PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
October 31, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.
(Exact name of registrant as specified in its charter)

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

The Tower at PNC Plaza, 300 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2401
(Address of principal executive offices, including zip code)
(888) 762-2265
(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 20, 2017, there were 475,801,081 shares of the registrant's common stock ($5 par value) outstanding.

THE PNC FINANCIAL SERVICES GROUP, INC.
Cross-Reference Index to Third Quarter 2017 Form 10-Q

	Pages
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited).	
Consolidated Income Statement	39
Consolidated Statement of Comprehensive Income	40
Consolidated Balance Sheet	41
Consolidated Statement of Cash Flows	42
Notes To Consolidated Financial Statements (Unaudited)	
Note 1 Accounting Policies	44
Note 2 Loan Sale and Servicing Activities and Variable Interest Entities	44
Note 3 Asset Quality	46
Note 4 Allowance for Loan and Lease Losses	54
Note 5 Investment Securities	55
Note 6 Fair Value	58
Note 7 Goodwill and Mortgage Servicing Rights	69
Note 8 Employee Benefit Plans	70
Note 9 Financial Derivatives	71
Note 10 Earnings Per Share	76
Note 11 Total Equity and Other Comprehensive Income	77
Note 12 Legal Proceedings	79
Note 13 Commitments	81
Note 14 Segment Reporting	82
Note 15 Subsequent Events	85
Statistical Information (Unaudited)	
Average Consolidated Balance Sheet And Net Interest Analysis	86
Reconciliation of Taxable-Equivalent Net Interest Income (Non-GAAP)	88
Transitional Basel III and Pro forma Fully Phased-In Basel III Common Equity Tier 1 Capital Ratios (Non-GAAP) – 2016 Periods	88
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).	
Financial Review	1
Consolidated Financial Highlights	1
Executive Summary	3
Consolidated Income Statement Review	5
Consolidated Balance Sheet Review	8
Business Segments Review	12
Risk Management	20
Recent Regulatory Developments	33
Critical Accounting Estimates and Judgments	34
Off-Balance Sheet Arrangements and Variable Interest Entities	36
Internal Controls and Disclosure Controls and Procedures	36
Glossary of Terms	37
Cautionary Statement Regarding Forward-Looking Information	37
Item 3. Quantitative and Qualitative Disclosures about Market Risk.	

	20-33, 58-68 and 71-76
Item 4. Controls and Procedures.	36
PART II – OTHER INFORMATION	
Item 1. Legal Proceedings.	89
Item 1A. Risk Factors.	89
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	89
Item 6. Exhibits.	89
Exhibit Index	89
Corporate Information	90
Signature	91

THE PNC FINANCIAL SERVICES GROUP, INC.
Cross-Reference Index to Third Quarter 2017 Form 10-Q (continued)

MD&A TABLE REFERENCE

Table	Description	Page
1	Consolidated Financial Highlights	1
2	Summarized Average Balances and Net Interest Income	5
3	Noninterest Income	6
4	Noninterest Expense	7
5	Summarized Balance Sheet Data	8
6	Details of Loans	9
7	Investment Securities	10
8	Weighted-Average Expected Maturities of Mortgage and Other Asset-Backed Debt Securities	10
9	Details of Funding Sources	11
10	Retail Banking Table	13
11	Corporate & Institutional Banking Table	16
12	Asset Management Group Table	19
13	BlackRock Table	20
14	Nonperforming Assets by Type	21
15	Change in Nonperforming Assets	21
16	Accruing Loans Past Due	22
17	Home Equity Lines of Credit – Draw Period End Dates	23
18	Consumer Real Estate Related Loan Modifications	23
19	Summary of Troubled Debt Restructurings	24
20	Allowance for Loan and Lease Losses	25
21	Loan Charge-Offs and Recoveries	25
22	Senior and Subordinated Debt	26
23	PNC Bank Notes Issued During Third Quarter 2017	27
24	Credit Ratings as of September 30, 2017 for PNC and PNC Bank	28
25	Basel III Capital	29
26	Interest Sensitivity Analysis	31
27	Net Interest Income Sensitivity to Alternative Rate Scenarios (Third Quarter 2017)	31
28	Alternate Interest Rate Scenarios: One Year Forward	31
29	Equity Investments Summary	32
30	Fair Value Measurements – Summary	34

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE

Table	Description	Page
31	Cash Flows Associated with Loan Sale and Servicing Activities	45
32	Principal Balance, Delinquent Loans and Net Charge-offs Related to Serviced Loans For Others	45
33	Non-Consolidated VIEs	46
34	Analysis of Loan Portfolio	47
35	Nonperforming Assets	48
36	Commercial Lending Asset Quality Indicators	49
37	Asset Quality Indicators for Home Equity and Residential Real Estate Loans – Excluding Purchased Impaired and Government Insured or Guaranteed Loans	50
38	Credit Card and Other Consumer Loan Classes Asset Quality Indicators	51
39	Financial Impact and TDRs by Concession Type	52

40	Impaired Loans	53
41	Rollforward of Allowance for Loan and Lease Losses and Associated Loan Data	54
42	Investment Securities Summary	55
43	Gross Unrealized Loss and Fair Value of Debt Securities	56
44	Gains (Losses) on Sales of Securities Available for Sale	57
45	Contractual Maturity of Debt Securities	57
46	Fair Value of Securities Pledged and Accepted as Collateral	58

THE PNC FINANCIAL SERVICES GROUP, INC.
Cross-Reference Index to Third Quarter 2017 Form 10-Q (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE (Continued)

Table	Description	Page
47	Fair Value Measurements – Recurring Basis Summary	59
48	Reconciliation of Level 3 Assets and Liabilities	60
49	Fair Value Measurements – Recurring Quantitative Information	64
50	Fair Value Measurements – Nonrecurring	66
51	Fair Value Measurements – Nonrecurring Quantitative Information	66
52	Fair Value Option – Fair Value and Principal Balances	67
53	Fair Value Option – Changes in Fair Value	67
54	Additional Fair Value Information Related to Other Financial Instruments	68
55	Mortgage Servicing Rights	69
56	Commercial Mortgage Loan Servicing Rights – Key Valuation Assumptions	69
57	Residential Mortgage Loan Servicing Rights – Key Valuation Assumptions	70
58	Components of Net Periodic Benefit Cost	70
59	Total Gross Derivatives	71
60	Gains (Losses) on Derivatives and Related Hedged Items – Fair Value Hedges	72
61	Gains (Losses) on Derivatives and Related Cash Flows – Cash Flow Hedges	73
62	Gains (Losses) on Derivatives Not Designated for Hedging under GAAP	74
63	Derivative Assets and Liabilities Offsetting	75
64	Basic and Diluted Earnings Per Common Share	76
65	Rollforward of Total Equity	77
66	Other Comprehensive Income	78
67	Accumulated Other Comprehensive Income (Loss) Components	79
68	Commitments to Extend Credit and Other Commitments	81
69	Results of Businesses	84

