PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
November 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

or

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

For the transition period from to

Commission file number 001-09718

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

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

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

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

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

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

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

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

Yes No

As of October 19, 2018, there were 461,424,528 shares of the registrant’s common stock ($5 par value) outstanding.

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

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

MD&A TABLE REFERENCE

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE

FINANCIAL REVIEW
THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Quarterly Report on Form 10-Q (the Report or Form 10-Q) and with Items 6, 7, 8 and 9A of our 2017 Annual Report on Form 10-K (2017 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following: the Risk Management section of this Financial Review and of Item 7 in our 2017 Form 10-K; Item 1A Risk Factors included in our 2017 Form 10-K; and the Legal Proceedings and Commitments Notes of the Notes To Consolidated Financial Statements included in Item 1 of this Report and Item 8 of our 2017 Form 10-K. Also, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and the Critical Accounting Estimates And Judgments section in this Financial Review and in our 2017 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 14 Segment Reporting in the Notes To Consolidated Financial Statements included in this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis. In this Report, “PNC”, “we” or “us” refers to The PNC Financial Services Group, Inc. and its subsidiaries on a consolidated basis (except when referring to PNC as a public company, its common stock or other securities issued by PNC, which just refer to The PNC Financial Services Group, Inc.). References to The PNC Financial Services Group, Inc. or to any of its subsidiaries are specifically made where applicable.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data Unaudited	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Financial Results (a)				
Revenue				
Net interest income	$2,466	$2,345	$7,240	$6,763
Noninterest income	1,891	1,780	5,552	5,306
Total revenue	4,357	4,125	12,792	12,069
Provision for credit losses	88	130	260	316
Noninterest expense	2,608	2,456	7,719	7,337
Income before income taxes and noncontrolling interests	$1,661	$1,539	$4,813	$4,416
Net income	$1,400	$1,126	$3,995	$3,297
Less:				
Net income attributable to noncontrolling interests	11	12	31	39
Preferred stock dividends	63	63	181	181
Preferred stock discount accretion and redemptions	1	1	3	24
Net income attributable to common shareholders	1,325	1,050	3,780	3,053
Less:				
Dividends and undistributed earnings allocated to participating securities	6	5	16	15
Impact of BlackRock earnings per share dilution	2	3	7	8
Net income attributable to diluted common shares	$1,317	$1,042	$3,757	$3,030
Diluted earnings per common share	$2.82	$2.16	$7.96	$6.21
Cash dividends declared per common share	$.95	$.75	$2.45	$1.85
Effective tax rate (b)	15.7 %	26.8 %	17.0 %	25.3 %
Performance Ratios				

Net interest margin (c)	2.99 %	2.91 %	2.95 %	2.84 %
Noninterest income to total revenue	43 %	43 %	43 %	44 %
Efficiency	60 %	60 %	60 %	61 %
Return on:				
Average common shareholders’ equity	12.32 %	9.89 %	11.83 %	9.76 %
Average assets	1.47 %	1.20 %	1.42 %	1.19 %

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

(b) The effective income tax rates are generally lower than the statutory rate due to the relationship of pretax income to tax credits and earnings that are not subject to tax. Amounts for the 2018 periods reflected the change in the statutory federal income tax rate from 35% to 21%, effective as of January 1, 2018, as a result of the new federal tax legislation.

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

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

Unaudited	September 30 2018	December 31 2017	September 30 2017
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$380,080	$380,768	$375,191
Loans	$223,053	$220,458	$221,109
Allowance for loan and lease losses	$2,584	$2,611	$2,605
Interest-earning deposits with banks (b)	$19,800	$28,595	$24,713
Investment securities	$80,804	$76,131	$74,994
Loans held for sale	$1,108	$2,655	$1,764
Equity investments (c)	$12,446	$11,392	$11,009
Mortgage servicing rights	$2,136	$1,832	$1,854
Goodwill	$9,218	$9,173	$9,163
Other assets	$28,851	$27,894	$28,454
Noninterest-bearing deposits	$74,736	$79,864	$79,967
Interest-bearing deposits	$190,148	$185,189	$180,768
Total deposits	$264,884	$265,053	$260,735
Borrowed funds	$57,955	$59,088	$57,564
Total shareholders’ equity	$47,058	$47,513	$46,388
Common shareholders’ equity	$43,076	$43,530	$42,406
Accumulated other comprehensive income (loss)	$(1,260)	$(148)	$(22)
Book value per common share	$93.22	$91.94	$89.05
Period-end common shares outstanding (in millions)	462	473	476
Loans to deposits	84%	83%	85%
Client Assets (in billions)			
Discretionary client assets under management	$159	$151	$146
Nondiscretionary client assets under administration	134	131	129
Total client assets under administration	293	282	275
Brokerage account client assets	51	49	48
Total client assets	$344	$331	$323
Capital Ratios			
Basel III (d) (e) (f)			
Common equity Tier 1	9.3%	N/A	N/A
Tier 1 risk-based	10.5%	N/A	N/A
Total risk-based capital	12.7%	N/A	N/A
Leverage	9.2%	N/A	N/A
Supplementary leverage	7.7%	N/A	N/A
Fully Phased-In Basel III (Non-GAAP) (f) (g)			
Common equity Tier 1	N/A	9.8%	9.8%
2017 Transitional Basel III (d) (f)			
Common equity Tier 1	N/A	10.4%	10.3%
Tier 1 risk-based	N/A	11.6%	11.6%
Total risk-based capital	N/A	13.7%	13.7%
Leverage	N/A	9.9%	9.9%
Common shareholders’ equity to total assets	11.3%	11.4%	11.3%
Asset Quality			
Nonperforming loans to total loans	.76%	.85%	.85%

Nonperforming assets to total loans, OREO, foreclosed and other assets	.82	%	.92	%	.93	%
Nonperforming assets to total assets	.48	%	.53	%	.55	%
Net charge-offs to average loans (for the three months ended) (annualized)	.16	%	.22	%	.19	%
Allowance for loan and lease losses to total loans	1.16	%	1.18	%	1.18	%
Allowance for loan and lease losses to total nonperforming loans	153	%	140	%	139	%
Accruing loans past due 90 days or more (in millions)	$619		$737		$678	

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

(b) Amounts include balances held with the Federal Reserve Bank of Cleveland (Federal Reserve Bank) of $19.6 billion, $28.3 billion and $24.3 billion as of September 30, 2018, December 31, 2017 and September 30, 2017, respectively.

(c) Amounts include our equity interest in BlackRock. On January 1, 2018, $.6 billion of trading and available for sale securities, primarily money market funds, were reclassified to Equity investments in accordance with the adoption of Accounting Standards Update (ASU) 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in our first quarter 2018 Quarterly Report on Form 10-Q (First Quarter 2018 Form 10-Q) for additional detail on this adoption.

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

(e) The 2018 Basel III ratios for Common equity Tier 1 capital, Tier 1 risk-based capital, Leverage and Supplementary leverage reflect the full phase-in of all Basel III adjustments to these metrics applicable to PNC. The 2018 Basel III Total risk-based capital ratio includes $80 million of nonqualifying trust preferred capital securities that are subject to a phase-out period that runs through 2021.

(f) See Basel III Capital discussion in the Capital Management portion of the Risk Management section of this Financial Review and the capital discussion in the Banking Regulation and Supervision section of Item 1 Business and Item 1A Risk Factors in our 2017 Form 10-K. See also the Transitional Basel III and Fully Phased-In Basel III Common Equity Tier 1 Capital Ratios (Non-GAAP) table in the Statistical Information (Unaudited) section in Item 1 of this Report for a reconciliation of the September 30, 2017 ratios.

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

EXECUTIVE SUMMARY

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

We have businesses engaged in retail banking, including residential mortgage, corporate and institutional banking and asset management, providing many of our products and services nationally. Our primary geographic markets are located in the Mid-Atlantic, Midwest and Southeast. We also provide certain products and services internationally.

Key Strategic Goals

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

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

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

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

Our capital priorities are to support client growth and business investment, maintain appropriate capital in light of economic conditions, the Basel III framework, and other regulatory expectations, and return excess capital to shareholders. For more detail, see the Capital Highlights portion of this Executive Summary and the Liquidity and Capital Management portion of the Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 Business of our 2017 Form 10-K.

Income Statement Highlights

Net income for the third quarter of 2018 increased 24% to $1.4 billion, or $2.82 per diluted common share, compared to $1.1 billion, or $2.16 per diluted common share, for the third quarter of 2017.

- Total revenue increased $232 million, or 6%, to $4.4 billion.
- Net interest income increased $121 million, or 5%, to $2.5 billion.
- Net interest margin increased to 2.99% compared to 2.91% for the third quarter of 2017.
- Noninterest income increased $111 million, or 6%, to $1.9 billion.
- Provision for credit losses was $88 million compared to $130 million for the third quarter of 2017.
- Noninterest expense increased $152 million, or 6%, to $2.6 billion.
- Income tax expense decreased to $261 million compared to $413 million for the third quarter of 2017, as the effective tax rate was 15.7% in the third quarter of 2018 compared with 26.8% in third quarter 2017.
- Federal tax reform legislation, the Tax Cuts and Jobs Act, lowered the statutory federal income tax rate for corporations to 21% from 35% effective January 1, 2018.

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

Balance Sheet Highlights

Our balance sheet was strong and well positioned at September 30, 2018 and December 31, 2017. In comparison to December 31, 2017:

- Total assets declined $.7 billion to $380.1 billion.
- Total loans increased $2.6 billion, or 1%, to $223.1 billion.
- Total commercial lending grew $2.0 billion, or 1%.
- Total consumer lending increased $.6 billion, or 1%.
- Investment securities increased $4.7 billion, or 6%, to $80.8 billion.
- Interest-earning deposits with banks decreased $8.8 billion, or 31%, to $19.8 billion.
- Total deposits declined $.2 billion to $264.9 billion.

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

Credit Quality Highlights

Overall credit quality remained strong.

- At September 30, 2018 compared to December 31, 2017:
- Nonperforming assets decreased $210 million, or 10%, to $1.8 billion.
- Overall loan delinquencies decreased $92 million, or 6%, to $1.4 billion.
- Net charge-offs were $91 million in the third quarter of 2018 compared to $106 million for the third quarter of 2017.

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

Capital Highlights

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

- The Basel III common equity Tier 1 capital ratio, which includes the full phase-in of all Basel III adjustments and became effective for PNC as of January 1, 2018, was 9.3% at September 30, 2018, compared with 9.8% at December 31, 2017, calculated on the same basis.
- In the third quarter of 2018, we returned $.9 billion of capital to shareholders through repurchases of 3.3 million common shares for $.5 billion and dividends on common shares of $.4 billion.

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

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

Business Outlook

Our forward-looking financial statements are based on our view that U.S. economic growth has accelerated over the past two years and will remain above its long-run trend for the remainder of 2018 and into 2019, in light of stimulus from corporate and personal income tax cuts passed in late 2017 that are expected to support business investment and consumer spending, respectively. We expect an increase in federal government spending will also support economic growth for the remainder of 2018 and into 2019. Further gradual improvement in the labor market this year and next, including job gains and rising wages, is another positive for consumer spending. Trade restrictions are a growing downside risk to the forecast. Inflation has accelerated to close to the Federal Open Market Committee's 2% objective. Short-term interest rates and bond yields are expected to rise throughout the remainder of 2018 and into 2019; after the Federal Open Market Committee raised the federal funds rate in September, our baseline forecast is for one additional rate hike in December 2018, pushing the rate to a range of 2.25% to 2.50% by the end of the year. PNC expects two 25 basis point increases in the fed funds rate in 2019 (in June and September); this would take the fed funds rate to a range of 2.75% to 3.00% by the end of next year.

For the fourth quarter of 2018 compared to the third quarter of 2018, we expect:

- Loans to be up modestly;
- Net interest income to increase by low single digits, on a percentage basis;
- Fee income to increase by low single digits, on a percentage basis. Fee income consists of asset management, consumer services, corporate services, residential mortgage and service charges on deposits;

- Provision for credit losses to be between $100 million and $150 million; and
- Noninterest expense to increase by low single digits, on a percentage basis.

We expect the quarterly run rate for other noninterest income to be in the range of $225 million to $275 million, excluding net securities gains (losses) and Visa activity.

We expect our full year 2018 effective tax rate to be approximately 17%.

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

CONSOLIDATED INCOME STATEMENT REVIEW

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

Net income for the third quarter of 2018 was $1.4 billion, or $2.82 per diluted common share, an increase of 24% compared to $1.1 billion, or $2.16 per diluted common share, for the third quarter of 2017. For the first nine months of 2018, net income was $4.0 billion, or $7.96 per diluted common share, an increase of 21% compared to $3.3 billion, or $6.21 per diluted common share, for the first nine months of 2017.

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

Net Interest Income

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

	2018			2017		
Three months ended September 30 Dollars in millions	Average Balances	Average Yields/ Rates	Interest Income/ Expense	Average Balances	Average Yields/ Rates	Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$80,766	2.92 %	$591	$74,406	2.77 %	$516
Loans	223,342	4.36 %	2,474	219,218	3.92 %	2,179
Interest-earning deposits with banks	19,151	1.97 %	95	23,859	1.26 %	75
Other	7,114	5.19 %	92	9,024	3.47 %	80
Total interest-earning assets/interest income	$330,373	3.89 %	3,252	$326,507	3.45 %	2,850
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$186,320	.71 %	336	$180,508	.37 %	170
Borrowed funds	59,838	2.76 %	421	57,016	1.93 %	280
Total interest-bearing liabilities/interest expense	$246,158	1.21 %	757	$237,524	.75 %	450
Net interest margin/income (Non-GAAP)		2.99 %	2,495		2.91 %	2,400
Taxable-equivalent adjustments			(29)			(55)
Net interest income (GAAP)			$2,466			$2,345

	2018			2017		
Nine months ended September 30 Dollars in millions	Average Balances	Average Yields/ Rates	Interest Income/ Expense	Average Balances	Average Yields/ Rates	Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$77,656	2.87 %	$1,674	$75,330	2.71 %	$1,535
Loans	222,385	4.23 %	7,091	215,974	3.81 %	6,197
Interest-earning deposits with banks	21,921	1.74 %	286	23,530	1.03 %	182
Other	7,305	4.74 %	259	9,058	3.46 %	236
Total interest-earning assets/interest income	$329,267	3.75 %	9,310	$323,892	3.34 %	8,150
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$184,716	.59 %	810	$178,810	.32 %	433
Borrowed funds	59,481	2.60 %	1,173	56,502	1.86 %	793
Total interest-bearing liabilities/interest expense	$244,197	1.08 %	1,983	$235,312	.69 %	1,226
Net interest margin/income (Non-GAAP)		2.95 %	7,327		2.84 %	6,924

Taxable-equivalent adjustments	(87)	(161)
Net interest income (GAAP)	$ 7,240	$ 6,763

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

Changes in net interest income and margin result from the interaction of the volume and composition of interest-earning assets and related yields, interest-bearing liabilities and related rates paid, and noninterest-bearing sources of funding. See the Statistical

Information (Unaudited) – Average Consolidated Balance Sheet And Net Interest Analysis section of this Report for additional information.

Net interest income increased by $121 million, or 5%, and $477 million, or 7%, for the third quarter and first nine months of 2018, respectively, compared to the same periods in 2017. The increase in both comparisons was driven by higher loan and securities balances and yields partially offset by increases in deposit and borrowing costs. Net interest margin increased in both comparisons reflecting the impact of higher interest rates.

Average investment securities increased $6.4 billion, or 9%, in the quarterly comparison and $2.3 billion, or 3%, in the year-to-date comparison. Net purchase activity of agency residential mortgage-backed and U.S. Treasury and government agencies securities was partially offset by declines in commercial mortgage-backed and other securities. These comparisons included the impact of the January 1, 2018 reclassification of $.6 billion of available for sale securities to equity investments in accordance with the adoption of ASU 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in our First Quarter 2018 Form 10-Q for additional detail on this adoption.

Average investment securities increased to 24% of average interest-earning assets for the third quarter and first nine months of 2018 compared to 23% for the respective 2017 periods.

Average loans grew $4.1 billion, or 2%, and $6.4 billion, or 3%, in the quarterly and year-to-date comparisons, respectively. Loan growth was driven by increases in average commercial lending of $3.1 billion and $5.7 billion in the respective comparisons reflecting broad-based growth in the Corporate Banking, Business Credit and Equipment Finance businesses in our Corporate & Institutional Banking segment.

Average consumer lending increased $1.0 billion and $.7 billion in the quarterly and year-to-date comparisons, respectively. Growth in residential real estate, automobile and credit card loans was partially offset by declines in home equity and education loans. Lower home equity loans reflected paydowns and payoffs exceeding new originated volume. In addition, run-off in the non-strategic consumer loan portfolios of brokered home equity and government guaranteed education loans contributed to the declines. Average loans represented 68% of average interest-earning assets for the third quarter and first nine months of 2018 compared to 67% for the same periods of 2017.

Average interest-bearing deposits grew $5.8 billion, or 3%, and $5.9 billion, or 3%, in the respective quarterly and year-to-date comparisons, reflecting overall deposit and customer growth. Additionally, the increases reflect a shift from noninterest-bearing deposits, which declined $2.8 billion to $76.2 billion and $1.5 billion to $76.7 billion in the respective comparisons, to interest-bearing deposits as deposit rates have risen.

