PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
August 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from to

Commission file number 001-09718

The PNC Financial Services Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, including zip code)

(412) 762-2000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

As of July 31, 2013, there were 531,511,981 shares of the registrant s common stock ($5 par value) outstanding.

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Financial Review

The PNC Financial Services Group, Inc.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data	Three months ended June 30		Six months ended June 30	
Unaudited	2013	2012	2013	2012
Financial Results (a)				
Revenue				
Net interest income	$ 2,258	$ 2,526	$ 4,647	$ 4,817
Noninterest income	1,806	1,097	3,372	2,538
Total revenue	4,064	3,623	8,019	7,355
Noninterest expense	2,435	2,648	4,830	5,103
Pretax, pre-provision earnings (b)	1,629	975	3,189	2,252
Provision for credit losses	157	256	393	441
Income before income taxes and noncontrolling interests	$ 1,472	$ 719	$ 2,796	$ 1,811
Net income	$ 1,123	$ 546	$ 2,127	$ 1,357
Less:				
Net income (loss) attributable to noncontrolling interests	1	(5)	(8)	1
Preferred stock dividends and discount accretion	53	25	128	64
Net income attributable to common shareholders	$ 1,069	$ 526	$ 2,007	$ 1,292
Diluted earnings per common share	$ 1.99	$ .98	$ 3.76	$ 2.42
Cash dividends declared per common share	$ .44	$ .40	$ .84	$ .75
Performance Ratios				
Net interest margin (c)	3.58%	4.08%	3.69%	3.99%
Noninterest income to total revenue	44	30	42	35
Efficiency	60	73	60	69
Return on:				
Average common shareholders equity	11.81	6.23	11.25	7.80
Average assets	1.49	.74	1.42	.94

See page 70 for a glossary of certain terms used in this Report.

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

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

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

(c) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, we use net interest income on a taxable-equivalent basis in calculating net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended June 30, 2013 and June 30, 2012 were $40 million and $35 million, respectively. The taxable-equivalent adjustments to net interest income for the six months ended June 30, 2013 and June 30, 2012 were $80 million and $66 million, respectively.

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

Unaudited	June 30 2013	December 31 2012	June 30 2012
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$ 304,415	$ 305,107	$ 299,575
Loans (b) (c)	189,775	185,856	180,425
Allowance for loan and lease losses (b)	3,772	4,036	4,156
Interest-earning deposits with banks (b)	3,797	3,984	3,995
Investment securities (b)	57,449	61,406	61,937
Loans held for sale (c)	3,814	3,693	3,333
Goodwill and other intangible assets	11,228	10,869	10,962
Equity investments (b) (d)	10,054	10,877	10,617
Other assets (b) (c)	24,297	23,679	24,559
Noninterest-bearing deposits	66,708	69,980	64,476
Interest-bearing deposits	145,571	143,162	142,447
Total deposits	212,279	213,142	206,923
Transaction deposits	175,564	176,705	166,043
Borrowed funds (b) (c)	39,864	40,907	43,689
Shareholders equity	40,286	39,003	37,005
Common shareholders equity	36,347	35,413	33,884
Accumulated other comprehensive income	45	834	402
Book value per common share	$ 68.46	$ 67.05	$ 64.00
Common shares outstanding (millions)	531	528	529
Loans to deposits	89%	87%	87%
Client Assets (billions)			
Discretionary assets under management	$ 117	$ 112	$ 109
Nondiscretionary assets under administration	116	112	105
Total assets under administration	233	224	214
Brokerage account assets	39	38	36
Total client assets	$ 272	$ 262	$ 250
Capital Ratios			
Basel I capital ratios			
Tier 1 common	10.1%	9.6%	9.3%
Tier 1 risk-based (e)	12.0	11.6	11.4
Total risk-based (e)	15.2	14.7	14.2
Leverage (e)	10.9	10.4	10.1
Common shareholders equity to assets	11.9	11.6	11.3
Pro forma Basel III Tier 1 common (f)	8.2%	7.5%	N/A(g)
Asset Quality			
Nonperforming loans to total loans	1.75%	1.75%	1.92%
Nonperforming assets to total loans, OREO and foreclosed assets	1.99	2.04	2.31
Nonperforming assets to total assets	1.24	1.24	1.39
Net charge-offs to average loans (for the three months ended) (annualized) (h)	.44	.67	.71
Allowance for loan and lease losses to total loans	1.99	2.17	2.30
Allowance for loan and lease losses to nonperforming loans (i)	114%	124%	120%
Accruing loans past due 90 days or more	$ 1,762	$ 2,351	$ 2,483

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

(b) Amounts include consolidated variable interest entities. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information.
(c) Amounts include assets and liabilities for which we have elected the fair value option. See Consolidated Balance Sheet in Part I, Item 1 of this Report for additional information.
(d) Amounts include our equity interest in BlackRock.
(e) The minimum U.S. regulatory capital ratios under Basel I are 4.0% for Tier 1 risk-based, 8.0% for Total risk-based, and 4.0% for Leverage. The comparable well-capitalized levels are 6.0% for Tier 1 risk-based, 10.0% for Total risk-based, and 5.0% for Leverage.
(f) PNC s pro forma Basel III Tier 1 common capital ratio was estimated without the benefit of phase-ins and is based on our understanding of the prior Basel III rule proposals issued by the U.S. banking agencies in June 2012. See Table 21: Basel I Risk-Based Capital and Table 22: Estimated Pro forma Basel III Tier 1 Common Capital Ratio and related information for further detail on how this pro forma ratio differs from the Basel I Tier 1 common capital ratio. The Basel III ratio will replace the current Basel I ratio for this regulatory metric when PNC exits the parallel run qualification phase.
(g) Pro forma Basel III Tier 1 common capital ratio not disclosed in our second quarter 2012 Form 10-Q.
(h) Pursuant to alignment with interagency guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013, additional charge-offs of $134 million were taken.
(i) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.

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

Executive Summary

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

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

Key Strategic Goals

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

We strive to expand and deepen customer relationships by offering convenient banking options and innovative technology solutions, providing a broad range of fee-based and credit products and services, focusing on customer service and enhancing our brand. Our approach is focused on organically growing and deepening client relationships that meet our risk/return measures. Our strategies for growing fee income across our lines of business are focused on achieving deeper market penetration and cross selling our diverse product mix. A key priority is to drive growth in newly acquired and underpenetrated markets, including in the Southeast. We may also grow revenue through appropriate and targeted acquisitions and, in certain businesses, by expanding into new geographical markets.

Our capital priorities for 2013 are to support client growth and business investment, maintain appropriate capital in light of economic uncertainty and the Basel III framework and return excess capital to shareholders through dividends, in accordance with our capital plan included in our 2013 Comprehensive Capital Analysis and Review (CCAR) submission to the Board of Governors of the Federal Reserve System (Federal Reserve). We continue to improve our capital levels and ratios through retention of quarterly earnings and expect to build capital through retention of future earnings. During 2013, PNC does not expect to repurchase common stock through a share buyback program. PNC continues to maintain a strong bank and bank holding company liquidity position. For more detail, see the 2013 Capital and Liquidity Actions portion of this Executive Summary, the Funding and Capital Sources portion of the Consolidated Balance Sheet Review section and the Liquidity Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 Business of our 2012 Form 10-K.

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

2013 Capital and Liquidity Actions

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Federal Reserve and our primary bank regulators as part of the CCAR process. This capital adequacy assessment is based on a review of a comprehensive capital plan submitted to the Federal Reserve.

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

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

On April 4, 2013, consistent with our capital plan submitted to the Federal Reserve in 2013, our board of directors approved an increase to PNC s quarterly common stock dividend from 40 cents per common share to 44 cents per common share with a payment date of May 5, 2013, payable the next business day, to shareholders of record at the close of business on April 16, 2013. On July 3, 2013, our board of directors declared a quarterly common stock cash dividend of 44 cents per share with a payment date of August 5, 2013 to shareholders of record at the close of business on July 15, 2013.

Recent Market and Industry Developments

There have been numerous legislative and regulatory developments and dramatic changes in the competitive landscape of our industry over the last several years. The United States and other governments have undertaken major reform of the regulation of the financial services industry, including engaging in new efforts to impose requirements designed to strengthen the stability of the financial system and protect consumers and investors. We expect to face further increased regulation of our industry as a result of current and future initiatives intended to provide economic stimulus, financial market stability and enhanced regulation of financial services companies and to enhance the liquidity and solvency of financial institutions and markets. We also expect in many cases more intense scrutiny from our supervisors in the examination process and more aggressive enforcement of regulations on both the federal and state levels. Compliance with new regulations will increase our costs and reduce our revenue. Some new regulations may limit our ability to pursue certain desirable business opportunities.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), enacted in July 2010, mandates the most wide-ranging overhaul of financial industry regulation in decades. Many parts of the law are now in effect,

and others are now in the implementation stage, which is likely to continue for several years.

New and evolving capital and liquidity standards will have a significant effect on banks and bank holding companies, including PNC. In July 2013, the U.S. banking agencies issued final rules to implement the Basel III capital framework in the United States. In addition, the banking agencies issued final rules to revise the framework for the risk-weighting of assets under Basel I and Basel II (referred to as the standardized approach and the advanced approaches, respectively). For banking organizations subject to Basel II (such as PNC), the Basel III final rules become effective on January 1, 2014, although many provisions are phased-in over a period of years, with the rules generally fully phased-in as of January 1, 2019. The changes made to the Basel I risk-weighting framework by the standardized approach rules become effective on January 1, 2015, and the changes made to the Basel II risk-weighting framework by the advanced approaches rules become effective on January 1, 2014.

The Basel III final rules, among other things, narrow the definition of regulatory capital, require banking organizations with $15 billion or more in assets to phase-out trust preferred securities from Tier 1 regulatory capital, establish a new Tier 1 common capital requirement for banking organizations and revise the capital levels at which a bank would be subject to prompt corrective action. As of June 30, 2013, PNC had $216 million of trust preferred securities included in Tier 1 capital which, under these rules and Dodd-Frank, will no longer qualify as Tier 1 capital over time to the extent they remain outstanding. The final rules also would require that significant common stock investments in unconsolidated financial institutions (as defined in the final rules), as well as mortgage servicing rights and deferred tax assets, be deducted from regulatory capital to the extent such items individually exceed 10%, or in the aggregate exceed 15%, of the organization s adjusted Tier 1 common capital. The Basel III final rules also significantly limit the extent to which minority interests in consolidated subsidiaries (including minority interests in the form of REIT preferred securities) may be included in regulatory capital. As of June 30, 2013, PNC had approximately $1 billion of REIT preferred securities outstanding that will be subject to these limitations over time to the extent they remain outstanding. In addition, for Basel II banking organizations, like PNC, the final rules remove the filter that currently excludes unrealized gains and losses (other than those resulting from other-than-temporary impairments) on available for sale debt securities from affecting regulatory capital, which could increase the volatility of regulatory capital of Basel II banking organizations in response to changes in interest rates.

When fully phased-in on January 1, 2019, the Basel III rules require that banking organizations maintain a minimum Tier 1 common ratio of 4.5%, a Tier 1 capital ratio of 6.0%, a total capital ratio of 8.0% and a leverage ratio of 4.0%. Moreover,

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the final rules, when fully phased-in, will also require banking organizations to maintain a Tier 1 common ratio of at least 7.0%, a Tier 1 capital ratio of at least 8.5%, and a total capital ratio of at least 10.5% to avoid limitations on capital distributions (including common stock dividends and share repurchases) and certain discretionary incentive compensation payments. For Basel II banking organizations (such as PNC), these higher buffer levels above the regulatory minimums could be supplemented by a countercyclical capital buffer of up to an additional 2.5% during periods of excessive credit growth, although this buffer is initially set at zero in the United States. After a Basel II banking organization exits its parallel run qualification phase under the Basel II framework, its compliance with these minimum and buffer ratio levels will be determined using the lower of the organization s capital ratios calculated under the standardized or the advanced approach. For additional information concerning PNC s estimated fully phased-in pro forma Basel III Tier 1 common ratio as well as the Basel II parallel run process, please see Balance Sheet Highlights in this Executive Summary section, and Capital and Table 22: Estimated Pro Forma Basel III Tier 1 Common Capital in the Consolidated Balance Sheet Review section, of this Report.

Basel II banking organizations also are subject to a new minimum 3% supplementary leverage ratio that becomes effective on January 1, 2018, with public reporting of the ratio beginning in 2015. Unlike the existing leverage ratio, the denominator of the supplementary leverage ratio takes into account certain off-balance sheet items, including loan commitments and potential future exposure under derivative contracts. We estimate that our supplementary leverage ratio currently exceeds the new minimum ratio requirement applicable to PNC that goes into effect in 2018. In July 2013, the U.S. banking agencies separately requested comment on a proposed rule that would raise the supplemental leverage ratio for U.S. bank holding companies that have $700 billion or more in total consolidated assets or $10 trillion or more in assets under custody and for the insured depository institution subsidiaries of these bank holding companies. Based on the asset and custody thresholds included in the proposed rule, PNC and PNC Bank, National Association would not be subject to this higher proposed supplemental leverage ratio.

As noted above, the final rules adopted by the U.S. banking agencies in July 2013 revise both the Basel I and Basel II risk-weighting framework. Both the standardized approach rules (which will replace the Basel I risk-weighting framework as of January 1, 2015) and the advanced approaches modifications to the Basel II risk-weighting framework replace the use of credit ratings with alternative methodologies for assessing creditworthiness and establish a new framework (referred to as the Simplified Supervisory Framework Approach) for risk-weighting securitization exposures (such as privately issued mortgage-backed securities and asset-backed securities). The standardized approach also would, among other things, increase the risk weight applicable to high volatility commercial real estate exposures and past due exposures,

establish a new framework for cleared derivatives and securities financing transactions, and require that equity exposures (other than those that are deducted from capital) be risk-weighted in a manner similar to the existing Basel II rules for equity exposures. In addition, Basel II banks that have not exited the parallel run qualification phase by the first quarter of 2015 are required to make certain public disclosures after that date under the standardized approach until the bank exits parallel run (after which it would make the public disclosures required by the advanced approaches rule). The advanced approaches rule would, among other things, significantly alter the methodology for determining counterparty credit risk weights, including the establishment of a credit valuation adjustment for counterparty risk in over-the-counter (OTC) derivative transactions, under Basel II.

The need to maintain more and higher quality capital could limit PNC s business activities, including lending, and its ability to expand, either organically or through acquisitions. It could also result in PNC taking steps to increase its capital that may be dilutive to shareholders or being limited in its ability to pay dividends or otherwise return capital to shareholders, or selling or refraining from acquiring assets, the capital requirements for which are inconsistent with the assets underlying risks. Moreover, although these new requirements are being phased in over time, U.S. federal banking agencies have been taking into account expectations regarding the ability of banks to meet these new requirements, including under stressed conditions, in approving actions that represent uses of capital, such as dividend increases, share repurchases and acquisitions.

On July 31, 2013, the United States District Court for the District of Columbia granted summary judgment to the plaintiffs in *NACS, et al. v. Board of Governors of the Federal Reserve System.* The decision vacated the debit card interchange and network processing rules that went into effect in October 2011 and that were adopted by the Federal Reserve to implement provisions of the Dodd-Frank Act. The court found among other things that the debit card interchange fees permitted under the rules allowed card issuers to recover costs that were not permitted by the statute. The court has temporarily stayed its decision. We do not now know the ultimate impact of this ruling, nor the timing of any such impact, but if the ruling were to take effect it could have a materially adverse impact on our debit card interchange revenues. Debit card interchange revenue for the year ended December 31, 2012 was approximately $305 million.

For additional information concerning recent legislative and regulatory developments, as well as certain governmental, legislative and regulatory inquiries and investigations that may affect PNC, please see Item 1 Business Supervision and Regulation, Item 1A Risk Factors and Note 23 Legal Proceedings in Item 8 of our 2012 Form 10-K and Note 17 Legal Proceedings and Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

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Key Factors Affecting Financial Performance

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

- General economic conditions, including the continuity, speed and stamina of the moderate U.S. economic recovery in general and on our customers in particular,
- The level of, and direction, timing and magnitude of movement in, interest rates and the shape of the interest rate yield curve,
- The functioning and other performance of, and availability of liquidity in, the capital and other financial markets,
- Loan demand, utilization of credit commitments and standby letters of credit, and asset quality,
- Customer demand for non-loan products and services,
- Changes in the competitive and regulatory landscape and in counterparty creditworthiness and performance as the financial services industry restructures in the current environment,
- The impact of the extensive reforms enacted in the Dodd-Frank legislation and other legislative, regulatory and administrative initiatives, including those outlined elsewhere in this Report, in our 2012 Form 10-K and in our other SEC filings, and
- The impact of market credit spreads on asset valuations.

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

- Further success in growing profitability through the acquisition and retention of customers,
- Continued development of the geographic markets related to our recent acquisitions, including full deployment of our product offerings into our Southeast markets,
- Our ability to effectively manage PNC s balance sheet and generate net interest income,
- Revenue growth and our ability to provide innovative and valued products to our customers,
- Our ability to utilize technology to develop and deliver products and services to our customers and protect PNC s systems and customer information,
- Our ability to manage and implement strategic business objectives within the changing regulatory environment,
- A sustained focus on expense management,
- Managing the non-strategic assets portfolio and impaired assets,
- Improving our overall asset quality,
- Continuing to maintain and grow our deposit base as a low-cost funding source,
- Prudent risk and capital management related to our efforts to manage risk to acceptable levels and to meet evolving regulatory capital standards,
- Actions we take within the capital and other financial markets,
- The impact of legal and regulatory-related contingencies, and
- The appropriateness of reserves needed for critical estimates and related contingencies.

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

Income Statement Highlights

- Net income for the second quarter of 2013 of $1.1 billion increased $.6 billion compared to the second quarter of 2012, driven by revenue growth of 12%, a decline in noninterest expense of 8% and a decrease in provision for credit losses. For additional detail, please see the Consolidated Income Statement Review section in this Financial Review.
- Net interest income of $2.3 billion for the second quarter of 2013 decreased 11% compared with the second quarter of 2012, reflecting the impact of lower purchase accounting accretion and lower yields on loans and securities, partially offset by lower rates paid on borrowed funds.
- Net interest margin decreased to 3.58% for the second quarter of 2013 compared to 4.08% for the second quarter of 2012. Consistent with the decline in net interest income, the decrease in net interest margin reflected lower purchase accounting accretion and lower yields on loans and securities, partially offset by lower rates paid on borrowed funds.
- Noninterest income of $1.8 billion for the second quarter of 2013 increased by $.7 billion compared to the second quarter of 2012. The increase was attributable to lower provision for residential mortgage repurchase obligations, strong customer fee income and higher gains on asset sales and valuations.
- The provision for credit losses decreased to $157 million for the second quarter of 2013 compared to $256 million for the second quarter of 2012 driven by overall credit quality improvement.
- Noninterest expense of $2.4 billion for the second quarter of 2013 decreased 8% compared with the second quarter of 2012, primarily due to lower noncash charges related to redemption of trust preferred securities, the impact of second quarter 2012 integration costs, and lower residential mortgage foreclosure-related expenses.

Credit Quality Highlights

Overall credit quality improved during the second quarter of 2013. The following comparisons to December 31, 2012 were impacted by alignment with interagency guidance in the first quarter of 2013 on

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practices for loans and lines of credit related to consumer lending. This had the overall effect of (i) accelerating charge-offs, (ii) increasing nonperforming loans and (iii), in the case of loans accounted for under the fair value option, increasing nonaccrual loans. In addition, commercial real estate delinquencies declined due to improved performance. See the Credit Risk Management section of this Financial Review for further detail.

Nonperforming assets of $3.8 billion at June 30, 2013 remained relatively flat compared to December 31, 2012. The comparison includes the addition of $426 million of consumer loans to nonperforming pursuant to alignment with interagency guidance for loans and lines of credit that occurred in the first quarter of 2013, substantially offset by a reduction in total commercial nonperforming loans due to credit quality improvement and lower consumer nonperforming loans largely due to principal activity. Nonperforming assets to total assets were 1.24% at both June 30, 2013 and December 31, 2012 compared with 1.39% at June 30, 2012.

Overall delinquencies of $2.8 billion decreased $.9 billion as of June 30, 2013 compared with December 31, 2012. The reduction was partially due to a decline in total consumer loan delinquencies of $395 million pursuant to alignment with interagency guidance in which loans were moved from various delinquency categories to either nonperforming or, in the case of loans accounted for under the fair value option, nonaccruing. In addition, during the first six months of 2013, government insured residential real estate accruing loans past due 90 days or more declined $324 million, the majority of which were transferred to OREO. Finally, commercial real estate delinquencies decreased $84 million due to improved performance.

Net charge-offs of $208 million decreased $107 million compared to the second quarter of 2012, reflecting a decrease in home equity, commercial and commercial real estate net charge-offs of $97 million. On an annualized basis, net charge-offs were 0.44% of average loans for the second quarter of 2013 and 0.71% of average loans for the second quarter of 2012. Net charge-offs for the first six months were $664 million, up slightly compared to $648 million of net charge-offs for the first six months of 2012, due to the impact of alignment with interagency guidance in first quarter 2013, partially offset by improving credit quality in the second quarter of 2013. On an annualized basis, net charge-offs for the first half of 2013 were 0.71% of average loans and 0.76% of average loans for the first half of 2012.

The allowance for loan and lease losses was 1.99% of total loans and 114% of nonperforming loans at June 30, 2013, compared with 2.17% and 124% at December 31, 2012, respectively. The decrease in the allowance compared with year end resulted from improved overall credit quality and the impact of alignment with interagency guidance.

Balance Sheet Highlights

Total loans increased by $3.9 billion to $190 billion at June 30, 2013 compared to December 31, 2012.

Total commercial lending increased by $4.3 billion, or 4%, from December 31, 2012, as a result of growth in commercial loans to new and existing customers.

Total consumer lending decreased $.4 billion from December 31, 2012 primarily from pay downs of residential real estate, education and credit card loans, partially offset by increases in home equity and automobile loans.

Total deposits decreased by $0.9 billion to $212 billion at June 30, 2013 compared with December 31, 2012.

PNC s well-positioned balance sheet remained core funded with a loans to deposits ratio of 89% at June 30, 2013.

PNC had a strong capital position at June 30, 2013.

The Basel I Tier 1 common capital ratio increased to 10.1% compared with 9.6% at December 31, 2012.

The pro forma Basel III Tier 1 common capital ratio was an estimated 8.2% at June 30, 2013 compared with 7.5% at December 31, 2012 without benefit of phase-ins.

PNC continues to evaluate the Basel III final rules adopted in July 2013. Pending completion of that evaluation this estimate is based on our understanding of the prior U.S. Basel III rule proposals issued in 2012. We do not believe the changes in the final rules from the proposals will negatively impact our common capital ratio.

See the Capital discussion and Table 22: Estimated Pro forma Basel III Tier 1 Common Capital Ratio in the Consolidated Balance Sheet Review section of this Financial Review for more detail.

In April 2013, the PNC board of directors raised the quarterly cash dividend on common stock to 44 cents per share, an increase of 4 cents per share, or 10%, effective with the May dividend.

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

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2012 Acquisition and Divestiture Activity

On March 2, 2012, we acquired 100% of the issued and outstanding common stock of RBC Bank (USA), the U.S. retail banking subsidiary of Royal Bank of Canada. As part of the acquisition, PNC also purchased a credit card portfolio from RBC Bank (Georgia), National Association.

Effective October 26, 2012, PNC divested certain deposits and assets of the Smartstreet business unit, which was acquired by PNC as part of the RBC Bank (USA) acquisition, to Union Bank, N.A.

See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements in this Report for additional information regarding this 2012 acquisition and divestiture activity.

Average Consolidated Balance Sheet Highlights

Table 2: Summarized Average Balance Sheet

Six months ended June 30 Dollars in millions	2013	2012
Average assets		
Interest-earning assets		
Investment securities	$ 57,683	$ 61,469
Loans	187,359	171,239
Other	11,099	11,225
Total interest-earning assets	256,141	243,933
Other	46,591	44,914
Total average assets	$ 302,732	$ 288,847
Average liabilities and equity		
Interest-bearing liabilities		
Interest-bearing deposits	$ 145,014	$ 138,220
Borrowed funds	39,161	41,668
Total interest-bearing liabilities	184,175	179,888
Noninterest-bearing deposits	64,800	59,189
Other liabilities	11,650	11,023
Equity	42,107	38,747
Total average liabilities and equity	$ 302,732	$ 288,847

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

Total average assets increased to $302.7 billion for the first six months of 2013 compared with $288.8 billion for the first six months of 2012, primarily due to an increase of $12.2 billion in average interest-earning assets driven by an increase in average total loans, including the impact of loans added in the RBC Bank (USA) acquisition, which closed March 2, 2012.

Total assets were $304.4 billion at June 30, 2013 compared with $305.1 billion at December 31, 2012.

Average total loans increased by $16.1 billion to $187.4 billion for the first six months of 2013 compared with the six months of 2012, including increases in average commercial loans of $11.5 billion and average consumer loans of $3.0 billion. The overall increase in loans reflected organic loan growth, primarily in our Corporate & Institutional Banking segment, as well as the impact of loans added in the RBC Bank (USA) acquisition.