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 2016 Annual Report on Form 10-K (2016 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following: the Risk Management section of this Financial Review and of Item 7 in our 2016 Form 10-K; Item 1A Risk Factors included in our 2016 Form 10-K; and the Legal Proceedings and Commitments Notes of the Notes To Consolidated Financial Statements included in Item 1 of this Report and Item 8 of our 2016 Form 10-K. Also, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and the Critical Accounting Estimates And Judgments section in this Financial Review and in our 2016 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 14 Segment Reporting in the Notes To Consolidated Financial Statements included in this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis. In this Report, "PNC", "we" or "us" refers to The PNC Financial Services Group, Inc. and its subsidiaries on a consolidated basis. References to The PNC Financial Services Group, Inc. or to any of its subsidiaries are specifically made where applicable.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data Unaudited	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Financial Results (a)				
Revenue				
Net interest income	$2,345	$2,095	$6,763	$6,261
Noninterest income	1,780	1,734	5,306	5,027
Total revenue	$4,125	$3,829	$12,069	$11,288
Provision for credit losses	130	87	316	366
Noninterest expense	2,456	2,394	7,337	7,035
Income before income taxes and noncontrolling interests	$1,539	$1,348	$4,416	$3,887
Net income	$1,126	$1,006	$3,297	$2,938
Less:				
Net income attributable to noncontrolling interests	12	18	39	60
Preferred stock dividends	63	63	181	168
Preferred stock discount accretion and redemptions	1	1	24	4
Net income attributable to common shareholders	$1,050	$924	$3,053	$2,706
Less:				
Dividends and undistributed earnings allocated to nonvested restricted shares	5	7	15	19
Impact of BlackRock earnings per share dilution	3	4	8	10
Net income attributable to diluted common shares	$1,042	$913	$3,030	$2,677
Diluted earnings per common share	$2.16	$1.84	$6.21	$5.33
Cash dividends declared per common share	$.75	$.55	$1.85	$1.57
Effective tax rate (b)	26.8 %	25.4 %	25.3 %	24.4 %
Performance Ratios				

Net interest margin (c)	2.91 %	2.68 %	2.84 %	2.71 %
Noninterest income to total revenue	43 %	45 %	44 %	45 %
Efficiency	60 %	63 %	61 %	62 %
Return on:				
Average common shareholders' equity	9.89 %	8.74 %	9.76 %	8.69 %
Average assets	1.20 %	1.10 %	1.19 %	1.09 %

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

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

(c) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. To provide more meaningful comparisons of net interest margins, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended September 30, 2017 and September 30, 2016 were $55 million and $49 million, respectively. The taxable-equivalent adjustments to net interest income for the nine months ended September 30, 2017 and September 30, 2016 were $161 million and $145 million, respectively. For additional information, see Statistical Information (Unaudited) section in Item 1 of this Report.

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

Unaudited	September 30 2017	December 31 2016	September 30 2016
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$375,191	$366,380	$369,348
Loans	$221,109	$210,833	$210,446
Allowance for loan and lease losses	$2,605	$2,589	$2,619
Interest-earning deposits with banks (b)	$24,713	$25,711	$27,058
Investment securities	$74,994	$75,947	$78,514
Loans held for sale	$1,764	$2,504	$2,053
Equity investments (c)	$11,009	$10,728	$10,605
Mortgage servicing rights	$1,854	$1,758	$1,293
Goodwill	$9,163	$9,103	$9,103
Other assets	$28,454	$27,506	$28,364
Noninterest-bearing deposits	$79,967	$80,230	$82,159
Interest-bearing deposits	$180,768	$176,934	$177,736
Total deposits	$260,735	$257,164	$259,895
Borrowed funds	$57,564	$52,706	$51,541
Total shareholders’ equity	$46,388	$45,699	$45,707
Common shareholders’ equity	$42,406	$41,723	$42,251
Accumulated other comprehensive income (loss)	$(22)	$(265)	$646
Book value per common share	$89.05	$85.94	$86.57
Common shares outstanding (in millions)	476	485	488
Loans to deposits	85%	82%	81%
Client Assets (in billions)			
Discretionary client assets under management	$146	$137	$138
Nondiscretionary client assets under administration	129	120	119
Total client assets under administration (d)	275	257	257
Brokerage account client assets	48	44	44
Total client assets	$323	$301	$301
Capital Ratios			
Transitional Basel III (e) (f)			
Common equity Tier 1	10.3%	10.6%	10.6%
Tier 1 risk-based	11.6%	12.0%	11.9%
Total capital risk-based	13.7%	14.3%	14.2%
Leverage	9.9%	10.1%	10.1%
Pro forma Fully Phased-In Basel III (Non-GAAP) (f)			
Common equity Tier 1	9.8%	10.0%	10.2%
Common shareholders’ equity to assets	11.3%	11.4%	11.4%
Asset Quality			
Nonperforming loans to total loans	.85%	1.02%	1.02%
Nonperforming assets to total loans, OREO, foreclosed and other assets	.93%	1.12%	1.13%
Nonperforming assets to total assets	.55%	.65%	.64%
Net charge-offs to average loans (for the three months ended) (annualized)	.19%	.20%	.29%
Allowance for loan and lease losses to total loans	1.18%	1.23%	1.24%
Allowance for loan and lease losses to total nonperforming loans	139%	121%	122%
Accruing loans past due 90 days or more (in millions)	$678	$782	$766

(a)

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

(b) Amounts include balances held with the Federal Reserve Bank of Cleveland (Federal Reserve Bank) of $24.3 billion, $25.1 billion and $26.6 billion as of September 30, 2017, December 31, 2016 and September 30, 2016, 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 were previously reported as both discretionary client assets under management and nondiscretionary client assets under administration. Effective for the first quarter of 2017, these amounts are only reported as discretionary assets under management. Prior periods were adjusted to remove amounts previously included in nondiscretionary assets under administration of approximately $9 billion at both December 31, 2016 and September 30, 2016.

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

(f) See Basel III Capital discussion in the Capital Management portion of the Risk Management section of this Financial Review and the capital discussion in the Banking Regulation and Supervision section of Item 1 Business in our 2016 Form 10-K. See also the Transitional Basel III and Pro forma Fully Phased-In Basel III Common Equity Tier 1 Capital Ratios (Non-GAAP) – 2016 Periods table in the Statistical Information section of this Report for a reconciliation of the 2016 periods' ratios.

EXECUTIVE SUMMARY

The PNC Financial Services Group, Inc. 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, including residential mortgage, corporate and institutional banking and asset management, providing many of our products and services nationally. Our primary geographic markets are located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, Florida, North Carolina, Kentucky, Washington, D.C., Delaware, Virginia, Georgia, Alabama, 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 revenue and improving profitability, while investing for the future and managing risk, expenses and capital. We continue to invest in our products, markets and brand, and embrace our commitments to our customers, shareholders, employees and the communities where we do business.

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

Our strategic priorities are designed to enhance value over the long term. One of our priorities is to build a leading banking franchise in our underpenetrated geographic markets. We are focused on reinventing the retail banking experience by transforming the retail distribution network and the home lending process for a better customer experience and improved efficiency, and growing our consumer loan portfolio. In addition, we are seeking to attract more of the investable assets of new and existing clients and 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). For more detail, see the Capital Highlights portion of this Executive Summary and the Liquidity and Capital Management portion of the Risk Management section of this

Financial Review and the Supervision and Regulation section in Item 1 Business of our 2016 Form 10-K.

