amount.

Combined loan-to-value ratio (CLTV) This is the aggregate principal balance(s) of the mortgages on a property divided by its appraised value or purchase price.

Common shareholders equity to total assets Common shareholders equity divided by total assets. Common shareholders equity equals total shareholders equity less the liquidation value of preferred stock.

Core net interest income Core net interest income is total net interest income less purchase accounting accretion.

Credit derivatives Contractual agreements, primarily credit default swaps, that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency and failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

Credit spread The difference in yield between debt issues of similar maturity. The excess of yield attributable to credit

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spread is often used as a measure of relative creditworthiness, with a reduction in the credit spread reflecting an improvement in the borrower s perceived creditworthiness.

Credit valuation adjustment (CVA) Represents an adjustment to the fair value of our derivatives for our own and counterparties non-performance risk.

Criticized commercial loans Loans with potential or identified weaknesses based upon internal risk ratings that comply with the regulatory classification definitions of Special Mention, Substandard or Doubtful.

Derivatives Financial contracts whose value is derived from changes in publicly traded securities, interest rates, currency exchange rates or market indices. Derivatives cover a wide assortment of financial contracts, including but not limited to forward contracts, futures, options and swaps.

Discretionary client assets under management Assets over which we have sole or shared investment authority for our customers/clients. We do not include these assets on our Consolidated Balance Sheet.

Duration of equity An estimate of the rate sensitivity of our economic value of equity. A negative duration of equity is associated with asset sensitivity (*i.e.*, positioned for rising interest rates), while a positive value implies liability sensitivity (*i.e.*, positioned for declining interest rates). For example, if the duration of equity is -1.5 years, the economic value of equity increases by 1.5% for each 100 basis point increase in interest rates.

Earning assets Assets that generate income, which include: federal funds sold; resale agreements; trading securities; interest-earning deposits with banks; loans held for sale; loans; investment securities; and certain other assets.

Effective duration A measurement, expressed in years, that, when multiplied by a change in interest rates, would approximate the percentage change in value of on- and off- balance sheet positions.

Efficiency Noninterest expense divided by total revenue.

Enterprise risk management framework An enterprise process designed to identify potential risks that may affect PNC, manage risk to be within our risk appetite and provide reasonable assurance regarding achievement of our objectives.

Fair value The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fee income When referring to the components of Noninterest income, we use the term fee income to refer to the

following categories within Noninterest income: Asset management; Consumer services; Corporate services; Residential mortgage; and Service charges on deposits.

FICO score A credit bureau-based industry standard score created by Fair Isaac Co. which predicts the likelihood of borrower default. We use FICO scores both in underwriting and assessing credit risk in our consumer lending portfolio. Lower FICO scores indicate likely higher risk of default, while higher FICO scores indicate likely lower risk of default. FICO scores are updated on a periodic basis.

Foreign exchange contracts Contracts that provide for the future receipt and delivery of foreign currency at previously agreed-upon terms.

Funds transfer pricing A management accounting methodology designed to recognize the net interest income effects of sources and uses of funds provided by the assets and liabilities of a business segment. 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.

Futures and forward contracts Contracts in which the buyer agrees to purchase and the seller agrees to deliver a specific financial instrument at a predetermined price or yield. May be settled either in cash or by delivery of the underlying financial instrument.

GAAP Accounting principles generally accepted in the United States of America.

<u>Home price index (HPI)</u> A broad measure of the movement of single-family house prices in the U.S.

<u>Impaired loans</u> Loans are determined to be impaired when, based on current information and events, it is probable that all contractually required payments will not be collected. Impaired loans include commercial nonperforming loans and consumer and commercial TDRs, regardless of nonperforming status. Excluded from impaired loans are nonperforming leases, loans held for sale, loans accounted for under the fair value option, smaller balance homogenous type loans and purchased impaired loans.

<u>Interest rate floors and caps</u> Interest rate protection instruments that involve payment from the protection seller to the protection buyer of an interest differential, which represents the difference between a short-term rate (*e.g.*, three-month LIBOR) and an agreed-upon rate (the strike rate) applied to a notional principal amount.

<u>Interest rate swap contracts</u> Contracts that are entered into primarily as an asset/liability management strategy to reduce interest rate risk. Interest rate swap contracts are exchanges of interest rate payments, such as fixed-rate payments for floating-rate payments, based on notional principal amounts.

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Intrinsic value The difference between the price, if any, required to be paid for stock issued pursuant to an equity compensation arrangement and the fair market value of the underlying stock.

Leverage ratio Tier 1 capital divided by average quarterly adjusted total assets.

LIBOR Acronym for London InterBank Offered Rate. LIBOR is the average interest rate charged when banks in the London wholesale money market (or interbank market) borrow unsecured funds from each other. LIBOR rates are used as a benchmark for interest rates on a global basis. PNC s product set includes loans priced using LIBOR as a benchmark.

Loan-to-value ratio (LTV) A calculation of a loan s collateral coverage that is used both in underwriting and assessing credit risk in our lending portfolio. LTV is the sum total of loan obligations secured by collateral divided by the market value of that same collateral. Market values of the collateral are based on an independent valuation of the collateral. For example, a LTV of less than 90% is better secured and has less credit risk than a LTV of greater than or equal to 90%.

Loss given default (LGD) An estimate of loss, net of recovery based on collateral type, collateral value, loan exposure, and other factors. Each loan has its own LGD. The LGD risk rating measures the percentage of exposure of a specific credit obligation that we expect to lose if default occurs. LGD is net of recovery, through any means, including but not limited to the liquidation of collateral or deficiency judgments rendered from foreclosure or bankruptcy proceedings.

Net interest margin Annualized taxable-equivalent net interest income divided by average earning assets.

Nonaccretable difference Contractually required payments receivable on a purchased impaired loan in excess of the cash flows expected to be collected.

Nonaccrual loans Loans for which we do not accrue interest income. Nonaccrual loans include nonperforming loans, in addition to loans accounted for under fair value option and loans accounted for as held for sale for which full collection of contractual principal and/or interest is not probable.

Nondiscretionary client assets under administration Assets we hold for our customers/clients in a nondiscretionary, custodial capacity. We do not include these assets on our Consolidated Balance Sheet.

Nonperforming assets Nonperforming assets include nonperforming loans and OREO and foreclosed assets, but exclude certain government insured or guaranteed loans for

which we expect to collect substantially all principal and interest, loans held for sale, loans accounted for under the fair value option and purchased impaired loans. We do not accrue interest income on assets classified as nonperforming.

Nonperforming loans Loans accounted for at amortized cost for which we do not accrue interest income. Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, home equity, residential real estate, credit card and other consumer customers as well as TDRs which have not returned to performing status. Nonperforming loans exclude certain government insured or guaranteed loans for which we expect to collect substantially all principal and interest, loans held for sale, loans accounted for under the fair value option and purchased impaired loans. Nonperforming loans exclude purchased impaired loans as we are currently accreting interest income over the expected life of the loans.

Notional amount A number of currency units, shares, or other units specified in a derivative contract.

Operating leverage The period to period dollar or percentage change in total revenue (GAAP basis) less the dollar or percentage change in noninterest expense. A positive variance indicates that revenue growth exceeded expense growth (*i.e.*, positive operating leverage) while a negative variance implies expense growth exceeded revenue growth (*i.e.*, negative operating leverage).

Options Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to either purchase or sell the associated financial instrument at a set price during a specified period or at a specified date in the future.

Other real estate owned (OREO) and foreclosed assets Assets taken in settlement of troubled loans primarily through deed-in-lieu of foreclosure or foreclosure. Foreclosed assets include real and personal property, equity interests in corporations, partnerships, and limited liability companies. Excludes certain assets that have a government-guarantee which are classified as other receivables.

Other-than-temporary impairment (OTTI) When the fair value of a security is less than its amortized cost basis, an assessment is performed to determine whether the impairment is other-than-temporary. If we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment is considered to have occurred. In such cases, an other-than-temporary impairment is recognized in earnings equal to the entire difference between the investment s amortized cost basis and its fair value at the balance sheet date. Further, if we do not expect to recover the entire amortized cost of the security, an other-than-temporary impairment is considered to have occurred. However for debt securities, if we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before its recovery, the other-than-temporary loss is separated into (a) the amount representing the credit loss, and (b) the amount related to all other factors. The other-than-temporary impairment related to credit losses is recognized in earnings while the amount related to all other factors is recognized in other comprehensive income, net of tax.

Parent company liquidity coverage   Liquid assets divided by funding obligations within a two year period.

Pretax earnings   Income before income taxes and noncontrolling interests.

Pretax, pre-provision earnings   Total revenue less noninterest expense.

Probability of default (PD)   An internal risk rating that indicates the likelihood that a credit obligor will enter into default status.

Purchase accounting accretion   Accretion of the discounts and premiums on acquired assets and liabilities. The purchase accounting accretion is recognized in net interest income over the weighted-average life of the financial instruments using the constant effective yield method. Accretion for a single purchased impaired loan not included within a pool of loans includes any cash recoveries on that loan received in excess of the recorded investment.

Purchased impaired loans   Acquired loans (or pools of loans) determined to be credit impaired under FASB ASC 310-30 (AICPA SOP 03-3). Loans (or pools of loans) are determined to be impaired if there is evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected.

Recorded investment (purchased impaired loans)   The initial investment of a purchased impaired loan plus interest accretion and less any cash payments and writedowns to date. The recorded investment excludes any valuation allowance which is included in our allowance for loan and lease losses.

Recovery   Cash proceeds received on a loan that we had previously charged off. We credit the amount received to the allowance for loan and lease losses.