Loans represented 73% of average interest-earning assets for the first six months of 2013 and 70% of average interest-earning assets for the first six months of 2012.

Average investment securities decreased $3.8 billion to $57.7 billion in the first six months of 2013 compared with the first six months of 2012, primarily as a result of principal payments, including prepayments and maturities, partially offset by net purchase activity. During the second quarter of 2013, we entered into certain transactions to purchase securities that will be delivered in the third and fourth quarters of 2013. Total investment securities comprised 23% of average interest-earning assets for the first six months of 2013 and 25% for the first six months of 2012.

Average noninterest-earning assets increased $1.7 billion to $46.6 billion in the six months of 2013 compared with the six months of 2012. The increase included the impact of higher adjustments for net unrealized gains on securities, which are included in noninterest-earning assets for average balance sheet purposes, the six month impact of the RBC Bank (USA) acquisition, including goodwill, and an increase in equity investments. These increases were partially offset by decreased unsettled securities sales, which are included in noninterest-earning assets for average balance sheet purposes.

Average total deposits were $209.8 billion for the first six months of 2013 compared with $197.4 billion for the first six months of 2012. The increase of $12.4 billion primarily resulted from an increase of $17.4 billion in average transaction deposits which grew to $173.6 billion for the first six months of 2013 compared with $156.2 billion for the first six months of 2012. Growth in average interest-bearing demand deposits, average noninterest-bearing deposits and average money market deposits drove the increase in average transaction deposits, which resulted from the six month impact of the RBC Bank (USA) acquired deposits and organic growth. These increases were partially offset by a decrease of $5.1 billion in average retail certificates of deposit attributable to runoff of maturing accounts. Total deposits at June 30, 2013 were $212.3 billion compared with $213.1 billion at December 31, 2012 and are further discussed within the Consolidated Balance Sheet Review section of this Financial Review.

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

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Average borrowed funds decreased by $2.5 billion to $39.2 billion for the first six months of 2013 compared with the first six months of 2012. Lower average Federal Home Loan Bank (FHLB) borrowings were partially offset by an increase in average commercial paper. Total borrowed funds at June 30, 2013 were $39.9 billion compared with $40.9 billion at December 31, 2012 and are further discussed within the Consolidated Balance Sheet Review section of this Financial Review. The Liquidity Risk Management portion of the Risk Management section of this Financial Review includes additional information regarding our borrowed funds.

Business Segment Highlights

Total business segment earnings were $1.9 billion for the first six months of 2013 and $1.6 billion for the first six months of 2012. Highlights of results for the first six months and the second quarter of 2013 and 2012 are included below. The Business Segments Review section of this Financial Review includes further analysis of our business segment results over the first six months of 2013 and 2012, including presentation differences from Note 19 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

We provide a reconciliation of total business segment earnings to PNC total consolidated net income as reported on a GAAP basis in Note 19 Segment Reporting in our Notes To Consolidated Financial Statements of this Report.

Table 3: Results Of Businesses Summary

(Unaudited)

	Net Income		Revenue		Average Assets (a)	
Six months ended June 30-in millions	2013	2012	2013	2012	2013	2012
Retail Banking	$ 278	$ 283	$ 3,037	$ 2,987	$ 74,317	$ 71,420
Corporate & Institutional Banking	1,153	1,072	2,761	2,705	111,941	97,866
Asset Management Group	79	74	509	483	7,210	6,613
Residential Mortgage Banking	65	(152)	519	184	10,604	11,745
BlackRock	220	178	287	227	5,982	5,597
Non-Strategic Assets Portfolio	139	138	394	421	10,511	12,407
Total business segments	1,934	1,593	7,507	7,007	220,565	205,648
Other (b) (c)	193	(236)	512	348	82,167	83,199
Total	$ 2,127	$ 1,357	$ 8,019	$ 7,355	$ 302,732	$ 288,847

(a) Period-end balances for BlackRock.

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

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

Retail Banking

Retail Banking earned $278 million in the first six months of 2013 compared with $283 million for the same period a year ago. Earnings were essentially flat compared to a year ago as higher noninterest income was offset by lower net interest income and higher noninterest expense. Retail Banking s core strategy is to efficiently grow customers by providing an experience that builds customer loyalty and expands loan, investment product, and money management share of wallet. Net checking relationships grew 114,000 in the first six months of 2013. The growth reflects strong results and gains in all of our markets, as well as strong customer retention in the overall network.

In the second quarter of 2013, Retail Banking earned $158 million compared with earnings of $136 million for the second quarter of 2012. The increase in earnings was primarily due to the gain on sale of 2 million Visa Class B common shares, higher fee income, lower provision for credit losses and lower additions to legal reserves. These increases were partially offset by a decline in net interest income.

Corporate & Institutional Banking

Corporate & Institutional Banking earned $1.2 billion in the first six months of 2013 as compared with $1.1 billion in the first six months of 2012. The increase in earnings was primarily due to an increase in noninterest income and improved credit quality, partially offset by lower net interest income. We continued to focus on building client relationships, including increasing cross sales and adding new clients where the risk-return profile was attractive.

In the second quarter of 2013, Corporate & Institutional Banking earned $612 million compared with earnings of $577 million in the second quarter of 2012. The increase reflected higher noninterest income and a benefit on the provision for credit losses, which were partially offset by a decrease in net interest income.

Asset Management Group

Asset Management Group earned $79 million through the first six months of 2013 compared with $74 million in the same period of 2012. The increase in earnings was due to higher revenue of $26 million partially offset by higher noninterest expense. Assets under administration were $233 billion as of June 30, 2013 compared to $214 billion as of June 30, 2012. The core growth strategies for the business continue to include: investing in higher growth geographies, increasing internal referral sales and adding new front line sales staff.

In the second quarter of 2013, Asset Management Group earned $36 million compared with $38 million in the second quarter of 2012. The decrease is primarily due to an increase in noninterest expense from strategic business investments and an increase in the provision for credit losses.

Residential Mortgage Banking

Residential Mortgage Banking reported earnings of $65 million in the first six months of 2013 compared with losses of $152 million in the first six months of 2012. Earnings increased from the prior year six month period primarily as a result of decreased provision for residential mortgage repurchase obligations.

In the second quarter of 2013, Residential Mortgage Banking reported earnings of $20 million compared with a loss of $213 million in the second quarter of 2012 due to a decrease in provision for residential mortgage repurchase obligations and a decrease in the noninterest expense.

BlackRock

Our BlackRock business segment earned $220 million in the first six months of 2013 and $178 million in the first six months of 2012. In the second quarter of 2013, business segment earnings from BlackRock were $112 million compared with $88 million in the second quarter of 2012.

Non-Strategic Assets Portfolio

This business segment consists primarily of acquired non-strategic assets. Non-Strategic Assets Portfolio had earnings of $139 million for the first six months of 2013 compared with $138 million in the first six months of 2012. Earnings were relatively flat year-over-year as higher noninterest income and lower noninterest expense were offset by lower net interest income and a higher provision for credit losses.

In the second quarter of 2013, Non-Strategic Assets Portfolio had earnings of $60 million compared with $67 million for the second quarter of 2012. The decrease was due to a decrease in net interest income driven by lower purchase accounting accretion and lower loan balances.

Other

Other reported earnings of $193 million for the six months of 2013 compared with a loss of $236 million for the first six months of 2012. In the second quarter of 2013, Other reported earnings of $125 million compared with a loss of $147 million in the second quarter of 2012.

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Consolidated Income Statement Review

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

Net income for the first six months of 2013 was $2.1 billion, compared with net income of $1.4 billion for the first six months of 2012. The increase in year-over-year net income was driven by revenue growth of 9%, a decline in noninterest expense of 5% and a decrease in provision for credit losses. Higher revenue for the first six months of 2013 reflected lower provision for residential mortgage repurchase obligations, strong customer fee income and higher gains on asset sales and valuations and was partially offset by lower net interest income.

Net income for the second quarter of 2013 was $1.1 billion compared with $.5 billion for the second quarter of 2012. The increase in net income was due to revenue growth of 12%, a decline in noninterest expense of 8% and a decrease in provision for credit losses. Higher revenue for the second quarter of 2013 reflected lower provision for residential mortgage repurchase obligations, strong customer fee income and higher gains on asset sales and valuations, partially offset by lower net interest income.

Net Interest Income

Table 4: Net Interest Income and Net Interest Margin

	Six months ended		Three months ended	
	June 30		June 30	
Dollars in millions	2013	2012	2013	2012
Net interest income	$ 4,647	$ 4,817	$ 2,258	$ 2,526
Net interest margin	3.69%	3.99%	3.58%	4.08%

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

Net interest income decreased by $170 million, or 4%, in the first half of 2013 compared with the first half of 2012. Net interest income decreased by $268 million, or 11%, in the

second quarter of 2013 compared with the second quarter of 2012. The decline in both comparisons reflected lower purchase accounting accretion, the impact of lower yields on loans and securities, as well as the impact of lower securities balances during the quarter as a result of portfolio management activities. The impact of the decline in earning asset yields and lower security balances was partially offset by increases in loan balances, reflecting commercial and consumer loan growth over the period, and lower rates paid on borrowed funds. The six months period comparison was also impacted by the March 2012 RBC Bank (USA) acquisition.

During the second quarter of 2013, we entered into transactions to purchase securities that will be delivered in the third and fourth quarters of 2013. As a result, we expect interest income from securities to improve in the third quarter versus second quarter.

The declines in net interest margin for both the first six months and second quarter of 2013 compared with the 2012 periods reflected lower purchase accounting accretion and lower yields on earning assets.

The decrease for the first six months of 2013 included a 43 basis point decrease in the yield on total interest-earning assets, partially offset by a decrease in the weighted-average rate accrued on total interest-bearing liabilities of 17 basis points. In the second quarter comparison, the yield on total interest-earning assets decreased 60 basis points, partially offset by a decrease in the weighted-average rate accrued on total interest-bearing liabilities of 12 basis points.

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

With respect to the third quarter of 2013, we expect net interest income to be modestly lower as we expect the continuing impact of lower loan and security yields and a decline in purchase accounting accretion to be partially offset by loan growth and the impact of our securities portfolio management activities.

For the full year 2013, we expect net interest income to decrease compared with 2012, assuming an expected decline in the purchase accounting accretion component of net interest income of approximately $350 million.

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NONINTEREST INCOME

Table 5: Noninterest Income

	Six months ended		Three months ended	
	June 30		June 30	
Dollars in millions	2013	2012	2013	2012
Noninterest income				
Asset management	$ 648	$ 562	$ 340	$ 278
Consumer services	610	554	314	290
Corporate services	603	522	326	290
Residential mortgage	401	57	167	(173)
Service charges on deposits	283	271	147	144
Net gains on sales of securities	75	119	61	62
Net other-than-temporary impairments	(14)	(72)	(4)	(34)
Other	766	525	455	240
Total noninterest income	$ 3,372	$ 2,538	$ 1,806	$ 1,097

Noninterest income increased by $834 million, or 33%, during the first half of 2013 compared to the first half of 2012. Noninterest income for the second quarter increased by $709 million, or 65%, compared to the second quarter of 2012. Both increases were driven by lower provision for residential mortgage repurchase obligations in the 2013 periods, strong customer fee income and higher gains on asset sales and valuations.

Asset management revenue, including BlackRock, increased $86 million, or 15% in the first six months of 2013 compared to the first six months of 2012. The comparison included an increase of $62 million, or 22%, in the second quarter compared to the prior year quarter. Both increases were due to higher earnings from our BlackRock investment, stronger equity markets and growth in customers. Discretionary assets under management increased to $117 billion at June 30, 2013 compared with $109 billion at June 30, 2012 driven by stronger average equity markets and positive net flows.

Consumer service fees increased $56 million in the first six months of 2013 compared to the first six months of 2012 and increased $24 million in the second quarter of 2013 compared to the second quarter of 2012. Both increases reflected growth in debit card, brokerage, credit card and merchant services revenue. The six month comparison was also impacted by the March 2012 RBC Bank (USA) acquisition.

Corporate services revenue increased to $603 million in the first six months of 2013 compared with $522 million in the first six months of 2012, including $326 million in the second quarter of 2013 compared with $290 million in the second quarter of 2012. Corporate services revenue for the first six months of 2013 included $55 million related to valuation gains from the impact of rising interest rates on commercial

mortgage servicing rights valuations, including $44 million in the second quarter. These amounts contributed to increases in commercial mortgage servicing revenue, as the comparable amounts for the 2012 periods were not significant. In addition, the increase in the six months comparison also reflected higher treasury management fees. The increases in both comparisons were partially offset by lower merger and acquisition advisory fees.

Residential mortgage revenue increased to $401 million in the first six months of 2013 compared with $57 million in the first six months of 2012. The second quarter comparables were revenue of $167 million in the second quarter of 2013 and a loss of $173 million for the second quarter of 2012. Residential mortgage revenue for the first six months of 2013 included provision for residential mortgage repurchase obligations of $77 million compared to $470 million for the first six months of 2012. The comparable amounts for the second quarters of 2013 and 2012 were $73 million and $438 million, respectively. See the Recourse and Repurchase Obligations section of this Financial Review for further detail. These increases to both 2013 periods in residential mortgage revenue were partially offset by lower net hedging gains on mortgage servicing rights.

Other noninterest income totaled $766 million for the first six months of 2013 compared with $525 million for the first six months of 2012. Other noninterest income totaled $455 million for the second quarter of 2013 and $240 million for the second quarter of 2012. The increases in both 2013 periods included the $83 million gain on the sale of 2 million Visa Class B common shares during the second quarter of 2013. Other noninterest income for the first six months of 2013 also included $41 million of revenue from credit valuations related to customer-initiated hedging activities as higher market interest rates reduced the fair value of PNC s credit exposure on these activities. The comparable amount for the first six months of 2012 was a loss of $28 million. The impacts to the second quarters of 2013 and 2012 were revenue of $39 million and a loss of $35 million, respectively. In addition, the increase in other noninterest income in the year-to-date comparison also reflected higher revenue associated with commercial mortgage banking activity.

We continue to hold approximately 12 million Visa Class B common shares with an estimated fair value of approximately $950 million and recorded investment of approximately $204 million as of June 30, 2013.

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

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

Provision For Credit Losses

The provision for credit losses totaled $393 million for the first half of 2013 compared with $441 million for the first half of 2012. The provision for credit losses was $157 million for the second quarter of 2013 compared with $256 million for the second quarter of 2012. The declines in the comparisons were driven primarily by overall commercial credit quality improvement.

We expect our provision for credit losses for the third quarter of 2013 to be between $170 million and $250 million as we expect the pace of commercial credit improvement to ease and net credit exposure to increase.

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

Noninterest Expense

Noninterest expense was $4.8 billion for the first half of 2013, a decrease of $.3 billion, or 5%, from $5.1 billion for the first half of 2012. Noninterest expense for the first six months of 2013 included $30 million of noncash charges related to redemption of trust preferred securities and $18 million of residential mortgage foreclosure-related expenses. The first half of 2012 included $197 million of integration costs, noncash charges of $130 million related to redemption of trust preferred securities and $81 million of residential mortgage foreclosure-related expenses. These decreases to noninterest expense were partially offset by the impact of higher operating expense for the RBC Bank (USA) acquisition during the first half of 2013 compared to the first six months of 2012.

Noninterest expense decreased $.2 billion, or 8%, to $2.4 billion for the second quarter of 2013 compared with $2.6 billion for the second quarter of 2012. The second quarter of 2013 included $30 million of noncash charges related to redemption of trust preferred securities, while the second quarter of 2012 included $130 million of noncash charges related to redemption of trust preferred securities, $52 million of integration costs and $43 million of residential mortgage foreclosure-related expenses. The impact of residential mortgage foreclosure-related expenses in second quarter 2013 was not significant.

The decline in noninterest expense in the comparison also reflected our continued commitment to disciplined expense management, and we currently expect to exceed our $700 million continuous improvement savings goal for 2013. Through the first half of the year, we have captured approximately $600 million of annualized savings. Cost savings are expected to offset investments we are making in our businesses and infrastructure.

For the third quarter of 2013, we currently expect noninterest expenses to be modestly up compared to the second quarter of 2013.

We expect noninterest expense for 2013 to decline by at least five percent compared with 2012.

Effective Income Tax Rate

The effective income tax rate was 23.9% in the first six months of 2013 compared with 25.1% in the first six months of 2012. For the second quarter of 2013, our effective income tax rate was 23.7% compared with 24.1% for the second quarter of 2012. The effective tax rate is generally lower than the statutory rate primarily due to tax credits PNC receives from our investments in low income housing and new markets investments, as well as increased earnings in other tax exempt investments.

The decrease in the effective tax rate for the second quarter and the first six months of 2013 compared to the 2012 periods resulted from increased tax exempt investments and tax benefits from tax audit settlements, partially offset by higher levels of pretax income.

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CONSOLIDATED BALANCE SHEET REVIEW

Table 6: Summarized Balance Sheet Data

In millions	June 30 2013	December 31 2012
Assets		
Loans held for sale	$ 3,814	$ 3,693
Investment securities	57,449	61,406
Loans	189,775	185,856
Allowance for loan and lease losses	(3,772)	(4,036)
Goodwill	9,075	9,072
Other intangible assets	2,153	1,797
Other, net	45,921	47,319
Total assets	$ 304,415	$ 305,107
Liabilities		
Deposits	$ 212,279	$ 213,142
Borrowed funds	39,864	40,907
Other	10,331	9,293
Total liabilities	262,474	263,342
Equity		
Total shareholders equity	40,286	39,003
Noncontrolling interests	1,655	2,762
Total equity	41,941	41,765
Total liabilities and equity	$ 304,415	$ 305,107

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

Total assets decreased $692 million, or less than 1%, at June 30, 2013 compared with December 31, 2012. Total liabilities declined $868 million, or less than 1%, in the same comparison. An analysis of changes in selected balance sheet categories follows.

LOANS

A summary of the major categories of loans outstanding follows. Outstanding loan balances of $189.8 billion at June 30, 2013 and $185.9 billion at December 31, 2012 were net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums of $2.3 billion at June 30, 2013 and $2.7 billion at December 31, 2012, respectively. The balances include purchased impaired loans but do not include future accretable net interest (i.e., the difference between the undiscounted expected cash flows and the carrying value of the loan) on those loans.

Table 7: Details Of Loans

In millions	June 30 2013	December 31 2012
Commercial lending		
Commercial		
Retail/wholesale trade	$ 14,466	$ 13,801
Manufacturing	14,270	13,856
Service providers	12,758	12,095
Real estate related (a)	10,248	10,616
Financial services (b)	10,834	9,026
Health care	7,618	7,267
Other industries	16,736	16,379
Total commercial	86,930	83,040

Commercial real estate		
Real estate projects (c)	12,636	12,347
Commercial mortgage	6,355	6,308
Total commercial real estate	18,991	18,655
Equipment lease financing	7,349	7,247
Total commercial lending (d)	113,270	108,942
Consumer lending		
Home equity		
Lines of credit	22,559	23,576
Installment	13,857	12,344
Total home equity	36,416	35,920
Residential real estate		
Residential mortgage	14,051	14,430
Residential construction	726	810
Total residential real estate	14,777	15,240
Credit card	4,135	4,303
Other consumer		
Education	7,814	8,238
Automobile	9,066	8,708
Other	4,297	4,505
Total consumer lending	76,505	76,914
Total loans	$ 189,775	$ 185,856

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

(b) Includes loans issued to a Financing Special Purpose Entity which holds receivables from the other industries within Commercial Lending.

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

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

The increase in loans of $3.9 billion from December 31, 2012 included an increase in commercial lending of $4.3 billion and a decrease in consumer lending of $.4 billion. The increase in commercial lending was the result of growth in commercial

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loans, primarily from an increase in loan commitments to new and existing customers. The decline in consumer lending resulted from pay downs of residential real estate, education, credit card and other loans, along with the movement of residential real estate loans to OREO and charge-offs taken in the first quarter of 2013 related to the alignment with interagency supervisory guidance, partially offset by net growth in home equity and increases in indirect auto loans.

Loans represented 62% of total assets at June 30, 2013 and 61% of total assets at December 31, 2012. Commercial lending represented 60% of the loan portfolio at June 30, 2013 and 59% at December 31, 2012. Consumer lending represented 40% of the loan portfolio at June 30, 2013 and 41% at December 31, 2012.

Commercial real estate loans represented 10% of total loans and 6% of total assets at both June 30, 2013 and December 31, 2012. See the Credit Risk Management portion of the Risk Management section of this Financial Review for additional details of loans.

Total loans above include purchased impaired loans of $6.8 billion, or 4% of total loans, at June 30, 2013, and $7.4 billion, or 4% of total loans, at December 31, 2012.

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

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

- Probability of default,
- Loss given default,
- Exposure at date of default,
- Movement through delinquency stages,
- Amounts and timing of expected cash flows,
- Value of collateral, which may be obtained from third parties, and
- Qualitative factors, such as changes in current economic conditions, that may not be reflected in historical results.

Higher Risk Loans

Our total ALLL of $3.8 billion at June 30, 2013 consisted of $1.7 billion and $2.1 billion established for the commercial lending and consumer lending categories, respectively. The ALLL included what we believe to be appropriate loss coverage on higher risk loans in the commercial and consumer

portfolios. We do not consider government insured or guaranteed loans to be higher risk as defaults have historically been materially mitigated by payments of insurance or guarantee amounts for approved claims. Additional information regarding our higher risk loans is included in the Credit Risk Management portion of the Risk Management section of this Financial Review and in Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in our Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report.

Purchase Accounting Accretion and Valuation of Purchased Impaired Loans

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

Table 8: Accretion Purchased Impaired Loans

	Three months ended June 30		Six months ended June 30	
In millions	2013	2012	2013	2012
Accretion on purchased impaired loans				
Scheduled accretion	$ 150	$ 178	$ 307	$ 336

Reversal of contractual interest on impaired loans	(83)	(111)	(168)	(208)
Scheduled accretion net of contractual interest	67	67	139	128
Excess cash recoveries	11	51	61	91
Total	$ 78	$ 118	$ 200	$ 219

Table 9: Purchased Impaired Loans Accretable Yield

In millions	2013	2012
January 1	$ 2,166	$ 2,109
Addition of accretable yield due to RBC Bank (USA) acquisition on March 2, 2012		587
Scheduled accretion	(307)	(336)
Excess cash recoveries	(61)	(91)
Net reclassifications to accretable from non-accretable and other activity (a)	366	134
June 30 (b)	$ 2,164	$ 2,403

(a) Approximately 58% of the net reclassifications for the first six months of 2013 were driven by the consumer portfolio and were due to improvements of cash expected to be collected on both RBC Bank (USA) and National City loans in future periods. The remaining net reclassifications were predominantly due to future cash flow changes in the commercial portfolio.

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

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

Table 10: Valuation of Purchased Impaired Loans

	June 30, 2013		December 31, 2012	
Dollars in millions	Balance	Net Investment	Balance	Net Investment
Commercial and commercial real estate loans:				
Unpaid principal balance	$ 1,299		$ 1,680	
Purchased impaired mark	(331)		(431)	
Recorded investment	968		1,249	
Allowance for loan losses	(183)		(239)	
Net investment	785	60%	1,010	60%
Consumer and residential mortgage loans:				
Unpaid principal balance	6,095		6,639	
Purchased impaired mark	(285)		(482)	
Recorded investment	5,810		6,157	
Allowance for loan losses	(934)		(858)	
Net investment	4,876	80%	5,299	80%
Total purchased impaired loans:				
Unpaid principal balance	7,394		8,319	
Purchased impaired mark	(616)		(913)	
Recorded investment	6,778		7,406	
Allowance for loan losses	(1,117)		(1,097)	
Net investment	$ 5,661	77%	$ 6,309	76%

The unpaid principal balance of purchased impaired loans decreased to $7.4 billion at June 30, 2013 from $8.3 billion at December 31, 2012 due to payments, disposals and charge-offs of amounts determined to be uncollectible. The remaining purchased impaired mark at June 30, 2013 was $616 million, which was a decrease from $913 million at December 31, 2012. The associated allowance for loan losses remained relatively flat at $1.1 billion. The net investment of $5.7 billion at June 30, 2013 decreased 10% from $6.3 billion at December 31, 2012. At June 30, 2013, our largest individual purchased impaired loan had a recorded investment of $19 million.

We currently expect to collect total cash flows of $7.9 billion on purchased impaired loans, representing the $5.7 billion net investment at June 30, 2013 and the accretable net interest of $2.2 billion shown in Table 9: Purchased Impaired Loans Accretable Yield.

Weighted Average Life of the Purchased Impaired Portfolios

The table below provides the weighted average life (WAL) for each of the purchased impaired portfolios as of the second quarter of 2013.

