PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
May 03, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018

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 April 20, 2018, there were 469,498,755 shares of the registrant's common stock ($5 par value) outstanding.

THE PNC FINANCIAL SERVICES GROUP, INC.
Cross-Reference Index to First Quarter 2018 Form 10-Q

	Pages
PART I – FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited).	
Consolidated Income Statement	42
Consolidated Statement of Comprehensive Income	43
Consolidated Balance Sheet	44
Consolidated Statement of Cash Flows	45
Notes To Consolidated Financial Statements (Unaudited)	
Note 1 Accounting Policies	47
Note 2 Loan Sale and Servicing Activities and Variable Interest Entities	51
Note 3 Asset Quality	53
Note 4 Allowance for Loan and Lease Losses	59
Note 5 Investment Securities	61
Note 6 Fair Value	64
Note 7 Goodwill and Mortgage Servicing Rights	73
Note 8 Employee Benefit Plans	75
Note 9 Financial Derivatives	76
Note 10 Earnings Per Share	81
Note 11 Total Equity and Other Comprehensive Income	82
Note 12 Legal Proceedings	84
Note 13 Commitments	86
Note 14 Segment Reporting	87
Note 15 Fee-based Revenue from Contracts with Customers	89
Statistical Information (Unaudited)	
Average Consolidated Balance Sheet And Net Interest Analysis	91
Reconciliation of Taxable-Equivalent Net Interest Income (Non-GAAP)	93
Transitional Basel III and Fully Phased-In Basel III Common Equity Tier 1 Capital Ratios (Non-GAAP) – March 31, 2017	93
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	37
Critical Accounting Estimates and Judgments	38
Off-Balance Sheet Arrangements and Variable Interest Entities	40
Internal Controls and Disclosure Controls and Procedures	40
Glossary of Terms	40
Cautionary Statement Regarding Forward-Looking Information	40
Item 3. Quantitative and Qualitative Disclosures about Market Risk.	20-37, 64-73 and 76-81
Item 4. Controls and Procedures.	40

PART II – OTHER INFORMATION
Item 1. Legal Proceedings. 93
Item 1A. Risk Factors. 93
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. 94
Item 6. Exhibits. 94
Exhibit Index 94
Corporate Information 94
Signature 96

THE PNC FINANCIAL SERVICES GROUP, INC.
Cross-Reference Index to First Quarter 2018 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	Loans	8
7	Investment Securities	9
8	Weighted-Average Expected Maturities of Mortgage and Other Asset-Backed Debt Securities	10
9	Details of Funding Sources	11
10	Retail Banking Table	12
11	Corporate & Institutional Banking Table	15
12	Asset Management Group Table	18
13	BlackRock Table	19
14	Details of Loans	20
15	Commercial Loans by Industry	21
16	Commercial Real Estate Loans by Geography	21
17	Home Equity Loans by Geography and by Lien Priority	22
18	Residential Real Estate Loans by Geography	23
19	Nonperforming Assets by Type	24
20	Change in Nonperforming Assets	24
21	Accruing Loans Past Due	25
22	Consumer Real Estate Related Loan Modifications	25
23	Summary of Troubled Debt Restructurings	26
24	Allowance for Loan and Lease Losses	27
25	Loan Charge-Offs and Recoveries	28
26	Senior and Subordinated Debt	29
27	PNC Bank Notes Issued During First Quarter 2018	29
28	Credit Ratings as of March 31, 2018 for PNC and PNC Bank	31
29	Basel III Capital	32
30	Interest Sensitivity Analysis	34
31	Net Interest Income Sensitivity to Alternative Rate Scenarios (First Quarter 2018)	35
32	Alternate Interest Rate Scenarios: One Year Forward	35
33	Equity Investments Summary	36
34	Fair Value Measurements – Summary	38

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE

Table	Description	Page
35	Cash Flows Associated with Loan Sale and Servicing Activities	51
36	Principal Balance, Delinquent Loans and Net Charge-offs Related to Serviced Loans For Others	52
37	Non-Consolidated VIEs	52
38	Analysis of Loan Portfolio	54
39	Nonperforming Assets	55
40	Commercial Lending Asset Quality Indicators	56

41	Asset Quality Indicators for Home Equity and Residential Real Estate Loans – Excluding Purchased Impaired and Government Insured or Guaranteed Loans	57
42	Credit Card and Other Consumer Loan Classes Asset Quality Indicators	58
43	Financial Impact and TDRs by Concession Type	58
44	Impaired Loans	59
45	Rollforward of Allowance for Loan and Lease Losses and Associated Loan Data	60
46	Investment Securities Summary	61
47	Gross Unrealized Loss and Fair Value of Debt Securities	62

THE PNC FINANCIAL SERVICES GROUP, INC.
Cross-Reference Index to First Quarter 2018 Form 10-Q (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE (Continued)

Table	Description	Page
48	Gains (Losses) on Sales of Securities Available for Sale	63
49	Contractual Maturity of Debt Securities	63
50	Fair Value of Securities Pledged and Accepted as Collateral	64
51	Fair Value Measurements – Recurring Basis Summary	65
52	Reconciliation of Level 3 Assets and Liabilities	66
53	Fair Value Measurements – Recurring Quantitative Information	68
54	Fair Value Measurements – Nonrecurring	70
55	Fair Value Measurements – Nonrecurring Quantitative Information	70
56	Fair Value Option – Fair Value and Principal Balances	71
57	Fair Value Option – Changes in Fair Value	72
58	Additional Fair Value Information Related to Other Financial Instruments	72
59	Mortgage Servicing Rights	74
60	Commercial Mortgage Loan Servicing Rights – Key Valuation Assumptions	74
61	Residential Mortgage Loan Servicing Rights – Key Valuation Assumptions	75
62	Components of Net Periodic Benefit Cost	75
63	Total Gross Derivatives	76
64	Gains(Losses) Recognized on Fair Value and Cash Flow Hedges in the Consolidated Income Statement	78
65	Hedged Items - Fair Value Hedges	78
66	Gains (Losses) on Derivatives Not Designated for Hedging under GAAP	79
67	Derivative Assets and Liabilities Offsetting	80
68	Basic and Diluted Earnings Per Common Share	81
69	Rollforward of Total Equity	82
70	Other Comprehensive Income	83
71	Accumulated Other Comprehensive Income (Loss) Components	84
72	Commitments to Extend Credit and Other Commitments	86
73	Results of Businesses	88
74	Retail Banking Noninterest Income Disaggregation	89
75	Corporate & Institutional Banking Noninterest Income Disaggregation	90
76	Asset Management Group Noninterest Income Disaggregation	90

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 2017 Annual Report on Form 10-K (2017 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 2017 Form 10-K; Item 1A Risk Factors included in our 2017 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 2017 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 2017 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 14 Segment Reporting in the Notes To Consolidated Financial Statements included in this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis. In this Report, “PNC”, “we” or “us” refers to The PNC Financial Services Group, Inc. and its subsidiaries on a consolidated basis (except when referring to PNC as a public company, its common stock or other securities issued by PNC, which just refer to The PNC Financial Services Group, Inc.). References to The PNC Financial Services Group, Inc. or to any of its subsidiaries are specifically made where applicable.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data Unaudited	Three months ended March 31 2018	 2017	
Financial Results (a)			
Revenue			
Net interest income	$2,361	$2,160	
Noninterest income	1,750	1,724	
Total revenue	4,111	3,884	
Provision for credit losses	92	88	
Noninterest expense	2,527	2,402	
Income before income taxes and noncontrolling interests	$1,492	$1,394	
Net income	$1,239	$1,074	
Less:			
Net income attributable to noncontrolling interests	10	17	
Preferred stock dividends	63	63	
Preferred stock discount accretion and redemptions	1	21	
Net income attributable to common shareholders	1,165	973	
Less:			
Dividends and undistributed earnings allocated to nonvested restricted shares	5	6	
Impact of BlackRock earnings per share dilution	2	4	
Net income attributable to diluted common shares	$1,158	$963	
Diluted earnings per common share	$2.43	$1.96	
Cash dividends declared per common share	$.75	$.55	
Effective tax rate (b)	17.0	% 23.0	%
Performance Ratios			
Net interest margin (c)	2.91	% 2.77	%
Noninterest income to total revenue	43	% 44	%

Efficiency	61	%	62	%
Return on:				
Average common shareholders' equity	11.04	%	9.50	%
Average assets	1.34	%	1.19	%

(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. The first quarter 2018 results reflected the change in the statutory federal income tax rate from 35% to 21%, effective as of January 1, 2018, as a result of the new federal tax legislation.

(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 GAAP in the Consolidated Income Statement. For additional information, see Reconciliation of Taxable-Equivalent Net Interest Income in the Statistical Information (Unaudited) section in Item 1 of this Report.

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

Unaudited	March 31 2018	December 31 2017	March 31 2017
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$379,161	$380,768	$370,944
Loans	$221,614	$220,458	$212,826
Allowance for loan and lease losses	$2,604	$2,611	$2,561
Interest-earning deposits with banks (b)	$28,821	$28,595	$27,877
Investment securities	$74,562	$76,131	$76,432
Loans held for sale	$965	$2,655	$1,414
Equity investments (c)	$12,008	$11,392	$10,900
Mortgage servicing rights	$1,979	$1,832	$1,867
Goodwill	$9,218	$9,173	$9,103
Other assets	$27,949	$27,894	$28,083
Noninterest-bearing deposits	$78,303	$79,864	$79,246
Interest-bearing deposits	$186,401	$185,189	$181,464
Total deposits	$264,704	$265,053	$260,710
Borrowed funds	$58,039	$59,088	$55,062
Total shareholders' equity	$46,969	$47,513	$45,754
Common shareholders' equity	$42,983	$43,530	$41,774
Accumulated other comprehensive income (loss)	$(699)	$(148)	$(279)
Book value per common share	$91.39	$91.94	$86.14
Period-end common shares outstanding (in millions)	470	473	485
Loans to deposits	84%	83%	82%
Client Assets (in billions)			
Discretionary client assets under management	$148	$151	$141
Nondiscretionary client assets under administration	129	131	123
Total client assets under administration	277	282	264
Brokerage account client assets	49	49	46
Total client assets	$326	$331	$310
Capital Ratios			
Basel III (d) (e) (f)			
Common equity Tier 1	9.6%	N/A	N/A
Tier 1 risk-based	10.8%	N/A	N/A
Total capital risk-based	12.8%	N/A	N/A
Leverage	9.4%	N/A	N/A
Supplementary leverage	7.9%	N/A	N/A
Fully Phased-In Basel III (Non-GAAP) (f) (g)			
Common equity Tier 1	N/A	9.8%	10.0%
2017 Transitional Basel III (d) (f)			
Common equity Tier 1	N/A	10.4%	10.5%
Tier 1 risk-based	N/A	11.6%	11.8%
Total capital risk-based	N/A	13.7%	14.1%
Leverage	N/A	9.9%	9.9%
Common shareholders' equity to total assets	11.3%	11.4%	11.3%
Asset Quality			
Nonperforming loans to total loans	.83%	.85%	.94%
Nonperforming assets to total loans, OREO, foreclosed and other assets	.90%	.92%	1.04%

Nonperforming assets to total assets	.53	% .53	% .60	%
Net charge-offs to average loans (for the three months ended) (annualized)	.21	% .22	% .23	%
Allowance for loan and lease losses to total loans	1.18	% 1.18	% 1.20	%
Allowance for loan and lease losses to total nonperforming loans	141	% 140	% 128	%
Accruing loans past due 90 days or more (in millions)	$628	$737	$699	

(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 $28.6 billion, $28.3 billion and $27.5 billion as of March 31, 2018, December 31, 2017 and March 31, 2017, respectively.

(c) Amounts include our equity interest in BlackRock. The amount at March 31, 2018 includes $.6 billion of trading and available for sale securities that were reclassified to Equity investments on January 1, 2018 in accordance with the adoption of Accounting Standard Update 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in the Notes To Consolidated Financial Statements of this Report for additional detail on this adoption.

(d) All ratios are calculated using the regulatory capital methodology applicable to PNC during each period presented and calculated based on the standardized approach.

(e) The Basel III ratios for common equity Tier 1 capital, Tier 1 risk-based capital, Leverage and Supplementary leverage reflect the full phase-in of all Basel III adjustments to these metrics applicable to PNC. The Basel III total risk-based capital ratio includes $80 million of nonqualifying trust preferred capital securities that are subject to a phase-out period that runs through 2022.

(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 and Item 1A Risk Factors in our 2017 Form 10-K. See also the Transitional Basel III and Fully Phased-In Basel III Common Equity Tier 1 Capital Ratios (Non-GAAP) – March 31, 2017 table in the Statistical Information section of this Report for a reconciliation of the March 31, 2017 ratios.

(g) 2017 Fully Phased-in Basel III results are presented as Pro forma estimates.

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

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

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

Our capital priorities are to support client growth and business investment, maintain appropriate capital in light of economic conditions 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 2017 Form 10-K.

Income Statement Highlights

Net income for the first quarter of 2018 increased 15% to $1.2 billion, or $2.43 per diluted common share, compared to $1.1 billion, or $1.96 per diluted common share, for the first quarter of 2017.

- Total revenue increased $227 million, or 6%, to $4.1 billion.
- Net interest income increased $201 million, or 9%, to $2.4 billion.
- Net interest margin increased to 2.91% compared to 2.77% for the first quarter of 2017.
- Noninterest income increased $26 million, or 2%, to $1.8 billion.
- Provision for credit losses was $92 million compared to $88 million for the first quarter of 2017.
- Noninterest expense increased $125 million, or 5%, to $2.5 billion.
- Income tax expense decreased to $253 million compared to $320 million for the first quarter of 2017.
- Federal tax reform legislation, the Tax Cuts and Jobs Act, lowered the statutory federal income tax rate for corporations to 21% from 35% effective January 1, 2018.

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 March 31, 2018 and December 31, 2017. In comparison to December 31, 2017:

- Total loans increased $1.2 billion, or 1%, to $221.6 billion.
- Total commercial lending grew $1.5 billion, or 1%.
- Total consumer lending decreased $.3 billion.
- Total deposits decreased $.3 billion to $264.7 billion.
- Investment securities decreased $1.6 billion, or 2%, to $74.6 billion.

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

Credit Quality Highlights

Overall credit quality remained stable.

- At March 31, 2018 compared to December 31, 2017:
  - Nonperforming assets decreased $31 million, or 2%, to $2.0 billion.
  - Overall loan delinquencies decreased $131 million, or 9%.
- Net charge-offs of $113 million in the first quarter of 2018 decreased 4% compared to net charge-offs of $118 million for the first quarter of 2017.

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

Capital Highlights

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

- The Basel III common equity Tier 1 capital ratio, which includes the full phase-in of all Basel III adjustments and became effective for PNC as of January 1, 2018, was 9.6% at March 31, 2018, compared with 9.8% at December 31, 2017, calculated on the same basis.
- In the first quarter of 2018, we returned $1.1 billion of capital to shareholders through repurchases of 4.8 million common shares for $.7 billion and dividends on common shares of $.4 billion.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for more detail on our 2018 liquidity and capital actions as well as our capital ratios.

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Federal Reserve as part of the CCAR process. For additional information, see the Supervision and Regulation section in Item 1 Business of our 2017 Form 10-K.

Business Outlook

Our forward-looking financial statements are based on our current view that U.S. economic growth will accelerate somewhat in 2018, in light of stimulus from corporate and personal income tax cuts passed in late 2017 that are expected to support business investment and consumer spending, respectively. We expect an increase in federal government spending will also support economic growth in 2018. Further gradual improvement in the labor market this year, including job gains and rising wages, is another positive for consumer spending. Other sources of growth for the U.S. economy in 2018 will be the global economic expansion and the housing market, although trade restrictions are a downside risk to the forecast. Although inflation 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 throughout 2018; after the Federal Open Market Committee raised the federal funds rate in March, our baseline forecast is for two additional rate hikes in June and December 2018, pushing the federal funds rate to a range of 2.00 to 2.25% by the end of the year. Longer-term rates are also expected to increase as the Federal Reserve slowly reduces the size of its balance sheet and the federal government borrows more. Long-term rates will rise more slowly than short-term rates, so we anticipate that the yield curve will flatten but not invert.

For the second quarter of 2018 compared to the first quarter of 2018, we expect:

- Modest loan growth;
- Net interest income to increase by low single digits, on a percentage basis;
- Fee income to increase by mid-single digits, on a percentage basis. Fee income consists of asset management, consumer services, corporate services, residential mortgage and service charges on deposits;
- 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 the quarterly run rate for other noninterest income to be in the range of $225 million to $275 million, excluding net securities gains (losses) and Visa activity.

Our outlook for certain financial information for full year 2018 is compared to full year 2017 results as adjusted for the following fourth quarter 2017 tax legislation and significant items: $26 million in lower net interest income from the impact of tax legislation on leveraged leases; a total of $54 million of higher noninterest income, consisting of the flow through impact of tax legislation on our equity investment in BlackRock, Visa Class B derivative fair value adjustments, and the appreciation of BlackRock stock contributed to the PNC Foundation, partially offset by negative adjustments for residential mortgage servicing rights fair value assumption updates; a total of $502 million of higher noninterest expense, consisting of a contribution to the PNC Foundation, charges for real estate dispositions and exits, and employee cash payments and pension account credits; and a $1.2 billion tax benefit recognized as a result of the federal tax legislation, primarily attributable to revaluation of net deferred tax liabilities and $230 million from the tax

effect of the aforementioned significant items. For additional information on these fourth quarter 2017 items, see the Income Statement Highlights portion of the Executive Summary section in Item 7 of our 2017 Form 10-K.

For full year 2018 compared to full year 2017 on an adjusted basis, we expect:
- Loan growth to be up mid-single digits, on a percentage basis;
- Revenue to increase mid-single digits, on a percentage basis;
- Noninterest expense to increase by low single digits, on a percentage basis; and
- The effective tax rate to be approximately 17%.

See the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2017 Form 10-K for other factors that could cause future events to differ, perhaps materially, from those anticipated in these forward-looking statements.

CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for the first quarter of 2018 was $1.2 billion, or $2.43 per diluted common share, an increase of 15% compared to $1.1 billion, or $1.96 per diluted common share, for the first quarter of 2017. The increase was driven by a 6% increase in revenue and a lower effective tax rate, partially offset by a 5% increase in noninterest expense. Higher revenue in the comparison reflected a 9% increase in net interest income and a 2% increase in noninterest income.

Net Interest Income

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

	2018			2017		
Three months ended March 31 Dollars in millions	Average Balances	Average Yields/ Rates	Interest Income/ Expense	Average Balances	Average Yields/ Rates	Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$74,656	2.78 %	$519	$76,253	2.67 %	$508
Loans	221,104	4.09 %	2,250	212,253	3.67 %	1,941
Interest-earning deposits with banks	25,667	1.52 %	98	24,192	.81 %	49
Other	7,904	4.11 %	80	8,395	3.54 %	74
Total interest-earning assets/interest income	$329,331	3.59 %	2,947	$321,093	3.22 %	2,572
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$183,438	.47 %	213	$176,871	.28 %	120
Borrowed funds	59,638	2.31 %	344	54,942	1.74 %	240
Total interest-bearing liabilities/interest expense	$243,076	.91 %	557	$231,813	.62 %	360
Net interest margin/income (Non-GAAP)		2.91 %	2,390		2.77 %	2,212
Taxable-equivalent adjustments			(29)			(52)
Net interest income (GAAP)			$2,361			$2,160

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

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

Net interest income increased by $201 million, or 9%, in the first quarter of 2018 compared with the first quarter of 2017, and net interest margin increased 14 basis points. These increases reflected higher loans and securities yields from higher interest rates, partially offset by increased balances and rates paid on borrowed funds and deposits. Net interest income also benefited from higher loan balances in the comparison.

Higher average rates on borrowed funds reflected the impact of an increase in three-month LIBOR. Interest rates on our borrowed funds portfolio are largely indexed to three-month LIBOR, either issued at this floating rate or through interest rate swaps.

Average investment securities decreased $1.6 billion, or 2%, reflecting portfolio runoff and lower reinvestments, including declines in average commercial mortgage-backed securities of $1.9 billion and asset-backed securities of $1.2 billion, partially offset by net purchases of U.S. Treasury and government agency securities of $1.4 billion and residential mortgage-backed securities of $1.3 billion.

The decline in average investment securities also reflected the January 1, 2018 reclassification of $.6 billion of available for sale securities to equity investments in accordance with the adoption of Accounting Standards Update (ASU) 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in the Notes To Consolidated Financial Statements of this Report for additional detail on this adoption.

Total investment securities were 23% of average interest-earning assets for the first quarter of 2018 compared to 24% for the first quarter of 2017.

Average loans grew $8.9 billion, or 4%, reflecting an increase in average commercial lending of $8.5 billion driven by broad-based growth in our Corporate Banking, Equipment Finance and Business Credit businesses in our Corporate & Institutional Banking segment. Growth in Equipment Finance included the impact of the acquisition of a commercial and vendor finance business with $1.0 billion of loans and leases in the second quarter of 2017. Average consumer lending increased $.4 billion in the comparison, as growth in residential real estate, automobile and credit card loans was largely offset by declines in home equity and education loans. Lower home equity loans reflected paydowns and payoffs exceeding new originated volume. In addition, run-off in the non-strategic consumer loan portfolios of brokered home equity and government guaranteed education loans contributed to the declines. Average loans represented 67% of average interest-earning assets for the first quarter of 2018 compared to 66% for the first quarter of 2017.

Average total deposits increased $5.7 billion, or 2%. Average interest-bearing deposits grew $6.6 billion, or 4%, reflecting the higher interest rate environment and customer growth. Average savings deposits increased $9.4 billion due in part to a shift to relationship-based savings products from money market deposits, which decreased $5.4 billion. Additionally, average interest-bearing demand deposits grew $2.8 billion. Average interest-bearing deposits represented 75% of average interest-bearing liabilities for the first quarter of 2018 compared to 76% for the same period in 2017. Average noninterest-bearing deposits declined $.9 billion to $77.2 billion.

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

Average borrowed funds increased $4.7 billion, or 9%, largely reflecting higher average bank notes and senior debt, partially offset by a decline in average subordinated debt. See the Consolidated Balance Sheet Review portion of this Financial Review for additional detail on the level and composition of borrowed funds.

Noninterest Income

Table 3: Noninterest Income

	Three months ended March 31				
			Change		
Dollars in millions	2018	2017	$	%	
Noninterest income					
Asset management	$455	$403	$52	13	%
Consumer services	357	332	25	8	%
Corporate services	429	414	15	4	%
Residential mortgage	97	113	(16)	(14)	%

Service charges on deposits	167	161	6	4	%
Other	245	301	(56)	(19)	%
Total noninterest income	$1,750	$1,724	$26	2	%

Noninterest income as a percentage of total revenue was 43% for the first quarter of 2018 compared to 44% for the same period in 2017.

Asset management revenue increased reflecting higher earnings from our equity investment in BlackRock and stronger equity markets. PNC's discretionary client assets under management increased to $148 billion at March 31, 2018 compared with $141 billion at March 31, 2017.

Growth in consumer service fees included a $13 million increase in credit card fees, net of rewards, and debit card fees, which reflected continued momentum in customer activity in both transaction trends and customer growth. In addition, brokerage fees increased $10 million, driven by higher brokerage assets under management.

Corporate services revenue reflected growth in treasury management fees of $15 million and a $13 million increase in operating lease income related to the commercial and vendor finance business acquired in the second quarter of 2017. These increases were partially offset by a $12 million lower benefit from commercial mortgage servicing rights valuation, net of economic hedge.

Lower residential mortgage revenue was driven by a $12 million decline in loan sales revenue, which reflected compressed pricing margins and lower refinancing origination volume.

The decrease in other noninterest income was driven by an $88 million decline in revenue from equity investments, which included the impact of first quarter 2017 positive valuation adjustments related to the Volcker Rule provisions of the Dodd-Frank Act. This decrease was partially offset by a $14 million decline in negative derivative fair value adjustments related to Visa Class B common shares in the comparison.

In the first quarter of 2018, and as a result of the commercial and vendor finance business we acquired in the second quarter of 2017, we have reclassified operating lease income to corporate services noninterest income from other noninterest income on the Consolidated Income Statement. Operating lease income was $34 million for the first quarter of 2018. First quarter 2017 operating lease income was $21 million and was reclassified to reflect this change.

Provision For Credit Losses

The provision for credit losses was $92 million for the first quarter of 2018 compared with $88 million in the first 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 March 31			
			Change	
Dollars in millions	2018	2017	$	%
Noninterest expense				
Personnel	$1,354	$1,257	$97	8 %
Occupancy	218	222	(4)	(2)%
Equipment	273	251	22	9 %
Marketing	55	55	—	—
Other	627	617	10	2 %
Total noninterest expense	$2,527	$2,402	$125	5 %

The increase in noninterest expense was due to our ongoing investments in technology and in our businesses and employees, and was reflected primarily in personnel and equipment expense. These increases included operating expense related to the second quarter 2017 acquisition of a commercial and vendor finance business, as well as the investments we have made in new markets and our announced increase in hourly wages for eligible employees and in enhanced employee benefits.

PNC continued to focus on disciplined expense management. As of March 31, 2018, we were on track to achieve our full-year 2018 goal of $250 million in cost savings through our continuous improvement program, which we expect will partially fund our ongoing business and technology investments.

Effective Income Tax Rate

The effective income tax rate was 17.0% in the first quarter of 2018 compared to 23.0% in the same period of 2017. First quarter 2018 reflected the change in the statutory federal income tax rate from 35% to 21%, effective as of January 1, 2018, as a result of the new federal tax legislation.

CONSOLIDATED BALANCE SHEET REVIEW

Table 5: Summarized Balance Sheet Data

Dollars in millions	March 31 2018	December 31 2017	Change $	Change %
Assets				
Interest-earning deposits with banks	$28,821	$28,595	$226	1 %
Loans held for sale	965	2,655	(1,690)	(64)%
Investment securities	74,562	76,131	(1,569)	(2)%
Loans	221,614	220,458	1,156	1 %
Allowance for loan and lease losses	(2,604)	(2,611)	7	—
Mortgage servicing rights	1,979	1,832	147	8 %
Goodwill	9,218	9,173	45	—
Other, net	44,606	44,535	71	—
Total assets	$379,161	$380,768	$(1,607)	—
Liabilities				
Deposits	$264,704	$265,053	$(349)	—
Borrowed funds	58,039	59,088	(1,049)	(2)%
Other	9,383	9,042	341	4 %
Total liabilities	332,126	333,183	(1,057)	—
Equity				
Total shareholders' equity	46,969	47,513	(544)	(1)%
Noncontrolling interests	66	72	(6)	(8)%
Total equity	47,035	47,585	(550)	(1)%
Total liabilities and equity	$379,161	$380,768	$(1,607)	—

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

Our balance sheet was strong and well positioned at both March 31, 2018 and December 31, 2017.

- Total assets decreased due to lower loans held for sale and investment securities, partially offset by higher loans;
- Total liabilities decreased due to lower borrowed funds;
- Total equity decreased due to share repurchases and lower accumulated other comprehensive income (loss) related to net unrealized securities losses, partially offset by higher retained earnings driven by net income.

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 Risk Management in this Financial Review and in Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements included in our 2017 Form 10-K.

Loans

Table 6: Loans

Dollars in millions	March 31 2018	December 31 2017	Change $	Change %
Commercial lending				
Commercial	$112,308	$110,527	$1,781	2 %
Commercial real estate	28,835	28,978	(143)	—
Equipment lease financing	7,802	7,934	(132)	(2)%
Total commercial lending	148,945	147,439	1,506	1 %

Consumer lending				
Home equity	27,699	28,364	(665)	(2)%
Residential real estate	17,456	17,212	244	1 %
Credit card	5,657	5,699	(42)	(1)%
Other consumer				
Automobile	13,295	12,880	415	3 %
Education	4,228	4,454	(226)	(5)%
Other	4,334	4,410	(76)	(2)
Total consumer lending	72,669	73,019	(350)	—
Total loans	$221,614	$220,458	$1,156	1 %

Loan growth was driven by commercial lending partially offset by a decline in consumer lending balances.

Commercial loans increased reflecting broad-based growth across our Corporate Banking, Real Estate and Business Credit businesses within our Corporate & Institutional Banking segment. In Corporate Banking, commercial loans increased $.8 billion, or 1%, largely due to strong growth in asset-backed finance securitizations as well as middle market and large corporate lending. Commercial loans in our Real Estate business increased $.6 billion, or 5%, primarily driven by higher multifamily agency warehouse lending. In Business Credit, higher utilization resulted in an increase in commercial loans of $.4 billion, or 3%.

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

Consumer lending balances declined as growth in automobile and residential real estate loans were more than offset by lower home equity and education loans.

Home equity loans declined as paydowns and payoffs exceeded new originated volume. In addition, the declines in both home equity and education loans included the continued runoff in our non-strategic brokered home equity and government guaranteed education loan portfolios.

Residential real estate loans increased as a result of growth in originations of nonconforming residential mortgage loans, both nationwide and within our branch network. Nonconforming residential mortgage loans are loans that do not meet government agency standards, such as a maximum loan amount, property type or credit requirements, among other factors. The growth in residential real estate loans was primarily due to nonconforming loans that exceeded agency conforming loan limits. Automobile loans grew in part due to continued expansion in our Southeast markets.