Income Statement Highlights

Net income for the third quarter of 2017 increased 12% to $1.1 billion, or $2.16 per diluted common share, compared to $1.0 billion, or $1.84 per diluted common share, for the third quarter of 2016.

- Total revenue increased $296 million, or 8%, to $4.1 billion.
- Net interest income increased $250 million, or 12%, to $2.3 billion.
- Net interest margin increased to 2.91% compared to 2.68% for the third quarter of 2016.
- Noninterest income increased $46 million, or 3%, to $1.8 billion.
- Provision for credit losses increased to $130 million compared to $87 million for the third quarter of 2016.
- Noninterest expense increased $62 million, or 3%, to $2.5 billion.

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

Balance Sheet Highlights

Our balance sheet was strong and well positioned at September 30, 2017 and December 31, 2016.

- Total loans increased $10.3 billion, or 5%, to $221.1 billion.
- Total commercial lending grew $10.6 billion, or 8%.
- Total consumer lending decreased $.3 billion.
- Total deposits increased $3.6 billion, or 1%, to $260.7 billion.
- Investment securities decreased $1 billion, or 1%, to $75.0 billion.

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

Credit Quality Highlights

Overall credit quality remained stable at September 30, 2017 compared to December 31, 2016.

- Nonperforming assets decreased $307 million, or 13%, to $2.1 billion at September 30, 2017 compared with December 31, 2016.
- Overall loan delinquencies decreased $157 million, or 10%, as of September 30, 2017 compared with December 31, 2016.
- Net charge-offs of $106 million in the third quarter of 2017 decreased 31% compared to net charge-offs of $154 million for the third quarter of 2016.

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

Capital Highlights

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

- The Transitional Basel III common equity Tier 1 capital ratio was 10.3% at September 30, 2017 compared to 10.6% at December 31, 2016.
- Pro forma fully phased-in Basel III common equity Tier 1 capital ratio, a non-GAAP financial measure, was an estimated 9.8% at September 30, 2017 compared to 10.0% at December 31, 2016
based on the standardized approach rules.
- In the third quarter of 2017, PNC returned $.9 billion of capital to shareholders through repurchases of 4.2 million common shares for $.5 billion, made under new share repurchase programs, and dividends on common shares of $.4 billion.
- On October 3, 2017, the PNC board of directors declared a quarterly cash dividend on common stock of 75 cents per share effective with the November 5, 2017 dividend payment date.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for more detail on our 2017 capital and liquidity actions as well as our capital ratios.

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Federal Reserve as part of the CCAR
process. For additional information, see the Supervision and Regulation section in Item 1 Business of our 2016 Form 10-K.

Business Outlook

Statements regarding our business outlook are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements in this section and elsewhere in this Form 10-Q are subject to the risk that economic and financial market conditions will be substantially different than those we are currently expecting and do not take into account potential legal and regulatory contingencies. These statements are based on our current view that the U.S. economy and the labor market will grow moderately through the rest of 2017 and in 2018, supported by gains in consumer spending thanks to solid job growth and rising wages, continued gradual improvement in the housing market, modest growth in business investment, an expanding global economy and some fiscal stimulus from corporate and personal income tax cuts. Although inflation has slowed in 2017, it should pick up as the labor market continues to tighten. Short-term interest rates and bond yields are expected to rise through the rest of this year and throughout 2018; PNC's baseline forecast is for one 25 basis point increase in the federal funds rate in December of 2017, and three more increases in 2018. Longer-term rates will also increase as the Federal Reserve slowly reduces the size of its balance sheet, but at a slower pace than short-term rates.

For the fourth quarter of 2017 compared to the third quarter of 2017, we expect:

- Modest loan growth;
- Net interest income to increase by low single digits, on a percentage basis;
- Fee income to increase by low single digits, on a percentage basis. Fee income consists of asset management, consumer services, corporate services, residential mortgage and service charges on deposits;
- Provision for credit losses to be between $100 million and $150 million; and
- Noninterest expense to increase by low single digits, on a percentage basis.

We expect other noninterest income in the fourth quarter to be in the range of $250 million to $300 million.

We also expect the full year 2017 effective tax rate to be between 25% and 26% absent the impact of any tax reform.

See the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2016 Form 10-K for other factors that could cause future events to differ, perhaps materially, from those anticipated in these forward-looking statements.

CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for the third quarter of 2017 was $1.1 billion, or $2.16 per diluted common share, an increase of 12% compared to $1.0 billion, or $1.84 per diluted common share, for the third quarter of 2016. For the first nine months of 2017, net income was $3.3 billion, or $6.21 per diluted common share, an increase of 12% compared to $2.9 billion, or $5.33 per diluted common share, for the first nine months of 2016.

Net income increased in both comparisons driven by an increase in revenue from higher net interest income and noninterest income, partially offset by an increase in noninterest expense.

Net Interest Income

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

Three months ended September 30 Dollars in millions	2017 Average Balances	Average Yields/ Rates	Interest Income/ Expense	2016 Average Balances	Average Yields/ Rates	Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$74,406	2.77 %	$516	$71,645	2.60 %	$467
Loans	219,218	3.92 %	2,179	208,850	3.57 %	1,889
Interest-earning deposits with banks	23,859	1.26 %	75	28,063	.50 %	35
Other	9,024	3.47 %	80	8,174	3.23 %	66
Total interest-earning assets/interest income	$326,507	3.45 %	2,850	$316,732	3.07 %	2,457
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$180,508	.37 %	170	$174,205	.25 %	107
Borrowed funds	57,016	1.93 %	280	52,981	1.53 %	206
Total interest-bearing liabilities/interest expense	$237,524	.75 %	450	$227,186	.54 %	313
Net interest margin/income (Non-GAAP)		2.91 %	2,400		2.68 %	2,144
Taxable-equivalent adjustments			(55)			(49)
Net interest income (GAAP)			$2,345			$2,095

Nine months ended September 30 Dollars in millions	2017 Average Balances	Average Yields/ Rates	Interest Income/ Expense	2016 Average Balances	Average Yields/ Rates	Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$75,330	2.71 %	$1,535	$70,706	2.67 %	$1,417
Loans	215,974	3.81 %	6,197	208,124	3.58 %	5,624
Interest-earning deposits with banks	23,530	1.03 %	182	26,691	.50 %	100
Other	9,058	3.46 %	236	7,797	3.48 %	203
Total interest-earning assets/interest income	$323,892	3.34 %	8,150	$313,318	3.11 %	7,344
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$178,810	.32 %	433	$171,635	.25 %	316
Borrowed funds	56,502	1.86 %	793	53,411	1.54 %	622
Total interest-bearing liabilities/interest expense	$235,312	.69 %	1,226	$225,046	.55 %	938

Net interest margin/income (Non-GAAP)	2.84 %	6,924	2.71 %	6,406
Taxable-equivalent adjustments		(161)		(145)
Net interest income (GAAP)		$6,763		$6,261

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

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 $250 million, or 12%, and $502 million, or 8%, for the third quarter and first nine months of 2017, respectively, compared to the same periods in 2016. The increase in both comparisons was attributable to higher loan yields and balances partially offset by an increase in borrowing and deposit costs. Net interest margin increased in both comparisons largely reflecting the benefit from higher interest rates in the 2017 periods.