Table 11: Weighted Average Life of the Purchased Impaired Portfolios

As of June 30, 2013 In millions	Recorded Investment	WAL (a)
Commercial	$ 231	2.0 years
Commercial real estate	737	1.8 years
Consumer (b)	2,474	4.7 years
Residential real estate	3,336	4.8 years
Total	$ 6,778	4.3 years

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

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PURCHASED IMPAIRED LOANS ACCRETABLE DIFFERENCE SENSITIVITY ANALYSIS

The following table provides a sensitivity analysis on the Purchased Impaired Loans portfolio. The analysis reflects hypothetical changes in key drivers for expected cash flows over the life of the loans under declining and improving conditions at a point in time. Any unusual significant economic events or changes, as well as other variables not considered below (e.g., natural or widespread disasters), could result in impacts outside of the ranges represented below. Additionally, commercial and commercial real estate loan settlements or sales proceeds can vary widely from appraised values due to a number of factors including, but not limited to, special use considerations, liquidity premiums and improvements/deterioration in other income sources.

Table 12: Accretable Difference Sensitivity Total Purchased Impaired Loans

In billions	June 30, 2013	Declining Scenario (a)	Improving Scenario (b)
Expected Cash Flows	$ 7.9	$ (.3)	$ .4
Accretable Difference	2.2	(.1)	.2
Allowance for Loan and Lease Losses	(1.1)	(.3)	.2

(a) Declining Scenario Reflects hypothetical changes that would decrease future cash flow expectations. For consumer loans we assume home price forecast decreases by ten percent and unemployment rate forecast increases by two percentage points; for commercial loans, we assume that collateral values decrease by ten percent.

(b) Improving Scenario Reflects hypothetical changes that would increase future cash flow expectations. For consumer loans, we assume home price forecast increases by ten percent, unemployment rate forecast decreases by two percentage points and interest rate forecast increases by two percentage points; for commercial loans, we assume that collateral values increase by ten percent.

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

NET UNFUNDED CREDIT COMMITMENTS

Net unfunded credit commitments are comprised of the following:

Table 13: Net Unfunded Credit Commitments

In millions	June 30 2013	December 31 2012
Commercial and commercial real estate (a)	$ 82,790	$ 78,703
Home equity lines of credit	19,325	19,814
Credit card	17,101	17,381
Other	4,926	4,694
Total	$ 124,142	$ 120,592

(a) Less than 5% of total net unfunded credit commitments relate to commercial real estate at each date.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. Commercial commitments reported above exclude syndications, assignments and participations, primarily to financial institutions, totaling $23.5 billion at June 30, 2013 and $22.5 billion at December 31, 2012.

Unfunded liquidity facility commitments and standby bond purchase agreements totaled $701 million at June 30, 2013 and $732 million at December 31, 2012 and are included in the preceding table primarily within the Commercial and commercial real estate category.

In addition to the credit commitments set forth in the table above, our net outstanding standby letters of credit totaled $10.9 billion at June 30, 2013 and $11.5 billion at December 31, 2012. Standby letters of credit commit us to make payments on behalf of our customers if specified future events occur.

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

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INVESTMENT SECURITIES

Table 14: Investment Securities

	June 30, 2013		December 31, 2012	
In millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Total securities available for sale (a)	$ 47,176	$ 47,899	$ 49,447	$ 51,052
Total securities held to maturity	9,550	9,749	10,354	10,860
Total securities	$ 56,726	$ 57,648	$ 59,801	$ 61,912

(a) Includes $297 million of both amortized cost and fair value of securities classified as corporate stocks and other at June 30, 2013. Comparably, at December 31, 2012, amortized cost and fair value of these corporate stocks and other was $367 million. The remainder of securities available for sale are debt securities.

The carrying amount of investment securities totaled $57.4 billion at June 30, 2013, which was made up of $47.9 billion of securities available for sale carried at fair value and $9.5 billion of securities held to maturity carried at amortized cost. Comparably, at December 31, 2012, the carrying value of investment securities totaled $61.4 billion of which $51.0 billion represented securities available for sale carried at fair value and $10.4 billion of securities held to maturity carried at amortized cost.

The decrease in the carrying amount of investment securities of $4.0 billion since December 31, 2012 resulted primarily from a decline in agency residential mortgage-backed securities due to principal payments partially offset by net purchase activity. Investment securities represented 19% of total assets at June 30, 2013 and 20% at December 31, 2012.

We evaluate our portfolio of investment securities in light of changing market conditions and other factors and, where appropriate, take steps to improve our overall positioning. We consider the portfolio to be well-diversified and of high quality. U.S. Treasury and government agencies, agency residential mortgage-backed and agency commercial mortgage-backed securities collectively represented 56% of the investment securities portfolio at June 30, 2013.

At June 30, 2013, the securities available for sale portfolio included a net unrealized gain of $.7 billion, which

represented the difference between fair value and amortized cost. The comparable balance at December 31, 2012 was $1.6 billion. The decrease in the net unrealized gain since December 31, 2012 resulted from an increase in market interest rates and widening asset spreads. The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. The fair value of investment securities generally decreases when interest rates increase and vice versa. In addition, the fair value generally decreases when credit spreads widen and vice versa. Net unrealized gains and losses in the securities available for sale portfolio are included in Shareholders equity as Accumulated other comprehensive income or loss, net of tax, on our Consolidated Balance Sheet.

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

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

The weighted-average expected life of investment securities (excluding corporate stocks and other) was 4.5 years at June 30, 2013 and 4.0 years at December 31, 2012.

The duration of investment securities was 2.8 years at June 30, 2013. We estimate that, at June 30, 2013, the effective duration of investment securities was 2.9 years for an immediate 50 basis points parallel increase in interest rates and 2.6 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2012 were 2.3 years and 2.2 years, respectively.

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

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

As of June 30, 2013 Dollars in millions	Agency Residential Mortgage-Backed Securities	Agency Commercial Mortgage-Backed Securities	Non-agency Residential Mortgage-Backed Securities	Non-agency Commercial Mortgage-Backed Securities	Asset-Backed Securities (a)
Fair Value Available for Sale	$ 24,248	$ 595	$ 5,852	$ 3,679	$ 6,034
Fair Value Held to Maturity	3,825	1,319		2,231	1,100
Total Fair Value	$ 28,073	$ 1,914	$ 5,852	$ 5,910	$ 7,134
% of Fair Value:					
By Vintage					
2013	4%		1%	4%	
2012	18%	1%	1%	12%	
2011	25%	49%		6%	
2010	24%	11%	1%	5%	2%
2009	9%	19%		2%	1%
2008	2%	3%			1%
2007	5%	2%	25%	11%	2%
2006	1%	4%	20%	19%	6%
2005 and earlier	6%	11%	51%	41%	5%
Not Available	6%		1%		83%
Total	100%	100%	100%	100%	100%
By Credit Rating (at June 30, 2013)					
Agency	100%	100%			
AAA			3%	69%	66%
AA			1%	9%	25%
A			1%	10%	1%
BBB			4%	4%	
BB			11%	2%	
B			7%	1%	1%
Lower than B			71%		7%
No rating			2%	5%	
Total	100%	100%	100%	100%	100%
By FICO Score (at origination)					
>720			51%		
<720 and >660			36%		7%
<660					2%
No FICO score			13%		91%
Total			100%		100%

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

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

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

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

For those debt securities where we do not intend to sell and believe we will not be required to sell the securities prior to expected recovery, we recognize the credit portion of OTTI charges in current earnings and the noncredit portion of OTTI is included in Net unrealized gains (losses) on OTTI securities on our Consolidated Statement of Comprehensive Income and in Accumulated other comprehensive income (loss), net of tax, on our Consolidated Balance Sheet.

We recognized OTTI for the first six months of 2013 and 2012 as follows:

Table 16: Other-Than-Temporary Impairments

	Three months ended June 30		Six months ended June 30	
In millions	2013	2012	2013	2012
Credit portion of OTTI losses (a)				
Non-agency residential mortgage-backed	$ 3	$ 31	$ 10	$ 63
Asset-backed	1	3	4	8
Other debt				1
Total credit portion of OTTI losses	4	34	14	72
Noncredit portion of OTTI losses (recoveries) (b)	6	(2)	(3)	(24)
Total OTTI losses	$ 10	$ 32	$ 11	$ 48

(a) Reduction of Noninterest income on our Consolidated Income Statement.

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

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

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

As of June 30, 2013	Residential Mortgage-Backed Securities		Commercial Mortgage-Backed Securities		Asset-Backed Securities (a)	
In millions	Fair Value	Net Unrealized Gain (Loss)	Fair Value	Net Unrealized Gain	Fair Value	Net Unrealized Gain (Loss)
Available for Sale Securities (Non-Agency)						
Credit Rating Analysis						
AAA	$ 159	$ (8)	$ 2,031	$ 43	$ 3,814	$ 12
Other Investment Grade (AA, A, BBB)	334	25	1,170	64	1,609	13
Total Investment Grade	493	17	3,201	107	5,423	25
BB	671	(66)	139	5	4	
B	393	(13)	57	3	46	
Lower than B	4,181	92			534	(15)
Total Sub-Investment Grade	5,245	13	196	8	584	(15)
Total No Rating	114	6	282	4	25	(12)
Total	$ 5,852	$ 36	$ 3,679	$ 119	$ 6,032	$ (2)
OTTI Analysis						
Investment Grade:						
OTTI has been recognized						
No OTTI recognized to date	$ 493	$ 17	$ 3,201	$ 107	$ 5,423	$ 25
Total Investment Grade	493	17	3,201	107	5,423	25
Sub-Investment Grade:						
OTTI has been recognized	3,490	(82)			551	(15)
No OTTI recognized to date	1,755	95	196	8	33	
Total Sub-Investment Grade	5,245	13	196	8	584	(15)
No Rating:						
OTTI has been recognized	74	2			25	(12)
No OTTI recognized to date	40	4	282	4		
Total No Rating	114	6	282	4	25	(12)
Total	$ 5,852	$ 36	$ 3,679	$ 119	$ 6,032	$ (2)
Securities Held to Maturity (Non-Agency)						
Credit Rating Analysis						
AAA			$ 2,015	$ 30	$ 857	$ (1)
Other Investment Grade (AA, A, BBB)			216	8	233	1
Total Investment Grade			2,231	38	1,090	
BB					10	
B						
Lower than B						
Total Sub-Investment Grade					10	
Total No Rating						
Total			$ 2,231	$ 38	$ 1,100	$

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

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Residential Mortgage-Backed Securities

At June 30, 2013, our residential mortgage-backed securities portfolio was comprised of $28.1 billion fair value of U.S. government agency-backed securities and $5.9 billion fair value of non-agency (private issuer) securities. The agency securities are generally collateralized by 1-4 family, conforming, fixed-rate residential mortgages**.** The non-agency securities are also generally collateralized by 1-4 family residential mortgages. The mortgage loans underlying the non-agency securities are generally non-conforming (i.e., original balances in excess of the amount qualifying for agency securities) and predominately have interest rates that are fixed for a period of time, after which the rate adjusts to a floating rate based upon a contractual spread that is indexed to a market rate (i.e., a hybrid ARM), or interest rates that are fixed for the term of the loan.

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

During the first six months of 2013, we recorded OTTI credit losses of $10 million on non-agency residential mortgage-backed securities. All of the losses were associated with securities rated below investment grade. As of June 30, 2013, the net unrealized loss recorded in Accumulated other comprehensive income for non-agency residential mortgage-backed securities for which we have recorded an OTTI credit loss totaled $80 million and the related securities had a fair value of $3.6 billion.

The fair value of sub-investment grade investment securities for which we have not recorded an OTTI credit loss as of June 30, 2013 totaled $1.8 billion, with unrealized net gains of $95 million. Based on the results of our security-level assessments, we anticipate recovering the cost basis of these securities.

Commercial Mortgage-Backed Securities

The fair value of the non-agency commercial mortgage-backed securities portfolio was $5.9 billion at June 30, 2013 and consisted of fixed-rate, private-issuer securities collateralized by non-residential properties, primarily retail properties, office buildings and multi-family housing. The agency commercial mortgage-backed securities portfolio had a fair value of $1.9 billion at June 30, 2013 consisting of multi-family housing. Substantially all of the securities are the most senior tranches in the subordination structure.

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

Asset-Backed Securities

The fair value of the asset-backed securities portfolio was $7.1 billion at June 30, 2013. The portfolio consisted of fixed-rate

and floating-rate securities collateralized by various consumer credit products, primarily student loans and residential mortgage loans, as well as securities backed by corporate debt. Substantially all of the securities are senior tranches in the securitization structure and have credit protection in the form of credit enhancement, over-collateralization and/or excess spread accounts. Substantially all of the student loans in the securitizations are guaranteed by an agency of the U.S. government.

We recorded OTTI credit losses of $4 million on asset-backed securities during the first six months of 2013. All of the securities are collateralized by first and second lien residential mortgage loans and are rated below investment grade. As of June 30, 2013, the net unrealized loss recorded in Accumulated other comprehensive income for asset-backed securities for which we have recorded an OTTI credit loss totaled $27 million and the related securities had a fair value of $576 million.

For the sub-investment grade investment securities for which we have not recorded an OTTI loss through June 30, 2013, the fair value was $43 million, with no unrealized net losses recorded. Based on the results of our security-level assessments, we anticipate recovering the cost basis of these securities.

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

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

Statement.

Loans Held for Sale

Table 18: Loans Held For Sale

In millions	June 30 2013	December 31 2012
Commercial mortgages at fair value	$ 635	$ 772
Commercial mortgages at lower of cost or market	437	620
Total commercial mortgages	1,072	1,392
Residential mortgages at fair value	2,246	2,096
Residential mortgages at lower of cost or market	107	124
Total residential mortgages	2,353	2,220
Other	389	81
Total	$ 3,814	$ 3,693

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We stopped originating certain commercial mortgage loans held for sale designated at fair value and continue pursuing opportunities to reduce these positions at appropriate prices. At June 30, 2013, the balance relating to these loans was $635 million, compared to $772 million at December 31, 2012.

We sold $1.4 billion of commercial mortgages held for sale carried at lower of cost or market during the first six months of 2013 compared to $.9 billion during the first six months of 2012. All of these loan sales were to government agencies. Gains on sale, net of hedges, were $43 million during the first six months of 2013, including $20 million in the second quarter. Comparable amounts for 2012 were $15 million and $18 million, respectively.

Residential mortgage loan origination volume was $8.9 billion in the first six months of 2013 compared to $7.0 billion for the first six months of 2012. Substantially all such loans were originated under agency or Federal Housing Administration (FHA) standards. We sold $8.0 billion of loans and recognized related gains of $362 million during the first six months of 2013, of which $190 million occurred in the second quarter. The comparable amounts for the first six months of 2012 were $6.4 billion and $318 million, respectively, including $177 million in the second quarter.

Interest income on loans held for sale was $85 million in the first six months of 2013, including $32 million in the second quarter. Comparable amounts for 2012 were $95 million and $45 million, respectively. These amounts are included in Other interest income on our Consolidated Income Statement.

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

Goodwill and Other Intangible Assets

Goodwill and other intangible assets totaled $11.2 billion at June 30, 2013 and $10.9 billion at December 31, 2012. The increase of $.3 billion was primarily due to mortgage and other loan servicing rights. See additional information regarding our goodwill and intangible assets in Note 10 Goodwill and Other Intangible Assets included in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Funding and Capital Sources

Table 19: Details Of Funding Sources

In millions	June 30 2013	December 31 2012
Deposits		
Money market	$ 103,480	$ 102,706
Demand	72,080	73,995
Retail certificates of deposit	22,265	23,837
Savings	11,085	10,350
Time deposits in foreign offices and other time	3,369	2,254
Total deposits	212,279	213,142
Borrowed funds		
Federal funds purchased and repurchase agreements	4,303	3,327
Federal Home Loan Bank borrowings	8,481	9,437
Bank notes and senior debt	11,177	10,429
Subordinated debt	7,113	7,299
Commercial paper	6,400	8,453
Other	2,390	1,962
Total borrowed funds	39,864	40,907
Total funding sources	$ 252,143	$ 254,049

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

Total funding sources decreased $1.9 billion at June 30, 2013 compared with December 31, 2012.

Total deposits decreased $.9 billion at June 30, 2013 compared with December 31, 2012 due to decreases in demand deposits and retail certificates of deposit, partially offset by increases in time deposits in foreign offices and other time, money market and savings deposits. Interest-bearing deposits represented 69% of total deposits at June 30, 2013 compared to 67% at December 31, 2012. Total borrowed funds decreased $1.0 billion since December 31, 2012 as a result of declines in commercial paper and FHLB borrowings, partially offset by higher federal funds purchased and repurchase agreements and bank notes and senior debt.

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CAPITAL

Table 20: Shareholders Equity

In millions	June 30 2013	December 31 2012
Shareholders equity		
Preferred stock (a)		
Common stock	$ 2,693	$ 2,690
Capital surplus preferred stock	3,939	3,590
Capital surplus common stock and other	12,234	12,193
Retained earnings	21,828	20,265
Accumulated other comprehensive income (loss)	45	834
Common stock held in treasury at cost	(453)	(569)
Total shareholders equity	$ 40,286	$ 39,003

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

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

Total shareholders equity increased $1.3 billion, to $40.3 billion at June 30, 2013, compared with December 31, 2012 primarily reflecting an increase in retained earnings of $1.6 billion (driven by net income of $2.1 billion and the impact of $.6 billion of dividends declared) and an increase of $.3

billion in capital surplus-preferred stock due to the net issuances of preferred stock. These increases were partially offset by the decline of accumulated other comprehensive income of $.8 billion primarily due to the impact of an increase in market interest rates and widening asset spreads on securities available for sale and derivatives that are part of cash flow hedging strategies. Common shares outstanding were 531 million at June 30, 2013 and 528 million at December 31, 2012.

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

Our current common stock repurchase program permits us to purchase up to 25 million shares of PNC common stock on the open market or in privately negotiated transactions. This program will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic and regulatory capital considerations, alternative uses of capital and the potential impact on our credit ratings. We do not expect to repurchase any shares under this program in 2013. We did not include any such share repurchases in our 2013 capital plan submitted to the Federal Reserve, primarily as a result of PNC s 2012 acquisition of RBC Bank (USA) and expansion into Southeastern markets.

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Table 21: Basel I Risk-Based Capital

Dollars in millions	June 30 2013	December 31 2012
Capital components		
Shareholders equity		
Common	$ 36,347	$ 35,413
Preferred	3,939	3,590
Trust preferred capital securities	216	331
Noncontrolling interests	985	1,354
Goodwill and other intangible assets	(9,727)	(9,798)
Eligible deferred income taxes on goodwill and other intangible assets	346	354
Pension and other postretirement benefit plan adjustments	743	777
Net unrealized securities (gains)/losses, after-tax	(502)	(1,052)
Net unrealized (gains)/losses on cash flow hedge derivatives, after-tax	(332)	(578)
Other	(207)	(165)
Tier 1 risk-based capital	31,808	30,226
Subordinated debt	5,081	4,735
Eligible allowance for credit losses	3,318	3,276
Total risk-based capital	$ 40,207	$ 38,237
Tier 1 common capital		
Tier 1 risk-based capital	$ 31,808	$ 30,226
Preferred equity	(3,939)	(3,590)
Trust preferred capital securities	(216)	(331)
Noncontrolling interests	(985)	(1,354)
Tier 1 common capital	$ 26,668	$ 24,951
Assets		
Risk-weighted assets, including off-balance sheet instruments and market risk equivalent assets	$ 264,750	$ 260,847
Adjusted average total assets	291,605	291,426
Basel I capital ratios		
Tier 1 common	10.1%	9.6%
Tier 1 risk-based	12.0	11.6
Total risk-based	15.2	14.7
Leverage	10.9	10.4

Federal banking regulators have stated that they expect all bank holding companies to have a level and composition of Tier 1 capital well in excess of the 4% Basel I regulatory minimum, and they have required the largest U.S. bank holding companies, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet the credit needs of their customers through estimated stress scenarios. They have also stated their view that common equity should be the dominant form of Tier 1 capital. As a result, regulators are now emphasizing the Tier 1 common capital ratio in their evaluation of bank holding company capital levels. We seek to manage our capital consistent with these regulatory principles, and believe that our June 30, 2013 capital levels were aligned with them.

Dodd-Frank requires the Federal Reserve to establish capital requirements that would, among other things, eliminate the Tier 1 treatment of trust preferred securities for bank holding companies with $15 billion or more in assets following a phase-in period that begins in 2014. Accordingly, PNC has redeemed trust preferred securities and will consider redeeming others on or after their first call date, based on such considerations as dividend rates, future capital requirements, capital market conditions and other factors. See Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in Item 8 of our 2012 Form 10-K and Note 11 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities and Note 20 Subsequent Events in the Notes To Consolidated Financial Statements in this Report for additional discussion of our trust preferred securities and completed or upcoming redemptions.

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Our Basel I Tier 1 common capital ratio was 10.1% at June 30, 2013, compared with 9.6% at December 31, 2012. Our Basel I Tier 1 risk-based capital ratio increased 40 basis points to 12.0% at June 30, 2013 from 11.6% at December 31, 2012. Our Basel I total risk-based capital ratio increased 50 basis points to 15.2% at June 30, 2013 from 14.7% at December 31, 2012. Basel I capital ratios increased in all comparisons primarily due to growth in retained earnings. The net issuance of preferred stock during the six months ended June 30, 2013 partially offset by the redemption of trust preferred securities favorably impacted the June 30, 2013 Basel I Tier 1 risk-based and Basel I total risk-based capital ratios. Basel I risk-weighted assets increased $3.9 billion to $264.8 billion at June 30, 2013.

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

PNC and PNC Bank, N.A. entered the parallel run qualification phase under the Basel II capital framework on January 1, 2013. The Basel II framework, which was adopted by the Basel Committee on Banking Supervision in 2004, seeks to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. The U.S. banking agencies initially adopted rules to implement the Basel II capital framework in 2004. In July 2013, the U.S. banking agencies adopted final rules (referred to as the advanced approaches) that modify the Basel II risk-weighting framework. See Recent Market and Industry Developments in the Executive Summary section of this Financial Review and Item 1 Business Supervision and Regulation and Item 1A Risk Factors in our 2012 Form 10-K. Prior to fully implementing the advanced approaches established by these rules to calculate risk-weighted assets, PNC and PNC Bank, N.A. must successfully complete a parallel run qualification phase. This phase must last at least four consecutive quarters, although, consistent with the experience of other U.S. banks, we currently anticipate a multi-year parallel run period.

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

The Federal Reserve announced final rules implementing Basel III on July 2, 2013. PNC continues its evaluation of these rules. Pending completion of that evaluation, we have estimated our Basel III capital information set forth below based on our understanding of the prior U.S. Basel III rule proposals issued in 2012.

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

Dollars in millions	June 30 2013	December 31 2012
Basel I Tier 1 common capital	$ 26,668	$ 24,951
Less regulatory capital adjustments:		
Basel III quantitative limits	(2,224)	(2,330)
Accumulated other comprehensive income (a)	(241)	276
All other adjustments	(283)	(396)
Estimated Basel III Tier 1 common capital	$ 23,920	$ 22,501
Estimated Basel III risk-weighted assets	290,838	301,006
Pro forma Basel III Tier 1 common capital ratio	8.2%	7.5%

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

Tier 1 common capital as defined under the Basel III rules differs materially from Basel I. For example, under Basel III, significant common stock investments in unconsolidated financial institutions, mortgage servicing rights and deferred tax assets must be deducted from capital to the extent they individually exceed 10%, or in the aggregate exceed 15%, of the institution s adjusted Tier 1 common capital. Also, Basel I regulatory capital excludes certain other comprehensive income related to both available for sale securities and pension and other postretirement plans, whereas under Basel III these items are a component of PNC s capital. Basel III risk-weighted assets were estimated under the advanced approaches included in the Basel III rules and application of Basel II.5, and reflect credit, market and operational risk.

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

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

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

Off-Balance Sheet Arrangements And Variable Interest Entities

We engage in a variety of activities that involve unconsolidated entities or that are otherwise not reflected in our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. Additional information on these types of activities is included in our 2012 Form 10-K and in the following sections of this Report:

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

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

A summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements, as of June 30, 2013 and December 31, 2012 is included in Note 3 of this Report.

Trust Preferred Securities and REIT Preferred Securities

We are subject to certain restrictions, including restrictions on dividend payments, in connection with $265 million in principal amount of outstanding junior subordinated debentures associated with $257 million of trust preferred securities that were issued by various subsidiary statutory trusts (both amounts as of June 30, 2013). Generally, if there is (i) an event of default under the debentures, (ii) PNC elects to defer interest on the debentures, (iii) PNC exercises its right to defer payments on the related trust preferred securities issued by the statutory trusts or (iv) there is a default under PNC s guarantee of such payment obligations, as specified in the applicable governing documents, then PNC would be subject during the period of such default or deferral to restrictions on dividends and other provisions protecting the status of the debenture holders similar to or in some ways more restrictive than those potentially imposed under the Exchange Agreement with PNC Preferred Funding Trust II, as described in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in our 2012 Form 10-K. See the Liquidity Risk Management portion of the Risk Management section of this Financial Review for additional information regarding our first quarter 2013 redemption of the REIT Preferred Securities issued by PNC Preferred Funding Trust III and additional discussion of redemptions of trust preferred securities.