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

See the Credit Risk Management portion of the Risk Management section of this Financial Review 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

	March 31, 2018		December 31, 2017		Ratings (a) as of March 31, 2018									
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	$14,390	$14,335	$15,173	$15,286	100	%								
Agency residential mortgage-backed	41,175	40,301	40,037	39,847	100	%								
Non-agency residential mortgage-backed	2,483	2,802	2,610	2,932	11	%			3	%	66	%	20	%
Agency commercial mortgage-backed	2,222	2,146	2,367	2,315	100	%								
Non-agency commercial mortgage-backed (b)	3,109	3,098	3,141	3,161	84	%	6	%					10	%
Asset-backed (c)	5,325	5,380	5,531	5,598	84	%	3	%	6	%	7	%		

Other debt (d)	6,081	6,179	6,279	6,459	74	%	15	%	7	%	1	%	3	%
Other (e)			587	585										
Total investment securities (f)	$74,785	$74,241	$75,725	$76,183	93	%	2	%	1	%	3	%	1	%

(a) Ratings percentages allocated based on amortized cost.

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

(c) Collateralized primarily by corporate debt, government guaranteed education loans and other consumer credit products.

(d) Includes state and municipal securities.

(e) On January 1, 2018, $.6 billion of available for sale securities, primarily money market funds, were reclassified to equity investments in accordance with the adoption of ASU 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in the Notes To Consolidated Financial Statements of this Report for additional detail on this adoption.

(f) Includes available for sale and held to maturity securities, which are recorded on our balance sheet at fair value and amortized cost, respectively.

Investment securities decreased $1.6 billion at March 31, 2018 compared to December 31, 2017, driven by declines in U.S. Treasury and government agencies securities of $.9 billion, other debt securities of $.3 billion, commercial mortgage-backed securities of $.2 billion and asset-backed securities of $.2 billion. These declines were partially offset by net purchases of agency residential mortgage-backed securities of $.8 billion. The overall decrease includes a $.6 billion decline in the valuation of our available for sale securities portfolio reflecting the impact of higher interest rates, primarily for U.S. Treasury and government agencies and agency residential mortgage-backed securities.

The decline in total investment securities at March 31, 2018 compared to December 31, 2017 also reflected the reclassification of $.6 billion of available for sale securities, primarily money market funds, to equity investments as part of the adoption of ASU 2016-01. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements for additional detail on our adoption of this ASU.

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

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 3.7 years at March 31, 2018. We estimate that at March 31, 2018 the effective duration of investment securities was 3.8 years for an immediate 50 basis points parallel increase in interest rates and 3.5 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 other) was 5.7 years at March 31, 2018 compared to 5.2 years at December 31, 2017.

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

March 31, 2018	Years
Agency residential mortgage-backed	6.6
Non-agency residential mortgage-backed	6.3
Agency commercial mortgage-backed	3.5
Non-agency commercial mortgage-backed	3.1
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

	March 31	December 31	Change	
Dollars in millions	2018	2017	$	%
Deposits				
Noninterest-bearing	$78,303	$79,864	$(1,561)	(2)%
Interest-bearing				
Money market	57,260	59,735	(2,475)	(4)%
Demand	62,289	61,213	1,076	2 %
Savings	50,582	46,980	3,602	8 %
Time deposits	16,270	17,261	(991)	(6)%
Total interest-bearing deposits	186,401	185,189	1,212	1 %
Total deposits	264,704	265,053	(349)	—
Borrowed funds				
Federal Home Loan Bank (FHLB) borrowings	19,537	21,037	(1,500)	(7)%
Bank notes and senior debt	28,773	28,062	711	3 %
Subordinated debt	5,121	5,200	(79)	(2)%
Other	4,608	4,789	(181)	(4)%
Total borrowed funds	58,039	59,088	(1,049)	(2)%
Total funding sources	$322,743	$324,141	$(1,398)	—

Total deposits declined slightly in the comparison as growth in interest-bearing deposits was more than offset by decreases in noninterest-bearing deposits.

Noninterest-bearing deposits decreased due to seasonal declines in commercial deposits. Within interest-bearing deposits, savings deposits grew reflecting, in part, a shift from consumer money market to relationship-based savings products, as well as growth in consumer demand deposit balances. The decline in time deposits largely reflected lower certificates of deposit due to the net runoff of maturing accounts.

The decline in borrowed funds in the comparison was primarily due to lower FHLB borrowings, partially offset by growth in bank notes and senior debt, including $2.0 billion issued in January 2018. The level and composition of borrowed funds fluctuates over time based on many factors including market conditions, loan, investment securities and deposit growth, and capital considerations. We manage our borrowed funds to provide a reliable source of liquidity for our banking and other activities, considering LCR and other internal and external guidelines and constraints.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for additional information regarding our 2018 liquidity and capital activities.

Shareholders' Equity

Total shareholders' equity was $47.0 billion at March 31, 2018, a decrease of $.5 billion compared to December 31, 2017. The decrease resulted from common share repurchases of $.7 billion, lower accumulated other comprehensive income (loss) related to net unrealized securities losses of $.6 billion and common and preferred dividends of $.4 billion, partially offset by net income of $1.2 billion.

Common shares outstanding were 470 million and 473 million at March 31, 2018 and December 31, 2017, respectively, as repurchases of 4.8 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

We have four reportable business segments:
- Retail Banking
- Corporate & Institutional Banking
- Asset Management Group
- BlackRock

Business segment results and a description of each business are included in Note 14 Segment Reporting 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 income on a taxable-equivalent basis.

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

Retail Banking
(Unaudited)

Table 10: Retail Banking Table

Three months ended March 31			Change	
Dollars in millions, except as noted	2018	2017	$	%
Income Statement				
Net interest income	$1,218	$1,121	$97	9 %
Noninterest income	635	603	32	5 %
Total revenue	1,853	1,724	129	7 %
Provision for credit losses	69	71	(2)	(3)%
Noninterest expense	1,395	1,315	80	6 %
Pretax earnings	389	338	51	15 %
Income taxes	93	125	(32)	(26)%
Earnings	$296	$213	$83	39 %
Average Balance Sheet				
Loans held for sale	$652	$843	$(191)	(23)%
Loans				
Consumer				
Home equity	$24,608	$25,601	$(993)	(4)%
Automobile	13,105	12,146	959	8 %
Education	4,409	5,131	(722)	(14)%
Credit cards	5,619	5,121	498	10 %
Other	1,765	1,756	9	1 %
Total consumer	49,506	49,755	(249)	(1)%
Commercial and commercial real estate	10,527	11,006	(479)	(4)%
Residential mortgage	13,420	11,688	1,732	15 %
Total loans	$73,453	$72,449	$1,004	1 %
Total assets	$88,734	$87,109	$1,625	2 %
Deposits				
Noninterest-bearing demand	$29,779	$29,010	$769	3 %
Interest-bearing demand	41,939	40,649	1,290	3 %

Money market	32,330	39,321	(6,991)	(18)%
Savings	43,838	35,326	8,512	24 %
Certificates of deposit	12,082	13,735	(1,653)	(12)%
Total deposits	$159,968	$158,041	$1,927	1 %
Performance Ratios				
Return on average assets	1.35 %	.99 %		
Noninterest income to total revenue	34 %	35 %		
Efficiency	75 %	76 %		

Three months ended March 31			Change	
Dollars in millions, except as noted	2018	2017	$	%
Supplemental Noninterest Income Information				
Consumer services	$266	$250	$16	6 %
Brokerage	$86	$76	$10	13 %
Residential mortgage	$97	$113	$(16)	(14)%
Service charges on deposits	$160	$154	$6	4 %
Residential Mortgage Information				
Residential mortgage servicing statistics (in billions, except as noted) (a)				
Serviced portfolio balance (b)	$125	$130	$(5)	(4)%
Serviced portfolio acquisitions	$1	$8	$(7)	(88)%
MSR asset value (b)	$1.3	$1.3	—	—
MSR capitalization value (in basis points) (b)	101	97	4	4 %
Servicing income: (in millions)				
Servicing fees, net (c)	$51	$52	$(1)	(2)%
Mortgage servicing rights valuation, net of economic hedge	$9	$12	$(3)	(25)%
Residential mortgage loan statistics				
Loan origination volume (in billions)	$1.7	$1.9	$(.2)	(11)%
Loan sale margin percentage	2.83 %	2.96 %		
Percentage of originations represented by:				
Purchase volume (d)	56 %	43 %		
Refinance volume	44 %	57 %		
Other Information (b)				
Customer-related statistics (average)				
Non-teller deposit transactions (e)	54 %	52 %		
Digital consumer customers (f)	64 %	61 %		
Credit-related statistics				
Nonperforming assets (g)	$1,131	$1,209	$(78)	(6)%
Net charge-offs	$100	$100	—	—
Other statistics				
ATMs	9,047	8,976	71	1 %
Branches (h)	2,442	2,508	(66)	(3)%
Brokerage account client assets (in billions) (i)	$49	$46	$3	7 %

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

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

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

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

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

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

(g) Includes nonperforming loans of $1.1 billion at both March 31, 2018 and March 31, 2017.

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

(i) Includes cash and money market balances.

Retail Banking earned $296 million in the first three months of 2018 compared with $213 million for the same period in 2017. The increase in earnings was driven by higher net interest and noninterest income, partially offset by an increase in noninterest expense. First quarter 2018 earnings also benefited from the lower statutory federal income tax rate.

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

The increase in noninterest income reflected growth in credit card, brokerage, and debit card fees, higher service charges on deposits and lower negative derivative fair value adjustments related to swap agreements with purchasers of Visa Class B common shares in connection with all prior sales to date. These increases were partially offset by lower residential mortgage loan sales revenue, which reflected compressed pricing margins and lower refinancing origination volume.

Higher noninterest expense primarily resulted from an increase in personnel expense, investments in technology and compliance expense.

Retail Banking continues to enhance the customer experience with refinements to product and service offerings that drive value for consumers and small businesses. We are focused on meeting the financial needs of our customers by providing a broad range of liquidity, banking and investment products.

The deposit strategy of Retail Banking is to remain disciplined on pricing and focused on growing and retaining relationship-based balances, executing on market-specific deposit growth strategies and providing a source of low-cost funding and liquidity to PNC. In the first quarter of 2018, average total deposits increased compared to the same period a year ago, as both interest-bearing and noninterest-bearing deposits increased. Savings deposits grew, reflecting, in part, a shift from money market deposits to relationship-based savings products. Additionally, interest-bearing demand deposits increased, while certificates of deposit declined due to the net runoff of maturing accounts.

Retail Banking average total loans increased in the first quarter of 2018 compared with the first quarter of 2017.

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

Nonperforming assets decreased compared to March 31, 2017 due to declines in both consumer and commercial nonperforming loans.

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

- Approximately 64% of consumer customers used non-teller channels for the majority of their transactions in the first quarter of 2018 compared with 61% in the first quarter of 2017.
- Deposit transactions via ATM and mobile channels increased to 54% of total deposit transactions versus 52% in the comparison.
- Instant debit card issuance, which enables us to print a customer’s debit card in minutes, was available in 91% of our branch network as of March 31, 2018.

Retail Banking continued to make progress on its multi-year initiative to redesign the home lending process by integrating mortgage and home equity lending into a common platform to enhance product capability and improve speed of delivery and convenience.

- We converted home equity loans to the new servicing platform in the first quarter of 2018. Both residential mortgage and home equity loans are now serviced on a single platform.
- We implemented a new mortgage origination system in 2017.

Corporate & Institutional Banking
(Unaudited)

Table 11: Corporate & Institutional Banking Table

Three months ended March 31			Change	
Dollars in millions	2018	2017	$	%
Income Statement				
Net interest income	$882	$839	$43	5 %
Noninterest income	547	524	23	4 %
Total revenue	1,429	1,363	66	5 %
Provision for credit losses	41	25	16	64 %
Noninterest expense	626	584	42	7 %
Pretax earnings	762	754	8	1 %
Income taxes	178	270	(92)	(34)%
Earnings	$584	$484	$100	21 %
Average Balance Sheet				
Loans held for sale	$1,189	$1,116	$73	7 %
Loans				
Commercial	$100,802	$92,116	$8,686	9 %
Commercial real estate	26,732	27,091	(359)	(1)%
Equipment lease financing	7,845	7,497	348	5 %
Total commercial lending	135,379	126,704	8,675	7 %
Consumer	77	331	(254)	(77)%
Total loans	$135,456	$127,035	$8,421	7 %
Total assets	$151,909	$142,592	$9,317	7 %
Deposits				
Noninterest-bearing demand	$45,896	$47,423	$(1,527)	(3)%
Money market	23,406	21,086	2,320	11 %
Other	18,592	15,391	3,201	21 %
Total deposits	$87,894	$83,900	$3,994	5 %
Performance Ratios				
Return on average assets	1.56 %	1.38 %		
Noninterest income to total revenue	38 %	38 %		
Efficiency	44 %	43 %		
Other Information				
Consolidated revenue from: (a)				
Treasury Management (b)	$419	$359	$60	17 %
Capital Markets (b)	$258	$247	$11	4 %
Commercial mortgage banking activities				
Commercial mortgage loans held for sale (c)	$14	$13	$1	8 %
Commercial mortgage loan servicing income (d)	55	58	(3)	(5)%
Commercial mortgage servicing rights valuation, net of economic hedge (e)	4	16	(12)	(75)%
Total	$73	$87	$(14)	(16)%
MSR asset value (f)	$723	$606	$117	19 %
Average Loans by C&IB business				
Corporate Banking	$57,856	$53,839	$4,017	7 %
Real Estate	37,252	37,136	116	—
Business Credit	16,818	14,839	1,979	13 %
Equipment Finance	14,243	12,478	1,765	14 %

Commercial Banking	7,066	7,041	25	—
Other	2,221	1,702	519	30 %
Total average loans	$135,456	$127,035	$8,421	7 %
Credit-related statistics				
Nonperforming assets (f) (g)	$508	$546	$(38)	(7)%
Net charge-offs	$9	$21	$(12)	(57)%

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(a) 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.

(b) Includes amounts reported in net interest income and noninterest income.

(c) Includes other noninterest income for valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, originations fees, gains on sale of loans held for sale and net interest income on loans held for sale.

(d) Includes net interest income and noninterest income (primarily in corporate service fees) from loan servicing net of reduction in commercial mortgage servicing rights due to amortization expense and payoffs. Commercial mortgage servicing rights valuation, net of economic hedge is shown separately.

(e) Amounts reported in corporate service fees.

(f) As of March 31.

(g) Includes nonperforming loans of $.4 billion at both March 31, 2018 and March 31, 2017.

Corporate & Institutional Banking earned $584 million in the first quarter of 2018 compared to $484 million for the same period in 2017. The increase was primarily due to the impact of a lower statutory federal income tax rate and higher revenue, 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 from wider interest rate spreads on the value of deposits, partially offset by narrower interest rate spreads on the value of loans.

Growth in noninterest income in the comparison was primarily driven by higher treasury management fees, increased operating lease income, mainly due to the commercial and vendor finance business acquired in the second quarter of 2017, and higher capital markets-related revenue. These increases were partially offset by a lower benefit from commercial mortgage servicing rights valuation, net of economic hedge, and lower commercial mortgage servicing income mostly due to higher amortization expense as a result of higher interest rates.

The increase in provision for credit losses in the comparison reflected specific reserves for certain nonperforming credits in the first quarter of 2018 and loan growth. Overall, credit quality remained stable, as nonperforming assets and net charge-offs declined in the comparison to the prior year quarter.

Noninterest expense increased in the comparison largely driven by operating expenses related to the acquired business and continued investments in technology and risk management activities.

Average loans increased in the comparison primarily due to strong growth in Corporate Banking, Business Credit and Equipment Finance 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 asset-backed finance securitizations.
- PNC Real Estate provides banking, financing and servicing solutions for commercial real estate clients across the country. Average loans for this business increased slightly as growth in commercial mortgage loans was mostly offset by a decrease in 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 and increased utilization 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 $15.3 billion in the first quarter of 2018, an increase of $2.0 billion in the year over year comparison due to strong new production and the acquisition of the commercial and vendor finance business with $1.0 billion of loans and leases 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 increased slightly as new production outpaced payoffs and maturities.

The deposit strategy of Corporate & Institutional Banking is to remain disciplined on pricing and focused on growing and retaining relationship-based balances over time, executing on customer and segment-specific deposit growth strategies and continuing to provide funding and liquidity to PNC. Average total deposits increased in the first quarter of 2018 compared to the prior year quarter driven by growth in interest-bearing deposits reflecting in part a shift from noninterest-bearing deposits in the rising rate environment. We continue to monitor and balance the relationship between increases to rates paid and overall profitability of our deposit balances.

In 2017, Corporate & Institutional Banking opened offices in Dallas, Kansas City and Minneapolis as part of a multi-year expansion of our middle market banking business. These locations complement national Corporate & Institutional Banking businesses with operations in these cities, and build on past success in the markets where PNC's retail banking presence was limited, such as in the Southeast. We plan to offer our entire suite of commercial products and services. In 2018, similar efforts have begun to expand our middle market business into the Denver, Houston and Nashville markets.

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 quarter of 2017, 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 underwriting, 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 foreign exchange, loan syndications, underwriting and merger and acquisition advisory fees, partially offset by lower fixed income revenue.

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 in the comparison primarily due to a lower benefit from commercial mortgage servicing rights valuation, net of economic hedge.

Asset Management Group
(Unaudited)

Table 12: Asset Management Group Table

Three months ended March 31			Change	
Dollars in millions, except as noted	2018	2017	$	%
Income Statement				
Net interest income	$74	$71	$3	4 %
Noninterest income	226	218	8	4 %
Total revenue	300	289	11	4 %
Provision for credit losses (benefit)	(7)	(2)	(5)	*
Noninterest expense	218	217	1	—
Pretax earnings	89	74	15	20 %
Income taxes	21	27	(6)	(22)%
Earnings	$68	$47	$21	45 %
Average Balance Sheet				
Loans				
Consumer	$4,785	$5,113	$(328)	(6)%
Commercial and commercial real estate	733	728	5	1 %
Residential mortgage	1,517	1,190	327	27 %
Total loans	$7,035	$7,031	$4	—
Total assets	$7,499	$7,476	$23	—
Deposits				
Noninterest-bearing demand	$1,466	$1,433	$33	2 %
Interest-bearing demand	3,540	3,829	(289)	(8)%
Money market	2,577	3,500	(923)	(26)%
Savings	4,613	3,768	845	22 %
Other	305	246	59	24 %
Total deposits	$12,501	$12,776	$(275)	(2)%
Performance Ratios				
Return on average assets	3.68 %	2.55 %		
Noninterest income to total revenue	75 %	75 %		
Efficiency	73 %	75 %		
Supplemental Noninterest Income Information				
Asset management fees	$222	$215	$7	3 %
Other Information				
Nonperforming assets (a) (b)	$52	$51	$1	2 %
Net charge-offs	$6	$1	$5	*
Client Assets Under Administration (in billions) (a) (c)				
Discretionary client assets under management	$148	$141	$7	5 %
Nondiscretionary client assets under administration	129	123	6	5 %
Total	$277	$264	$13	5 %
Discretionary client assets under management				
Personal	$92	$87	$5	6 %
Institutional	56	54	2	4 %
Total	$148	$141	$7	5 %

* - Not meaningful

(a) As of March 31.

(b) Includes nonperforming loans of $47 million and $45 million at March 31, 2018 and March 31, 2017, respectively.

(c) Excludes brokerage account client assets.

Asset Management Group earned $68 million in the first quarter of 2018 and $47 million in the first quarter of 2017. Earnings increased due to higher noninterest income and net interest income, as well as an increased benefit from the provision for credit losses. First quarter 2018 earnings also benefited from the lower statutory federal income tax rate.

Higher net interest income in the comparison was due to wider interest rate spreads on the value of deposits, partially offset by declines in loan balances and narrower interest rate spreads on the value of loans. Higher noninterest income reflected growth in asset management fees driven by stronger average equity markets.

Asset Management Group's discretionary client assets under management increased in the comparison to the prior year, primarily attributable to higher equity markets as of March 31, 2018.

The Asset Management Group strives to be the leading relationship-based provider of investment, planning, banking and fiduciary services to wealthy individuals and institutions by proactively delivering value-added ideas and solutions and exceptional service.
Wealth Management and Hawthorn have nearly 100 offices operating in seven out of the ten most affluent states in the U.S., with a majority co-located with retail banking branches. The businesses provide customized investments, wealth planning, trust and estate administration and private banking solutions to affluent individuals and ultra-affluent families.

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

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

Table 13: BlackRock Table

Three months ended March 31		
Dollars in millions	2018	2017
Business segment earnings (a)	$197	$145
PNC's economic interest in BlackRock (b)	22 %	22 %

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

In billions	March 31 2018	December 31 2017
Carrying value of our investment in BlackRock (c)	$7.7	$7.7
Market value of our investment in BlackRock (d)	$18.8	$17.9

(c) We account for our investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $1.6 billion at both March 31, 2018 and December 31, 2017. Our voting interest in BlackRock common stock was approximately 21% at March 31, 2018.
(d) Does not include liquidity discount.

Earnings for our BlackRock segment increased compared with the first three months of 2017, and included the impact of the lower statutory federal income tax rate.

In addition to our investment in BlackRock reflected in Table 13, at March 31, 2018, we held 143,458 shares of BlackRock Series C Preferred Stock valued at $62 million, which are available to fund our obligation in connection with certain BlackRock long-term incentive plan (LTIP) programs.

On January 31, 2018, we transferred 103,064 shares of 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 $42 million, representing the fair value of the shares transferred.

Our 2017 Form 10-K includes additional information about our investment in BlackRock.

RISK MANAGEMENT

The Risk Management section included in Item 7 of our 2017 Form 10-K describes our enterprise risk management framework including risk culture, enterprise strategy, risk governance and framework, risk identification, risk assessment, risk controls and monitoring, and risk aggregation and reporting. Additionally, our 2017 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 2017 Form 10-K risk management disclosures.

Credit Risk Management

See the Credit Risk Management portion of the Risk Management section in our 2017 Form 10-K for additional discussion regarding credit risk.

Loan Portfolio Characteristics and Analysis

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

Commercial
Commercial loans comprised 51% and 50% of our total loan portfolio at March 31, 2018 and December 31, 2017, respectively. Most of our commercial loans are secured by collateral that provides a secondary source of repayment for the loan should the borrower experience cash generation difficulties. Examples of this collateral include short-term assets, such as accounts receivable, inventory and securities, and long-lived assets, such as equipment, real estate and other business assets.

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

Table 15: Commercial Loans by Industry

	March 31, 2018		December 31, 2017	
Dollars in millions	Amount	% of Total	Amount	% of Total
Commercial				
Manufacturing	$21,367	19 %	$20,578	19 %
Retail/wholesale trade	18,232	16	17,846	16
Service providers	14,554	13	15,100	14
Real estate related (a)	12,701	11	12,496	11
Health care	9,937	9	9,739	9
Financial services	9,479	8	8,532	8
Transportation and warehousing	5,488	5	5,609	5
Other industries	20,550	19	20,627	18
Total commercial loans	$112,308	100%	$110,527	100%

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

Commercial Real Estate

Commercial real estate loans comprised $15.0 billion of real estate project loans and $13.8 billion related to commercial mortgages as of March 31, 2018. Comparable amounts were $15.3 billion and $13.7 billion, respectively, as of December 31, 2017. Our recent experience is that the competition for commercial real estate loans has become more aggressive in pricing and structure and is, at times, outside of our risk tolerance. As payoffs and maturities continue at a steady pace, the balance of our commercial real estate portfolio may decline.

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

Table 16: Commercial Real Estate Loans by Geography

	March 31, 2018		December 31, 2017	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography				
California	$4,239	15 %	$4,192	14 %
Florida	2,263	8	2,221	8
Maryland	2,116	7	2,104	7
Virginia	1,667	6	1,609	5
Texas	1,592	5	1,639	6
Pennsylvania	1,382	5	1,394	5
Illinois	1,333	5	1,325	5
New York	1,183	4	1,163	4
Ohio	1,149	4	1,134	4
New Jersey	972	3	964	3
All other states	10,939	38	11,233	39
Total commercial real estate loans	$28,835	100%	$28,978	100%

Home Equity

Home equity loans comprised $16.4 billion of primarily variable-rate home equity lines of credit and $11.3 billion of closed-end home equity installment loans at March 31, 2018. Comparable amounts were $16.8 billion and $11.6 billion, respectively, as of December 31, 2017.

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

analysis and monitoring, we also segment the portfolio based upon the loan delinquency, nonperforming status, modification and bankruptcy status, FICO scores, LTV, lien position and geographic concentration.

The portfolio is primarily originated within our primary geographic markets, with only 5% of the portfolio in states outside of those markets at both March 31, 2018 and December 31, 2017. The credit quality of newly originated loans over the last twelve months was strong overall as evidenced by a weighted-average LTV on originations of 67% and a weighted-average FICO score of 776.

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

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

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

	March 31, 2018		December 31, 2017	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography				
Pennsylvania	$6,602	24 %	$6,792	24 %
New Jersey	4,172	15	4,252	15
Ohio	3,316	12	3,413	12
Illinois	1,755	6	1,801	6
Maryland	1,544	6	1,572	6
Michigan	1,414	5	1,442	5
Florida	1,245	5	1,255	4
North Carolina	1,236	4	1,266	5
Kentucky	1,111	4	1,138	4
Indiana	895	3	924	3
All other states	4,409	16	4,509	16
Total home equity loans	$27,699	100%	$28,364	100%
Lien type				
1st lien		58 %		58 %
2nd lien		42		42
Total home equity loans		100%		100%

Residential Real Estate

Residential real estate loans primarily consisted of residential mortgage loans at both March 31, 2018 and December 31, 2017.

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

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

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

Table 18: Residential Real Estate Loans by Geography

	March 31, 2018		December 31, 2017	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography				
California	$3,858	22 %	$3,676	21 %
New Jersey	1,538	9	1,503	9
Florida	1,533	9	1,529	9
Illinois	1,206	7	1,230	7
Pennsylvania	965	5	962	5
Maryland	903	5	902	5
New York	862	5	847	5
North Carolina	831	5	821	5
Virginia	822	5	824	5
Ohio	678	4	684	4
All other states	4,260	24	4,234	25
Total residential real estate loans	$17,456	100%	$17,212	100%

We originate residential mortgage loans nationwide through our national mortgage business as well as within our branch network. Residential mortgage loans underwritten to government agency standards, including conforming loan amount limits, are typically sold with servicing retained by us. We also originate nonconforming residential mortgage loans that do not meet government agency standards, which we retain on our balance sheet. Growth in residential mortgage loans in the first quarter of 2018 was primarily due to nonconforming loans that exceeded agency conforming loan limits. Our portfolio of nonconforming residential mortgage loans totaled $10.9 billion at March 31, 2018, with 27% located in California. The nonconforming residential mortgage portfolio had strong credit quality at March 31, 2018 with an average original LTV of 70% and an average original FICO score of 771.

Automobile

Within auto loans, $11.8 billion resided in the indirect auto portfolio while $1.5 billion were in the direct auto portfolio as of March 31, 2018. Comparable amounts as of December 31, 2017 were $11.4 billion and $1.4 billion, respectively, and also included $.1 billion of securitized loans. The indirect auto portfolio relates to loan applications generated from franchised automobile dealers. This business is strategically aligned with our core retail business.

We continue to focus on borrowers with strong credit profiles as evidenced by a weighted-average loan origination FICO score over the last twelve months of 743 for indirect auto loans and 766 for direct auto loans. The weighted-average term of loan originations over the last twelve months was 73 months for indirect auto loans and 62 months for direct auto loans. We offer both new and used automobile financing to customers through our various channels. At March 31, 2018, the portfolio was composed of 53% new vehicle loans and 47% used vehicle loans. Comparable amounts were 54% and 46% at December 31, 2017, respectively.

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

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets

Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming troubled debt restructurings (TDRs), other real estate owned (OREO), 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 2017 Form 10-K. A summary of the major categories of nonperforming assets are presented in Table 19. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further detail of nonperforming asset categories.

Table 19: Nonperforming Assets by Type

Dollars in millions	March 31, 2018	December 31, 2017	Change $	Change %
Nonperforming loans				
Commercial lending	$537	$554	$(17)	(3)%
Consumer lending (a)	1,305	1,311	(6)	—
Total nonperforming loans	1,842	1,865	(23)	(1)%
OREO, foreclosed and other assets	162	170	(8)	(5)%
Total nonperforming assets	$2,004	$2,035	$(31)	(2)%
Amount of TDRs included in nonperforming loans	$939	$964	$(25)	(3)%
Percentage of total nonperforming loans	51 %	52 %		
Nonperforming loans to total loans	.83 %	.85 %		
Nonperforming assets to total loans, OREO, foreclosed and other assets	.90 %	.92 %		
Nonperforming assets to total assets	.53 %	.53 %		
Allowance for loan and lease losses to total nonperforming loans	141 %	140 %		

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

Table 20: Change in Nonperforming Assets

In millions	2018	2017
January 1	$2,035	$2,374
New nonperforming assets	249	330
Charge-offs and valuation adjustments	(137)	(150)
Principal activity, including paydowns and payoffs	(81)	(228)
Asset sales and transfers to loans held for sale	(29)	(42)
Returned to performing status	(33)	(72)
March 31	$2,004	$2,212

As of March 31, 2018, approximately 87% of total nonperforming loans were secured by collateral which lessened reserve requirements and is expected to reduce credit losses in the event of default. As of March 31, 2018, 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 Allowance for loan and lease losses (ALLL).

Within consumer nonperforming loans, residential real estate TDRs comprise 74% of total residential real estate nonperforming loans at March 31, 2018, down from 75% at December 31, 2017. Home equity TDRs comprise 50% of home equity nonperforming loans at both March 31, 2018 at December 31, 2017. TDRs generally remain in nonperforming status until a borrower has made at least six consecutive months of both principal and interest payments under the modified terms or ultimate resolution occurs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to us and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status.