Average savings deposits increased $9.1 billion in both comparisons due in part to a shift to relationship-based savings products from money market deposits, which decreased $6.8 billion and $6.1 billion in the quarterly and year-to-date comparisons, respectively. Additionally, average interest-bearing demand deposits grew $3.4 billion in the quarterly comparison and $3.0 billion in the year-to-date comparison. Average interest-bearing deposits remained stable at 76% of average interest-bearing liabilities in both the quarterly and year-to-date comparisons.

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

Average borrowed funds increased $2.8 billion, or 5%, and $3.0 billion, or 5%, in the quarterly and year-to-date comparisons, respectively, primarily due to higher bank notes and senior debt and Federal Home Loan Bank borrowings, partially offset by a decline in subordinated debt. See the Consolidated Balance Sheet Review portion of this Financial Review for additional detail on the level and composition of borrowed funds.

Noninterest Income

Table 3: Noninterest Income

	Three months ended September 30				Nine months ended September 30			
			Change				Change	
Dollars in millions	2018	2017	$	%	2018	2017	$	%
Noninterest income								
Asset management	$486	$421	$65	15 %	$1,397	$1,222	$175	14 %
Consumer services	377	357	20	6 %	1,115	1,049	66	6 %
Corporate services	465	404	61	15 %	1,381	1,284	97	8 %
Residential mortgage	76	104	(28)	(27)%	257	321	(64)	(20)%
Service charges on deposits	186	181	5	3 %	522	512	10	2 %
Other	301	313	(12)	(4)%	880	918	(38)	(4)%
Total noninterest income	$1,891	$1,780	$111	6 %	$5,552	$5,306	$246	5 %

Noninterest income as a percentage of total revenue was 43% for both of the third quarters in 2018 and 2017. The comparable ratios for the year-to-date periods were 43% and 44%, respectively.

Growth in asset management revenue reflected higher earnings from our equity investment in BlackRock which benefited from the lower federal statutory income tax rate as well as stronger equity markets. PNC's discretionary client assets under management increased to $159 billion at September 30, 2018 compared with $146 billion at September 30, 2017.

Increases in consumer services revenue in the quarterly and year-to-date comparisons were primarily due to growth in debit and credit card fees totaling $12 million and $42 million, respectively, reflecting continued momentum in customer activity in both transaction trends and customer growth. Brokerage fees increased in both comparisons by $10 million and $30 million, respectively, as a result of growth in brokerage assets under management.

Higher corporate services revenue in both comparisons was primarily driven by growth in merger and acquisition advisory fees of $35 million and $50 million and treasury management fees of $20 million and $54 million, in the respective comparisons. Additionally, the year-to-date comparison included a $12 million increase in operating lease income related to the commercial and vendor finance business acquired in the second quarter of 2017 and a $15 million lower benefit from commercial mortgage servicing rights valuation, net of economic hedge.

Residential mortgage revenue decreased due to loan sales revenue declines of $18 million and $46 million in the quarterly and year-to-date comparisons, as well as lower servicing revenue and a lower benefit from mortgage servicing rights valuation, net of economic hedge. The declines in loan sales revenue reflected lower gain on sales margins as a result of increased competition in the marketplace and a shift in mix away from refinancing to purchases.

The decline in other noninterest income in the year-to-date comparison was largely attributable to a $35 million decline in revenue from equity investments, which included the impact of first quarter 2017 positive valuation adjustments related to the Volcker Rule provisions of the Dodd-Frank Act, and net securities losses in the 2018 period compared with gains in the 2017 period, partially offset by a net $25 million benefit in the comparison from derivative fair value adjustments related to Visa Class B common shares.

In the first quarter of 2018, and in connection with the commercial and vendor finance business we acquired in the second quarter of 2017, we reclassified operating lease income to corporate services noninterest income from other noninterest income on the Consolidated Income Statement, including operating lease income of $34 million and $86 million for the three and nine months ended September 30, 2017, respectively. Operating lease income was $32 million and $98 million for the three and nine months ended September 30, 2018, respectively.

Provision For Credit Losses
The provision for credit losses decreased $42 million to $88 million in the third quarter of 2018 compared to the third quarter of 2017 and decreased $56 million to $260 million for the first nine months of 2018 compared to the same period in 2017 reflecting a lower provision for commercial loans, partially offset by a higher provision for consumer loans.

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

Noninterest Expense

Table 4: Noninterest Expense

	Three months ended September 30				Nine months ended September 30			
			Change				Change	
Dollars in millions	2018	2017	$	%	2018	2017	$	%
Noninterest expense								
Personnel	$1,413	$1,286	$127	10 %	$4,123	$3,819	$304	8 %
Occupancy	195	204	(9)	(4)%	616	628	(12)	(2)%
Equipment	264	259	5	2 %	818	791	27	3 %
Marketing	71	62	9	15 %	201	184	17	9 %
Other	665	645	20	3 %	1,961	1,915	46	2 %
Total noninterest expense	$2,608	$2,456	$152	6 %	$7,719	$7,337	$382	5 %

Noninterest expense increased in both comparisons attributable to our ongoing business investments, including technology and staffing. The increases in personnel expense included higher variable compensation related to revenue growth, our announced increase in the minimum hourly pay rate for eligible employees and enhanced employee benefits. Marketing expense was higher in support of business growth. In addition, the year-to-date comparison reflects operating expense related to the second quarter 2017 acquisition of a commercial and vendor finance business.

PNC continued to focus on disciplined expense management. As of September 30, 2018, we were on track to achieve our full-year 2018 goal of $250 million in cost savings through our continuous improvement program, which we expect will continue to help fund a portion of our strategic investments.

Effective Income Tax Rate

The effective income tax rate was 15.7% in the third quarter of 2018 compared to 26.8% in the third quarter of 2017 and 17.0% in the first nine months of 2018 compared to 25.3% in the same period of 2017. Both comparisons reflected the change in the statutory federal income tax rate from 35% to 21%, effective as of January 1, 2018, as a result of the new federal tax legislation.

CONSOLIDATED BALANCE SHEET REVIEW

Table 5: Summarized Balance Sheet Data

	September 30	December 31	Change	
Dollars in millions	2018	2017	$	%
Assets				
Interest-earning deposits with banks	$19,800	$28,595	$(8,795)	(31)%
Loans held for sale	1,108	2,655	(1,547)	(58)%
Investment securities	80,804	76,131	4,673	6 %
Loans	223,053	220,458	2,595	1 %
Allowance for loan and lease losses	(2,584)	(2,611)	27	1 %
Mortgage servicing rights	2,136	1,832	304	17 %
Goodwill	9,218	9,173	45	—
Other, net	46,545	44,535	2,010	5 %
Total assets	$380,080	$380,768	$(688)	—
Liabilities				
Deposits	$264,884	$265,053	$(169)	—
Borrowed funds	57,955	59,088	(1,133)	(2)%

Other	10,139	9,042	1,097	12 %
Total liabilities	332,978	333,183	(205)	—
Equity				
Total shareholders’ equity	47,058	47,513	(455)	(1)%
Noncontrolling interests	44	72	(28)	(39)%
Total equity	47,102	47,585	(483)	(1)%
Total liabilities and equity	$380,080	$380,768	$(688)	—

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

Our balance sheet was strong and well positioned at both September 30, 2018 and December 31, 2017.

- Total assets were relatively stable as higher investment securities and loan growth were funded by lower interest-earning deposits with banks;
- Total liabilities were stable, as lower borrowed funds were mostly offset by an increase in other liabilities;
- Total equity decreased slightly as higher retained earnings driven by net income was more than offset by share repurchases and lower accumulated other comprehensive income (AOCI) related to net unrealized securities losses.

The following discussion provides additional information about the major components of our balance sheet. Information regarding our capital and regulatory compliance is included in the Liquidity and Capital Management portion of the Risk Management section in this Financial Review and in Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements included in our 2017 Form 10-K.

Loans

Table 6: Loans

Dollars in millions	September 30 2018	December 31 2017	Change $	Change %
Commercial lending				
Commercial	$113,671	$110,527	$3,144	3 %
Commercial real estate	28,563	28,978	(415)	(1)%
Equipment lease financing	7,214	7,934	(720)	(9)%
Total commercial lending	149,448	147,439	2,009	1 %
Consumer lending				
Home equity	26,628	28,364	(1,736)	(6)%
Residential real estate	18,203	17,212	991	6 %
Credit card	5,979	5,699	280	5 %
Other consumer				
Automobile	14,309	12,880	1,429	11 %
Education	3,954	4,454	(500)	(11)%
Other	4,532	4,410	122	3 %
Total consumer lending	73,605	73,019	586	1 %
Total loans	$223,053	$220,458	$2,595	1 %

Commercial loans increased primarily driven by growth from our Business Credit and Corporate Banking businesses within our Corporate & Institutional Banking segment. In Business Credit, higher utilization and new production resulted in an increase in commercial loans of $1.4 billion, or 8%. In Corporate Banking, commercial loans increased $.7 billion, or 1%, largely due to strong growth in asset-backed finance securitizations, partially offset by lower public finance lending. In the third quarter of 2018, commercial loan growth was moderated by payoffs and paydowns and lower line of credit utilization.

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

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

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

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

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

See the Credit Risk Management portion of the Risk Management section of this Financial Review, Note 3 Asset Quality and Note 4 Allowance for Loan and Lease Losses in our Notes To Consolidated Financial Statements included in this Report, and Note 1 Accounting Policies in our 2017 Form 10-K for additional information regarding our loan portfolio.

Investment Securities

Table 7: Investment Securities

	September 30, 2018		December 31, 2017		Ratings (a) as of September 30, 2018				
Dollars in millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value	AAA/ AA	A	BBB	BB and Lower	No Rating
U.S. Treasury and government agencies	$17,808	$17,586	$15,173	$15,286	100 %				
Agency residential mortgage-backed	44,656	43,297	40,037	39,847	100 %				
Non-agency residential mortgage-backed	2,189	2,507	2,610	2,932	12 %		3 %	65 %	20 %
Agency commercial mortgage-backed	2,214	2,128	2,367	2,315	100 %				
Non-agency commercial mortgage-backed (b)	3,063	3,040	3,141	3,161	86 %	6 %			8 %
Asset-backed (c)	5,732	5,779	5,531	5,598	86 %	3 %	4 %	7 %	
Other debt (d)	5,838	5,895	6,279	6,459	74 %	16 %	7 %		3 %
Other (e)			587	585					
Total investment securities (f)	$81,500	$80,232	$75,725	$76,183	94 %	2 %	1 %	2 %	1 %

(a) Ratings percentages allocated based on amortized cost.

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

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

(d) Includes state and municipal securities.

(e) On January 1, 2018, $.6 billion of available for sale securities, primarily money market funds, were reclassified to equity investments in accordance with the adoption of ASU 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in our First Quarter 2018 Form 10-Q for additional detail on this adoption.

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

Investment securities increased $4.7 billion to $80.8 billion at September 30, 2018 compared to December 31, 2017, driven by net purchase activity of agency residential mortgage-backed securities of $4.0 billion and U.S. Treasury and government agencies securities of $2.3 billion. These increases were partially offset by the reclassification of $.6 billion of available for sale securities, primarily money market funds, to equity investments as part of the adoption of ASU 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in our First Quarter 2018 Form 10-Q for additional detail on the adoption of this ASU.

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

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

At least quarterly, we conduct a comprehensive security-level impairment assessment on all securities. If economic conditions, including home prices, were to deteriorate from current levels, and if market volatility and liquidity were to deteriorate from current levels, or if market interest rates were to increase or credit spreads were to widen appreciably, the valuation of our investment securities portfolio would likely be adversely affected and we could incur additional other than temporary impairment (OTTI) credit losses that would impact our Consolidated Income Statement.

The duration of investment securities was 3.6 years at September 30, 2018. We estimate that at September 30, 2018 the effective duration of investment securities was 3.7 years for an immediate 50 basis points parallel increase in interest rates and 3.5 years for an immediate 50 basis points parallel decrease in interest rates.

Based on expected prepayment speeds, the weighted-average expected maturity of the investment securities portfolio (excluding other) was 5.6 years at September 30, 2018 compared to 5.2 years at December 31, 2017.

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

September 30, 2018	Years
Agency residential mortgage-backed	6.8
Non-agency residential mortgage-backed	6.5
Agency commercial mortgage-backed	3.7
Non-agency commercial mortgage-backed	2.7
Asset-backed	2.3

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

Funding Sources

Table 9: Details of Funding Sources

	September 30	December 31	Change	
Dollars in millions	2018	2017	$	%
Deposits				
Noninterest-bearing	$74,736	$79,864	$(5,128)	(6)%
Interest-bearing				
Money market	55,662	59,735	(4,073)	(7)%
Demand	62,354	61,213	1,141	2 %
Savings	53,678	46,980	6,698	14 %
Time deposits	18,454	17,261	1,193	7 %
Total interest-bearing deposits	190,148	185,189	4,959	3 %
Total deposits	264,884	265,053	(169)	—
Borrowed funds				
Federal Home Loan Bank (FHLB) borrowings	20,036	21,037	(1,001)	(5)%
Bank notes and senior debt	26,676	28,062	(1,386)	(5)%
Subordinated debt	5,764	5,200	564	11 %
Other	5,479	4,789	690	14 %
Total borrowed funds	57,955	59,088	(1,133)	(2)%
Total funding sources	$322,839	$324,141	$(1,302)	—

Total deposits declined slightly in the comparison as growth in interest-bearing deposits was more than offset by a decrease in noninterest-bearing deposits. Noninterest-bearing deposits decreased mainly due to the impact of rising interest rates, reflecting a shift of primarily commercial noninterest-bearing deposits to interest-bearing. The increase in interest-bearing deposits also was driven by growth in savings deposits reflecting, in part, a shift from consumer money market to relationship-based savings products.

Borrowed funds decreased in the comparison as declines in bank notes and senior debt and FHLB borrowings were partially offset by increases in repurchase agreements and subordinated debt. The level and composition of borrowed funds fluctuates over time based on many factors including market conditions, loan, investment securities and deposit growth, and capital considerations. We manage our borrowed funds to provide a reliable source of liquidity for our banking and other activities, considering our LCR and other internal and external guidelines and constraints.

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

Shareholders' Equity

Total shareholders’ equity was $47.1 billion at September 30, 2018, a decrease of $.5 billion compared to December 31, 2017. The decrease resulted from common share repurchases of $2.0 billion, common and preferred dividends of $1.3 billion and lower AOCI related to net unrealized securities losses of $1.1 billion, partially offset by net income of $4.0 billion.

Common shares outstanding were 462 million and 473 million at September 30, 2018 and December 31, 2017, respectively, as repurchases of 13.8 million shares during the period were partially offset by stock-based compensation activity and share issuances from treasury stock related to warrants exercised.

BUSINESS SEGMENTS REVIEW

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

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

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

Retail Banking
(Unaudited)

Table 10: Retail Banking Table

Nine months ended September 30			Change	
Dollars in millions, except as noted	2018	2017	$	%
Income Statement				
Net interest income	$3,800	$3,436	$364	11 %
Noninterest income	1,935	1,891	44	2 %
Total revenue	5,735	5,327	408	8 %
Provision for credit losses	254	198	56	28 %
Noninterest expense	4,287	4,060	227	6 %
Pretax earnings	1,194	1,069	125	12 %
Income taxes	285	394	(109)	(28)%
Earnings	$909	$675	$234	35 %
Average Balance Sheet				
Loans held for sale	$662	$791	$(129)	(16)%
Loans				
Consumer				
Home equity	$24,188	$25,394	$(1,206)	(5)%
Automobile	13,643	12,285	1,358	11 %
Education	4,208	4,921	(713)	(14)%
Credit cards	5,746	5,180	566	11 %
Other	1,794	1,767	27	2 %
Total consumer	49,579	49,547	32	—
Commercial and commercial real estate	10,397	10,852	(455)	(4)%
Residential mortgage	13,767	11,999	1,768	15 %
Total loans	$73,743	$72,398	$1,345	2 %
Total assets	$89,259	$88,589	$670	1 %
Deposits				
Noninterest-bearing demand	$30,555	$29,600	$955	3 %
Interest-bearing demand	42,172	40,959	1,213	3 %

Money market	30,656	37,492	(6,836)	(18)%
Savings	46,091	37,881	8,210	22 %
Certificates of deposit	11,957	13,331	(1,374)	(10)%
Total deposits	$161,431	$159,263	$2,168	1 %
Performance Ratios				
Return on average assets	1.36 %	1.02 %		
Noninterest income to total revenue	34 %	35 %		
Efficiency	75 %	76 %		

Nine months ended September 30			Change	
Dollars in millions, except as noted	2018	2017	$	%
Supplemental Noninterest Income Information				
Consumer services	$837	$800	$37	5 %
Brokerage	$260	$231	$29	13 %
Residential mortgage	$257	$321	$(64)	(20)%
Service charges on deposits	$503	$491	$12	2 %
Residential Mortgage Information				
Residential mortgage servicing statistics (in billions, except as noted) (a)				
Serviced portfolio balance (b)	$127	$129	$(2)	(2)%
Serviced portfolio acquisitions	$10	$18	$(8)	(44)%
MSR asset value (b)	$1.4	$1.2	$.2	17 %
MSR capitalization value (in basis points) (b)	108	95	13	14 %
Servicing income: (in millions)				
Servicing fees, net (c)	$132	$142	$(10)	(7)%
Mortgage servicing rights valuation, net of economic hedge	$22	$30	$(8)	(27)%
Residential mortgage loan statistics				
Loan origination volume (in billions)	$5.8	$6.6	$(.8)	(12)%
Loan sale margin percentage	2.39 %	2.83 %		
Percentage of originations represented by:				
Purchase volume (d)	67 %	54 %		
Refinance volume	33 %	46 %		
Other Information (b)				
Customer-related statistics (average)				
Non-teller deposit transactions (e)	54 %	53 %		
Digital consumer customers (f)	65 %	61 %		
Credit-related statistics				
Nonperforming assets (g)	$1,145	$1,126	$19	2 %
Net charge-offs	$308	$272	$36	13 %
Other statistics				
ATMs	9,093	8,987	106	1 %
Branches (h)	2,388	2,474	(86)	(3)%
Brokerage account client assets (in billions) (i)	$51	$48	$3	6 %

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

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

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

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

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

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

(g) Includes nonperforming loans of $1.1 billion at both September 30, 2018 and September 30, 2017.