Fair Value Measurements

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

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

Table 23: Fair Value Measurements Summary

	June 30, 2013	December 31, 2012

In millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	$ 64,026	$ 10,812	$ 68,352	$ 10,988
Total assets at fair value as a percentage of consolidated assets	21%		22%	
Level 3 assets as a percentage of total assets at fair value		17%		16%
Level 3 assets as a percentage of consolidated assets		4%		4%
Total liabilities	$ 6,457	$ 578	$ 7,356	$ 376
Total liabilities at fair value as a percentage of consolidated liabilities	2%		3%	
Level 3 liabilities as a percentage of total liabilities at fair value		9%		5%
Level 3 liabilities as a percentage of consolidated liabilities		<1%		<1%

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The majority of assets recorded at fair value are included in the securities available for sale portfolio. The majority of Level 3 assets represent non-agency residential mortgage-backed and asset-backed securities in the securities available for sale portfolio for which there was limited market activity.

An instrument s categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. PNC reviews and updates fair value hierarchy classifications quarterly. 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. PNC s policy is to recognize transfers in and transfers out as of the end of the reporting period. During the first six months of 2013, there were transfers of residential mortgage loans held for sale and loans from Level 2 to Level 3 of $6 million and $11 million, respectively, as a result of reduced market activity in the

nonperforming residential mortgage sales market which reduced the observability of valuation inputs. Also during 2013, there were transfers out of Level 3 residential mortgage loans held for sale and loans of $7 million and $16 million, respectively, primarily due to the transfer of residential mortgage loans held for sale and loans to OREO. In addition, there was approximately $46 million of Level 3 residential mortgage loans held for sale reclassified to Level 3 loans during the first six months of 2013 due to the loans being reclassified from held for sale loans to held in portfolio loans. This amount was included in Transfers out of Level 3 residential mortgage loans held for sale and Transfers into Level 3 loans within Table 90: Reconciliation of Level 3 Assets and Liabilities. In the comparable period of 2012, there were transfers of assets and liabilities from Level 2 to Level 3 of $460 million consisting of mortgage-backed available for sale securities transferred as a result of a ratings downgrade which reduced the observability of valuation inputs.

European Exposure

Table 24: Summary of European Exposure

June 30, 2013

	Direct Exposure							
	Funded				Unfunded			
In millions	Loans	Leases	Securities	Total	Other (a)	Total Direct Exposure	Total Indirect Exposure	Total Exposure
Greece, Ireland, Italy, Portugal and Spain (GIIPS)	$ 84	$ 124		$ 208	$ 3	$ 211	$ 36	$ 247
Belgium and France		72		72	35	107	919	1,026
United Kingdom	747	71		818	332	1,150	612	1,762
Europe Other (b)	107	532	$ 324	963	49	1,012	703	1,715
Total Europe (c)	$ 938	$ 799	$ 324	$ 2,061	$ 419	$ 2,480	$ 2,270	$ 4,750

December 31, 2012

	Direct Exposure							
	Funded				Unfunded			
In millions	Loans	Leases	Securities	Total	Other (a)	Total Direct Exposure	Total Indirect Exposure	Total Exposure
Greece, Ireland, Italy, Portugal and Spain (GIIPS)	$ 85	$ 122		$ 207	$ 3	$ 210	$ 31	$ 241
Belgium and France		73	$ 30	103	35	138	1,083	1,221
United Kingdom	698	32		730	449	1,179	525	1,704
Europe Other (b)	113	529	168	810	63	873	838	1,711
Total Europe (c)	$ 896	$ 756	$ 198	$ 1,850	$ 550	$ 2,400	$ 2,477	$ 4,877

(a) Includes unfunded commitments, guarantees, standby letters of credit and sold protection credit derivatives.

(b) Europe Other primarily consists of Denmark, Germany, Netherlands, Sweden and Switzerland. For the period ended June 30, 2013, Europe Other also included Norway.

(c) Included within Europe Other is funded direct exposure of $68 million and $168 million consisting of AAA-rated sovereign debt securities at June 30, 2013 and December 31, 2012, respectively. There was no other direct or indirect exposure to European sovereigns as of June 30, 2013 and December 31, 2012.

European entities are defined as supranational, sovereign, financial institutions and non-financial entities within the countries that comprise the European Union, European Union candidate countries and other European countries. Foreign exposure underwriting and approvals are centralized. PNC currently underwrites new European activities if the credit is generally associated with activities of its United States commercial customers, and, in the case of PNC Business Credit s United Kingdom operations, loans with moderate risk as they are predominantly well secured by short-term assets or, in limited situations, the borrower s appraised value of certain fixed assets. Formerly, PNC had underwritten foreign infrastructure leases supported by highly rated bank letters of credit and other collateral, U.S. Treasury securities and the underlying assets of the lease. Country exposures are monitored and reported on a regular basis. We actively monitor sovereign risk, banking system health, and market conditions and adjust limits as appropriate. We rely on information from internal and external sources, including international financial institutions, economists and analysts, industry trade organizations, rating agencies, econometric data analytical service providers and geopolitical news analysis services.

Among the regions and nations that PNC monitors, we have identified seven countries for which we are more closely monitoring their economic and financial situation. The basis for the increased monitoring includes, but is not limited to, sovereign debt burden, near term financing risk, political instability, GDP trends, balance of payments, market confidence, banking system distress and/or holdings of stressed sovereign debt. The countries identified are: Greece, Ireland, Italy, Portugal, Spain (collectively GIIPS), Belgium and France.

Direct exposure primarily consists of loans, leases, securities, derivatives, letters of credit and unfunded contractual commitments with European entities. As of June, 30, 2013, the $2.1 billion of funded direct exposure (.68% of PNC s total assets) primarily represented $655 million for cross-border leases in support of national infrastructure, which were supported by letters of credit and other collateral having trigger mechanisms that require replacement or collateral in the form of cash or United States Treasury or government securities, $598 million for United Kingdom foreign office loans and $68 million of securities issued by AAA-rated sovereigns. The comparable level of direct exposure outstanding at December 31, 2012 was $1.9 billion (.61% of PNC s total assets), which primarily included $645 million for cross-border leases in support of national infrastructure, $600 million for United Kingdom foreign office loans and $168 million of securities issued by AAA-rated sovereigns.

The $419 million of unfunded direct exposure as of June 30, 2013 was largely comprised of $332 million for unfunded contractual commitments primarily for United Kingdom local office commitments to PNC Business Credit corporate customers on a secured basis or activities supporting our domestic customers export activities through the confirmation of trade letters of credit. Comparably, the $550 million of unfunded direct exposure as of December 31, 2012 was largely comprised of $449 million for unfunded contractual commitments primarily for United Kingdom local office commitments to PNC Business Credit corporate customers on a secured basis or activities supporting our domestic customers export activities through the confirmation of trade letters of credit.

We also track European financial exposures where our clients, primarily U.S. entities, appoint PNC as a letter of credit

issuing bank and we elect to assume the joint probability of default risk. As of June 30, 2013 and December 31, 2012, PNC had $2.3 billion and $2.5 billion, respectively, of indirect exposure. For PNC to incur a loss in these indirect exposures, both the obligor and the financial counterparty participating bank would need to default. PNC assesses both the corporate customers and the participating banks for counterparty risk and where PNC has found that a participating bank exposes PNC to unacceptable risk, PNC will reject the participating bank as an acceptable counterparty and will ask the corporate customer to find an acceptable participating bank.

Direct and indirect exposure to entities in the GIIPS countries totaled $247 million as of June 30, 2013, of which $124 million was direct exposure for cross-border leases within Portugal, $67 million represented direct exposure for loans outstanding within Ireland and $36 million represented indirect exposure for letters of credit with strong underlying obligors, primarily U.S. entities, with participating banks in Ireland, Italy and Spain. The comparable amounts as of December 31, 2012 were total direct and indirect exposure of $241 million, consisting of $122 million of direct exposure for cross-border leases within Portugal, $67 million represented direct exposure for loans outstanding within Ireland and $31 million represented indirect exposure for letters of credit with strong underlying obligors, primarily U.S. entities, with participating banks in Ireland, Italy and Spain.

Direct and indirect exposure to entities in Belgium and France totaled $1.0 billion as of June 30, 2013. Direct exposure of $107 million primarily consisted of $70 million for cross-border leases within Belgium and $35 million for unfunded contractual commitments in France. Indirect exposure was $919 million for letters of credit with strong underlying obligors, primarily U.S. entities, with creditworthy participant banks in France and Belgium. The comparable amounts as of December 31, 2012 were total direct and indirect exposure of $1.2 billion of which there was $138 million of direct exposure primarily consisting of $69 million for cross-border leases within Belgium, $35 million for unfunded contractual commitments in France and $30 million of covered bonds issued by a financial institution in France. Indirect exposure at December 31, 2012 was $1.1 billion for letters of credit with strong underlying obligors and creditworthy participant banks in France and Belgium.

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Business Segments Review

We have six reportable business segments:

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

Business segment results, including inter-segment revenues, and a description of each business are included in Note 19 Segment Reporting included in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. Certain amounts included in this Financial Review differ from those amounts shown in Note 19 primarily due to the presentation in this Financial Review of business net interest revenue on a taxable-equivalent basis.

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 practicable, retrospective application of new methodologies is made to prior period reportable business segment results and disclosures to create comparability to the current period presentation to reflect any such refinements.

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.

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing

methodology that incorporates product maturities, duration and other factors. 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 and other intangible assets at those business segments, as well as the diversification of risk among the business segments.

We have allocated the allowances for loan and lease losses and for unfunded loan commitments and letters of credit based on our assessment of risk in each business segment s loan 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. Our allocation of the costs incurred by operations and other shared support areas not directly aligned with the businesses is primarily based on the use of services.

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

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Retail Banking

(Unaudited)

Table 25: Retail Banking Table

Six months ended June 30

Dollars in millions, except as noted	2013	2012
Income Statement		
Net interest income	$ 2,061	$ 2,159
Noninterest income		
Service charges on deposits	270	258
Brokerage	110	94
Consumer services	445	404
Other	151	72
Total noninterest income	976	828
Total revenue	3,037	2,987
Provision for credit losses	310	300
Noninterest expense	2,287	2,240
Pretax earnings	440	447
Income taxes	162	164
Earnings	$ 278	$ 283
Average Balance Sheet		
Loans		
Consumer		
Home equity	$ 29,063	$ 27,499
Indirect auto	7,161	4,735
Indirect other	969	1,242
Education	8,101	9,270
Credit cards	4,085	4,001
Other	2,141	2,222
Total consumer	51,520	48,969
Commercial and commercial real estate	11,318	11,083
Floor plan	2,031	1,733
Residential mortgage	788	1,002
Total loans	65,657	62,787
Goodwill and other intangible assets	6,138	6,058
Other assets	2,522	2,575
Total assets	$ 74,317	$ 71,420
Deposits		
Noninterest-bearing demand	$ 20,967	$ 19,572
Interest-bearing demand	31,595	26,986
Money market	48,469	45,436
Total transaction deposits	101,031	91,994
Savings	10,768	9,489
Certificates of deposit	22,251	27,309
Total deposits	134,050	128,792
Other liabilities	308	410
Capital	8,967	8,391
Total liabilities and equity	$ 143,325	$ 137,593
Performance Ratios		
Return on average capital	6%	7%
Return on average assets	.75	.80
Noninterest income to total revenue	32	28
Efficiency	75	75
Other Information (a)		
Credit-related statistics:		
Commercial nonperforming assets	$ 222	$ 275
Consumer nonperforming assets	1,068	685

Total nonperforming assets (b)	$ 1,290	$ 960
Purchased impaired loans (c)	$ 750	$ 886
Commercial lending net charge-offs	$ 59	$ 66
Credit card lending net charge-offs	84	99
Consumer lending (excluding credit card) net charge-offs	259	213
Total net charge-offs	$ 402	$ 378
Commercial lending annualized net charge-off ratio	.89%	1.04%
Credit card lending annualized net charge-off ratio	4.15%	4.98%
Consumer lending (excluding credit card) annualized net charge-off ratio (h)	1.08%	.93%
Total annualized net charge-off ratio (h)	1.23%	1.21%

At June 30

Dollars in millions, except as noted	2013	2012
Other Information (Continued) (a)		
Home equity portfolio credit statistics: (d)		
% of first lien positions at origination (e)	50%	39%
Weighted-average loan-to-value ratios (LTVs) (e) (f)	85%	78%
Weighted-average updated FICO scores (g)	745	742
Annualized net charge-off ratio (h)	1.39%	1.01%
Delinquency data: (i)		
Loans 30 59 days past due	.20%	.32%
Loans 60 89 days past due	.08%	.18%
Total accruing loans past due	.28%	.50%
Nonperforming loans	3.12%	1.98%
Other statistics:		
ATMs	7,335	7,206
Branches (j)	2,780	2,888
Full service brokerage offices	37	40
Brokerage account assets (billions)	$ 39	$ 36
Customer-related statistics: (in thousands)		
Retail Banking checking relationships	6,589	6,349
Retail online banking active customers	4,271	3,953
Retail online bill payment active customers	1,270	1,189

(a) Presented as of June 30, except for net charge-offs and annualized net charge-off ratios, which are for the six months ended.
(b) Includes nonperforming loans of $1.2 billion at June 30, 2013 and $0.9 billion at June 30, 2012.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Lien position, LTV and FICO statistics are based upon customer balances.
(e) Lien position and LTV calculation at June 30, 2013 reflect the use of revised assumptions where data is missing.
(f) LTV statistics are based upon current information.
(g) Represents FICO scores that are updated at least quarterly.
(h) Ratios for the six months ended June 30, 2013 include additional consumer charge-offs taken as a result of alignment with interagency guidance on practices for loans and lines of credit we implemented in the first quarter of 2013.
(i) Data based upon recorded investment. Past due amounts exclude purchased impaired loans, even if contractually past due as we are currently accreting interest income over the expected life of the loans. In the first quarter of 2012, we adopted a policy stating that Home equity loans past due 90 days or more would be placed on nonaccrual status.
(j) Excludes satellite offices (e.g., drive-ups, electronic branches and retirement centers) that provide limited products and/or services.

Retail Banking earned $278 million in the first six months of 2013 compared with earnings of $283 million for the same period a year ago. Earnings were essentially flat compared to a year ago as higher noninterest income was offset by lower net interest income and higher noninterest expense.

Retail Banking s core strategy is to efficiently grow customers by providing an experience that builds customer loyalty and expands loan, investment product, and money management share of wallet. Net checking relationships grew 114,000 in the first six months of 2013. The growth reflects strong results and gains in the majority of our markets, as well as strong customer retention in the overall network. As customer preferences for convenience evolve, we continue to provide more cost effective alternate servicing channels. Non-branch

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deposits via ATM and mobile channels increased from 14 percent a year ago to 23 percent of the total deposits in the first half of 2013. Active online banking customers and active online bill payment customers increased by 8% and 7%, respectively, from a year ago.

Retail Banking s footprint extends across 17 states and Washington, D.C., covering nearly half the U.S. population and serving 5.8 million consumers and 757 thousand small businesses with 2,780 branches and 7,335 ATMs. PNC consolidated 108 branches in the first six months of 2013 with plans to close an approximate total of 200 branches this year. We will continue to invest selectively in new branches and we opened seven branches in the first half of 2013.

Total revenue for the first six months of 2013 was $3.0 billion, $50 million higher than the same period of 2012. Net interest income of $2.1 billion decreased $98 million compared with the first six months of 2012. The decrease resulted from spread compression on both loans and deposits.

Noninterest income increased $148 million compared to the first half of 2012. The increase was driven by the second quarter pretax gain of $83 million on the sale of Visa Class B common shares and the impact of higher customer-initiated fee based transactions.

The provision for credit losses was $310 million and net charge-offs were $402 million in the first six months of 2013 compared with $300 million and $378 million, respectively, for the same period in 2012. The increase in net charge-offs year-over-year was due to the impact of alignment with regulatory guidance in the first quarter of 2013.

Noninterest expense increased $47 million in the first six months of 2013 compared to the same period of 2012. The increase was primarily attributable to a greater number of months operating expenses in 2013 associated with the RBC Bank (USA) acquisition, partially offset by lower additions to legal reserves.

Growing core checking deposits is key to Retail Banking s growth and to providing a source of low-cost funding to PNC. The deposit product strategy of Retail Banking is to remain disciplined on pricing, target specific products and markets for growth, and focus on the retention and growth of balances for relationship customers. In the first six months of 2013, average total deposits of $134.1 billion increased $5.3 billion, or 4%, compared with the same period in 2012.

- Average transaction deposits grew $9.0 billion, or 10% and average savings deposit balances grew $1.3 billion or 13% year-over-year as a result of organic deposit growth, continued customer preference for liquidity and the RBC Bank (USA) acquisition. In the first six months of 2013, compared with the same period a year ago, average demand deposits increased $6.0 billion, or 13%, to $52.6 billion and average
money market deposits increased $3.0 billion, or 7%, to $48.5 billion.
- Total average certificates of deposit decreased $5.1 billion or 19% compared to the same period in 2012. The decline in average certificates of deposit was due to the run-off of maturing accounts.

Retail Banking continues to focus on a relationship-based lending strategy that targets specific products and markets for growth, small business and auto dealerships. In the first six months of 2013, average total loans were $65.7 billion, an increase of $2.9 billion, or 5%, over the same period in 2012.

- Average indirect auto loans increased $2.4 billion, or 51%, over the first six months of 2012. The increase was primarily due to the expansion of our indirect sales force and product introduction to acquired markets, as well as overall increases in auto sales.
- Average home equity loans increased $1.6 billion, or 6%, compared with the same period in 2012. The increase was driven by the RBC Bank (USA) acquisition. The remainder of the portfolio grew modestly as increases in term loans were offset by declines in lines of credit. Retail Banking s home equity loan portfolio is relationship based, with 97% of the portfolio attributable to borrowers in our primary geographic footprint.
- Average auto dealer floor plan loans grew $298 million, or 17%, compared with the first six months of 2012, primarily resulting from dealer line utilization and additional dealer relationships.
- Average commercial and commercial real estate loans increased $235 million, or 2%, compared with the same period in 2012. The increase was due to the acquisition of RBC Bank (USA). The remainder of the portfolio showed a decline as loan demand was outpaced by paydowns, refinancings, and charge-offs.
- Average credit card balances increased $84 million, or 2%, compared with the same period of 2012 as a result of the portfolio purchase from RBC Bank (Georgia), National Association in March 2012.
- Average education loans for the first six months of 2013 declined $1.2 billion or 13% compared with the same period in 2012. The decline was a result of run-off of the discontinued government guaranteed portfolio.
- Average indirect other and residential mortgages in this segment are primarily run-off portfolios and declined $273 million and $214 million, respectively, compared with the same period in 2012. The indirect other portfolio is comprised of marine, RV, and other indirect loan products.

Nonperforming assets totaled $1.3 billion at June 30, 2013, a 34% increase from a year ago. The increase was in consumer assets and was due to the alignment with interagency guidance on practices for loans and lines of credit related to consumer loans that we implemented in the first quarter of 2013.

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Corporate & Institutional Banking

(Unaudited)

Table 26: Corporate & Institutional Banking Table

Six months ended June 30

Dollars in millions, except as noted	2013	2012
Income Statement		
Net interest income	$ 1,899	$ 2,023
Noninterest income		
Corporate service fees	543	448
Other	319	234
Noninterest income	862	682
Total revenue	2,761	2,705
Provision for credit losses (benefit)	(26)	52
Noninterest expense	979	959
Pretax earnings	1,808	1,694
Income taxes	655	622
Earnings	$ 1,153	$ 1,072
Average Balance Sheet		
Loans		
Commercial	$ 53,696	$ 46,004
Commercial real estate	16,939	15,158
Commercial real estate related	6,902	5,258
Asset-based lending	11,397	9,510
Equipment lease financing	6,604	5,808
Total loans	95,538	81,738
Goodwill and other intangible assets	3,763	3,595
Loans held for sale	1,101	1,217
Other assets	11,539	11,316
Total assets	$ 111,941	$ 97,866
Deposits		
Noninterest-bearing demand	$ 40,239	$ 37,519
Money market	16,977	14,803
Other	6,947	5,653
Total deposits	64,163	57,975
Other liabilities	17,914	16,769
Capital	9,541	8,676
Total liabilities and equity	$ 91,618	$ 83,420
Performance Ratios		
Return on average capital	24%	25%
Return on average assets	2.08	2.20
Noninterest income to total revenue	31	25
Efficiency	35	35

Six months ended June 30

Dollars in millions, except as noted	2013	2012
Commercial Mortgage Servicing Portfolio (in billions)		
Beginning of period	$ 282	$ 267
Acquisitions/additions	39	17
Repayments/transfers	(27)	(20)
End of period	$ 294	$ 264
Other Information		

Consolidated revenue from: (a)		
Treasury Management (b)	$ 642	$ 697
Capital Markets (c)	$ 327	$ 307
Commercial mortgage loans held for sale (d)	$ 69	$ 47
Commercial mortgage loan servicing income, net of amortization (e)	106	83
Commercial mortgage servicing rights recovery/(impairment), net of economic hedge (f)	55	(1)
Total commercial mortgage banking activities	$ 230	$ 129
Total loans (g)	$ 97,708	$ 88,810
Net carrying amount of commercial mortgage servicing rights (g)	$ 525	$ 398
Credit-related statistics:		
Nonperforming assets (g) (h)	$ 999	$ 1,686
Purchased impaired loans (g) (i)	$ 708	$ 1,088
Net charge-offs	$ 39	$ 73

(a) Represents consolidated PNC amounts. See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of the Corporate & Institutional Banking Review.
(b) Includes amounts reported in net interest income and corporate service fees.
(c) Includes amounts reported in net interest income, corporate service fees and other noninterest income.
(d) Includes valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(e) Includes net interest income and noninterest income from loan servicing and ancillary services, net of commercial mortgage servicing rights amortization and a direct write-down of commercial mortgage servicing rights of $24 million recognized in the first quarter of 2012. Commercial mortgage servicing rights (impairment)/recovery, net of economic hedge is shown separately.
(f) Includes amounts reported in corporate services fees.
(g) As of June 30.
(h) Includes nonperforming loans of $.9 billion at June 30, 2013 and $1.6 billion at June 30, 2012.
(i) Recorded investment of purchased impaired loans related to acquisitions.

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Corporate & Institutional Banking earned $1.2 billion in the first six months of 2013, an increase of $81 million compared with the first six months of 2012. The increase in earnings was due to an increase in noninterest income and improved credit quality, partially offset by lower net interest income. We continued to focus on building client relationships, including increasing cross sales and adding new clients where the risk-return profile was attractive.

Results for the first six months of 2013 include the impact of the RBC Bank (USA) acquisition, which added approximately $7.5 billion of loans and $4.8 billion of deposits as of March 2, 2012.

Highlights of Corporate & Institutional Banking s performance include the following:

- Corporate & Institutional Banking continued to execute on strategic initiatives, including in the Southeast, by organically growing and deepening client relationships that meet our risk/return measures. Approximately 345 new primary Corporate Banking clients were added in the first six months of 2013.
- Loan commitments increased 10% to $186 billion at June 30, 2013 compared to June 30, 2012, primarily due to growth in our Corporate Banking, Real Estate and Business Credit businesses.
- Period-end loan balances have increased for the eleventh consecutive quarter, including an increase of 3.0% at June 30, 2013 compared with March 31, 2013 and 10.0% compared with June 30, 2012.
- Our Treasury Management business, which ranks among the top providers in the country, continued to invest in markets, products and infrastructure as well as major initiatives such as healthcare.
- Midland Loan Services was the number one servicer of Fannie Mae and Freddie Mac multifamily and healthcare loans and was the second leading servicer of commercial and multifamily loans by volume as of December 31, 2012 according to Mortgage Bankers Association. Midland is the only U.S. commercial mortgage servicer to receive the highest primary, master and special servicer ratings from Fitch Ratings, Standard & Poor s and Morningstar.
- Mergers and Acquisitions Journal named Harris Williams & Co. its 2012 Mid-Market Investment Bank of the Year. This is the second time in three years that Harris Williams & Co. has earned the title.

Net interest income was $1.9 billion in the first six months of 2013, a decrease of $124 million from the first six months of 2012, reflecting lower spreads on loans and deposits and lower purchase accounting accretion, partially offset by higher average loans and deposits.

Corporate service fees were $543 million in the first six months of 2013, an increase of $95 million from the first six

months of 2012, primarily due to higher commercial mortgage servicing revenue primarily driven by the impact of higher market interest rates on commercial mortgage servicing rights valuations, and higher treasury management fees, partially offset by lower merger and acquisition advisory fees. The major components of corporate service fees are treasury management revenue, corporate finance fees, including revenue from certain capital markets-related products and services, and commercial mortgage servicing revenue.

Other noninterest income was $319 million in the first six months of 2013 compared with $234 million in the first six months of 2012. The increase of $85 million was driven by the impact of higher market interest rates on credit valuations related to customer-initiated hedging activities and an increase in commercial mortgage loans held for sale, which more than offset lower customer driven derivatives revenue.

The provision for credit losses was a benefit of $26 million in the first six months of 2013 compared with a provision of $52 million in the first six months of 2012, primarily due to positive credit migration. Overall credit quality remains strong. Net charge-offs were $39 million in the first six months of 2013, which decreased $34 million, or 47%, compared with the 2012 period primarily attributable to lower levels of commercial real estate and commercial charge-offs and an increase in commercial real estate recoveries.