At March 31, 2018, our largest nonperforming asset was $41 million in the Wholesale Trade industry and the ten largest individual nonperforming assets represented 12% of total nonperforming assets.

Loan Delinquencies

We regularly monitor the level of loan delinquencies and believe these levels may be a key indicator of loan portfolio asset quality. Measurement of delinquency status is based on the contractual terms of each loan. Loans that are 30

days or more past due in terms of payment are considered delinquent. Loan delinquencies exclude loans held for sale and purchased impaired loans, but include government insured or guaranteed loans and loans accounted for under the fair value option.

Table 21: Accruing Loans Past Due (a)

Dollars in millions	Amount				Percentage of Total Loans Outstanding	
	March 31 2018	December 31 2017	Change $	Change %	March 31 2018	December 31 2017
Early stage loan delinquencies						
Accruing loans past due 30 to 59 days	$527	$ 545	$(18)	(3)%	.24 %	.25 %
Accruing loans past due 60 to 89 days	234	238	(4)	(2)%	.11 %	.11 %
Total	761	783	(22)	(3)%	.34 %	.36 %
Late stage loan delinquencies						
Accruing loans past due 90 days or more	628	737	(109)	(15)%	.28 %	.33 %
Total	$1,389	$ 1,520	$(131)	(9)%	.63 %	.69 %

(a) Past due loan amounts include government insured or guaranteed loans of $.8 billion at March 31, 2018 and $.9 billion at December 31, 2017.

Accruing loans past due 90 days or more decreased at March 31, 2018 compared to December 31, 2017 primarily driven by a decline in government insured residential real estate loans. Accruing loans past due 90 days or more are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral and are in the process of collection, or are managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines, or are certain government insured or guaranteed loans.

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.

A temporary modification, with a term up to 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 generally result in principal forgiveness, interest rate reduction, term extension, capitalization of past due amounts, interest-only period or deferral of principal.

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 22 provides the number of accounts and unpaid principal balance of modified consumer real estate related loans as of each date presented.

Table 22: Consumer Real Estate Related Loan Modifications

Dollars in millions	March 31, 2018		December 31, 2017	
	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance

Temporary modifications	2,890	$ 203	3,033	$ 217
Permanent modifications	22,989	2,530	23,270	2,581
Total consumer real estate related loan modifications	25,879	$ 2,733	26,303	$ 2,798

Commercial Loan Modifications

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.

Troubled Debt Restructurings

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

Table 23: Summary of Troubled Debt Restructurings (a)

Dollars in millions	March 31 2018	December 31 2017	Change $	Change %
Total commercial lending	$384	$ 409	$(25)	(6)%
Total consumer lending	1,608	1,652	(44)	(3)%
Total TDRs	$1,992	$ 2,061	$(69)	(3)%
Nonperforming	$939	$ 964	$(25)	(3)%
Accruing (b)	1,053	1,097	(44)	(4)%
Total TDRs	$1,992	$ 2,061	$(69)	(3)%

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

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

Excluded from TDRs are $1.2 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, 2018 and December 31, 2017. Nonperforming TDRs represented approximately 51% and 52% of total nonperforming loans at March 31, 2018 and December 31, 2017, respectively, and 47% of total TDRs at both March 31, 2018 and December 31, 2017. 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.

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

We maintain an ALLL to absorb losses from the loan and lease portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan and lease portfolio. Our total ALLL of $2.6 billion at March 31, 2018 consisted of $1.6 billion and $1.0 billion established for the commercial lending and consumer lending categories, respectively. We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolio as of the balance sheet date. The reserve calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan and lease portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions are periodically updated.

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

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

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

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

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

- Industry concentrations and conditions,
- 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 carryover or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At March 31, 2018, we had established reserves of $.3 billion for purchased impaired loans. In addition, loans (purchased impaired and non-impaired) acquired after January 1, 2009 were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at the date of acquisition.

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

See Note 1 Accounting Policies in our 2017 Form 10-K and Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further information on certain key asset quality indicators that we use to evaluate our portfolios and establish the allowances.

Table 24: Allowance for Loan and Lease Losses

Dollars in millions	2018	2017
January 1	$2,611	$2,589
Total net charge-offs	(113)	(118)
Provision for credit losses	92	88
Net decrease / (increase) in allowance for unfunded loan commitments and letters of credit	7	(4)
Other	7	6
March 31	$2,604	$2,561
Net charge-offs to average loans (for the three months ended) (annualized)	.21%	.23%
Total allowance for loan and lease losses to total loans	1.18%	1.20%
Commercial lending net charge-offs	$(10)	$(23)
Consumer lending net charge-offs	(103)	(95)
Total net charge-offs	$(113)	$(118)
Net charge-offs to average loans (for the three months ended) (annualized)		
Commercial lending	.03%	.07%
Consumer lending	.57%	.53%

At March 31, 2018, total ALLL to total nonperforming loans was 141%. The comparable amount for December 31, 2017 was 140%. These ratios are 101% and 102% when excluding the $.7 billion of ALLL at both March 31, 2018

and December 31, 2017 allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded these amounts from ALLL in these ratios as these asset classes are not included in nonperforming loans. See Table 19 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 2018, overall credit quality remained stable, which resulted in an essentially flat ALLL balance as of March 31, 2018 compared to December 31, 2017.

The following table summarizes our loan charge-offs and recoveries.

Table 25: 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)
2018				
Commercial	$ 28	$ 16	$ 12	.04 %
Commercial real estate	6	6		
Equipment lease financing	2	4	(2)	(.10)%
Home equity	28	21	7	.10 %
Residential real estate	2	4	(2)	(.05)%
Credit card	56	6	50	3.60 %
Other consumer				
Automobile	38	17	21	.65 %
Education	9	2	7	.64 %
Other	24	4	20	1.85 %
Total	$ 193	$ 80	$ 113	.21 %
2017				
Commercial	$ 53	$ 24	$ 29	.11 %
Commercial real estate	1	7	(6)	(.08)%
Equipment lease financing	1	1		
Home equity	34	20	14	.19 %
Residential real estate	4	4		
Credit card	46	5	41	3.24 %
Other consumer				
Automobile	30	13	17	.56 %
Education	7	2	5	.40 %
Other	22	4	18	1.64 %
Total	$ 198	$ 80	$ 118	.23 %

See Note 1 Accounting Policies in our 2017 Form 10-K and Note 4 Allowance for Loan and Lease Losses in the Notes To Consolidated Financial Statements in this Report for additional information on the ALLL.

Liquidity and Capital Management

Liquidity risk, including our liquidity monitoring measures and tools, is described in further detail in the Liquidity and Capital Management section of our 2017 Form 10-K.

One of the ways we monitor our 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 hypothetical 30-day stress scenario. The LCR is calculated by dividing the amount of an institution's high quality, unencumbered liquid assets (HQLA), as defined and calculated in accordance with the LCR rules, by its estimated net cash outflows, with net cash outflows determined by applying the assumed outflow factors in the LCR rules. The resulting quotient is expressed as a percentage. The minimum LCR that PNC and PNC Bank are required to maintain is 100% in 2018. PNC and PNC Bank calculate the LCR daily, and as of March 31, 2018, the LCR for PNC and PNC Bank exceeded the requirement of 100%.

We provide additional information regarding regulatory liquidity requirements and their potential impact on us in the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors of our 2017 Form 10-K.

Sources of Liquidity

Our largest source of liquidity on a consolidated basis is the customer deposit base generated by our banking businesses. These deposits provide relatively stable and low-cost funding. Total deposits decreased to $264.7 billion at March 31, 2018 from $265.1 billion at December 31, 2017, driven by decreases in noninterest-bearing deposits, partially offset by growth in interest-bearing deposits. See the Funding Sources portion of the Consolidated Balance Sheet Review section of this Financial Review for additional information related to our deposits. Additionally, certain assets determined by us to be liquid and unused borrowing capacity from a number of sources are also available to manage our liquidity position.

At March 31, 2018, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling $32.7 billion and securities available for sale totaling $56.0 billion. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and balance sheet management activities. Our liquid assets included $3.3 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, $5.0 billion of securities held to maturity were also pledged as collateral for these purposes.

We also obtain liquidity through various forms of funding, including long-term debt (senior notes, subordinated debt and FHLB borrowings) and short-term borrowings (securities sold under repurchase agreements, commercial paper and other short-term borrowings). See Note 10 Borrowed Funds in our 2017 Form 10-K and the Funding Sources section of the Consolidated Balance Sheet Review for additional information related to our borrowings.

Total senior and subordinated debt, on a consolidated basis, increased due to the following activity:

Table 26: Senior and Subordinated Debt

In billions	2018
January 1	$33.3
Issuances	2.0
Calls and maturities	(1.0)
Other	(0.4)
March 31	$33.9

Bank Liquidity

Under PNC Bank’s 2014 bank note program, as amended, PNC Bank may from time to time offer up to $40.0 billion aggregate principal amount outstanding at any one time of its unsecured senior and subordinated notes with maturity dates more than nine months (in the case of senior notes) and five years or more (in the case of subordinated notes) from their date of issue. At March 31, 2018, PNC Bank had $27.7 billion of notes outstanding under this program of which $24.1 billion were senior bank notes and $3.6 billion were subordinated bank notes. The following table details issuances for the three months ended March 31, 2018.

Table 27: PNC Bank Notes Issued During First Quarter 2018

Issuance Date	Amount	Description of Issuance
January 22, 2018	$900 million	Senior notes with a maturity date of January 22, 2021. Interest is payable semi-annually at a fixed rate of 2.500% per annum on January 22 and July 22 of each year, beginning July 22, 2018.
January 22, 2018	$700 million	Senior notes with a maturity date of January 22, 2028. Interest is payable semi-annually at a fixed rate of 3.250% per annum on January 22 and July 22 of each year, beginning July 22, 2018.
January 22, 2018	$400 million	Floating rate senior notes with a maturity date of January 22, 2021. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .25% on January 22, April 22, July 22 and October 22 of each year, beginning on April 22, 2018.

PNC Bank maintains additional secured borrowing capacity with the FHLB-Pittsburgh and through the Federal Reserve Bank discount window. The Federal Reserve Bank, however, is not viewed as a primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. At March 31, 2018, our unused secured borrowing capacity at the FHLB-Pittsburgh and the Federal Reserve Bank totaled $44.6 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, 2018, there were no issuances outstanding under this program.

Parent Company Liquidity

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

As of March 31, 2018, available parent company liquidity totaled $5.9 billion. Parent company liquidity is primarily held in intercompany short-term investments, the terms of which provide for the availability of cash in 31 days or less. Investments with longer durations may also be acquired, but if so, the related maturities are aligned with scheduled cash needs, such as the maturity of parent company debt obligations.

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

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

There are statutory and regulatory limitations on the ability of a national bank to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. The amount available for dividend payments by PNC Bank to the parent company without prior regulatory approval was approximately $1.4 billion at March 31, 2018. See Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements in our 2017 Form 10-K for a further discussion of these limitations.

In addition to dividends from PNC Bank, other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. We can also generate liquidity for the parent company and PNC's non-bank subsidiaries through the issuance of debt and equity securities, including certain capital instruments, in public or private markets and commercial paper. The parent company has the ability to offer up to $5.0 billion of commercial paper to provide additional liquidity. As of March 31, 2018, there were no commercial paper issuances outstanding.

The parent company has an effective shelf registration statement pursuant to which we can issue additional debt, equity and other capital instruments.

Parent company senior and subordinated debt outstanding totaled $6.8 billion at both March 31, 2018 and December 31, 2017.

Contractual Obligations and Commitments

We have contractual obligations representing required future payments on borrowed funds, time deposits, leases, pension and postretirement benefits and purchase obligations. See the Liquidity and Capital Management portion of the Risk Management section in our 2017 Form 10-K for more information on these future cash outflows. Additionally, in the normal course of business we have various commitments outstanding, certain of which are not included on our Consolidated Balance Sheet. We provide information on our commitments in Note 13 Commitments in the Notes To Consolidated Financial Statements of this Report.

Credit Ratings

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

In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current legislative and regulatory environment, including implied government support. In addition, rating agencies themselves have been subject to scrutiny arising from the most recent financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes. Potential changes in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above, could impact our liquidity and financial condition. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect liquidity and financial condition.

Table 28: Credit Ratings as of March 31, 2018 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

Capital Management

Detailed information on our capital management processes and activities, including additional information on our previous CCAR submissions and capital plans, is included in the Capital Management portion of the Risk Management section in our 2017 Form 10-K.

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

In connection with the capital plan accepted by the Federal Reserve as part of our 2017 CCAR submission, we repurchased 4.8 million common shares for $.7 billion in the first quarter of 2018 as part of our common stock repurchase programs for the four quarter period ending June 30, 2018. PNC has repurchased a total of 12.7 million shares for $1.8 billion under current share repurchase programs as of March 31, 2018.

We paid dividends on common stock of $.4 billion, or 75 cents per common share, during the first quarter of 2018. On April 4, 2018, the PNC Board of Directors declared a quarterly common stock cash dividend of 75 cents per share with a payment date of May 5, 2018.

Table 29: Basel III Capital

Dollars in millions	Basel III March 31, 2018 (a) (b)	Fully Phased-In Basel III (Non-GAAP) December 31, 2017 (c)	2017 Transitional Basel III December 31, 2017 (a)
Common equity Tier 1 capital			
Common stock plus related surplus, net of treasury stock	$7,416	$8,195	$8,195
Retained earnings	36,265	35,481	35,481
Accumulated other comprehensive income for securities currently and those transferred from available for sale	(151)	337	270
Accumulated other comprehensive income for pension and other postretirement plans	(494)	(544)	(436)
Goodwill, net of associated deferred tax liabilities	(9,028)	(8,988)	(8,988)
Other disallowed intangibles, net of deferred tax liabilities	(315)	(319)	(255)
Other adjustments/(deductions)	(121)	(141)	(138)
Total common equity Tier 1 capital before threshold deductions	33,572	34,021	34,129
Total threshold deductions (d)	(3,272)	(2,928)	(1,983)
Common equity Tier 1 capital	30,300	31,093	32,146
Additional Tier 1 capital			
Preferred stock plus related surplus	3,986	3,985	3,985
Other adjustments/(deductions)	(148)	(146)	(124)
Tier 1 capital	34,138	34,932	36,007
Additional Tier 2 capital			
Qualifying subordinated debt	3,324	3,433	3,482
Trust preferred capital securities	80		100
Eligible credit reserves includable in Tier 2 capital	2,893	2,907	2,907
Total Basel III capital	$40,435	$41,272	$42,496
Risk-weighted assets			
Basel III standardized approach risk-weighted assets (e)	$314,922	$316,120	$309,460
Basel III advanced approaches risk-weighted assets (f)	$280,385	$285,226	N/A
Average quarterly adjusted total assets	$364,242	$363,967	$364,999
Supplementary leverage exposure (g)	$433,233	$434,698	$435,731
Basel III risk-based capital and leverage ratios			
Common equity Tier 1 (i)	9.6%	9.8% (h)	10.4%
Tier 1 (j)	10.8%	11.1% (h)	11.6%
Total (k) (l) (m)	12.8%	13.1% (h)	13.7%
Leverage (n)	9.4%	9.6%	9.9%
Supplementary leverage ratio (o)	7.9%	8.0%	8.3%

(a) All ratios are calculated using the regulatory capital methodology applicable to PNC during each period presented and calculated based on the standardized approach.

(b) The Basel III Common equity Tier 1 capital, Tier 1 risk-based capital, Leverage and Supplementary ratios as of March 31, 2018 reflect the full phase-in of all Basel III adjustments to these metrics applicable to PNC.

(c) 2017 Fully Phased-In Basel III results are presented as Pro forma estimates.

(d) Under the Basel III rules, certain items such as significant common stock investments in unconsolidated financial institutions (primarily BlackRock), mortgage servicing rights and deferred tax assets must be deducted from capital (subject to a phase-in schedule that ended December 31, 2017 and net of associated deferred tax liabilities) to the extent they individually exceed 10%, or in the aggregate exceed 15%, of PNC's adjusted common equity Tier 1

capital.

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

(f) Basel III advanced approaches risk-weighted assets are calculated based on the Basel III advanced approaches rules, and include credit, market, and operational risk-weighted assets. During the parallel run qualification phase, PNC has refined the data, models, and internal processes used as part of the advanced approaches for determining risk-weighted assets. We anticipate additional refinements to this calculation 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 ratios based on Basel III standardized approach risk-weighted assets and rules.

(i) For comparative purposes only, the advanced approaches Basel III Common equity Tier 1 capital ratio for March 31, 2018 is 10.8% and for December 31, 2017 is 10.9% (estimated). This capital ratio is calculated using Common equity Tier 1 capital and dividing by Basel III advanced approaches risk-weighted assets.

(j) For comparative purposes only, the advanced approaches Basel III Tier 1 risk-based capital ratio for March 31, 2018 is 12.2% and for December 31, 2017 is 12.2% (estimated). This capital ratio is calculated using Tier 1 capital and dividing by Basel III advanced approaches risk-weighted assets.

(k) For comparative purposes only, the advanced approaches Basel III Total capital risk-based capital ratio for March 31, 2018 is 13.5% and for December 31, 2017 is 13.5% (estimated). This ratio is calculated using Total Basel III capital, which under the advanced approaches, Additional Tier 2 capital includes allowance for loan and lease losses in excess of Basel expected credit losses, if any, up to 0.6% of credit risk-weighted assets, and dividing by Basel III advanced approaches risk-weighted assets.

(l) The Basel III total risk-based capital ratio includes $80 million of nonqualifying trust preferred capital securities that are subject to a phase-out period that runs through 2022.

(m) For comparative purposes only, as of March 31, 2018 the ratio is 12.8%, assuming nonqualifying trust preferred capital securities are phased out.

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

(o) Supplementary leverage ratio is calculated based on Tier 1 capital divided by Supplementary leverage exposure. As advanced approaches banking organizations, PNC and PNC Bank became subject to a 3% minimum supplementary leverage ratio effective January 1, 2018.

The decline in our Basel III Common equity Tier 1 capital ratio at March 31, 2018 compared to December 31, 2017 was driven by a decline in AOCI related to the impact of higher interest rates on the valuation of our available for sale securities portfolio.

Because PNC remains in the parallel run qualification phase for the advanced approaches, our regulatory risk-based capital ratios in 2018 and 2017 are calculated using the standardized approach for determining risk-weighted assets. Under the standardized approach for determining credit risk-weighted assets, exposures are generally assigned a pre-defined risk weight. Exposures to high volatility commercial real estate, past due exposures and equity exposures are generally subject to higher risk weights than other types of exposures. Once we exit parallel run, our regulatory risk-based capital ratios will be the lower of the ratios calculated under the standardized approach and the advanced approaches.

Under the Basel III rules applicable to PNC, significant common stock investments in unconsolidated financial institutions (primarily BlackRock), mortgage servicing rights and deferred tax assets must be deducted from capital (subject to a phase-in schedule that ended December 31, 2017 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 that ended December 31, 2017) accumulated other comprehensive income related to securities currently and previously held as available for sale, as well as pension and other postretirement plans. With the exception of certain nonqualifiying trust preferred capital securities included in PNC’s Total risk-based capital, the transitions and multi-year phase-in of the definition of capital under the Basel III rules were complete as of January 1, 2018. Accordingly, we refer to the capital ratios calculated using the definition of capital in effect as of January 1, 2018 and, for the risk-based ratios, standardized approach risk-weighted assets, as the Basel III ratios. The Basel III Total risk-based capital includes trust preferred capital securities in the amount of $80 million that are subject to a phase-out that runs through 2022. We refer to the capital ratios calculated using the phased-in Basel III provisions in effect for 2017 and, for the risk-based ratios, standardized approach risk-weighted assets, as the 2017 Transitional Basel III ratios. All current period capital ratios are calculated using the regulatory capital methodology applicable to us during 2018.

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 (BHCs), including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet the credit needs of their customers through estimated stress scenarios. We seek to manage our capital consistent with these regulatory principles, and believe that our March 31, 2018 capital levels were aligned with them.

At March 31, 2018, PNC and PNC Bank, our sole bank subsidiary, were both considered “well capitalized,” based on applicable U.S. regulatory capital ratio requirements. To qualify as “well capitalized”, PNC must have Basel III capital ratios of at least 6% for Tier 1 risk-based capital and 10% for Total risk-based capital, and PNC Bank must have Basel III capital ratios of at least 6.5% for Common equity Tier 1 risk-based capital, 8% for Tier 1 risk-based capital, 10% for Total risk-based capital and a Leverage ratio of at least 5%.

We provide additional information regarding regulatory capital requirements and some of their potential impacts on us in the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors and Note 18 Regulatory Matters in our 2017 Form 10-K. See the Statistical Information (Unaudited) section of this Report for details on our March 31, 2017 Transitional Basel III and Fully Phased-In Basel III Common equity Tier 1 capital ratios.

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.

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 of Directors.

Market Risk Management – Interest Rate Risk

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

The interest rates that we pay on customer deposits have risen in recent quarters, in part as a result of higher short-term interest rates. The rates paid on commercial deposits have had a higher correlation to the increase in short-term interest rates, as compared to the rates paid on consumer deposits. The rates paid on customer deposits are impacted by many factors including the level of interest rates, competition for deposits, new product offerings, and changes in business strategies. During the remainder of 2018, we anticipate that the rates paid on our consumer deposits will have a higher correlation to changes in short-term in interest rates.

A portion of our loans are indexed to one-month LIBOR, while the majority of our wholesale borrowings are indexed to three-month LIBOR. During the first quarter of 2018, the spread between three-month LIBOR and one-month LIBOR widened, resulting in a compression of net interest income and margin from what would have otherwise been recognized had the spread remained unchanged.

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

Sensitivity results and market interest rate benchmarks for the first quarters of 2018 and 2017 follow:

Table 30: Interest Sensitivity Analysis

	First Quarter 2018	First Quarter 2017
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	2.5%	2.5%
100 basis point decrease	(3.1)%	(4.5)%
Effect on net interest income in second year from gradual interest rate change over the		

preceding 12 months of:				
100 basis point increase	4.3	%	4.0	%
100 basis point decrease	(7.0	)%	(8.8	)%
Duration of Equity Model (a)				
Base case duration of equity (in years)	(.7	)	(2.3	)
Key Period-End Interest Rates				
One-month LIBOR	1.88	%	.98	%
Three-month LIBOR	2.31	%	1.15	%
Three-year swap	2.66	%	1.81	%

(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 31 reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist's most likely rate forecast, (ii) implied market forward rates and

(iii) yield curve slope flattening (a 100 basis point yield curve slope flattening between one-month and ten-year rates superimposed on current base rates) scenario.

Table 31: Net Interest Income Sensitivity to Alternative Rate Scenarios (First Quarter 2018)

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	.7%	1.8%	(.8)%
Second year sensitivity	1.3%	.4%	(3.5)%

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 30 and 31. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates.

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

Table 32: Alternate Interest Rate Scenarios: One Year Forward

The first quarter 2018 interest sensitivity analyses indicate that our Consolidated Balance Sheet is positioned to benefit from an increase in interest rates and an upward sloping interest rate yield curve. We believe that we have the deposit funding base and balance sheet flexibility to adjust, where appropriate and permissible, to changing interest rates and market conditions.

Market Risk Management – Customer-Related Trading Risk

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

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in customer-related trading activities. VaR is used to estimate the probability of portfolio losses based on the statistical analysis of historical market risk factors. A diversified VaR reflects empirical correlations across different asset classes. We calculate a diversified VaR at a 95% confidence interval and the results for the first three months of 2018 and 2017 were within our acceptable limits.

See the Market Risk Management – Customer-Related Trading Risk section of our 2017 Form 10-K for more information on our models used to calculate VaR and our backtesting process.

Customer related trading revenue was $77 million for the first quarter of 2018 compared to $68 million for the first quarter of 2017. The increase was primarily due to higher foreign exchange client sales revenues.

Market Risk Management – Equity And Other Investment Risk

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

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

A summary of our equity investments follows:

Table 33: Equity Investments Summary

Dollars in millions	March 31 2018	December 31 2017	Change $	Change %
BlackRock	$7,642	$ 7,576	$66	1 %
Tax credit investments	2,071	2,148	(77)	(4)%
Private equity and other	2,295	1,668	627	38 %
Total	$12,008	$ 11,392	$616	5 %

BlackRock

We owned approximately 35 million common stock equivalent shares of BlackRock equity at March 31, 2018, accounted for under the equity method. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

Tax Credit Investments

Included in our equity investments are direct tax credit investments and equity investments held by consolidated entities. These tax credit investment balances included unfunded commitments totaling $.7 billion and $.8 billion at March 31, 2018 and December 31, 2017, respectively. These unfunded commitments are included in Other liabilities on our Consolidated Balance Sheet.

Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in our 2017 Form 10-K has further information on Tax Credit Investments.

Private Equity and Other

The majority of our other equity investments consists of our private equity portfolio. The private equity portfolio is an illiquid portfolio consisting of mezzanine and equity investments that vary by industry, stage and type of investment. Private equity investments carried at estimated fair value totaled $1.4 billion and $1.3 billion at March 31, 2018 at December 31, 2017, respectively. As of March 31, 2018, $1.2 billion was invested directly in a variety of companies and $.2 billion was invested indirectly through various private equity funds. See Item 1 Business - Supervision and Regulation in our 2017 Form 10-K for discussion of the potential impacts of the Volcker Rule provisions of Dodd-Frank on our interests in and of private funds covered by the Volcker Rule.

Effective January 1, 2018, $.6 billion of available for sale securities were reclassified to equity investments as part of the adoption of ASU 2016-01. These securities were primarily money market funds.

Included in our other equity investments are Visa Class B common shares, which are recorded at cost. At March 31, 2018, the estimated value of our investment in Visa Class B common shares was approximately $693 million and our

cost basis was not significant. 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 settlement of the pending interchange litigation. See Note 6 Fair Value and Note 19 Legal Proceedings in the Notes To Consolidated Financial Statements in our 2017 Form 10-K for additional information regarding our Visa agreements.

We also have certain other equity investments, the majority of which represent investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. Net gains related to these investments were not significant at March 31, 2018 and March 31, 2017.

Financial Derivatives

We use a variety of financial derivatives as part of the overall asset and liability risk management process to help manage exposure to market and credit risk inherent in our business activities. Substantially all such instruments are used to manage risk related to changes in interest rates. Interest rate swaps, interest rate caps and floors, swaptions, options, forwards and futures contracts are the primary instruments we use for risk management. We also enter into derivatives with customers to facilitate their risk management activities.

Financial derivatives involve, to varying degrees, market and credit risk. Periodic cash payments are exchanged for interest rate swaps, options and futures contracts. Premiums are also exchanged for options contracts. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments.

Further information on our financial derivatives is presented in Note 1 Accounting Policies and Note 6 Fair Value in our Notes To Consolidated Financial Statements in our 2017 Form 10-K and in Note 6 Fair Value and Note 9 Financial Derivatives in the Notes To Consolidated Financial Statements in this Report.

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

RECENT REGULATORY DEVELOPMENTS

On April 10, 2018, the Federal Reserve requested public comment on a proposal that would integrate its capital plan rule, stress test rules and the annual CCAR exercise with its Basel III regulatory capital rules. The proposal would apply to BHCs with $50 billion or more in assets (including PNC). Among other things, the proposal would introduce new common equity Tier 1 (CET1) and Tier 1 leverage stress capital buffers. The CET1 and Tier 1 leverage stress capital buffers for a covered BHC would equal (i) the percentage decline in the BHC's CET1 and Tier 1 leverage ratios, respectively, in the most recently completed CCAR exercise as projected by the Federal Reserve under its Supervisory Severely Adverse scenario, plus (ii) the BHC's projected common stock dividends in the fourth through seventh quarter of that exercise (expressed as a ratio to the BHC's total risk-weighted assets or average total consolidated assets, as applicable). The CET1 stress capital buffer would have a minimum "floor" of 2.5 percent.

Under the proposal, PNC would be subject to the Basel III capital conservation buffer limitations on capital distributions and discretionary incentive compensation payments to senior management if PNC's CET1 ratio fell below (i) 4.5%, plus (ii) PNC's applicable CET1 stress capital buffer, plus (iii) any applicable countercyclical capital buffer (which is currently set at zero in the United States). Global systemically important banks (GSIBs) and BHCs that have exited parallel run under the advanced approaches would be subject to additional capital buffer requirements. In connection with these changes, the Federal Reserve proposes to make a number of changes to the CCAR process, including eliminating (i) the quantitative "pass-fail" component, (ii) the required assumption that a BHC continues its base case capital actions in the Supervisory Adverse and Severely Adverse scenarios, and (iii) the stricter scrutiny applied by the Federal Reserve to common dividend payout ratios of greater than 30 percent. The proposal also would make changes to the capital action assumptions that the Federal Reserve and covered BHCs apply in conducting stress tests under the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFAST). The Federal Reserve has proposed implementing these changes for the 2019 CCAR exercise.

