Mueller Water Products, Inc.
Form 10-K
November 24, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number: 001-32892

MUELLER WATER PRODUCTS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-3547095**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1200 Abernathy Road N.E.

Suite 1200

Atlanta, GA 30328

(Address of Principal Executive Offices)

Registrant s telephone number: **(770) 206-4200**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Series A Common Stock, par value $0.01	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

¨ Yes x No

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.

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

¨ Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.505 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

x Large accelerated filer	¨ Accelerated filer	¨ Non-accelerated filer (Do not check if a smaller reporting company)	¨ Smaller reporting company

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

There were 154,722,327 shares of Series A common stock of the registrant outstanding at November 14, 2010. At March 31, 2010, the aggregate market value of the voting and non-voting common stock held by non-affiliates was $732 million based on the closing price per share as reported on the New York Stock Exchange.

DOCUMENTS INCORPORATED BY REFERENCE

Applicable portions of the Proxy Statement for the Annual Meeting of Stockholders of the Company to be held January 26, 2011 are incorporated by reference into Part III of this Form 10-K.

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Introductory Note

In this annual report on Form 10-K (the annual report), (1) the Company, we, us or our refer to Mueller Water Products, Inc. and its subsidia including Mueller Co., U.S. Pipe and Anvil International or their management; (2) Mueller Co. refers to Mueller Co. Ltd., our subsidiary; (3) U.S. Pipe refers to United States Pipe and Foundry Company, LLC, our subsidiary; and (4) Anvil International refers to Anvil International, L.P., our subsidiary. With regard to the Company s segments, we, us or our may also refer to the segment being discussed or its management.

Certain of the titles and logos of our products referenced in this annual report are our intellectual property. Each trade name, trademark or servicemark of any other company appearing in this annual report is the property of its holder.

Unless the context indicates otherwise, whenever we refer in this annual report to a particular year, we mean the fiscal year ended or ending September 30 in that particular calendar year. We manage our businesses and report operations through three business segments: Mueller Co., U.S. Pipe and Anvil, based largely on the products sold and the customers served.

Industry and Market Data

In this annual report, we rely on and refer to information and statistics from third-party sources regarding economic conditions and trends, the demand for our water infrastructure products, flow control and piping component system products and services and the competitive conditions we face in serving our customers and end users. We believe that these sources of information and estimates are reliable and accurate, but we have not independently verified them.

Most of our primary competitors are not publicly traded. Accordingly, other than certain trade data with respect to fire hydrants, ductile iron pipe and valves, no current public information is available with respect to the size of such markets or our relative strength or competitive position. Our statements in this annual report about our relative market strength and competitive position with respect to other products are based on our beliefs, studies and judgments concerning industry trends.

Forward-Looking Statements

This annual report contains certain statements that may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, that address activities, events or developments that we intend, expect, plan, project, believe or anticipate will or may occur in the future are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding general economic conditions, spending by municipalities, the outlook for the residential and non-residential construction markets and the recovery, if any, of our end markets and the impact of these factors on our businesses. Forward-looking statements are based on certain assumptions and assessments made by us in light of our experience and perception of historical trends, current conditions and expected future developments. Actual results and the timing of events may differ materially from those contemplated by the forward-looking statements due to a number of factors, including regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- the spending level for water and wastewater infrastructure;
- the demand level of manufacturing and construction activity;
- our ability to service our debt obligations; and
- the other factors that are described under the section entitled RISK FACTORS in Item 1A of Part I of this annual report.

Undue reliance should not be placed on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements except as required by law.

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* All or a portion of the referenced section incorporated by reference from our definitive proxy statement that will be issued in connection with the Annual Meeting of Stockholders to be held on January 26, 2011.

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PART I

Item 1. BUSINESS
Our Company

Mueller Water Products, Inc. is a leading North American manufacturer and marketer of a broad range of products and services that are used in the transmission and distribution of drinking water and in water treatment facilities. Our product portfolio includes engineered valves, fire hydrants, pipe fittings, water meters and ductile iron pipe, which are used by municipalities, as well as the residential and non-residential construction industries, for heating, ventilation and air conditioning (HVAC), fire protection, industrial, energy and oil & gas applications. Our products enjoy leading positions due to their strong brand recognition and reputation for quality and service. We believe that we have one of the largest installed bases of iron gate valves and fire hydrants in the United States. At September 30, 2010, our installed products included more than 10 million iron gate valves and more than three million fire hydrants. Our valve or fire hydrant products are specified for use in the 100 largest metropolitan areas in the United States. Our large installed base, broad product range and well-known brands have led to long-standing relationships with the key distributors and end users of our products. Approximately 77% of our net sales during 2010 came from products for which we believe we have a leadership position in the United States and Canada. For 2010, our net sales were $1,337.5 million.