Nonperforming assets declined for the thirteenth consecutive quarter, and at $1.0 billion, represented a 41% decrease from June 30, 2012 as a result of improving credit quality.

Noninterest expense was $979 million in the first six months of 2013, an increase of $20 million or 2% from the comparable period of 2012, and included the impact of the RBC Bank (USA) acquisition and higher asset impairments.

Average loans were $95.5 billion in the first six months of 2013 compared with $81.7 billion in the first six months of 2012, an increase of 17%. This increase includes 16% organic growth, excluding the impact of the RBC Bank (USA) acquisition.

- The Corporate Banking business provides lending, treasury management and capital markets-related products and services to mid-sized corporations, government and not-for-profit entities, and to large corporations. Average loans for this business increased $7.4 billion, or 17%, in the first six months of 2013 compared with the first six months of 2012, primarily due to an increase in loan

commitments from new customers. Organically, average loans for this business grew 15% in the comparison.
PNC Real Estate provides commercial real estate and real estate-related lending and is one of the industry s top providers of both conventional and affordable multifamily financing. Average loans for this business increased $3.6 billion, or 20%, in the first

six months of 2013 compared with the first six months of 2012 due to increased originations.

PNC Business Credit is one of the top three asset-based lenders in the country, as of year-end 2012, with increasing market share according to the Commercial Finance Association. The loan portfolio is relatively high yielding, with moderate risk as the loans are mainly secured by short-term assets. Average loans increased $1.9 billion, or 20%, in the first six months of 2013 compared with the first six months of 2012 due to customers seeking stable lending sources, loan usage rates and market share expansion.

PNC Equipment Finance is the 4th largest bank-affiliated leasing company with over $11 billion in equipment finance assets.

Average deposits were $64.2 billion in the first six months of 2013, an increase of $6.2 billion, or 11%, compared with the first six months of 2012 due to deposits added in the RBC Bank (USA) acquisition and inflows into noninterest-bearing deposits.

The commercial mortgage servicing portfolio was $294 billion at June 30, 2013 compared with $264 billion at June 30, 2012 as servicing additions exceeded portfolio run-off.

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, capital markets-related products and services, and commercial mortgage banking activities, for customers of all our business segments. The revenue from these other services is included in net interest income, corporate service fees and other noninterest income. 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 26: Corporate & Institutional Banking Table in this Business Segments Review section includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue from these services follows.

Treasury management revenue, comprised of fees and net interest income from customer deposit balances, totaled $642 million for the first six months of 2013 and $697 million for the first six months of 2012. Lower spreads on deposits drove the decline in revenue in the first six months of 2013 compared to the first six months of 2012. Growth in deposit balances and core businesses such as commercial card, account services, wire and ACH was strong.

Capital markets revenue includes merger and acquisition advisory fees, loan syndications, derivatives, foreign exchange, fees on the asset-backed commercial paper conduit and fixed income activities. Revenue from capital markets-related products and services totaled $327 million in the first six months of 2013 compared with $307 million in the first six months of 2012. The increase in the comparison was driven by the impact of higher market interest rates on credit valuations related to customer-initiated hedging activities, mostly offset by lower merger and acquisition advisory fees and lower customer driven derivatives revenue.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income from loan servicing and ancillary services, net of commercial mortgage servicing rights amortization, and commercial mortgage servicing rights valuations net of economic hedge), and revenue derived from commercial mortgage loans intended for sale and related hedges (including loan origination fees, net interest income, valuation adjustments and gains or losses on sales).

Commercial mortgage banking activities resulted in revenue of $230 million in the first six months of 2013 compared with $129 million in the first six months of 2012. The increase in the comparison was mainly due to higher net revenue from commercial mortgage servicing, primarily driven by the impact of higher market interest rates on commercial mortgage servicing rights valuations and higher loan originations. The first six months of 2012 included a direct write-down of commercial mortgage servicing rights of $24 million.

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Asset Management Group

(Unaudited)

Table 27: Asset Management Group Table

Six months ended June 30 Dollars in millions, except as noted	2013	2012
Income Statement		
Net interest income	$ 143	$ 150
Noninterest income	366	333
Total revenue	509	483
Provision for credit losses	6	9
Noninterest expense	378	357
Pretax earnings	125	117
Income taxes	46	43
Earnings	$ 79	$ 74
Average Balance Sheet		
Loans		
Consumer	$ 4,870	$ 4,252
Commercial and commercial real estate	1,040	1,112
Residential mortgage	772	692
Total loans	6,682	6,056
Goodwill and other intangible assets	302	339
Other assets	226	218
Total assets	$ 7,210	$ 6,613
Deposits		
Noninterest-bearing demand	$ 1,290	$ 1,468
Interest-bearing demand	3,545	2,656
Money market	3,781	3,593
Total transaction deposits	8,616	7,717
CDs/IRAs/savings deposits	448	519
Total deposits	9,064	8,236
Other liabilities	59	70
Capital	465	405
Total liabilities and equity	$ 9,588	$ 8,711
Performance Ratios		
Return on average capital	34%	37%
Return on average assets	2.21	2.25
Noninterest income to total revenue	72	69
Efficiency	74	74

Six months ended June 30 Dollars in millions, except as noted	2013	2012
Other Information		
Total nonperforming assets (a) (b)	$ 69	$ 67
Purchased impaired loans (a) (c)	$ 102	$ 122
Total net charge-offs	$ 5	$ 5
Assets Under Administration (in billions) (a) (d)		
Personal	$ 112	$ 102
Institutional	121	112
Total	$ 233	$ 214
Asset Type		

Equity	$ 130	$ 116
Fixed Income	70	66
Liquidity/Other	33	32
Total	$ 233	$ 214
Discretionary assets under management		
Personal	$ 78	$ 71
Institutional	39	38
Total	$ 117	$ 109
Asset Type		
Equity	$ 62	$ 56
Fixed Income	39	38
Liquidity/Other	16	15
Total	$ 117	$ 109
Nondiscretionary assets under administration		
Personal	$ 34	$ 31
Institutional	82	74
Total	$ 116	$ 105
Asset Type		
Equity	$ 68	$ 60
Fixed Income	31	28
Liquidity/Other	17	17
Total	$ 116	$ 105

(a) As of June 30.
(b) Includes nonperforming loans of $64 million at June 30, 2013 and $63 million at June 30, 2012.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account assets.

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Asset Management Group earned $79 million through the first six months of 2013 compared with $74 million in the same period of 2012. The increase in earnings was due to higher revenue of $26 million partially offset by higher noninterest expense. Assets under administration were $233 billion as of June 30, 2013 compared to $214 billion as of June 30, 2012.

The core growth strategies for the business continue to include: investing in higher growth geographies, increasing internal referral sales and adding new front line sales staff. Through the first six months of 2013, the business delivered strong sales production and benefited from significant referrals from other PNC lines of business. Over time, the successful execution of these strategies and the accumulation of our strong sales performance are expected to create meaningful growth in assets under management and noninterest income.

Highlights of Asset Management Group s performance during the first six months of 2013 include the following:

- Positive net flows of approximately $2.1 billion in discretionary assets under management after adjustments to total net flows for cyclical client activities,
- New primary client acquisition increased 36% over the first six months of 2012,
- Strong sales production, up nearly 24% over the first six months of 2012,
- Significant referrals from other PNC lines of business, an increase of 51% over the first six months of 2012, and
- Continuing levels of new business investment and focused hiring to drive growth resulting in a 6% increase in personnel at June 30, 2013 versus June 30, 2012.

Assets under administration were $233 billion at June 30, 2013, an increase of $19 billion compared to June 30 of the

prior year. Discretionary assets under management were $117 billion at June 30, 2013 compared with $109 billion at June 30, 2012. The increase was driven by higher equity markets and positive net flows due to strong sales performance and successful client retention.

Total revenue for the first half of 2013 was $509 million compared with $483 million for the same period in 2012. Net interest income was $143 million for the first six months of 2013 compared with $150 million for the same period in 2012 due to narrower spreads partially offset by balance sheet growth. Noninterest income was $366 million for the first six months of 2013, an increase of $33 million, or 10%, from the prior year period due to stronger average equity markets and positive net flows.

Provision for credit losses was $6 million for the first six months of 2013 compared to $9 million for the same period of 2012. Noninterest expense was $378 million in the first half of 2013, an increase of $21 million, or 6%, from the prior year period. The increase was primarily attributable to compensation expense. Over the last 12 months, total full-time headcount has increased by approximately 195 positions, or 6%. Asset Management Group remains focused on disciplined expense management as it invests in these strategic growth opportunities.

Average deposits for the first half of 2013 increased $828 million, or 10%, over the prior year period. Average transaction deposits grew 12% compared with the first half of 2012 and were partially offset by the run-off of maturing certificates of deposit. Average loan balances of $6.7 billion increased $.6 billion, or 10%, from the prior year period due to continued growth in the consumer loan portfolio, primarily home equity installment loans due to a favorable rate environment.

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Residential Mortgage Banking

(Unaudited)

Table 28: Residential Mortgage Banking Table

Six months ended June 30 Dollars in millions, except as noted	2013	2012
Income Statement		
Net interest income	$ 99	$ 104
Noninterest income		
Loan servicing revenue		
Servicing fees	78	108
Net MSR hedging gains	63	110
Loan sales revenue		
Provision for residential mortgage repurchase obligations	(77)	(470)
Loan sales revenue	362	318
Other	(6)	14
Total noninterest income	420	80
Total revenue	519	184
Provision for credit losses (benefit)	24	(9)
Noninterest expense	392	433
Pretax earnings	103	(240)
Income taxes (benefit)	38	(88)
Earnings (loss)	$ 65	$ (152)
Average Balance Sheet		
Portfolio loans	$ 2,478	$ 2,836
Loans held for sale	2,072	1,753
Mortgage servicing rights (MSR)	807	655
Other assets	5,247	6,501
Total assets	$ 10,604	$ 11,745
Deposits	$ 3,183	$ 1,723
Borrowings and other liabilities	3,351	4,209
Capital	1,622	995
Total liabilities and equity	$ 8,156	$ 6,927
Performance Ratios		
Return on average capital	8%	(31)%
Return on average assets	1.24	(2.60)
Noninterest income to total revenue	81	43
Efficiency	76	235

Six months ended June 30 Dollars in millions, except as noted	2013	2012
Residential Mortgage Servicing Portfolio Third-Party (in billions)		
Beginning of period	$ 119	$ 118
Acquisitions	6	7
Additions	8	6
Repayments/transfers	(17)	(15)
End of period	$ 116	$ 116
Servicing portfolio third-party statistics: (a)		
Fixed rate	92%	91%
Adjustable rate/balloon	8%	9%
Weighted-average interest rate	4.72%	5.21%
MSR capitalized value (in billions)	$ 1.0	$ .6

MSR capitalization value (in basis points)	84	50
Weighted-average servicing fee (in basis points)	28	29
Residential Mortgage Repurchase Reserve		
Beginning of period	$ 614	$ 83
Provision	77	470
RBC Bank (USA) acquisition		26
Losses loan repurchases and settlements	(168)	(117)
End of Period	$ 523	$ 462
Other Information		
Loan origination volume (in billions)	$ 8.9	$ 7.0
Loan sale margin percentage	4.05%	4.54%
Percentage of originations represented by:		
Agency and government programs	100%	100%
Refinance volume	76%	77%
Total nonperforming assets (a) (b)	$ 220	$ 78
Purchased impaired loans (a) (c)	$ 8	$ 84

(a) As of June 30.

(b) Includes nonperforming loans of $177 million at June 30, 2013 and $37 million at June 30, 2012.

(c) Recorded investment of purchased impaired loans related to acquisitions.

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Residential Mortgage Banking reported net income of $65 million in the first six months of 2013 compared with a net loss of $152 million in the first six months of 2012. Earnings increased from the prior year six month period primarily as a result of decreased provision for residential mortgage repurchase obligations.

The strategic focus of the business is the acquisition of new customers through a retail loan officer sales force with an emphasis on home purchase transactions. Two key aspects of this strategy are: (1) competing on the basis of superior service to new and existing customers in serving their home purchase and refinancing needs; and (2) operating strategic partnerships with reputable residential real estate franchises to acquire new customers. A key consideration in pursuing this approach is the cross-sell opportunity, especially in the bank footprint markets.

Residential Mortgage Banking overview:

- Total loan originations were $8.9 billion for the first six months of 2013 compared with $7.0 billion in the comparable period of 2012. Loans continue to be originated primarily through direct channels under Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Housing Administration (FHA)/Department of Veterans Affairs (VA) agency guidelines. Refinancings were 76% of originations for the first six months of 2013 and 77% in the first six months of 2012. During the first six months of 2013, 33% of loan originations were under the original or revised Home Affordable Refinance Program (HARP or HARP 2).
- Investors having purchased mortgage loans may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. At June 30, 2013, the
liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $523 million compared with $462 million at June 30, 2012. See the Recourse And Repurchase Obligations section of this Financial Review and Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements of this Report for additional information.
  - PNC has and expects to experience elevated levels of residential mortgage loan repurchase demands reflecting a change in behavior and demand patterns of two government-sponsored enterprises, FNMA and FHLMC, primarily related to loans sold in 2008 and prior in agency securitizations.
- Residential mortgage loans serviced for others totaled $116 billion at both June 30, 2013 and June 30, 2012 as payoffs continued to approximate new direct loan origination volume and acquisitions.
- Noninterest income was $420 million in the first six months of 2013 compared with $80 million in the first six months of 2012. The decreases in MSR hedging gains and servicing fees were more than offset by lower recourse provision in the 2013 period and increased loan sales revenue.
- Net interest income was $99 million in the first six months of 2013 compared with $104 million in the first six months of 2012.
- Noninterest expense was $392 million in the first six months of 2013 compared with $433 million in the first six months of 2012. Increased expense on higher loan origination volumes was more than offset by lower residential mortgage foreclosure-related expenses and legal expenses.
- The fair value of mortgage servicing rights was $1.0 billion at June 30, 2013 compared with $0.6 billion at June 30, 2012. The increase in fair value was primarily due to rising residential mortgage interest rates at June 30, 2013.

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BlackRock

(Unaudited)

Table 29: BlackRock Table

Information related to our equity investment in BlackRock follows:

Six months ended June 30 Dollars in millions	2013	2012
Business segment earnings (a)	$ 220	$ 178
PNC s economic interest in BlackRock (b)	22%	22%

(a) Includes PNC s share of BlackRock s reported GAAP earnings and additional income taxes on those earnings incurred by PNC.
(b) At June 30.

In billions	June 30 2013	December 31 2012
Carrying value of PNC s investment in BlackRock (c)	$ 5.8	$ 5.6
Market value of PNC s investment in BlackRock (d)	9.2	7.4

(c) PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $1.9 billion at both June 30, 2013 and December 31, 2012. Our voting interest in BlackRock common stock was approximately 21% at June 30, 2013.
(d) Does not include liquidity discount.

PNC accounts for its BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock to partially fund BlackRock long-term incentive plan (LTIP) programs. The fair value amount of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 9 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and in Note 9 in our 2012 Form 10-K.

On January 31, 2013, we transferred 205,350 shares of BlackRock Series C Preferred Stock to BlackRock to satisfy a portion of our LTIP obligation. The transfer reduced Other assets and Other liabilities on our Consolidated Balance Sheet by $33 million. At June 30, 2013, we hold approximately 1.3 million shares of BlackRock Series C Preferred Stock which are available to fund our obligation in connection with the BlackRock LTIP programs.

Our 2012 Form 10-K includes additional information about our investment in BlackRock.

Non-Strategic Assets Portfolio

(Unaudited)

Table 30: Non-Strategic Assets Portfolio Table

Six months ended June 30 Dollars in millions	2013	2012
Income Statement		
Net interest income	$ 367	$ 438
Noninterest income	27	(17)

Total revenue	394	421
Provision for credit losses	81	68
Noninterest expense	93	135
Pretax earnings	220	218
Income taxes	81	80
Earnings	$ 139	$ 138
Average Balance Sheet		
Commercial Lending:		
Commercial/Commercial real estate	$ 487	$ 1,006
Lease financing	691	672
Total commercial lending	1,178	1,678
Consumer Lending:		
Home equity	4,139	4,758
Residential real estate	5,823	6,291
Total consumer lending	9,962	11,049
Total portfolio loans	11,140	12,727
Other assets (a)	(629)	(320)
Total assets	$ 10,511	$ 12,407
Deposits and other liabilities	$ 222	$ 179
Capital	1,104	1,244
Total liabilities and equity	$ 1,326	$ 1,423
Performance Ratios		
Return on average capital	25%	22%
Return on average assets	2.67	2.24
Noninterest income to total revenue	7	(4)
Efficiency	24	32
Other Information		
Nonperforming assets (b)(c)	$ 935	$ 1,120
Purchased impaired loans (b)(d)	$ 5,193	$ 5,889
Net charge-offs (e)	$ 140	$ 174
Annualized net charge-off ratio (e)	2.53%	2.75%
Loans (b)		
Commercial Lending		
Commercial/Commercial real estate	$ 388	$ 945
Lease financing	696	677
Total commercial lending	1,084	1,622
Consumer Lending		
Home equity	4,029	4,575
Residential real estate	5,659	6,475
Total consumer lending	9,688	11,050
Total loans	$ 10,772	$ 12,672

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

(b) As of June 30.

(c) Includes nonperforming loans of $.7 billion at June 30, 2013 and June 30, 2012

(d) Recorded investment of purchased impaired loans related to acquisitions. At June 30, 2013, this segment contained 77% of PNC s purchased impaired loans.

(e) For the six months ended June 30.

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This business segment consists primarily of non-strategic assets obtained through acquisitions of other companies. Non-Strategic Assets Portfolio had earnings of $139 million in the first six months of 2013 compared with $138 million in the first six months of 2012. Earnings were relatively flat year-over-year as higher noninterest income and lower noninterest expense were offset by lower net interest income and a higher provision for credit losses.

The first six months of 2013 included the impact of the March 2012 RBC Bank (USA) acquisition, which added approximately $1.0 billion of residential real estate loans, $.2 billion of commercial/commercial real estate loans and $.2 billion of OREO assets. Of these assets, $1.0 billion were deemed purchased impaired loans.

Non-Strategic Assets Portfolio overview:

- Net interest income was $367 million in the first six months of 2013 compared with $438 million in the first six months of 2012. The decrease was driven by lower purchase accounting accretion as well as lower average loan balances.
- Noninterest income was $27 million in the first six months of 2013 compared with a loss of $17 million in the first six months of 2012. The increase was driven by lower provision for estimated losses on home equity repurchase obligations.
- The provision for credit losses was $81 million in the first six months of 2013 compared with $68 million in the first six months of 2012 driven by a decrease in expected cash flows on purchased impaired home equity loans.
- Noninterest expense in the first six months of 2013 was $93 million compared with $135 million in the first six months of 2012. The decrease was driven by lower commercial OREO write-downs.
- Average portfolio loans declined to $11.1 billion in the first six months of 2013 compared with $12.7 billion in the first six months of 2012. The overall decline was driven by customer payment activity and portfolio management activities to reduce under-performing assets, partially offset by the addition of loans from the March 2012 RBC Bank (USA) acquisition.
- Nonperforming loans were at $.7 billion at June 30, 2013 and June 30, 2012. The consumer lending portfolio comprised 86% of the nonperforming loans in this segment at June 30, 2013. Nonperforming consumer loans increased $128 million from June 30, 2012, due to alignment with interagency guidance in the first quarter of 2013. The commercial lending portfolio comprised 14% of the nonperforming loans as of June 30, 2013. Nonperforming commercial loans decreased $99 million from June 30, 2012.
- Net charge-offs were $140 million in the first six months of 2013 and $174 million in the first six months of 2012 primarily due to lower charge-offs on home equity loans.

The business activity of this segment is to manage the wind-down of the portfolio while maximizing the value and mitigating risk. The fair value marks taken upon acquisition of the assets, the team we have in place and targeted asset resolution strategies help us to manage these assets.

- The Commercial Lending portfolio declined 33% since June 30, 2012. Commercial and commercial real estate loans declined 59% to $.4 billion while the lease financing portfolio remained relatively flat at $.7 billion. The leases are long-term with relatively low credit risk.
- The Consumer Lending portfolio declined $1.4 billion, or 12%, when compared to June 30 of last year. The portfolio s credit quality has stabilized through actions taken by management. We have implemented various refinance programs, line management programs and loss mitigation programs to mitigate risks within this portfolio while assisting borrowers to maintain home ownership when possible.
- When loans are sold, we may assume certain loan repurchase obligations to indemnify investors against losses or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. From 2005 to 2007, home equity loans were sold with such contractual provisions. At June 30, 2013, the liability for estimated losses on repurchase and indemnification claims for the Non-Strategic Assets Portfolio was $24 million compared to $61 million at June 30, 2012. See the Recourse And Repurchase Obligations section of this Financial Review and Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for additional information.

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Critical Accounting Estimates And Judgments

Note 1 Accounting Policies in Item 8 of our 2012 Form 10-K and in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report describe the most significant accounting policies that we use. Certain of these policies require us to make estimates or economic assumptions that may prove inaccurate or be subject to variations that may significantly affect our reported results and financial position for the period or in future periods.

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

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

We discuss the following critical accounting policies and judgments under this same heading in Item 7 of our 2012 Form 10-K:

- Fair Value Measurements
- Allowances For Loan And Lease Losses And Unfunded Loan Commitments And Letters of Credit
- Estimated Cash Flows On Purchased Impaired Loans
- Goodwill
- Lease Residuals
- Revenue Recognition
- Residential And Commercial Mortgage Servicing Rights
- Income Taxes
- Proposed Accounting Standards

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

The following critical accounting estimate and judgment has been updated during the first six months of 2013.

Allowances For Loan And Lease Losses And Unfunded Loan Commitments And Letters Of Credit

We maintain the ALLL and the Allowance For Unfunded Loan Commitments And Letters Of Credit at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolio and on these

unfunded credit facilities as of the balance sheet date. Our determination of these allowances is based on periodic evaluations of the loan and lease portfolios and unfunded credit facilities and other relevant factors. These critical estimates include the use of significant amounts of PNC s own historical data and complex methods to interpret them. We have an ongoing process to evaluate and enhance the quality, quantity and timeliness of our data and interpretation methods used in the determination of these allowances. These evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change, including, among others:

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

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans. We also allocate reserves to provide coverage for probable losses incurred in the portfolio at the balance sheet date based upon current market conditions, which may not be reflected in historical loss data. Commercial lending is the largest category of credits and is sensitive to changes in assumptions and judgments underlying the determination of the ALLL. We have allocated approximately $1.7 billion, or 44%, of the ALLL at June 30, 2013 to the commercial lending category. Consumer lending allocations are made based on historical loss experience adjusted for recent activity. Approximately $2.1 billion, or 56%, of the ALLL at June 30, 2013 has been allocated to these consumer lending categories.

RECENTLY PROPOSED ACCOUNTING STANDARDS

In February 2013, the Financial Accounting Standards Board (FASB) issued Proposed Accounting Standards Update (ASU) *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This exposure draft would change the determination of the classification and measurement of financial instruments. Under the proposal, loans and securities would be classified and measured based on both the contractual cash flow characteristics of the assets and the business model for managing the assets. Financial assets would be included in one of three categories: (i) amortized cost, (ii) fair value through other comprehensive income, and (iii) fair value through net income, while financial liabilities would generally be measured at amortized cost. In April 2013, the FASB issued a related document which proposes amendments to the FASB Accounting Standards Codification as a result of the proposed classification and measurement

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model. The effective date of the proposals has not yet been determined. We are evaluating the impact of these proposals on our financial statements.

In April 2013, the FASB issued Proposed ASU, *Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*. This exposure draft addresses the accounting for an investment in a Low Income Housing Tax Credit (LIHTC) partnership through a limited partnership investment. If certain criteria are met, the allocated tax credits, net of amortization of the investment, could be recognized in income taxes attributable to continuing operations under the effective yield method. The exposure draft also requires disclosure of information regarding the nature of LIHTC investments and whether they are accounted for under the effective yield or equity method. The effective date has not yet been determined. We are evaluating the impact of this proposal on our financial statements.

In May 2013, the FASB issued Proposed ASU, *Leases (Topic 842),* a revision of the 2010 proposed FASB Accounting Standards Update, *Leases (Topic 840).* The Proposed ASU would require lessees to recognize right of use assets and lease liabilities for most leases. Depending on the significance of the present value of minimum lease payments to the fair value of the underlying asset or its useful life to the lease term, leases are classified as Type A or Type B leases. As per the Proposed ASU, most leases of assets other than property (i.e. land and/or building or part of a building) would be classified as Type A leases, while most property leases would be classified as Type B leases. For Type A leases, lessees would generally recognize amortization of the right of use asset on a straight-line basis and interest expense on the lease liability under the effective interest method, whereas, for Type B leases, lessees would generally recognize the total lease expense on a straight-line basis. Lessors would account for a Type A lease similar to a finance lease and a Type B lease similar to an operating lease. The effective date has not been determined. We are evaluating the impact of the proposal on our financial statements.