Also in April, the Federal Reserve, Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation requested public comment on a joint proposal that would, among other things, revise the agencies' Basel III regulatory capital rules to allow banking organizations to elect to phase-in, over a three-year period, the regulatory capital effects of implementing the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-13 Financial Instruments - Credit Losses (Topic 326), commonly referred to as the Current Expected Credit Losses (CECL) standard. The proposal also would generally replace references to the ALLL in the regulatory

capital and certain other rules of the agencies with references to the allowance for credit losses (ACL) for institutions that have adopted CECL. As defined, ACL would include credit loss allowances established for on- and off-balance sheet assets in accordance with CECL through a charge against earnings, other than credit losses on purchased credit-deteriorated assets and available for sale securities and allocated transfer risk reserves. Under the proposal, an institution that has adopted CECL could include ACL in its regulatory Tier 2 capital to the same extent as ALLL is includable in Tier 2 capital currently (i.e., up to 1.25% of Standardized Approach risk-weighted assets). An institution that calculates capital under the advanced approaches and has implemented CECL also would use ACL to determine whether its expected credit losses exceed the institution's eligible credit reserves (which would be defined as ACL), with the difference deducted from CET1. The proposal also would amend the agencies' capital stress test rules to provide that covered banking organizations that have adopted CECL must include the effects of CECL in their stress tests conducted after January 1, 2020.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Note 1 Accounting Policies of our 2017 Form 10-K describes the most significant accounting policies that we use to prepare our consolidated financial statements. Certain of these policies require us to make estimates or economic assumptions that may vary under different assumptions or conditions and such variations may significantly affect our reported results and financial position for the period or in future periods.

The following critical accounting policies and judgments are described in more detail in Critical Accounting Estimates and Judgments in Item 7 of our 2017 Form 10-K:

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

Fair Value Measurements

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at March 31, 2018 and December 31, 2017, 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 34: Fair Value Measurements – Summary

	March 31, 2018		December 31, 2017	
Dollars in millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	$66,580	$6,546	$69,673	$6,475
Total assets at fair value as a percentage of consolidated assets	18 %		18 %	
Level 3 assets as a percentage of total assets at fair value		10 %		9 %
Level 3 assets as a percentage of consolidated assets		2 %		2 %
Total liabilities	$4,161	$488	$4,233	$531
Total liabilities at fair value as a percentage of consolidated liabilities	1 %		1 %	
Level 3 liabilities as a percentage of total liabilities at fair value		12 %		13 %
Level 3 liabilities as a percentage of consolidated liabilities		<1 %		<1 %

The majority of assets recorded at fair value are included in the securities available for sale portfolio. The majority of Level 3 assets represent non-agency residential mortgage-backed securities in the available for sale portfolio, equity investments and mortgage servicing rights. For further information on fair value, see Note 6 Fair Value in the Notes To Consolidated Financial Statements in this Report.

Income Taxes

See the Critical Accounting Estimates and Judgments section in Item 7 of our 2017 Form 10-K for information on our accounting of certain income tax effects of the Tax Cuts and Jobs Act enacted on December 22, 2017. Where certain income tax effects could be reasonably estimated, these were included as provisional amounts as of December 31, 2017. During the measurement period, which will end in December 2018, these estimates may be adjusted upon obtaining or analyzing additional information about facts and circumstances or clarifications of uncertain aspects of the newly enacted tax law, which if known would have affected the initially reported provisional amounts. No changes

were made to these provisional amounts during the first quarter of 2018.

Recently Issued Accounting Standards

Accounting Standards Update (ASU)	Description	Financial Statement Impact
Leases - ASU 2016-02 Issued February 2016	• Required effective date of January 1, 2019.[a] • Requires lessees to recognize a right-of-use asset and related lease liability for all leases with lease terms of more than 12 months. • 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. • May be adopted using a modified retrospective approach through a cumulative-effect adjustment. • FASB approved an amendment which would permit the option to adopt the new standard prospectively as of the effective date, without adjusting comparative periods presented.	• We plan to adopt the guidance in the first quarter of 2019. • Implementation efforts are ongoing, including the deployment of a lease accounting software solution. • We are currently evaluating the impact of various accounting policy elections, the discount rate to present value the future minimum payments under operating leases, and the impact of new disclosure requirements. • We are substantially complete with the evaluation of our initial lease population. We will continue to review service contracts through the effective date and may identify additional leases embedded within those arrangements that are within the scope of the ASU. • We expect, at a minimum, to recognize lease liabilities and corresponding right-of-use assets commensurate with the present value of the future minimum payments. Future minimum lease payments under operating leases totaled $2.6 billion as of December 31, 2017 as disclosed in Note 8 Premises, Equipment and Leasehold Improvements in our 2017 Form 10-K. • We do not expect a material change to the timing of our expense recognition.
Credit Losses - ASU 2016-13 Issued June 2016	• Required effective date of January 1, 2020.[a] • Requires the use of an expected credit loss methodology; specifically, current expected credit losses (CECL) for the remaining life of the asset will be recognized at the time of origination or acquisition. • Methodology will apply to loans, debt securities, and other financial assets and net investment in leases not accounted for at fair value through net income. It will also apply to off-balance sheet credit exposures except for unconditionally cancellable commitments. • In-scope assets will be presented at the net amount expected to be collected after deducting the allowance for credit losses from the amortized cost basis of the assets. • Requires enhanced credit quality disclosures including disaggregation of credit quality indicators by vintage.	• We do not plan to adopt the standard at its early adoption date in the first quarter of 2019. • We established a company-wide, cross-functional governance structure in the third quarter of 2016, which oversees overall strategy for implementation of Topic 326, including model methodology, technology, development, data enhancements and governance issues. • We continue to design and develop CECL estimation methodologies and technological solutions. • Concurrently, we are assessing and analyzing whether data that is required to comply with the standard is available and accurate. • We continue to believe that the adoption of the standard will result in an overall increase in the allowance for loan losses to cover credit losses over the estimated life of the financial assets. However, the magnitude of the increase in our allowance for loan losses at the adoption date will depend upon the nature and characteristics of the portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that date.

	• Requires a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. • Required effective date of January 1, 2020.[a]	
Goodwill - ASU 2017-04 Issued January 2017	• Eliminates Step 2 from the goodwill impairment test to simplify the subsequent measurement of goodwill under which a loss was recognized only if the estimated implied fair value of the goodwill is below its carrying value. • Requires impairment to be recognized if the carrying amount exceeds the reporting unit's fair value.	• We plan to adopt the standard on its effective date and we do not expect the adoption of this standard to impact our consolidated results of operations or our consolidated financial position.

(a) Early adoption is permitted.

Recently Adopted Accounting Standards

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in this Report regarding the impact of new accounting pronouncements adopted in the first quarter of 2018.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

We engage in a variety of activities that involve entities that are not consolidated or otherwise reflected in our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. Additional information on these types of activities is included in our 2017 Form 10-K and in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities and Note 13 Commitments in the Notes To Consolidated Financial Statements included in this Report.

A summary of variable interest entities (VIEs), including those in which we hold variable interests but have not consolidated into our financial statements, is included in Note 2 in our 2017 Form 10-K.

Trust Preferred Securities and REIT Preferred Securities

See Note 10 Borrowed Funds and Note 15 Equity in the Notes To Consolidated Financial Statements in our 2017 Form 10-K for additional information on trust preferred securities issued by PNC Capital Trust C including information on contractual limitations potentially imposed on payments (including dividends) with respect to PNC's equity securities and for additional information on the 2017 redemption of the REIT preferred securities issued by PNC Preferred Funding Trust I and PNC Preferred Funding Trust II.

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of March 31, 2018, we performed an evaluation under the supervision of and with the participation of our management, including the Chairman, President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chairman, President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were effective as of March 31, 2018, and that there has been no change in PNC’s internal control over financial reporting that occurred during the first quarter of 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

GLOSSARY OF TERMS

For a glossary of terms commonly used in our filings, please see the glossary of terms included in our 2017 Form 10-K.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

- Our businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:
  - Changes in interest rates and valuations in debt, equity and other financial markets.
  - Disruptions in the U.S. and global financial markets.

- Actions by the Federal Reserve Board, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.
- Changes in customer behavior due to newly enacted tax legislation, changing business and economic conditions or legislative or regulatory initiatives.
- Changes in customers', suppliers' and other counterparties' performance and creditworthiness.
- Slowing or reversal of the current U.S. economic expansion.
- Commodity price volatility.

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

2018, in light of stimulus from corporate and personal income tax cuts passed in late 2017 that are expected to support business investment and consumer spending, respectively. We expect an increase in federal government spending will also support economic growth in 2018. Further gradual improvement in the labor market this year, including job gains and rising wages, is another positive for consumer spending. Other sources of growth for the U.S. economy in 2018 will be the global economic expansion and the housing market, although trade restrictions are a downside risk to the forecast. Although inflation 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 throughout 2018; after the Federal Open Market Committee raised the federal funds rate in March, our baseline forecast is for two additional rate hikes in June and December 2018, pushing the rate to a range of 2.00 to 2.25% by the end of the year. Longer-term rates are also expected to increase as the Federal Reserve slowly reduces the size of its balance sheet and the federal government borrows more. Long-term rates will rise more slowly than short-term rates, so we anticipate that the yield curve will flatten but not invert.

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

We provide greater detail regarding these as well as other factors in our 2017 Form 10-K, and elsewhere in this Report, including Item 1A Risk Factors in our 2017 Form 10-K, the Risk Management section of this Financial Review and of Item 7 in our 2017 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 2017 Form 10-K. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

CONSOLIDATED INCOME STATEMENT
THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited	Three months ended March 31	
In millions, except per share data	2018	2017
Interest Income		
Loans	$2,228	$1,904
Investment securities	512	493
Other	178	123
Total interest income	2,918	2,520
Interest Expense		
Deposits	213	120
Borrowed funds	344	240
Total interest expense	557	360
Net interest income	2,361	2,160
Noninterest Income		
Asset management	455	403
Consumer services	357	332
Corporate services	429	414
Residential mortgage	97	113
Service charges on deposits	167	161
Other	245	301
Total noninterest income	1,750	1,724
Total revenue	4,111	3,884
Provision For Credit Losses	92	88
Noninterest Expense		
Personnel	1,354	1,257
Occupancy	218	222
Equipment	273	251
Marketing	55	55
Other	627	617
Total noninterest expense	2,527	2,402
Income before income taxes and noncontrolling interests	1,492	1,394
Income taxes	253	320
Net income	1,239	1,074
Less: Net income attributable to noncontrolling interests	10	17
Preferred stock dividends	63	63
Preferred stock discount accretion and redemptions	1	21
Net income attributable to common shareholders	$1,165	$973
Earnings Per Common Share		
Basic	$2.45	$1.99
Diluted	$2.43	$1.96
Average Common Shares Outstanding		
Basic	473	487
Diluted	476	492

See accompanying Notes To Consolidated Financial Statements.

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

Unaudited In millions	Three months ended March 31 2018	 2017
Net income	$1,239	$1,074
Other comprehensive income (loss), before tax and net of reclassifications into Net income:		
Net unrealized gains (losses) on non-OTTI securities	(646)	69
Net unrealized gains (losses) on OTTI securities	14	35
Net unrealized gains (losses) on cash flow hedge derivatives	(193)	(77)
Pension and other postretirement benefit plan adjustments	63	(62)
Other	27	4
Other comprehensive income (loss), before tax and net of reclassifications into Net income	(735)	(31)
Income tax benefit (expense) related to items of other comprehensive income	178	17
Other comprehensive income (loss), after tax and net of reclassifications into Net income	(557)	(14)
Comprehensive income	682	1,060
Less: Comprehensive income (loss) attributable to noncontrolling interests	10	17
Comprehensive income attributable to PNC	$672	$1,043

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET
THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited In millions, except par value	March 31 2018	December 31 2017
Assets		
Cash and due from banks	$4,649	$5,249
Interest-earning deposits with banks	28,821	28,595
Loans held for sale (a)	965	2,655
Investment securities – available for sale	56,018	57,618
Investment securities – held to maturity	18,544	18,513
Loans (a)	221,614	220,458
Allowance for loan and lease losses	(2,604)	(2,611)
Net loans	219,010	217,847
Equity investments (b)	12,008	11,392
Mortgage servicing rights	1,979	1,832
Goodwill	9,218	9,173
Other (a)	27,949	27,894
Total assets	$379,161	$380,768
Liabilities		
Deposits		
Noninterest-bearing	$78,303	$79,864
Interest-bearing	186,401	185,189
Total deposits	264,704	265,053
Borrowed funds		
Federal Home Loan Bank borrowings	19,537	21,037
Bank notes and senior debt	28,773	28,062
Subordinated debt	5,121	5,200
Other (c)	4,608	4,789
Total borrowed funds	58,039	59,088
Allowance for unfunded loan commitments and letters of credit	290	297
Accrued expenses and other liabilities	9,093	8,745
Total liabilities	332,126	333,183
Equity		
Preferred stock (d)		
Common stock ($5 par value, Authorized 800 shares, issued 542 shares)	2,710	2,710
Capital surplus	16,227	16,374
Retained earnings	36,266	35,481
Accumulated other comprehensive income (loss)	(699)	(148)
Common stock held in treasury at cost: 72 and 69 shares	(7,535)	(6,904)
Total shareholders' equity	46,969	47,513
Noncontrolling interests	66	72
Total equity	47,035	47,585
Total liabilities and equity	$379,161	$380,768

(a) Our consolidated assets included the following for which we have elected the fair value option: Loans held for sale of $.9 billion, Loans of $.8 billion and Other assets of $.3 billion at March 31, 2018 and Loans held for sale of $1.7 billion, Loans of $.9 billion and Other assets of $.3 billion at December 31, 2017.

(b)

Amounts include our equity interest in BlackRock. The amount at March 31, 2018 includes $.6 billion of trading and available for sale securities, primarily money market funds, that were reclassified to Equity investments on January 1, 2018 in accordance with the adoption of Accounting Standards Update 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.

(c) Our consolidated liabilities at both March 31, 2018 and December 31, 2017 included Other borrowed funds of $.1 billion for which we have elected the fair value option.

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

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited In millions	Three months ended March 31 2018	 2017
Operating Activities		
Net income	$1,239	$1,074
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for credit losses	92	88
Depreciation and amortization	280	279
Deferred income taxes	81	21
Changes in fair value of mortgage servicing rights	(85)	33
Undistributed earnings of BlackRock	(133)	(100)
Net change in		
Trading securities and other short-term investments	176	(405)
Loans held for sale	1,675	1,065
Other assets	(1,217)	541
Accrued expenses and other liabilities	710	(884)
Other	104	(122)
Net cash provided (used) by operating activities	$2,922	$1,590
Investing Activities		
Sales		
Securities available for sale	$4,461	$3,202
Loans	479	338
Repayments/maturities		
Securities available for sale	2,027	2,790
Securities held to maturity	598	504
Purchases		
Securities available for sale	(5,905)	(5,142)
Securities held to maturity	(662)	(1,778)
Loans	(224)	(177)
Net change in		
Federal funds sold and resale agreements	97	(674)
Interest-earning deposits with banks	(226)	(2,166)
Loans	(1,611)	(2,359)
Other	(284)	(158)
Net cash provided (used) by investing activities	$(1,250)	$(5,620)

(continued on following page)

CONSOLIDATED STATEMENT OF CASH FLOWS
THE PNC FINANCIAL SERVICES GROUP, INC.
(continued from previous page)

Unaudited In millions	Three Months Ended March 31 2018	 2017
Financing Activities		
Net change in		
Noninterest-bearing deposits	$(1,683)	$(944)
Interest-bearing deposits	1,212	4,530
Federal funds purchased and repurchase agreements	87	8
Commercial paper	(100)	
Other borrowed funds	(11)	795
Sales/issuances		
Federal Home Loan Bank borrowings		4,500
Bank notes and senior debt	1,991	1,820
Other borrowed funds	123	26
Common and treasury stock	33	60
Repayments/maturities		
Federal Home Loan Bank borrowings	(1,500)	(2,500)
Bank notes and senior debt	(1,000)	(1,000)
Subordinated debt		(1,100)
Other borrowed funds	(163)	(19)
Redemption of noncontrolling interests		(1,000)
Acquisition of treasury stock	(840)	(688)
Preferred stock cash dividends paid	(63)	(63)
Common stock cash dividends paid	(358)	(271)
Net cash provided (used) by financing activities	(2,272)	4,154
Net Increase (Decrease) In Cash And Due From Banks	(600)	124
Cash and due from banks at beginning of period	5,249	4,879
Cash and due from banks at end of period	$4,649	$5,003
Supplemental Disclosures		
Interest paid	$501	$347
Income taxes paid	$7	$8
Income taxes refunded	$11	$9
Non-cash Investing and Financing Items		
Transfer from loans to loans held for sale, net	$173	$107
Transfer from loans to foreclosed assets	$45	$57

See accompanying Notes To Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THE PNC FINANCIAL SERVICES GROUP, INC.
Unaudited

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, 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 the Mid-Atlantic, Midwest and Southeast. 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 current period presentation, which did not have a material impact on our consolidated financial condition or results of operations.

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 2017 Form 10-K. Reference is made to Note 1 Accounting Policies in our 2017 Form 10-K for a detailed description of significant accounting policies. There have been no significant changes to our accounting policies as disclosed in our 2017 Form 10-K, except for those accounting policies included in this Note as a result of the adoption of new accounting standards that were effective in the first quarter of 2018. These interim consolidated financial statements serve to update our 2017 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 and allowances for loan and lease losses and unfunded loan commitments and letters of credit. Actual results may differ from the estimates and the differences may be material to the consolidated financial statements.

Revenue Recognition

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

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

In addition, we earn fees and commissions from:

- Issuing loan commitments, standby letters of credit and financial guarantees,
- Deposit account services,
- Merchant services,
- Selling various insurance products,
- Providing treasury management services,
- Providing merger and acquisition advisory and related services
- Debit and credit card transactions, and
- Participating in certain capital markets transactions.

Our Asset management noninterest income also includes our share of the earnings of BlackRock recognized under the equity method of accounting.

We record private equity income or loss based on changes in the valuation of the underlying investments or when we dispose of our interest.

We recognize gain/(loss) on changes in the fair value of certain financial instruments where we have elected the fair value option. These financial instruments include certain commercial and residential mortgage loans originated for sale, certain residential mortgage portfolio loans, resale agreements and our investment in BlackRock Series C preferred stock. We also recognize gain/(loss) on changes in the fair value of residential and commercial mortgage servicing rights (MSRs).

We recognize revenue from servicing residential mortgages, commercial mortgages and other consumer loans as earned based on the specific contractual terms. These revenues are reported on the Consolidated Income Statement in the line items Residential mortgage, Corporate services and Consumer services. We recognize revenue from securities, derivatives and foreign exchange customer-related trading, as well as securities underwriting activities, as these transactions occur or as services are provided. We generally recognize gains from the sale of loans upon receipt of cash. Mortgage revenue recognized is reported net of mortgage repurchase reserves.

For the fee-based revenue within the scope of ASC Topic 606 - Revenue from Contracts with Customers (Topic 606), revenue is recognized when or as those services are transferred to the customer. See Note 15 Fee-based Revenue from Contracts with Customers for additional information related to revenue within the scope of Topic 606.

Equity Securities and Partnership Interests

We account for equity securities and equity investments other than BlackRock and private equity investments under one of the following methods:

- Equity securities that have a readily determinable fair value are included in Equity investments on our Consolidated Balance Sheet. Both realized and unrealized gains and losses are included in Noninterest income. Dividend income on these equity securities is included in Other interest income on our consolidated income statement.
- For investments in limited partnerships, limited liability companies and other investments that are not required to be consolidated, we use either the equity method of accounting or the practicability exception to fair value. We use the equity method for general and limited partner ownership interests and limited liability companies in which we are considered to have significant influence over the operations of the investee. Under the equity method, we record our equity ownership share of net income or loss of the investee in Noninterest income and any dividends received on equity method investments are recorded as a reduction to the investment balance. When an equity investment experiences an other-than-temporary decline in value, we may be required to record a loss on the investment.
- We generally use the practicability exception to fair value for all other investments. When we elect this alternative measurement method, the carrying value is adjusted for impairment, if any, plus or minus changes in value resulting from observable price changes in orderly transactions for identical or similar instruments of the same issuer. These

investments are written down to fair value if a qualitative assessment indicates impairment and the fair value is less than the carrying value. The amount of the write-down is accounted for as a loss included in Noninterest income. Distributions received on these investments are included in Noninterest income.

Investments described above are included in Equity investments on our Consolidated Balance Sheet.

See Note 1 Accounting Policies of our 2017 Form 10-K for a discussion on our accounting for our investment in BlackRock and private equity investments.

Derivative Instruments and Hedging Activities

We use a variety of financial derivatives as part of our overall asset and liability risk management process to help manage exposure to interest rate, market and credit risk inherent in our business activities. Interest rate and total return swaps, swaptions, interest rate caps and floors, options, forwards, and futures contracts are the primary instruments we use for risk management. Financial derivatives involve, to varying degrees, interest rate, market and credit risk. We manage these risks as part of our asset and liability management process and through credit policies and procedures.

We recognize all derivative instruments at fair value as either Other assets or Other liabilities on the Consolidated Balance Sheet and the related cash flows in the Operating Activities section of the Consolidated Statement of Cash Flows. Adjustments for counterparty credit risk are included in the determination of fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a cash flow or net investment hedging relationship. For all other derivatives, changes in fair value are recognized in earnings.

We utilize a net presentation for derivative instruments on the Consolidated Balance Sheet taking into consideration the effects of legally enforceable master netting agreements. Cash collateral exchanged with counterparties is also netted against the applicable derivative exposures by offsetting obligations to return, or general rights to reclaim, cash collateral against the fair values of the net derivatives being collateralized.

For those derivative instruments that are designated and qualify as accounting hedges, we designate the hedging instrument, based on the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of the net investment in a foreign operation.

We formally document the relationship between the hedging instruments and hedged items, as well as the risk management objective and strategy, before undertaking an accounting hedge. To qualify for hedge accounting, the derivatives and related hedged items must be designated as a hedge at inception of the hedge relationship. In addition, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. For accounting hedge relationships, we formally assess, both at the inception of the hedge and on an ongoing basis, if the derivatives are highly effective in offsetting designated changes in the fair value or cash flows of the hedged item. If it is determined that the derivative instrument is not highly effective, hedge accounting is discontinued. We assess effectiveness using statistical regression analysis. Where the critical terms of the derivative and hedged item match, effectiveness may be assessed qualitatively.

For derivatives that are designated as fair value hedges (i.e., hedging the exposure to changes in the fair value of an asset or a liability attributable to a particular risk, such as changes in LIBOR), changes in the fair value of the hedging instrument are recognized in earnings and offset by also recognizing in earnings the changes in the fair value of the hedged item attributable to the hedged risk. To the extent the change in fair value of the derivative does not offset the change in fair value of the hedged item, the difference is reflected in the Consolidated Income Statement in the same income statement line as the hedged item.

For derivatives designated as cash flow hedges (i.e., hedging the exposure to variability in expected future cash flows), the gain or loss on derivatives is reported as a component of Accumulated other comprehensive income (loss) and subsequently reclassified to income in the same period or periods during which the hedged cash flows affect earnings and recorded in the same income statement line item as the hedged cash flows. For derivatives designated as a hedge of net investment in a foreign operation, the gain or loss on the derivatives are reported as a component of Accumulated other comprehensive income (loss).

We discontinue hedge accounting when it is determined that the derivative no longer qualifies as an effective hedge; the derivative expires or is sold, terminated or exercised; or the derivative is de-designated as a fair value or cash flow

hedge or, for a cash flow hedge, it is no longer probable that the forecasted transaction will occur by the end of the originally specified time period.

We purchase or originate financial instruments that contain an embedded derivative. For financial instruments not measured at fair value with changes in fair value reported in earnings, we assess, at inception of the transaction, if the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the host contract and whether a separate instrument with the same terms as the embedded derivative would be a derivative. If the embedded derivative is not clearly and closely related to the host contract and meets the definition of a derivative, the embedded derivative is recorded separately from the host contract with changes in fair value recorded in earnings, unless we elect to account for the hybrid instrument at fair value.

We have elected, on an instrument-by-instrument basis, fair value measurement for certain financial instruments with embedded derivatives.

We enter into commitments to originate residential and commercial mortgage loans for sale. We also enter into commitments to purchase or sell commercial and residential real estate loans. These commitments are accounted for as free-standing derivatives which are recorded at fair value in Other assets or Other liabilities on the Consolidated Balance Sheet. Any gain or loss from the change in fair value after the inception of the commitment is recognized in Noninterest income.

Recently Adopted Accounting Standards

Accounting Standards Update (ASU)	Description	Financial Statement Impact
Revenue Recognition - ASU 2014-09 ASU 2015-14 ASU 2016-08 ASU 2016-10 ASU 2016-12 ASU 2016-20 Issued May 2014	• Replaces nearly all existing revenue recognition guidance in U.S. GAAP. • Revenue recognized when an entity satisfies its performance obligation by transferring a promised good or service to a customer. • Additional qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.	• Adopted January 1, 2018 under the modified retrospective approach. • Cumulative-effect adjustment was immaterial to our consolidated results of operations and financial position. • Most significant impact of adoption is expanded disclosures related to disaggregation of in-scope revenue, see Note 15 Fee-based Revenue from Contracts with Customers.
Financial Instruments - ASU 2016-01 ASU 2018-03 Issued January 2016	• 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 are required to be measured at fair value with any changes in fair value recognized in net income. • For an equity investment which does not have a readily determinable fair value, an election can be made to measure the investment at cost, less any impairment, plus or minus changes in value resulting from observable price changes in identical or similar instruments of the issuer. • Simplifies the impairment assessment of equity investments for which fair value is not readily determinable. • 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. In addition, separate presentation is required of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the notes to the financial statements.	• Adopted January 1, 2018 under the modified retrospective approach, except for the amendment related to equity securities without readily determinable fair values, which is applied prospectively. • Cumulative-effect adjustment was immaterial to our consolidated results of operations and financial position. • For the standard’s requirement for a separate presentation of financial assets and financial liabilities by measurement category, refer to the disclosures in this Note 1, and Note 6 Fair Value and Note 1 Accounting Policies in our 2017 Form 10-K for further discussion of our measurement categories.
Statement of Cash Flows - ASU 2016-15 Issued August 2016	• Provides guidance on eight specific issues related to classification within the statement of cash flows with the objective of reducing existing diversity in practice. • The specific issues cover: • cash payments for debt prepayment or debt extinguishment costs; • cash outflows for settlement of zero-coupon debt instruments or other debt instruments with	• Adopted January 1, 2018 under the retrospective transition method. • Impact of adoption was immaterial to our consolidated statement of cash flows.

	coupon interest rates that are insignificant; • contingent consideration payments that are not made soon after a business combination; • proceeds from the settlement of insurance claims; • proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; • distributions received from equity method investees; • beneficial interests received in securitization transactions; and • clarifies that when no specific GAAP guidance exists and the source of the cash flows are not separately identifiable, then the predominant source of cash flows should be used to determine the classification for the item.	
Compensation-Retirement Benefits - ASU 2017-07 Issued March 2017	• Requires the service cost component of net periodic pension cost and net periodic postretirement benefit cost (net benefit cost) to be included in the same income statement line as other employee compensation cost arising from services rendered during the period. • Other components of net benefit cost are required to be presented separately from the line item that includes the service cost component and outside a subtotal of income from operations, if one is presented. • Allows only the service cost component to be eligible for capitalization when applicable.	• Adopted January 1, 2018. • Presentation requirements in our Consolidated Income Statement have been applied retrospectively. • Impact of adoption was immaterial to our consolidated results of operations and financial position.

Accounting Standards Update (ASU)	Description	Financial Statement Impact
Derivatives and Hedging - ASU 2017-12 Issued August 2017	• Simplifies the application of hedge accounting by easing the requirements for effectiveness testing, hedge documentation and the application of the critical terms match method. • Provides new alternatives for applying hedge accounting to additional hedging strategies and measuring the hedged item in fair value hedges of interest rate risk.	• Adopted January 1, 2018 using the modified retrospective approach. • Amended presentation and disclosures are required prospectively. • One-time transition elections were available to modify existing hedge documentation. • Cumulative-effect adjustment was immaterial to our consolidated results of operations and financial position.
Comprehensive Income - ASU 2018-02 Issued February 2018	• Permits the reclassification to retained earnings of the income tax effects stranded within Accumulated other comprehensive income (loss) (AOCI) as a result of the enactment of the Tax Cuts and Jobs Act. • Requires qualitative disclosures of the accounting policy relating to releasing income tax effects from AOCI and if the reclassification election is made, the impacts of the change on the financial statements.	• Adopted January 1, 2018 and elected to reclassify the income tax effects from AOCI to Retained earnings at the beginning of the period of adoption. • The impact of adoption was immaterial to our consolidated financial position.

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 2017 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 special purpose entities (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 we retain the servicing, we recognize a servicing right at fair value. See Note 7 Goodwill and Mortgage Servicing Rights for information on our servicing rights, including the carrying value of servicing assets.

The following table provides cash flows associated with our loan sale and servicing activities.

Table 35: Cash Flows Associated with Loan Sale and Servicing Activities

In millions	Residential Mortgages	Commercial Mortgages (a)
Cash Flows - Three months ended March 31, 2018		
Sales of loans (b)	$ 1,193	$ 1,202
Repurchases of previously transferred loans (c)	$ 119	
Servicing fees (d)	$ 92	$ 31
Servicing advances recovered/(funded), net	$ 4	$ 17
Cash flows on mortgage-backed securities held (e)	$ 422	$ 21
Cash Flows - Three months ended March 31, 2017		
Sales of loans (b)	$ 1,594	$ 1,617
Repurchases of previously transferred loans (c)	$ 131	

Servicing fees (d)	$ 94	$ 33
Servicing advances recovered/(funded), net	$ 42	$ 31
Cash flows on mortgage-backed securities held (e)	$ 349	$ 129

(a) Represents cash flow information associated with both commercial mortgage loan transfer and servicing activities.

(b) Gains/losses recognized on sales of loans were insignificant for the periods presented.

(c) Includes residential mortgage government insured or guaranteed loans eligible for repurchase through the exercise of our removal of account provision option and loans repurchased due to alleged breaches of origination covenants or representations and warranties made to purchasers.