Residential development loans   Project-specific loans to commercial customers for the construction or development of residential real estate including land, single family homes, condominiums and other residential properties.

Return on average assets   Annualized net income divided by average assets.

Return on average capital   Annualized net income divided by average capital.

Return on average common shareholders   equity   Annualized net income attributable to common shareholders divided by average common shareholders   equity.

Risk   The potential that an event or series of events could occur that would threaten PNC   s ability to achieve its strategic objectives, thereby negatively affecting shareholder value or reputation.

Risk appetite   A dynamic, forward-looking view on the aggregate amount of risk PNC is willing and able to take in executing business strategy in light of the current business environment.

Risk limits   Quantitative measures based on forward looking assumptions that allocate the firm   s aggregate risk appetite (*e.g.* measure of loss or negative events) to business lines, legal entities, specific risk categories, concentrations and as appropriate, other levels.

Risk profile   The risk profile is a point-in-time assessment of risk. The profile represents overall risk position in relation to the desired risk appetite. The determination of the risk profile   s position is based on qualitative and quantitative analysis of reported risk limits, metrics, operating guidelines and qualitative assessments.

Risk-weighted assets   Computed by the assignment of specific risk-weights (as defined by the Board of Governors of the Federal Reserve System) to assets and off-balance sheet instruments.

Securitization The process of legally transforming financial assets into securities.

Servicing rights An intangible asset or liability created by an obligation to service assets for others. Typical servicing rights include the right to receive a fee for collecting and forwarding payments on loans and related taxes and insurance premiums held in escrow.

Swaptions Contracts that grant the purchaser, for a premium payment, the right, but not the obligation, to enter into an interest rate swap agreement during a specified period or at a specified date in the future.

Taxable-equivalent interest The interest income earned on certain assets is completely or partially exempt from Federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of yields and margins for all interest-earning assets, 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 other taxable investments. This adjustment is not permitted under GAAP on the Consolidated Income Statement.

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Total equity   Total shareholders   equity plus noncontrolling interests.

Total return swap   A non-traditional swap where one party agrees to pay the other the   total return   of a defined underlying asset (*e.g.,* a loan), usually in return for receiving a stream of LIBOR-based cash flows. The total returns of the asset, including interest and any default shortfall, are passed through to the counterparty. The counterparty is, therefore, assuming the credit and economic risk of the underlying asset.

Transitional Basel III common equity   Common equity calculated under Basel III using phased in definitions and deductions applicable to PNC during the applicable presentation period.

Troubled debt restructuring (TDR)   A loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties.

Value-at-risk (VaR)   A statistically-based measure of risk that describes the amount of potential loss which may be incurred due to adverse market movements. The measure is of the maximum loss which should not be exceeded on 95 out of 100 days for a 95% VaR.

Watchlist   A list of criticized loans, credit exposure or other assets compiled for internal monitoring purposes. We define criticized exposure for this purpose as exposure with an internal risk rating of other assets especially mentioned, substandard, doubtful or loss.

Yield curve   A graph showing the relationship between the yields on financial instruments or market indices of the same credit quality with different maturities. For example, a   normal   or   positive   yield curve exists when long-term bonds have higher yields than short-term bonds. A   flat yield curve exists when yields are the same for short-term and long-term bonds. A   steep   yield curve exists when yields on long-term bonds are significantly higher than on short-term bonds. An   inverted   or   negative   yield curve exists when short-term bonds have higher yields than long-term bonds.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

Our businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:

- Changes in interest rates and valuations in debt, equity and other financial markets.
- Disruptions in the U.S. and global financial markets.
- The impact on financial markets and the economy of any changes in the credit ratings of U.S. Treasury obligations and other U.S. government-backed debt, as well as issues surrounding the levels of U.S. and European government debt and concerns regarding the creditworthiness of certain sovereign governments, supranationals and financial institutions in Europe.
- Actions by the Federal Reserve, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.
- Changes in customers   , suppliers   and other counterparties   performance and creditworthiness.
- Slowing or reversal of the current U.S. economic expansion.
- Continued residual effects of recessionary conditions and uneven spread of positive impacts of recovery on the economy and our counterparties, including adverse impacts on levels of unemployment, loan utilization rates, delinquencies, defaults and counterparty ability to meet credit and other obligations.
- Commodity price volatility.
- Changes in customer preferences and behavior, whether due to changing business and economic conditions, legislative and regulatory initiatives, or other factors.

Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than we are currently expecting. These statements are based on our current view that the U.S. economy will grow moderately again in 2016, boosted by lower oil/energy prices, improving housing activity and solid job gains, and that short-term interest rates and bond yields will rise very gradually during 2016. These forward-looking statements also do not, unless otherwise indicated, take into account the impact of potential legal and regulatory contingencies.

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

PNC s regulatory capital ratios in the future will depend on, among other things, the company s financial performance, the scope and terms of final capital regulations then in effect (particularly those implementing the Basel Capital Accords), and management actions affecting the composition of PNC s balance sheet. In addition, PNC s ability to determine, evaluate and forecast regulatory capital ratios, and to take actions (such as capital distributions) based on actual or forecasted capital ratios, will be dependent at least in part on the development, validation and regulatory approval of related models.

Legal and regulatory developments could have an impact on our ability to operate our businesses, financial condition, results of operations, competitive position, reputation, or pursuit of attractive acquisition opportunities. Reputational impacts could affect matters such as business generation and retention, liquidity, funding, and ability to attract and retain management. These developments could include:

- Changes resulting from legislative and regulatory reforms, including major reform of the regulatory oversight structure of the financial services industry and changes to laws and regulations involving tax, pension, bankruptcy, consumer protection, and other industry aspects, and changes in accounting policies and principles. We will be impacted by extensive reforms provided for in the Dodd-Frank Act and otherwise growing out of the most recent financial crisis, the precise nature, extent and timing of which, and their impact on us, remains uncertain.
- Changes to regulations governing bank capital and liquidity standards, including due to the Dodd-Frank Act and to Basel-related initiatives.
- Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. In addition to matters relating to PNC s current and historical business and activities, such matters may include proceedings, claims, investigations, or inquiries relating to pre-acquisition business and activities of acquired companies, such as National City. These matters may result in monetary judgments or settlements or other remedies, including fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to PNC.
- Results of the regulatory examination and supervision process, including our failure to satisfy requirements of agreements with governmental agencies.
- Impact on business and operating results of any costs associated with obtaining rights in intellectual property claimed by others and of adequacy of our intellectual property protection in general.

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

Business and operating results also include impacts relating to our equity interest in BlackRock, Inc. and rely to a significant extent on information provided to us by BlackRock. Risks and uncertainties that could affect BlackRock are discussed in more detail by BlackRock in its SEC filings.

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

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

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

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

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CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited In millions, except per share data	Three months ended March 31 2016	 2015
Interest Income		
Loans	$ 1,843	$ 1,802
Investment securities	462	406
Other	102	111
Total interest income	2,407	2,319
Interest Expense		
Deposits	105	92
Borrowed funds	204	155
Total interest expense	309	247
Net interest income	2,098	2,072
Noninterest Income		
Asset management	341	376
Consumer services	337	311
Corporate services	325	344
Residential mortgage	100	164
Service charges on deposits	158	153
Net gains on sales of securities	9	42
Other	297	269
Total noninterest income	1,567	1,659
Total revenue	3,665	3,731
Provision For Credit Losses	152	54
Noninterest Expense		
Personnel	1,145	1,157
Occupancy	221	216
Equipment	234	222
Marketing	54	62
Other	627	692
Total noninterest expense	2,281	2,349
Income before income taxes and noncontrolling interests	1,232	1,328
Income taxes	289	324
Net income	943	1,004
Less: Net income (loss) attributable to noncontrolling interests	19	1
Preferred stock dividends and discount accretion and redemptions	65	70
Net income attributable to common shareholders	$ 859	$ 933
Earnings Per Common Share		
Basic	$ 1.70	$ 1.79
Diluted	1.68	1.75
Average Common Shares Outstanding		
Basic	501	521
Diluted	507	529

See accompanying Notes To Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited	Three months ended March 31	
In millions	2016	2015
Net income	$ 943	$ 1,004
Other comprehensive income (loss), before tax and net of reclassifications into Net income:		
Net unrealized gains (losses) on non-OTTI securities	504	74
Net unrealized gains (losses) on OTTI securities	(38)	3
Net unrealized gains (losses) on cash flow hedge derivatives	200	239
Pension and other postretirement benefit plan adjustments	12	60
Other	(27)	(27)
Other comprehensive income (loss), before tax and net of reclassifications into Net income	651	349
Income tax benefit (expense) related to items of other comprehensive income	(249)	(149)
Other comprehensive income (loss), after tax and net of reclassifications into Net income	402	200
Comprehensive income	1,345	1,204
Less: Comprehensive income (loss) attributable to noncontrolling interests	19	1
Comprehensive income attributable to PNC	$ 1,326	$ 1,203