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

(i) Includes cash and money market balances.

Retail Banking earned $909 million in the first nine months of 2018 compared with $675 million for the same period in 2017. The increase in earnings was driven by higher net interest income and noninterest income, partially offset by increases in noninterest expense and provision for credit losses. Earnings in 2018 also benefited from the lower statutory federal income tax rate.

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

The increase in noninterest income was driven by growth in consumer service fees, including higher debit and credit card fees, as well as higher brokerage fees and service charges on deposits. In addition, the increase reflected a net $25 million benefit in the comparison from derivative fair value adjustments related to Visa Class B common shares. These increases were partially offset by lower residential mortgage noninterest income, reflecting a decline in loan sales revenue, as well as lower servicing revenue and a lower benefit from mortgage servicing rights valuation, net of economic hedge. The decline in loan sales revenue reflected lower gain on sales margins, as a result of increased competition in the marketplace and a shift in mix away from refinancing to purchases.

Provision for credit losses increased in the comparison primarily due to credit card loan portfolio growth.

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

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

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

Retail Banking average total loans increased in the first nine months of 2018 compared with the same period in 2017.

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

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

- Approximately 65% of consumer customers used non-teller channels for the majority of their transactions in the first nine months of 2018 compared with 61% in the first nine months of 2017.
- Deposit transactions via ATM and mobile channels increased to 54% of total deposit transactions versus 53% in the comparison.
- Instant debit card issuance, which enables us to print a customer’s debit card in minutes, was available in 92% of our branch network as of September 30, 2018.

Retail Banking continued to make progress on its multi-year initiative to redesign the home lending process by integrating mortgage and home equity lending into a common platform to enhance product capability and improve speed of delivery and convenience. We implemented a new mortgage origination system in 2017 and converted home equity loans to the new servicing platform in the first quarter of 2018. Both residential mortgage and home equity loans are now serviced on a single platform.

In the third quarter of 2018, Retail Banking launched its national retail digital strategy in select markets where it does not have existing branches, leading with a high yield savings offer to be supported by an ultra-thin retail network. With an initial focus on certain markets where PNC's Corporate & Institutional Banking has expanded its middle market banking business, PNC opened a retail location in Kansas City in October 2018.

Corporate & Institutional Banking
(Unaudited)

Table 11: Corporate & Institutional Banking Table

Nine months ended September 30			Change	
Dollars in millions	2018	2017	$	%
Income Statement				
Net interest income	$2,707	$2,653	$54	2 %
Noninterest income	1,774	1,667	107	6 %
Total revenue	4,481	4,320	161	4 %
Provision for credit losses	43	174	(131)	(75)%
Noninterest expense	1,934	1,785	149	8 %
Pretax earnings	2,504	2,361	143	6 %
Income taxes	580	834	(254)	(30)%
Earnings	$1,924	$1,527	$397	26 %
Average Balance Sheet				
Loans held for sale	$763	$916	$(153)	(17)%
Loans				
Commercial	$102,342	$95,660	$6,682	7 %
Commercial real estate	26,699	27,410	(711)	(3)%
Equipment lease financing	7,512	7,602	(90)	(1)%
Total commercial lending	136,553	130,672	5,881	5 %
Consumer	49	276	(227)	(82)%
Total loans	$136,602	$130,948	$5,654	4 %
Total assets	$153,149	$147,299	$5,850	4 %
Deposits				
Noninterest-bearing demand	$44,577	$46,976	$(2,399)	(5)%
Money market	23,511	21,949	1,562	7 %
Other	19,182	16,100	3,082	19 %
Total deposits	$87,270	$85,025	$2,245	3 %
Performance Ratios				
Return on average assets	1.68 %	1.39 %		
Noninterest income to total revenue	40 %	39 %		
Efficiency	43 %	41 %		
Other Information				
Consolidated revenue from: (a)				
Treasury Management (b)	$1,318	$1,115	$203	18 %
Capital Markets (b)	$816	$746	$70	9 %
Commercial mortgage banking activities				
Commercial mortgage loans held for sale (c)	$78	$73	$5	7 %
Commercial mortgage loan servicing income (d)	179	169	10	6 %
Commercial mortgage servicing rights valuation, net of economic hedge (e)	26	41	(15)	(37)%
Total	$283	$283	$—	—
MSR asset value (f)	$766	$628	$138	22 %
Average Loans by C&IB business				
Corporate Banking	$58,322	$55,242	$3,080	6 %
Real Estate	37,379	37,995	(616)	(2)%
Business Credit	17,234	15,531	1,703	11 %
Equipment Finance	14,414	13,239	1,175	9 %

Commercial Banking	7,032	7,052	(20)	—
Other	2,221	1,889	332	18 %
Total average loans	$136,602	$130,948	$5,654	4 %
Credit-related statistics				
Nonperforming assets (f) (g)	$355	$549	$(194)	(35)%
Net charge-offs	$8	$64	$(56)	(88)%

(continued on following page)

(continued from previous page)

(a) Represents consolidated amounts. See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of this Corporate & Institutional Banking section.
(b) Includes amounts reported in net interest income and noninterest income.
(c) Includes other noninterest income for valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, originations fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(d) Includes net interest income and noninterest income (primarily in corporate service fees) from loan servicing net of reduction in commercial mortgage servicing rights due to amortization expense and payoffs. Commercial mortgage servicing rights valuation, net of economic hedge is shown separately.
(e) Amounts are reported in corporate service fees.
(f) As of September 30.
(g) Includes nonperforming loans of $.3 billion at September 30, 2018 and $.4 billion at September 30, 2017.

Corporate & Institutional Banking earned $1.9 billion in the first nine months of 2018 compared to $1.5 billion for the same period in 2017. The increase was primarily due to the impact of the lower statutory federal income tax rate, higher revenue and a decrease in the provision for credit losses, partially offset by higher noninterest expense. We continue to focus on building client relationships where the risk-return profile is attractive.

Net interest income increased in the comparison, reflecting higher average loan and deposit balances, as well as wider interest rate spreads on the value of deposits, partially offset by narrower interest rate spreads on the value of loans.

Growth in noninterest income in the comparison was primarily driven by higher capital markets-related revenue, including higher merger and acquisition advisory fees and revenue from customer-related derivative and foreign exchange services, as well as higher treasury management fees, partially offset by a lower benefit from commercial mortgage servicing rights valuation, net of economic hedge. In addition, operating lease income increased, mainly due to the commercial and vendor finance business acquired in the second quarter of 2017.

Overall, credit quality remained strong, as nonperforming assets and net charge-offs declined in the comparison. The decrease in provision for credit losses in the comparison reflected improved credit quality. Additionally, the prior year period included an initial provision for the loan and lease portfolio obtained through the business acquired in the second quarter of 2017.

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

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

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

PNC Equipment Finance provides equipment financing solutions for clients throughout the U.S. and Canada. Average loans, including commercial loans and finance leases, and operating leases were $15.4 billion in the first nine months of 2018, an increase of $1.3 billion in the year over year comparison due to strong new production and the impact of the acquired business.

- Commercial Banking provides lending, treasury management and capital markets-related products and services to smaller corporations and businesses. Average loans for this business were relatively unchanged.

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

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

Product Revenue

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

Treasury management revenue comprises fees from products and services and net interest income from customer deposit balances. Compared with the first nine months of 2017, treasury management revenue increased due to liquidity-related revenue associated with customer deposit balances, including interest rate spread expansion, and higher fee income.

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

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income) and revenue derived from commercial mortgage loans held for sale and related hedges. Total revenue from commercial mortgage banking activities was stable in the comparison as higher revenue from commercial mortgage loan servicing and commercial mortgage loans held for sale was offset by a lower benefit from commercial mortgage servicing rights valuation, net of economic hedge.

Asset Management Group
(Unaudited)

Table 12: Asset Management Group Table

Nine months ended September 30			Change	
Dollars in millions, except as noted	2018	2017	$	%
Income Statement				
Net interest income	$217	$216	$1	—
Noninterest income	676	655	21	3 %
Total revenue	893	871	22	3 %
Provision for credit losses (benefit)	2	(6)	8	*
Noninterest expense	658	646	12	2 %
Pretax earnings	233	231	2	1 %
Income taxes	55	85	(30)	(35)%
Earnings	$178	$146	$32	22 %
Average Balance Sheet				
Loans				
Consumer	$4,702	$5,059	$(357)	(7)%
Commercial and commercial real estate	734	705	29	4 %
Residential mortgage	1,561	1,257	304	24 %
Total loans	$6,997	$7,021	$(24)	—
Total assets	$7,455	$7,499	$(44)	(1)%
Deposits				
Noninterest-bearing demand	$1,455	$1,501	$(46)	(3)%
Interest-bearing demand	3,413	3,666	(253)	(7)%
Money market	2,339	3,257	(918)	(28)%
Savings	4,754	3,834	920	24 %
Other	408	237	171	72 %
Total deposits	$12,369	$12,495	$(126)	(1)%
Performance Ratios				
Return on average assets	3.19 %	2.60 %		
Noninterest income to total revenue	76 %	75 %		
Efficiency	74 %	74 %		
Supplemental Noninterest Income Information				
Asset management fees	$669	$644	$25	4 %
Other Information				
Nonperforming assets (a) (b)	$51	$45	$6	13 %
Net charge-offs	$8	$5	$3	60 %
Client Assets Under Administration (in billions) (a) (c)				
Discretionary client assets under management	$159	$146	$13	9 %
Nondiscretionary client assets under administration	134	129	5	4 %
Total	$293	$275	$18	7 %
Discretionary client assets under management				
Personal	$97	$90	$7	8 %
Institutional	62	56	6	11 %
Total	$159	$146	$13	9 %

* - Not meaningful
(a) As of September 30.
(b) Includes nonperforming loans of $48 million at September 30, 2018 and $41 million at September 30, 2017.

(c) Excludes brokerage account client assets.

Asset Management Group earned $178 million in the first nine months of 2018 compared to $146 million for the same period in 2017. Higher earnings reflected the lower statutory federal income tax rate and higher revenue, partially offset by an increase in noninterest expense and the impact of a benefit from the provision for credit losses in the prior year period.

Higher revenue in the comparison was driven by growth in asset management fees, reflecting stronger average equity markets.

Noninterest expense increased in the comparison and was primarily attributable to higher legal reserves, continued investments in technology and higher compensation.

Asset Management Group's discretionary client assets under management increased in the comparison to the prior year, primarily attributable to higher equity markets as of September 30, 2018.

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

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

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

BlackRock

(Unaudited)

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

Table 13: BlackRock Table

Nine months ended September 30		
Dollars in millions	2018	2017
Business segment earnings (a)	$608	$446
PNC's economic interest in BlackRock (b)	22 %	22 %

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

In billions	September 30 2018	December 31 2017
Carrying value of our investment in BlackRock (c)	$ 8.0	$ 7.7
Market value of our investment in BlackRock (d)	$ 16.4	$ 17.9

(c) We account for our investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $1.7 billion at September 30, 2018 and $1.6 billion at December 31, 2017. Our voting interest in BlackRock common stock was approximately 21% at September 30, 2018.
(d) Does not include liquidity discount.

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

In addition to our investment in BlackRock reflected in Table 13, at September 30, 2018, we held 143,458 shares of BlackRock Series C Preferred Stock valued at $54 million, which are available to fund our obligation in connection with certain BlackRock long-term incentive plan (LTIP) programs.

Our 2017 Form 10-K and our First Quarter 2018 Form 10-Q included additional information about our investment in BlackRock.

RISK MANAGEMENT

The Risk Management section included in Item 7 of our 2017 Form 10-K describes our enterprise risk management framework including risk culture, enterprise strategy, risk governance and framework, risk identification, risk assessment, risk controls and monitoring, and risk aggregation and reporting. Additionally, our 2017 Form 10-K provides an analysis of our key areas of risk, which include but are not limited to credit, liquidity and capital, market, operational and compliance. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the Risk Management section.

The following information updates our 2017 Form 10-K risk management disclosures.

Credit Risk Management

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

Loan Portfolio Characteristics and Analysis

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

Commercial
Commercial loans comprised 51% and 50% of our total loan portfolio at September 30, 2018 and December 31, 2017, respectively. Most of our commercial loans are secured by collateral that provides a secondary source of repayment for the loan should the borrower experience cash generation difficulties. Examples of this collateral include short-term assets, such as accounts receivable, inventory and securities, and long-lived assets, such as equipment, real estate and other business assets.

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

Table 15: Commercial Loans by Industry

	September 30, 2018		December 31, 2017	
Dollars in millions	Amount	% of Total	Amount	% of Total
Commercial				
Manufacturing	$21,272	19 %	$20,578	19 %
Retail/wholesale trade	19,689	17	17,846	16
Service providers	14,386	13	15,100	14
Real estate related (a)	12,539	11	12,496	11
Health care	9,217	8	9,739	9
Financial services	9,441	8	8,532	8
Transportation and warehousing	5,715	5	5,609	5
Other industries	21,412	19	20,627	18
Total commercial loans	$113,671	100%	$110,527	100%

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

Commercial Real Estate

Commercial real estate loans comprised $14.5 billion of real estate project loans and $14.1 billion related to commercial mortgages as of September 30, 2018. Comparable amounts were $15.3 billion and $13.7 billion, respectively, as of December 31, 2017. Commercial real estate loan growth remains challenged as market pricing and structure is, at times, outside of our risk tolerance, and payoffs and maturities continue at a steady pace.

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

Table 16: Commercial Real Estate Loans by Geography

	September 30, 2018		December 31, 2017	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography				
California	$4,237	15 %	$4,192	14 %
Florida	2,262	8	2,221	8
Maryland	2,069	7	2,104	7
Virginia	1,687	6	1,609	5
Texas	1,634	6	1,639	6
Illinois	1,269	4	1,325	5
Pennsylvania	1,221	4	1,394	5
New York	1,136	4	1,163	4
Ohio	1,021	4	1,134	4
North Carolina	955	3	943	3
New Jersey	915	3	964	3
All other states	10,157	36	10,290	36
Total commercial real estate loans	$28,563	100%	$28,978	100%

Home Equity

Home equity loans comprised $15.8 billion of primarily variable-rate home equity lines of credit and $10.8 billion of closed-end home equity installment loans at September 30, 2018. Comparable amounts were $16.8 billion and $11.6 billion, respectively, as of December 31, 2017.

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

The portfolio is primarily originated within our primary geographic markets, with only 5% of the portfolio in states outside of those markets at both September 30, 2018 and December 31, 2017. The credit quality of newly originated loans over the last twelve months was strong overall as evidenced by a weighted-average LTV on originations of 67%

and a weighted-average FICO score of 774.

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

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

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

	September 30, 2018		December 31, 2017	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography				
Pennsylvania	$6,303	24 %	$6,792	24 %
New Jersey	4,017	15	4,252	15
Ohio	3,161	12	3,413	12
Illinois	1,678	6	1,801	6
Maryland	1,498	6	1,572	6
Michigan	1,372	5	1,442	5
Florida	1,223	5	1,255	4
North Carolina	1,184	4	1,266	5
Kentucky	1,063	4	1,138	4
Indiana	860	3	924	3
All other states	4,269	16	4,509	16
Total home equity loans	$26,628	100%	$28,364	100%
Lien type				
1st lien		58 %		58 %
2nd lien		42		42
Total		100%		100%

Residential Real Estate

Residential real estate loans primarily consisted of residential mortgage loans at both September 30, 2018 and December 31, 2017.

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

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

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

Table 18: Residential Real Estate Loans by Geography

	September 30, 2018		December 31, 2017	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography				
California	$4,393	24 %	$3,676	21 %

New Jersey	1,607	9	1,503	9
Florida	1,534	8	1,529	9
Illinois	1,167	6	1,230	7
Pennsylvania	1,011	5	962	5
New York	923	5	847	5
Maryland	901	5	902	5
North Carolina	841	5	821	5
Virginia	824	5	824	5
Ohio	676	4	684	4
All other states	4,326	24	4,234	25
Total residential real estate loans	$18,203	100%	$17,212	100%

We originate residential mortgage loans nationwide through our national mortgage business as well as within our branch network. Residential mortgage loans underwritten to government agency standards, including conforming loan amount limits, are typically sold with servicing retained by us. We also originate nonconforming residential mortgage loans that do not meet government agency standards, which we retain on our balance sheet. Growth in residential mortgage loans in the first nine months of 2018 was primarily due to nonconforming loans that exceeded agency conforming loan limits. The nonconforming residential mortgage portfolio had strong credit quality at September 30, 2018 with an average original LTV of 70% and an average original FICO score of 772. Our portfolio of nonconforming residential mortgage loans totaled $12.2 billion at September 30, 2018, with 29% located in California.