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

(e) Represents cash flows on securities we hold issued by a securitization SPE in which we transferred to and services loans. The carrying values of such securities held were $9.4 billion in residential mortgage-backed securities and $.7 billion in commercial mortgage-backed securities at March 31, 2018 and $6.9 billion in residential mortgage-backed securities and $.7 billion in commercial mortgage-backed securities at March 31, 2017. Additionally, at December 31, 2017, the carrying values of such securities held were $8.8 billion in residential mortgage-backed securities and $.6 billion in commercial mortgage-backed securities.

Table 36 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, where the repurchase price exceeded the loan's fair value, due to a breach in representations and warranties or a loss sharing arrangement associated with our continuing involvement with these loans. The estimate of losses related to breaches in representations and warranties was insignificant at March 31, 2018.

Table 36: Principal Balance, Delinquent Loans and Net Charge-offs Related to Serviced Loans For Others

In millions	Residential Mortgages	Commercial Mortgages (a)
March 31, 2018		
Total principal balance	$ 57,339	$ 47,480
Delinquent loans (b)	$ 796	$ 298
December 31, 2017		
Total principal balance	$ 58,320	$ 49,116
Delinquent loans (b)	$ 899	$ 355
Three months ended March 31, 2018		
Net charge-offs (c)	$ 12	$ 30
Three months ended March 31, 2017		
Net charge-offs (c)	$ 25	$ 355

(a) Represents information at the securitization level in which we have sold loans and we are the servicer for the securitization.

(b) Serviced delinquent loans are 90 days or more past due or are in process of foreclosure.

(c) Net charge-offs for Residential mortgages 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 2017 Form 10-K, we are involved with various entities in the normal course of business that are deemed to be VIEs.

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 us and the VIE. We have excluded certain transactions with non-consolidated VIEs from the balances presented in Table 37 where we have determined that our continuing involvement is not significant. In addition, where we only have 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 37. These loans are included as part of the asset quality disclosures that we make in Note 3 Asset Quality.

Table 37: 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, 2018					
Mortgage-Backed Securitizations (b)	$ 10,481	$ 10,481	(c)		
Tax Credit Investments and Other	3,033	2,979	(d)	$ 799	(e)
Total	$ 13,514	$ 13,460		$ 799	
December 31, 2017					

Mortgage-Backed Securitizations (b)	$ 9,738	$ 9,738	(c)		
Tax Credit Investments and Other	3,069	3,001	(d)	$ 858	(e)
Total	$ 12,807	$ 12,739		$ 858	

(a) This represents loans, investments and other assets related to non-consolidated VIEs, net of collateral (if applicable). The risk of loss excludes any potential tax recapture associated with tax credit investments.

(b) Amounts reflect involvement with securitization SPEs where we transferred to and/or service 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.

(c) Included in Investment securities, Mortgage servicing rights and Other assets on our Consolidated Balance Sheet.

(d) Included in Investment securities, Loans, Equity investments and Other assets on our Consolidated Balance Sheet.

(e) Included in Deposits and Other liabilities on our Consolidated Balance Sheet.

We make certain equity investments in various tax credit limited partnerships or limited liability companies (LLCs). The purpose of these investments is to achieve a satisfactory return on capital and to assist us in achieving goals associated with the Community Reinvestment Act. During the three months ended March 31, 2018, we recognized $56 million of amortization, $60 million of tax credits, and $13 million of other tax benefits associated with qualified investments in low income housing tax credits within Income taxes.

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.

Nonperforming assets include nonperforming loans and leases, OREO, foreclosed and other assets. 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 1 Accounting Policies in our 2017 Form 10-K for additional information on our loan related policies.

The following tables display the delinquency status of our loans and our nonperforming assets at March 31, 2018 and December 31, 2017, respectively.

Table 38: Analysis of Loan Portfolio (a)

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)	Accruing Purchased Impaired Loans	Total Loans (d)
March 31, 2018										
Commercial Lending										
Commercial	$111,754	$ 53	$ 22	$ 53	$128		$ 426			$112,308
Commercial real estate	28,695	21	12		33		107			28,835
Equipment lease financing	7,779	18	1		19		4			7,802
Total commercial lending	148,228	92	35	53	180		537			148,945
Consumer Lending										
Home equity	25,919	94	31		125		820		$835	27,699
Residential real estate	14,824	130	70	373	573	(b)	391	$ 189	1,479	17,456
Credit card	5,540	40	26	45	111		6			5,657
Other consumer										
Automobile	13,112	77	18	9	104		79			13,295
Education and other	8,257	94	54	148	296	(b)	9			8,562
Total consumer lending	67,652	435	199	575	1,209		1,305	189	2,314	72,669
Total	$215,880	$ 527	$ 234	$628	$1,389		$ 1,842	$ 189	$2,314	$221,614
Percentage of total loans	97.41 %	.24 %	.11 %	.28 %	.63 %		.83 %	.09 %	1.04 %	100.00 %
December 31, 2017										
Commercial Lending										
Commercial	$109,989	$ 45	$ 25	$ 39	$109		$ 429			$110,527
Commercial real estate	28,826	27	2		29		123			28,978
Equipment lease financing	7,914	17	1		18		2			7,934
Total commercial lending	146,729	89	28	39	156		554			147,439
Consumer Lending										
Home equity	26,561	78	26		104		818		$881	28,364
Residential real estate	14,389	151	74	486	711	(b)	400	$ 197	1,515	17,212

Credit card	5,579	43	26	45	114	6			5,699
Other consumer									
Automobile	12,697	79	20	8	107	76			12,880
Education and other	8,525	105	64	159	328	(b) 11			8,864
Total consumer lending	67,751	456	210	698	1,364	1,311	197	2,396	73,019
Total	$214,480	$ 545	$ 238	$ 737	$ 1,520	$ 1,865	$ 197	$ 2,396	$ 220,458
Percentage of total loans	97.29 %	.25 %	.11 %	.33 %	.69 %	.85 %	.09 %	1.08 %	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 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. Past due loan amounts include government insured or guaranteed Residential real estate mortgages totaling $.5 billion and $.6 billion at March 31, 2018 and December 31, 2017, respectively, and Education and other consumer loans totaling $.3 billion at both March 31, 2018 and December 31, 2017.

(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 $1.2 billion at both March 31, 2018 and December 31, 2017.

At March 31, 2018, we pledged $19.1 billion of commercial loans to the Federal Reserve Bank (FRB) and $64.6 billion of residential real estate and other loans to the Federal Home Loan Bank (FHLB) as collateral for the ability to borrow, if necessary. The comparable amounts at December 31, 2017 were $18.7 billion and $62.8 billion, respectively.

Table 39: Nonperforming Assets

Dollars in millions	March 31 2018	December 31 2017
Nonperforming loans		
Total commercial lending	$537	$554
Total consumer lending (a)	1,305	1,311
Total nonperforming loans	1,842	1,865
OREO, foreclosed and other assets	162	170
Total nonperforming assets	$2,004	$2,035
Nonperforming loans to total loans	.83 %	.85 %
Nonperforming assets to total loans, OREO, foreclosed and other assets	.90 %	.92 %
Nonperforming assets to total assets	.53 %	.53 %

(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.

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 troubled debt restructurings (TDRs). See Note 1 Accounting Policies in our 2017 Form 10-K and the TDR section of this Note 3.

Total nonperforming loans in Table 39 include TDRs of $.9 billion at March 31, 2018 and $1.0 billion at December 31, 2017. TDRs that are performing, including consumer credit card TDR loans, totaled $1.1 billion at both March 31, 2018 and December 31, 2017, and are excluded from nonperforming loans. Nonperforming TDRs are returned to accrual status 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 us and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status. See the TDRs section of this Note 3 for more information on TDRs.

Additional Asset Quality Indicators

We have two overall portfolio segments – Commercial Lending and Consumer Lending. Each of these two segments comprises 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 composed of the commercial, commercial real estate and equipment lease financing loan classes. The Consumer Lending segment is composed of the home equity, residential real estate, credit card and other consumer loan classes.

Commercial Lending Loan Classes

The following table presents asset quality indicators for the Commercial Lending loan classes. See Note 3 Asset Quality in our 2017 Form 10-K for additional information related to our Commercial Lending loan classes, including discussion around the asset quality indicators that we use to monitor and manage the credit risk associated with each loan class.

Table 40: Commercial Lending Asset Quality Indicators (a)

In millions	Pass Rated	Criticized Commercial Loans			Total Loans
		Special Mention (b)	Substandard (c)	Doubtful (d)	
March 31, 2018					
Commercial	$106,681	$2,075	$ 3,449	$ 103	$112,308
Commercial real estate	28,274	163	397	1	28,835
Equipment lease financing	7,606	91	102	3	7,802
Total commercial lending	$142,561	$2,329	$ 3,948	$ 107	$148,945
December 31, 2017					
Commercial	$105,280	$1,858	$ 3,331	$ 58	$110,527
Commercial real estate	28,380	148	435	15	28,978
Equipment lease financing	7,754	77	102	1	7,934
Total commercial lending	$141,414	$2,083	$ 3,868	$ 74	$147,439

(a) Loans are classified as “Pass”, “Special Mention”, “Substandard” and “Doubtful” based on the Regulatory Classification definitions. We use PDs and LGDs to rate commercial loans.

(b) 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 the reporting date.

(c) 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.

(d) Doubtful rated loans possess all the inherent weaknesses of a Substandard rated loan with the additional characteristics that the weakness makes collection or liquidation in full improbable due to existing facts, conditions and values.

Consumer Lending Loan Classes

See Note 3 Asset Quality in our 2017 Form 10-K for additional information related to our Consumer Lending loan classes, including discussion around the asset quality indicators that we use to monitor and manage the credit risk associated with each loan class.

Home Equity and Residential Real Estate Loan Classes

The following table presents asset quality indicators for the home equity and residential real estate loan classes, excluding consumer purchased impaired loans of $2.3 billion and $2.4 billion at March 31, 2018 and December 31, 2017, respectively, and government insured or guaranteed residential real estate mortgages of $.7 billion and $.8 billion at March 31, 2018 and December 31, 2017, respectively.

Table 41: Asset Quality Indicators for Home Equity and Residential Real Estate Loans – Excluding Purchased Impaired and Government Insured or Guaranteed Loans (a)

March 31, 2018 - in millions	Home Equity 1st Liens	Home Equity 2nd Liens	Residential Real Estate	Total
Current estimated LTV ratios				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$99	$359	$ 123	$581
Less than or equal to 660 (b)	16	58	24	98
Missing FICO	1	4	1	6
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	277	794	249	1,320
Less than or equal to 660 (b)	45	133	49	227
Missing FICO	1	8	5	14
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	333	853	300	1,486
Less than or equal to 660	51	132	51	234
Missing FICO	2	8	3	13
Less than 90% and updated FICO scores:				
Greater than 660	13,678	7,877	13,795	35,350
Less than or equal to 660	1,212	775	555	2,542
Missing FICO	42	56	97	195
Total home equity and residential real estate loans	$15,757	$11,057	$ 15,252	$42,066

December 31, 2017 - in millions	Home Equity 1st Liens	Home Equity 2nd Liens	Residential Real Estate	Total
Current estimated LTV ratios				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$108	$385	$ 126	$619
Less than or equal to 660 (b)	21	64	23	108
Missing FICO	1	5	1	7
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	300	842	253	1,395
Less than or equal to 660 (b)	46	143	45	234
Missing FICO	2	9	5	16
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	331	890	324	1,545
Less than or equal to 660	55	134	55	244
Missing FICO	2	9	4	15
Less than 90% and updated FICO scores:				
Greater than 660	13,954	8,066	13,445	35,465
Less than or equal to 660	1,214	774	507	2,495
Missing FICO	42	57	95	194
Total home equity and residential real estate loans	$16,076	$11,378	$ 14,883	$42,337

(a) Amounts shown represent recorded investment.

(b) 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%. The following states had the highest percentage of higher risk loans at March 31, 2018: New Jersey 16%, Pennsylvania 13%, Illinois 12%, Ohio 10%, Maryland 8%, Florida 6%, North Carolina 5% and Michigan 4%. The remainder of the states had lower than 4% of the higher risk loans

individually, and collectively they represent approximately 26% of the higher risk loans. The following states had the highest percentage of higher risk loans at December 31, 2017: New Jersey 17%, Pennsylvania 13%, Illinois 13%, Ohio 9%, Maryland 8%, Florida 6%, North Carolina 5% and Michigan 4%. The remainder of the states had lower than 4% of the higher risk loans individually, and collectively they represent approximately 25% of the higher risk loans.

Credit Card and Other Consumer Loan Classes

The following table presents asset quality indicators for the credit card and other consumer loan classes.

Table 42: Credit Card and Other Consumer Loan Classes Asset Quality Indicators

	Credit Card			Other Consumer (a)		
Dollars in millions	Amount	% of Total Loans Using FICO Credit Metric		Amount	% of Total Loans Using FICO Credit Metric	
March 31, 2018						
FICO score greater than 719	$3,368	60	%	$10,235	61	%
650 to 719	1,603	28	%	4,611	27	%
620 to 649	254	5	%	815	5	%
Less than 620	297	5	%	844	5	%
No FICO score available or required (b)	135	2	%	316	2	%
Total loans using FICO credit metric	5,657	100	%	16,821	100	%
Consumer loans using other internal credit metrics (a)				5,036		
Total loan balance	$5,657			$21,857		
Weighted-average updated FICO score (b)		733			737	
December 31, 2017						
FICO score greater than 719	$3,457	61	%	$10,366	63	%
650 to 719	1,596	28	%	4,352	27	%
620 to 649	250	4	%	659	4	%
Less than 620	272	5	%	715	4	%
No FICO score available or required (b)	124	2	%	314	2	%
Total loans using FICO credit metric	5,699	100	%	16,406	100	%
Consumer loans using other internal credit metrics (a)				5,338		
Total loan balance	$5,699			$21,744		
Weighted-average updated FICO score (b)		735			741	

(a) We use updated FICO scores as an asset quality indicator for non-government guaranteed or insured education loans, automobile loans and other secured and unsecured lines and loans. We use internal credit metrics, such as delinquency status, geography or other factors, as an asset quality indicator for government guaranteed or insured education loans and consumer loans to high net worth individuals, as internal credit metrics are more relevant than FICO scores for these types of loans.

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

Troubled Debt Restructurings (TDRs)

Table 43 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, 2018 and March 31, 2017. Additionally, the table provides information about the types of TDR concessions. See Note 3 Asset Quality in our 2017 Form 10-K for additional discussion of TDRs.

Table 43: Financial Impact and TDRs by Concession Type (a)

			Post-TDR Recorded Investment (c)			
During the three months ended March 31, 2018 Dollars in millions	Number of Loans	Pre-TDR Recorded Investment (b)	Principal Forgiveness	Rate Reduction	Other	Total

Total commercial lending	32	$ 10	$ 1	$ 7	$ 8
Total consumer lending	2,979	49	30	16	46
Total TDRs	3,011	$ 59	$ 31	$ 23	$ 54
During the three months ended March 31, 2017					
Dollars in millions					
Total commercial lending	49	$ 35	$4 $ 6	$ 5	$ 15
Total consumer lending	2,899	73	37	31	68
Total TDRs	2,948	$ 108	$4 $ 43	$ 36	$ 83

(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.

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, 2018 and January 1, 2017, respectively, and (ii) subsequently defaulted during the three months ended March 31, 2018 and March 31, 2017 totaled $21 million and $32 million, respectively.

Impaired Loans

Impaired loans include commercial and consumer nonperforming loans and 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. 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, 2018 and March 31, 2017. Table 44 provides further detail on impaired loans individually evaluated for impairment and the associated allowance for loan and lease losses (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 44: Impaired Loans

In millions	Unpaid Principal Balance	Recorded Investment	Associated Allowance	Average Recorded Investment (a)
March 31, 2018				
Impaired loans with an associated allowance				
Total commercial lending	$ 537	$ 371	$ 101	$ 363
Total consumer lending	980	915	152	964
Total impaired loans with an associated allowance	1,517	1,286	253	1,327
Impaired loans without an associated allowance				
Total commercial lending	427	326		345
Total consumer lending	1,158	693		666
Total impaired loans without an associated allowance	1,585	1,019		1,011
Total impaired loans	$ 3,102	$ 2,305	$ 253	$ 2,338
December 31, 2017				
Impaired loans with an associated allowance				
Total commercial lending	$ 580	$ 353	$ 76	$ 419
Total consumer lending	1,061	1,014	195	1,072
Total impaired loans with an associated allowance	1,641	1,367	271	1,491
Impaired loans without an associated allowance				
Total commercial lending	494	366		330
Total consumer lending	1,019	638		648
Total impaired loans without an associated allowance	1,513	1,004		978
Total impaired loans	$ 3,154	$ 2,371	$ 271	$ 2,469

(a) Average recorded investment is for the three months ended March 31, 2018 and the year ended December 31, 2017, respectively.

NOTE 4 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 portfolio

segments. See Note 1 Accounting Policies in our 2017 Form 10-K for a description of the accounting policies for ALLL.

A rollforward of the ALLL and associated loan data follows:

Table 45: Rollforward of Allowance for Loan and Lease Losses and Associated Loan Data

Dollars in millions	Commercial Lending	Consumer Lending	Total
March 31, 2018			
Allowance for Loan and Lease Losses			
January 1	$1,582	$1,029	$2,611
Charge-offs	(36)	(157)	(193)
Recoveries	26	54	80
Net (charge-offs)	(10)	(103)	(113)
Provision for credit losses	37	55	92
Net (increase) / decrease in allowance for unfunded loan commitments and letters of credit	5	2	7
Other		7	7
March 31	$1,614	$990	$2,604
TDRs individually evaluated for impairment	$34	$152	$186
Other loans individually evaluated for impairment	67		67
Loans collectively evaluated for impairment	1,513	556	2,069
Purchased impaired loans		282	282
March 31	$1,614	$990	$2,604
Loan Portfolio			
TDRs individually evaluated for impairment	$384	$1,608	$1,992
Other loans individually evaluated for impairment	313		313
Loans collectively evaluated for impairment	148,248	67,934	216,182
Fair value option loans (a)		813	813
Purchased impaired loans		2,314	2,314
March 31	$148,945	$72,669	$221,614
Portfolio segment ALLL as a percentage of total ALLL	62%	38%	100%
Ratio of ALLL to total loans	1.08%	1.36%	1.18%
March 31, 2017			
Allowance for Loan and Lease Losses			
January 1	$1,534	$1,055	$2,589
Charge-offs	(55)	(143)	(198)
Recoveries	32	48	80
Net (charge-offs)	(23)	(95)	(118)
Provision for credit losses	23	65	88
Net (increase) / decrease in allowance for unfunded loan commitments and letters of credit	(5)	1	(4)
Other	1	5	6
March 31	$1,530	$1,031	$2,561
TDRs individually evaluated for impairment	$37	$215	$252
Other loans individually evaluated for impairment	53		53
Loans collectively evaluated for impairment	1,412	526	1,938
Purchased impaired loans	28	290	318
March 31	$1,530	$1,031	$2,561
Loan Portfolio			
TDRs individually evaluated for impairment	$366	$1,764	$2,130
Other loans individually evaluated for impairment	351		351
Loans collectively evaluated for impairment	139,863	66,797	206,660

Fair value option loans (a)			874		874	
Purchased impaired loans	82		2,729		2,811	
March 31	$140,662		$72,164		$212,826	
Portfolio segment ALLL as a percentage of total ALLL	60	%	40	%	100	%
Ratio of ALLL to total loans	1.09	%	1.43	%	1.20	%

(a) Loans accounted for under the fair value option are not evaluated for impairment as these loans are accounted for at fair value. Accordingly, there is no allowance recorded on these loans.

NOTE 5 INVESTMENT SECURITIES

Table 46: Investment Securities Summary

In millions	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2018				
Securities Available for Sale				
Debt securities				
U.S. Treasury and government agencies	$ 13,645	$123	$(179)	$13,589
Residential mortgage-backed				
Agency	26,512	74	(584)	26,002
Non-agency	2,320	333	(17)	2,636
Commercial mortgage-backed				
Agency	1,884	1	(78)	1,807
Non-agency	2,585	9	(24)	2,570
Asset-backed	5,129	71	(17)	5,183
Other debt	4,166	103	(38)	4,231
Total securities available for sale	$ 56,241	$714	$(937)	$56,018
Securities Held to Maturity				
Debt securities				
U.S. Treasury and government agencies	$ 745	$28	$(27)	$746
Residential mortgage-backed				
Agency	14,663	18	(382)	14,299
Non-agency	163	3		166
Commercial mortgage-backed				
Agency	338	2	(1)	339
Non-agency	524	4		528
Asset-backed	196	1		197
Other debt	1,915	59	(26)	1,948
Total securities held to maturity	$ 18,544	$115	$(436)	$18,223
December 31, 2017				
Securities Available for Sale				
Debt securities				
U.S. Treasury and government agencies	$ 14,432	$173	$(84)	$14,521
Residential mortgage-backed				
Agency	25,534	121	(249)	25,406
Non-agency	2,443	336	(21)	2,758
Commercial mortgage-backed				
Agency	1,960	2	(58)	1,904
Non-agency	2,603	19	(9)	2,613
Asset-backed	5,331	74	(8)	5,397
Other debt	4,322	129	(17)	4,434
Total debt securities	56,625	854	(446)	57,033
Other (a)	587		(2)	585
Total securities available for sale	$ 57,212	$854	$(448)	$57,618
Securities Held to Maturity				
Debt securities				
U.S. Treasury and government agencies	$ 741	$37	$(13)	$765
Residential mortgage-backed				
Agency	14,503	77	(139)	14,441

Non-agency	167	7		174
Commercial mortgage-backed				
Agency	407	4		411
Non-agency	538	10		548
Asset-backed	200	1		201
Other debt	1,957	88	(20)	2,025
Total securities held to maturity	$ 18,513	$224	$(172)	$18,565

(a) On January 1, 2018, $.6 billion of available for sale securities, primarily money market funds, were reclassified to equity investments in accordance with the adoption of ASU 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 for additional detail on this adoption.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. Net unrealized gains and losses in the securities available for sale portfolio are included in Shareholders' equity as AOCI, unless credit-related. Securities held to maturity are carried at amortized cost. At March 31, 2018, AOCI included pretax gains of $50 million from derivatives that hedged the purchase of investment securities classified as held to maturity. The gains will be accreted into interest income as an adjustment of yield on the securities.

Table 47 presents gross unrealized losses and fair value of debt securities at March 31, 2018 and December 31, 2017. The securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more based on the point in time that the fair value declined below the amortized cost basis. The table includes debt securities where a portion of other than temporary impairment (OTTI) has been recognized in AOCI.

Table 47: Gross Unrealized Loss and Fair Value of Debt Securities

In millions	Unrealized loss position less than 12 months		Unrealized loss position 12 months or more		Total	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
March 31, 2018						
Securities Available for Sale						
Debt securities						
U.S. Treasury and government agencies	$ (120)	$ 6,937	$ (59)	$ 1,142	$(179)	$8,079
Residential mortgage-backed						
Agency	(229)	11,684	(355)	8,965	(584)	20,649
Non-agency	(1)	94	(16)	352	(17)	446
Commercial mortgage-backed						
Agency	(16)	499	(62)	1,243	(78)	1,742
Non-agency	(15)	1,284	(9)	325	(24)	1,609
Asset-backed	(14)	2,366	(3)	383	(17)	2,749
Other debt	(16)	1,675	(22)	787	(38)	2,462
Total debt securities available for sale	$ (411)	$ 24,539	$ (526)	$ 13,197	$(937)	$37,736
Securities Held to Maturity						
Debt securities						
U.S. Treasury and government agencies	$ (7)	$ 191	$ (20)	$ 246	$(27)	$437
Residential mortgage-backed - Agency	(133)	7,080	(249)	5,830	(382)	12,910
Commercial mortgage-backed - Agency	(1)	170			(1)	170
Other debt	(7)	105	(19)	85	(26)	190
Total debt securities held to maturity	$ (148)	$ 7,546	$ (288)	$ 6,161	$(436)	$13,707
December 31, 2017						
Securities Available for Sale						
Debt securities						
U.S. Treasury and government agencies	$ (42)	$ 6,099	$ (42)	$ 1,465	$(84)	$7,564
Residential mortgage-backed						
Agency	(47)	8,151	(202)	9,954	(249)	18,105
Non-agency			(21)	383	(21)	383
Commercial mortgage-backed						
Agency	(11)	524	(47)	1,302	(58)	1,826
Non-agency	(3)	400	(6)	333	(9)	733
Asset-backed	(4)	1,697	(4)	462	(8)	2,159

Other debt	(3	)	966	(14	)	798	(17)	1,764
Total debt securities available for sale	$ (110	)	$ 17,837	$ (336	)	$ 14,697	$(446)	$32,534
Securities Held to Maturity								
Debt securities								
U.S. Treasury and government agencies	$ (3	)	$ 195	$ (10	)	$ 255	$(13)	$450
Residential mortgage-backed - Agency	(10	)	3,167	(129	)	6,168	(139)	9,335
Other debt	(12	)	83	(8	)	67	(20)	150
Total debt securities held to maturity	$ (25	)	$ 3,445	$ (147	)	$ 6,490	$(172)	$9,935

Evaluating Investment Securities for OTTI

For the securities in Table 47, as of March 31, 2018 we do not intend to sell and believe we will not be required to sell the securities prior to recovery of the amortized cost basis.

On at least a quarterly basis, we review all debt securities that are in an unrealized loss position for OTTI, as discussed in Note 1 Accounting Policies of our 2017 Form 10-K. For those securities on our Consolidated Balance Sheet at March 31, 2018, where during our quarterly security-level impairment assessments we determined losses represented 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. During the first quarters of 2018 and 2017, the OTTI credit losses recognized in noninterest income and the OTTI noncredit losses recognized in AOCI on securities were not significant.

Information relating to gross realized securities gains and losses from the sales of securities is set forth in the following table:

Table 48: Gains (Losses) on Sales of Securities Available for Sale

Three months ended March 31 In millions	Proceeds	Gross Gains	Gross Losses	Net Losses	Tax Benefit
2018	$ 4,490	$ 37	$ (38)	$ (1)	
2017	$ 3,222	$ 14	$ (16)	$ (2)	$ (1)

The following table presents, by remaining contractual maturity, the amortized cost, fair value and weighted-average yield of debt securities at March 31, 2018.

Table 49: Contractual Maturity of Debt Securities

March 31, 2018 Dollars in millions	1 Year or Less	After 1 Year through 5 Years	After 5 Years through 10 Years	After 10 Years	Total
Securities Available for Sale					
U.S. Treasury and government agencies	$ 85	$ 7,752	$ 5,335	$473	$13,645
Residential mortgage-backed					
Agency	3	50	568	25,891	26,512
Non-agency				2,320	2,320
Commercial mortgage-backed					
Agency		313	560	1,011	1,884
Non-agency			450	2,135	2,585
Asset-backed	19	1,877	1,940	1,293	5,129
Other debt	683	1,784	632	1,067	4,166
Total debt securities available for sale	$ 790	$ 11,776	$ 9,485	$34,190	$56,241
Fair value	$ 789	$ 11,676	$ 9,462	$34,091	$56,018
Weighted-average yield, GAAP basis	2.39 %	2.18 %	2.40 %	3.05 %	2.75 %
Securities Held to Maturity					
U.S. Treasury and government agencies			$ 478	$267	$745
Residential mortgage-backed					
Agency		$ 79	334	14,250	14,663
Non-agency				163	163
Commercial mortgage-backed					
Agency	$ 156	125	5	52	338
Non-agency				524	524
Asset-backed			113	83	196
Other debt	14	431	848	622	1,915
Total debt securities held to maturity	$ 170	$ 635	$ 1,778	$15,961	$18,544

Fair value	$ 170		$ 646		$ 1,821		$15,586		$18,223	
Weighted-average yield, GAAP basis	3.53	%	3.84	%	3.52	%	3.21	%	3.26	%

Weighted-average yields are based on amortized cost with effective yields weighted for the contractual maturity of each security. At March 31, 2018, there were no securities of a single issuer, other than the Federal National Mortgage Association (FNMA), that exceeded 10% of Total shareholders' equity. The FNMA investments had a total amortized cost of $32.7 billion and fair value of $31.9 billion.

The following table presents the fair value of securities that have been either pledged to or accepted from others to collateralize outstanding borrowings.

Table 50: Fair Value of Securities Pledged and Accepted as Collateral

In millions	March 31 2018	December 31 2017
Pledged to others	$8,264	$ 8,175
Accepted from others:		
Permitted by contract or custom to sell or repledge	$1,134	$ 1,152
Permitted amount repledged to others	$1,098	$ 1,097

The securities pledged to others include positions held in our portfolio of investment securities, trading securities and securities accepted as collateral from others that we are permitted by contract or custom to sell or repledge, and were used to secure public and trust deposits, repurchase agreements and for other purposes.

NOTE 6 FAIR VALUE

Fair Value Measurement

We measure certain financial assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability on the measurement date, determined using an exit price in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. The fair value hierarchy established by GAAP requires us to maximize the use of observable inputs when measuring fair value. For more information regarding the fair value hierarchy, see Note 6 Fair Value in our 2017 Form 10-K.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

For more information on the valuation methodologies used to measure assets and liabilities at fair value on a recurring basis, see Note 6 Fair Value in our 2017 Form 10-K. The following table summarizes our assets and liabilities measured at fair value on a recurring basis, including instruments for which we have elected the fair value option.