In June 2013, the FASB issued Proposed ASU, *Insurance Contracts (Topic 834)*. This exposure draft would change the accounting and financial reporting for insurance and reinsurance contracts issued and reinsurance contracts held, regardless of the type of entity issuing or holding these contracts. Certain financial guarantee contracts would also meet the definition of an insurance contract. The exposure draft introduces a building-block approach (based on a discounted estimate of future cash flows under the contract and a margin to remove any gain at inception) to account for most life, annuity, and long-term health contracts and a

premium allocation approach (comprising a liability for the remaining coverage under the contract and a liability for incurred claims) for most property and casualty and short-term health contracts. The effective date has not yet been determined. We are evaluating the impact of the proposal on our financial statements.

In July 2013, the FASB issued Proposed ASU, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring*. This exposure draft would clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon (1) the creditor obtaining legal title to the residential real estate property or (2) completion of a deed in lieu of foreclosure or similar legal agreement under which the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan, even though the legal title may not yet have passed. The exposure draft would also require additional disclosures, including: (1) a rollforward schedule reconciling the change from the beginning to the ending balance of foreclosed properties at every reporting period and (2) the recorded investment in consumer mortgage loans secured by residential real estate properties that are in the process of foreclosure. The effective date has not yet been determined. We are evaluating the impact of the proposal on our financial statements.

In July 2013, the FASB issued Proposed ASU, *Consolidation (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity.* This Proposed ASU would define collateralized financing entity and allow a reporting entity that consolidates a collateralized financing entity and recognizes the associated financial assets at fair value, to measure the financial liabilities based on the fair value of the financial assets. The reporting entity would allocate this value to individual liabilities on a reasonable and consistent basis. The Proposed ASU would allow for a modified retrospective transition approach which includes a cumulative-effect adjustment to equity as of the beginning of the period of adoption. Early adoption would be permitted. The effective date has not yet been determined. We are evaluating the impact of the proposal on our financial statements.

Recently Issued Accounting Pronouncements

For information on Recently Issued Accounting Pronouncements, see Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item I of this Report regarding the impact of the adoption of new accounting guidance issued by the FASB.

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Status Of Qualified Defined Benefit Pension Plan

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

We currently estimate a pretax pension expense of $74 million in 2013 compared with pretax expense of $89 million in 2012. This year-over-year expected decrease reflects the impact of favorable returns on plan assets experienced in 2012, as well as the effects of the lower discount rate required to be used in 2013.

The following table reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2013 estimated expense as a baseline.

Table 31: Pension Expense Sensitivity Analysis

Change in Assumption (a)	Estimated Increase to 2013 Pension Expense (In millions)
.5% decrease in discount rate	$ 21
.5% decrease in expected long-term return on assets	$ 19
.5% increase in compensation rate	$ 2

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

We provide additional information on our pension plan in Note 15 Employee Benefit Plans in our 2012 Form 10-K.

Recourse And Repurchase Obligations

As discussed in Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in our 2012 Form 10-K, PNC has sold commercial mortgage, residential mortgage and home equity loans directly or indirectly through securitization and loan sale transactions in which we have continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets.

Commercial Mortgage Loan Recourse Obligations

We originate, close and service certain multi-family commercial mortgage loans which are sold to FNMA under FNMA s Delegated Underwriting and Servicing (DUS) program. We participated in a similar program with the FHLMC. For more information regarding our Commercial Mortgage Loan Recourse Obligations, see the Recourse and

Repurchase Obligations section of Note 18 Commitments and Guarantees included in the Notes To Consolidated Financial Statements in Part 1, Item 1 of this Report.

Residential Mortgage Repurchase Obligations

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to situations where PNC is alleged to have breached certain origination covenants and representations and warranties made to purchasers of the loans in the respective purchase and sale agreements. Residential mortgage loans covered by these loan repurchase obligations include first and second-lien mortgage loans we have sold through Agency securitizations, Non-Agency securitizations, and loan sale transactions. As discussed in Note 3 in our 2012 Form 10-K, Agency securitizations consist of mortgage loan sale transactions with FNMA, FHLMC and the Government National Mortgage Association (GNMA), while Non-Agency securitizations consist of mortgage loan sale transactions with private investors. Mortgage loan sale transactions that are not part of a securitization may involve FNMA, FHLMC or private investors. Our historical exposure and activity associated with Agency securitization repurchase obligations has primarily been related to transactions with FNMA and FHLMC, as indemnification and repurchase losses associated with FHA and VA-insured and uninsured loans pooled in GNMA securitizations historically have been minimal. Repurchase obligation activity associated with residential mortgages is reported in the Residential Mortgage Banking segment.

Loan covenants and representations and warranties are established through loan sale agreements with various investors to provide assurance that PNC has sold loans that are of sufficient investment quality. Key aspects of such covenants and representations and warranties include the loan s compliance with any applicable loan criteria established for the transaction, including underwriting standards, delivery of all required loan documents to the investor or its designated party, sufficient collateral valuation and the validity of the lien securing the loan. As a result of alleged breaches of these contractual obligations, investors may request PNC to indemnify them against losses on certain loans or to repurchase loans.

We investigate every investor claim on a loan by loan basis to determine the existence of a legitimate claim, and that all other conditions for indemnification or repurchase have been met prior to the settlement with that investor. Indemnifications for loss or loan repurchases typically occur when, after review of the claim, we agree insufficient evidence exists to dispute the investor s claim that a breach of a loan covenant and representation and warranty has occurred, such breach has not been cured and the effect of such breach is deemed to have had a material and adverse effect on the value of the transferred loan. Depending on the sale agreement and upon

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proper notice from the investor, we typically respond to such indemnification and repurchase requests within 60 days, although final resolution of the claim may take a longer period of time. With the exception of the sales agreements associated with the Agency securitizations, most sale agreements do not provide for penalties or other remedies if we do not respond timely to investor indemnification or repurchase requests.

Indemnification and repurchase claims are typically settled on an individual loan basis through make-whole payments or loan repurchases; however, on occasion we may negotiate pooled settlements with investors. In connection with pooled settlements, we typically do not repurchase loans and the consummation of such transactions generally results in us no longer having indemnification and repurchase exposure with the investor in the transaction.

For the first and second-lien mortgage balances of unresolved and settled claims contained in the tables below, a significant amount of these claims were associated with sold loans originated through correspondent lender and broker origination channels. In certain instances when indemnification or repurchase claims are settled for these types of sold loans, we have recourse back to the correspondent lenders, brokers and other third-parties (e.g., contract underwriting companies, closing agents, appraisers, etc.). Depending on the underlying reason for the investor claim, we determine our ability to pursue recourse with these parties and file claims with them accordingly. Our historical recourse recovery rate has been insignificant as our efforts have been impacted by the inability of such parties to reimburse us for their recourse obligations (e.g., their capital availability or whether they remain in business) or factors that

limit our ability to pursue recourse from these parties (e.g., contractual loss caps, statutes of limitations).

Origination and sale of residential mortgages is an ongoing business activity and, accordingly, management continually assesses the need to recognize indemnification and repurchase liabilities pursuant to the associated investor sale agreements. We establish indemnification and repurchase liabilities for estimated losses on sold first and second-lien mortgages for which indemnification is expected to be provided or for loans that are expected to be repurchased. For the first and second-lien mortgage sold portfolio, we have established an indemnification and repurchase liability pursuant to investor sale agreements based on claims made and our estimate of future claims on a loan by loan basis. To estimate the mortgage repurchase liability arising from breaches of representations and warranties, we consider the following factors:
(i) borrower performance in our historically sold portfolio (both actual and estimated future defaults), (ii) the level of outstanding unresolved repurchase claims, (iii) estimated probable future repurchase claims, considering information about file requests, delinquent and liquidated loans, resolved and unresolved mortgage insurance rescission notices and our historical experience with claim rescissions, (iv) the potential ability to cure the defects identified in the repurchase claims (rescission rate) and (v) the estimated severity of loss upon repurchase of the loan or collateral, make-whole settlement or indemnification.

See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

The following tables present the unpaid principal balance of repurchase claims by vintage and total unresolved repurchase claims for the past five quarters.

Table 32: Analysis of Quarterly Residential Mortgage Repurchase Claims by Vintage

Dollars in millions	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012
2004 & Prior	$ 51	$ 12	$ 11	$ 15	$ 31
2005	7	10	8	10	19
2006	19	28	23	30	56
2007	36	108	45	137	182
2008	9	15	7	23	49
2008 & Prior	122	173	94	215	337
2009 2013	14	50	38	52	42
Total	$ 136	$ 223	$ 132	$ 267	$ 379
FNMA, FHLMC and GNMA %	92%	95%	94%	87%	86%

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Table 33: Analysis of Quarterly Residential Mortgage Unresolved Asserted Indemnification and Repurchase Claims

Dollars in millions	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012
FNMA, FHLMC and GNMA Securitizations	$ 96	$ 165	$ 290	$ 430	$ 419
Private Investors (a)	37	45	47	82	83
Total unresolved claims	$ 133	$ 210	$ 337	$ 512	$ 502
FNMA, FHLMC and GNMA %	72%	79%	86%	84%	83%

(a) Activity relates to loans sold through Non-Agency securitization and loan sale transactions.

The table below details our indemnification and repurchase claim settlement activity during the first six months and the second quarter of 2013 and 2012.

Table 34: Analysis of Residential Mortgage Indemnification and Repurchase Claim Settlement Activity

Six months ended June 30 In millions	2013 Unpaid Principal Balance (a)	2013 Losses Incurred (b)	2013 Fair Value of Repurchased Loans (c)	2012 Unpaid Principal Balance (a)	2012 Losses Incurred (b)	2012 Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
FNMA, FHLMC and GNMA securitizations	$ 263	$ 153	$ 67	$ 153	$ 89	$ 38
Private investors (e)	23	15	3	46	28	4
Total indemnification and repurchase settlements	$ 286	$ 168	$ 70	$ 199	$ 117	$ 42

Three months ended June 30 In millions	2013 Unpaid Principal Balance (a)	2013 Losses Incurred (b)	2013 Fair Value of Repurchased Loans (c)	2012 Unpaid Principal Balance (a)	2012 Losses Incurred (b)	2012 Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
FNMA, FHLMC, and GNMA securitizations	$ 109	$ 62	$ 33	$ 103	$ 60	$ 25
Private investors (e)	13	10	1	25	17	1
Total indemnification and repurchase settlements	$ 122	$ 72	$ 34	$ 128	$ 77	$ 26

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date. Excluded from these balances are amounts associated with pooled settlement payments as loans are typically not repurchased in these transactions.

(b) Represents both i) amounts paid for indemnification/settlement payments and ii) the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability.

(c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification/settlement payments are made to investors.

(d) Repurchase activity associated with insured loans, government-guaranteed loans and loans repurchased through the exercise of our removal of account provision (ROAP) option are excluded from this table. Refer to Note 3 in the Notes To Consolidated Financial Statements in this Report for further discussion of ROAPs.

(e) Activity relates to loans sold through Non-Agency securitizations and loan sale transactions.

During 2012 and the first six months of 2013, unresolved and settled investor indemnification and repurchase claims were primarily related to one of the following alleged breaches in representations and warranties: (i) misrepresentation of income, assets or employment; (ii) property evaluation or status issues (e.g., appraisal, title, etc.); (iii) underwriting guideline violations; or (iv) mortgage insurance rescissions. During 2012, FNMA and FHLMC expanded their efforts to reduce their exposure to losses on purchased loans resulting in a dramatic increase in second and third quarter 2012 repurchase claims, primarily on the 2006-2008 vintages, but also on other vintages. Included in this higher volume were repurchase claims made on loans in later stages of default than had previously been observed. For example, in the second quarter of 2012, we experienced repurchase claims on loans which had defaulted more than two years prior to the claim date, which was inconsistent with historical activity. In

December 2012, PNC discussed with FNMA and FHLMC their intentions to further expand their purchased loan review activities in 2013 with a focus on 2004 and 2005 vintages, as well as certain loan modifications and aged default loans not previously reviewed. Based on those discussions, we expected an increase in repurchase claims in 2013 and increased the liability for estimated losses on indemnification and repurchase claims accordingly during the fourth quarter of 2012. Additional discussions with FNMA and FHLMC during the second quarter of 2013 resulted in further refinements to incremental file request expectations, primarily relating to older vintages. As a result, the liability for estimated losses on indemnification and repurchase claims was increased in June 2013 to reflect this expected additional claim activity, despite the fact that the volume of government-sponsored enterprise (GSE) claims in the second quarter of 2013 dropped compared to first quarter of 2013.

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In addition to the decline in repurchase claim activity in the second quarter of 2013, the level of unresolved claims for residential mortgages is also continuing to decline. This decline is due to an acceleration of settlement activity and a continued high level of claim rescissions.

At June 30, 2013 and December 31, 2012, the liability for estimated losses on indemnification and repurchase claims for residential mortgages totaled $523 million and $614 million, respectively. We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all residential mortgage loans sold and outstanding as of June 30, 2013 and December 31, 2012. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

Indemnification and repurchase liabilities, which are included in Other liabilities on the Consolidated Balance Sheet, are initially recognized when loans are sold to investors and are subsequently evaluated by management. Initial recognition and subsequent adjustments to the indemnification and repurchase liability for the sold residential mortgage portfolio are recognized in Residential mortgage revenue on the Consolidated Income Statement.

Home Equity Repurchase Obligations

PNC s repurchase obligations include obligations with respect to certain brokered home equity loans/lines that were sold to a limited number of private investors in the financial services industry by National City prior to our acquisition of National City. PNC is no longer engaged in the brokered home equity lending business, and our exposure under these loan repurchase obligations is limited to repurchases of the loans sold in these transactions. Repurchase activity associated with brokered home equity lines/loans is reported in the Non-Strategic Assets Portfolio segment. For more information regarding our Home Equity Repurchase Obligations, see the Recourse and Repurchase Obligations portion of the Risk Management section of the Financial Review under Item 7 of our 2012 Form 10-K.

The following table details the unpaid principal balance of our unresolved home equity indemnification and repurchase claims at June 30, 2013 and December 31, 2012.

Table 35: Analysis of Home Equity Unresolved Asserted Indemnification and Repurchase Claims

In millions	June 30 2013	Dec. 31 2012
Home equity loans/lines:		
Private investors (a)	$ 18	$ 74

(a) Activity relates to brokered home equity loans/lines sold through loan sale transactions which occurred during 2005-2007.

The table below details our home equity indemnification and repurchase claim settlement activity during the first six months and the second quarter of 2013 and 2012.

Table 36: Analysis of Home Equity Indemnification and Repurchase Claim Settlement Activity

	2013			2012		
Six months ended June 30 In millions	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)(d)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Home equity loans/lines:						
Private investors Repurchases (e)	$ 4	$ 32		$ 16	$ 13	$ 3

	2013	2012
Three months ended June 30 In millions		

		Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)(d)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Home equity loans/lines:							
Private investors	Repurchases (e)	$ 2	$ 2		$ 6	$ 5	$ 1

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date. Excluded from these balances are amounts associated with pooled settlement payments as loans are typically not repurchased in these transactions.

(b) Represents the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability. Losses incurred in the first six months of 2013 also includes amounts for settlement payments.

(c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification/settlement payments are made to investors.

(d) Activity was less than $.5 million for both the six months and three months ended June 30, 2013.

(e) Activity relates to brokered home equity loans/lines sold through loan sale transactions which occurred during 2005-2007.

During 2012 and the first six months of 2013, unresolved and settled investor indemnification and repurchase claims were primarily related to one of the following alleged breaches in representations and warranties: (i) misrepresentation of income, assets or employment, (ii) property evaluation or status issues (e.g., appraisal, title, etc.) or (iii) underwriting guideline violations. The lower balance of unresolved indemnification and repurchase claims at June 30, 2013 is attributed to settlement activity in 2013. The lower first six months of 2013 repurchase activity was affected by lower claim activity and lower inventory of claims.

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An indemnification and repurchase liability for estimated losses for which indemnification is expected to be provided or for loans that are expected to be repurchased was established at the acquisition of National City. Management s evaluation of these indemnification and repurchase liabilities is based upon trends in indemnification and repurchase claims, actual loss experience, risks in the underlying serviced loan portfolios, current economic conditions and the periodic negotiations that management may enter into with investors to settle existing and potential future claims.

At June 30, 2013 and December 31, 2012, the liability for estimated losses on indemnification and repurchase claims for home equity loans/lines was $24 million and $58 million, respectively. We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all home equity loans/lines sold and outstanding as of June 30, 2013 and December 31, 2012. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. See Note 18 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

Indemnification and repurchase liabilities, which are included in Other liabilities on the Consolidated Balance Sheet, are evaluated by management on a quarterly basis. Initial recognition and subsequent adjustments to the indemnification and repurchase liability for home equity loans/lines are recognized in Other noninterest income on the Consolidated Income Statement.

Risk Management

PNC encounters risk as part of the normal course of operating our business. Accordingly, we design risk management processes to help manage these risks.

The Risk Management section included in Item 7 of our 2012 Form 10-K describes our risk management philosophy, appetite, culture, governance, risk identification, controls and monitoring and reporting. Additionally, our 2012 Form 10-K provides an analysis of our key areas of risk: credit, operational, liquidity, market and model. The discussion of market risk is further subdivided into interest rate, trading and equity and other investment risk areas. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the Risk Management section of this Item 7.

The following information updates our 2012 Form 10-K risk management disclosures.

Credit Risk Management

Credit risk represents the possibility that a customer, counterparty or issuer may not perform in accordance with contractual terms. Credit risk is inherent in the financial services business and results from extending credit to customers, purchasing securities, and entering into financial derivative transactions and certain guarantee contracts. Credit risk is one of our most significant risks. Our processes for managing credit risk are embedded in PNC s risk culture and in our decision-making processes using a systematic approach whereby credit risks and related exposures are: identified and assessed, managed through specific policies and processes, measured and evaluated against our risk tolerance limits, and reported, along with specific mitigation activities, to management and the board through our governance structure.

Asset Quality Overview

Asset quality trends for the first six months of 2013 improved from both December 31, 2012 and June 30, 2012, including the impact of alignment with interagency supervisory guidance during the first quarter of 2013, and included the following:

- Nonperforming loans remained flat from December 31, 2012 at $3.3 billion as of June 30, 2013 and included the impact from the alignment with interagency supervisory guidance for loans and lines of credit related to consumer loans of $426 million that occurred in the first quarter of 2013. The increase in nonperforming loans from this alignment was substantially offset by a reduction in total commercial nonperforming loans, mainly related to commercial real estate, in addition to principal activity within consumer loans.
- Overall loan delinquencies decreased $944 million, or 25%, from year-end 2012 levels. The reduction was partially due to a decline in total consumer loan delinquencies of $395 million pursuant to alignment with interagency supervisory guidance in which loans were moved from various delinquency categories to either nonperforming or, in the case of loans accounted for under the fair value option, nonaccruing. In addition, government insured residential real estate accruing loans past due 90 days or more declined $324 million, the majority of which were transferred to OREO. Finally, commercial real estate delinquencies decreased $84 million due to improved performance.
- Second quarter 2013 net charge-offs were $208 million, down 34% from second quarter 2012 net charge-offs of $315 million primarily due to improving credit quality. Six months ending June 30, 2013 net charge-offs were $664 million, up

slightly from six months ending June 30, 2012 net charge-offs of $648 million, due to the impact of alignment with interagency supervisory guidance in the first quarter of 2013 as discussed above partially offset by improving credit quality in the second quarter of 2013.

Provision for credit losses decreased to $157 million in the second quarter of 2013 compared with $256 million for the second quarter of 2012. Provision for credit losses for the six months ending June 30, 2013 declined to $393 million compared with $441 million for the six months ending June 30, 2012. The declines in the comparisons were driven primarily by overall commercial credit quality improvement.

The level of ALLL decreased to $3.8 billion at June 30, 2013 from $4.0 billion at December 31, 2012 and $4.2 billion at June 30, 2012.

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets, including OREO and Foreclosed Assets

Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include troubled debt restructurings (TDRs), OREO and foreclosed assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonperforming loans and nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. The major categories of nonperforming assets are presented in Table 37: Nonperforming Assets By Type.

Nonperforming assets stayed flat at $3.8 billion between June 30, 2013 and December 31, 2012. Nonperforming loans increased $67 million to $3.3 billion while OREO and foreclosed assets decreased $83 million to $457 million. The ratio of nonperforming loans to total loans stayed constant at 1.75 % at June 30, 2013 compared to December 31, 2012. The ratio of nonperforming assets to total loans, OREO and foreclosed assets decreased to 1.99% at June 30, 2013 from 2.04% at December 31, 2012.

In the first quarter of 2013, we completed our alignment of certain nonaccrual and charge-off policies consistent with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending. This alignment primarily related to (i) subordinate consumer loans (home

equity loans and lines and residential mortgages) where the first-lien loan was 90 days or more past due, (ii) government guaranteed loans where the guarantee may not result in collection of substantially all contractual principal and interest and (iii) loans with borrowers in bankruptcy. In the first quarter of 2013, nonperforming loans increased by $426 million and net charge-offs increased by $134 million as a result of completing the alignment of the aforementioned policies. Additionally, overall delinquencies decreased $395 million due to loans now being reported as either nonperforming or, in the case of loans accounted for under the fair value option, nonaccruing or having been charged off. The impact of the alignment of the policies was considered in our reserving process in the determination of our ALLL at December 31, 2012. See Table 37: Nonperforming Assets By Type, Table 39: Change in Nonperforming Assets, Table 40: Accruing Loans Past Due 30 To 59 Days, Table 41: Accruing Loans Past Due 60 To 89 Days and Table 42: Accruing Loans Past Due 90 Days Or More for additional information.

At June 30, 2013, TDRs included in nonperforming loans were $1.5 billion, or 46%, of total nonperforming loans compared to $1.6 billion, or 49%, of nonperforming loans as of December 31, 2012. Within consumer nonperforming loans, residential real estate TDRs comprise 53% of total residential real estate nonperforming loans at June 30, 2013, down from 64% at December 31, 2012. Home equity TDRs comprise 59% of home equity nonperforming loans at June 30, 2013, down from 70% at December 31, 2012. The level of TDRs in these portfolios is expected to result in elevated nonperforming loan levels for longer periods because TDRs generally remain in nonperforming status until a borrower has made at least six consecutive months of 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 obligation to PNC are not returned to accrual status.

At June 30, 2013, our largest nonperforming asset was $37 million in the Real Estate, Rental and Leasing Industry and our average nonperforming loans associated with commercial lending were under $1 million. Nine of our ten largest outstanding nonperforming assets are from the commercial lending portfolio and represent 14% and 4% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of June 30, 2013.

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Table 37: Nonperforming Assets By Type

In millions	June 30 2013	December 31 2012
Nonperforming loans		
Commercial lending		
Commercial		
Retail/wholesale trade	$ 63	$ 61
Manufacturing	62	73
Service providers	110	124
Real estate related (a)	163	178
Financial services	14	9
Health care	24	25
Other industries	85	120
Total commercial	521	590
Commercial real estate		
Real estate projects (b)	516	654
Commercial mortgage	123	153
Total commercial real estate	639	807
Equipment lease financing	7	13
Total commercial lending	1,167	1,410
Consumer lending (c)		
Home equity (d)	1,131	951
Residential real estate		
Residential mortgage (d)	947	824
Residential construction	15	21
Credit card	4	5
Other consumer (d)	57	43
Total consumer lending	2,154	1,844
Total nonperforming loans (e)	3,321	3,254
OREO and foreclosed assets		
Other real estate owned (OREO) (f)	432	507
Foreclosed and other assets	25	33
Total OREO and foreclosed assets	457	540
Total nonperforming assets	$ 3,778	$ 3,794
Amount of commercial lending nonperforming loans contractually current as to remaining principal and interest	$ 319	$ 342
Percentage of total commercial lending nonperforming loans	27%	24%
Amount of TDRs included in nonperforming loans	$ 1,531	$ 1,589
Percentage of total nonperforming loans	46%	49%
Nonperforming loans to total loans	1.75%	1.75%
Nonperforming assets to total loans, OREO and foreclosed assets	1.99	2.04
Nonperforming assets to total assets	1.24	1.24
Allowance for loan and lease losses to total nonperforming loans (g)	114	124

(a) Includes loans related to customers in the real estate and construction industries.
(b) Includes both construction loans and intermediate financing for projects.
(c) 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.
(d) Pursuant to alignment with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013, nonperforming home equity loans increased $214 million, nonperforming residential mortgage loans increased $187 million and nonperforming other consumer loans increased $25 million. Charge-offs have been taken on these loans where the fair value less costs to sell the collateral was less than the recorded investment of the loan and were $134 million.
(e) Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.
(f) OREO excludes $311 million and $380 million at June 30, 2013 and December 31, 2012, respectively, related to residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the FHA or guaranteed by the VA.
(g)

The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. See Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in this Report for additional information.