Average investment securities increased $2.8 billion, or 4%, and $4.6 billion, or 7%, in the quarterly and year-to-date comparisons, respectively. The increase in both comparisons reflected net purchases of U.S. Treasury and government agency securities and agency residential mortgage-backed securities, partially offset by net declines in average commercial mortgage-backed securities. Total investment securities remained stable at 23% of average interest-earning assets in both the quarterly and the year-to-date comparisons.

Average loans grew $10.4 billion, or 5%, and $7.9 billion, or 4%, in the quarterly and year-to-date comparisons, respectively. The increase in average loans in both comparisons was driven by strong growth across our businesses within our Corporate & Institutional Banking segment, as well as higher residential mortgage loans within our Retail Banking segment. Both comparisons also reflected the impact of our acquisition of a commercial and vendor finance business with $1.0 billion of loans and leases in the second quarter of 2017. These increases were partially offset by decreases in consumer loans driven by runoff in the non-strategic consumer loan portfolios of brokered home equity and government guaranteed education loans. Loans increased to 67% of average interest-earning assets for the third quarter and first nine months of 2017 compared to 66% for the same periods in 2016.

Average total deposits of $259.4 billion for the third quarter of 2017 grew $6.9 billion, or 3%, over the third quarter of 2016, and average year-to-date deposits grew $8.2 billion, or 3%, over the same period of 2016, largely due to growth in average interest-bearing deposits, which increased $6.3 billion and $7.2 billion in the respective comparisons. This growth was driven by higher average savings deposits, which reflected a shift from money market deposits to relationship-based savings products, as well as higher average interest-bearing demand deposits. Average interest-bearing deposits represented 76% of average interest-bearing liabilities for the third quarter of 2017 compared to 77% for the same period in 2016 and remained stable at 76% in the year-to-date comparison.

Noninterest Income

Table 3: Noninterest Income

	Three months ended September 30				Nine months ended September 30			
			Change				Change	
Dollars in millions	2017	2016	$	%	2017	2016	$	%
Noninterest income								
Asset management	$421	$404	$17	4 %	$1,222	$1,122	$100	9 %
Consumer services	357	348	9	3 %	1,049	1,039	10	1 %
Corporate services	371	389	(18)	(5)%	1,198	1,117	81	7 %
Residential mortgage	104	160	(56)	(35)%	321	425	(104)	(24)%
Service charges on deposits	181	174	7	4 %	512	495	17	3 %
Other	346	259	87	34 %	1,004	829	175	21 %
Total noninterest income	$1,780	$1,734	$46	3 %	$5,306	$5,027	$279	6 %

Noninterest income as a percentage of total revenue was 43% for the third quarter of 2017 compared to 45% for the same period in 2016. The comparable amounts for the year-to-date periods were 44% and 45%, respectively.

Asset management revenue increased in both comparisons driven by higher earnings from BlackRock and the impact of stronger average equity markets in our asset management business. Discretionary client assets under management increased to $146 billion at September 30, 2017 compared with $138 billion at September 30, 2016.

Growth in consumer services revenue and service charges on deposits in both comparisons was driven by higher customer activity.

Corporate services revenue decreased in the quarterly comparison primarily due to lower merger and acquisition advisory fees. The year-to-date comparison increased largely due to higher capital markets-related revenue, including both higher merger and acquisition advisory fees and loan syndication fees, and higher treasury management fees.

Residential mortgage revenue decreased in both the quarterly and year-to-date comparisons as a result of lower loan sales revenue and a lower benefit from residential mortgage servicing rights valuation, net of economic hedge.

Other noninterest income increased in the quarterly comparison and included higher revenue from private equity investments, higher underwriting fees and higher operating lease income related to the business acquired in the second quarter of 2017. The increase in the year-to-date comparison was largely driven by higher revenue from private equity investments reflecting positive impacts from valuation adjustments on equity investments subject to the Volcker Rule provisions of the Dodd-Frank Act, higher revenue from credit

valuations on customer-related derivative activities and increased operating lease income related to the business acquired in the second quarter of 2017. These increases were partially offset by the impact of 2016 net gains on the sale of Visa Class B common shares.

Provision For Credit Losses

The provision for credit losses increased $43 million to $130 million for the third quarter of 2017 compared to the third quarter of 2016 mainly driven by loan growth, consumer loan credit trends, and the impact related to Hurricanes Harvey and Irma. The first nine months of 2017 decreased $50 million to $316 million compared to the same period in 2016 mostly due to lower provisions for certain loans in the oil, gas and coal sectors, partially offset by portfolio growth including an initial provision for a loan and lease portfolio obtained through the business acquired in the second quarter of 2017.

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

Noninterest Expense

Table 4: Noninterest Expense

	Three months ended September 30				Nine months ended September 30			
			Change				Change	
Dollars in millions	2017	2016	$	%	2017	2016	$	%
Noninterest expense								
Personnel	$1,274	$1,239	$35	3 %	$3,786	$3,610	$176	5 %
Occupancy	204	215	(11)	(5)%	628	651	(23)	(4)%
Equipment	259	246	13	5 %	791	720	71	10 %
Marketing	62	72	(10)	(14)%	184	187	(3)	(2)%
Other	657	622	35	6 %	1,948	1,867	81	4 %
Total noninterest expense	$2,456	$2,394	$62	3 %	$7,337	$7,035	$302	4 %

Noninterest expense increased in both the quarterly and year-to-date comparisons as a result of overall higher levels of business activity as reflected in higher personnel and equipment expense and ongoing investments in technology and business infrastructure. The increase in both comparisons also reflected the impact of operating expense related to the business acquired in the second quarter of 2017.

PNC continued to focus on disciplined expense management. As of September 30, 2017, we were on track to achieve our full-year 2017 goal of $350 million in cost savings through our continuous improvement program, which we expect will fund a significant portion of our 2017 business and technology investments, including our Retail branch strategy, enhanced digital capabilities and our home lending transformation.

Effective Income Tax Rate

The effective income tax rate was 26.8% in the third quarter of 2017 compared to 25.4% in the third quarter of 2016 and 25.3% in the first nine months of 2017 compared to 24.4% in the same period of 2016. The increases in both comparisons were primarily related to higher pretax earnings and the impact of state tax legislative changes. The increase in the year-to-date comparison was partially offset by the impact of higher tax deductions related to stock-based compensation in the first quarter of 2017.

CONSOLIDATED BALANCE SHEET REVIEW

Table 5: Summarized Balance Sheet Data

Dollars in millions	September 30 2017	December 31 2016	Change $	Change %
Assets				
Interest-earning deposits with banks	$24,713	$25,711	$(998)	(4)%
Loans held for sale	1,764	2,504	(740)	(30)%
Investment securities	74,994	75,947	(953)	(1)%
Loans	221,109	210,833	10,276	5 %
Allowance for loan and lease losses	(2,605)	(2,589)	(16)	(1)%
Mortgage servicing rights	1,854	1,758	96	5 %
Goodwill	9,163	9,103	60	1 %
Other, net	44,199	43,113	1,086	3 %
Total assets	$375,191	$366,380	$8,811	2 %
Liabilities				
Deposits	$260,735	$257,164	$3,571	1 %
Borrowed funds	57,564	52,706	4,858	9 %
Other	10,440	9,656	784	8 %
Total liabilities	328,739	319,526	9,213	3 %
Equity				
Total shareholders' equity	46,388	45,699	689	2 %
Noncontrolling interests	64	1,155	(1,091)	(94)%
Total equity	46,452	46,854	(402)	(1)%
Total liabilities and equity	$375,191	$366,380	$8,811	2 %

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

Our balance sheet was strong and well positioned at both September 30, 2017 and December 31, 2016.