Automobile

Within auto loans, $12.8 billion resided in the indirect auto portfolio while $1.5 billion were in the direct auto portfolio as of September 30, 2018. Comparable amounts as of December 31, 2017 were $11.4 billion and $1.4 billion, respectively, and also included $.1 billion of securitized loans. The indirect auto portfolio relates to loan applications generated from franchised automobile dealers. This business is strategically aligned with our core retail business.

We continue to focus on borrowers with strong credit profiles as evidenced by a weighted-average loan origination FICO score over the last twelve months of 739 for indirect auto loans and 762 for direct auto loans. The weighted-average term of loan originations over the last twelve months was 74 months for indirect auto loans and 62 months for direct auto loans. We offer both new and used automobile financing to customers through our various channels. At September 30, 2018, the portfolio was composed of 53% new vehicle loans and 47% used vehicle loans. Comparable amounts at December 31, 2017 were 54% and 46%, respectively.

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

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets

Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming troubled debt restructurings (TDRs), other real estate owned (OREO), foreclosed and other assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonperforming loans and nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in our 2017 Form 10-K. A summary of the major categories of nonperforming assets are presented in Table 19. See Note 3 Asset Quality in the Notes To Consolidated Financial Statements in this Report for further detail of nonperforming asset categories.

Table 19: Nonperforming Assets by Type

Dollars in millions	September 30, 2018	December 31, 2017	Change $	Change %
Nonperforming loans				
Commercial lending	$ 393	$ 554	$ (161)	(29)%
Consumer lending (a)	1,301	1,311	(10)	(1)%

Total nonperforming loans	1,694	1,865	(171)	(9)%
OREO, foreclosed and other assets	131	170	(39)	(23)%
Total nonperforming assets	$ 1,825	$ 2,035	$ (210)	(10)%
Amount of TDRs included in nonperforming loans	$ 878	$ 964	$ (86)	(9)%
Percentage of total nonperforming loans	52 %	52 %		
Nonperforming loans to total loans	.76 %	.85 %		
Nonperforming assets to total loans, OREO, foreclosed and other assets	.82 %	.92 %		
Nonperforming assets to total assets	.48 %	.53 %		
Allowance for loan and lease losses to total nonperforming loans	153 %	140 %		

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

Table 20: Change in Nonperforming Assets

In millions	2018	2017
January 1	$2,035	$2,374
New nonperforming assets	785	1,069
Charge-offs and valuation adjustments	(408)	(444)
Principal activity, including paydowns and payoffs	(379)	(551)
Asset sales and transfers to loans held for sale	(101)	(138)
Returned to performing status	(107)	(243)
September 30	$1,825	$2,067

As of September 30, 2018, approximately 89% of total nonperforming loans were secured by collateral which lessened reserve requirements and is expected to reduce credit losses in the event of default. As of September 30, 2018, commercial lending nonperforming loans were carried at approximately 66% of their unpaid principal balance, due to charge-offs recorded to date, before consideration of the Allowance for loan and lease losses (ALLL).

Within consumer nonperforming loans, residential real estate TDRs comprised 77% and 75% of total residential real estate nonperforming loans at September 30, 2018 and December 31, 2017, respectively. Home equity TDRs comprised 48% of home equity nonperforming loans at September 30, 2018, down from 50% at December 31, 2017. TDRs generally remain in nonperforming status until a borrower has made at least six consecutive months of both principal and interest payments under the modified terms or ultimate resolution occurs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to us and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status.

At September 30, 2018, our largest nonperforming asset was $37 million in the Information industry and the ten largest individual nonperforming assets represented 10% of total nonperforming assets.

Loan Delinquencies

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

Table 21: Accruing Loans Past Due (a)

	Amount				Percentage of Total Loans Outstanding	
	September 30	December 31	Change		September 30	December 31
Dollars in millions	2018	2017	$	%	2018	2017
Early stage loan delinquencies						
Accruing loans past due 30 to 59 days	$551	$ 545	$6	1 %	.25 %	.25 %
Accruing loans past due 60 to 89 days	258	238	20	8 %	.12 %	.11 %
Total	809	783	26	3 %	.36 %	.36 %
Late stage loan delinquencies						
Accruing loans past due 90 days or more	619	737	(118)	(16)%	.28 %	.33 %
Total	$1,428	$ 1,520	$(92)	(6)%	.64 %	.69 %

(a) Past due loan amounts include government insured or guaranteed loans of $.7 billion at September 30, 2018 and $.9 billion at December 31, 2017.

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

Loan Modifications and Troubled Debt Restructurings

Consumer Loan Modifications

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

A temporary modification, with a term up to 24 months, involves a change in original loan terms for a period of time and reverts to a calculated exit rate for the remaining term of the loan as of a specific date. A permanent modification, with a term greater than 24 months, is a modification in which the terms of the original loan are changed. Permanent modification programs generally result in principal forgiveness, interest rate reduction, term extension, capitalization of past due amounts, interest-only period or deferral of principal.

We also monitor the success rates and delinquency status of our loan modification programs to assess their effectiveness in serving our borrowers' and servicing customers' needs while mitigating credit losses. Table 22 provides the number of accounts and unpaid principal balance of modified consumer real estate related loans as of each date presented.

Table 22: Consumer Real Estate Related Loan Modifications

	September 30, 2018		December 31, 2017	
Dollars in millions	Number of Accounts	Unpaid Principal Balance	Number of Accounts	Unpaid Principal Balance
Temporary modifications	2,629	$ 178	3,033	$ 217
Permanent modifications	21,567	2,382	23,270	2,581
Total consumer real estate related loan modifications	24,196	$ 2,560	26,303	$ 2,798

Commercial Loan Modifications

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

Troubled Debt Restructurings

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

Table 23: Summary of Troubled Debt Restructurings (a)

	September 30 2018	December 31 2017	Change	
Dollars in millions			$	%
Total commercial lending	$ 389	$ 409	$(20)	(5)%
Total consumer lending	1,497	1,652	(155)	(9)%
Total TDRs	$ 1,886	$ 2,061	$(175)	(8)%
Nonperforming	$ 878	$ 964	$(86)	(9)%
Accruing (b)	1,008	1,097	(89)	(8)%
Total TDRs	$ 1,886	$ 2,061	$(175)	(8)%

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

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

Excluded from TDRs are $1.1 billion and $1.2 billion of consumer loans held for sale, loans accounted for under the fair value option and pooled purchased impaired loans, as well as certain government insured or guaranteed loans at September 30, 2018 and December 31, 2017, respectively. Nonperforming TDRs represented approximately 52% of total nonperforming loans and 47% of total TDRs at both September 30, 2018 and December 31, 2017. The remaining portion of TDRs represents TDRs that have been returned to accrual accounting after performing under the restructured terms for at least six consecutive months.

Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit
We maintain an ALLL to absorb losses from the loan and lease portfolio and determine this allowance based on quarterly assessments of the estimated probable credit losses incurred in the loan and lease portfolio. Our total ALLL of $2.6 billion at September 30, 2018 consisted of $1.6 billion and $1.0 billion established for the commercial lending and consumer lending categories, respectively. We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolio as of the balance sheet date. The reserve calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan and lease portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions and estimation processes are periodically updated.

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

Our commercial pool reserve methodology is sensitive to changes in key risk parameters such as PD and LGD. The results of these parameters are then applied to the loan balance and unfunded loan commitments and letters of credit to determine the amount of the respective reserves. The majority of the commercial portfolio is secured by collateral, including loans to asset-based lending customers, which generally demonstrate lower LGD compared to loans not secured by collateral. Our PDs and LGDs are primarily determined using internal commercial loan loss data. This internal data is supplemented with third-party data and management judgment, as deemed necessary. We continue to evaluate and enhance our use of internal commercial loss data and will periodically update our PDs and LGDs as well as consider third-party data, regulatory guidance and management judgment.
Allowances for non-impaired consumer loan classes are primarily based upon transition matrices, including using a roll-rate model. The roll-rate model uses statistical relationships, calculated from historical data that estimate the movement of loan outstandings through the various stages of delinquency and ultimately charge-off.

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

A portion of the ALLL is related to qualitative measurement factors. These factors may include, but are not limited to, the following:
- Industry concentrations and conditions,
- Recent credit quality trends,
- Recent loss experience in particular portfolios,
- Recent macro-economic factors,
- Model imprecision,
- Changes in lending policies and procedures,
- Timing of available information, including the performance of first lien positions, and
- Limitations of available historical data.

Purchased impaired loans are initially recorded at fair value and applicable accounting guidance prohibits the carryover or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At September 30, 2018, we had established reserves of $.3 billion for purchased impaired loans. In addition, loans (purchased impaired and non-impaired) acquired after January 1, 2009 were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at the date of acquisition.

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

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

Table 24: Allowance for Loan and Lease Losses

Dollars in millions	2018	2017
January 1	$2,611	$2,589
Total net charge-offs	(313)	(334)
Provision for credit losses	260	316
Net decrease / (increase) in allowance for unfunded loan commitments and letters of credit	9	8
Other	17	26
September 30	$2,584	$2,605
Net charge-offs to average loans (for the nine months ended) (annualized)	.19 %	.21 %
Total allowance for loan and lease losses to total loans	1.16 %	1.18 %
Commercial lending net charge-offs	$(18)	$(69)
Consumer lending net charge-offs	(295)	(265)
Total net charge-offs	$(313)	$(334)
Net charge-offs to average loans (for the nine months ended) (annualized)		
Commercial lending	.02 %	.06 %
Consumer lending	.54 %	.49 %

At September 30, 2018, total ALLL to total nonperforming loans was 153%. The comparable amount for December 31, 2017 was 140%. These ratios are 110% and 102% when excluding the $.7 billion of ALLL at both September 30, 2018 and December 31, 2017 allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded these amounts from ALLL in these ratios as these asset classes are not included in nonperforming loans. See Table 19 within this Credit Risk Management section for additional information.

The ALLL balance increases or decreases across periods in relation to fluctuating risk factors, including asset quality trends, net charge-offs and changes in aggregate portfolio balances. During the first nine months of 2018, overall credit quality remained strong, which resulted in an essentially flat ALLL balance as of September 30, 2018 compared to December 31, 2017.

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

Table 25: Loan Charge-Offs and Recoveries

Nine months ended September 30 Dollars in millions	Gross Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	Percent of Average Loans (Annualized)
2018				
Commercial	$ 78	$ 50	$ 28	.03 %
Commercial real estate	8	18	(10)	(.05)%
Equipment lease financing	6	6		
Home equity	85	67	18	.09 %
Residential real estate	9	18	(9)	(.07)%
Credit card	161	18	143	3.32 %
Other consumer				
Automobile	117	56	61	.60 %
Education	24	6	18	.57 %
Other	76	12	64	1.94 %
Total	$ 564	$ 251	$ 313	.19 %
2017				
Commercial	$ 140	$ 61	$ 79	.10 %
Commercial real estate	9	21	(12)	(.05)%

Equipment lease financing	6	4	2	.04 %
Home equity	98	67	31	.14 %
Residential real estate	8	12	(4)	(.03)%
Credit card	136	16	120	3.09 %
Other consumer				
Automobile	89	43	46	.49 %
Education	23	6	17	.46 %
Other	68	13	55	1.65 %
Total	$ 577	$ 243	$ 334	.21 %

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

Liquidity and Capital Management

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

One of the ways we monitor our liquidity is by reference to the Liquidity Coverage Ratio (LCR), a regulatory minimum liquidity requirement designed to ensure that covered banking organizations maintain an adequate level of liquidity to meet net liquidity needs over the course of a hypothetical 30-day stress scenario. The LCR is calculated by dividing the amount of an institution's high quality, unencumbered liquid assets (HQLA), as defined and calculated in accordance with the LCR rules, by its estimated net cash outflows, with net cash outflows determined by applying the assumed outflow factors in the LCR rules. The resulting quotient is expressed as a percentage. The minimum LCR that PNC and PNC Bank are required to maintain is 100% in 2018. PNC and PNC Bank calculate the LCR daily, and as of September 30, 2018, the LCR for PNC and PNC Bank exceeded the requirement of 100%.

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

Sources of Liquidity

Our largest source of liquidity on a consolidated basis is the customer deposit base generated by our banking businesses. These deposits provide relatively stable and low-cost funding. Total deposits declined slightly to $264.9 billion at September 30, 2018 from $265.1 billion at December 31, 2017 as growth in interest-bearing deposits was more than offset by a decrease in noninterest-bearing deposits. See the Funding Sources portion of the Consolidated Balance Sheet Review section of this Financial Review for additional information related to our deposits. Additionally, certain assets determined by us to be liquid as well as unused borrowing capacity from a number of sources are also available to manage our liquidity position.

At September 30, 2018, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling $24.5 billion and securities available for sale totaling $61.2 billion. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and balance sheet management activities. Our liquid assets included $3.1 billion of securities available for sale and trading securities pledged as collateral to secure public and trust deposits, repurchase agreements and for other purposes. In addition, $6.0 billion of securities held to maturity were also pledged as collateral for these purposes.

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

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

Table 26: Senior and Subordinated Debt

In billions	2018
January 1	$33.3
Issuances	4.5
Calls and maturities	(4.8)
Other	(.6)
September 30	$32.4

Bank Liquidity

Under PNC Bank’s 2014 bank note program, as amended, PNC Bank may from time to time offer up to $40.0 billion aggregate principal amount outstanding at any one time of its unsecured senior and subordinated notes with maturity dates more than nine months (in the case of senior notes) and five years or more (in the case of subordinated notes) from their date of issue. At September 30, 2018, PNC Bank had $26.5 billion of notes outstanding under this program of which $22.2 billion were senior bank notes and $4.3 billion were subordinated bank notes.

The following table details issuances for the three months ended September 30, 2018.

Table 27: PNC Bank Notes Issued

Issuance Date	Amount	Description of Issuance
July 26, 2018	$750 million	Subordinated notes with a maturity date of July 26, 2028. Interest is payable semi-annually at a fixed rate of 4.05% on January 26 and July 26 of each year, beginning January 26, 2019. Following the re-opening, the aggregate outstanding principal amount of this series of notes increased to $1.25 billion.
September 14, 2018 (re-opening)	$500 million	

PNC Bank maintains additional secured borrowing capacity with the FHLB-Pittsburgh and through the Federal Reserve Bank discount window. The Federal Reserve Bank, however, is not viewed as a primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. At September 30, 2018, our unused secured borrowing capacity at the FHLB-Pittsburgh and the Federal Reserve Bank totaled $42.1 billion.

PNC Bank has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of September 30, 2018, there were no issuances outstanding under this program.

Parent Company Liquidity

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

As of September 30, 2018, available parent company liquidity totaled $4.7 billion. Parent company liquidity is primarily held in intercompany short-term investments, the terms of which provide for the availability of cash in 31 days or less. Investments with longer durations may also be acquired, but if so, the related maturities are aligned with scheduled cash needs, such as the maturity of parent company debt obligations.

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

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

There are statutory and regulatory limitations on the ability of a national bank to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. The amount available for dividend payments by PNC Bank to the parent company without prior regulatory approval was approximately $3.0 billion at September 30, 2018. See Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements in our 2017 Form 10-K for a further discussion of these limitations.

In addition to dividends from PNC Bank, other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. We can also generate liquidity for the parent company and PNC's non-bank subsidiaries through the issuance of debt and equity securities, including certain capital instruments, in public or private markets and commercial paper. The parent company has the ability to offer up to $5.0 billion of commercial paper to provide additional liquidity. As of September 30, 2018, there were no commercial paper issuances outstanding.

The parent company has an effective shelf registration statement pursuant to which we can issue additional debt, equity and other capital instruments. Under this shelf registration statement, on September 5, 2018, the parent company issued $500 million in Senior Notes with a maturity date of September 3, 2021. Interest is payable semi-annually at a fixed rate of 3.25% per annum on March 3 and September 3 of each year, beginning March 3, 2019.

Parent company senior and subordinated debt outstanding totaled $6.6 billion and $6.8 billion at September 30, 2018 and December 31, 2017, respectively.

Contractual Obligations and Commitments

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

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

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

Table 28: Credit Ratings for PNC and PNC Bank

	September 30, 2018		
	Moody’s	Standard & Poor’s	Fitch
PNC			
Senior debt	A3	A-	A+
Subordinated debt	A3	BBB+	A
Preferred stock	Baa2	BBB-	BBB-
PNC Bank			
Senior debt	A2	A	A+
Subordinated debt	A3	A-	A
Long-term deposits	Aa2	A	AA-
Short-term deposits	P-1	A-1	F1+
Short-term notes	P-1	A-1	F1

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

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

In connection with the 2018 CCAR process, we submitted our capital plan, as approved by PNC's Board of Directors, to the Federal Reserve in April 2018. In June 2018, the Federal Reserve accepted the capital plan and did not object to our proposed capital actions. As provided in the 2018 capital plan, we announced new share repurchase programs of up to $2.0 billion for the four quarter period beginning in the third quarter of 2018, including repurchases of up to $.3 billion related to employee benefit plans. In the third quarter of 2018, we repurchased 3.3 million common shares for $.5 billion.