See accompanying Notes To Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited In millions, except par value	March 31 2016	December 31 2015
Assets		
Cash and due from banks (a)	$ 3,861	$ 4,065
Federal funds sold and resale agreements (b)	1,123	1,369
Trading securities	1,884	1,726
Interest-earning deposits with banks (a)	29,478	30,546
Loans held for sale (b)	1,541	1,540
Investment securities	72,569	70,528
Loans (b)	207,485	206,696
Allowance for loan and lease losses	(2,711)	(2,727)
Net loans (a)	204,774	203,969
Goodwill	9,103	9,103
Mortgage servicing rights	1,323	1,589
Other intangible assets	353	379
Equity investments (a)	10,391	10,587
Other (a) (b)	24,585	23,092
Total assets	$ 360,985	$ 358,493
Liabilities		
Deposits		
Noninterest-bearing	$ 78,151	$ 79,435
Interest-bearing	172,208	169,567
Total deposits	250,359	249,002
Borrowed funds		
Federal funds purchased and repurchase agreements	2,495	1,777
Federal Home Loan Bank borrowings	19,058	20,108
Bank notes and senior debt	21,594	21,298
Subordinated debt	8,707	8,556
Other (c) (d)	2,324	2,793
Total borrowed funds	54,178	54,532
Allowance for unfunded loan commitments and letters of credit	282	261
Accrued expenses (c)	4,850	4,975
Other (c)	4,988	3,743
Total liabilities	314,657	312,513
Equity		
Preferred stock (e)		
Common stock ($5 par value, authorized 800 shares, issued 542 and 542 shares)	2,708	2,708
Capital surplus preferred stock	3,453	3,452
Capital surplus common stock and other	12,586	12,745
Retained earnings	29,642	29,043
Accumulated other comprehensive income (loss)	532	130
Common stock held in treasury at cost: 43 and 38 shares	(3,791)	(3,368)
Total shareholders equity	45,130	44,710
Noncontrolling interests	1,198	1,270
Total equity	46,328	45,980
Total liabilities and equity	$ 360,985	$ 358,493

(a) Our consolidated assets at March 31, 2016 included the following assets of certain variable interest entities (VIEs): Equity investments of $326 million and Other assets of $41 million. Our consolidated assets at December 31, 2015 included the following assets of certain VIEs: Cash and due from banks of $11 million, Interest-earning deposits with banks of $4 million, Net loans of $1.3 billion, Equity investments of $183 million, and Other assets of $402 million.

(b) Our consolidated assets at March 31, 2016 included the following for which we have elected the fair value option: Federal funds sold and resale agreements of $138 million, Loans held for sale of $1.4 billion, Loans of $.9 billion, and Other assets of $375 million. Our consolidated assets at December 31, 2015 included the following for which we have elected the fair value option: Federal funds sold and resale agreements of $137 million, Loans held for sale of $1.5 billion, Loans of $.9 billion, and Other assets of $521 million.

(c) Our consolidated liabilities at March 31, 2016 included liabilities of $9 million for certain VIEs. Our consolidated liabilities at December 31, 2015 included the following liabilities of certain VIEs: Other borrowed funds of $148 million, Accrued expenses of $44 million, and Other liabilities of $202 million.

(d) Our consolidated liabilities at March 31, 2016 and December 31, 2015 included Other borrowed funds of $63 million and $93 million, respectively, for which we have elected the fair value option.

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

See accompanying Notes To Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited	Three months ended March 31	
In millions	2016	2015
Operating Activities		
Net income	$ 943	$ 1,004
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for credit losses	152	54
Depreciation and amortization	270	252
Deferred income taxes	(49)	40
Net gains on sales of securities	(9)	(42)
Changes in fair value of mortgage servicing rights	341	143
Gain on sales of Visa Class B common shares	(44)	
Undistributed earnings of BlackRock	(61)	(96)
Net change in		
Trading securities and other short-term investments	(946)	(229)
Loans held for sale	51	(268)
Other assets	(1,310)	(1,449)
Accrued expenses and other liabilities	1,084	1,044
Other	(146)	(193)
Net cash provided (used) by operating activities	276	260
Investing Activities		
Sales		
Securities available for sale	782	1,787
Loans	371	389
Repayments/maturities		
Securities available for sale	2,005	1,762
Securities held to maturity	523	486
Purchases		
Securities available for sale	(3,441)	(6,170)
Securities held to maturity	(687)	(2,000)
Loans	(363)	(242)
Net change in		
Federal funds sold and resale agreements	246	(41)
Interest-earning deposits with banks	1,067	581
Loans	(1,530)	(173)
Other	119	(265)
Net cash provided (used) by investing activities	(908)	(3,886)

(continued on following page)

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CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

(continued from previous page)

Unaudited	Three months ended March 31	
In millions	2016	2015
Financing Activities		
Net change in		
Noninterest-bearing deposits	$ (877)	$ 1,488
Interest-bearing deposits	2,641	2,804
Federal funds purchased and repurchase agreements	718	(1,308)
Commercial paper		(109)
Other borrowed funds	128	1,104
Sales/issuances		
Federal Home Loan Bank borrowings		1,250
Bank notes and senior debt	997	1,743
Commercial paper		1,322
Other borrowed funds	80	549
Common and treasury stock	18	60
Repayments/maturities		
Federal Home Loan Bank borrowings	(1,050)	(31)
Bank notes and senior debt	(997)	(1,397)
Subordinated debt	18	14
Commercial paper	(13)	(1,809)
Other borrowed funds	(360)	(1,481)
Acquisition of treasury stock	(551)	(463)
Preferred stock cash dividends paid	(64)	(68)
Common stock cash dividends paid	(260)	(251)
Net cash provided (used) by financing activities	428	3,417
Net Increase (Decrease) In Cash And Due From Banks	(204)	(209)
Cash and due from banks at beginning of period	4,065	4,360
Cash and due from banks at end of period	$ 3,861	$ 4,151
Supplemental Disclosures		
Interest paid	$ 345	$ 251
Income taxes paid	19	28
Income taxes refunded	33	1
Non-cash Investing and Financing Items		
Transfer from (to) loans to (from) loans held for sale, net	191	(7)
Transfer from loans to foreclosed assets	81	103

See accompanying Notes To Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THE PNC FINANCIAL SERVICES GROUP, INC.

BUSINESS

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

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

NOTE 1 ACCOUNTING POLICIES

Basis of Financial Statement Presentation

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

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

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

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

When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2015 Annual Report on Form 10-K. Reference is made to Note 1 Accounting Policies in the 2015 Form 10-K for a detailed description of significant accounting policies. Included herein are policies that are required to be disclosed on an interim basis as well as policies where there has been a significant change within the first three months of 2016. These interim consolidated financial statements serve to update the 2015 Form 10-K and may not include all information and notes necessary to constitute a complete set of financial statements.

Use of Estimates

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

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Nonperforming Loans and Leases

The matrix below summarizes PNC s policies for classifying certain loans as nonperforming loans and/or discontinuing the accrual of loan interest income.

	Commercial loans
Loans Classified as Nonperforming and Accounted for as Nonaccrual	Loans accounted for at amortized cost where: The loan is 90 days or more past due. The loan is rated substandard or worse due to the determination that full collection of principal and interest is not probable as demonstrated by the following conditions: ¡ The collection of principal or interest is 90 days or more past due; ¡ Reasonable doubt exists as to the certainty of the borrower s future debt service ability, according to the terms of the credit arrangement, regardless of whether 90 days have passed or not; ¡ The borrower has filed or will likely file for bankruptcy; ¡ The bank advances additional funds to cover principal or interest; ¡ We are in the process of liquidating a commercial borrower; or ¡ We are pursuing remedies under a guarantee.
Loans Excluded from Nonperforming Classification but Accounted for as Nonaccrual	Loans accounted for under the fair value option and full collection of principal and interest is not probable. Loans accounted for at the lower of cost or market less costs to sell (Held for Sale) and full collection of principal and interest is not probable.
Loans Excluded from Nonperforming Classification and Nonaccrual Accounting	Purchased impaired loans because interest income is accreted by nature of the accounting for these assets. Loans that are well secured and in the process of collection.

	Consumer loans
Loans Classified as Nonperforming and Accounted for as Nonaccrual	Loans accounted for at amortized cost where full collection of contractual principal and interest is not deemed probable as demonstrated in the policies below:

The loan is 90 days past due for home equity and installment loans, and 180 days past due for well secured residential real estate loans;

The loan has been modified and classified as a troubled debt restructuring (TDR);

Notification of bankruptcy has been received and the loan is 30 days or more past due;

The bank holds a subordinate lien position in the loan and the first lien loan is seriously stressed (i.e., 90 days or more past due);

Other loans within the same borrower relationship have been placed on nonaccrual or charge-offs have been taken on them;

The bank has repossessed non-real estate collateral securing the loan; or

The bank has charged-off the loan to the value of the collateral.

Loans Excluded from Nonperforming Classification but Accounted for as Nonaccrual

Loans accounted for under the fair value option and full collection of principal and interest is not probable.

Loans accounted for at the lower of cost or market less costs to sell (Held for Sale) and full collection of principal and interest is not probable.

Loans Excluded from Nonperforming Classification and Nonaccrual Accounting

Purchased impaired loans because interest income is accreted through the accounting model.

Certain government insured loans where substantially all principal and interest is insured.

Residential real estate loans that are well secured and in the process of collection.

Consumer loans and lines of credit, not secured by residential real estate, as permitted by regulatory guidance.

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See Note 3 Asset Quality in this Report for additional detail on nonperforming assets and asset quality indicators for commercial and consumer loans.

Commercial Loans

We generally charge off Commercial Lending (Commercial, Commercial Real Estate, and Equipment Lease Financing) nonperforming loans when we determine that a specific loan, or portion thereof, is uncollectible. This determination is based on the specific facts and circumstances of the individual loans. In making this determination, we consider the viability of the business or project as a going concern, the past due status when the asset is not well-secured, the expected cash flows to repay the loan, the value of the collateral, and the ability and willingness of any guarantors to perform.

Additionally, in general, for smaller dollar commercial loans of $1 million or less, a partial or full charge-off occurs at 120 days past due for term loans and 180 days past due for revolvers. Certain small business credit card balances that are placed on nonaccrual status when they become 90 days or more past due are charged-off at 180 days past due.