- Total assets increased driven by strong loan growth;
- Total liabilities increased due to higher borrowed funds and deposit growth;
- Total equity decreased due to a decline in noncontrolling interests related to the redemption of Perpetual Trust Securities in the first quarter of 2017.

The following discussion provides additional information about the major components of our balance sheet. Information regarding our capital and regulatory compliance is included in the Liquidity and Capital Management portion of the Risk Management section of this Financial Review and in Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements included in our 2016 Form 10-K.

Loans

Table 6: Details of Loans

Dollars in millions	September 30 2017	December 31 2016	Change $	Change %
Commercial lending				
Commercial				
Manufacturing	$20,658	$18,891	$1,767	9 %
Retail/wholesale trade	18,256	16,752	1,504	9 %
Service providers	15,014	14,707	307	2 %
Real estate related (a)	12,174	11,920	254	2 %
Health care	9,659	9,491	168	2 %
Financial services	10,968	7,241	3,727	51 %
Other industries	24,588	22,362	2,226	10 %
Total commercial	111,317	101,364	9,953	10 %
Commercial real estate	29,516	29,010	506	2 %
Equipment lease financing	7,694	7,581	113	1 %
Total commercial lending	148,527	137,955	10,572	8 %
Consumer lending				
Home equity	28,811	29,949	(1,138)	(4)%
Residential real estate	16,601	15,598	1,003	6 %
Credit card	5,375	5,282	93	2 %
Other consumer				
Automobile	12,743	12,380	363	3 %
Education	4,620	5,159	(539)	(10)%
Other	4,432	4,510	(78)	(2)%
Total consumer lending	72,582	72,878	(296)	—
Total loans	$221,109	$210,833	$10,276	5 %

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

Growth in commercial lending was broad based across our lending businesses and included the acquisition of a commercial and vendor finance business with $1.0 billion of loans and leases during the second quarter of 2017. Lower consumer lending was driven by declines in home equity and education loans, mostly offset by higher residential real estate loans. The decreases in home equity and education reflected runoff in the non-strategic brokered home equity and government guaranteed education loan portfolios.

See 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 4 Allowance for Loan and Lease Losses in our Notes To Consolidated Financial Statements included in this Report for additional information regarding our loan portfolio.

Investment Securities

Table 7: Investment Securities

	September 30, 2017		December 31, 2016		Ratings (a) as of September 30, 2017				
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	$13,969	$14,149	$13,627	$13,714	100 %				
Agency residential mortgage-backed	39,253	39,263	37,319	37,109	100 %				
Non-agency residential mortgage-backed	2,816	3,126	3,382	3,564	12 %		4 %	75 %	9 %
Agency commercial mortgage-backed	2,432	2,415	3,053	3,046	100 %				
Non-agency commercial mortgage-backed (b)	3,273	3,310	4,590	4,602	87 %	3 %		1 %	9 %
Asset-backed (c)	5,638	5,708	6,496	6,524	87 %	3 %	3 %	7 %	
Other debt (d)	6,418	6,644	6,679	6,810	74 %	15 %	7 %	1 %	3 %
Corporate stock and other	536	534	603	601					100 %
Total investment securities (e)	$74,335	$75,149	$75,749	$75,970	92 %	2 %	1 %	3 %	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 education loans and other consumer credit products.

(d) Includes state and municipal securities.

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

Investment securities decreased $1.0 billion at September 30, 2017 compared to December 31, 2016. The decline in investment securities was driven by portfolio runoff and lower reinvestments in part due to relatively less attractive market opportunities.

Table 7 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, which could affect our risk-weighted assets and, therefore, our risk-based regulatory capital ratios under the regulatory capital rules. Changes in credit ratings classifications could indicate increased or decreased credit risk and could be accompanied by a reduction or increase in the fair value of our investment securities portfolio.

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 other than temporary impairment (OTTI) credit losses that would impact our Consolidated Income Statement.

The duration of investment securities was 3.0 years at September 30, 2017. We estimate that at September 30, 2017 the effective duration of investment securities was 3.2 years for an immediate 50 basis points parallel increase in interest rates and 2.8 years for an immediate 50 basis points parallel decrease in interest rates.

Based on expected prepayment speeds, the weighted-average expected maturity of the investment securities portfolio (excluding corporate stock and other) was 4.8 years at September 30, 2017 compared to 5.0 years at December 31, 2016.

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

September 30, 2017	Years
Agency residential mortgage-backed	4.9
Non-agency residential mortgage-backed	5.7
Agency commercial mortgage-backed	3.5
Non-agency commercial mortgage-backed	3.8
Asset-backed	2.5

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

Funding Sources

Table 9: Details of Funding Sources

Dollars in millions	September 30 2017	December 31 2016	Change $	Change %
Deposits				
Money market	$105,383	$105,849	$(466)	—
Demand	93,320	96,799	(3,479)	(4)%
Savings	44,610	36,956	7,654	21 %
Time deposits	17,422	17,560	(138)	(1)%
Total deposits	260,735	257,164	3,571	1 %
Borrowed funds				
FHLB borrowings	20,538	17,549	2,989	17 %
Bank notes and senior debt	26,467	22,972	3,495	15 %
Subordinated debt	5,601	8,009	(2,408)	(30)%
Other	4,958	4,176	782	19 %
Total borrowed funds	57,564	52,706	4,858	9 %
Total funding sources	$318,299	$309,870	$8,429	3 %

Growth in total deposits was driven by higher consumer and commercial deposits. Consumer deposits reflected in part a shift to relationship-based savings products from money market deposits. Higher interest rates in 2017 contributed to a shift in commercial deposits from demand deposits to money market deposits.

The increase in total borrowed funds reflected net increases in bank notes and senior debt and FHLB borrowings, as new issuances outpaced maturities and calls. These increases were partially offset by subordinated debt maturities.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for additional information regarding our 2017 liquidity and capital activities.

Shareholders’ Equity

Total shareholders’ equity as of September 30, 2017 increased $.7 billion compared to December 31, 2016. Increased retained earnings, which reflected net income of $3.3 billion partially offset by $1.1 billion of common and preferred dividends, was largely offset by common share repurchases of $1.8 billion.

Common shares outstanding were 476 million at September 30, 2017 and 485 million at December 31, 2016, as repurchases of 14.9 million shares during the period were partially offset by share issuances from treasury stock related to warrants exercised and stock-based compensation activity.