We paid dividends on common stock of $.4 billion, or $.95 per common share, during the third quarter of 2018. On October 4, 2018, the PNC Board of Directors declared a quarterly common stock cash dividend of $.95 per share with a payment date of November 5, 2018.

We completed our common stock repurchase programs for the four quarter period that ended June 30, 2018 with total repurchases of 18.4 million common shares for $2.6 billion. These repurchases were included in our capital plan accepted by the Federal Reserve as part of our 2017 CCAR submission. Additionally, we paid $1.5 billion in common stock dividends for a total of $4.1 billion of capital returned to shareholders during this four quarter period.

Table 29: Basel III Capital

Dollars in millions	Basel III September 30, 2018 (a) (b)	Fully Phased-In Basel III (Non-GAAP) December 31, 2017 (c)	2017 Transitional Basel III December 31, 2017 (a)
Common equity Tier 1 capital			
Common stock plus related surplus, net of treasury stock	$6,256	$8,195	$8,195
Retained earnings	38,080	35,481	35,481
Accumulated other comprehensive income (loss) for securities currently, and those transferred from, available for sale	(519)	337	270
Accumulated other comprehensive income (loss) for pension and other postretirement plans	(488)	(544)	(436)
Goodwill, net of associated deferred tax liabilities	(9,024)	(8,988)	(8,988)
Other disallowed intangibles, net of deferred tax liabilities	(273)	(319)	(255)
Other adjustments/(deductions)	(322)	(141)	(138)
Total common equity Tier 1 capital before threshold deductions	33,710	34,021	34,129
Total threshold deductions (d)	(3,932)	(2,928)	(1,983)
Common equity Tier 1 capital	29,778	31,093	32,146
Additional Tier 1 capital			
Preferred stock plus related surplus	3,982	3,985	3,985
Other adjustments/(deductions)	(154)	(146)	(124)
Tier 1 capital	33,606	34,932	36,007
Additional Tier 2 capital			
Qualifying subordinated debt	4,067	3,433	3,482
Trust preferred capital securities	80		100
Eligible credit reserves includable in Tier 2 capital	2,873	2,907	2,907
Total Basel III capital	40,626	$41,272	$42,496
Risk-weighted assets			
Basel III standardized approach risk-weighted assets (e)	$318,889	$316,120	$309,460
Basel III advanced approaches risk-weighted assets (f)	$274,742	$285,226	N/A
Average quarterly adjusted total assets	$364,909	$363,967	$364,999
Supplementary leverage exposure (g)	$437,406	$434,698	$435,731
Basel III risk-based capital and leverage ratios			
Common equity Tier 1 (i)	9.3 %	9.8 % (h)	10.4 %
Tier 1 (j)	10.5 %	11.1 % (h)	11.6 %
Total (k) (l) (m)	12.7 %	13.1 % (h)	13.7 %
Leverage (n)	9.2 %	9.6 %	9.9 %
Supplementary leverage ratio (o)	7.7 %	8.0 %	8.3 %

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

(b) The Basel III Common equity Tier 1 capital, Tier 1 risk-based capital, Leverage and Supplementary ratios as of September 30, 2018 reflect the full phase-in of all Basel III adjustments to these metrics applicable to PNC.

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

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

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

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

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

(h) Pro forma Fully phased-in Basel III capital ratios are based on Basel III standardized approach risk-weighted assets and rules.

(i) For comparative purposes only, the advanced approaches Basel III Common equity Tier 1 capital ratio for September 30, 2018 is 10.8% and for December 31, 2017 is 10.9% (estimated). This capital ratio is calculated using Common equity Tier 1 capital and dividing by Basel III advanced approaches risk-weighted assets.

(j) For comparative purposes only, the advanced approaches Basel III Tier 1 risk-based capital ratio for both September 30, 2018 and December 31, 2017 (estimated) is 12.2%. This capital ratio is calculated using Tier 1 capital and dividing by Basel III advanced approaches risk-weighted assets.

(k) For comparative purposes only, the advanced approaches Basel III Total risk-based capital ratio for September 30, 2018 is 13.8% and for December 31, 2017 is 13.5% (estimated). This ratio is calculated using Total Basel III capital, which under the advanced approaches, Additional Tier 2 capital includes allowance for loan and lease losses in excess of Basel expected credit losses, if any, up to 0.6% of credit risk-weighted assets, and dividing by Basel III advanced approaches risk-weighted assets.

(l) The Basel III Total risk-based capital ratio includes $80 million of nonqualifying trust preferred capital securities that are subject to a phase-out period that runs through 2021.

(m) For comparative purposes only, as of September 30, 2018 the ratio would be 12.7%, assuming nonqualifying trust preferred capital securities are phased out.

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

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

The decline in our Basel III Common equity Tier 1 capital ratio at September 30, 2018 compared to December 31, 2017 reflected continued capital return to shareholders in the form of common share repurchases and dividends and a decline in AOCI largely related to the impact of higher interest rates on the valuation of our available for sale securities portfolio.

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

Under the Basel III rules applicable to PNC, significant common stock investments in unconsolidated financial institutions (for PNC, primarily BlackRock), mortgage servicing rights and deferred tax assets must be deducted from capital (subject to a phase-in schedule that ended December 31, 2017 and net of associated deferred tax liabilities) to the extent they individually exceed 10%, or in the aggregate exceed 15%, of the institution's adjusted common equity Tier 1 capital. Also, Basel III regulatory capital includes (subject to a phase-in schedule that ended December 31, 2017) AOCI related to securities currently, and those transferred from, available for sale, as well as pension and other postretirement plans. With the exception of certain nonqualifiying trust preferred capital securities included in PNC’s Total risk-based capital ratio, the transitions and multi-year phase-in of the definition of capital under the Basel III rules were complete as of January 1, 2018. Accordingly, we refer to the capital ratios calculated using the definition of capital in effect as of January 1, 2018 and, for the risk-based ratios, standardized approach risk-weighted assets, as the Basel III ratios. The Basel III Total risk-based capital ratio includes trust preferred capital securities in the amount of $80 million that are subject to a phase-out that runs through 2021. We refer to the capital ratios calculated using the phased-in Basel III provisions in effect for 2017 and, for the risk-based ratios, standardized approach risk-weighted assets, as the 2017 Transitional Basel III ratios. All current period capital ratios are calculated using the regulatory capital methodology applicable to us during 2018.

Federal banking regulators have stated that they expect the largest U.S. bank holding companies (BHCs), including PNC, to have a level of regulatory capital well in excess of the regulatory minimum and have required the largest U.S. BHCs, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet the credit needs of their customers through estimated stress scenarios. We seek to manage our capital consistent with these regulatory principles, and believe that our September 30, 2018 capital levels were aligned with them.

At September 30, 2018, PNC and PNC Bank, our sole bank subsidiary, were both considered “well capitalized,” based on applicable U.S. regulatory capital ratio requirements. To qualify as “well capitalized”, PNC must have Basel III capital ratios of at least 6% for Tier 1 risk-based capital and 10% for Total risk-based capital, and PNC Bank must have Basel III capital ratios of at least 6.5% for Common equity Tier 1 risk-based capital, 8% for Tier 1 risk-based capital, 10% for Total risk-based capital and a Leverage ratio of at least 5%.

We provide additional information regarding regulatory capital requirements and some of their potential impacts on us in the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors and Note 18 Regulatory Matters in our 2017 Form 10-K. See the Statistical Information (Unaudited) section of this Report for details on our September 30, 2017 Transitional Basel III and Fully Phased-In Basel III Common equity Tier 1 capital ratios.

Market Risk Management

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

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

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

Market Risk Management – Interest Rate Risk

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

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

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

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

Table 30: Interest Sensitivity Analysis

	Third Quarter 2018	Third Quarter 2017
Net Interest Income Sensitivity Simulation (a)		
Effect on net interest income in first year from gradual interest rate change over the following 12 months of:		
100 basis point increase	1.8 %	2.9 %
100 basis point decrease	(2.3)%	(3.6)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	3.6 %	5.9 %
100 basis point decrease	(5.9)%	(8.8)%
Duration of Equity Model (a)		
Base case duration of equity (in years)	.2	(2.6)
Key Period-End Interest Rates		
One-month LIBOR	2.26 %	1.23 %
Three-month LIBOR	2.40 %	1.33 %
Three-year swap	3.05 %	1.86 %

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

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. Table 31 reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist's most likely rate forecast, (ii) implied market forward rates and (iii) yield curve slope flattening (a 100 basis point yield curve slope flattening between one-month and ten-year rates superimposed on current base rates) scenario.

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

Table 31: Net Interest Income Sensitivity to Alternative Rate Scenarios

	September 30, 2018		
	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	.5 %	.5 %	(.6)%
Second year sensitivity	.3 %	(1.0)%	(3.0)%

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in Tables 30 and 31. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates.

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

Table 32: Alternate Interest Rate Scenarios: One Year Forward

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

Market Risk Management – Customer-Related Trading Risk

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

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

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

Customer related trading revenue was $196 million for the nine months ended September 30, 2018 compared to $186 million for the same period in 2017. The increase was primarily due to higher foreign exchange client sales revenues. For the quarterly period, customer related trading revenue was $53 million for the third quarter of 2018 compared to $57 million in 2017. The decrease was primarily due to the impact of changes in credit valuations for customer-related derivatives, which was partially offset by higher client related trading and foreign exchange client revenues.

Market Risk Management – Equity And Other Investment Risk

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

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

A summary of our equity investments follows:

Table 33: Equity Investments Summary

Dollars in millions	September 30 2018	December 31 2017	Change $	Change %
BlackRock	$ 7,909	$ 7,576	$333	4 %
Tax credit investments	2,233	2,148	85	4 %
Private equity and other	2,304	1,668	636	38%
Total	$ 12,446	$ 11,392	$1,054	9 %

BlackRock
We owned approximately 35 million common stock equivalent shares of BlackRock equity at September 30, 2018, accounted for under the equity method. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

Tax Credit Investments
Included in our equity investments are direct tax credit investments and equity investments held by consolidated entities. These tax credit investment balances included unfunded commitments totaling $.7 billion and $.8 billion at September 30, 2018 and December 31, 2017, respectively. These unfunded commitments are included in Other liabilities on our Consolidated Balance Sheet.

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

Private Equity and Other
The majority of our other equity investments consists of our private equity portfolio. The private equity portfolio is an illiquid portfolio consisting of mezzanine and equity investments that vary by industry, stage and type of investment. Private equity investments carried at estimated fair value totaled $1.3 billion at both September 30, 2018 and December 31, 2017. As of September 30, 2018, $1.1 billion was invested directly in a variety of companies and $.2 billion was invested indirectly through various private equity funds. See Item 1 Business - Supervision and Regulation in our 2017 Form 10-K for discussion of the potential impacts of the Volcker Rule provisions of Dodd-Frank on our interests in and of private funds covered by the Volcker Rule.

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

Included in our other equity investments are Visa Class B common shares, which are recorded at cost. At September 30, 2018, the estimated value of our investment in Visa Class B common shares was approximately $860 million while our cost basis was not significant. Visa Class B common shares that we own are transferable only under limited circumstances until they can be converted into shares of the publicly-traded class of stock, which cannot happen until the resolution of the pending interchange litigation.

We also have certain other equity investments, the majority of which represent investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. Net gains related to these investments were not significant at September 30, 2018 and September 30, 2017.

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

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

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

Financial Derivatives in the Notes To Consolidated Financial Statements in this Report.

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

RECENT REGULATORY DEVELOPMENTS

Consistent with Section 403 of the Economic Growth, Regulatory Relief and Consumer Protection Act (Relief Act), on August 22, 2018, the Federal Reserve, Office of Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC) jointly issued an interim final rule to amend the LCR rules to expand the definition of high quality liquid assets under those rules to include certain high quality municipal securities. The interim final rule took effect on August 31, 2018.

On September 5, 2018, the OCC issued an advance notice of proposed rulemaking soliciting public input on a framework for modernizing its regulations implementing the Community Reinvestment Act of 1977. The public comment period closes on November 19, 2018.

On September 18, 2018, the Federal Reserve, OCC and FDIC jointly requested public comments on a proposal, consistent with Section 214 of the Relief Act, to implement changes under the U.S. Standardized Approach regulatory capital rules to limit the scope of commercial real estate exposures that receive a heightened (150 percent) risk weight. The public comment period on the proposal closes on November 27, 2018.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Fair Value Measurements

The following table summarizes the assets and liabilities measured at fair value on a recurring basis at September 30, 2018 and December 31, 2017, respectively, and the portions of such assets and liabilities that are classified within Level 3 of the valuation hierarchy. Level 3 assets and liabilities are those where the fair value is estimated using significant unobservable inputs.

Table 34: Fair Value Measurements – Summary

	September 30, 2018		December 31, 2017	
Dollars in millions	Total Fair Value	Level 3	Total Fair Value	Level 3
Total assets	$72,958	$6,269	$69,673	$6,475
Total assets at fair value as a percentage of consolidated assets	19 %		18 %	
Level 3 assets as a percentage of total assets at fair value		9 %		9 %
Level 3 assets as a percentage of consolidated assets		2 %		2 %
Total liabilities	$3,884	$406	$4,233	$531
Total liabilities at fair value as a percentage of consolidated liabilities	1 %		1 %	
Level 3 liabilities as a percentage of total liabilities at fair value		10 %		13 %
Level 3 liabilities as a percentage of consolidated liabilities		<1 %		<1 %

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

Income Taxes

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

Recently Issued Accounting Standards

Accounting Standards Update (ASU)	Description	Financial Statement Impact
Leases - ASU 2016-02 Issued February 2016	• Required effective date of January 1, 2019.[a] • Requires lessees to recognize a right-of-use asset and related lease liability for all leases with lease terms of more than 12 months. • Recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or operating lease. • Targeted changes have been made to the lessor accounting model to align the guidance with the new lessee model and revenue recognition guidance. • May be adopted using a modified retrospective approach through a cumulative-effect adjustment. • Financial Accounting Standards Board issued an ASU which permits the option to adopt the new standard prospectively as of the effective date, without adjusting comparative periods presented. Under this new transition method, an entity initially applies the new leases standard at the effective date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.	• We plan to adopt the guidance in the first quarter of 2019, utilizing the new transition relief option. • Implementation efforts are ongoing, including the recent deployment of our lessee accounting software solution. • We continue to evaluate the impact of planned accounting policy elections and the new disclosure requirements. Our evaluation of the incremental borrowing rate to discount our future minimum lease payments in calculating the lease liabilities and corresponding right-of-use assets is substantially complete. • Our evaluation of our initial lease population is substantially complete. We will continue to review service contracts through the effective date and may identify additional leases embedded within those arrangements that are within the scope of the ASU. • We expect, at a minimum, to recognize lease liabilities and corresponding right-of-use assets commensurate with the present value of the future minimum payments. Future minimum lease payments under operating leases totaled $2.6 billion as of December 31, 2017 as disclosed in Note 8 Premises, Equipment and Leasehold Improvements in our 2017 Form 10-K. • We do not expect a material change to the timing of our expense recognition. • We have evaluated the changes to the lessor accounting model and do not expect these changes to have a material impact on our financial statements.
Credit Losses - ASU 2016-13 Issued June 2016	• Required effective date of January 1, 2020.[a] • Requires the use of an expected credit loss methodology; specifically, current expected credit losses (CECL) for the remaining life of the asset will be recognized at the time of origination or acquisition. • Methodology will apply to loans, debt securities, and other financial assets and net investment in leases not accounted for at fair value through net income. It will also apply to off-balance sheet credit exposures except for unconditionally cancellable commitments.	• We do not plan to adopt the standard at its early adoption date in the first quarter of 2019. • We established a company-wide, cross-functional governance structure in the third quarter of 2016, which oversees overall strategy for implementation of Topic 326. • We continue to make progress towards design and development of CECL estimation methodologies, technological solutions, data requirements, revised disclosures, committee reporting and future state processes.

	• In-scope assets will be presented at the net amount expected to be collected after deducting the allowance for credit losses from the amortized cost basis of the assets. • Requires enhanced credit quality disclosures including disaggregation of credit quality indicators by vintage. • Requires a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.	• We plan to review and validate loss model outputs, test end to end processes, and assess controls and future state governance structure during 2019. We continue to meet with industry groups, regulatory bodies and our external auditors regularly to discuss implementation related topics. • We continue to believe that the adoption of the standard will result in an overall increase in the allowance for loan losses to cover credit losses over the estimated life of the financial assets. However, the magnitude of the increase in our allowance for loan losses at the adoption date will depend upon the nature and characteristics of the portfolio at the adoption date, as well as macroeconomic conditions and forecasts at that date.
Goodwill - ASU 2017-04 Issued January 2017	• Required effective date of January 1, 2020.[a] • Eliminates Step 2 from the goodwill impairment test to simplify the subsequent measurement of goodwill under which a loss was recognized only if the estimated implied fair value of the goodwill is below its carrying value. • Requires impairment to be recognized if the carrying amount exceeds the reporting unit's fair value.	• We plan to adopt the standard on its effective date and we do not expect the adoption of this standard to impact our consolidated results of operations or our consolidated financial position.

(a) Early adoption is permitted.