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Table 38 : OREO and Foreclosed Assets

In millions	June 30 2013	December 31 2012
Other real estate owned (OREO):		
Residential properties	$ 149	$ 167
Residential development properties	100	135
Commercial properties	183	205
Total OREO	432	507
Foreclosed and other assets	25	33
Total OREO and foreclosed assets	$ 457	$ 540

Total OREO and foreclosed assets decreased $83 million during the first six months of 2013 from $540 million at December 31, 2012, to $457 million, or 12% of total nonperforming assets, at June 30, 2013. As of June 30, 2013 and December 31, 2012, 33% and 31%, respectively, of our OREO and foreclosed assets were comprised of 1-4 family residential properties. The lower level of OREO and foreclosed assets was driven mainly by continued strong sales activity offset slightly by an increase in foreclosures. Excluded from OREO at June 30, 2013 and December 31, 2012, respectively, was $311 million and $380 million of residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the FHA or guaranteed by the VA.

Table 39: Change in Nonperforming Assets

In millions	2013	2012
January 1	$ 3,794	$ 4,156
New nonperforming assets (a)	1,805	1,983
Charge-offs and valuation adjustments (b)	(559)	(529)
Principal activity, including paydowns and payoffs	(586)	(842)
Asset sales and transfers to loans held for sale	(260)	(314)
Returned to performing status	(416)	(278)
June 30	$ 3,778	$ 4,176

(a) New nonperforming assets include $560 million of loans added in the first quarter of 2013 due to the alignment with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending.

(b) Charge-offs and valuation adjustments include $134 million of charge-offs added in the first quarter of 2013 due to the alignment with interagency supervisory guidance discussed in footnote (a) above.

The table above presents nonperforming asset activity for the six months ended June 30, 2013 and 2012. For the six months ended June 30, 2013, nonperforming assets decreased $16 million from $3.8 billion at December 31, 2012, driven primarily by a decrease in commercial lending nonperforming loans and principal activity within consumer, partially offset by increases in consumer lending nonperforming loans due to alignment with interagency supervisory guidance in the first quarter of 2013. Approximately 86% of total nonperforming loans are secured by collateral which would be expected to reduce credit losses and require less reserve in the event of default, and 27% of commercial lending nonperforming loans

are contractually current as to both principal and interest obligations. As of June 30, 2013, commercial nonperforming loans are carried at approximately 61% of their unpaid principal balance, due to charge-offs recorded to date, before consideration of the ALLL. See Note 5 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on these loans.

Purchased impaired loans are considered performing, 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. The accretable yield represents the excess of the expected cash flows on the loans at the measurement date over the carrying value. Generally decreases, other than interest rate decreases for variable rate notes, in the net present value of expected cash flows of individual commercial or pooled purchased impaired loans would result in an impairment charge to the provision for loan losses in the period in which the change is deemed probable. Generally increases in the net present value of expected cash flows of purchased impaired loans would first result in a recovery of previously recorded allowance for loan losses, to the extent applicable, and then an increase to accretable yield for the remaining life of the purchased impaired loans. Total nonperforming loans and assets in the tables above are significantly lower than they would have been due to this accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of nonperforming loans to total loans and a higher ratio of ALLL to nonperforming loans. See Note 6 Purchased Loans in the Notes To Consolidated Financial Statements in this Report for additional information on these loans.

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.

Total early stage loan delinquencies (accruing loans past due 30 to 89 days) decreased from $1.4 billion at December 31, 2012, to $1.0 billion at June 30, 2013. The reduction in consumer lending early stage delinquencies was mainly due to the alignment with interagency supervisory guidance in the first quarter of 2013 whereby such loans were classified as either nonperforming or, in the case of loans accounted for under the fair value option, nonaccruing. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information regarding our nonperforming loan and nonaccrual policies. Commercial lending early stage delinquencies decreased primarily due to improving credit quality.

Accruing loans past due 90 days or more are referred to as late stage delinquencies. These loans are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral, and/or are in the process of collection, or are managed in homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines. These loans decreased $.6 billion, or 25%, from $2.4 billion at December 31, 2012, to $1.8 billion at June 30, 2013, mainly due to the alignment with interagency supervisory guidance in the first quarter of 2013 in which loans were moved to either nonperforming or, in the case of loans accounted for under the fair value option, nonaccruing. In addition, government insured residential real estate loans declined $324 million, the majority of which were transferred to OREO. The following tables display the delinquency status of our loans at June 30, 2013 and December 31, 2012. Additional information regarding accruing loans past due is included in Note 5 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Table 40: Accruing Loans Past Due 30 To 59 Days (a)(b)

	Amount		Percentage of Total Outstandings	
Dollars in millions	June 30 2013	December 31 2012	June 30 2013	December 31 2012
Commercial	$ 85	$ 115	.10%	.14%
Commercial real estate	66	100	.35	.54
Equipment lease financing	2	17	.03	.23
Home equity	76	117	.21	.33
Residential real estate				
Non government insured	120	151	.81	.99
Government insured	110	127	.74	.83
Credit card	27	34	.65	.79
Other consumer				
Non government insured	52	65	.25	.30
Government insured	148	193	.70	.90
Total	$ 686	$ 919	.36	.49

(a) See note (a) at Table 42: Accruing Loans Past Due 90 Days Or More.
(b) See note (b) at Table 42: Accruing Loans Past Due 90 Days Or More.

Table 41: Accruing Loans Past Due 60 To 89 Days (a)(b)

	Amount		Percentage of Total Outstandings	
Dollars in millions	June 30 2013	December 31 2012	June 30 2013	December 31 2012
Commercial	$ 53	$ 55	.06%	.07%
Commercial real estate	22	57	.12	.31
Equipment lease financing	4	1	.05	.01
Home equity	29	58	.08	.16
Residential real estate				
Non government insured	29	49	.20	.32
Government insured	79	97	.53	.64
Credit card	19	23	.46	.53
Other consumer				
Non government insured	14	21	.07	.10
Government insured	100	110	.47	.51
Total	$ 349	$ 471	.18	.25

(a) See note (a) at Table 42: Accruing Loans Past Due 90 Days Or More.
(b) See note (b) at Table 42: Accruing Loans Past Due 90 Days Or More.

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Table 42: Accruing Loans Past Due 90 Days Or More (a)(b)

	Amount		Percentage of Total Outstandings	
Dollars in millions	June 30 2013	December 31 2012	June 30 2013	December 31 2012
Commercial	$ 31	$ 42	.04%	.05%
Commercial real estate		15		.08
Equipment lease financing		2		.03
Residential real estate				
Non government insured	50	46	.34	.30
Government insured	1,326	1,855	8.97	12.17
Credit card	33	36	.80	.84
Other consumer				
Non government insured	12	18	.06	.08
Government insured	310	337	1.46	1.57
Total	$ 1,762	$ 2,351	.93	1.26

(a) Amounts in table represent recorded investment.

(b) Pursuant to alignment with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013, accruing consumer loans past due 30 59 days decreased $44 million, accruing consumer loans past due 60 89 days decreased $36 million and accruing consumer loans past due 90 days or more decreased $315 million, of which $295 million related to residential real estate government insured loans. As part of this alignment, these loans were moved into nonaccrual status.

On a regular basis our Special Asset Committee closely monitors loans, primarily commercial loans, that are not included in the nonperforming or accruing past due categories and for which we are uncertain about the borrower s ability to comply with existing repayment terms over the next six months. These loans totaled $.2 billion at both June 30, 2013 and December 31, 2012.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $36.4 billion as of June 30, 2013, or 19% of the total loan portfolio. Of that total, $22.5 billion, or 62%, was outstanding under primarily variable-rate home equity lines of credit and $13.9 billion, or 38%, consisted of closed-end home equity installment loans. Approximately 3% of the home equity portfolio was on nonperforming status as of June 30, 2013.

As of June 30, 2013, we are in an originated first lien position for approximately 46% of the total portfolio and, where originated as a second lien, we currently hold or service the first lien position for approximately an additional 2% of the portfolio. Historically, we have originated and sold first lien residential real estate mortgages which resulted in a low percentage of home equity loans where we hold the first lien

mortgage position. The remaining 52% of the portfolio was secured by second liens where we do not hold the first lien position. For the majority of the home equity portfolio where we are in, hold or service the first lien position, the credit performance of this portion of the portfolio 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. However, after origination PNC is not typically notified when a senior lien position that is not held by PNC is satisfied. Therefore, information about the current lien status of junior lien loans is less readily available in cases where PNC does not also hold the senior lien. Additionally, PNC is not typically notified when a junior lien position is added after origination of a PNC first lien. This updated information for both junior and senior liens must be obtained from external sources and therefore PNC has contracted with an industry leading third-party service provider to obtain updated loan, lien and collateral data that is aggregated from public and private sources. In the first quarter of 2013, PNC further refined our process to include additional validation efforts around the use of third-party data.

We track borrower performance monthly, including obtaining original LTVs, updated FICO scores at least quarterly, updated LTVs semi-annually, and other credit metrics at least quarterly, including the historical performance of any mortgage loans regardless of lien position that we may or may 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 segment the home equity portfolio based upon the delinquency, modification status and bankruptcy status of these loans, as well as the delinquency, modification status and bankruptcy status of any mortgage loan with the same borrower (regardless of whether it is a first lien senior to our second lien).

In establishing our ALLL for non-impaired loans, we utilize a delinquency roll-rate methodology for pools of loans. In accordance with accounting principles, under this methodology, we establish our allowance based upon incurred losses and not lifetime expected losses. We also consider the incremental impact to ALLL when home equity lines of credit transition from interest only product to principal and interest product. The roll-rate methodology estimates transition/roll of loan balances from one delinquency state (e.g., 30-59 days past due) to another delinquency state (e.g., 60-89 days past due) and ultimately to charge-off. The roll through to charge-off is based on PNC s actual loss experience for each type of pool. Since a pool may consist of first and second liens, the charge-off amounts for the pool are proportionate to the composition of first and second liens in the pool. Our experience has been that the ratio of first to second lien loans has been consistent over time and is appropriately represented in our pools used for roll-rate calculations.

Generally, our variable-rate home equity lines of credit have either a seven or ten year draw period, followed by a 20 year amortization term. During the draw period, we have home equity lines of credit where borrowers pay interest only and home equity lines of credit where borrowers pay principal and interest. The risk associated with our home equity lines of credit end of period draw dates is considered in establishing our ALLL. Based upon outstanding balances at June 30, 2013, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

Table 43: Home Equity Lines of Credit Draw Period End Dates

In millions	Interest Only Product	Principal and Interest Product
Remainder of 2013	$ 1,191	$ 132
2014	1,906	448
2015	1,878	620
2016	1,469	477
2017	2,832	659
2018 and thereafter	5,378	5,031
Total (a)	$ 14,654	$ 7,367

(a) Includes approximately $218 million, $199 million, $203 million, $57 million, $65 million and $597 million of home equity lines of credit with balloon payments with draw periods scheduled to end in the remainder of 2013, 2014, 2015, 2016, 2017 and 2018 and thereafter, respectively.

We view home equity lines of credit where borrowers are paying principal and interest under the draw period as less risky than those where the borrowers are paying interest only, as these borrowers have a demonstrated ability to make some level of principal and interest payments.

Based upon outstanding balances, and excluding purchased impaired loans, at June 30, 2013, for home equity lines of credit for which the borrower can no longer draw (e.g., draw period has ended or borrowing privileges have been terminated), approximately 3.53% were 30-89 days past due and approximately 5.64% were greater than or equal to 90 days past due. Generally, when a borrower becomes 60 days past due we terminate borrowing privileges and those privileges are not subsequently reinstated. At that point, we continue our collection/recovery processes, which may include a loss mitigation loan modification resulting in a loan that is classified as a TDR.

See Note 5 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

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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. Temporary and permanent modifications under programs involving a change to loan terms are generally classified as TDRs. Further, certain payment plans and trial payment arrangements which do not include a contractual change to loan terms may be classified as TDRs. Additional detail on TDRs is discussed below as well as in Note 5 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

A temporary modification, with a term between 3 and 60 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 60 months, is a modification in which the terms of the original loan are

changed. Permanent modifications primarily include the government-created Home Affordable Modification Program (HAMP) or PNC-developed HAMP-like modification programs.

For home equity lines of credit we will enter into a temporary modification when the borrower has indicated a temporary hardship and a willingness to bring current the delinquent loan balance. Examples of this situation often include delinquency due to illness or death in the family or loss of employment. The majority of these modifications involve periods of three to 24 months. Permanent modifications are entered into when it is confirmed that the borrower does not possess the income necessary to continue making loan payments at the current amount, but our expectation is that payments at lower amounts can be made.

We also monitor the success rates and delinquency status of our loan modification programs to assess their effectiveness in serving our customers needs while mitigating credit losses. Table 44: Consumer Real Estate Related Loan Modifications provides the number of accounts and unpaid principal balance of modified consumer real estate related loans and Table 45: Consumer Real Estate Related Loan Modifications Re-Default by Vintage provides the number of accounts and unpaid principal balance of modified loans that were 60 days or more past due as of six months, nine months, twelve months and fifteen months after the modification date.

Table 44: Consumer Real Estate Related Loan Modifications

	June 30, 2013		December 31, 2012	
Dollars in millions	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Home equity				
Temporary Modifications	7,744	$ 646	9,187	$ 785
Permanent Modifications	9,716	730	7,457	535
Total home equity	17,460	1,376	16,644	1,320
Residential Mortgages				
Permanent Modifications	8,933	1,652	9,151	1,676
Non-Prime Mortgages				
Permanent Modifications	4,390	622	4,449	629
Residential Construction				
Permanent Modifications	2,053	630	1,735	609
Total Consumer Real Estate Related Loan Modifications	32,836	$ 4,280	31,979	$ 4,234

Table 45: Consumer Real Estate Related Loan Modifications Re-Default by Vintage (a) (b)

June 30, 2013 Dollars in thousands	Six Months Number of Accounts Re-defaulted	Six Months % of Vintage Re-defaulted	Nine Months Number of Accounts Re-defaulted	Nine Months % of Vintage Re-defaulted	Twelve Months Number of Accounts Re-defaulted	Twelve Months % of Vintage Re-defaulted	Fifteen Months Number of Accounts Re-defaulted	Fifteen Months % of Vintage Re-defaulted	Unpaid Principal Balance (c)
Permanent Modifications									
Home Equity									
Fourth Quarter 2012	38	3.0%							$ 4,114
Third Quarter 2012	48	3.0	75	4.6%					7,293
Second Quarter 2012	35	2.0	59	3.3	73	4.1%			5,262
First Quarter 2012	24	2.2	42	3.8	47	4.2	52	4.7%	3,371
Fourth Quarter 2011	9	2.0	17	3.8	24	5.3	25	5.5	1,797
Residential Mortgages									
Fourth Quarter 2012	127	17.5							22,350
Third Quarter 2012	219	22.5	260	26.7					43,799
Second Quarter 2012	182	17.4	310	29.6	319	30.5			52,455
First Quarter 2012	166	16.3	218	21.4	293	28.7	319	31.2	51,617
Fourth Quarter 2011	183	20.3	245	27.2	275	30.5	346	38.4	51,456
Non-Prime Mortgages									
Fourth Quarter 2012	25	21.4							3,498
Third Quarter 2012	30	21.0	36	25.2					5,534
Second Quarter 2012	37	19.3	55	28.7	66	34.4			7,935
First Quarter 2012	41	18.9	52	24.0	69	31.8	71	32.7	9,912
Fourth Quarter 2011	36	14.0	56	21.7	78	30.2	90	34.9	11,642
Residential Construction									
Fourth Quarter 2012	3	1.7							418
Third Quarter 2012	3	1.3	1	0.4					405
Second Quarter 2012 (d)			1	0.8	2	1.7			170
First Quarter 2012	2	1.6	5	3.9	6	4.7	6	4.7	2,141
Fourth Quarter 2011	5	5.6	7	7.8	13	14.4	12	13.3	3,000
Temporary Modifications									
Home Equity									
Fourth Quarter 2012	6	5.7%							$ 574
Third Quarter 2012	17	10.4	24	14.7%					1,745
Second Quarter 2012	29	10.1	35	12.2	46	16.0%			3,788
First Quarter 2012	32	7.0	43	9.5	57	12.5	62	13.6%	4,632
Fourth Quarter 2011	26	5.3	39	7.9	51	10.4	55	11.2	4,498

(a) An account is considered in re-default if it is 60 days or more delinquent after modification. The data in this table represents loan modifications completed during the quarters ending December 31, 2011 through December 31, 2012 and represents a vintage look at all quarterly accounts and the number of those modified accounts (for each quarterly vintage) 60 days or more delinquent at six, nine, twelve, and fifteen months after modification. Account totals include active and inactive accounts that were delinquent when they achieved inactive status. Accounts that are no longer 60 days or more delinquent, or were re-modified since prior period, are removed from re-default status in the period they are cured or re-modified.

(b) Vintage refers to the quarter in which the modification occurred.

(c) Reflects June 30, 2013 unpaid principal balances of the re-defaulted accounts for the Fourth Quarter 2012 Vintage at Six Months, for the Third Quarter 2012 Vintage at Nine Months, for the Second Quarter 2012 Vintage at Twelve Months, and for the First Quarter 2012 and prior Vintages at Fifteen Months.

(d) There were no Residential Construction modified loans which became six months past due in the second quarter of 2012.

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

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

Under a HAMP trial payment period, we establish an alternate payment, generally at an amount less than the contractual payment amount, for the borrower during this short time period. This allows a borrower to demonstrate successful payment performance before permanently restructuring the loan into a HAMP modification. Subsequent to successful borrower performance under the trial payment period, we will capitalize the original contractual amount past due and restructure the loan s contractual terms, along with bringing the restructured account to current. As the borrower is often already delinquent at the time of participation in the HAMP trial payment period, there is not a significant increase in the ALLL. If the trial payment period is unsuccessful, the loan will be evaluated for further action based upon our existing policies.

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under PNC-developed programs, which in some cases may operate similarly to HAMP. These programs first require a reduction of the interest rate followed by an extension of term and, if appropriate, deferral of principal payments. As of June 30, 2013 and December 31, 2012, 5,125 accounts with a balance of $.8 billion and 4,188 accounts with a balance of $.6 billion, respectively, of residential real estate loans had been modified under HAMP and were still outstanding on our balance sheet.

We do not re-modify a defaulted modified loan except for subsequent significant life events, as defined by the OCC. A re-modified loan continues to be classified as a TDR for the remainder of its term regardless of subsequent payment performance.

Commercial Loan Modifications and Payment Plans

Modifications of terms for commercial loans are based on individual facts and circumstances. Commercial loan modifications may involve reduction of the interest rate, extension of the term of the loan and/or forgiveness of principal. Modified commercial loans are usually already nonperforming prior to modification. We evaluate these modifications for TDR classification based upon whether we granted a concession to a borrower experiencing financial

difficulties. Additional detail on TDRs is discussed below as well as in Note 5 Asset Quality in the Notes To Consolidated Financial Statements in this Report.

Beginning in 2010, we established certain commercial loan modification and payment programs for small business loans, Small Business Administration loans, and investment real estate loans. As of June 30, 2013 and December 31, 2012, $57 million and $68 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $19 million and $24 million have been determined to be TDRs as of June 30, 2013 and December 31, 2012.

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 borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC. Additionally, 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. For the six months ended June 30, 2013, $1.7 billion of loans held for sale, loans accounted for under the fair value option and pooled purchased impaired loans, as well as certain consumer government insured or guaranteed loans, were excluded from the TDR population. The comparable amount for the six months ended June 30, 2012 was $1.6 billion.

Table 46: Summary of Troubled Debt Restructurings

In millions	June 30	December 31

	2013	2012
Consumer lending:		
Real estate-related	$ 1,982	$ 2,028
Credit card (a)	208	233
Other consumer	53	57
Total consumer lending	2,243	2,318
Total commercial lending	599	541
Total TDRs	$ 2,842	$ 2,859
Nonperforming	$ 1,531	$ 1,589
Accruing (b)	1,103	1,037
Credit card (a)	208	233
Total TDRs	$ 2,842	$ 2,859

(a) Includes credit cards and certain small business and consumer credit agreements whose terms have been restructured and are TDRs. However, since our policy is to exempt these loans from being placed on nonaccrual status as permitted by regulatory guidance as generally these loans are directly charged off in the period that they become 180 days past due, these loans are excluded from nonperforming loans.

(b) Accruing loans have demonstrated a period of at least six months of performance under the restructured terms and are excluded from nonperforming loans. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligation to PNC are not returned to accrual status.

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Total TDRs decreased $17 million, or 1%, during the first six months of 2013. Nonperforming TDRs totaled $1.5 billion, which represents approximately 46% of total nonperforming loans.

TDRs that have returned to performing (accruing) status are excluded from nonperforming loans. Generally, these loans have been returned to performing status as the borrowers are performing under the restructured terms for at least six consecutive months. These TDRs increased $66 million, or 6%, during the first six months of 2013 to $1.1 billion as of June 30, 2013. This increase reflects the further seasoning and performance of the TDRs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligation to PNC are not returned to accrual status. See Note 5 Asset Quality in the Notes To Consolidated Financial Statements in this Report for additional information.

Allowances For Loan And Lease Losses And Unfunded Loan Commitments And Letters Of Credit

We recorded $664 million in net charge-offs for the first six months of 2013, compared to $648 million in the first six months of 2012. Commercial lending net charge-offs decreased from $189 million in the first six months of 2012 to $151 million in the first six months of 2013. Consumer lending net charge-offs increased from $459 million in the first six months of 2012 to $513 million in the first six months of 2013.

Table 47: Loan Charge-Offs And Recoveries

Six months ended June 30 Dollars in millions	Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	Percent of Average Loans (annualized)
2013				
Commercial	$ 195	$ 129	$ 66	.16%
Commercial real estate	137	46	91	.97
Equipment lease financing	4	10	(6)	(.17)
Home equity	286	37	249	1.39
Residential real estate	122		122	1.64
Credit card	95	11	84	4.13
Other consumer	86	28	58	.55
Total	$ 925	$ 261	$ 664	.71
2012				
Commercial	$ 234	$ 147	$ 87	.24%
Commercial real estate	159	52	107	1.22
Equipment lease financing	10	15	(5)	(.16)
Home equity	252	30	222	1.28
Residential real estate	67		67	.87
Credit card	110	11	99	4.95
Other consumer	97	26	71	.73
Total	$ 929	$ 281	$ 648	.76

For the first six months of 2013, loan charge-offs were $925 million and annualized net charge-offs to average loans was 0.71%. Pursuant to alignment with interagency guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013, additional charge-offs of $134 million were taken.

In addition, total net charge-offs are lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. See Note 6 Purchased Loans in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on net charge-offs related to these loans.

We maintain an ALLL to absorb losses from the loan and lease portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan and lease portfolio. 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.

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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 mortgage and consumer installment loans. Specific allowances for individual loans (including commercial and consumer TDRs) are determined based on an analysis of the present value of expected future cash flows from the loans discounted at their effective interest rate, observable market price or the fair value of the underlying collateral.

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

Our commercial pool reserve methodology is sensitive to changes in key risk parameters such as PD and LGD; the results of these parameters are then applied to the loan balance to determine the amount of the reserve. In general, a given change in any of the major risk parameters will have a corresponding change in the pool reserve allocations for non-impaired commercial loans.

The majority of the commercial portfolio is secured by collateral, including loans to asset-based lending customers that continue to show demonstrably lower LGD. Further, the large investment grade or equivalent portion of the loan portfolio has performed well and has not been subject to significant deterioration. Additionally, guarantees on loans greater than $1 million and owner guarantees for small business loans do not significantly impact our ALLL.

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

A portion of the ALLL related to qualitative and measurement factors has been assigned to loan categories. These factors may include, but are not limited to, the following:

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

Purchased impaired loans are initially recorded at fair value and applicable accounting guidance prohibits the carry over or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit

component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At June 30, 2013, we had established reserves of $1.1 billion for purchased impaired loans. In addition, all loans (purchased impaired and non-impaired) acquired in the RBC Bank (USA) acquisition were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at acquisition. See Note 6 Purchased Loans in the Notes To Consolidated Financial Statements in this Report for additional information.

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

We refer you to Note 5 Asset Quality and Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for further information on key asset quality indicators that we use to evaluate our portfolio and establish the allowances.

Table 48: Allowance for Loan and Lease Losses

Dollars in millions	2013	2012

January 1	$ 4,036	$ 4,347
Total net charge-offs	(664)	(648)
Provision for credit losses	393	441
Net change in allowance for unfunded loan commitments and letters of credit	8	16
Other	(1)	
June 30	$ 3,772	$ 4,156
Net charge-offs to average loans (for the six months ended) (annualized) (a)	.71%	.76%
Allowance for loan and lease losses to total loans	1.99	2.30
Commercial lending net charge-offs	$ (151)	$ (189)
Consumer lending net charge-offs	(513)	(459)
Total net charge-offs	$ (664)	$ (648)
Net charge-offs to average loans (for the six months ended) (annualized)		
Commercial lending	.27%	.39%
Consumer lending (a)	1.35	1.25

(a) Pursuant to alignment with interagency guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013, additional charge-offs of $134 million have been taken.

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As further described in the Consolidated Income Statement Review section of this Report, the provision for credit losses totaled $393 million for the first six months of 2013 compared to $441 million for the first six months of 2012. For the first six months of 2013, the provision for commercial lending credit losses decreased by $60 million, or 68%, from the first six months of 2012. The provision for consumer lending credit losses increased $12 million, or 3%, from the first six months of 2012.