Table 51: Fair Value Measurements – Recurring Basis Summary

	March 31, 2018				December 31, 2017			
In millions	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets								
Residential mortgage loans held for sale		$615	$2	$ 617		$829	$3	$ 832
Commercial mortgage loans held for sale		153	92	245		723	107	830
Securities available for sale								
U.S. Treasury and government agencies	$13,158	431		13,589	$14,088	433		14,521
Residential mortgage-backed								
Agency		26,002		26,002		25,406		25,406
Non-agency		91	2,545	2,636		97	2,661	2,758
Commercial mortgage-backed								
Agency		1,807		1,807		1,904		1,904
Non-agency		2,570		2,570		2,613		2,613
Asset-backed		4,862	321	5,183		5,065	332	5,397
Other debt		4,137	94	4,231		4,347	87	4,434
Total debt securities	13,158	39,900	2,960	56,018	14,088	39,865	3,080	57,033
Other (a)					524	61		585
Total securities available for sale	13,158	39,900	2,960	56,018	14,612	39,926	3,080	57,618
Loans		511	302	813		571	298	869
Equity investments (b)	489	60	1,129	1,905			1,036	1,265
Residential mortgage servicing rights			1,256	1,256			1,164	1,164
Commercial mortgage servicing rights			723	723			668	668
Trading securities (c)	827	1,678	2	2,507	1,243	1,670	2	2,915
Financial derivatives (c) (d)	2	1,889	12	1,903		2,864	10	2,874
Other assets	275	250	68	593	278	253	107	638
Total assets	$14,751	$45,056	$6,546	$ 66,580	$16,133	$46,836	$6,475	$ 69,673
Liabilities								
Other borrowed funds	$963	$205	$9	$ 1,177	$1,079	$254	$11	$ 1,344
Financial derivatives (d) (e)		2,505	437	2,942		2,369	487	2,856
Other liabilities			42	42			33	33
Total liabilities	$963	$2,710	$488	$ 4,161	$1,079	$2,623	$531	$ 4,233

(a) Prior period amounts included $.6 billion of available for sale securities, primarily money market funds, that were reclassified to equity investments on January 1, 2018 as the result of the adoption of ASU 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 for additional details on this adoption.

(b) Certain investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the Consolidated Balance Sheet.

(c) Included in Other assets on the Consolidated Balance Sheet.

(d) Amounts at March 31, 2018 and December 31, 2017 are presented gross and are not reduced by the impact of legally enforceable master netting agreements that allow us to net positive and negative positions and cash collateral held or placed with the same counterparty. See Note 9 Financial Derivatives for additional information related to derivative offsetting.

(e) Included in Other liabilities on the Consolidated Balance Sheet.

Reconciliations of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the three months ended March 31, 2018 and 2017 follow:

Table 52: Reconciliation of Level 3 Assets and Liabilities

Three Months Ended March 31, 2018

Level 3 Instruments Only In millions	Fair Value Dec. 31, 2017	Total realized / unrealized gains or losses for the period (a) Included in Earnings	Included in Other comprehensive income	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Fair Value Mar. 31, 2018	Unrealized gains / losses on assets and liabilities held on Consolidated Balance Sheet at Mar. 31, 2018 (a) (b)
Assets											
Residential mortgage loans held for sale	$3			$ 1	$(1)			$ 2	$ (3)	$2	
Commercial mortgage loans held for sale	107						$ (15)			92	
Securities available for sale											
Residential mortgage-backed non-agency	2,661	$ 19	$ 3				(138)			2,545	
Asset-backed	332	(1)	5				(15)			321	
Other debt	87	5	1	2			(1)			94	
Total securities available for sale	3,080	23	9	2			(154)			2,960	
Loans	298	2		37	(7)		(18)	2	(12)	302	$ 2
Equity investments	1,036	26		82	(15)					1,129	25
Residential mortgage servicing rights	1,164	107		9		$ 13	(37)			1,256	105
Commercial mortgage servicing rights	668	48		23		17	(33)			723	48
Trading securities	2									2	
Financial derivatives	10	7		1			(6)			12	9
Other assets	107	3					(42)			68	3
Total assets	$6,475	$ 216	$ 9	$ 155	$(23)	$ 30	$ (305)	$ 4	$ (15)	$6,546	$ 192
Liabilities											
Other borrowed funds	$11					$ 19	$ (21)			$9	
Financial derivatives	487	$ 10			$3		(63)			437	$ 5
Other liabilities	33	2		$ 12		5	(10)			42	2
Total liabilities	$531	$ 12		$ 12	$3	$ 24	$ (94)			$488	$ 7
Net gains (losses)		$ 204	(c)								$ 185 (d)

Three Months Ended March 31, 2017

Level 3 Instruments Only In millions	Fair Value Dec. 31, 2016	Total realized / unrealized gains or losses for the period (a) Included in Earnings	Included in Other comprehensive income	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Fair Value Mar. 31, 2017	Unrealized gains / losses on assets and liabilities held on Consolidated Balance Sheet at Mar. 31, 2017 (a) (b)
Assets											
Residential mortgage loans held for sale	$2			$ 2				$ 2	$ (2)	$4	
Commercial mortgage loans held for sale	1,400	$ 9			$ (1,617)	$ 801	$ (12)			581	$ (5)
Securities available for sale											
Residential mortgage-backed non-agency	3,254	26	$ 18				(202)			3,096	
Asset-backed	403	4	4		(25)		(20)			366	
Other debt	66		9	1	(1)					75	
Total securities available for sale	3,723	30	31	1	(26)		(222)			3,537	
Loans	335	1		22	(4)		(19)	2	(14)	323	
Equity investments	1,331	96		37	(175)				(183) (e)	1,106	67
Residential mortgage servicing rights	1,182	18		83		17	(39)			1,261	17
Commercial mortgage servicing rights	576	13		13		29	(25)			606	13
Trading securities	2									2	
Financial derivatives	40	(1)					(15)			24	22
Other assets	239	(2)					(155)			82	(2)
Total assets	$8,830	$ 164	$ 31	$ 158	$ (1,822)	$ 847	$ (487)	$ 4	$ (199)	$7,526	$ 112
Liabilities											
Other borrowed funds	$10					$ 19	$ (22)			$7	
Financial derivatives	414	$ 9			$2		(171)			254	$ 7
Other liabilities	9	16				77	(71)			31	16
Total liabilities	$433	$ 25			$2	$ 96	$ (264)			$292	$ 23
Net gains (losses)		$ 139 (c)									$ 89 (d)

(a) Losses for assets are bracketed while losses for liabilities are not.

(b) The amount of the total gains or losses for the period included in earnings that is attributable to the change in unrealized gains or losses related to those assets and liabilities held at the end of the reporting period.

(c) Net gains (losses) realized and unrealized included in earnings related to Level 3 assets and liabilities included amortization and accretion. The amortization and accretion amounts were included in Interest income on the Consolidated Income Statement and the remaining net gains (losses) realized and unrealized were included in Noninterest income on the Consolidated Income Statement.

(d) Net unrealized gains (losses) related to assets and liabilities held at the end of the reporting period were included in Noninterest income on the Consolidated Income Statement.

(e) Reflects transfer out of Level 3 associated with change in valuation methodology for certain equity investments subject to the Volcker Rule provisions of the Dodd-Frank Act.

An instrument’s categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification (transfer) of assets or liabilities between hierarchy levels. Our policy is to recognize transfers in and transfers out as of the end of the reporting period.

Quantitative information about the significant unobservable inputs within Level 3 recurring assets and liabilities follows:

Table 53: Fair Value Measurements – Recurring Quantitative Information

March 31, 2018 Level 3 Instruments Only Dollars in millions	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted-Average)
Commercial mortgage loans held for sale	$ 92	Discounted cash flow	Spread over the benchmark curve (a)	525bps - 1,580bps (1,069bps)
Residential mortgage-backed non-agency securities	2,545	Priced by a third-party vendor using a discounted cash flow pricing model	Constant prepayment rate (CPR)	1.0% - 33.0% (10.9%)
			Constant default rate (CDR)	0.0% - 17.8% (5.7%)
			Loss severity	20.0% - 100.0% (50.5%)
			Spread over the benchmark curve (a)	196bps weighted-average
Asset-backed securities	321	Priced by a third-party vendor using a discounted cash flow pricing model	Constant prepayment rate (CPR)	1.0% - 19.0% (7.9%)
			Constant default rate (CDR)	2.0% - 11.8% (5.1%)
			Loss severity	16.0% - 100.0% (67.1%)
			Spread over the benchmark curve (a)	126bps weighted-average
Loans	142	Consensus pricing (b)	Cumulative default rate	11.0% - 100.0% (82.5%)
			Loss severity	0.0% - 100.0% (18.5%)
			Discount rate	5.5% - 8.0% (5.7%)
	99	Discounted cash flow	Loss severity	8.0% weighted-average
			Discount rate	5.4% weighted-average
	61	Consensus pricing (b)	Credit and Liquidity discount	0.0% - 99.0% (61.1%)
Equity investments	1,129	Multiple of adjusted earnings	Multiple of earnings	4.9x - 29.7x (8.3x)
Residential mortgage servicing rights	1,256	Discounted cash flow	Constant prepayment rate (CPR)	0.0% - 44.4% (8.7%)
			Spread over the benchmark curve (a)	346bps - 1,811bps (831bps)
Commercial mortgage servicing rights	723	Discounted cash flow	Constant prepayment rate (CPR)	7.0% - 13.7% (7.9%)
			Discount rate	6.3% - 8.3% (8.1%)
Financial derivatives - Swaps related to sales of certain Visa Class B common shares	(363)	Discounted cash flow	Estimated conversion factor of Visa Class B shares into Class A shares	163.8% weighted-average
			Estimated growth rate of Visa Class A share price	16.0%

		Estimated length of litigation resolution date	Q2 2021
Insignificant Level 3 assets, net of liabilities (c)	53		
Total Level 3 assets, net of liabilities (d)	$ 6,058		

December 31, 2017 Level 3 Instruments Only Dollars in millions	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted-Average)
Commercial mortgage loans held for sale	$107	Discounted cash flow	Spread over the benchmark curve (a)	525bps - 1,470bps (1020bps)
Residential mortgage-backed non-agency securities	2,661	Priced by a third-party vendor using a discounted cash flow pricing model	Constant prepayment rate (CPR)	1.0% - 31.6% (10.8%)
			Constant default rate (CDR)	0.1% - 18.8% (5.4%)
			Loss severity	15.0% - 100.0% (51.5%)
			Spread over the benchmark curve (a)	190bps weighted-average
Asset-backed securities	332	Priced by a third-party vendor using a discounted cash flow pricing model	Constant prepayment rate (CPR)	1.0% - 19.0% (7.9%)
			Constant default rate (CDR)	2.0% - 11.8% (5.4%)
			Loss severity	15.0% - 100.0% (68.5%)
			Spread over the benchmark curve (a)	179bps weighted-average
Loans	133	Consensus pricing (b)	Cumulative default rate	11.0% - 100.0% (85.7%)
			Loss severity	0.0% - 100.0% (20.6%)
			Discount rate	5.5% - 8.0% (5.7%)
	104	Discounted cash flow	Loss severity	8.0% weighted-average
			Discount rate	4.9% weighted-average
	61	Consensus pricing (b)	Credit and Liquidity discount	0.0% - 99.0% (61.1%)
Equity investments	1,036	Multiple of adjusted earnings	Multiple of earnings	4.5x - 29.7x (8.3x)
Residential mortgage servicing rights	1,164	Discounted cash flow	Constant prepayment rate (CPR)	0.0% - 36.7% (10.0%)
			Spread over the benchmark curve (a)	390bps - 1,839bps (830bps)
Commercial mortgage servicing rights	668	Discounted cash flow	Constant prepayment rate (CPR)	7.7% - 14.2% (8.5%)
			Discount rate	6.4% - 7.9% (7.8%)
Financial derivatives - Swaps related to sales of certain Visa Class B common shares	(380)	Discounted cash flow	Estimated conversion factor of Visa Class B shares into Class A shares	163.8% weighted-average
			Estimated growth rate of Visa Class A share price	16.0%
			Estimated length of litigation resolution date	Q2 2021
Insignificant Level 3 assets, net of liabilities (c)	58			
Total Level 3 assets, net of liabilities (d)	$5,944			

(a) The assumed yield spread over the benchmark curve for each instrument is generally intended to incorporate non-interest rate risks, such as credit and liquidity risks.

(b) Consensus pricing refers to fair value estimates that are generally internally developed using information such as dealer quotes or other third-party provided valuations or comparable asset prices.

(c)

Represents the aggregate amount of Level 3 assets and liabilities measured at fair value on a recurring basis that are individually and in the aggregate insignificant. The amount includes certain financial derivative assets and liabilities, trading securities, other debt securities, residential mortgage loans held for sale, other assets, other borrowed funds and other liabilities.

(d) Consisted of total Level 3 assets of $6.5 billion and total Level 3 liabilities of $.5 billion as of March 31, 2018 and $6.4 billion and $.5 billion as of December 31, 2017, respectively.

Financial Assets Accounted for at Fair Value on a Nonrecurring Basis

We may be required to measure certain financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower of amortized cost or fair value accounting or write-downs of individual assets due to impairment and are included in Table 54 and Table 55. For more information regarding the valuation methodologies of our financial assets measured at fair value on a nonrecurring basis, see Note 6 Fair Value in our 2017 Form 10-K.

Table 54: Fair Value Measurements – Nonrecurring

	Fair Value (a)		Gains (Losses) Three months ended	
In millions	March 31 2018	December 31 2017	March 31 2018	March 31 2017
Assets				
Nonaccrual loans	$137	$ 100	$ (23)	$ (6)
OREO, foreclosed and other assets	35	70		(4)
Long-lived assets	15	80	(2)	3
Total assets	$187	$ 250	$ (25)	$ (7)

(a) All Level 3 as of March 31, 2018 and December 31, 2017.

Quantitative information about the significant unobservable inputs within Level 3 nonrecurring assets follows:

Table 55: Fair Value Measurements – Nonrecurring Quantitative Information

Level 3 Instruments Only In millions	Fair Value	Valuation Techniques	Unobservable Inputs
March 31, 2018			
Assets			
Nonaccrual loans	$ 137	Fair value of property or collateral	Appraised value/sales price
OREO, foreclosed and other assets	35	Fair value of property or collateral	Appraised value/sales price
Long-lived assets	15	Fair value of property or collateral	Appraised value/sales price
Total assets	$ 187		
December 31, 2017			
Assets			
Nonaccrual loans	$ 100	Fair value of property or collateral	Appraised value/sales price
OREO, foreclosed and other assets	70	Fair value of property or collateral	Appraised value/sales price
Long-lived assets	47	Fair value of property or collateral	Appraised value/sales price
	20	Fair value of property or collateral	Broker opinion
	13	Fair value of property or collateral	Projected income/required improvement costs
Total assets	$ 250		

Financial Instruments Accounted for under Fair Value Option

We elect the fair value option to account for certain financial instruments. For more information on these financial instruments for which the fair value option election has been made, see Note 6 Fair Value in our 2017 Form 10-K.

Fair values and aggregate unpaid principal balances of certain items for which we elected the fair value option follow:

Table 56: Fair Value Option – Fair Value and Principal Balances

In millions	Fair Value	Aggregate Unpaid Principal Balance	Difference
March 31, 2018			
Assets			
Residential mortgage loans held for sale			
Performing loans	$ 604	$ 591	$ 13
Accruing loans 90 days or more past due	3	3	
Nonaccrual loans	10	11	(1)
Total	$ 617	$ 605	$ 12
Commercial mortgage loans held for sale (a)			
Performing loans	$ 244	$ 264	$ (20)
Nonaccrual loans	1	2	(1)
Total	$ 245	$ 266	$ (21)
Residential mortgage loans			
Performing loans	$ 290	$ 319	$ (29)
Accruing loans 90 days or more past due	334	344	(10)
Nonaccrual loans	189	307	(118)
Total	$ 813	$ 970	$ (157)
Other assets	$ 216	$ 221	$ (5)
Liabilities			
Other borrowed funds	$ 56	$ 57	$ (1)
December 31, 2017			
Assets			
Residential mortgage loans held for sale			
Performing loans	$ 822	$ 796	$ 26
Accruing loans 90 days or more past due	3	3	
Nonaccrual loans	7	8	(1)
Total	$ 832	$ 807	$ 25
Commercial mortgage loans held for sale (a)			
Performing loans	$ 828	$ 842	$ (14)
Nonaccrual loans	2	3	(1)
Total	$ 830	$ 845	$ (15)
Residential mortgage loans			
Performing loans	$ 251	$ 280	$ (29)
Accruing loans 90 days or more past due	421	431	(10)
Nonaccrual loans	197	317	(120)
Total	$ 869	$ 1,028	$ (159)
Other assets	$ 216	$ 212	$ 4
Liabilities			

Other borrowed funds	$ 84	$ 85	$ (1)

(a) There were no accruing loans 90 days or more past due within this category at March 31, 2018 or December 31, 2017.

The changes in fair value for items for which we elected the fair value option are as follows:

Table 57: Fair Value Option – Changes in Fair Value (a)

	Gains (Losses) Three months ended	
In millions	Mar. 31 2018	Mar. 31 2017
Assets		
Residential mortgage loans held for sale	$ 4	$ 30
Commercial mortgage loans held for sale	$ 14	$ 18
Residential mortgage loans	$ 3	$ 4
Other assets	$ 11	$ 7
Liabilities		
Other liabilities	$ (2)	$ (16)

(a) The impact on earnings of offsetting hedged items or hedging instruments is not reflected in these amounts.

Additional Fair Value Information Related to Financial Instruments Not Recorded at Fair Value

The following table presents the carrying amounts and estimated fair values, as well as the level within the fair value hierarchy, of all other financial instruments that are not recorded on our Consolidated Balance Sheet at fair value as of March 31, 2018 and December 31, 2017.

Table 58: Additional Fair Value Information Related to Other Financial Instruments

In millions	Carrying Amount	Fair Value Total	Level 1	Level 2	Level 3
March 31, 2018					
Assets					
Cash and due from banks	$4,649	$4,649	$4,649		
Interest-earning deposits with banks	28,821	28,821		$28,821	
Securities held to maturity	18,544	18,223	746	17,333	$144
Net loans (excludes leases)	210,395	211,926			211,926
Other assets	4,954	4,954		4,940	14
Total assets	$267,363	$268,573	$5,395	$51,094	$212,084
Liabilities					
Time deposits (a)	$16,270	$15,976		$15,976	
Borrowed funds	56,862	57,514		55,838	$1,676
Unfunded loan commitments and letters of credit	290	290			290
Other liabilities	416	416		416	
Total liabilities	$73,838	$74,196		$72,230	$1,966
December 31, 2017					
Assets					
Cash and due from banks	$5,249	$5,249	$5,249		
Interest-earning deposits with banks	28,595	28,595		$28,595	
Securities held to maturity	18,513	18,565	765	17,658	$142
Net loans (excludes leases)	209,044	211,175			211,175
Other assets	6,078	6,736		5,949	787

Total assets	$267,479	$270,320	$6,014	$52,202	$212,104
Liabilities					
Deposits	$265,053	$264,854		$264,854	
Borrowed funds	57,744	58,503		56,853	$1,650
Unfunded loan commitments and letters of credit	297	297			297
Other liabilities	399	399		399	
Total liabilities	$323,493	$324,053		$322,106	$1,947

(a) The amount at March 31, 2018 excludes deposit liabilities with no defined or contractual maturities in accordance with the adoption of ASU 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 for additional details on this adoption.

The aggregate fair values in Table 58 represent only a portion of the total market value of our assets and liabilities as, in accordance with the guidance related to fair values about financial instruments, we exclude the following:

- financial instruments recorded at fair value on a recurring basis (as they are disclosed in Table 51),
- investments accounted for under the equity method,
- equity securities without a readily determinable fair value that apply for the alternative measurement approach to fair value under ASU 2016-01,
- real and personal property,
- lease financing,
- loan customer relationships,
- deposit customer intangibles,
- mortgage servicing rights,
- retail branch networks,
- fee-based businesses, such as asset management and brokerage,
- trademarks and brand names,
- trade receivables and payables due in one year or less, and
- deposit liabilities with no defined or contractual maturities.

The balance of equity securities without a readily determinable fair value that apply the alternative measurement approach to fair value was $105 million and $106 million at March 31, 2018 and December 31, 2017, respectively. Impairment taken on those equity securities was immaterial in the first quarter of 2018.

For more information regarding the methods and assumptions used to estimate the fair values of financial instruments included in Table 58, see Note 6 Fair Value in our 2017 Form 10-K.

NOTE 7 GOODWILL AND MORTGAGE SERVICING RIGHTS

Goodwill

See Note 7 Goodwill and Mortgage Servicing Rights in our 2017 Form 10-K for more information regarding our goodwill.

Mortgage Servicing Rights

We recognize the right to service mortgage loans for others when we recognize it as an intangible asset and the servicing income we receive is more than adequate compensation. MSRs totaled $2.0 billion and $1.8 billion at March 31, 2018 and December 31, 2017, respectively, and consisted of loan servicing contracts for commercial and residential mortgages measured at fair value.

MSRs are subject to declines in value from actual or expected prepayment of the underlying loans and defaults as well as market driven changes in interest rates. We manage this risk by economically hedging the fair value of MSRs with securities and derivative instruments which are expected to increase (or decrease) in value when the value of MSRs decreases (or increases).

See the Sensitivity Analysis section of this Note 7, as well as Note 6 Fair Value in our 2017 Form 10-K for more detail on our fair value measurement of MSRs. Refer to Note 7 Goodwill and Mortgage Servicing Rights in our 2017 Form 10-K for more information on our accounting and measurement of MSRs.

Changes in the commercial and residential MSRs follow:

Table 59: Mortgage Servicing Rights

	Commercial MSRs		Residential MSRs	
In millions	2018	2017	2018	2017
January 1	$668	$576	$1,164	$1,182
Additions:				
From loans sold with servicing retained	17	29	13	17
Purchases	23	13	9	83
Changes in fair value due to:				
Time and payoffs (a)	(33)	(25)	(37)	(39)
Other (b)	48	13	107	18
March 31	$723	$606	$1,256	$1,261
Related unpaid principal balance at March 31	$169,172	$143,908	$124,696	$130,382
Servicing advances at March 31	$200	$234	$197	$260

(a) Represents decrease in MSR value due to passage of time, including the impact from both regularly scheduled loan principal payments and loans that were paid down or paid off during the period.

(b) Represents MSR value changes resulting primarily from market-driven changes in interest rates.

Sensitivity Analysis

The fair value of commercial and residential MSRs and significant inputs to the valuation models as of March 31, 2018 are shown in Tables 60 and 61. The expected and actual rates of mortgage loan prepayments are significant factors driving the fair value. Management uses both internal proprietary models and a third-party model to estimate future commercial mortgage loan prepayments and a third-party model to estimate future residential mortgage loan prepayments. These models have been refined based on current market conditions and management judgment. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied forward interest rates to estimate the future direction of mortgage and discount rates. The forward rates utilized are derived from the current yield curve for U.S. dollar interest rate swaps and are consistent with pricing of capital markets instruments. Changes in the shape and slope of the forward curve in future periods may result in volatility in the fair value estimate.

A sensitivity analysis of the hypothetical effect on the fair value of MSRs to adverse changes in key assumptions is presented in Tables 60 and 61. These sensitivities do not include the impact of the related hedging activities. Changes in fair value generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSRs is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (e.g., changes in mortgage interest rates, which drive changes in prepayment rate estimates, could result in changes in the interest rate spread), which could either magnify or counteract the sensitivities.

The following tables set forth the fair value of commercial and residential MSRs and the sensitivity analysis of the hypothetical effect on the fair value of MSRs to immediate adverse changes of 10% and 20% in those assumptions.

Table 60: Commercial Mortgage Loan Servicing Rights – Key Valuation Assumptions

Dollars in millions	March 31 2018	December 31 2017
Fair value	$ 723	$ 668
Weighted-average life (years)	4.4	4.4
Weighted-average constant prepayment rate	7.89 %	8.51 %

Decline in fair value from 10% adverse change	$ 12		$ 12	
Decline in fair value from 20% adverse change	$ 22		$ 23	
Effective discount rate	8.09	%	7.81	%
Decline in fair value from 10% adverse change	$ 19		$ 18	
Decline in fair value from 20% adverse change	$ 39		$ 36	

Table 61: Residential Mortgage Loan Servicing Rights – Key Valuation Assumptions

Dollars in millions	March 31 2018	December 31 2017
Fair value	$1,256	$ 1,164
Weighted-average life (years)	7.0	6.4
Weighted-average constant prepayment rate	8.72 %	10.04 %
Decline in fair value from 10% adverse change	$40	$ 44
Decline in fair value from 20% adverse change	$78	$ 85
Weighted-average option adjusted spread	831 bps	830 bps
Decline in fair value from 10% adverse change	$38	$ 35
Decline in fair value from 20% adverse change	$74	$ 67

Fees from mortgage loan servicing, which includes contractually specified servicing fees, late fees and ancillary fees were $.1 billion for both the three months ended March 31, 2018 and 2017. We also generate servicing fees from fee-based activities provided to others for which we do not have an associated servicing asset. Fees from commercial and residential MSRs are reported on our Consolidated Income Statement in the line items Corporate services and Residential mortgage, respectively.

NOTE 8 EMPLOYEE BENEFIT PLANS

Pension and Postretirement Plans

As described in Note 11 Employee Benefit Plans in our 2017 Form 10-K, we have a noncontributory, qualified defined benefit pension plan covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are a percentage of eligible compensation. Beginning in 2018, these earnings credits are subject to a minimum annual amount. Any pension contributions to the plan are based on an actuarially determined amount necessary to fund total benefits payable to plan participants.

We also maintain nonqualified supplemental retirement plans for certain employees and provide certain health care and life insurance benefits for qualifying retired employees (postretirement benefits) through various plans. We reserve the right to terminate or make changes to these plans at any time.

The components of our net periodic benefit cost for the three months ended March 31, 2018 and 2017, respectively, were as follows:

Table 62: Components of Net Periodic Benefit Cost (a)

	Qualified Pension Plan		Nonqualified Pension Plan		Postretirement Benefits	
Three months ended March 31 In millions	2018	2017	2018	2017	2018	2017
Net periodic cost consists of:						
Service cost	$ 28	$ 26	$ 1	$ 1	$ 1	$ 1
Interest cost	43	45	2	3	3	4
Expected return on plan assets	(76)	(71)			(1)	(1)
Amortization of prior service credit		(1)				
Amortization of actuarial losses		12	1	1		
Net periodic cost/(benefit)	$ (5)	$ 11	$ 4	$ 5	$ 3	$ 4

(a)

The service cost component is included in Personnel expense on the Consolidated Income Statement. All other components are included in Other noninterest expense on the Consolidated Income Statement.

NOTE 9 FINANCIAL DERIVATIVES

We use derivative financial instruments primarily to help manage exposure to interest rate, market and credit risk and reduce the effects that changes in interest rates may have on net income, the fair value of assets and liabilities and cash flows. We also enter into derivatives with customers to facilitate their risk management activities. Derivatives represent contracts between parties that usually require little or no initial net investment and result in one party delivering cash or another type of asset to the other party based on a notional amount and an underlying as specified in the contract.

For more information regarding derivatives see Note 1 Accounting Policies and Note 13 Financial Derivatives in our 2017 Form 10-K.

The following table presents the notional amounts and gross fair values of all derivative assets and liabilities held by us.

Table 63: Total Gross Derivatives

In millions	March 31, 2018 Notional / Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)	December 31, 2017 Notional / Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)
Derivatives used for hedging under GAAP						
Interest rate contracts (c):						
Fair value hedges	$32,810	$ 75	$ 105	$34,059	$ 114	$ 94
Cash flow hedges	25,647	54	9	23,875	60	6
Foreign exchange contracts:						
Net investment hedges	1,112		51	1,060		11
Total derivatives designated for hedging	$59,569	$ 129	$ 165	$58,994	$ 174	$ 111
Derivatives not used for hedging under GAAP						
Derivatives used for mortgage banking activities (d):						
Interest rate contracts:						
Swaps	$54,578		$ 4	$48,335	$ 162	$ 42
Futures (e)	52,555			47,494		
Mortgage-backed commitments	6,796	$ 30	18	8,999	19	9
Other	6,370	15	3	2,530	11	2
Subtotal	120,299	45	25	107,358	192	53
Derivatives used for customer-related activities:						
Interest rate contracts:						
Swaps	200,489	1,182	1,807	194,042	2,079	1,772
Futures (e)	3,274			3,453		
Mortgage-backed commitments	1,894	6	4	2,228	2	2
Other	18,784	70	64	17,775	75	36
Subtotal	224,441	1,258	1,875	217,498	2,156	1,810
Foreign exchange contracts and other	30,043	451	432	27,330	349	332
Subtotal	254,484	1,709	2,307	244,828	2,505	2,142
Derivatives used for other risk management activities:						
Foreign exchange contracts and other (f)	7,142	20	445	7,445	3	550
Total derivatives not designated for hedging	$381,925	$ 1,774	$ 2,777	$359,631	$ 2,700	$ 2,745
Total gross derivatives	$441,494	$ 1,903	$ 2,942	$418,625	$ 2,874	$ 2,856

Less: Impact of legally enforceable master netting agreements	795	795	1,054	1,054
Less: Cash collateral received/paid	45	648	636	763
Total derivatives	$ 1,063	$ 1,499	$ 1,184	$ 1,039

(a) Included in Other assets on our Consolidated Balance Sheet.
(b) Included in Other liabilities on our Consolidated Balance Sheet.
(c) Represents primarily swaps.
(d) Includes both residential and commercial mortgage banking activities.
(e) Futures contracts settle in cash daily and, therefore, no derivative asset or derivative liability is recognized on our Consolidated Balance Sheet.
(f) Includes our obligation to fund a portion of certain BlackRock LTIP programs and the swaps entered into in connection with sales of a portion of Visa Class B common shares.