Recently Adopted Accounting Standards

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

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

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

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

Trust Preferred Securities and REIT Preferred Securities

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

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES

As of September 30, 2018, we performed an evaluation under the supervision of and with the participation of our management, including the Chairman, President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chairman, President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were effective as of September 30, 2018, and that there has been no change in PNC’s internal control over financial reporting that occurred during the third quarter of 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

GLOSSARY OF TERMS

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

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

- Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than those we are currently expecting and do not take into account potential legal and regulatory contingencies. These statements are based on our view that U.S. economic growth has accelerated over the past two years and will remain above its long-run trend for the remainder of 2018 and into 2019, in light of stimulus from corporate and personal income tax cuts passed in late 2017 that are expected to support business investment and consumer spending, respectively. We expect an increase in federal government spending will also support economic growth for the remainder of 2018 and into 2019. Further gradual improvement in the labor market this year and next, including job gains and rising wages, is another positive for consumer spending. Trade restrictions are a growing downside risk to the forecast. Inflation has accelerated to close to the Federal Open Market Committee's two percent objective. Short-term interest rates and bond yields are expected to rise throughout the remainder of 2018 and into 2019; after the Federal Open Market Committee raised the federal funds rate in September, our baseline forecast is for one additional rate hike in December 2018, pushing the rate to a range of 2.25% to 2.50% by the end of the year. We expect two 25 basis point increases in the fed funds rate in 2019 (in June and September); this would take the fed funds rate to a range of 2.75% to 3.00% by the end of next year.

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

businesses into PNC after closing.

- Competition can have an impact on customer acquisition, growth and retention and on credit spreads and product pricing, which can affect market share, deposits and revenues. Our ability to anticipate and respond to technological changes can also impact our ability to respond to customer needs and meet competitive demands.
- Business and operating results can also be affected by widespread natural and other disasters, pandemics, dislocations, terrorist activities, system failures, security breaches, cyberattacks or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically.

We provide greater detail regarding these as well as other factors in our 2017 Form 10-K, our 2018 Form 10-Qs, and elsewhere in this Report, including in the Risk Factors and Risk Management sections and the Legal Proceedings and Commitments Notes of the Notes To Consolidated Financial Statements in those reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

CONSOLIDATED INCOME STATEMENT
THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited	Three months ended September 30		Nine months ended September 30	
In millions, except per share data	2018	2017	2018	2017
Interest Income				
Loans	$2,452	$2,140	$7,025	$6,084
Investment securities	584	501	1,653	1,489
Other	187	154	545	416
Total interest income	3,223	2,795	9,223	7,989
Interest Expense				
Deposits	336	170	810	433
Borrowed funds	421	280	1,173	793
Total interest expense	757	450	1,983	1,226
Net interest income	2,466	2,345	7,240	6,763
Noninterest Income				
Asset management	486	421	1,397	1,222
Consumer services	377	357	1,115	1,049
Corporate services	465	404	1,381	1,284
Residential mortgage	76	104	257	321
Service charges on deposits	186	181	522	512
Other	301	313	880	918
Total noninterest income	1,891	1,780	5,552	5,306
Total revenue	4,357	4,125	12,792	12,069
Provision For Credit Losses	88	130	260	316
Noninterest Expense				
Personnel	1,413	1,286	4,123	3,819
Occupancy	195	204	616	628
Equipment	264	259	818	791
Marketing	71	62	201	184
Other	665	645	1,961	1,915
Total noninterest expense	2,608	2,456	7,719	7,337
Income before income taxes and noncontrolling interests	1,661	1,539	4,813	4,416
Income taxes	261	413	818	1,119
Net income	1,400	1,126	3,995	3,297
Less: Net income attributable to noncontrolling interests	11	12	31	39
Preferred stock dividends	63	63	181	181
Preferred stock discount accretion and redemptions	1	1	3	24
Net income attributable to common shareholders	$1,325	$1,050	$3,780	$3,053
Earnings Per Common Share				
Basic	$2.84	$2.18	$8.03	$6.29
Diluted	$2.82	$2.16	$7.96	$6.21
Average Common Shares Outstanding				
Basic	465	479	469	483
Diluted	467	483	472	488

See accompanying Notes To Consolidated Financial Statements.

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

Unaudited In millions	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Net income	$1,400	$1,126	$3,995	$3,297
Other comprehensive income (loss), before tax and net of reclassifications into Net income:				
Net unrealized gains (losses) on non-OTTI securities	(324)	61	(1,125)	281
Net unrealized gains (losses) on OTTI securities	(1)	66	16	164
Net unrealized gains (losses) on cash flow hedge derivatives	(71)	(47)	(377)	(134)
Pension and other postretirement benefit plan adjustments	1	11	70	(6)
Other	(17)	6	(25)	32
Other comprehensive income (loss), before tax and net of reclassifications into Net income	(412)	97	(1,441)	337
Income tax benefit (expense) related to items of other comprehensive income	92	(21)	323	(94)
Other comprehensive income (loss), after tax and net of reclassifications into Net income	(320)	76	(1,118)	243
Comprehensive income	1,080	1,202	2,877	3,540
Less: Comprehensive income (loss) attributable to noncontrolling interests	11	12	31	39
Comprehensive income attributable to PNC	$1,069	$1,190	$2,846	$3,501

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET
THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited In millions, except par value	September 30 2018	December 31 2017
Assets		
Cash and due from banks	$5,248	$5,249
Interest-earning deposits with banks	19,800	28,595
Loans held for sale (a)	1,108	2,655
Investment securities – available for sale	61,211	57,618
Investment securities – held to maturity	19,593	18,513
Loans (a)	223,053	220,458
Allowance for loan and lease losses	(2,584)	(2,611)
Net loans	220,469	217,847
Equity investments (b)	12,446	11,392
Mortgage servicing rights	2,136	1,832
Goodwill	9,218	9,173
Other (a)	28,851	27,894
Total assets	$380,080	$380,768
Liabilities		
Deposits		
Noninterest-bearing	$74,736	$79,864
Interest-bearing	190,148	185,189
Total deposits	264,884	265,053
Borrowed funds		
Federal Home Loan Bank borrowings	20,036	21,037
Bank notes and senior debt	26,676	28,062
Subordinated debt	5,764	5,200
Other (c)	5,479	4,789
Total borrowed funds	57,955	59,088
Allowance for unfunded loan commitments and letters of credit	288	297
Accrued expenses and other liabilities	9,851	8,745
Total liabilities	332,978	333,183
Equity		
Preferred stock (d)		
Common stock ($5 par value, Authorized 800 shares, issued 542 shares)	2,710	2,710
Capital surplus	16,299	16,374
Retained earnings	38,080	35,481
Accumulated other comprehensive income (loss)	(1,260)	(148)
Common stock held in treasury at cost: 80 and 69 shares	(8,771)	(6,904)
Total shareholders' equity	47,058	47,513
Noncontrolling interests	44	72
Total equity	47,102	47,585
Total liabilities and equity	$380,080	$380,768

(a) Our consolidated assets included the following for which we have elected the fair value option: Loans held for sale of $1.0 billion, Loans of $.8 billion and Other assets of
$.2 billion at September 30, 2018 and Loans held for sale of $1.7 billion, Loans of $.9 billion and Other assets of $.3 billion at December 31, 2017.

(b) Amounts include our equity interest in BlackRock. Effective for the first quarter of 2018, $.6 billion of trading and available for sale securities, primarily money market funds, were reclassified to Equity investments on January 1, 2018 in accordance with the adoption of Accounting Standards Update 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.

(c) Our consolidated liabilities at both September 30, 2018 and December 31, 2017 included Other borrowed funds of $.1 billion for which we have elected the fair value option.

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

See accompanying Notes To Consolidated Financial Statements.

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

Unaudited In millions	Nine months ended September 30 2018	 2017
Operating Activities		
Net income	$3,995	$3,297
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for credit losses	260	316
Depreciation and amortization	839	859
Deferred income taxes	(116)	147
Changes in fair value of mortgage servicing rights	(57)	231
Undistributed earnings of BlackRock	(421)	(315)
Net change in		
Trading securities and other short-term investments	293	252
Loans held for sale	910	37
Other assets	(2,194)	38
Accrued expenses and other liabilities	2,195	5
Other	(1)	(152)
Net cash provided (used) by operating activities	$5,703	$4,715
Investing Activities		
Sales		
Securities available for sale	$5,422	$4,192
Loans	1,180	1,493
Repayments/maturities		
Securities available for sale	6,941	8,195
Securities held to maturity	1,917	2,196
Purchases		
Securities available for sale	(17,635)	(8,676)
Securities held to maturity	(3,072)	(4,098)
Loans	(430)	(690)
Net change in		
Federal funds sold and resale agreements	313	(397)
Interest-earning deposits with banks	8,795	998
Loans	(4,120)	(10,606)
Net cash paid for acquisition		(1,323)
Other	(965)	(788)
Net cash provided (used) by investing activities	$(1,654)	$(9,504)

(continued on following page)

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

Unaudited In millions	Nine Months Ended September 30 2018	2017
Financing Activities		
Net change in		
Noninterest-bearing deposits	$(5,114)	$(165)
Interest-bearing deposits	4,959	3,834
Federal funds purchased and repurchase agreements	1,037	(33)
Federal Home Loan Bank borrowings		3,000
Commercial paper	(100)	
Other borrowed funds	(109)	829
Sales/issuances		
Federal Home Loan Bank borrowings	6,500	6,000
Bank notes and senior debt	3,238	5,309
Subordinated debt	1,243	
Other borrowed funds	400	277
Common and treasury stock	61	94
Repayments/maturities		
Federal Home Loan Bank borrowings	(7,501)	(6,011)
Bank notes and senior debt	(4,175)	(1,800)
Subordinated debt	(575)	(2,408)
Other borrowed funds	(429)	(268)
Redemption of noncontrolling interests		(1,000)
Acquisition of treasury stock	(2,145)	(1,927)
Preferred stock cash dividends paid	(181)	(181)
Common stock cash dividends paid	(1,159)	(904)
Net cash provided (used) by financing activities	$(4,050)	$4,646
Net Increase (Decrease) In Cash And Due From Banks	(1)	(143)
Cash and due from banks at beginning of period	5,249	4,879
Cash and due from banks at end of period	$5,248	$4,736
Supplemental Disclosures		
Interest paid	$1,881	$1,201
Income taxes paid	$324	$53
Income taxes refunded	$463	$11
Non-cash Investing and Financing Items		
Transfer from loans to loans held for sale, net	$359	$295
Transfer from loans to foreclosed assets	$145	$164
Transfer from trading securities to investment securities		$192

See accompanying Notes To Consolidated Financial Statements.

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

BUSINESS

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

We have businesses engaged in retail banking, including residential mortgage, corporate and institutional banking and asset management, providing many of our products and services nationally. Our primary geographic markets are located in the Mid-Atlantic, Midwest and Southeast. We also provide certain products and services internationally.
NOTE 1 ACCOUNTING POLICIES

Basis of Financial Statement Presentation

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

We prepared these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). We have eliminated intercompany accounts and transactions. We have also reclassified certain prior year amounts to conform to the current period presentation, which did not have a material impact on our consolidated financial condition or results of operations.

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

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

When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2017 Form 10-K. Reference is made to Note 1 Accounting Policies in our 2017 Form 10-K for a detailed description of significant accounting policies. There have been no significant changes to our accounting policies as disclosed in our 2017 Form 10-K, except for those accounting policies included in this Note 1 as a result of the adoption of new accounting standards that were effective in the first quarter of 2018. See our first quarter 2018 Quarterly Report on Form 10-Q (First Quarter 2018 Form 10-Q) for more detail on these new accounting standards. These interim consolidated financial statements serve to update our 2017 Form 10-K and may not include all information and Notes necessary to constitute a complete set of financial statements.

Use of Estimates

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

Revenue Recognition

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

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

In addition, we earn fees and commissions from:

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

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

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

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

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

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

Equity Securities and Partnership Interests

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

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

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

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

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

Derivative Instruments and Hedging Activities

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

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

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

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

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

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

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

We discontinue hedge accounting when it is determined that the derivative no longer qualifies as an effective hedge; the derivative expires or is sold, terminated or exercised; or the derivative is de-designated as a fair value or cash flow hedge or, for a cash flow hedge, it is no longer probable that the forecasted transaction will occur by the end of the originally specified time period.

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

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

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

Recently Adopted Accounting Standards

We did not adopt any new accounting standards that had a significant impact during the third quarter of 2018.

NOTE 2 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES

Loan Sale and Servicing Activities

As more fully described in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in our 2017 Form 10-K, we have transferred residential and commercial mortgage loans in securitization or sales transactions in which we have continuing involvement. Our continuing involvement generally consists of servicing, repurchasing previously transferred loans under certain conditions and loss share arrangements, and, in limited circumstances, holding of mortgage-backed securities issued by the securitization special purpose entities (SPEs).

We earn servicing and other ancillary fees for our role as servicer and, depending on the contractual terms of the servicing arrangement, we can be terminated as servicer with or without cause. At the consummation date of each type of loan transfer where we retain the servicing, we recognize a servicing right at fair value. See Note 7 Goodwill and Mortgage Servicing Rights for information on our servicing rights, including the carrying value of servicing assets.

The following table provides cash flows associated with our loan sale and servicing activities.
Table 35: Cash Flows Associated with Loan Sale and Servicing Activities

In millions	Residential Mortgages	Commercial Mortgages (a)
Cash Flows - Three months ended September 30, 2018		
Sales of loans (b)	$ 1,242	$ 953
Repurchases of previously transferred loans (c)	$ 90	
Servicing fees (d)	$ 88	$ 34
Servicing advances recovered/(funded), net	$ 2	$ 19
Cash flows on mortgage-backed securities held (e)	$ 574	$ 51
Cash Flows - Three months ended September 30, 2017		
Sales of loans (b)	$ 1,468	$ 1,280
Repurchases of previously transferred loans (c)	$ 103	
Servicing fees (d)	$ 95	$ 32
Servicing advances recovered/(funded), net	$ (4)	$ (1)
Cash flows on mortgage-backed securities held (e)	$ 372	$ 13
Cash Flows - Nine months ended September 30, 2018		
Sales of loans (b)	$ 3,486	$ 2,613
Repurchases of previously transferred loans (c)	$ 286	
Servicing fees (d)	$ 269	$ 100
Servicing advances recovered/(funded), net	$ 45	$ 24
Cash flows on mortgage-backed securities held (e)	$ 1,445	$ 100
Cash Flows - Nine months ended September 30, 2017		
Sales of loans (b)	$ 4,385	$ 3,639
Repurchases of previously transferred loans (c)	$ 331	
Servicing fees (d)	$ 281	$ 95
Servicing advances recovered/(funded), net	$ 80	$ 25
Cash flows on mortgage-backed securities held (e)	$ 1,066	$ 196

(a) Represents cash flow information associated with both commercial mortgage loan transfers and servicing activities.
(b) Gains/losses recognized on sales of loans were insignificant for the periods presented.
(c) Includes residential mortgage government insured or guaranteed loans eligible for repurchase through the exercise of our removal of account provision option and loans repurchased due to alleged breaches of origination covenants or representations and warranties made to purchasers.
(d) Includes contractually specified servicing fees, late charges and ancillary fees.

(e) Represents cash flows on securities where we transferred to and/or service loans for a securitization SPE and we hold securities issued by that SPE. The carrying values of such securities held were $13.0 billion, $8.8 billion, and $7.6 billion in residential mortgage-backed securities and $.6 billion, $.6 billion, and $.7 billion in commercial mortgage-backed securities at September 30, 2018, December 31, 2017, and September 30, 2017, respectively.

Table 36 presents information about the principal balances of transferred loans that we service and are not recorded on our Consolidated Balance Sheet. We would only experience a loss on these transferred loans if we were required to repurchase a loan, where the repurchase price exceeded the loan's fair value, due to a breach in representations and warranties or a loss sharing arrangement associated with our continuing involvement with these loans. The estimate of losses related to breaches in representations and warranties was insignificant at September 30, 2018.

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

In millions	Residential Mortgages	Commercial Mortgages (a)
September 30, 2018		
Total principal balance	$ 55,085	$ 49,706
Delinquent loans (b)	$ 662	$ 240
December 31, 2017		
Total principal balance	$ 58,320	$ 49,116
Delinquent loans (b)	$ 899	$ 355
Three months ended September 30, 2018		
Net charge-offs (c)	$ 9	$ 117
Three months ended September 30, 2017		
Net charge-offs (c)	$ 13	$ 228
Nine months ended September 30, 2018		
Net charge-offs (c)	$ 34	$ 169
Nine months ended September 30, 2017		
Net charge-offs (c)	$ 62	$ 639

(a) Represents information at the securitization level in which we have sold loans and we are the servicer for the securitization.
(b) Serviced delinquent loans are 90 days or more past due or are in process of foreclosure.
(c) Net charge-offs for Residential mortgages represent credit losses less recoveries distributed and as reported to investors during the period. Net charge-offs for Commercial mortgages represent credit losses less recoveries distributed and as reported by the trustee for commercial mortgage backed securitizations. Realized losses for Agency securitizations are not reflected as we do not manage the underlying real estate upon foreclosure and, as such, do not have access to loss information.

Variable Interest Entities (VIEs)

As discussed in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in our 2017 Form 10-K, we are involved with various entities in the normal course of business that are deemed to be VIEs.