Consumer Loans

Home equity installment loans, home equity lines of credit, and residential real estate loans that are not well-secured and in the process of collection are charged-off at no later than 180 days past due. At that time, the basis in the loan is reduced to the fair value of the collateral less costs to sell. In addition to this policy, the bank recognizes a charge-off on a secured consumer loan when:

- The bank holds a subordinate lien position in the loan and a foreclosure notice has been received on the first lien loan;
- The bank holds a subordinate lien position in the loan which is 30 days or more past due with a combined loan to value ratio of greater than or equal to 110% and the first lien loan is seriously stressed (*i.e*., 90 days or more past due);
- The loan is modified or otherwise restructured in a manner that results in the loan becoming collateral dependent;
- Notification of bankruptcy has been received within the last 60 days and the loan is 60 days or more past due;
- The borrower has been discharged from personal liability through Chapter 7 bankruptcy and has not formally reaffirmed his or her loan obligation to PNC; or
- The collateral securing the loan has been repossessed and the value of the collateral is less than the recorded investment of the loan outstanding.

For loans that continue to meet any of the above policies, collateral values are updated annually and subsequent declines in collateral values are charged-off resulting in incremental provision for credit loss.

Most consumer loans and lines of credit, not secured by residential real estate, are charged off after 120-180 days past due.

Accounting for Nonperforming Assets and Leases and Other Nonaccrual Loans

For accrual loans, interest income is accrued on a monthly basis and certain fees and costs are deferred upon origination and recognized in income over the term of the loan utilizing an effective yield method. For nonaccrual loans, interest income accrual and deferred fee/cost recognition is discontinued. Additionally, the current year accrued and uncollected interest is reversed through Net interest income and prior year accrued and uncollected interest is charged-off. Nonaccrual loans may also be charged-off to reduce the basis to the fair value of collateral less costs to sell.

If payment is received on a nonaccrual loan, generally the payment is first applied to the recorded investment; payments are then applied to recover any charged-off amounts related to the loan. Finally, if both recorded investment and any charge-offs have been recovered, then the payment will be recorded as fee and interest income.

For TDRs, payments are applied based upon their contractual terms unless the related loan is deemed non-performing. TDRs are generally included in nonperforming and nonaccrual loans. However, after a reasonable period of time in which the loan performs under restructured terms and meets other performance indicators, it is returned to performing/accruing status. This return to performing/accruing status demonstrates that the bank expects to collect all of the loan s remaining contractual principal and interest. TDRs resulting from 1) borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC and 2) borrowers that are not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status.

Other nonaccrual loans are generally not returned to accrual status until the borrower has performed in accordance with the contractual terms and other performance indicators for at least six months, the period of time which was determined to demonstrate the expected collection of the loan s remaining contractual principal and interest. When a nonperforming loan is returned to accrual status, it is then considered a performing loan.

See Note 3 Asset Quality and Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in this Report, as well as Note 3 Asset Quality in Item 8 of our 2015 Form 10-K, for additional TDR information.

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Allowance for Loan and Lease Losses

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 portfolios as of the balance sheet date. Our determination of the allowance is based on periodic evaluations of these loan and lease portfolios and other relevant factors. This critical estimate includes significant use of PNC s own historical data and complex methods to interpret this data. These evaluations are inherently subjective, as they require material estimates and may be susceptible to significant change, and include, among others:

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

For all loans, except purchased impaired loans, the ALLL is the sum of three components: (i) asset specific/individual impaired reserves, (ii) quantitative (formulaic or pooled) reserves and (iii) qualitative (judgmental) reserves.

The reserve calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions are periodically updated.

Asset Specific/Individual Component

Nonperforming loans that are considered impaired under ASC 310 Receivables, which include all commercial and consumer TDRs, are evaluated for a specific reserve. Specific reserve allocations are determined as follows:

- For commercial nonperforming loans and commercial TDRs greater than or equal to a defined dollar threshold, specific reserves are based on an analysis of the present value of the loan s expected future cash flows, the loan s observable market price or the fair value of the collateral.
- For commercial nonperforming loans and commercial TDRs below the defined dollar threshold, the individual loan s loss given default (LGD) percentage is multiplied by the loan balance and the results are aggregated for purposes of measuring specific reserve impairment.
- Consumer nonperforming loans are collectively reserved for unless classified as consumer TDRs. For consumer TDRs, specific reserves are determined through an analysis of the present value of the loan s
expected future cash flows, except for those instances where loans have been deemed collateral dependent, including loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC. Once that determination has been made, those TDRs are charged down to the fair value of the collateral less costs to sell at each period end.

Commercial Lending Quantitative Component

The estimates of the quantitative component of ALLL for incurred losses within the commercial lending portfolio segment are determined through statistical loss modeling utilizing PD, LGD and outstanding balance of the loan. Based upon loan risk ratings, we assign PDs and LGDs. Each of these statistical parameters is determined based on internal historical data and market data. PD is influenced by such factors as liquidity, industry, obligor financial structure, access to capital and cash flow. LGD is influenced by collateral type, original and/or updated loan-to-value ratio (LTV), facility structure and other factors.

Consumer Lending Quantitative Component

Quantitative estimates within the consumer lending portfolio segment are calculated primarily using a roll-rate model based on statistical relationships, calculated from historical data that estimate the movement of loan outstandings through the various stages of delinquency and ultimately charge-off over our loss emergence period.

Qualitative Component

While our reserve methodologies strive to reflect all relevant risk factors, there continues to be uncertainty associated with, but not limited to, potential imprecision in the estimation process due to the inherent time lag of obtaining information and normal variations between estimates and actual outcomes. We provide additional reserves that are designed to provide coverage for losses attributable to such risks. The ALLL also includes factors that may not be directly measured in the determination of specific or pooled reserves. Such qualitative factors may include:

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

Allowance for Purchased Non-Impaired Loans

ALLL for purchased non-impaired loans is determined based upon a comparison between the methodologies described above and the remaining acquisition date fair value discount that has yet to be accreted into interest income. After making the comparison, an ALLL is recorded for the amount greater than the discount, or no ALLL is recorded if the discount is greater.

Allowance for Purchased Impaired Loans

ALLL for purchased impaired loans is determined in accordance with ASC 310-30 by comparing the net present value of the cash flows expected to be collected to the recorded investment for a given loan (or pool of loans). In cases where the net present value of expected cash flows is lower than the recorded investment, ALLL is established. Cash flows expected to be collected represent management s best estimate of the cash flows expected over the life of a loan (or pool of loans). For large balance commercial loans, cash flows are separately estimated at the loan level. For smaller balance pooled loans, pool cash flows are estimated using cash flow models. Pools were defined at acquisition based on the risk characteristics of the loan. Our cash flow models use loan data including, but not limited to, contractual loan balance, delinquency status of the loan, updated borrower FICO credit scores, geographic information, historical loss experience, and updated LTVs, as well as best estimates for changes in unemployment rates, home prices and other economic factors, to determine estimated cash flows.

See Note 4 Purchased Loans and Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional loan data and application of the policies disclosed herein.

Our credit risk management policies, procedures and practices are designed to promote sound lending standards and prudent credit risk management. We have policies, procedures and practices that address financial statement requirements, collateral review and appraisal requirements, advance rates based upon collateral types, appropriate levels of exposure, cross-border risk, lending to specialized industries or borrower type, guarantor requirements, and regulatory compliance.

Allowance for Unfunded Loan Commitments and Letters of Credit

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is appropriate to absorb estimated probable credit losses incurred on these unfunded credit facilities as of the balance sheet date. We determine the allowance based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors, and, solely for commercial lending, the terms and expiration dates of the unfunded credit facilities. Other than the estimation of the probability of funding, the reserve for unfunded loan commitments is estimated in a manner similar to the methodology used for determining reserves for funded exposures. The allowance for unfunded loan commitments and letters of credit is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the allowance for unfunded

loan commitments and letters of credit are included in the provision for credit losses.

See Note 5 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional loan data and application of the policies disclosed herein.

Earnings Per Common Share

Basic earnings per common share is calculated using the two-class method to determine income attributable to common shareholders. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are considered participating securities under the two-class method. Distributed dividends and dividend equivalents related to participating securities and an allocation of undistributed net income reduce the amount of income attributable to common shareholders. Income attributable to common shareholders is then divided by the weighted-average common shares outstanding for the period.

Diluted earnings per common share is calculated under the more dilutive of either the treasury method or the two-class method. For the diluted calculation, we increase the weighted-average number of shares of common stock outstanding by the assumed conversion of outstanding convertible preferred stock from the beginning of the year or date of issuance, if later, and the number of shares of common stock that would be issued assuming the exercise of stock options and warrants and the issuance of incentive shares using the treasury stock method. These adjustments to the weighted-average number of shares of common stock outstanding are made only when such adjustments will dilute earnings per common share. See Note 11 Earnings Per Share for additional information.

Recently Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, Compensation Stock Compensation (Topic 718): *Improvements to Employee Share-Based Payment Accounting*. This ASU simplifies the accounting for several aspects of share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The changes which impacted PNC included a requirement that all excess tax benefits and deficiencies that pertain to share-based payment arrangements be recognized within income tax expense line instead of Capital surplus common stock and other. This change also removes the impact of the excess tax benefits and deficiencies from the calculation of diluted earnings per share. PNC is required to apply these changes on a prospective basis. Additionally, the ASU no longer requires a presentation of excess tax benefits and deficiencies related to the vesting and exercise of share-based compensation as both an operating outflow and financing inflow on the statement of cash flows. This change was applied on a retrospective basis.