We manage our businesses and report operations through three business segments, based largely upon the products sold and the customers served: Mueller Co., U.S. Pipe and Anvil.

Mueller Co.

Mueller Co. manufactures valves for water and gas systems, including iron gate, butterfly, tapping, check, plug and ball valves, as well as dry-barrel and wet-barrel fire hydrants and a broad line of metering and pipe repair products such as clamps and couplings used to repair leaks. The business also provides residential and commercial meter products. Sales of Mueller Co. products are driven principally by spending on water and wastewater infrastructure upgrade, repair and replacement and construction of new water and wastewater infrastructure, which is typically associated with construction of new residential community developments. Mueller Co. products are sold primarily to waterworks distributors. We estimate that a substantial majority of Mueller Co. s 2010 net sales were for infrastructure upgrade, repair and replacement.

U.S. Pipe

U.S. Pipe manufactures a broad line of ductile iron pipe, restraint joint products and other ductile iron products. U.S. Pipe products are sold primarily to waterworks distributors, contractors, municipalities, utilities and other governmental agencies. A substantial percentage of ductile iron pipe orders result from contracts that are bid by contractors or directly issued by municipalities or utilities. We estimate that a substantial majority of U.S. Pipe s 2010 net sales were for infrastructure upgrade, repair and replacement.

Anvil

Anvil manufactures and sources a broad range of products including a variety of fittings, couplings, hangers, nipples, valves and related pipe products for use in all forms of non-residential construction for HVAC, fire protection, industrial, energy and oil & gas applications. Anvil sells primarily to distributors who then sell the products to a wide variety of end users. These distributors are serviced primarily through Anvil s distribution centers. We believe Anvil s network of distributors is the largest such distribution network serving similar end users.

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Major products and selected brand names

The table below illustrates each segment s net sales during 2010, major product lines, product positions, selected brand names and primary end users.

	Mueller Co.	**U.S. Pipe**	**Anvil**
Net sales (in millions)	$612.8	$377.8	$346.9
Major product lines (product position in U.S. and Canada*)	Fire hydrants (#1) Iron gate valves (#1) Butterfly and ball valves (#1) Plug valves (#2) Brass water products (#2)	Ductile iron pipe (#1)	Pipe fittings and couplings (#1) Grooved products (#2) Pipe hangers (#2)
Selected brand names	Mueller® Pratt® Milliken Jones® Hersey® HydroGate® Canada Valve Mueller Service Mueller Systems Mi.Net Mi.Hydrant	U.S. Pipe® Tyton® Tyton Joint® TR Flex® Usiflex® Field Lok® MJ Field Lok® HP Lok ® Fast Fab® Trim Tyton®	Anvil® AnvilStar® SPF® Merit® Gruvlok® J.B. Smith Anvil-Strut® Catawissa
Primary end users	Water and wastewater infrastructure	Water and wastewater infrastructure	HVAC, fire protection, industrial, energy and oil & gas

* Product position information is based on our estimates of our net sales compared to the net sales of our principal competitors for these product categories. Our estimates were based on internal analyses and information from trade associations and our distributor networks, where available.

The Public Offerings and the Spin-off

Mueller Water Products, Inc. is a Delaware corporation that was incorporated on September 22, 2005 under the name Mueller Holding Company, Inc. It is the surviving corporation of the merger on February 2, 2006 of Mueller Water Products, LLC and Mueller Water Products Co-Issuer, Inc. with and into Mueller Holding Company, Inc. We changed our name to Mueller Water Products, Inc. on February 2, 2006. On June 1, 2006, we completed an initial public offering of 28,750,000 shares of Series A common stock.

On December 14, 2006, Walter Energy, Inc. (Walter Energy , formerly Walter Industries, Inc.) distributed to its shareholders 85,844,920 shares of our Series B common stock (the Spin-off). On January 28, 2009, each share of Series B common stock was converted into one share of Series A common stock.

On September 23, 2009, we completed a public offering of 37,122,000 shares of Series A common stock.

Our principal executive offices are located at 1200 Abernathy Road N.E., Suite 1200, Atlanta, Georgia 30328, and our main telephone number at that address is (770) 206-4200.

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Business Strategy

Our business strategy is to capitalize on the large, attractive and growing water infrastructure markets worldwide. Key elements of this strategy are as follows:

We will maintain our leadership positions with our customers and end users.

We will maintain our leadership positions with our customers and end users by leveraging our large installed base; the specification of our products (valves or fire hydrants) in all of the largest 100 metropolitan areas in the United States; our established and extensive distribution channels; and our broad range of leading water infrastructure, flow control and piping component system products, as well as by developing and introducing additional products and services.

We will continue to enhance operational excellence.