The following table provides a summary of non-consolidated VIEs with which we have significant continuing involvement but are not the primary beneficiary. We have excluded certain transactions with non-consolidated VIEs from the balances presented in Table 37 where we have determined that our continuing involvement is not significant. We do not consider our continuing involvement to be significant when it relates to a VIE where we only invest in securities issued by the VIE and were not involved in the design of the VIE or where no transfers have occurred between us and the VIE. In addition, where we only have lending arrangements in the normal course of business with entities that could be VIEs, we have excluded these transactions with non-consolidated entities from the balances presented in Table 37. These loans are included as part of the asset quality disclosures that we make in Note 3 Asset Quality.

Table 37: Non-Consolidated VIEs

In millions	PNC Risk of Loss (a)	Carrying Value of Assets Owned by PNC		Carrying Value of Liabilities Owned by PNC	
September 30, 2018					
Mortgage-Backed Securitizations (b)	$ 13,892	$ 13,892	(c)		
Tax Credit Investments and Other	3,015	3,003	(d)	$ 790	(e)
Total	$ 16,907	$ 16,895		$ 790	
December 31, 2017					
	$ 9,738	$ 9,738	(c)		

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

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

(b) Amounts reflect involvement with securitization SPEs where we transferred to and/or service loans for an SPE and we hold securities issued by that SPE. Values disclosed in the PNC Risk of Loss column represent our maximum exposure to loss for those securities' holdings.

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

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

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

We make certain equity investments in various tax credit limited partnerships or limited liability companies (LLCs). The purpose of these investments is to achieve a satisfactory return on capital and to assist us in achieving goals associated with the Community Reinvestment Act. During the nine months ended September 30, 2018, we recognized $168 million of amortization, $179 million of tax credits, and $39 million of other tax benefits associated with qualified investments in low income housing tax credits within Income taxes. The amounts for the third quarter of 2018 were $56 million, $60 million and $13 million, respectively.

NOTE 3 ASSET QUALITY

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency rates may be a key indicator, among other considerations, of credit risk within the loan portfolios. The measurement of delinquency status is based on the contractual terms of each loan. Loans that are 30 days or more past due in terms of payment are considered delinquent.

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

See Note 1 Accounting Policies in our 2017 Form 10-K for additional information on our loan related policies.
The following tables display the delinquency status of our loans and our nonperforming assets at September 30, 2018 and December 31, 2017, respectively.

Table 38: Analysis of Loan Portfolio (a)

	Accruing									
Dollars in millions	Current or Less Than 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due		Nonperforming Loans	Fair Value Option Nonaccrual Loans (c)	Purchased Impaired Loans	Total Loans (d)
September 30, 2018										
Commercial Lending										
Commercial	$113,189	$ 60	$ 35	$ 67	$ 162		$ 320			$ 113,671
Commercial real estate	28,484	8	3		11		68			28,563
Equipment lease financing	7,164	29	16		45		5			7,214
Total commercial lending	148,837	97	54	67	218		393			149,448
Consumer Lending										
Home equity	24,967	77	30		107		828		$ 726	26,628
Residential real estate	15,733	130	67	357	554	(b)	363	$ 177	1,376	18,203
Credit card	5,852	45	28	48	121		6			5,979
Other consumer										
Automobile	14,077	104	25	8	137		95			14,309
Education and other	8,186	98	54	139	291	(b)	9			8,486
	68,815	454	204	552	1,210		1,301	177	2,102	73,605

Total consumer lending									
Total	$217,652	$ 551	$ 258	$619	$1,428	$ 1,694	$ 177	$2,102	$223,053
Percentage of total loans	97.58 %	.25 %	.12 %	.28 %	.64 %	.76 %	.08 %	.94 %	100.00 %
December 31, 2017									
Commercial Lending									
Commercial	$109,989	$ 45	$ 25	$39	$109	$ 429			$110,527
Commercial real estate	28,826	27	2		29	123			28,978
Equipment lease financing	7,914	17	1		18	2			7,934
Total commercial lending	146,729	89	28	39	156	554			147,439
Consumer Lending									
Home equity	26,561	78	26		104	818		$881	28,364
Residential real estate	14,389	151	74	486	711 (b)	400	$ 197	1,515	17,212
Credit card	5,579	43	26	45	114	6			5,699
Other consumer									
Automobile	12,697	79	20	8	107	76			12,880
Education and other	8,525	105	64	159	328 (b)	11			8,864
Total consumer lending	67,751	456	210	698	1,364	1,311	197	2,396	73,019
Total	$214,480	$ 545	$ 238	$737	$1,520	$ 1,865	$ 197	$2,396	$220,458
Percentage of total loans	97.29 %	.25 %	.11 %	.33 %	.69 %	.85 %	.09 %	1.08 %	100.00 %

(a) Amounts in table represent recorded investment and exclude loans held for sale. Recorded investment in a loan includes the unpaid principal balance plus net accounting adjustments, less any charge-offs. Recorded investment does not include any associated valuation allowance.
(b) Past due loan amounts exclude purchased impaired loans, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans. Past due loan amounts include government insured or guaranteed Residential real estate mortgages totaling $.5 billion and $.6 billion at September 30, 2018 and December 31, 2017, respectively, and Education and other consumer loans totaling $.2 billion and $.3 billion at September 30, 2018 and December 31, 2017, respectively.
(c) Consumer loans accounted for under the fair value option for which we do not expect to collect substantially all principal and interest are subject to nonaccrual accounting and classification upon meeting any of our nonaccrual policies. Given that these loans are not accounted for at amortized cost, these loans have been excluded from the nonperforming loan population.
(d) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $1.2 billion at both September 30, 2018 and December 31, 2017.

At September 30, 2018, we pledged $17.0 billion of commercial loans to the Federal Reserve Bank and $63.7 billion of residential real estate and other loans to the Federal Home Loan Bank as collateral for the ability to borrow, if necessary. The comparable amounts at December 31, 2017 were $18.7 billion and $62.8 billion, respectively.

Table 39: Nonperforming Assets

Dollars in millions	September 30 2018	December 31 2017
Nonperforming loans		
Total commercial lending	$ 393	$ 554
Total consumer lending (a)	1,301	1,311
Total nonperforming loans	1,694	1,865
OREO, foreclosed and other assets	131	170
Total nonperforming assets	$ 1,825	$ 2,035
Nonperforming loans to total loans	.76 %	.85 %
Nonperforming assets to total loans, OREO, foreclosed and other assets	.82 %	.92 %
Nonperforming assets to total assets	.48 %	.53 %

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

Nonperforming loans also include certain loans whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. In accordance with applicable accounting guidance, these loans are considered troubled debt restructurings (TDRs). See Note 1 Accounting Policies in our 2017 Form 10-K and the TDR section of this Note 3.

Total nonperforming loans in Table 39 include TDRs of $.9 billion at September 30, 2018 and $1.0 billion at December 31, 2017. TDRs that are performing, including consumer credit card TDR loans, totaled $1.0 billion at September 30, 2018 and $1.1 billion at December 31, 2017, and are excluded from nonperforming loans. Nonperforming TDRs are returned to accrual status and classified as performing after demonstrating a period of at least six months of consecutive performance under the restructured terms. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to us and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status. See the TDRs section of this Note 3 for more information on TDRs.

Additional Asset Quality Indicators

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

Commercial Lending Loan Classes

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

Table 40: Commercial Lending Asset Quality Indicators (a)

In millions	Pass Rated	Criticized Commercial Loans Special Mention (b)	Substandard (c)	Doubtful (d)	Total Loans
September 30, 2018					
Commercial	$107,854	$2,046	$ 3,722	$ 49	$113,671
Commercial real estate	28,194	127	241	1	28,563
Equipment lease financing	7,063	84	64	3	7,214
Total commercial lending	$143,111	$2,257	$ 4,027	$ 53	$149,448
December 31, 2017					
Commercial	$105,280	$1,858	$ 3,331	$ 58	$110,527
Commercial real estate	28,380	148	435	15	28,978
Equipment lease financing	7,754	77	102	1	7,934
Total commercial lending	$141,414	$2,083	$ 3,868	$ 74	$147,439

(a) Loans are classified as "Pass", "Special Mention", "Substandard" and "Doubtful" based on the Regulatory Classification definitions. We use probability of default and loss given default to rate commercial loans.

(b) Special Mention rated loans have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects at some future date. These loans do not expose us to sufficient risk to warrant a more adverse classification at the reporting date.

(c) Substandard rated loans have a well-defined weakness or weaknesses that jeopardize the collection or liquidation of debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.

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

Consumer Lending Loan Classes

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

Home Equity and Residential Real Estate Loan Classes

The following table presents asset quality indicators for the home equity and residential real estate loan classes, excluding consumer purchased impaired loans of $2.1 billion and $2.4 billion at September 30, 2018 and December 31, 2017, respectively, and government insured or guaranteed residential real estate mortgages of $.7 billion and $.8 billion at September 30, 2018 and December 31, 2017, respectively.

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

September 30, 2018 - in millions	Home Equity 1st Liens	Home Equity 2nd Liens	Residential Real Estate	Total
Current estimated LTV ratios				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$163	$348	$ 134	$645
Less than or equal to 660 (b)	27	47	15	89
Missing FICO	1	4	1	6
Greater than or equal to 100% to less than 125% and updated FICO scores:				

Greater than 660	280	720	269	1,269
Less than or equal to 660 (b)	38	89	30	157
Missing FICO	1	5	3	9
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	299	814	315	1,428
Less than or equal to 660	41	93	24	158
Missing FICO	2	5	4	11
Less than 90% and updated FICO scores:				
Greater than 660	13,075	7,721	14,724	35,520
Less than or equal to 660	1,157	775	555	2,487
Missing FICO	35	48	92	175
Total home equity and residential real estate loans	$15,119	$10,669	$ 16,166	$41,954

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

(a) Amounts shown represent recorded investment.

(b) Higher risk loans are defined as loans with both an updated FICO score of less than or equal to 660 and an updated LTV greater than or equal to 100%. The following states had the highest percentage of higher risk loans at September 30, 2018: New Jersey 17%, Pennsylvania 17%, Illinois 12%, Ohio 9%, Maryland 7%, Florida 5%, North Carolina 5% and Michigan 4%. The remainder of the states had lower than 4% of the higher risk loans individually, and collectively they represent approximately 24% of the higher risk loans. The following states had the highest percentage of higher risk loans at December 31, 2017: New Jersey 17%, Pennsylvania 13%, Illinois 13%, Ohio 9%, Maryland 8%, Florida 6%, North Carolina 5% and Michigan 4%. The remainder of the states had lower than 4% of the higher risk loans individually, and collectively they represent approximately 25% of the higher risk loans.

Credit Card and Other Consumer Loan Classes

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

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

Dollars in millions	Credit Card Amount	Credit Card % of Total Loans Using FICO Credit Metric	Other Consumer (a) Amount	Other Consumer (a) % of Total Loans Using FICO Credit Metric
September 30, 2018				
FICO score greater than 719	$3,588	60 %	$10,385	58 %
650 to 719	1,672	28 %	5,087	28 %
620 to 649	268	5 %	1,048	6 %
Less than 620	326	5 %	1,034	6 %
No FICO score available or required (b)	125	2 %	395	2 %
Total loans using FICO credit metric	5,979	100 %	17,949	100 %
Consumer loans using other internal credit metrics (a)			4,846	
Total loan balance	$5,979		$22,795	
Weighted-average updated FICO score (b)		732		733

December 31, 2017						
FICO score greater than 719	$3,457	61	%	$10,366	63	%
650 to 719	1,596	28	%	4,352	27	%
620 to 649	250	4	%	659	4	%
Less than 620	272	5	%	715	4	%
No FICO score available or required (b)	124	2	%	314	2	%
Total loans using FICO credit metric	5,699	100	%	16,406	100	%
Consumer loans using other internal credit metrics (a)				5,338		
Total loan balance	$5,699			$21,744		
Weighted-average updated FICO score (b)		735			741	

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

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

Troubled Debt Restructurings (TDRs)

Table 43 quantifies the number of loans that were classified as TDRs, as well as the change in the loans' recorded investment as a result of becoming a TDR during the three and nine months ended September 30, 2018 and September 30, 2017. Additionally, the table provides information about the types of TDR concessions. See Note 3 Asset Quality in our 2017 Form 10-K for additional discussion of TDRs.

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

			Post-TDR Recorded Investment (c)			
During the three months ended September 30, 2018 Dollars in millions	Number of Loans	Pre-TDR Recorded Investment (b)	Principal Forgiveness	Rate Reduction	Other	Total
Total commercial lending	18	$ 115	$2	$ 24	$81	$107
Total consumer lending	3,147	45		19	23	42
Total TDRs	3,165	$ 160	$2	$ 43	$104	$149
During the three months ended September 30, 2017 Dollars in millions						
Total commercial lending	25	$ 44	$14		$30	$44
Total consumer lending	2,965	52		$ 36	15	51
Total TDRs	2,990	$ 96	$14	$ 36	$45	$95

			Post-TDR Recorded Investment (c)			
During the nine months ended September 30, 2018 Dollars in millions	Number of Loans	Pre-TDR Recorded Investment (b)	Principal Forgiveness	Rate Reduction	Other	Total
Total commercial lending	65	$ 145	$2	$ 26	$105	$133
Total consumer lending	9,015	129	1	66	52	119
Total TDRs	9,080	$ 274	$3	$ 92	$157	$252
During the nine months ended September 30, 2017 Dollars in millions						
Total commercial lending	107	$ 256	$18	$ 6	$191	$215
Total consumer lending	8,839	179		116	62	178
Total TDRs	8,946	$ 435	$18	$ 122	$253	$393

(a) Impact of partial charge-offs at TDR date are included in this table.

(b) Represents the recorded investment of the loans as of the quarter end prior to TDR designation, and excludes immaterial amounts of accrued interest receivable.

(c) Represents the recorded investment of the TDRs as of the end of the quarter in which the TDR occurs, and excludes immaterial amounts of accrued interest receivable.

After a loan is determined to be a TDR, we continue to track its performance under its most recent restructured terms. We consider a TDR to have subsequently defaulted when it becomes 60 days past due after the most recent date the loan was restructured. The recorded investment of loans that were both (i) classified as TDRs or were subsequently modified during each 12-month period preceding January 1, 2018 and January 1, 2017, respectively, and (ii) subsequently defaulted during the three and nine months ended September 30, 2018 totaled $19 million and $44 million, respectively. The comparable amounts for the three and nine months ended September 30, 2017 totaled $49 million and $107 million, respectively.

Impaired Loans

Impaired loans include commercial and consumer nonperforming loans and TDRs, regardless of nonperforming status. TDRs that were previously recorded at amortized cost and are now classified and accounted for as held for sale are also included. Excluded from impaired loans are nonperforming leases, loans accounted for as held for sale other than the TDRs described in the preceding sentence, loans accounted for under the fair value option, smaller balance homogeneous type loans and purchased impaired loans. We did not recognize any interest income on impaired loans that have not returned to performing status, while they were impaired during the nine months ended September 30, 2018 and September 30, 2017. Table 44 provides further detail on impaired loans individually evaluated for impairment and the associated allowance for loan and lease losses (ALLL). Certain commercial and consumer impaired loans do not have a related ALLL as the valuation of these impaired loans exceeded the recorded investment.

Table 44: Impaired Loans

In millions	Unpaid Principal Balance	Recorded Investment	Associated Allowance	Average Recorded Investment (a)
September 30, 2018				
Impaired loans with an associated allowance				
Total commercial lending	$ 494	$ 333	$ 65	$ 357
Total consumer lending	933	879	145	925
Total impaired loans with an associated allowance	1,427	1,212	210	1,282
Impaired loans without an associated allowance				
Total commercial lending	326	262		287
Total consumer lending	1,039	618		650
Total impaired loans without an associated allowance	1,365	880		937
Total impaired loans	$ 2,792	$ 2,092	$ 210	$ 2,219
December 31, 2017				
Impaired loans with an associated allowance				
Total commercial lending	$ 580	$ 353	$ 76	$ 419
Total consumer lending	1,061	1,014	195	1,072
Total impaired loans with an associated allowance	1,641	1,367	271	1,491
Impaired loans without an associated allowance				
Total commercial lending	494	366		330
Total consumer lending	1,019	638		648
Total impaired loans without an associated allowance	1,513	1,004		978
Total impaired loans	$ 3,154	$ 2,371	$ 271	$ 2,469

(a) Average recorded investment is for the nine months ended September 30, 2018 and the year ended December 31, 2017, respectively.

NOTE 4 ALLOWANCE FOR LOAN AND LEASE LOSSES

We maintain the ALLL at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the portfolios as of the balance sheet date. We use the two main portfolio segments – Commercial Lending and Consumer Lending, and develop and document the ALLL under separate methodologies for each of these portfolio segments. See Note 1 Accounting Policies in our 2017 Form 10-K for a description of the accounting policies for ALLL.