BUSINESS SEGMENTS REVIEW

Effective for the first quarter of 2017, as a result of changes to how we manage our businesses, we realigned our segments and, accordingly, have changed the basis of presentation of our segments, resulting in four reportable business segments:

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

Our changes in business segment presentation resulting from the realignment included the following:

- The Residential Mortgage Banking segment was combined into Retail Banking as a result of our strategic initiative to transform the home lending process by integrating mortgage and home equity lending to enhance product capability and speed of delivery for a better customer experience and to improve efficiency. In conjunction with this shift, residential mortgages previously reported within the "Other" category were also moved to Retail Banking.
- The Non-Strategic Assets Portfolio segment was eliminated. The segment's remaining consumer assets were moved to the "Other" category as they are unrelated to the ongoing strategy of any segment, while its commercial assets were transferred to Corporate & Institutional Banking in order to continue the relationships we have with those customers.
- A portion of business banking clients was moved from Retail Banking to Corporate & Institutional Banking to facilitate enhanced product offerings to meet the financial needs of our business banking clients.

Net interest income in business segment results reflects our internal funds transfer pricing methodology. Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product repricing characteristics, tenor and other factors. Effective for the first quarter of 2017, we made certain adjustments to our internal funds transfer pricing methodology primarily relating to weighted average lives of certain non-maturity deposits based on our recent historical experience. These changes in methodology affected business segment results, primarily adversely impacting net interest income for Corporate & Institutional Banking and Retail Banking, offset by increased net interest income in the "Other" category.

The prior period presented was revised to conform to the new segment alignment and to our change in internal funds transfer pricing methodology.

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

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

Retail Banking
(Unaudited)

Table 10: Retail Banking Table

Nine months ended September 30			Change	
Dollars in millions, except as noted	2017	2016	$	%
Income Statement				
Net interest income	$3,436	$3,391	$45	1 %
Noninterest income	1,891	2,038	(147)	(7)%
Total revenue	5,327	5,429	(102)	(2)%
Provision for credit losses	198	210	(12)	(6)%
Noninterest expense	4,060	3,963	97	2 %
Pretax earnings	1,069	1,256	(187)	(15)%
Income taxes	394	461	(67)	(15)%
Earnings	$675	$795	$(120)	(15)%
Average Balance Sheet				
Loans held for sale	$791	$902	$(111)	(12)%
Loans				
Consumer				
Home equity	$25,394	$26,351	$(957)	(4)%
Automobile	12,285	11,040	1,245	11 %
Education	4,921	5,653	(732)	(13)%
Credit cards	5,180	4,818	362	8 %
Other	1,767	1,799	(32)	(2)%
Total consumer	49,547	49,661	(114)	—
Commercial and commercial real estate	10,852	11,520	(668)	(6)%
Residential mortgage	11,999	10,518	1,481	14 %
Total loans	$72,398	$71,699	$699	1 %
Total assets	$88,589	$85,783	$2,806	3 %
Deposits				
Noninterest-bearing demand	$29,600	$28,009	$1,591	6 %
Interest-bearing demand	40,959	38,387	2,572	7 %
Money market	37,492	46,147	(8,655)	(19)%
Savings	37,881	25,738	12,143	47 %
Certificates of deposit	13,331	14,978	(1,647)	(11)%
Total deposits	$159,263	$153,259	$6,004	4 %
Performance Ratios				
Return on average assets	1.02 %	1.24 %		
Noninterest income to total revenue	35 %	38 %		
Efficiency	76 %	73 %		

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Nine months ended September 30			Change	
Dollars in millions, except as noted	2017	2016	$	%
Supplemental Noninterest Income Information				
Consumer services	$800	$792	$8	1 %
Brokerage	$231	$222	$9	4 %
Residential mortgage	$321	$425	$(104)	(24)%
Service charges on deposits	$491	$474	$17	4 %
Residential Mortgage Information				
Residential mortgage servicing statistics (in billions, except as noted) (a)				
Serviced portfolio balance (b)	$129	$126	$3	2 %
Serviced portfolio acquisitions	$18	$16	$2	13 %
MSR asset value (b)	$1.2	$.8	$.4	50 %
MSR capitalization value (in basis points) (b)	95	65	30	46 %
Servicing income: (in millions)				
Servicing fees, net (c)	$142	$150	$(8)	(5)%
Mortgage servicing rights valuation, net of economic hedge	$30	$57	$(27)	(47)%
Residential mortgage loan statistics				
Loan origination volume (in billions)	$6.6	$7.6	$(1.0)	(13)%
Loan sale margin percentage	2.83 %	3.33 %		
Percentage of originations represented by:				
Purchase volume (d)	54 %	43 %		
Refinance volume	46 %	57 %		
Other Information (b)				
Customer-related statistics (average)				
Non-teller deposit transactions (e)	53 %	49 %		
Digital consumer customers (f)	61 %	57 %		
Credit-related statistics				
Nonperforming assets (g)	$1,126	$1,220	$(94)	(8)%
Net charge-offs	$272	$260	$12	5 %
Other statistics				
ATMs	8,987	9,045	(58)	(1)%
Branches (h)	2,474	2,600	(126)	(5)%
Universal branches (i)	517	475	42	9 %
Brokerage account client assets (in billions) (j)	$48	$44	$4	9 %

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

(b) Presented as of September 30, except for customer-related statistics, which are averages for the nine months ended, and net charge-offs, which are for the nine months ended.

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

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

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

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

(g) Includes nonperforming loans of $1.1 billion at both September 30, 2017 and September 30, 2016.

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

(i) Included in total branches, represents branches operating under our universal model.
(j) Includes cash and money market balances.

Retail Banking earned $675 million in the first nine months of 2017 compared with $795 million for the same period in 2016. The decrease in earnings was driven by lower noninterest income and increased noninterest expense, partially offset by higher net interest income.

Noninterest income declined in the comparison due to the impact of 2016 net gains on sales of Visa Class B common shares and lower residential mortgage loan sales revenue, partially offset by higher service charges on deposits and debit card revenue.

The increase in noninterest expense in the comparison primarily resulted from investments in technology, higher compliance expense, and the impact of lower 2016 residential mortgage foreclosure-related expenses which included reserve releases.

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 meeting the financial needs of our customers by providing a broad range of liquidity, banking and investment products.

The deposit strategy of Retail Banking is to remain disciplined on pricing and focused on growing and retaining relationship-based balances, executing on market-specific deposit growth strategies and providing a source of low-cost funding and liquidity to PNC. In the first nine months of 2017, average total deposits increased compared to the same period a year ago, driven by growth in savings deposits reflecting in part a shift from money market deposits to relationship-based savings products. Additionally, demand deposits increased, partially offset by a decline in certificates of deposit due to the net runoff of maturing accounts.

Retail Banking continued to focus on growth in retail lending, with primary focus on building relationships with existing customers and digitally enabling lending. Average total loans increased in the comparison due to increases in residential mortgage and automobile loans partially offset by declines in home equity and commercial loans, as well as runoff of certain portfolios, as more fully described below.

- Average residential mortgages increased as a result of new volumes exceeding portfolio liquidations.
- Average automobile loans increased primarily due to portfolio growth in previously underpenetrated markets.
- Average credit card balances increased as a result of organic growth as we continue to focus on delivering on our long-term objective of deepening penetration within our existing customer base.
- Average home equity loans decreased as pay-downs and payoffs on loans exceeded new originated volume. Retail Banking's home equity loan portfolio is relationship based, with 98% of the portfolio attributable to borrowers in our primary geographic footprint. The weighted-average updated FICO scores for this portfolio were 748 at September 30, 2017 and 746 at December 31, 2016.
- Average commercial and commercial real estate loans declined as pay-downs and payoffs on loans exceeded new volume.
- In the first nine months of 2017, average loan balances for the education and other loan portfolios decreased $764 million, or 10%, compared to the same period in 2016, driven by declines in the government guaranteed education and indirect other portfolios, which are primarily runoff portfolios.