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We elected to early adopt this standard as of January 1, 2016. Adoption of this ASU did not have a material impact on our results of operations or financial position.

In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): *Amendments to the Consolidation Analysis*. All legal entities are subject to evaluation under this ASU, including investment companies and certain other entities measured in a manner consistent with ASC 946 Financial Services Investment Companies which were previously excluded. The ASU changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Specifically, the ASU modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities (VOEs); eliminates the presumption that a general partner should consolidate a limited partnership; potentially changes the consolidation conclusions of reporting entities that are involved with VIEs, in particular those that have fee arrangements and related party arrangements; and provides a scope exception for reporting entities with interests held in certain money market funds. We adopted this standard as of January 1, 2016 under a modified retrospective approach. The impact of adoption resulted in a decrease of $.4 billion in consolidated total assets at January 1, 2016. In addition the adoption impacted the classification of certain limited partnerships and legal entities as either VIEs or VOEs. See Note 2 Loan Sale and Servicing Activities and Variable Interest Entities for further disclosure on adoption of the standard.

NOTE 2 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES

Loan Sale and Servicing Activities

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

We earn servicing and other ancillary fees for our role as servicer and, depending on the contractual terms of the servicing arrangement, we can be terminated as servicer with or without cause. At the consummation date of each type of loan transfer where PNC retains the servicing, we recognize a servicing right at fair value. See Note 8 Goodwill and Intangible Assets for information on our servicing rights, including the carrying value of servicing assets.

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

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

In millions	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/Lines (b)
CASH FLOWS Three months ended March 31, 2016			
Sales of loans (c)	$ 1,438	$ 650	
Repurchases of previously transferred loans (d)	160		
Servicing fees (e)	93	30	$ 3
Servicing advances recovered/(funded), net	28	31	24
Cash flows on mortgage-backed securities held (f)	352	105	
CASH FLOWS Three months ended March 31, 2015			
Sales of loans (c)	$ 1,940	$ 1,020	
Repurchases of previously transferred loans (d)	169		$ 2
Servicing fees (e)	83	32	4
Servicing advances recovered/(funded), net	(9)	7	24
Cash flows on mortgage-backed securities held (f)	240	60	

(a) Represents cash flow information associated with both commercial mortgage loan transfer and servicing activities.
(b) These activities were part of an acquired brokered home equity lending business in which PNC is no longer engaged.
(c) Gains/losses recognized on sales of loans were insignificant for the periods presented.
(d) Includes residential mortgage government insured or guaranteed loans eligible for repurchase through the exercise of our Removal of Account Provision (ROAP) option, and loans repurchased due to alleged breaches of origination covenants or representations and warranties made to purchasers. Includes home equity lines of credit repurchased at the end of their draw periods due to contractual requirements.

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

(f) Represents cash flows on securities we hold issued by a securitization SPE in which PNC transferred to and/or services loans. The carrying values of such securities held were $6.6 billion in residential mortgage-backed securities and $1.2 billion in commercial mortgage-backed securities at March 31, 2016 and $5.2 billion in residential mortgage-backed securities and $1.1 billion in commercial mortgage-backed securities at March 31, 2015. Additionally, at December 31, 2015, the carrying values of such securities held were $6.6 billion in residential mortgage-backed securities and $1.3 billion in commercial mortgage-backed securities.

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The table below presents information about the principal balances of transferred loans that we service and are not recorded on our Consolidated Balance Sheet. We would only experience a loss on these transferred loans if we were required to repurchase a loan due to a breach in representations and warranties or a loss sharing arrangement associated with our continuing involvement with these loans. For more information regarding our recourse and repurchase obligations, including our reserve of estimated losses, see the Recourse and Repurchase Obligations section of Note 15 Commitments and Guarantees.

Table 43: Principal Balance, Delinquent Loans, and Net Charge-offs Related to Serviced Loans For Others

In millions	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/Lines (b)
March 31, 2016			
Total principal balance	$ 71,275	$ 51,369	$ 2,683
Delinquent loans (c)	1,693	1,051	896
December 31, 2015			
Total principal balance	$ 72,898	$ 53,789	$ 2,806
Delinquent loans (c)	1,923	1,057	904
Three months ended March 31, 2016			
Net charge-offs (d)	$ 26	$ 912	$ 7
Three months ended March 31, 2015			
Net charge-offs (d)	$ 32	$ 107	$ 7

(a) Represents information at the securitization level in which PNC has sold loans and is the servicer for the securitization.
(b) These activities were part of an acquired brokered home equity lending business in which PNC is no longer engaged.
(c) Serviced delinquent loans are 90 days or more past due or are in process of foreclosure.
(d) Net charge-offs for Residential mortgages and Home equity loans/lines represent credit losses less recoveries distributed and as reported to investors during the period. Net charge-offs for Commercial mortgages represent credit losses less recoveries distributed and as reported by the trustee for commercial mortgage backed securitizations. Realized losses for Agency securitizations are not reflected as we do not manage the underlying real estate upon foreclosure and, as such, do not have access to loss information.

Variable Interest Entities (VIEs)

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

Table 44: Consolidated VIEs Carrying Value (a)

March 31, 2016 (b)

In millions	Total
Assets	
Equity investments	$ 326
Other assets	41
Total assets	$ 367
Total liabilities	$ 9
Noncontrolling interests	$ 156

December 31, 2015

In millions	Total
Assets	

Cash and due from banks	$ 11
Interest-earning deposits with banks	4
Loans	1,341
Allowance for loan and lease losses	(48)
Equity investments	183
Other assets	402
Total assets	$ 1,893
Liabilities	
Other borrowed funds	$ 148
Accrued expenses	44
Other liabilities	202
Total liabilities	$ 394
Noncontrolling interests	$ 99

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

(b) Amounts for March 31, 2016 reflect the first quarter 2016 adoption of ASU 2015-02.

The following table provides a summary of non-consolidated VIEs with which we have significant continuing involvement but are not the primary beneficiary. We do not consider our continuing involvement to be significant when it relates to a VIE where we only invest in securities issued by the VIE and were not involved in the design of the VIE or where no transfers have occurred between PNC and the VIE. We have excluded certain transactions with non-consolidated VIEs from the balances presented in Table 45 where we have determined that our continuing involvement is not significant.

In addition, where PNC only has lending arrangements in the normal course of business with entities that could be VIEs, we have excluded these transactions with non-consolidated entities from the balances presented in Table 45. These loans are included as part of the asset quality disclosures that we make in Note 3 Asset Quality.

Table 45: Non-Consolidated VIEs

In millions	PNC Risk of Loss (a)	Carrying Value of Assets Owned by PNC	Carrying Value of Liabilities Owned by PNC
March 31, 2016 (b)			
Commercial Mortgage-Backed Securitizations (c)	$ 1,420	$ 1,420(d)	
Residential Mortgage-Backed Securitizations (c)	6,579	6,579(d)	$ 2(f)
Tax Credit Investments and Other	3,004	2,918(e)	743(g)
Total	$ 11,003	$ 10,917	$ 745
December 31, 2015			
Commercial Mortgage-Backed Securitizations (c)	$ 1,498	$ 1,498(d)	$ 1(f)
Residential Mortgage-Backed Securitizations (c)	6,680	6,680(d)	1(f)
Tax Credit Investments and Other	2,551	2,622(e)	836(g)
Total	$ 10,729	$ 10,800	$ 838

(a) This represents loans, investments and other assets related to non-consolidated VIEs, net of collateral (if applicable).
(b) Amounts for March 31, 2016 reflect the first quarter 2016 adoption of ASU 2015-02.
(c) Amounts reflect involvement with securitization SPEs where PNC transferred to and/or services loans for an SPE and we hold securities issued by that SPE. Values disclosed in the PNC Risk of Loss column represent our maximum exposure to loss for those securities holdings.
(d) Included in Trading securities, Investment securities, Other intangible assets and Other assets on our Consolidated Balance Sheet.
(e) Included in Loans, Equity investments and Other assets on our Consolidated Balance Sheet.
(f) Included in Other liabilities on our Consolidated Balance Sheet.
(g) Included in Deposits and Other liabilities on our Consolidated Balance Sheet.

Our involvement with VIEs is discussed further in detail in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in our 2015 Form 10-K.

NOTE 3 ASSET QUALITY

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

Nonperforming assets include nonperforming loans and leases, OREO and foreclosed assets, and nonperforming TDRs. Nonperforming loans are those loans accounted for at amortized cost whose credit quality has deteriorated to the extent that full collection of contractual principal and interest is not probable. Interest income is not recognized on these loans. Loans accounted for under the fair value option are reported as performing loans as these loans are accounted for at fair value. However, when nonaccrual criteria is met, interest income is not recognized on these loans. Additionally, certain government insured or guaranteed loans for which we expect to collect substantially all principal and interest are not reported as nonperforming loans and continue to accrue interest. Purchased impaired loans are excluded from nonperforming loans as we are currently accreting interest income over the expected life of the loans. See Note 4 Purchased Loans for further information.

See Note 1 Accounting Policies for additional delinquency, nonperforming, and charge-off information.