All derivatives are carried on our Consolidated Balance Sheet at fair value. Derivative balances are presented on the Consolidated Balance Sheet on a net basis taking into consideration the effects of legally enforceable master netting agreements and, when appropriate, any related cash collateral exchanged with counterparties. Further discussion regarding the offsetting rights associated with these legally enforceable master netting agreements is included in the Offsetting, Counterparty Credit Risk and Contingent Features section of this Note 9. Any nonperformance risk, including credit risk, is included in the determination of the estimated net fair value of the derivatives.
Exchange-traded and over-the-counter cleared derivative instruments are typically settled in cash each day based on the prior day value. In the first quarter of 2018, we changed our presentation for variation margin related to derivative instruments cleared through a central clearinghouse as a result of changes made by that clearinghouse to its rules governing such instruments with its counterparties. This variation margin is now recorded as a settlement payment instead of collateral. The impact at March 31, 2018 was a reduction of gross derivative assets and gross derivative liabilities of $1.3 billion and $.5 billion, respectively. The accounting change had no impact on the net fair value of the derivative assets and liabilities that otherwise would have been reported on our Consolidated Balance Sheet. See Table 67 for more information.

Derivatives Designated As Hedging Instruments under GAAP

Certain derivatives used to manage interest rate and foreign exchange risk as part of our asset and liability risk management activities are designated as accounting hedges under GAAP. Derivatives hedging the risks associated with changes in the fair value of assets or liabilities are considered fair value hedges, derivatives hedging the variability of expected future cash flows are considered cash flow hedges, and derivatives hedging a net investment in a foreign subsidiary are considered net investment hedges. Designating derivatives as accounting hedges allows for gains and losses on those derivatives to be recognized in the same period and in the same income statement line item as the earnings impact of the hedged items.

Fair Value Hedges
We enter into receive-fixed, pay-variable interest rate swaps to hedge changes in the fair value of outstanding fixed-rate debt caused by fluctuations in market interest rates. We also enter into pay-fixed, receive-variable interest rate swaps and zero-coupon swaps to hedge changes in the fair value of fixed rate and zero-coupon investment securities caused by fluctuations in market interest rates. Gains and losses on the interest rate swaps designated in these hedge relationships, along with the offsetting gains and losses on the hedged items attributable to the hedged risk, are recognized in current earnings within the same income statement line item.

Cash Flow Hedges
We enter into receive-fixed, pay-variable interest rate swaps to modify the interest rate characteristics of designated commercial loans from variable to fixed in order to reduce the impact of changes in future cash flows due to market interest rate changes. We also periodically enter into forward purchase and sale contracts to hedge the variability of the consideration that will be paid or received related to the purchase or sale of investment securities. The forecasted purchase or sale is consummated upon gross settlement of the forward contract itself. For these cash flow hedges, gains and losses on the interest rate swaps and forward contracts are recorded in Accumulated other comprehensive income and are then reclassified into earnings in the same period the hedged cash flows affect earnings and within the same income statement line as the hedged cash flows.

In the 12 months that follow March 31, 2018, we expect to reclassify net derivative gains of $38 million pretax, or $30 million after-tax, from Accumulated other comprehensive income to interest income for both cash flow hedge strategies. This reclassified amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations and the addition of other hedges subsequent to March 31, 2018. As of March 31, 2018, the maximum length of time over which forecasted transactions are hedged is seven years.

The amount of cash flow hedge ineffectiveness recognized in income was not significant for the 2017 period presented.

Detail regarding the net gains (losses) related to our fair value and cash flow hedge derivatives is presented in the following table.

Table 64: Gains (Losses) Recognized on Fair Value and Cash Flow Hedges in the Consolidated Income Statement (a) (b)

	Location and Amount of Gains (Losses) Recognized in Income			
	Interest Income		Interest Expense	Noninterest Income
In millions	Loans	Investment Securities	Borrowed Funds	Other
For the three months ended March 31, 2018				
Total amounts on the Consolidated Income Statement	$2,228	$ 512	$ 344	$ 245
Gains (losses) on fair value hedges recognized on:				
Hedged items (c)		$ (90)	$ 370	
Derivatives		$ 92	$ (370)	
Amounts related to interest settlements on derivatives		$ (3)	$ 26	
Gains (losses) on cash flow hedges (d):				
Amount of derivative gains (losses) reclassified from accumulated OCI	$26	$ 4		$ 2
For the three months ended March 31, 2017				
Total amounts on the Consolidated Income Statement	$1,904	$ 493	$ 240	$ 301
Gains (losses) on fair value hedges recognized on:				
Hedged items		$ (21)	$ 86	
Derivatives		$ 22	$ (95)	
Amounts related to interest settlements on derivatives		$ (15)	$ 76	
Gains (losses) on cash flow hedges - interest rate contracts (d):				
Amount of derivative gains (losses) reclassified from accumulated OCI	$46	$ 6		$ 3

(a) For all periods presented, there were no components of derivative gains or losses excluded from the assessment of hedge effectiveness for any of the fair value or cash flow hedge strategies.

(b) All cash flow and fair value hedge derivatives were interest rate contracts for the periods presented.

(c) Includes an insignificant amount of fair value hedge adjustments related to discontinued relationships.

(d) For all periods presented, there were no gains or losses from cash flow hedge derivatives reclassified to income because it became probable that the original forecasted transaction would not occur.

Detail regarding the impact of fair value hedge accounting on the carrying value of the hedged items is presented in the following table.

Table 65: Hedged Items - Fair Value Hedges

	March 31, 2018	
In millions	Carrying Value of the Hedged Items	Cumulative Fair Value Hedge Adjustment included in the Carrying Value of Hedged Items (a)
Investment securities - Available for Sale (b)	$6,228	$ (178)

Borrowed funds	$28,788	$ (480)

(a) Includes an insignificant amount of fair value hedge adjustments related to discontinued relationships.
(b) Carrying value shown represents amortized cost.

Net Investment Hedges

We enter into foreign currency forward contracts to hedge non-U.S. dollar net investments in foreign subsidiaries against adverse changes in foreign exchange rates. We assess whether the hedging relationship is highly effective in achieving offsetting changes in the value of the hedge and hedged item by qualitatively verifying that the critical terms of the hedge and hedged item match at the inception of the hedging relationship and on an ongoing basis. Net investment hedge derivatives are classified as foreign exchange contracts. There were no components of derivative gains or losses excluded from the assessment of the hedge effectiveness for all periods presented. During the first three months of 2017 there was no net investment hedge ineffectiveness. Net losses on net investment hedge derivatives recognized in OCI were $39 million for the three months ended March 31, 2018 compared with $14 million for the three months ended March 31, 2017.

Derivatives Not Designated As Hedging Instruments under GAAP

We also enter into derivatives that are not designated as accounting hedges under GAAP. For additional information on derivatives not designated as hedging instruments under GAAP see Note 13 Financial Derivatives in our 2017 Form 10-K.

Further detail regarding the gains (losses) on derivatives not designated in hedging relationships is presented in the following table.

Table 66: Gains (Losses) on Derivatives Not Designated for Hedging under GAAP

	Three months ended March 31	
In millions	2018	2017
Derivatives used for mortgage banking activities:		
Interest rate contracts (a)	$ (114)	$ (7)
Derivatives used for customer-related activities:		
Interest rate contracts	56	34
Foreign exchange contracts and other	44	32
Gains (losses) from customer-related activities (b)	100	66
Derivatives used for other risk management activities:		
Foreign exchange contracts and other (b) (c)	(17)	(50)
Total gains (losses) from derivatives not designated as hedging instruments	$ (31)	$ 9

(a) Included in Residential mortgage, Corporate services and Other noninterest income on our Consolidated Income Statement.

(b) Included in Other noninterest income on our Consolidated Income Statement.

(c) Includes BlackRock LTIP funding obligation and the swaps entered into in connection with sales of a portion of Visa Class B common shares.

Offsetting, Counterparty Credit Risk and Contingent Features

We generally utilize a net presentation on the Consolidated Balance Sheet for those derivative financial instruments entered into with counterparties under legally enforceable master netting agreements. The master netting agreements reduce credit risk by permitting the closeout netting of all outstanding derivative instruments under the master netting agreement with the same counterparty upon the occurrence of an event of default. The master netting agreement also

may require the exchange of cash or marketable securities to collateralize either party's net position. For additional information on derivative offsetting, counterparty credit risk and contingent features see Note 13 Financial Derivatives in our 2017 Form 10-K.

Table 67 shows the impact legally enforceable master netting agreements had on our derivative assets and derivative liabilities as of March 31, 2018 and December 31, 2017. The table includes cash collateral held or pledged under legally enforceable master netting agreements. The table also includes the fair value of any securities collateral held or pledged under legally enforceable master netting agreements. Cash and securities collateral amounts are included in the table only to the extent of the related net derivative fair values.

Table 67: Derivative Assets and Liabilities Offsetting

In millions	Gross Fair Value	Amounts Offset on the Consolidated Balance Sheet		Net Fair Value		Securities Collateral Held / (Pledged) Under Master Netting Agreements	Net Amounts
		Fair Value Offset Amount	Cash Collateral				
March 31, 2018							
Derivative assets							
Interest rate contracts:							
Over-the-counter cleared (a)	$ 24			$ 24			$ 24
Exchange-traded	2			2			2
Over-the-counter	1,406	$ 602	$ 41	763		$ 12	751
Foreign exchange and other contracts	471	193	4	274			274
Total derivative assets	$ 1,903	$ 795	$ 45	$ 1,063	(b)	$ 12	$ 1,051
Derivative liabilities							
Interest rate contracts:							
Over-the-counter cleared (a)	$ 18			$ 18			$ 18
Over-the-counter	1,996	$ 629	$ 570	797			797
Foreign exchange and other contracts	928	166	78	684			684
Total derivative liabilities	$ 2,942	$ 795	$ 648	$ 1,499	(c)		$ 1,499
December 31, 2017							
Derivative assets							
Interest rate contracts:							
Over-the-counter cleared	$ 827	$ 251	$ 567	$ 9			$ 9
Over-the-counter	1,695	668	67	960		$ 32	928
Foreign exchange and other contracts	352	135	2	215			215
Total derivative assets	$ 2,874	$ 1,054	$ 636	$ 1,184	(b)	$ 32	$ 1,152
Derivative liabilities							
Interest rate contracts:							
Over-the-counter cleared	$ 260	$ 251		$ 9			$ 9
Over-the-counter	1,703	662	669	372			372
Foreign exchange and other contracts	893	141	94	658			658
Total derivative liabilities	$ 2,856	$ 1,054	$ 763	$ 1,039	(c)		$ 1,039

(a) Reflects our first quarter 2018 change in accounting presentation for variation margin for certain derivative instruments cleared through a central clearing house. The accounting change reduced the asset and liability gross fair values with corresponding reductions to the fair value and cash collateral offsets, resulting in no changes to the net fair value amounts.

(b) Represents the net amount of derivative assets included in Other assets on our Consolidated Balance Sheet.

(c) Represents the net amount of derivative liabilities included in Other liabilities on our Consolidated Balance Sheet.

Table 67 includes over-the-counter (OTC) derivatives, OTC cleared derivatives and exchange-traded derivatives. OTC derivatives represent contracts executed bilaterally with counterparties that are not settled through an organized exchange or cleared through a central clearing house. The majority of OTC derivatives are governed by the International Swaps and Derivatives Association (ISDA) documentation or other legally enforceable master netting agreements. OTC cleared derivatives represent contracts executed bilaterally with counterparties in the OTC market that are novated to a central clearing house who then becomes our counterparty. Exchange-traded derivatives represent standardized futures and options contracts executed directly on an organized exchange.

In addition to using master netting agreements and other collateral agreements to reduce credit risk associated with derivative instruments, we also seek to manage credit risk by evaluating credit ratings of counterparties and by using internal credit analysis, limits and monitoring procedures.

At March 31, 2018, we held cash, U.S. government securities and mortgage-backed securities totaling $.2 billion under master netting agreements and other collateral agreements to collateralize net derivative assets due from counterparties, and we pledged cash totaling $1.4 billion under these agreements to collateralize net derivative liabilities owed to counterparties and to meet initial margin requirements. These totals may differ from the amounts presented in the preceding offsetting table because these totals may include collateral exchanged under an agreement that does not qualify as a master netting agreement or because the total amount of collateral held or pledged exceeds the net derivative fair values with the counterparty as of the balance sheet date due to timing or other factors, such as initial margin. To the extent not netted against the derivative fair values under a master netting agreement, the receivable for cash pledged is included in Other assets and the obligation for cash held is included in Other liabilities on our Consolidated Balance Sheet. Securities held from counterparties are not recognized on our balance sheet. Likewise securities we have pledged to counterparties remain on our balance sheet.

Certain derivative agreements contain various credit-risk related contingent provisions, such as those that require our debt to maintain a specified credit rating from one or more of the major credit rating agencies. If our debt ratings were to fall below such specified ratings, the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on March 31, 2018 was $1.9 billion for which we had posted collateral of $.7 billion in the normal course of business. The maximum additional amount of collateral we would have been required to post if the credit-risk-related contingent features underlying these agreements had been triggered on March 31, 2018 would be $1.2 billion.

NOTE 10 EARNINGS PER SHARE

Table 68: Basic and Diluted Earnings Per Common Share

	Three months ended March 31	
In millions, except per share data	2018	2017
Basic		
Net income	$1,239	$1,074
Less:		
Net income (loss) attributable to noncontrolling interests	10	17
Preferred stock dividends	63	63
Preferred discount accretion and redemptions	1	21
Net income attributable to common shares	1,165	973
Less:		
Dividends and undistributed earnings allocated to participating securities	5	6
Net income attributable to basic common shares	$1,160	$967
Basic weighted-average common shares outstanding	473	487
Basic earnings per common share (a)	$2.45	$1.99
Diluted		
Net income attributable to basic common shares	$1,160	$967
Less: Impact of BlackRock earnings per share dilution	2	4
Net income attributable to diluted common shares	$1,158	$963
Basic weighted-average common shares outstanding	473	487
Dilutive potential common shares	3	5
Diluted weighted-average common shares outstanding	476	492
Diluted earnings per common share (a)	$2.43	$1.96

(a)

Basic and diluted earnings per share under the two-class method are determined on net income reported on the income statement less earnings allocated to nonvested restricted shares and restricted share units with nonforfeitable dividends and dividend rights (participating securities).

NOTE 11 TOTAL EQUITY AND OTHER COMPREHENSIVE INCOME

Activity in total equity for the three months ended March 31, 2018 and 2017 follows:

Table 69: Rollforward of Total Equity

		Shareholders' Equity							
In millions	Shares Outstanding Common Stock	Common Stock	Capital Surplus - Preferred Stock	Capital Surplus - Common Stock and Other	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interests	Total Equity
Balance at January 1, 2017	485	$2,709	$3,977	$12,674	$31,670	$ (265)	$(5,066)	$1,155	$46,854
Net income					1,057			17	1,074
Other comprehensive income (loss), net of tax						(14)			(14)
Cash dividends declared									
Common ($.55 per share)					(271)				(271)
Preferred					(63)				(63)
Preferred stock discount accretion			2		(2)				
Redemption of noncontrolling interests (a)					(19)			(981)	(1,000)
Treasury stock activity (b)				(216)			(257)		(473)
Other				(162)				(42)	(204)
Balance at March 31, 2017 (c)	485	$2,709	$3,979	$12,296	$32,372	$ (279)	$(5,323)	$149	$45,903
Balance at December 31, 2017	473	$2,710	$3,985	$12,389	$35,481	$ (148)	$(6,904)	$72	$47,585
Cumulative effect of ASU adoptions (d)					(22)	6			(16)
Balance at January 1, 2018	473	$2,710	$3,985	$12,389	$35,459	$ (142)	$(6,904)	$72	$47,569
Net income					1,229			10	1,239
Other comprehensive income (loss), net of tax						(557)			(557)
Cash dividends declared									
Common ($.75 per share)					(358)				(358)
Preferred					(63)				(63)
Preferred stock discount accretion			1		(1)				
Treasury stock activity	(3)			6			(631)		(625)
Other				(154)				(16)	(170)
Balance at March 31, 2018 (c)	470	$2,710	$3,986	$12,241	$36,266	$ (699)	$(7,535)	$66	$47,035

(a) See Note 15 Equity in our 2017 Form 10-K for additional information on the redemption of Perpetual Trust Securities.
(b) Treasury stock activity totaled less than .5 million shares issued.
(c) The par value of our preferred stock outstanding was less than $.5 million at each date and, therefore, is excluded from this presentation.
(d) Represents the cumulative effect of adopting ASU 2014-09, ASU 2016-01, ASU 2017-12 and ASU 2018-02. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in this Report for additional detail on the adoption of these ASUs.

Warrants

We had 2.8 million and 3.5 million warrants outstanding at March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018, each warrant entitles the holder to purchase one share of PNC common stock at an exercise price of $67.20 per share. In accordance with the terms of the warrants, the warrants are exercised on a non-cash net basis with the warrant holder receiving PNC common shares determined based on the excess of the market price of PNC common stock on the exercise date over the exercise price of the warrant. The outstanding warrants will expire as of December 31, 2018 and are considered in the calculation of diluted earnings per common share in Note 10 Earnings Per Share in this Report.

On April 4, 2018, PNC declared a quarterly common stock dividend of $.75 per share to shareholders of record as of April 16, 2018. In accordance with the terms of the warrants, the declaration of a dividend in excess of $.66 per share may result in an adjustment to the warrant exercise price and to the warrant share number. As a result of this dividend, the warrant exercise price was reduced from $67.20 to $67.16 per share on April 16, 2018 and the warrant share number remained 1.00.

Details of other comprehensive income (loss) are as follows:

Table 70: Other Comprehensive Income

	Three months ended March 31	
In millions	2018	2017
Net unrealized gains (losses) on non-OTTI securities		
Increase in net unrealized gains (losses) on non-OTTI securities	$(645)	$67
Less: Net gains (losses) realized as a yield adjustment reclassified to investment securities interest income	4	5
Less: Net gains (losses) realized on sales of securities reclassified to noninterest income	(3)	(7)
Net increase (decrease), pre-tax	(646)	69
Effect of income taxes	150	(25)
Net increase (decrease), after-tax	(496)	44
Net unrealized gains (losses) on OTTI securities		
Increase in net unrealized gains (losses) on OTTI securities	14	37
Less: Net gains (losses) realized on sales of securities reclassified to noninterest income		2
Net increase (decrease), pre-tax	14	35
Effect of income taxes	(4)	(13)
Net increase (decrease), after-tax	10	22
Net unrealized gains (losses) on cash flow hedge derivatives		
Increase in net unrealized gains (losses) on cash flow hedge derivatives	(161)	(22)
Less: Net gains (losses) realized as a yield adjustment reclassified to loan interest income	26	46
Less: Net gains (losses) realized as a yield adjustment reclassified to investment securities interest income	4	6
Less: Net gains (losses) realized on sales of securities reclassified to noninterest income	2	3
Net increase (decrease), pre-tax	(193)	(77)
Effect of income taxes	44	28
Net increase (decrease), after-tax	(149)	(49)
Pension and other postretirement benefit plan adjustments		
Net pension and other postretirement benefit activity	61	(74)
Amortization of actuarial loss (gain) reclassified to other noninterest expense	1	13
Amortization of prior service cost (credit) reclassified to other noninterest expense	1	(1)
Net increase (decrease), pre-tax	63	(62)
Effect of income taxes	(15)	23
Net increase (decrease), after-tax	48	(39)
Other		
PNC’s portion of BlackRock’s OCI	22	2
Net investment hedge derivatives	(39)	(14)
Foreign currency translation adjustments and other	44	16
Net increase (decrease), pre-tax	27	4
Effect of income taxes	3	4
Net increase (decrease), after-tax	30	8
Total other comprehensive income, pre-tax	(735)	(31)
Total other comprehensive income, tax effect	178	17
Total other comprehensive income, after-tax	$(557)	$(14)

Table 71: Accumulated Other Comprehensive Income (Loss) Components

In millions, after-tax	Net unrealized gains (losses) on non-OTTI securities	Net unrealized gains (losses) on OTTI securities	Net unrealized gains (losses) on cash flow hedge derivatives	Pension and other postretirement benefit plan adjustments	Other	Total
Balance at December 31, 2016	$ 52	$ 106	$ 333	$ (553)	$(203)	$(265)
Net activity	44	22	(49)	(39)	8	(14)
Balance at March 31, 2017	$ 96	$ 128	$ 284	$ (592)	$(195)	$(279)
Balance at December 31, 2017	$ 62	$ 215	$ 151	$ (446)	$(130)	$(148)
Cumulative effect of adopting ASU 2018-02 (a)	59		33	(96)	10	6
Balance at January 1, 2018	$ 121	$ 215	$ 184	$ (542)	$(120)	$(142)
Net activity	(496)	10	(149)	48	30	(557)
Balance at March 31, 2018	$ (375)	$ 225	$ 35	$ (494)	$(90)	$(699)

(a) Represents the cumulative impact of adopting ASU 2018-02 which permits the reclassification to retained earnings of the income tax effects stranded within AOCI. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in this Report for additional detail on this adoption.

NOTE 12 LEGAL PROCEEDINGS

We establish accruals for legal proceedings, including litigation and regulatory and governmental investigations and inquiries, when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated. Any such accruals are adjusted thereafter as appropriate to reflect changed circumstances. When we are able to do so, we also determine estimates of possible losses or ranges of possible losses, whether in excess of any related accrued liability or where there is no accrued liability, for disclosed legal proceedings ("Disclosed Matters," which are those matters disclosed in this Note 12 as well as those matters disclosed in Note 19 Legal Proceedings in Part II, Item 8 of our 2017 Form 10-K (such prior disclosure referred to as "Prior Disclosure")). For Disclosed Matters where we are able to estimate such possible losses or ranges of possible losses, as of March 31, 2018, we estimate that it is reasonably possible that we could incur losses in an aggregate amount of up to approximately $100 million. The estimates included in this amount are based on our analysis of currently available information and are subject to significant judgment and a variety of assumptions and uncertainties. As new information is obtained we may change our estimates. Due to the inherent subjectivity of the assessments and unpredictability of outcomes of legal proceedings, any amounts accrued or included in this aggregate amount may not represent the ultimate loss to us from the legal proceedings in question. Thus, our exposure and ultimate losses may be higher, and possibly significantly so, than the amounts accrued or this aggregate amount.

As a result of the types of factors described in Note 19 in our 2017 Form 10-K, we are unable, at this time, to estimate the losses that it is reasonably possible that we could incur or ranges of such losses with respect to some of the matters disclosed, and the aggregate estimated amount provided above does not include an estimate for every Disclosed Matter. Therefore, as the estimated aggregate amount disclosed above does not include all of the Disclosed Matters, the amount disclosed above does not represent our maximum reasonably possible loss exposure for all of the Disclosed Matters. The estimated aggregate amount also does not reflect any of our exposure to matters not so disclosed, as discussed below under "Other."

We include in some of the descriptions of individual Disclosed Matters certain quantitative information related to the plaintiff's claim against us as alleged in the plaintiff's pleadings or other public filings or otherwise publicly available information. While information of this type may provide insight into the potential magnitude of a matter, it does not necessarily represent our estimate of reasonably possible loss or our judgment as to any currently appropriate accrual.

Some of our exposure in Disclosed Matters may be offset by applicable insurance coverage. We do not consider the possible availability of insurance coverage in determining the amounts of any accruals (although we record the amount of related insurance recoveries that are deemed probable up to the amount of the accrual) or in determining any estimates of possible losses or ranges of possible losses.

Captive Mortgage Reinsurance Litigation

PNC has reached an agreement in principle with the plaintiffs to settle White et. al v. The PNC Financial Services Group, Inc. et al. (Civil Action No. 11-7928), pending in the U.S. District Court for the Eastern District of Pennsylvania. This settlement is subject to, among other things, final documentation. The financial impact of the settlement will not be material to PNC.

Residential Mortgage-Backed Securities Indemnification Demands

In March 2018, one of the entities asserting a right to indemnification from us against claims in lawsuits brought by purchasers of residential mortgage-backed securities allegedly including loans sold by National City Mortgage submitted a demand for our purported share of the settlement amount of some of these lawsuits.

Mortgage Foreclosure False Claims Act Lawsuit

PNC Bank was named as a defendant, along with 13 other mortgage servicers and several law firms and affiliated entities, in a qui tam lawsuit brought in the United States District Court for the Southern District of New York by an individual plaintiff on behalf of the United States under the federal False Claims Act (United States ex rel. Grubea v. Rosicki, Rosicki & Associates, P.C., et al. (12 Civ. 7199 (JSR)). The lawsuit was originally filed under seal, with a second amended complaint unsealed by the district court in March 2018 and a third amended complaint filed in April 2018. A related lawsuit was filed against two other mortgage servicers at the same time.

In the third amended complaint, the plaintiff alleges, as relevant to PNC Bank and the other mortgage servicers, that the mortgage servicers made excessive claims for reimbursement from the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal Housing Administration (FHA) for costs incurred in connection with foreclosures on residential mortgage loans purchased or guaranteed by FNMA or FHLMC or insured by FHA in violation of the relevant regulations and applicable contractual reimbursement terms. The plaintiff seeks, among other things, unspecified damages equal to the damage to the United States (including treble damages under the False Claims Act), unspecified civil penalties, and attorneys' fees and other costs of bringing this lawsuit. The government declined to intervene in the action, but is prosecuting a related suit against one of the law firms and certain affiliated entities. The district court has set a trial date for March 2019.

This lawsuit is related to the subject matter of the 2013 subpoena from the U.S. Attorney's Office for the Southern District of New York described in Note 19 in our 2017 Form 10-K under "Other Regulatory and Governmental Inquiries."

Other Regulatory and Governmental Inquiries

We are the subject of investigations, audits and other forms of regulatory and governmental inquiry covering a broad range of issues in our consumer, mortgage, brokerage, securities and other financial services businesses, as well as other aspects of our operations. In some cases, these inquiries are part of reviews of specified activities at multiple industry participants; in others, they are directed at PNC individually. These inquiries, including those described in Prior Disclosure, may lead to administrative, civil or criminal proceedings, and possibly result in remedies including fines, penalties, restitution, or alterations in our business practices, and in additional expenses and collateral costs and other consequences. These inquiries may result in significant reputational harm or other adverse collateral consequences even if direct resulting remedies are not material to us.

Our practice is to cooperate fully with regulatory and governmental investigations, audits and other inquiries, including those described in Prior Disclosure.

Other

In addition to the proceedings or other matters described above and in Prior Disclosure, PNC and persons to whom we may have indemnification obligations, in the normal course of business, are subject to various other pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. We do not anticipate, at the present time, that the ultimate aggregate liability, if any, arising out of such other legal proceedings

will have a material adverse effect on our financial position. However, we cannot now determine whether or not any claims asserted against us or others to whom we may have indemnification obligations, whether in the proceedings or other matters described above or otherwise, will have a material adverse effect on our results of operations in any future reporting period, which will depend on, among other things, the amount of the loss resulting from the claim and the amount of income otherwise reported for the reporting period.

NOTE 13 COMMITMENTS

In the normal course of business, we have various commitments outstanding, certain of which are not included on our Consolidated Balance Sheet. The following table presents our outstanding commitments to extend credit along with significant other commitments as of March 31, 2018 and December 31, 2017, respectively.

Table 72: Commitments to Extend Credit and Other Commitments

In millions	March 31 2018	December 31 2017
Commitments to extend credit		
Total commercial lending	$113,268	$112,125
Home equity lines of credit	16,888	17,852
Credit card	25,861	24,911
Other	4,812	4,753
Total commitments to extend credit	160,829	159,641
Net outstanding standby letters of credit (a)	8,350	8,651
Reinsurance agreements (b)	1,622	1,654
Standby bond purchase agreements (c)	1,014	843
Other commitments (d)	1,129	1,732
Total commitments to extend credit and other commitments	$172,944	$172,521

(a) Net outstanding standby letters of credit include $3.1 billion and $3.5 billion at March 31, 2018 and December 31, 2017, respectively, which support remarketing programs.

(b) Represents aggregate maximum exposure up to the specified limits of the reinsurance contracts provided by our wholly-owned captive insurance subsidiary. These amounts reflect estimates based on availability of financial information from insurance carriers. As of March 31, 2018, the aggregate maximum exposure amount comprised $1.4 billion for accidental death & dismemberment contracts and $.2 billion for credit life, accident and health contracts. Comparable amounts at December 31, 2017 were $1.5 billion and $.2 billion, respectively.

(c) We enter into standby bond purchase agreements to support municipal bond obligations.

(d) Includes $.5 billion related to investments in qualified affordable housing projects at both March 31, 2018 and December 31, 2017.

Commitments to Extend Credit

Commitments to extend credit, or net unfunded loan commitments, represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. These commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer’s credit quality deteriorates.

Net Outstanding Standby Letters of Credit

We issue standby letters of credit and share in the risk of standby letters of credit issued by other financial institutions, in each case to support obligations of our customers to third-parties, such as insurance requirements and the facilitation of transactions involving capital markets product execution. Approximately 90% and 91% of our net outstanding standby letters of credit were rated as Pass as of March 31, 2018 and December 31, 2017, respectively, with the remainder rated as Below Pass. An internal credit rating of Pass indicates the expected risk of loss is currently low, while a rating of Below Pass indicates a higher degree of risk.