A rollforward of the ALLL and associated loan data follows:

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

At or for the nine months ended September 30 Dollars in millions	2018 Commercial Lending	2018 Consumer Lending	2018 Total	2017 Commercial Lending	2017 Consumer Lending	2017 Total
Allowance for Loan and Lease Losses						
January 1	$1,582	$1,029	$2,611	$1,534	$1,055	$2,589
Charge-offs	(92)	(472)	(564)	(155)	(422)	(577)
Recoveries	74	177	251	86	157	243
Net (charge-offs)	(18)	(295)	(313)	(69)	(265)	(334)
Provision for credit losses	48	212	260	153	163	316
Net decrease / (increase) in allowance for unfunded loan commitments and letters of credit	7	2	9	9	(1)	8
Other	(1)	18	17	1	25	26
September 30	$1,618	$966	$2,584	$1,628	$977	$2,605

TDRs individually evaluated for impairment	$28	$145	$173	$49	$194	$243
Other loans individually evaluated for impairment	37		37	44		44
Loans collectively evaluated for impairment	1,553	547	2,100	1,515	499	2,014
Purchased impaired loans		274	274	20	284	304
September 30	$1,618	$966	$2,584	$1,628	$977	$2,605
Loan Portfolio						
TDRs individually evaluated for impairment	$389	$1,497	$1,886	$429	$1,673	$2,102
Other loans individually evaluated for impairment	206		206	289		289
Loans collectively evaluated for impairment	148,853	69,253	218,106	147,751	67,603	215,354
Fair value option loans (a)		753	753		807	807
Purchased impaired loans		2,102	2,102	58	2,499	2,557
September 30	$149,448	$73,605	$223,053	$148,527	$72,582	$221,109
Portfolio segment ALLL as a percentage of total ALLL	63 %	37 %	100 %	62 %	38 %	100 %
Ratio of ALLL to total loans	1.08 %	1.31 %	1.16 %	1.10 %	1.35 %	1.18 %

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

NOTE 5 INVESTMENT SECURITIES

Table 46: Investment Securities Summary

In millions	September 30, 2018 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	December 31, 2017 Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale								
Debt securities								
U.S. Treasury and government agencies	$17,054	$91	$(294)	$16,851	$14,432	$173	$(84)	$14,521
Residential mortgage-backed								
Agency	28,694	46	(838)	27,902	25,534	121	(249)	25,406
Non-agency	2,034	331	(13)	2,352	2,443	336	(21)	2,758
Commercial mortgage-backed								
Agency	2,050		(85)	1,965	1,960	2	(58)	1,904
Non-agency	2,561	7	(29)	2,539	2,603	19	(9)	2,613
Asset-backed	5,545	64	(17)	5,592	5,331	74	(8)	5,397
Other debt	3,969	92	(51)	4,010	4,322	129	(17)	4,434
Total debt securities	61,907	631	(1,327)	61,211	56,625	854	(446)	57,033
Other (a)					587		(2)	585
Total securities available for sale	$61,907	$631	$(1,327)	$61,211	$57,212	$854	$(448)	$57,618
Securities Held to Maturity								
Debt securities								
U.S. Treasury and government agencies	$754	$19	$(38)	$735	$741	$37	$(13)	$765
Residential mortgage-backed								
Agency	15,962	6	(573)	15,395	14,503	77	(139)	14,441
Non-agency	155			155	167	7		174
Commercial mortgage-backed								
Agency	164	1	(2)	163	407	4		411
Non-agency	502		(1)	501	538	10		548
Asset-backed	187			187	200	1		201
Other debt	1,869	44	(28)	1,885	1,957	88	(20)	2,025
Total securities held to maturity	$19,593	$70	$(642)	$19,021	$18,513	$224	$(172)	$18,565

(a) On January 1, 2018, $.6 billion of available for sale securities, primarily money market funds, were reclassified to equity investments in accordance with the adoption of Accounting Standards Update (ASU) 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in our First Quarter 2018 Form 10-Q for additional detail on this adoption.

The fair value of investment securities is impacted by interest rates, credit spreads, market volatility and liquidity conditions. Net unrealized gains and losses in the securities available for sale portfolio are included in Shareholders' equity as AOCI, unless credit-related. Securities held to maturity are carried at amortized cost. At September 30, 2018, AOCI included pretax gains of $27 million from derivatives that hedged the purchase of investment securities classified as held to maturity. The gains will be accreted into interest income as an adjustment of yield on the securities.

Table 47 presents gross unrealized losses and fair value of debt securities at September 30, 2018 and December 31, 2017. The securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and twelve months or more based on the point in time that the fair value declined below the amortized cost basis. The table includes debt securities where a portion of other than temporary impairment (OTTI) has been recognized in AOCI.

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

In millions	Unrealized loss position less than 12 months		Unrealized loss position 12 months or more		Total	
	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
September 30, 2018						
Securities Available for Sale						
Debt securities						
U.S. Treasury and government agencies	$ (177)	$ 8,745	$ (117)	$ 2,253	$(294)	$10,998
Residential mortgage-backed						
Agency	(331)	15,278	(507)	9,409	(838)	24,687
Non-agency	(1)	105	(12)	308	(13)	413
Commercial mortgage-backed						
Agency	(8)	412	(77)	1,473	(85)	1,885
Non-agency	(19)	1,128	(10)	196	(29)	1,324
Asset-backed	(14)	3,095	(3)	372	(17)	3,467
Other debt	(24)	1,564	(27)	838	(51)	2,402
Total debt securities available for sale	$ (574)	$ 30,327	$ (753)	$ 14,849	$(1,327)	$45,176
Securities Held to Maturity						
Debt securities						
U.S. Treasury and government agencies			$ (38)	$ 429	$(38)	$429
Residential mortgage-backed - Agency	$ (232)	$ 8,631	(341)	5,797	(573)	14,428
Commercial mortgage-backed						
Agency	(2)	64			(2)	64
Non-agency	(1)	344			(1)	344
Other debt	(7)	144	(21)	102	(28)	246
Total debt securities held to maturity	$ (242)	$ 9,183	$ (400)	$ 6,328	$(642)	$15,511
December 31, 2017						
Securities Available for Sale						
Debt securities						
U.S. Treasury and government agencies	$ (42)	$ 6,099	$ (42)	$ 1,465	$(84)	$7,564
Residential mortgage-backed						
Agency	(47)	8,151	(202)	9,954	(249)	18,105
Non-agency			(21)	383	(21)	383
Commercial mortgage-backed						
Agency	(11)	524	(47)	1,302	(58)	1,826
Non-agency	(3)	400	(6)	333	(9)	733
Asset-backed	(4)	1,697	(4)	462	(8)	2,159
Other debt	(3)	966	(14)	798	(17)	1,764
Total debt securities available for sale	$ (110)	$ 17,837	$ (336)	$ 14,697	$(446)	$32,534
Securities Held to Maturity						
Debt securities						
U.S. Treasury and government agencies	$ (3)	$ 195	$ (10)	$ 255	$(13)	$450
Residential mortgage-backed - Agency	(10)	3,167	(129)	6,168	(139)	9,335
Other debt	(12)	83	(8)	67	(20)	150
Total debt securities held to maturity	$ (25)	$ 3,445	$ (147)	$ 6,490	$(172)	$9,935

Evaluating Investment Securities for OTTI

For the securities in Table 47, as of September 30, 2018 we do not intend to sell and believe we will not be required to sell the securities prior to recovery of the amortized cost basis.

On at least a quarterly basis, we review all debt securities that are in an unrealized loss position for OTTI, as discussed in Note 1 Accounting Policies of our 2017 Form 10-K. For those securities on our Consolidated Balance Sheet at September 30, 2018, where during our quarterly security-level impairment assessments we determined losses represented OTTI, we have recorded cumulative credit losses of $1.1 billion in earnings and accordingly have reduced the amortized cost of our securities.

The majority of these cumulative impairment charges related to non-agency residential mortgage-backed and asset-backed securities rated BB or lower. During the first nine months of 2018 and 2017, the OTTI credit losses recognized in noninterest income and the OTTI noncredit losses recognized in AOCI on securities were not significant.

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

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

Nine months ended September 30 In millions	Proceeds	Gross Gains	Gross Losses	Net Gains (Losses)	Tax Expense (Benefit)
2018	$ 5,464	$ 43	$ (48)	(5)	$ (1)
2017	$ 4,221	$ 31	$ (21)	$ 10	$ 3

The following table presents, by remaining contractual maturity, the amortized cost, fair value and weighted-average yield of debt securities at September 30, 2018.

Table 49: Contractual Maturity of Debt Securities

September 30, 2018 Dollars in millions	1 Year or Less	After 1 Year through 5 Years	After 5 Years through 10 Years	After 10 Years	Total
Securities Available for Sale					
U.S. Treasury and government agencies	$ 265	$ 12,052	$ 4,434	$303	$17,054
Residential mortgage-backed					
Agency	2	67	611	28,014	28,694
Non-agency				2,034	2,034
Commercial mortgage-backed					
Agency	4	457	412	1,177	2,050
Non-agency			445	2,116	2,561
Asset-backed	18	2,129	2,110	1,288	5,545
Other debt	604	1,694	692	979	3,969
Total debt securities available for sale	$ 893	$ 16,399	$ 8,704	$35,911	$61,907
Fair value	$ 892	$ 16,160	$ 8,666	$35,493	$61,211
Weighted-average yield, GAAP basis	2.63 %	2.17 %	2.93 %	3.16 %	2.85 %
Securities Held to Maturity					
U.S. Treasury and government agencies			$ 484	$270	$754
Residential mortgage-backed					
Agency		$ 69	507	15,386	15,962
Non-agency				155	155
Commercial mortgage-backed					
Agency	$ 62	47	4	51	164
Non-agency				502	502
Asset-backed		12	100	75	187
Other debt	34	532	803	500	1,869
Total debt securities held to maturity	$ 96	$ 660	$ 1,898	$16,939	$19,593
Fair value	$ 96	$ 668	$ 1,912	$16,345	$19,021
Weighted-average yield, GAAP basis	4.67 %	3.82 %	3.45 %	3.26 %	3.30 %

Weighted-average yields are based on amortized cost with effective yields weighted for the contractual maturity of each security. At September 30, 2018, there were no securities of a single issuer, other than the Federal National Mortgage Association (FNMA), that exceeded 10% of Total shareholders’ equity. The FNMA investments had a total amortized cost of $36.5 billion and fair value of $35.3 billion.

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

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

In millions	September 30 2018	December 31 2017
Pledged to others	$ 9,166	$ 8,175
Accepted from others:		
Permitted by contract or custom to sell or repledge	$ 790	$ 1,152
Permitted amount repledged to others	$ 790	$ 1,097

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

NOTE 6 FAIR VALUE

Fair Value Measurement

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

For more information on the valuation methodologies used to measure assets and liabilities at fair value on a recurring basis, see Note 6 Fair Value in our 2017 Form 10-K. The following table summarizes our assets and liabilities measured at fair value on a recurring basis, including instruments for which we have elected the fair value option.
Table 51: Fair Value Measurements – Recurring Basis Summary

	September 30, 2018				December 31, 2017			
In millions	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets								
Residential mortgage loans held for sale		$628	$3	$ 631		$829	$3	$ 832
Commercial mortgage loans held for sale		329	89	418		723	107	830
Securities available for sale								
U.S. Treasury and government agencies	$16,422	429		16,851	$14,088	433		14,521
Residential mortgage-backed								
Agency		27,902		27,902		25,406		25,406
Non-agency		84	2,268	2,352		97	2,661	2,758
Commercial mortgage-backed								
Agency		1,965		1,965		1,904		1,904
Non-agency		2,539		2,539		2,613		2,613
Asset-backed		5,299	293	5,592		5,065	332	5,397
Other debt		3,921	89	4,010		4,347	87	4,434
Total debt securities	16,422	42,139	2,650	61,211	14,088	39,865	3,080	57,033
Other (a)					524	61		585
Total securities available for sale	16,422	42,139	2,650	61,211	14,612	39,926	3,080	57,618
Loans		472	281	753		571	298	869
Equity investments (b)	591	59	1,042	1,904			1,036	1,265
Residential mortgage servicing rights			1,370	1,370			1,164	1,164
Commercial mortgage servicing rights			766	766			668	668
Trading securities (c)	1,678	1,883	2	3,563	1,243	1,670	2	2,915
Financial derivatives (c) (d)		1,781	8	1,789		2,864	10	2,874
Other assets	309	186	58	553	278	253	107	638
Total assets	$19,000	$47,477	$6,269	$ 72,958	$16,133	$46,836	$6,475	$ 69,673
Liabilities								
Other borrowed funds	$517	$361	$9	$ 887	$1,079	$254	$11	$ 1,344
Financial derivatives (d) (e)		2,600	342	2,942		2,369	487	2,856

Other liabilities			55	55			33	33
Total liabilities	$517	$2,961	$406	$ 3,884	$1,079	$2,623	$531	$ 4,233

(a) Prior period amounts included $.6 billion of available for sale securities, primarily money market funds, that were reclassified to equity investments on January 1, 2018 as the result of the adoption of ASU 2016-01. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies in our First Quarter 2018 Form 10-Q for additional details on this adoption.

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

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

(d) Amounts at September 30, 2018 and December 31, 2017 are presented gross and are not reduced by the impact of legally enforceable master netting agreements that allow us to net positive and negative positions and cash collateral held or placed with the same counterparty. See Note 9 Financial Derivatives for additional information related to derivative offsetting.

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

Reconciliations of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for the three and nine months ended September 30, 2018 and 2017 follow:

Table 52: Reconciliation of Level 3 Assets and Liabilities

Three Months Ended September 30, 2018

Level 3 Instruments Only In millions	Fair Value June 30, 2018	Total realized / unrealized gains or losses for the period (a) Included in Earnings	Included in Other comprehensive income	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Fair Value Sept. 30, 2018	Unrealized gains / losses on assets and liabilities held on Consolidated Balance Sheet at September 30, 2018 (a) (b)
Assets											
Residential mortgage loans held for sale	$4			$ 2	$(1)			$ 5	$ (7)	$3	
Commercial mortgage loans held for sale	91	$ 1					$ (3)			89	
Securities available for sale											
Residential mortgage-backed non-agency	2,405	18	$ (1)				(154)			2,268	
Asset-backed	308	2	(3)				(14)			293	
Other debt	91		1	2					(5)	89	
Total securities available for sale	2,804	20	(3)	2			(168)		(5)	2,650	
Loans	282	4		25	(18)		(1)	8	(19)	281	
Equity investments	1,167	81		52	(258)					1,042	$ 18
Residential mortgage servicing rights	1,297	41		66		$ 12	(46)			1,370	41
Commercial mortgage servicing rights	748	23		16		16	(37)			766	23
Trading securities	2									2	
Financial derivatives	16	9					(17)			8	11
Other assets	63	(3)					(2)			58	(3)
Total assets	$6,474	$ 176	$ (3)	$ 163	$(277)	$ 28	$ (274)	$ 13	$ (31)	$6,269	$ 90
Liabilities											
Other borrowed funds	$7					$ 18	$ (16)			$9	
Financial derivatives	384	$ 26			$5		(73)			342	$ 32
Other liabilities	47	4				58	(54)			55	
Total liabilities	$438	$ 30			$5	$ 76	$ (143)			$406	$ 32
Net gains (losses)		$ 146 (c)									$ 58 (d)

Three Months Ended September 30, 2017

Level 3 Instruments Only In millions	Fair Value June 30, 2017	Total realized / unrealized gains or losses for the period (a)		Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Fair Value Sept. 30, 2017	Unrealized gains / losses on assets and liabilities held on Consolidated Balance Sheet at September 30, 2017 (a) (b)
		Included in Earnings	Included in Other comprehensive income								
Assets											
Residential mortgage loans held for sale	$5			$ 2				$ 1	$ (6)	$2	
Commercial mortgage loans held for sale	982	$ 14			$(1,280)	$ 1,066	$ (24)			758	$ (2)
Securities available for sale											
Residential mortgage-backed non-agency	2,964	19	$ 61				(199)			2,845	
Asset-backed	361	3	4		(1)		(19)			348	
Other debt	78		3	9	(7)					83	
Total securities available for sale	3,403	22	68	9	(8)		(218)			3,276	
Loans	290	2		20	(3)		(14)	5	(9)	291	
Equity investments	987	54		103	(83)					1,061	38
Residential mortgage servicing rights	1,249	(10)		18		14	(45)			1,226	(9)
Commercial mortgage servicing rights	618	6		14		19	(29)			628	6
Trading securities	2									2	
Financial derivatives	22	16		1			(17)			22	22
Other assets	89	5								94	5
Total assets	$7,647	$ 109	$ 68	$ 167	$(1,374)	$ 1,099	$ (347)	$ 6	$ (15)	$7,360	$ 60
Liabilities											
Other borrowed funds	$8					$ 16	$ (15)			$9	
Financial derivatives	248	$ 16			$1		(17)			248	$ 13
Other liabilities	33	3				16	(18)			34	4
Total liabilities	$289	$ 19			$1	$ 32	$ (50)			$291	$ 17

Net gains (losses)	$ 90	(c)	$ 43	(d)

(continued on following page)

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Nine Months Ended September 30, 2018

Level 3 Instruments Only In millions	Fair Value Dec. 31, 2017	Total realized / unrealized gains or losses for the period (a) Included in Earnings	Included in Other comprehensive income	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Fair Value Sept. 30, 2018	Unrealized gains / losses on assets and liabilities held on Consolidated Balance Sheet at September 30, 2018 (a) (b)
Assets											
Residential mortgage loans held for sale	$ 3			$ 4	$ (2)			$ 10	$ (12)	$ 3	
Commercial mortgage loans held for sale	107						$ (18)			89	
Securities available for sale											
Residential mortgage-backed non-agency	2,661	$ 38	$ 7				(438)				