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

Table 46: Analysis of Loan Portfolio (a)

	Accruing								
Dollars in millions	Current or Less Than 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due (b)	Nonperforming Loans	Fair Value Option Nonaccrual Loans (c)	Purchased Impaired Loans	Total Loans (d) (e)
March 31, 2016									
Commercial Lending									
Commercial	$ 98,593	$ 85	$ 18	$ 39	$ 142	$ 552		$ 29	$ 99,316
Commercial real estate	27,943	6	1		7	160		120	28,230
Equipment lease financing	7,543	21			21	20			7,584
Total commercial lending	134,079	112	19	39	170	732		149	135,130
Consumer Lending									
Home equity	29,079	57	27		84	957		1,338	31,458
Residential real estate (f)	11,322	139	61	506	706	536	$ 215	1,893	14,672
Credit card	4,668	25	17	32	74	4			4,746
Other consumer (g)	20,964	173	85	205	463	52			21,479
Total consumer lending	66,033	394	190	743	1,327	1,549	215	3,231	72,355
Total	$ 200,112	$ 506	$ 209	$ 782	$ 1,497	$ 2,281	$ 215	$ 3,380	$ 207,485
Percentage of total loans	96.45%	.24%	.10%	.38%	.72%	1.10%	.10%	1.63%	100.00%
December 31, 2015									
Commercial Lending									
Commercial	$ 98,075	$ 69	$ 32	$ 45	$ 146	$ 351		$ 36	$ 98,608
Commercial real estate	27,134	10	4		14	187		133	27,468
Equipment lease financing	7,440	19	2		21	7			7,468
Total commercial lending	132,649	98	38	45	181	545		169	133,544
Consumer Lending									
Home equity	29,656	63	30		93	977		1,407	32,133
Residential real estate (f)	10,918	142	65	566	773	549	$ 225	1,946	14,411
Credit card	4,779	28	19	33	80	3			4,862
Other consumer (g)	21,181	180	96	237	513	52			21,746
Total consumer lending	66,534	413	210	836	1,459	1,581	225	3,353	73,152
Total	$ 199,183	$ 511	$ 248	$ 881	$ 1,640	$ 2,126	$ 225	$ 3,522	$ 206,696
Percentage of total loans	96.36%	.25%	.12%	.43%	.80%	1.03%	.11%	1.70%	100.00%

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

(b) Past due loan amounts exclude purchased impaired loans, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans.

(c) Consumer loans accounted for under the fair value option for which we do not expect to collect substantially all principal and interest are subject to nonaccrual accounting and classification upon meeting any of our nonaccrual policies. Given that these loans are not accounted for at amortized cost, these loans have been excluded from the nonperforming loan population.

(d) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $1.4 billion at both March 31, 2016 and December 31, 2015.

(e) Future accretable yield related to purchased impaired loans is not included in the analysis of loan portfolio.

(f) Past due loan amounts at March 31, 2016 include government insured or guaranteed Residential real estate mortgages totaling $62 million for 30 to 59 days past due, $44 million for 60 to 89 days past due and $483 million for 90 days or more past due. Past due loan amounts at December 31, 2015 include government insured or guaranteed Residential real estate mortgages totaling $56 million for 30 to 59 days past due, $45 million for 60 to 89 days past due and $545 million for 90 days or more past due.

(g) Past due loan amounts at March 31, 2016 include government insured or guaranteed Other consumer loans totaling $116 million for 30 to 59 days past due, $64 million for 60 to 89 days past due and $193 million for 90 days or more past due. Past due loan amounts at December 31, 2015 include government insured or guaranteed Other consumer loans totaling $116 million for 30 to 59 days past due, $75 million for 60 to 89 days past due and $220 million for 90 days or more past due.

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In the normal course of business, we originate or purchase loan products with contractual characteristics that, when concentrated, may increase our exposure as a holder of those loan products. Possible product features that may create a concentration of credit risk would include a high original or updated LTV ratio, terms that may expose the borrower to future increases in repayments above increases in market interest rates, and interest-only loans, among others. We also originate home equity and residential real estate loans that are concentrated in our primary geographic markets.

We originate interest-only loans to commercial borrowers. Such credit arrangements are usually designed to match borrower cash flow expectations (*e.g.*, working capital lines, revolvers). These products are standard in the financial services industry and product features are considered during the underwriting process to mitigate the increased risk that the interest-only feature may result in borrowers not being able to make interest and principal payments when due. We do not believe that these product features create a concentration of credit risk.

At March 31, 2016, we pledged $21.3 billion of commercial loans to the Federal Reserve Bank (FRB) and $56.9 billion of residential real estate and other loans to the Federal Home Loan Bank (FHLB) as collateral for the contingent ability to borrow, if necessary. The comparable amounts at December 31, 2015 were $20.2 billion and $56.4 billion, respectively.

Table 47: Nonperforming Assets

Dollars in millions	March 31 2016	December 31 2015
Nonperforming loans		
Total commercial lending	$ 732	$ 545
Total consumer lending (a)	1,549	1,581
Total nonperforming loans (b)(c)	2,281	2,126
OREO and foreclosed assets		
Other real estate owned (OREO)	259	279
Foreclosed and other assets	12	20
Total OREO and foreclosed assets	271	299
Total nonperforming assets	$ 2,552	$ 2,425
Nonperforming loans to total loans	1.10%	1.03%
Nonperforming assets to total loans, OREO and foreclosed assets	1.23	1.17
Nonperforming assets to total assets	.71	.68

(a) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.
(b) Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.
(c) The recorded investment of loans collateralized by residential real estate property that are in process of foreclosure was $.5 billion and $.6 billion at March 31, 2016 and December 31, 2015, both included $.3 billion of loans that are government insured/guaranteed.

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

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

Additional Asset Quality Indicators

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

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Commercial Lending Asset Classes

Commercial Loan Class

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

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

Commercial Real Estate Loan Class

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

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

Equipment Lease Financing Loan Class

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

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

Commercial Purchased Impaired Loan Class

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

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

See Note 4 Purchased Loans for additional information.

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

		Criticized Commercial Loans			
In millions	Pass Rated	Special Mention (c)	Substandard (d)	Doubtful (e)	Total Loans
March 31, 2016					
Commercial	$ 93,617	$ 1,837	$ 3,680	$ 153	$ 99,287
Commercial real estate	27,571	91	441	7	28,110
Equipment lease financing	7,245	100	231	8	7,584
Purchased impaired loans	23	2	100	24	149
Total commercial lending	$ 128,456	$ 2,030	$ 4,452	$ 192	$ 135,130
December 31, 2015					
Commercial	$ 93,364	$ 2,029	$ 3,089	$ 90	$ 98,572
Commercial real estate	26,729	120	481	5	27,335
Equipment lease financing	7,230	87	150	1	7,468
Purchased impaired loans		6	157	6	169
Total commercial lending	$ 127,323	$ 2,242	$ 3,877	$ 102	$ 133,544

(a) Based upon PDs and LGDs. We apply a split rating classification to certain loans meeting threshold criteria. By assigning a split classification, a loan s exposure amount may be split into more than one classification category in the above table.
(b) Loans are included above based on the Regulatory Classification definitions of Pass , Special Mention , Substandard and Doubtful .
(c) Special Mention rated loans have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects at some future date. These loans do not expose us to sufficient risk to warrant a more adverse classification at this time.
(d) Substandard rated loans have a well-defined weakness or weaknesses that jeopardize the collection or liquidation of debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.
(e) Doubtful rated loans possess all the inherent weaknesses of a Substandard loan with the additional characteristics that the weakness makes collection or liquidation in full improbable due to existing facts, conditions, and values.

Consumer Lending Asset Classes

Home Equity and Residential Real Estate Loan Classes

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

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

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

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

LTV (inclusive of combined loan-to-value (CLTV) for first and subordinate lien positions): At least annually, we update the property values of real estate collateral and calculate an

updated LTV ratio. For open-end credit lines secured by real estate in regions experiencing significant declines in property values, more frequent valuations may occur. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.

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

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

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

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Consumer Purchased Impaired Loan Class

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

See Note 4 Purchased Loans for additional information.

Table 49: Home Equity and Residential Real Estate Balances

In millions	March 31 2016	December 31 2015
Home equity and residential real estate loans excluding purchased impaired loans (a)	$ 42,007	$ 42,268
Home equity and residential real estate loans purchased impaired loans (b)	3,537	3,684
Government insured or guaranteed residential real estate mortgages (a)	892	923
Difference between outstanding balance and recorded investment in purchased impaired loans	(306)	(331)
Total home equity and residential real estate loans (a)	$ 46,130	$ 46,544

(a) Represents recorded investment.
(b) Represents outstanding balance.

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

March 31, 2016 in millions	Home Equity 1st Liens	Home Equity 2nd Liens	Residential Real Estate	Total
Current estimated LTV ratios (c)				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$ 238	$ 917	$ 275	$ 1,430
Less than or equal to 660 (d) (e)	41	173	62	276
Missing FICO	1	6	3	10
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	626	1,668	554	2,848
Less than or equal to 660 (d) (e)	87	286	98	471
Missing FICO	3	4	6	13
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	682	1,449	596	2,727
Less than or equal to 660	94	217	81	392
Missing FICO	1	3	9	13
Less than 90% and updated FICO scores:				
Greater than 660	13,762	7,638	9,515	30,915
Less than or equal to 660	1,288	888	584	2,760
Missing FICO	33	16	103	152
Total home equity and residential real estate loans	$ 16,856	$ 13,265	$ 11,886	$ 42,007

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

(a) Excludes purchased impaired loans of approximately $3.2 billion and $3.4 billion in recorded investment, certain government insured or guaranteed residential real estate mortgages of approximately $.9 billion and $.9 billion, and loans held for sale at March 31, 2016 and December 31, 2015, respectively. See the Home Equity and Residential Real Estate Asset Quality Indicators Purchased Impaired Loans table below for additional information on purchased impaired loans.

(b) Amounts shown represent recorded investment.