Nonperforming assets decreased compared to September 30, 2016 due to declines in both consumer and commercial nonperforming loans.

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

In the first nine months of 2017, approximately 61% of consumer customers used non-teller channels for the majority of their transactions compared with 57% for the same period a year ago.

- Deposit transactions via ATM and mobile channels increased to 53% of total deposit transactions in the first nine months of 2017 compared with 49% for the same period in 2016.
- We had a network of 2,474 branches and 8,987 ATMs at September 30, 2017. Approximately 21% of the branch network operates under the universal model.
- Instant debit card issuance, which enables us to print a customer's debit card in minutes, was available in 89% of the branch network as of September 30, 2017.
- Mortgage loan originations for the first nine months of 2017 were down 13% compared to the same period in 2016. 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.

Corporate & Institutional Banking
(Unaudited)

Table 11: Corporate & Institutional Banking Table

Nine months ended September 30			Change	
Dollars in millions, except as noted	2017	2016	$	%
Income Statement				
Net interest income	$2,653	$2,448	$205	8 %
Noninterest income	1,667	1,506	161	11 %
Total revenue	4,320	3,954	366	9 %
Provision for credit losses	174	180	(6)	(3)%
Noninterest expense	1,785	1,655	130	8 %
Pretax earnings	2,361	2,119	242	11 %
Income taxes	834	755	79	10 %
Earnings	$1,527	$1,364	$163	12 %
Average Balance Sheet				
Loans held for sale	$916	$835	$81	10 %
Loans				
Commercial	$95,660	$88,302	$7,358	8 %
Commercial real estate	27,410	26,528	882	3 %
Equipment lease financing	7,602	7,484	118	2 %
Total commercial lending	130,672	122,314	8,358	7 %
Consumer	276	449	(173)	(39)%
Total loans	$130,948	$122,763	$8,185	7 %
Total assets	$147,299	$139,632	$7,667	5 %
Deposits				
Noninterest-bearing demand	$46,976	$47,501	$(525)	(1)%
Money market	21,949	22,534	(585)	(3)%
Interest-bearing demand and other	16,100	13,188	2,912	22 %
Total deposits	$85,025	$83,223	$1,802	2 %
Performance Ratios				
Return on average assets	1.39 %	1.31 %		
Noninterest income to total revenue	39 %	38 %		
Efficiency	41 %	42 %		
Other Information				
Commercial loan servicing portfolio (in billions) (a) (b)	$513	$461	$52	11 %
Consolidated revenue from: (c)				
Treasury Management (d)	$1,115	$990	$125	13 %
Capital Markets (d)	$746	$600	$146	24 %
Commercial mortgage banking activities				
Commercial mortgage loans held for sale (e)	$73	$77	$(4)	(5)%
Commercial mortgage loan servicing income (f)	169	186	(17)	(9)%
Commercial mortgage servicing rights valuation, net of economic hedge (g)	41	22	19	86 %
Total	$283	$285	$(2)	(1)%
MSR asset value (a)	$628	$473	$155	33 %
Average Loans (by C&IB business)				
Corporate Banking	$55,242	$50,879	$4,363	9 %
Real Estate	37,995	36,235	1,760	5 %
Business Credit	15,531	14,770	761	5 %

Equipment Finance	13,239	11,736	1,503	13 %
Commercial Banking	7,052	7,242	(190)	(3)%
Other	1,889	1,901	(12)	(1)%
Total average loans	$130,948	$122,763	$8,185	7 %
Credit-related statistics				
Nonperforming assets (a) (h)	$549	$712	$(163)	(23)%
Net charge-offs	$64	$163	$(99)	(61)%

(a) As of September 30.
(b) Represents loans serviced (exclusive of agented responsibilities) for PNC and others.
(c) Represents consolidated 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 this Corporate & Institutional Banking section.
(d) Includes amounts reported in net interest income and noninterest income, predominantly in corporate service fees.
(e) Includes other noninterest income for valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, originations fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(f) Includes net interest income and noninterest income (primarily in corporate service fees) from loan servicing net of reduction in commercial mortgage servicing rights due to time decay and payoffs. Commercial mortgage servicing rights valuation, net of economic hedge is shown separately.
(g) Amounts reported in corporate service fees.
(h) Includes nonperforming loans of $.4 billion at September 30, 2017 and $.6 billion at September 30, 2016.

Corporate & Institutional Banking earned $1.5 billion in the first nine months of 2017 compared to $1.4 billion for the same period in 2016. The increase of $163 million, or 12%, was primarily due to increases in net interest income and noninterest income, partially offset by higher noninterest expense. We continue to focus on building client relationships where the risk-return profile is attractive.

Net interest income increased in the comparison, reflecting higher average loan and deposit balances as well as interest rate spread expansion on deposits.

Growth in noninterest income in the comparison was primarily driven by higher capital markets-related revenue, including merger and acquisition advisory fees, revenue from credit valuations on customer-related derivative activities and loan syndication fees. Additionally, higher operating lease income, mainly due to the business acquired in the second quarter of 2017, and higher treasury management fees contributed to the increase.

The decrease in provision for credit losses in the comparison reflected lower provision for certain loans in the oil, gas and coal sectors, partially offset by an initial provision for a loan and lease portfolio obtained through the business acquired in the second quarter of 2017.

Noninterest expense increased in the comparison largely driven by higher variable compensation commensurate with increased business activity, operating expenses related to the acquired business and continued investments in technology and infrastructure.

Average loans increased in the comparison mostly due to strong growth in Corporate Banking, Real Estate, Equipment Finance and Business Credit businesses:

- 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 grew in the comparison reflecting increased lending to large and midsized corporate clients as well as strong production in specialty lending verticals.
- PNC Real Estate provides banking, financing and servicing solutions for commercial real estate clients across the country. Higher average loans for this business were primarily due to growth in commercial mortgage and commercial loans, and to a lesser extent project loans.
- PNC Business Credit provides asset-based lending. The loan portfolio is relatively high yielding, with acceptable risk as the loans are mainly secured by short-term assets. Average loans for this business increased in the comparison as new originations were partially offset by payoffs.

- PNC Equipment Finance provides equipment financing solutions for clients throughout the U.S. and Canada. Average loans, including commercial loans and finance leases, and operating leases were $14.1 billion in the first nine months of 2017, an increase of $1.7 billion in the year over year comparison due to strong new production and the business acquired in the second quarter of 2017.
- Commercial Banking provides lending, treasury management and capital markets-related products and services to smaller corporations and businesses. Average loans for this business decreased in the comparison primarily due to the impact of capital management activities in 2016.

Growth in the commercial loan servicing portfolio was driven by servicing additions from new and existing customers exceeding portfolio run-off.