If the customer fails to meet its financial or performance obligation to the third-party under the terms of the contract or there is a need to support a remarketing program, then upon a draw by a beneficiary, subject to the terms of the letter of credit, we would be obligated to make payment to them. The standby letters of credit outstanding on March 31, 2018 had terms ranging from less than one year to seven years.

As of March 31, 2018, assets of $1.2 billion secured certain specifically identified standby letters of credit. In addition, a portion of the remaining standby letters of credit issued on behalf of specific customers is also secured by collateral or guarantees that secure the customers' other obligations to us. The carrying amount of the liability for our obligations related to standby letters of credit and participations in standby letters of credit was $.2 billion at March 31, 2018 and is included in Other liabilities on our Consolidated Balance Sheet.

NOTE 14 SEGMENT REPORTING

We have four reportable business segments:
• Retail Banking
• Corporate & Institutional Banking
• Asset Management Group
• BlackRock

Results of individual businesses are presented based on our internal management reporting practices. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our individual businesses are not necessarily comparable with similar information for any other company. We periodically refine our internal methodologies as management reporting practices are enhanced. To the extent significant and practicable, retrospective application of new methodologies is made to prior period reportable business segment results and disclosures to create comparability with the current period.

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

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

Financial results are presented, to the extent practicable, as if each business operated on a stand-alone basis. Additionally, we have aggregated the results for corporate support functions within “Other” for financial reporting purposes.

Our allocation of the costs incurred by shared support areas not directly aligned with the businesses is primarily based on the use of services.

A portion of capital is intended to cover unexpected losses and is assigned to our business segments using our risk-based economic capital model, including consideration of the goodwill at those business segments, as well as the diversification of risk among the business segments, ultimately reflecting our portfolio risk adjusted capital allocation.

We have allocated the allowances for loan and lease losses and for unfunded loan commitments and letters of credit based on the loan exposures within each business segment’s portfolio. 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.

Business Segment Products and Services

Retail Banking provides deposit, lending, brokerage, insurance services, investment management and cash management products and services to consumer and small business customers within our primary geographic markets. Our customers are serviced through our branch network, ATMs, call centers, online banking and mobile channels. The branch network is located primarily in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, Florida, North Carolina, Kentucky, Washington, D.C., Delaware, Virginia, Georgia, Alabama, Missouri, Wisconsin and South Carolina. Deposit products include checking, savings and money market accounts and certificates of deposit. Lending products include residential mortgages, home equity loans and lines of credit, auto loans, credit cards, education loans and personal and small business loans and lines of credit. The residential mortgage loans are directly originated within our branch network and nationwide, and are typically underwritten to government agency and/or third-party standards, and either sold, servicing retained, or held on our balance sheet. Brokerage, investment management and cash management products and services include managed, education, retirement and trust accounts.

Corporate & Institutional Banking provides lending, treasury management and capital markets-related products and services to mid-sized and large corporations, and government and not-for-profit entities. Lending products include secured and unsecured loans, letters of credit and equipment leases. Treasury management services include cash and investment management, receivables

management, disbursement services, funds transfer services, information reporting and global trade services. Capital markets-related products and services include foreign exchange, derivatives, securities underwriting, loan syndications, mergers and acquisitions advisory and equity capital markets advisory related services. We also provide commercial loan servicing and technology solutions for the commercial real estate finance industry. Products and services are provided nationally. We offer certain products and services internationally.

Asset Management Group provides personal wealth management for high net worth and ultra high net worth clients and institutional asset management. Wealth management products and services include investment and retirement planning, customized investment management, private banking, tailored credit solutions and trust management and administration for individuals and their families. Our Hawthorn unit provides multi-generational family planning including estate, financial, tax planning, fiduciary, investment management and consulting, private banking, personal administrative services, asset custody and customized performance reporting to ultra high net worth families. Institutional asset management provides advisory, custody and retirement administration services. The business also offers PNC proprietary mutual funds. Institutional clients include corporations, unions, municipalities, non-profits, foundations and endowments, largely within our primary geographic markets.

BlackRock, in which we hold an equity investment, is a leading publicly-traded investment management firm providing a broad range of investment, risk management and technology services to institutional and retail clients worldwide. Using a diverse platform of active and index investment strategies across asset classes, BlackRock develops investment outcomes and asset allocation solutions for clients. Product offerings include single- and multi-asset class portfolios investing in equities, fixed income, alternatives and money market instruments. BlackRock also offers an investment and risk management technology platform, risk analytics, advisory and technology services and solutions to a broad base of institutional and wealth management investors.

Our equity investment in BlackRock provides us with an additional source of noninterest income and increases our overall revenue diversification. BlackRock is a publicly-traded company, and additional information regarding its business is available in its filings with the Securities and Exchange Commission (SEC). At March 31, 2018, our economic interest in BlackRock was 22%. We received cash dividends from BlackRock of $101 million and $89 million during the first three months of 2018 and 2017, respectively.

Table 73: Results of Businesses

Three months ended March 31 In millions	Retail Banking	Corporate & Institutional Banking	Asset Management Group	BlackRock	Other	Consolidated (a)
2018						
Income Statement						
Net interest income	$1,218	$ 861	$ 74		$208	$ 2,361
Noninterest income	635	547	226	$ 235	107	1,750
Total revenue	1,853	1,408	300	235	315	4,111
Provision for credit losses (benefit)	69	41	(7)		(11)	92
Depreciation and amortization	45	48	12		128	233
Other noninterest expense	1,350	578	206		160	2,294
Income before income taxes and noncontrolling interests	389	741	89	235	38	1,492
Income taxes (benefit)	93	157	21	38	(56)	253
Net income	$296	$ 584	$ 68	$ 197	$94	$ 1,239
Average Assets (b)	$88,734	$ 151,909	$ 7,499	$ 7,704	$120,429	$ 376,275
2017						
Income Statement						

Net interest income	$1,120	$ 802	$ 71		$167	$ 2,160
Noninterest income	603	524	218	$ 186	193	1,724
Total revenue	1,723	1,326	289	186	360	3,884
Provision for credit losses (benefit)	71	25	(2)		(6)	88
Depreciation and amortization	42	36	11		125	214
Other noninterest expense	1,273	548	206		161	2,188
Income before income taxes and noncontrolling interests	337	717	74	186	80	1,394
Income taxes (benefit)	124	233	27	41	(105)	320
Net income	$213	$ 484	$ 47	$ 145	$185	$ 1,074
Average Assets (b)	$87,109	$ 142,592	$ 7,476	$ 6,983	$122,256	$ 366,416

(a) There were no material intersegment revenues for the three months ended March 31, 2018 and 2017.
(b) Period-end balances for BlackRock.

NOTE 15 FEE-BASED REVENUE FROM CONTRACTS WITH CUSTOMERS

A subset of our noninterest income relates to certain fee-based revenue within the scope of ASC Topic 606 - Revenue from Contracts with Customers (Topic 606). The objective of the standard is to clarify the principles for recognizing revenue from contracts with customers across all industries and to develop a common revenue standard under U.S. GAAP. The standard requires the application of a five-step recognition model to contracts, allocating the amount of consideration we expect to be entitled to across distinct promises in the contract, called performance obligations, and recognizing revenue when or as those services are transferred to the customer.

Fee-based revenue within the scope of Topic 606 is recognized within three of our reportable business segments, Retail Banking, Corporate & Institutional Banking (C&IB) and Asset Management Group. Income recognized from our investment in BlackRock, also a reportable segment, is outside of the scope of the standard. The standard also excludes interest income, income from lease contracts, fair value gains from financial instruments (including derivatives), income from mortgage servicing rights and guarantee products, letter of credit fees, non-refundable fees associated with acquiring or originating a loan and gains from the sale of financial assets.

The following tables present noninterest income within the scope of Topic 606 disaggregated by segment. A description of the fee-based revenue and how it is recognized for each segment’s principal services and products follows each table.

Table 74: Retail Banking Noninterest Income Disaggregation

In millions	Three months ended March 31, 2018
Product	
Deposit account fees	$ 144
Debit card fees	117
Brokerage fees	86
Merchant services	47
Net credit card fees (a)	45
Other	70
Total in-scope noninterest income by product	$ 509
Reconciliation to total Retail Banking noninterest income	
Total in-scope noninterest income	$ 509
Total out-of-scope noninterest income (b)	126
Total Retail Banking noninterest income	$ 635

(a) Net credit card fees consists of interchange fees of $102 million and credit card reward costs of $57 million for the three months ended March 31, 2018.

(b) Out-of-scope noninterest income includes revenue streams that fall under the scope of other accounting and disclosure requirements outside of Topic 606.

Deposit Account Fees

Retail Banking provides demand deposit, money market and savings account products for consumer and small business customers. Services include online and branch banking, overdraft and wire transfer services, imaging services and cash alternative services such as money orders and cashier's checks. We recognize fee income at the time these services are performed for the customer.

Debit Card and Net Credit Card Fees

As an issuing bank, Retail Banking earns interchange fee revenue from debit and credit card transactions. By offering card products, we maintain and administer card-related services such as credit card reward programs, account data and

statement information, card activation, renewals, and card suspension and blockage. Interchange fees are earned when cardholders make purchases and are presented net of credit card reward costs.

Brokerage Fees

Retail Banking earns fee revenue by providing its customers a wide range of investment options through its brokerage services including mutual funds, annuities, stocks, bonds, long-term care and insurance products and managed accounts. We earn fee revenue for transaction-based brokerage services, such as the execution of market trades, once the transaction has been completed as of the trade date. In other cases, such as investment management services, we earn fee revenue over the term of the customer contract.

Merchant Services

Retail Banking earns fee revenue for debit and credit card processing services. We provide these services to merchant businesses including point-of-sale payment acceptance capabilities and customized payment processing built around the merchant’s specific requirements. We earn fee revenue as the merchant's customers make purchases.

Other

Other noninterest income primarily includes ATM fees earned from our customers and non-PNC customers. These fees are recognized as transactions occur.

Table 75: Corporate & Institutional Banking Noninterest Income Disaggregation

In millions	Three months ended March 31, 2018
Product	
Treasury management fees	$ 185
Capital markets fees	115
Commercial mortgage banking activities	21
Other	16
Total in-scope noninterest income by product	$ 337
Reconciliation to total Corporate & Institutional Banking noninterest income	
Total in-scope noninterest income	$ 337
Total out-of-scope noninterest income (a)	210
Total Corporate & Institutional Banking noninterest income	$ 547

(a) Out-of-scope noninterest income includes revenue streams that fall under the scope of other accounting and disclosure requirements outside of Topic 606.

Treasury Management Fees

C&IB provides corporations with cash and investment management services, receivables and disbursement management services, funds transfer services and access to online/mobile information management and reporting services. Treasury management fees are recognized over time as we perform these services.

Capital Markets Fees

Capital markets fees include securities underwriting fees, merger and acquisition advisory fees and other advisory related fees. We recognize these fees when the related transaction closes.

Commercial Mortgage Banking Activities

Commercial mortgage banking activities include servicing responsibilities where we do not own the servicing rights. Servicing responsibilities typically consist of collecting and remitting monthly borrower principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and, in certain instances, funding of servicing advances. We recognize servicing fees over time as we perform these activities.

Other

Other noninterest income within C&IB primarily comprised fees from collateral management and asset management services. We earn these fees over time as we perform these services.

Table 76: Asset Management Group Noninterest Income Disaggregation

In millions	Three months ended March 31, 2018
Customer Type	
Personal	$ 154
Institutional	68
Total in-scope noninterest income by customer type	$ 222
Reconciliation to Asset Management Group noninterest income	

Total in-scope noninterest income	$ 222
Total out-of-scope noninterest income (a)	4
Total Asset Management Group noninterest income	$ 226

(a) Out-of-scope noninterest income includes revenue streams that fall under the scope of other accounting and disclosure requirements outside of Topic 606.

Asset Management Services

Asset Management Group provides both personal wealth and institutional asset management services including investment management, custody services, retirement planning, family planning, trust management and retirement administration services. We recognize fee revenue over the term of the customer contract based on the value of assets under management at a point in time.

STATISTICAL INFORMATION (UNAUDITED)
THE PNC FINANCIAL SERVICES GROUP, INC.
Average Consolidated Balance Sheet And Net Interest Analysis (a) (b) (c)

	Three months ended March 31					
	2018			2017		
Taxable-equivalent basis Dollars in millions	Average Balances	Interest Income/ Expense	Average Yields/ Rates	Average Balances	Interest Income/ Expense	Average Yields/ Rates
Assets						
Interest-earning assets:						
Investment securities						
Securities available for sale						
Residential mortgage-backed						
Agency	$25,438	$ 165	2.60 %	$26,385	$ 169	2.57 %
Non-agency	2,398	36	5.99 %	3,127	44	5.59 %
Commercial mortgage-backed	4,534	31	2.75 %	5,919	35	2.35 %
Asset-backed	5,158	37	2.87 %	5,992	37	2.50 %
U.S. Treasury and government agencies	14,307	74	2.07 %	13,101	54	1.66 %
Other	4,233	34	3.17 %	5,293	39	2.93 %
Total securities available for sale	56,068	377	2.69 %	59,817	378	2.53 %
Securities held to maturity						
Residential mortgage-backed	14,818	105	2.84 %	11,852	83	2.79 %
Commercial mortgage-backed	902	8	3.76 %	1,458	13	3.50 %
Asset-backed	199	1	2.90 %	556	3	2.21 %
U.S. Treasury and government agencies	743	5	2.80 %	529	4	3.07 %
Other	1,926	23	4.44 %	2,041	27	5.34 %
Total securities held to maturity	18,588	142	3.05 %	16,436	130	3.16 %
Total investment securities	74,656	519	2.78 %	76,253	508	2.67 %
Loans						
Commercial	111,462	1,044	3.74 %	103,084	835	3.24 %
Commercial real estate	28,901	276	3.81 %	29,178	239	3.27 %
Equipment lease financing	7,845	73	3.68 %	7,497	63	3.34 %
Consumer	55,588	667	4.87 %	56,843	626	4.47 %
Residential real estate	17,308	190	4.40 %	15,651	178	4.55 %
Total loans	221,104	2,250	4.09 %	212,253	1,941	3.67 %
Interest-earning deposits with banks	25,667	98	1.52 %	24,192	49	.81 %
Other interest-earning assets	7,904	80	4.11 %	8,395	74	3.54 %
Total interest-earning assets/interest income	329,331	$ 2,947	3.59 %	321,093	$ 2,572	3.22 %
Noninterest-earning assets	46,944			45,323		
Total assets	$376,275			$366,416		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing deposits						
Money market	$58,523	$ 78	.54 %	$63,921	$ 36	.23 %
Demand	59,620	31	.21 %	56,797	14	.10 %
Savings	48,451	68	.57 %	39,095	41	.42 %
Time deposits	16,844	36	.88 %	17,058	29	.69 %
Total interest-bearing deposits	183,438	213	.47 %	176,871	120	.28 %
Borrowed funds						

Federal Home Loan Bank borrowings	20,721	91	1.76	%	20,416	56	1.09	%
Bank notes and senior debt	28,987	176	2.43	%	22,992	107	1.85	%
Subordinated debt	5,179	51	3.91	%	7,102	62	3.49	%
Other	4,751	26	2.18	%	4,432	15	1.36	%
Total borrowed funds	59,638	344	2.31	%	54,942	240	1.74	%
Total interest-bearing liabilities/interest expense	243,076	557	.91	%	231,813	360	.62	%
Noninterest-bearing liabilities and equity:								
Noninterest-bearing deposits	77,222				78,050			
Accrued expenses and other liabilities	9,118				10,081			
Equity	46,859				46,472			
Total liabilities and equity	$376,275				$366,416			
Interest rate spread			2.68	%			2.60	%
Impact of noninterest-bearing sources			.23				.17	
Net interest income/margin		$ 2,390	2.91	%		$ 2,212	2.77	%

(continued on following page)

Average Consolidated Balance Sheet And Net Interest Analysis (a) (b) (c) (Continued)

	Three months ended December 31 2017			
Taxable-equivalent basis Dollars in millions	Average Balances	Interest Income/ Expense	Average Yields/ Rates	
Assets				
Interest-earning assets:				
Investment securities				
Securities available for sale				
Residential mortgage-backed				
Agency	$25,338	$ 164	2.58	%
Non-agency	2,577	27	4.29	%
Commercial mortgage-backed	4,542	53	4.68	%
Asset-backed	5,330	38	2.82	%
U.S. Treasury and government agencies	13,646	62	1.79	%
Other	4,940	42	3.32	%
Total securities available for sale	56,373	386	2.73	%
Securities held to maturity				
Residential mortgage-backed	13,976	96	2.74	%
Commercial mortgage-backed	963	10	4.11	%
Asset-backed	220	2	2.66	%
U.S. Treasury and government agencies	739	5	2.85	%
Other	1,974	25	5.28	%
Total securities held to maturity	17,872	138	3.10	%
Total investment securities	74,245	524	2.82	%
Loans				
Commercial	111,365	1,020	3.59	%
Commercial real estate	29,432	277	3.68	%
Equipment lease financing	7,670	45	2.33	%
Consumer	55,814	665	4.72	%
Residential real estate	16,840	186	4.41	%
Total loans	221,121	2,193	3.91	%
Interest-earning deposits with banks	25,567	85	1.33	%
Other interest-earning assets	8,759	77	3.55	%
Total interest-earning assets/interest income	329,692	$ 2,879	3.45	%
Noninterest-earning assets	47,136			
Total assets	$376,828			
Liabilities and Equity				
Interest-bearing liabilities:				
Interest-bearing deposits				
Money market	$60,954	$ 69	.45	%
Demand	57,128	25	.17	%
Savings	45,817	59	.51	%
Time deposits	17,438	37	.85	%
Total interest-bearing deposits	181,337	190	.42	%
Borrowed funds				
Federal Home Loan Bank borrowings	19,565	75	1.48	%

Bank notes and senior debt	27,778	145	2.04	%
Subordinated debt	5,433	48	3.49	%
Other	5,261	22	1.74	%
Total borrowed funds	58,037	290	1.96	%
Total interest-bearing liabilities/interest expense	239,374	480	.79	%
Noninterest-bearing liabilities and equity:				
Noninterest-bearing deposits	80,152			
Accrued expenses and other liabilities	10,801			
Equity	46,501			
Total liabilities and equity	$376,828			
Interest rate spread			2.66	%
Impact of noninterest-bearing sources			.22	
Net interest income/margin		$2,399	2.88	%

(a) Nonaccrual loans are included in loans, net of unearned income. The impact of financial derivatives used in interest rate risk management is included in the interest income/expense and average yields/rates of the related assets and liabilities. Basis adjustments related to hedged items are included in noninterest-earning assets and noninterest-bearing liabilities. Average balances of securities are based on amortized historical cost (excluding adjustments to fair value, which are included in other assets). Average balances for certain loans and borrowed funds accounted for at fair value, with changes in fair value recorded in Noninterest income, are included in noninterest-earning assets and noninterest-bearing liabilities.

(b) Loan fees for the three months ended March 31, 2018, December 31, 2017 and March 31, 2017 were $32 million, $37 million and $24 million, respectively.

(c) 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 margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under GAAP. See Reconciliation of Taxable-Equivalent Net Interest Income in this Statistical Information section for more information.

RECONCILIATION OF TAXABLE-EQUIVALENT NET INTEREST INCOME (NON-GAAP) (a)

	Three months ended		
In millions	March 31, 2018	December 31, 2017	March 31, 2017
Net interest income (GAAP)	$2,361	$ 2,345	$2,160
Taxable-equivalent adjustments	29	54	52
Net interest income (Non-GAAP)	$2,390	$ 2,399	$2,212

(a) 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 income, we use interest income on a taxable-equivalent basis 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. As a result of the Tax Cuts and Jobs Act, which was enacted into law during the fourth quarter of 2017, the statutory tax rate for corporations was lowered to 21% from 35%, effective January 1, 2018. Amounts for the 2017 periods were calculated using the previously applicable statutory federal income tax rate of 35%.

TRANSITIONAL BASEL III AND FULLY PHASED-IN BASEL III COMMON EQUITY TIER 1 CAPITAL RATIOS (NON-GAAP) – MARCH 31, 2017

Dollars in millions	2017 Transitional Basel III (a) March 31 2017	Fully Phased-In Basel III (Non-GAAP) (b) March 31 2017
Common stock, related surplus and retained earnings, net of treasury stock	$ 42,053	$ 42,053
Less regulatory capital adjustments:		
Goodwill and disallowed intangibles, net of deferred tax liabilities	(9,007)	(9,052)
Basel III total threshold deductions	(1,064)	(1,585)
Accumulated other comprehensive income (c)	(295)	(369)
All other adjustments	(183)	(180)
Basel III Common equity Tier 1 capital	$ 31,504	$ 30,867
Basel III standardized approach risk-weighted assets (d)	$ 300,233	$ 308,392
Basel III advanced approaches risk-weighted assets (e)	N/A	$ 278,938
Basel III Common equity Tier 1 capital ratio	10.5 %	10.0 %
Risk weight and associated rules utilized	Standardized (with 2017 transition adjustments)	Standardized

(a) Calculated using the regulatory capital methodology applicable to PNC during 2017.

(b) 2017 Fully Phased-In Basel III results are presented as Pro forma estimates.

(c) Represents net adjustments related to accumulated other comprehensive income for securities currently and previously held as available for sale, as well as pension and other postretirement plans.

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

(e) Basel III advanced approaches risk-weighted assets are calculated based on the Basel III advanced approaches rules, and include credit, market, and operational risk-weighted assets. During the parallel run qualification phase, PNC has refined the data, models, and internal processes used as part of the advanced approaches for determining risk-weighted assets. We anticipate additional refinements to this calculation through the parallel run qualification

phase.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See the information set forth in Note 12 Legal Proceedings in the Notes To Consolidated Financial Statements under Part I, Item 1 of this Report, which is incorporated by reference in response to this item.

ITEM 1A. RISK FACTORS

There are no material changes in our risk factors from those previously disclosed in PNC's 2017 Form 10-K in response to Part I, Item 1A.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Details of our repurchases of PNC common stock during the first quarter of 2018 are included in the following table:

2018 period In thousands, except per share data	Total shares purchased (a)	Average price paid per share	Total shares purchased as part of publicly announced programs (b)	Maximum number of shares that may yet be purchased under the programs (b)
January 1 - 31	1,708	$ 152.08	1,698	38,939
February 1 - 28	2,001	$ 155.77	1,493	37,446
March 1 - 31	1,660	$ 157.08	1,629	35,817
Total	5,369	$ 155.00		

(a) Includes PNC common stock purchased in connection with our various employee benefit plans generally related to shares used to cover employee payroll tax withholding requirements. Note 11 Employee Benefit Plans and Note 12 Stock Based Compensation Plans in the Notes To Consolidated Financial Statements of our 2017 Annual Report on Form 10-K include additional information regarding our employee benefit and equity compensation plans that use PNC common stock.

(b) On March 11, 2015, we announced that our Board of Directors approved the establishment of a stock repurchase program authorization in the amount of 100 million shares of PNC common stock, effective April 1, 2015. Repurchases are made in open market or privately negotiated transactions and the timing and exact amount of common stock repurchases will depend on a number of factors including, among others, market and general economic conditions, regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, and contractual and regulatory limitations, including the results of the supervisory assessment of capital adequacy and capital planning processes undertaken by the Federal Reserve as part of the CCAR process. In June 2017, we announced share repurchase programs of up to $2.7 billion for the four quarter period beginning with the third quarter of 2017, including repurchases of up to $300 million related to employee benefit plans, in accordance with PNC's 2017 capital plan. In the first quarter of 2018, we repurchased 4.8 million shares of common stock on the open market, with an average price of $155.07 per share and an aggregate repurchase price of $.7 billion.

ITEM 6. EXHIBITS

The following exhibit index lists Exhibits filed, or in the case of Exhibits 32.1 and 32.2 furnished, with this Quarterly Report on Form 10-Q:

EXHIBIT INDEX

12.1 Computation of Ratio of Earnings to Fixed Charges

12.2 Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350

32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350

101 Interactive Data File (XBRL)

You can obtain copies of these Exhibits electronically at the SEC's website at www.sec.gov or by mail from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, DC 20549 at prescribed rates. The Exhibits are also available as part of this Form 10-Q on PNC's corporate website at www.pnc.com/secfilings. Shareholders and bondholders may also obtain copies of Exhibits, without charge, by contacting Shareholder Relations at 800-843-2206 or via e-mail at investor.relations@pnc.com. The interactive data file (XBRL) exhibit is only available electronically.

CORPORATE INFORMATION

The PNC Financial Services Group, Inc.
Corporate Headquarters
The PNC Financial Services Group, Inc.
The Tower at PNC Plaza
300 Fifth Avenue
Pittsburgh, Pennsylvania 15222-2401
888-762-2265

Stock Listing

The common stock of The PNC Financial Services Group, Inc. is listed on the New York Stock Exchange under the symbol "PNC".

Internet Information

Our financial reports and information about our products and services are available on the internet at www.pnc.com. We provide information for investors on our corporate website under "About Us – Investor Relations." We use our Twitter account, @pncnews, as an additional way of disseminating to the public information that may be relevant to investors.

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

We are required periodically to provide additional public disclosure regarding estimated income, losses and pro forma regulatory capital ratios under supervisory and PNC-developed hypothetical severely adverse economic scenarios, as well as information concerning our capital stress testing processes, pursuant to the stress testing regulations adopted by the Federal Reserve and the OCC. We are also required to make certain additional regulatory capital-related public disclosures about our capital structure, risk exposures, risk assessment processes, risk-weighted assets and overall capital adequacy, including market risk-related disclosures, under the regulatory capital rules adopted by the Federal banking agencies. Under these regulations, we may satisfy these requirements through postings on our website, and we have done so and expect to continue to do so without also providing disclosure of this information through filings with the SEC.

Other information posted on our corporate website that may not be available in our filings with the SEC includes information relating to our corporate governance and communications from our chairman to shareholders, as well as our corporate social responsibility activities under "About Us – Corporate Responsibility."

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

Financial Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance with the Exchange Act, we file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC File Number is 001-09718. You can obtain copies of these and other filings, including exhibits, electronically at the SEC's internet website at www.sec.gov or on our corporate internet website at www.pnc.com/secfilings. Shareholders and bond holders may also obtain copies of these filings without charge by contacting Shareholder Services at 800-982-7652 or via the online contact form at www.computershare.com/contactus for copies without exhibits, and by contacting Shareholder Relations at 800-843-2206 or via email at investor.relations@pnc.com for copies of exhibits, including financial statement and schedule exhibits where applicable. The interactive data file (XBRL) exhibit is only available electronically.

Corporate Governance at PNC

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

Shareholders who would like to request printed copies of the PNC Code of Business Conduct and Ethics or our Corporate Governance Guidelines or the charters of our Board's Audit, Nominating and Governance, Personnel and Compensation, or Risk Committees (all of which are posted on the PNC corporate website) may do so by sending their requests to our Corporate Secretary at corporate headquarters at the above address. Copies will be provided without charge to shareholders.

Inquiries

For financial services call 888-762-2265.

Registered shareholders should contact Shareholder Services at 800-982-7652.

Analysts and institutional investors should contact Bryan Gill, Executive Vice President, Director of Investor Relations, at 412-768-4143 or via email at investor.relations@pnc.com.
News media representatives should contact Diane Zappas, Vice President, Corporate Communications, at 412-762-4550 or via email at media.relations@pnc.com.
Common Stock Prices/Dividends Declared
The table below sets forth by quarter the range of high and low sale and quarter-end closing prices for our common stock and the cash dividends declared per common share.

	High	Low	Close	Cash Dividends Declared (a)
2018 Quarter				
First	$163.59	$143.94	$151.24	$ .75
2017 Quarter				
First	$131.83	$113.66	$120.24	$ .55
Second	$128.25	$115.45	$124.87	.55
Third	$135.73	$119.77	$134.77	.75
Fourth	$147.28	$130.46	$144.29	.75
Total				$ 2.60

(a) Our Board approved a second quarter 2018 cash dividend of $.75 per common share, with a payment date of May 5, 2018.

Dividend Policy
Holders of PNC common stock are entitled to receive dividends when declared by the Board of Directors out of funds legally available for this purpose. Our Board of Directors may not pay or set apart dividends on the common stock until dividends for all past dividend periods on any series of outstanding preferred stock have been paid or declared and set apart for payment. The Board presently intends to continue the policy of paying quarterly cash dividends. The amount of any future dividends will depend on economic and market conditions, our financial condition and operating results, and other factors, including contractual restrictions and applicable government regulations and policies (such as those relating to the ability of bank and non-bank subsidiaries to pay dividends to the parent company and regulatory capital limitations). The amount of our dividend is also currently subject to the results of the supervisory assessment of capital adequacy and capital planning processes undertaken by the Federal Reserve as part of the CCAR process as described in the Capital Management portion of the Risk Management section of the Financial Review of this Report and in the Supervision and Regulation section in Item 1 of our 2017 Form 10-K.
Dividend Reinvestment and Stock Purchase Plan
The PNC Financial Services Group, Inc. Dividend Reinvestment and Stock Purchase Plan enables holders of our common stock to conveniently purchase additional shares of common stock. You can obtain a prospectus and enrollment form by contacting Shareholder Services at 800-982-7652. Registered shareholders may also contact this phone number regarding dividends and other shareholder services.
Stock Transfer Agent and Registrar
Computershare Trust Company, N.A.
250 Royall Street
Canton, MA 02021
800-982-7652
www.computershare.com/pnc
SIGNATURE
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on May 3, 2018 on its behalf by the undersigned thereunto duly authorized.

/s/
Robert
Q.
Reilly
Robert Q. Reilly
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)