(c) Based upon updated LTV (inclusive of combined loan-to-value (CLTV) for first and subordinate lien positions). Updated LTV is estimated using modeled property values. These ratios are updated at least semi-annually. The related estimates and inputs are based upon an approach that uses a combination of third-party automated valuation models (AVMs), broker price opinions (BPOs), HPI indices, property location, internal and external balance information, origination data and management assumptions. We generally utilize origination lien balances provided by a third-party, where applicable, which do not include an amortization assumption when calculating updated LTV. Accordingly, the results of these calculations do not represent actual appraised loan level collateral or updated LTV based upon lien balances held by others, and as such, are necessarily imprecise and subject to change as we enhance our methodology.

(d) Higher risk loans are defined as loans with both an updated FICO score of less than or equal to 660 and an updated LTV greater than or equal to 100%.

(e) The following states had the highest percentage of higher risk loans at March 31, 2016: New Jersey 15%, Pennsylvania 13%, Illinois 12%, Ohio 11%, Florida 7%, Maryland 6% and Michigan 5%. The remainder of the states had lower than 4% of the higher risk loans individually, and collectively they represent approximately 31% of the higher risk loans. The following states had the highest percentage of higher risk loans at December 31, 2015: New Jersey 14%, Pennsylvania 12%, Illinois 11%, Ohio 11%, Florida 7%, Maryland 7% and Michigan 5%. The remainder of the states had lower than 4% of the high risk loans individually, and collectively they represent approximately 33% of the higher risk loans.

Table 51: Home Equity and Residential Real Estate Asset Quality Indicators Purchased Impaired Loans (a)

	Home Equity (b) (c)		Residential Real Estate (b) (c)	
March 31, 2016 in millions	1st Liens	2nd Liens		Total
Current estimated LTV ratios (d)				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$ 6	$ 157	$ 179	$ 342
Less than or equal to 660	5	71	73	149
Missing FICO		6	4	10
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	9	311	167	487
Less than or equal to 660	10	132	115	257
Missing FICO		8	7	15
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	9	161	120	290
Less than or equal to 660	6	72	70	148
Missing FICO		4	3	7
Less than 90% and updated FICO scores:				
Greater than 660	115	335	617	1,067
Less than or equal to 660	87	176	443	706
Missing FICO	1	12	30	43
Missing LTV and updated FICO scores:				
Greater than 660	1		11	12
Less than or equal to 660			4	4
Total home equity and residential real estate loans	$ 249	$ 1,445	$ 1,843	$ 3,537

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December 31, 2015 in millions	Home Equity (b) (c) 1st Liens	2nd Liens	Residential Real Estate (b) (c)	Total
Current estimated LTV ratios (d)				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$ 6	$ 164	$ 147	$ 317
Less than or equal to 660	6	79	76	161
Missing FICO		7	5	12
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	12	331	186	529
Less than or equal to 660	9	145	118	272
Missing FICO		8	7	15
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	10	167	133	310
Less than or equal to 660	6	75	68	149
Missing FICO		4	3	7
Less than 90% and updated FICO scores:				
Greater than 660	106	345	665	1,116
Less than or equal to 660	91	182	455	728
Missing FICO	1	13	31	45
Missing LTV and updated FICO scores:				
Greater than 660	1		14	15
Less than or equal to 660	1		6	7
Missing FICO			1	1
Total home equity and residential real estate loans	$ 249	$ 1,520	$ 1,915	$ 3,684

(a) Amounts shown represent outstanding balance. See Note 4 Purchased Loans for additional information.

(b) For the estimate of cash flows utilized in our purchased impaired loan accounting, other assumptions and estimates are made, including amortization of first lien balances, pre-payment rates, etc., which are not reflected in this table.

(c) The following states had the highest percentage of purchased impaired loans at March 31, 2016: California 16%, Florida 14%, Illinois 11%, Ohio 9%, North Carolina 7%, and Michigan 5%. The remainder of the states had lower than a 4% concentration of purchased impaired loans individually, and collectively they represent approximately 38% of the purchased impaired portfolio. The following states had the highest percentage of purchased impaired loans at December 31, 2015: California 16%, Florida 14%, Illinois 11%, Ohio 9%, North Carolina 7% and Michigan 5%. The remainder of the states had lower than a 4% concentration of purchased impaired loans individually, and collectively they represent approximately 38% of the purchased impaired portfolio.

(d) Based upon updated LTV (inclusive of combined loan-to-value (CLTV) for first and subordinate lien positions). Updated LTV is estimated using modeled property values. These ratios are updated at least semi-annually. The related estimates and inputs are based upon an approach that uses a combination of third-party automated valuation models (AVMs), broker price opinions (BPOs), HPI indices, property location, internal and external balance information, origination data and management assumptions. We generally utilize origination lien balances provided by a third-party, where applicable, which do not include an amortization assumption when calculating updated LTV. Accordingly, the results of these calculations do not represent actual appraised loan level collateral or updated LTV based upon lien balances held by others, and as such, are necessarily imprecise and subject to change as we enhance our methodology.

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Credit Card and Other Consumer Loan Classes

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

Table 52: Credit Card and Other Consumer Loan Classes Asset Quality Indicators

	Credit Card (a)		Other Consumer (b)	
Dollars in millions	Amount	% of Total Loans Using FICO Credit Metric	Amount	% of Total Loans Using FICO Credit Metric
March 31, 2016				
FICO score greater than 719	$ 2,845	60%	$ 9,424	65%
650 to 719	1,333	28	3,584	25
620 to 649	199	4	537	4
Less than 620	219	5	625	4
No FICO score available or required (c)	150	3	388	2
Total loans using FICO credit metric	4,746	100%	14,558	100%
Consumer loans using other internal credit metrics (b)			6,921	
Total loan balance	$ 4,746		$ 21,479	
Weighted-average updated FICO score (d)		734		744
December 31, 2015				
FICO score greater than 719	$ 2,936	60%	$ 9,371	65%
650 to 719	1,346	28	3,534	24
620 to 649	202	4	523	4
Less than 620	227	5	604	4
No FICO score available or required (c)	151	3	501	3
Total loans using FICO credit metric	4,862	100%	14,533	100%
Consumer loans using other internal credit metrics (b)			7,213	
Total loan balance	$ 4,862		$ 21,746	
Weighted-average updated FICO score (d)		734		744

(a) At March 31, 2016, we had $33 million of credit card loans that are higher risk (i.e., loans with both updated FICO scores less than 660 and in late stage (90+ days) delinquency status). The majority of the March 31, 2016 balance related to higher risk credit card loans was geographically distributed throughout the following areas: Ohio 16%, Pennsylvania 16%, New Jersey 8%, Michigan 7%, Florida 7%, Illinois 6%, Indiana 5%, Maryland 5%, North Carolina 4%, and Kentucky 4%. All other states had less than 3% individually and make up the remainder of the balance. At December 31, 2015, we had $34 million of credit card loans that are higher risk. The majority of the December 31, 2015 balance related to higher risk credit card loans was geographically distributed throughout the following areas: Ohio 17%, Pennsylvania 15%, Michigan 8%, New Jersey 8%, Florida 7%, Illinois 6%, Indiana 6%, Maryland 4% and North Carolina 4%. All other states had less than 4% individually and make up the remainder of the balance.

(b) Other consumer loans for which updated FICO scores are used as an asset quality indicator include non-government guaranteed or insured education loans, automobile loans and other secured and unsecured lines and loans. Other consumer loans for which other internal credit metrics are used as an asset quality indicator include primarily government guaranteed or insured education loans, as well as consumer loans to high net worth individuals. Other internal credit metrics may include delinquency status, geography or other factors.

(c) Credit card loans and other consumer loans with no FICO score available or required generally refers to new accounts issued to borrowers with limited credit history, accounts for which we cannot obtain an updated FICO score (e.g., recent profile changes), cards issued with a business name, and/or cards secured by collateral. Management proactively assesses the risk and size of this loan portfolio and, when necessary, takes actions to mitigate the credit risk.

(d) Weighted-average updated FICO score excludes accounts with no FICO score available or required.

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Troubled Debt Restructurings (TDRs)

Table 53: Summary of Troubled Debt Restructurings

In millions	March 31 2016	December 31 2015
Total commercial lending	$ 500	$ 434
Total consumer lending	1,891	1,917
Total TDRs	$ 2,391	$ 2,351
Nonperforming	$ 1,172	$ 1,119
Accruing (a)	1,219	1,232
Total TDRs	$ 2,391	$ 2,351

(a) Accruing loans include consumer credit card loans and loans that have demonstrated a period of at least six months of performance under the restructured terms and are excluded from nonperforming loans. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status.

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

Table 54 quantifies the number of loans that were classified as TDRs as well as the change in the loans recorded investment as a result of becoming a TDR during the three months ended March 31, 2016 and March 31, 2015, respectively. Additionally, the table provides information about the types of TDR concessions. See Note 3 Asset Quality in our 2015 Form 10-K for additional discussion of TDR concessions.

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

During the three months ended March 31, 2016		Pre-TDR	Post-TDR Recorded Investment (c)			
Dollars in millions	Number of Loans	Recorded Investment (b)	Principal Forgiveness (d)	Rate Reduction (e)	Other (f)	Total
Total commercial lending	42	$ 168		$ 10	$ 142	$ 152
Total consumer lending	2,965	68		44	20	64
Total TDRs	3,007	$ 236		$ 54	$ 162	$ 216
During the three months ended March 31, 2015						
Dollars in millions						
Total commercial lending	38	$ 63	$ 1	$ 2	$ 50	$ 53
Total consumer lending	2,738	71		42	25	67
Total TDRs	2,776	$ 134	$ 1	$ 44	$ 75	$ 120

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

After a loan is determined to be a TDR, we continue to track its performance under its most recent restructured terms. We consider a TDR to have subsequently defaulted when it becomes 60 days past due after the most recent date the loan was restructured. The recorded investment of loans that were both (i) classified as TDRs or were subsequently modified during each 12-month period preceding January 1, 2016 and January 1, 2015, respectively, and (ii) subsequently defaulted during the three months ended March 31, 2016 and March 31, 2015 totaled $27 million and $23 million, respectively.