Product Revenue

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

Treasury management revenue comprises fees from products and services and net interest income from customer deposit balances. Compared with the first nine months of 2016, treasury management revenue increased due to liquidity-related revenue associated with customer deposit balances, including interest rate spread expansion, and higher fee income.

Capital markets-related products and services include foreign exchange, derivatives, securities, loan syndications, mergers and acquisitions advisory and equity capital markets advisory related services. The increase in revenue in the comparison was broad based across most products and services and included higher merger and acquisition advisory fees, higher revenue from credit valuations on customer-related derivative activities and higher fees from loan syndications.

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 slightly in the comparison as declines in commercial mortgage loan servicing income and commercial mortgage loans held for sale revenue were mostly offset by a higher benefit from commercial mortgage servicing rights valuation, net of economic hedge.

Asset Management Group
(Unaudited)

Table 12: Asset Management Group Table

Nine months ended September 30			Change	
Dollars in millions, except as noted	2017	2016	$	%
Income Statement				
Net interest income	$216	$227	$(11)	(5)%
Noninterest income	655	636	19	3%
Total revenue	871	863	8	1%
Provision for credit losses	(6)		(6)	—
Noninterest expense	646	618	28	5%
Pretax earnings	231	245	(14)	(6)%
Income taxes	85	90	(5)	(6)%
Earnings	$146	$155	$(9)	(6)%
Average Balance Sheet				
Loans				
Consumer	$5,059	$5,493	$(434)	(8)%
Commercial and commercial real estate	705	759	(54)	(7)%
Residential mortgage	1,257	1,032	225	22%
Total loans	$7,021	$7,284	$(263)	(4)%
Total assets	$7,499	$7,743	$(244)	(3)%
Deposits				
Noninterest-bearing demand	$1,501	$1,409	$92	7%
Interest-bearing demand	3,666	4,069	(403)	(10)%
Money market	3,257	4,278	(1,021)	(24)%
Savings	3,834	2,032	1,802	89%
Other	237	275	(38)	(14)%
Total deposits	$12,495	$12,063	$432	4%
Performance Ratios				
Return on average assets	2.60%	2.68%		
Noninterest income to total revenue	75%	74%		
Efficiency	74%	72%		
Other Information				
Nonperforming assets (a) (b)	$45	$51	$(6)	(12)%
Net charge-offs	$5	$7	$(2)	(29)%
Client Assets Under Administration (in billions) (a) (c) (d)				
Discretionary client assets under management	$146	$138	$8	6%
Nondiscretionary client assets under administration	129	119	10	8%
Total	$275	$257	$18	7%
Discretionary client assets under management				
Personal	$90	$85	$5	6%
Institutional	56	53	3	6%
Total	$146	$138	$8	6%
Equity	$75	$67	$8	12%
Fixed income	49	49	—	—
Liquidity/Other	22	22	—	—
Total	$146	$138	$8	6%

(a) As of September 30.

(b) Includes nonperforming loans of $41 million at September 30, 2017 and $45 million at September 30, 2016.

(c) Excludes brokerage account client assets.

(d) Effective for the first quarter of 2017, we have adjusted nondiscretionary client assets under administration for prior periods to remove assets which, as a result of certain investment advisory services performed by one of our registered investment advisors, were previously reported as both discretionary client assets under management and nondiscretionary client assets under administration. Effective for the first quarter of 2017, these amounts are only reported as discretionary assets under management. The prior period presented was adjusted to remove approximately $9 billion as of September 30, 2016 previously included in nondiscretionary assets under administration. In addition, effective for the first quarter of 2017, we have refined our methodologies for allocating discretionary client assets under management by asset type. As a result, we have updated the presentation of discretionary client assets under management by asset type for the prior period presented.

Asset Management Group earned $146 million through the first nine months of 2017 compared with earnings of $155 million for the first nine months of 2016. Earnings decreased as higher revenue and lower provision for credit losses was more than offset by higher noninterest expense.

The increase in revenue in the comparison was driven by higher noninterest income due to stronger average equity markets. This increase was partially offset by lower net interest income due to lower average loan balances and interest rate spread compression within the loan portfolio.

The decrease in provision for credit losses in the comparison reflected lower provision on the consumer loan portfolio due to improved credit quality.

Noninterest expense increased in the first nine months of 2017 compared to the prior year primarily attributable to higher compensation and technology expenses. Asset Management Group remains focused on disciplined expense management as it invests in strategic growth opportunities.

Asset Management Group's strategy is focused on growing investable assets by continually evolving the client experience and products and services. The business offers an open architecture platform with a full array of investment products and banking solutions.

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

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

Asset Management Group's discretionary client assets under management increased in the comparison to the prior year, primarily attributable to higher equity markets as of September 30, 2017.

BlackRock
(Unaudited)

Information related to our equity investment in BlackRock follows:

Table 13: BlackRock Table

Nine months ended September 30		
Dollars in millions	2017	2016
Business segment earnings (a)	$446	$390
PNC's economic interest in BlackRock (b)	22 %	22 %

(a) Includes our share of BlackRock's reported GAAP earnings net of income taxes on those earnings incurred by us.
(b) At September 30.

In billions	September 30	December 31

	2017	2016
Carrying value of our investment in BlackRock (c)	$7.3	$7.0
Market value of our investment in BlackRock (d)	$15.7	$13.4

(c) We account for our investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $2.4 billion at September 30, 2017 and $2.3 billion at December 31, 2016. Our voting interest in BlackRock common stock was approximately 21% at September 30, 2017.

(d) Does not include liquidity discount.

In addition to our investment in BlackRock reflected in Table 13, at September 30, 2017, we held approximately 0.25 million shares of BlackRock Series C Preferred Stock valued at $88 million, which are available to fund our obligation in connection with certain BlackRock long-term incentive plan (LTIP) programs.

Our 2016 Form 10-K and our first quarter 2017 Form 10-Q include additional information about our investment in BlackRock.

RISK MANAGEMENT

The Risk Management section included in Item 7 of our 2016 Form 10-K describes our enterprise risk management framework including risk culture, enterprise strategy, risk governance and oversight, risk identification, risk assessment, risk controls and monitoring, and risk aggregation and reporting. Additionally, our 2016 Form 10-K provides an analysis of our key areas of risk, which include but are not limited to credit, liquidity and capital, market, operational and compliance. 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 2016 Form 10-K risk management disclosures.

Credit Risk Management

See the Credit Risk Management portion of the Risk Management section in our 2016 Form 10-K for additional discussion regarding credit risk.

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets
Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming troubled debt restructurings (TDRs), other real estate owned (OREO), foreclosed and other assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonperforming loans and nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in our 2016 Form 10-K. A summary of the major categories of nonperforming assets are presented in Table 14. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further detail of nonperforming asset categories.

Table 14: Nonperforming Assets by Type

Dollars in millions	September 30 2017	December 31 2016	Change $	Change %
Nonperforming loans				
Commercial lending	$ 550	$ 655	$(105)	(16)%
Consumer lending (a)	1,323	1,489	(166)	(11)%
Total nonperforming loans (b)	1,873	2,144	(271)	(13)%
OREO, foreclosed and other assets	194	230	(36)	(16)%
Total nonperforming assets	$ 2,067	$ 2,374	$(307)	(13)%
Amount of TDRs included in nonperforming loans	$ 987	$ 1,112		