At June 30, 2013, total ALLL to total nonperforming loans was 114%. The comparable amount for December 31, 2012 was 124%. These ratios are 71% and 79%, respectively, when excluding the $1.4 billion and $1.5 billion, respectively, of ALLL at June 30, 2013 and December 31, 2012 allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded consumer loans and lines of credit not secured by real estate as they are charged off after 120 to 180 days past due and not placed on nonperforming status. Additionally, we have excluded purchased impaired loans as they are considered performing regardless of their delinquency status as interest is accreted based on our estimate of expected cash flows and additional allowance is recorded when these cash flows are below recorded investment. See Table 37: Nonperforming Assets By Type 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, charge-offs and changes in aggregate portfolio balances. During the first six months of 2013, improving asset quality trends, including, but not limited to, delinquency status and improving economic conditions, realization of previously estimated losses through charge-offs, including the impact of alignment with interagency guidance and overall portfolio growth, combined to result in the ALLL balance declining $.2 billion, or 5% to $3.8 billion as of June 30, 2013 compared to December 31, 2012.

See Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 6 Purchased Loans in the Notes To Consolidated Financial Statements in Part I, Item 1of this Report regarding changes in the ALLL and in the allowance for unfunded loan commitments and letters of credit.

Liquidity Risk Management

Liquidity risk has two fundamental components. The first is potential loss assuming we were unable to meet our funding requirements at a reasonable cost. The second is the potential inability to operate our businesses because adequate contingent liquidity is not available in a stressed environment. We manage liquidity risk at the consolidated company level (bank, parent company, and nonbank subsidiaries combined) to help ensure that we can obtain cost-effective funding to meet current and future obligations under both normal business as usual and stressful circumstances, and to help ensure that we maintain an appropriate level of contingent liquidity.

Spot and forward funding gap analyses are used to measure and monitor consolidated liquidity risk. Funding gaps represent the difference in projected sources of liquidity available to offset projected uses. We calculate funding gaps for the overnight, thirty-day, ninety-day, one hundred eighty-day and one-year time intervals. Management also monitors liquidity through a series of early warning indicators that may indicate a potential market, or PNC-specific, liquidity stress event. Finally, management performs a set of liquidity stress tests and maintains a contingency funding plan to address a potential liquidity crisis. In the most severe liquidity stress simulation, we assume that PNC s liquidity position is under pressure, while the market in general is under systemic pressure. The simulation considers, among other things, the impact of restricted access to both secured and unsecured external sources of funding, accelerated run-off of customer deposits, valuation pressure on assets and heavy demand to fund contingent obligations. Risk limits are established within our Liquidity Risk Policy. Management s Asset and Liability Committee regularly reviews compliance with the established limits.

Parent company liquidity guidelines are designed to help ensure that sufficient liquidity is available to meet our parent company obligations over the succeeding 24-month period. Risk limits for parent company liquidity are established within our Enterprise Capital and Liquidity Management Policy. The Board of Directors Risk Committee regularly reviews compliance with the established limits.

Bank Level Liquidity Uses

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. At the bank level, primary contractual obligations include funding loan commitments, satisfying deposit withdrawal requests and maturities and debt service related to bank borrowings. As of June 30, 2013, there were approximately $13.5 billion of bank borrowings with contractual maturities of less than one year. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary. See the Bank Level Liquidity Sources section below.

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On March 15, 2013 we redeemed $375 million of REIT preferred securities issued by PNC Preferred Funding Trust III with a current distribution rate of 8.7%.

BANK LEVEL LIQUIDITY SOURCES

Our largest source of bank liquidity on a consolidated basis is the deposit base that comes from our retail and commercial businesses. Total deposits decreased to $212.3 billion at June 30, 2013 from $213.1 billion at December 31, 2012, primarily due to runoff of year-end seasonally higher transactions deposits. Liquid assets and unused borrowing capacity from a number of sources are also available to maintain our liquidity position. Borrowed funds come from a diverse mix of short and long-term funding sources.

At June 30, 2013, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling $7.5 billion and securities available for sale totaling $47.9 billion. Of our total liquid assets of $55.4 billion, we had $23.1 billion pledged as collateral for borrowings, trust, and other commitments. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and balance sheet management activities.

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

PNC Bank, N.A. is authorized by its board to offer up to $20 billion in senior and subordinated unsecured debt obligations with maturities of more than nine months. Through June 30, 2013, PNC Bank, N.A. had issued $15.0 billion of debt under this program including the following during 2013:

- $750 million of fixed rate senior notes with a maturity date of January 28, 2016. Interest is payable semi-annually, at a fixed rate of .80%, on January 28 and July 28 of each year, beginning on July 28, 2013,
- $250 million of floating rate senior notes with a maturity date of January 28, 2016. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .31%, on January 28, April 28, July 28, and October 28 of each year, beginning on April 28, 2013,
- $750 million of subordinated notes with a maturity date of January 30, 2023. Interest is payable semi-annually, at a fixed rate of 2.950%, on January 30 and July 30 of each year, beginning on July 30, 2013,
- $1.4 billion of senior extendible floating rate bank notes issued to an affiliate with an initial maturity date of April 14, 2014, subject to the holder s monthly option to extend, and a final maturity date of January 14, 2015. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .225%, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder. Interest is payable on March 14, June 14, September 14, and December 14 of each year, beginning on June 14, 2013,
- $645 million of floating rate senior notes with a maturity date of April 29, 2016. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .32% on January 29, April 29, July 29 and October 29 of each year, beginning on July 29, 2013, and
- $800 million of senior extendible floating rate bank notes with an initial maturity date of July 18, 2014, subject to the holder s monthly option to extend, and a final maturity date of June 18, 2015. Interest is payable at the 3-Month LIBOR rate, reset quarterly, plus a spread of .225%, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder. Interest is payable on March 20, June 20, September 20 and December 20 of each year, beginning on September 20, 2013.

Total senior and subordinated debt of PNC Bank, N.A. increased to $9.4 billion at June 30, 2013 from $7.6 billion at December 31, 2012 primarily due to $4.6 billion in new borrowing less $2.6 billion in calls and maturities.

PNC Bank, N.A. is a member of the FHLB-Pittsburgh and as such has access to advances from FHLB-Pittsburgh secured generally by residential mortgage and other mortgage-related loans. At June 30, 2013, our unused secured borrowing capacity was $17.2 billion with FHLB-Pittsburgh. Total FHLB borrowings decreased to $8.5 billion at June 30, 2013 from $9.4 billion at December 31, 2012 due to $6 billion in calls and maturities and $5 billion of new issuance.

PNC Bank, N.A. has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of June 30, 2013, there was $500 million outstanding under this program. Commercial paper on our Consolidated Balance Sheet also includes $5.9 billion of commercial paper issued by Market Street Funding LLC, a consolidated VIE.

PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland s (Federal Reserve Bank) discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by securities and commercial loans. At June 30, 2013, our unused secured borrowing capacity was $27.3 billion with the Federal Reserve Bank.

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See Note 20 Subsequent Events in the Notes To Consolidated Financial Statements of this Report for information on the issuance of subordinated notes of $750 million on July 25, 2013.

PARENT COMPANY LIQUIDITY USES

Obligations requiring the use of liquidity can generally be characterized as either contractual or discretionary. The parent company s contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. As of June 30, 2013, there were approximately $1.4 billion of parent company borrowings with maturities of less than one year.

Additionally, the parent company maintains adequate liquidity to fund discretionary activities such as paying dividends to PNC shareholders, share repurchases, and acquisitions. See the Parent Company Liquidity Sources section below.

See Supervision and Regulation in Item 1 of this Report for information regarding the Federal Reserve s CCAR process, including its impact on our ability to take certain capital actions, including plans to pay or increase common stock dividends, reinstate or increase common stock repurchase programs, or redeem preferred stock or other regulatory capital instruments.

On March 14, 2013, we used $1.4 billion of parent company cash to purchase senior extendible floating rate bank notes issued by PNC Bank, N.A.

On March 19, 2013, PNC announced the redemption completed on April 19, 2013 of depositary shares representing interests in PNC s 9.875% Fixed-To-Floating Rate Non-Cumulative Preferred Stock, Series L. Each depositary share represents a 1/4,000th interest in a share of the Series L Preferred Stock. All 6,000,000 depositary shares outstanding were redeemed, as well as all 1,500 shares of Series L Preferred Stock underlying such depositary shares, resulting in a net outflow of $150 million.

On March 22, 2013, we called for the redemption completed on April 23, 2013 of $15 million of trust preferred securities issued by Yardville Capital Trust VI.

On April 8, 2013 we called for redemption completed on May 23, 2013 of the $30 million of trust preferred securities issued by Fidelity Capital Trust III.

On May 1, 2013 we called for redemption completed on June 17, 2013 of the following trust preferred securities:

- $15 million issued by Sterling Financial Statutory Trust III,
- $15 million issued by Sterling Financial Statutory Trust IV,
- $20 million issued by Sterling Financial Statutory Trust V,
- $30 million issued by MAF Bancorp Capital Trust I, and
- $8 million issued by James Monroe Statutory Trust III.

See Note 20 Subsequent Events in the Notes To Consolidated Financial Statements of this Report for information on the redemption of $22 million on July 23, 2013 and a planned redemption of $35 million on September 16, 2013 of trust preferred securities.

PARENT COMPANY LIQUIDITY SOURCES

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

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

There are statutory and regulatory limitations on the ability of national banks 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, N.A. to the parent company without prior regulatory approval was approximately $1.1 billion at June 30, 2013. See Note 22 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of our 2012 Form 10-K for a further discussion of these limitations. We provide additional information on certain contractual restrictions under the Trust Preferred Securities section of the Off-Balance Sheet Arrangements And Variable Interest Entities section of this Financial Review and in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in the Notes To Consolidated Financial Statements in Item 8 of our 2012 Form 10-K.

In addition to dividends from PNC Bank, N.A., 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. As of June 30, 2013, the parent company had approximately $4.5 billion in funds available from its cash and investments.

We can also generate liquidity for the parent company and PNC s non-bank subsidiaries through the issuance of debt securities and equity securities, including certain capital instruments, in public or private markets and commercial paper. We have an effective shelf registration statement pursuant to which we can issue additional debt, equity and other capital instruments. Total senior and subordinated debt and hybrid capital instruments decreased to $10.8 billion at June 30, 2013 from $11.5 billion at December 31, 2012.

The parent company, through its subsidiary PNC Funding Corp, has the ability to offer up to $3.0 billion of commercial paper to provide additional liquidity. As of June 30, 2013, there were no issuances outstanding under this program.

Note 19 Equity in Item 8 of our 2012 Form 10-K describes the 16,885,192 warrants we have outstanding, each to purchase one share of PNC common stock at an exercise price of $67.33 per share. These warrants were sold by the U.S. Treasury in a secondary public offering in May 2010 after the U.S. Treasury exchanged its TARP Warrant. These warrants will expire December 31, 2018.

On May 7, 2013, we issued 500,000 depositary shares, each representing a $1/100^{th}$ interest in a share of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series R, in an underwritten public offering resulting in gross proceeds of $500 million to us before commissions and expenses. We issued 5,000 shares of Series R Preferred Stock to the depositary in this transaction. Non-cumulative cash dividends are payable when, as, and if declared by our board of directors, or an authorized committee of our board, semi-annually on June 1 and December 1 of each year, beginning on December 1, 2013 and ending on June 1, 2023, at a rate of 4.850%. From and including June 1, 2023, such dividends will be payable quarterly on March 1, June 1, September 1 and December 1 of each year beginning on September 1, 2023 at a rate of three-month LIBOR plus 3.04% per annum. The Series R Preferred Stock is redeemable at our option on or

after June 1, 2023 and at our option within 90 days of a regulatory capital treatment event as defined in the designations.

Status of Credit Ratings

The cost and availability of short-term and long-term funding, as well as collateral requirements for certain derivative instruments, is influenced by PNC s debt ratings.

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 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, including as a result of provisions in Dodd-Frank. 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 49: Credit Ratings as of June 30, 2013 for PNC and PNC Bank, N.A.

	Moody s	Standard & Poor s	Fitch
The PNC Financial Services Group, Inc.			
Senior debt	A3	A-	A+
Subordinated debt	Baa1	BBB+	A
Preferred stock	Baa3	BBB	BBB-
PNC Bank, N.A.			
Subordinated debt	A3	A-	A
Long-term deposits	A2	A	AA-
Short-term deposits	P-1	A-1	F1+

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Commitments

The following tables set forth contractual obligations and various other commitments as of June 30, 2013 representing required and potential cash outflows.

Table 50: Contractual Obligations

		Payment Due By Period			
June 30, 2013 in millions	Total	Less than one year	One to three years	Four to five years	After five years
Remaining contractual maturities of time deposits (a)	$ 25,634	$ 17,824	$ 4,328	$ 1,072	$ 2,410
Borrowed funds (a) (b)	39,864	20,308	6,388	5,440	7,728
Minimum annual rentals on noncancellable leases	2,735	392	652	476	1,215
Nonqualified pension and postretirement benefits	584	96	120	113	255
Purchase obligations (c)	765	454	237	48	26
Total contractual cash obligations	$ 69,582	$ 39,074	$ 11,725	$ 7,149	$ 11,634

(a) Includes purchase accounting adjustments.
(b) Includes basis adjustment relating to accounting hedges.
(c) Includes purchase obligations for goods and services covered by noncancellable contracts and contracts including cancellation fees.

We had unrecognized tax benefits of $109 million at June 30, 2013. This liability for unrecognized tax benefits represents an estimate of tax positions that we have taken in our tax returns which ultimately may not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the contractual obligations table. See Note 16 Income Taxes in the Notes To Consolidated Financial Statements of this Report for additional information.

Our contractual obligations totaled $71.1 billion at December 31, 2012. The decrease in the comparison is primarily attributable to the decrease in borrowed funds and time deposits. See Funding and Capital Sources in the Consolidated Balance Sheet Review section of this Financial Review for additional information regarding our funding sources.

Table 51: Other Commitments (a)

		Amount Of Commitment Expiration By Period			
June 30, 2013 in millions	Total Amounts Committed	Less than one year	One to three years	Four to five years	After five years
Net unfunded credit commitments	$ 124,142	$ 51,305	$ 40,591	$ 31,707	$ 539
Net outstanding standby letters of credit (b)	10,917	5,066	4,566	1,274	11
Reinsurance agreements (c)	5,731	2,954	43	31	2,703
Other commitments (d)	909	647	226	34	2
Total commitments	$ 141,699	$ 59,972	$ 45,426	$ 33,046	$ 3,255

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of syndications, assignments and participations.
(b) Includes $6.8 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.

(c) Reinsurance agreements are with third-party insurers related to insurance sold to our customers. Balances represent estimates based on availability of financial information.
(d) Includes unfunded commitments related to private equity investments of $171 million that are not on our Consolidated Balance Sheet.
Also includes commitments related to tax credit investments of $674 million and other direct equity investments of $64 million that are included in Other liabilities on our Consolidated Balance Sheet.

Our total commitments totaled $138.8 billion at December 31, 2012. The increase in the comparison is primarily due to an increase in commercial and commercial real estate net unfunded credit commitments.

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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 and equity prices. We are exposed to market risk primarily by our involvement in the following activities, among others:

- Traditional banking activities of taking 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 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 these limits and

guidelines, and reporting significant risks in the business to the Risk Committee of the Board.

Market Risk Management Interest Rate Risk

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

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

Sensitivity results and market interest rate benchmarks for the second quarters of 2013 and 2012 follow:

Table 52: Interest Sensitivity Analysis

	Second Quarter 2013	Second Quarter 2012
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	1.7%	2.5%
100 basis point decrease (a)	(1.0)%	(1.9)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	6.0%	7.9%
100 basis point decrease (a)	(4.5)%	(5.1)%
Duration of Equity Model (a)		
Base case duration of equity (in years):	(2.4)	(8.2)
Key Period-End Interest Rates		
One-month LIBOR	.19%	.25%
Three-year swap	.82%	.62%

(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. The following Net Interest Income Sensitivity to Alternative Rate Scenarios (Second Quarter

2013) table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist s most likely rate forecast, (ii) implied market forward rates and (iii) Yield Curve Slope Flattening (a 100 basis point yield curve slope flattening between 1-month and ten-year rates superimposed on current base rates) scenario.

Table 53: Net Interest Income Sensitivity to Alternative Rate Scenarios (Second Quarter 2013)

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	(.43)%	.99%	(.74)%
Second year sensitivity	(.17)%	4.09%	(3.21)%

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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 the above table. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates. We also consider forward projections of purchase accounting accretion when forecasting net interest income.

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

Table 54: Alternate Interest Rate Scenarios: One Year Forward

The second quarter 2013 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 — TRADING RISK

Our trading activities are primarily customer-driven trading in fixed income securities, derivatives and foreign exchange contracts, as well as the daily mark-to-market impact from the credit valuation adjustment (CVA) on the customer derivatives portfolio. They also include the underwriting of fixed income and equity securities.

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in trading activities. We calculate a diversified VaR at a 95% confidence interval. 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.

During the first six months of 2013, our 95% VaR ranged between $1.9 million and $5.5 million, averaging $4.1 million. During the first six months of 2012, our 95% VaR ranged between $2.5 million and $5.3 million, averaging $3.9 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of trading-related gains or losses against the VaR levels that were calculated at the close of the prior day. This assumes that market exposures remain constant throughout the day and that recent historical market variability is a good predictor of future variability. Our actual trading-related activity includes customer revenue and intraday hedging which helps to reduce trading losses, and may reduce the number of instances of actual losses exceeding the prior day VaR measure. There were no such instances during the first six months of 2013 under our diversified VaR measure. In comparison, there was two such instance during the first six months of 2012. We use a 500 day look back period for backtesting and include customer related revenue.

The following graph shows a comparison of enterprise-wide trading-related gains and losses against prior day diversified VaR for the period indicated.

Table 55: Enterprise-Wide Trading-Related Gains/Losses Versus Value-at-Risk

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Total trading revenue was as follows:

Table 56: Trading Revenue

Six months ended June 30

In millions	2013	2012
Net interest income	$ 17	$ 20
Noninterest income	144	105
Total trading revenue	$ 161	$ 125
Securities underwriting and trading (a)	$ 41	$ 43
Foreign exchange	42	47
Financial derivatives and other	78	35
Total trading revenue	$ 161	$ 125

Three months ended June 30

In millions	2013	2012
Net interest income	$ 8	$ 11
Noninterest income	93	33
Total trading revenue	$ 101	$ 44
Securities underwriting and trading (a)	$ 16	$ 18
Foreign exchange	23	27
Financial derivatives and other	62	(1)
Total trading revenue	$ 101	$ 44

(a) Includes changes in fair value for certain loans accounted for at fair value.

The trading revenue disclosed above includes results from providing investing, risk management and underwriting services to our customers as well as results from hedges of customer activity. Trading revenue excludes the impact of economic hedging activities which we transact to manage risk primarily related to residential and commercial mortgage servicing rights and residential and commercial mortgage loans held-for-sale. Derivatives used for economic hedges are not designated as accounting hedges because the contracts they are hedging are typically also carried at fair value on the balance sheet, resulting in symmetrical accounting treatment for both the hedging instrument and the hedged item. Economic hedge results, along with the associated hedged items, are reported in the respective income statement line items, as appropriate.

Trading revenues for the first six months of 2013 increased $36 million compared with the first six months of 2012. Trading revenue for the second quarter of 2013 increased $57 million compared with the second quarter of 2012. The increases in both comparisons primarily result from the impact of higher market interest rates on credit valuations related to customer-initiated hedging activities and improved debt underwriting results which were partially offset by reduced client derivatives revenue.

Market Risk Management   Equity and Other Investment Risk

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

The primary risk measurement for equity and other investments is economic capital. Economic capital is a common measure of risk for credit, market and operational risk. It is an estimate of the potential value depreciation over a one year horizon commensurate with solvency expectations of an institution rated single-A by the credit rating agencies. Given the illiquid nature of many of these types of investments, it can be a challenge to determine their fair values. See Note 9 Fair Value in the Notes To Consolidated Financial Statements in this Report and in our 2012 Form 10-K for additional information.

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

A summary of our equity investments follows:

Table 57: Equity Investments Summary

In millions	June 30 2013	Dec. 31 2012
BlackRock	$ 5,713	$ 5,614
Tax credit investments	2,175	2,965
Private equity	1,729	1,802
Visa	204	251
Other	233	245
Total	$ 10,054	$ 10,877

BlackRock

PNC owned approximately 36 million common stock equivalent shares of BlackRock equity at June 30, 2013, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

Tax Credit Investments

Included in our equity investments are tax credit investments which are accounted for under the equity method. These investments, as well as equity investments held by consolidated partnerships, totaled $2.2 billion at June 30, 2013 and $3.0 billion at December 31, 2012. These equity investment balances include unfunded commitments totaling $674 million and $685 million, respectively. These unfunded commitments are included in Other Liabilities on our Consolidated Balance Sheet.

Note 3 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report has further information on Tax Credit Investments.

Private Equity

The private equity portfolio is an illiquid portfolio comprised of mezzanine and equity investments that vary by industry, stage and type of investment.

Private equity investments carried at estimated fair value totaled $1.7 billion at June 30, 2013 compared with $1.8 billion at December 31, 2012. As of June 30, 2013, $1.1 billion was invested directly in a variety of companies and $.6 billion was invested indirectly through various private equity funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The noncontrolling interests of these funds totaled $235 million as of June 30, 2013. The interests held in indirect private equity funds are not redeemable, but PNC may receive distributions over the life of the partnership from liquidation of the underlying investments. See Item 1 Business Supervision and Regulation and Item 1A Risk Factors included in our 2012 Form 10-K for discussion of potential impacts of the Volcker Rule provisions of Dodd-Frank on our holding interests in and sponsorship of private equity or hedge funds.

Our unfunded commitments related to private equity totaled $171 million at June 30, 2013 compared with $182 million at December 31, 2012.

Visa

During second quarter of 2013 we sold 2 million of Visa Class B common shares, in addition to the 9 million shares sold in the second half of 2012, and entered into swap agreements with the purchaser of the shares. See Note 9 Fair Value in this Report and in our 2012 Form 10-K and Note 13 Financial Derivatives in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information. At June 30, 2013, our investment in Visa Class B common shares totaled approximately 12 million shares and was recorded at $204 million. Based on the June 30, 2013 closing price of $182.75 for the Visa Class A common shares,

the fair value of our total investment was approximately $950 million at the current conversion rate which reflects adjustments in respect of all litigation funding by Visa to date. The Visa Class B common shares that we own are transferable only under limited circumstances (including those applicable to the sales in the second quarter of 2013 and in the second half of 2012) until they can be converted into shares of the publicly traded class of stock, which cannot happen until the settlement of all of the specified litigation. It is expected that Visa will continue to adjust the conversion rate of Visa Class B common shares to Class A common shares in connection with any settlements of the specified litigation in excess of any amounts then in escrow for that purpose and will also reduce the conversion rate to the extent that it adds any funds to the escrow in the future.

Our 2012 Form 10-K has additional information regarding the October 2007 Visa restructuring, our involvement with judgment and loss sharing agreements with Visa and certain other banks, and the status of pending interchange litigation. See Note 17 Legal Proceedings and Note 18 Commitments and Guarantees in our Notes To Consolidated Financial Statements of this Report for additional information.

Other Investments

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At June 30, 2013, other investments totaled $233 million compared with $245 million at December 31, 2012. We recognized net gains related to these investments of $25 million and $13 million during the first six months of 2013 and 2012, including net gains of $5 million during the second quarter of 2013 and $2 million loss during second quarter of 2012.

Given the nature of these investments, if market conditions affecting their valuation were to worsen, we could incur future losses.

Our unfunded commitments related to other investments were less than $1 million at June 30, 2013 and $3 million at December 31, 2012.

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 interest rate, 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 and total return swaps, interest rate caps and floors, swaptions, options, forwards and futures contracts are the primary instruments we use for interest rate risk management. We also enter into derivatives with customers to facilitate their risk management activities.

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Financial derivatives involve, to varying degrees, interest rate, market and credit risk. For interest rate swaps and total return swaps, options and futures contracts, only periodic cash payments and, with respect to options, premiums are exchanged. 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 9 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2012 Form 10-K and in Note 9 Fair Value and Note 13 Financial Derivatives in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report, which is incorporated here by reference.

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

The following table summarizes the notional or contractual amounts and net fair value of financial derivatives at June 30, 2013 and December 31, 2012.

Table 58: Financial Derivatives Summary

	June 30, 2013		December 31, 2012	
In millions	Notional/ Contractual Amount	Net Fair Value (a)	Notional/ Contractual Amount	Net Fair Value (a)
Derivatives designated as hedging instruments under GAAP				
Total derivatives designated as hedging instruments	$ 33,857	$ 1,051	$ 29,270	$ 1,720
Derivatives not designated as hedging instruments under GAAP				
Total derivatives used for residential mortgage banking activities	$ 160,604	$ 477	$ 166,819	$ 588
Total derivatives used for commercial mortgage banking activities	9,991	(16)	4,606	(23)
Total derivatives used for customer-related activities	163,935	74	163,848	30
Total derivatives used for other risk management activities	2,261	(331)	1,813	(357)
Total derivatives not designated as hedging instruments	$ 336,791			