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

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Impaired Loans

Impaired loans include commercial nonperforming loans and consumer and commercial TDRs, regardless of nonperforming status. TDRs that were previously recorded at amortized cost and are now classified and accounted for as held for sale are also included. Excluded from impaired loans are nonperforming leases, loans accounted for as held for sale other than the TDRs described in the preceding sentence, loans accounted for under the fair value option, smaller balance homogeneous type loans and purchased impaired loans. See Note 4 Purchased Loans for additional information. Nonperforming equipment lease financing loans of $20 million and $7 million at March 31, 2016 and December 31, 2015, respectively, are excluded from impaired loans pursuant to authoritative lease accounting guidance. We did not recognize any interest income on impaired loans that have not returned to performing status, while they were impaired during the three months ended March 31, 2016 and March 31, 2015. The following table provides further detail on impaired loans individually evaluated for impairment and the associated ALLL. Certain commercial and consumer impaired loans do not have a related ALLL as the valuation of these impaired loans exceeded the recorded investment.

Table 55: Impaired Loans

In millions	Unpaid Principal Balance	Recorded Investment	Associated Allowance (a)	Average Recorded Investment (b)
March 31, 2016				
Impaired loans with an associated allowance				
Commercial	$ 468	$ 359	$ 134	$ 348
Commercial real estate	218	105	30	117
Home equity	1,036	929	205	920
Residential real estate	274	264	32	264
Credit card	107	106	23	107
Other consumer	31	24	1	25
Total impaired loans with an associated allowance	$ 2,134	$ 1,787	$ 425	$ 1,781
Impaired loans without an associated allowance				
Commercial	$ 416	$ 316		$ 217
Commercial real estate	210	156		157
Home equity	409	179		192
Residential real estate	495	381		389
Other consumer	24	8		8
Total impaired loans without an associated allowance	$ 1,554	$ 1,040		$ 963
Total impaired loans	$ 3,688	$ 2,827	$ 425	$ 2,744
December 31, 2015				
Impaired loans with an associated allowance				
Commercial	$ 442	$ 337	$ 84	$ 306
Commercial real estate	254	130	35	197
Home equity	978	909	216	965
Residential real estate	272	264	35	359
Credit card	108	108	24	118
Other consumer	31	26	1	32
Total impaired loans with an associated allowance	$ 2,085	$ 1,774	$ 395	$ 1,977
Impaired loans without an associated allowance				
Commercial	$ 201	$ 118		$ 87
Commercial real estate	206	158		168
Home equity	464	206		158
Residential real estate	512	396		346
Other consumer	24	8		8
Total impaired loans without an associated allowance	$ 1,407	$ 886		$ 767
Total impaired loans	$ 3,492	$ 2,660	$ 395	$ 2,744

(a) Associated allowance amounts include $.3 billion for TDRs at both March 31, 2016 and December 31, 2015.
(b) Average recorded investment is for the three months ended March 31, 2016 and the year ended December 31, 2015, respectively.

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NOTE 4 PURCHASED LOANS

Purchased Impaired Loans

Purchased impaired loan accounting addresses differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. Several factors were considered when evaluating whether a loan was considered a purchased impaired loan, including the delinquency status of the loan, updated borrower credit status, geographic information, and updated LTV. GAAP allows purchasers to account for loans individually or to aggregate purchased impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Purchased impaired homogeneous consumer, residential real estate and smaller balance

commercial loans with common risk characteristics are aggregated into pools where appropriate, whereas commercial loans with a total commitment greater than a defined threshold are accounted for individually. For pooled loans, proceeds of individual loans are not applied individually to each loan within a pool, but to the pool s recorded investment since it is accounted for as a single asset.

Upon final disposition of a loan within a pool and for loans that have nominal collateral value/expected cash flows, the loan s recorded investment is written-off and the associated ALLL is derecognized, thus removing it from the carrying value of the pool. Gains and losses on such loans are recognized as either an adjustment to the pool s associated ALLL, or yield, as appropriate. For more information regarding our derecognition policy, see Note 1 Accounting Policies in our 2015 Form 10-K.

The following table provides balances of purchased impaired loans at March 31, 2016 and December 31, 2015:

Table 56: Purchased Impaired Loans Balances

	March 31, 2016			December 31, 2015		
In millions	Outstanding Balance (a)	Recorded Investment	Carrying Value	Outstanding Balance (a)	Recorded Investment	Carrying Value
Commercial lending						
Commercial	$ 78	$ 29	$ 18	$ 94	$ 36	$ 24
Commercial real estate	128	120	81	155	133	96
Total commercial lending	206	149	99	249	169	120
Consumer lending						
Consumer	1,694	1,338	1,313	1,769	1,407	1,392
Residential real estate	1,843	1,893	1,656	1,915	1,946	1,700
Total consumer lending	3,537	3,231	2,969	3,684	3,353	3,092
Total	$ 3,743	$ 3,380	$ 3,068	$ 3,933	$ 3,522	$ 3,212

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

The excess of undiscounted cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized as interest income over the remaining life of the loan using the constant effective yield method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference and is not recognized in income. Subsequent changes in the expected cash flows of individual or pooled purchased impaired loans will either impact the accretable yield or result in an impairment charge to provision for credit losses in the period in which the changes become probable. Decreases to the net present value of expected cash flows will generally result in an impairment charge recorded as a provision for credit losses, resulting in an increase to the ALLL, and a reclassification from accretable yield to non-accretable difference.

At March 31, 2016 and December 31, 2015, the ALLL on total purchased impaired loans was $.3 billion. For purchased impaired loan pools where an allowance has been recognized, subsequent increases in the net present value of cash flows will result in a provision recapture of any previously recorded ALLL to the extent applicable, and/or a reclassification from non-accretable difference to accretable yield, which will be recognized prospectively. Individual loan transactions where final dispositions have occurred (as noted above) result in removal of the loans from their applicable pools for cash flow estimation purposes. The cash flow re-estimation process is completed quarterly to evaluate the appropriateness of the ALLL associated with the purchased impaired loans.

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Activity for the accretable yield during the first three months of 2016 and 2015 follows:

Table 57: Purchased Impaired Loans Accretable Yield

In millions	2016	2015
January 1	$ 1,250	$ 1,558
Accretion (including excess cash recoveries)	(107)	(132)
Net reclassifications to accretable from non-accretable	17	64
Disposals	(4)	(6)
March 31	$ 1,156	$ 1,484

NOTE 5 ALLOWANCES FOR LOAN AND LEASE LOSSES AND UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

Allowance for Loan and Lease Losses

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

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Table 58: Rollforward of Allowance for Loan and Lease Losses and Associated Loan Data

In millions	Commercial Lending	Consumer Lending	Total
March 31, 2016			
Allowance for Loan and Lease Losses			
January 1	$ 1,605	$ 1,122	$ 2,727
Charge-offs	(89)	(147)	(236)
Recoveries	46	41	87
Net (charge-offs) / recoveries	(43)	(106)	(149)
Provision for credit losses	84	68	152
Net change in allowance for unfunded loan commitments and letters of credit	(19)	(2)	(21)
Net recoveries of purchased impaired loans		1	1
Other	1		1
March 31	$ 1,628	$ 1,083	$ 2,711
TDRs individually evaluated for impairment	$ 49	$ 261	$ 310
Other loans individually evaluated for impairment	115		115
Loans collectively evaluated for impairment	1,414	560	1,974
Purchased impaired loans	50	262	312
March 31	$ 1,628	$ 1,083	$ 2,711
Loan Portfolio			
TDRs individually evaluated for impairment (a)	$ 500	$ 1,891	$ 2,391
Other loans individually evaluated for impairment	436		436
Loans collectively evaluated for impairment (b)	134,045	66,338	200,383
Fair value option loans (c)		895	895
Purchased impaired loans	149	3,231	3,380
March 31	$ 135,130	$ 72,355	$ 207,485
Portfolio segment ALLL as a percentage of total ALLL	60%	40%	100%
Ratio of the allowance for loan and lease losses to total loans (d)	1.20%	1.50%	1.31%
March 31, 2015			
Allowance for Loan and Lease Losses			
January 1	$ 1,571	$ 1,760	$ 3,331
Charge-offs	(46)	(143)	(189)
Recoveries	45	41	86
Net charge-offs	(1)	(102)	(103)
Provision for credit losses	(2)	56	54
Net change in allowance for unfunded loan commitments and letters of credit	25		25
Other	(1)		(1)
March 31	$ 1,592	$ 1,714	$ 3,306
TDRs individually evaluated for impairment	$ 47	$ 295	$ 342
Other loans individually evaluated for impairment	70		70
Loans collectively evaluated for impairment	1,395	638	2,033
Purchased impaired loans	80	781	861
March 31	$ 1,592	$ 1,714	$ 3,306
Loan Portfolio			
TDRs individually evaluated for impairment (a)	$ 510	$ 2,020	$ 2,530
Other loans individually evaluated for impairment	278		278
Loans collectively evaluated for impairment (b)	128,611	67,627	196,238
Fair value option loans (c)		1,001	