We will continue to pursue superior product engineering, design and manufacturing by investing in technologically advanced manufacturing processes such as lost foam casting and automated molding machinery. We will also seek opportunities to improve manufacturing efficiency safely by increasing the use of automated ductile iron pipe processes and the use of our manufacturing facility in China and continuing our other cost-reduction and efficiency initiatives. We will continue to expand the use of LEAN manufacturing and Six Sigma business improvement methodologies where appropriate to safely capture higher levels of quality, service and operational efficiency. We will also continue to evaluate sourcing certain products wherever doing so will lower our costs while maintaining quality and service.

We will increase the breadth and depth of our products and services.

We will continue to focus on delivering value to our customers and end users by increasing the breadth and depth of our products and services. Further, though acquisition and internal development of proprietary technologies and intellectual capital, we will continue to enhance and develop products and services that will be recognized for their quality and reliability.

We will expand internationally.

We will selectively pursue attractive international opportunities, including potential acquisitions, that may enable us to enter new markets with growth potential, strengthen our current competitive positions, enhance our existing product offerings, expand our technological capabilities or provide synergy opportunities.

Description of Products and Services

We offer a broad line of water infrastructure, flow control and piping component system products in the United States and Canada. Our principal products are ductile iron pipe, water and gas valves, fire hydrants, water meters and systems and a broad range of pipe fittings, couplings, hangers and nipples. Our products are generally designed, manufactured and tested in compliance with industry standards.

Mueller Co.

Water and Gas Valves and Related Products. Mueller Co. manufactures valves for water and gas systems, including iron gate, butterfly, tapping, check, plug and ball valves. Water and gas valves and related products accounted for $411.6 million, $370.0 million and $470.5 million of our gross sales during 2010, 2009 and 2008, respectively. All of our valve products are used to control transmission of potable (drinkable) water, non-potable water or gas. Water valve products typically range in size from $^{3}/4$ inch to 36 inches in diameter, but we also manufacture significantly larger valves as custom order work through our Henry Pratt division. Most of these valves are used in water distribution and water treatment facilities.

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We also produce small valves, meter bars and line stopper fittings for use in gas systems. In addition, we manufacture machines and tools for tapping, drilling, extracting, installing and stopping-off, which are designed to work with our water and gas fittings and valves as an integrated system.

Fire Hydrants. Mueller Co. manufactures dry-barrel and wet-barrel fire hydrants. Sales of fire hydrants and fire hydrant parts accounted for $137.6 million, $114.4 million and $175.4 million of our gross sales in 2010, 2009 and 2008, respectively. We sell fire hydrants for new water infrastructure development, fire protection systems and water infrastructure repair and replacement projects.

Our fire hydrants consist of an upper barrel and nozzle section and a lower barrel and valve section that connects to a water main. In dry-barrel hydrants, the valve connecting the barrel of the hydrant to the water main is located below ground at or below the frost line, which keeps the hydrant upper barrel dry. We sell dry-barrel fire hydrants with the Mueller and U.S. Pipe brand names in the United States and the Mueller and Canada Valve brand names in Canada. We also make wet-barrel hydrants, where the valves are located in the hydrant nozzles and the barrel contains water at all times. Wet-barrel hydrants are made for warm weather climates in locations such as California and Hawaii and sold under the Jones brand name.

Most municipalities have a limited number of fire hydrant brands that are approved for installation within their system due to the desire to use the same tools and operating instructions across their system and to minimize inventories of spare parts. We believe that our large installed base of fire hydrants throughout the United States and Canada and our reputation for superior quality and performance, together with our incumbent specification position, have contributed to the leading positions of our fire hydrants. Our large installed base of more than three million fire hydrants also leads to recurring sales as components of an installed hydrant are replaced.

Other Products and Services. Mueller Co. manufactures a broad line of metering products for the water industry, marketed under the Mueller Systems and Hersey Meters names. These products have the capability to measure water from small residential flows to large fire and master meter applications. We also offer Automated Meter Reading and Advanced Meter Infrastructure metering solutions. Other products include pipe repair products, such as clamps and couplings used to repair leaks and municipal castings, such as manhole covers and street drain grates. We sell these products under the Mueller and Jones brand names. We also provide installation, replacement and maintenance services on new and existing valves, fire hydrants and service lines under the Mueller Service brand name. Services include wet taps, dry installs, line stops and main-to-meter connections with full excavation and refurbishment.

U.S. Pipe

U.S. Pipe manufactures a broad line of ductile iron pipe, restraint joint products, fittings and other ductile cast iron products. Ductile iron is a cast iron that is heat-treated to make it less brittle. U.S. Pipe s net sales were $377.8 million, $410.9 million and $546.0 million during 2010, 2009 and 2008, respectively.

Our ductile iron pipe typically ranges from 4 inches to 64 inches in diameter and up to 20 feet in length. Ductile iron pipe is used primarily for potable water distribution systems, small water system grids, reinforcing distribution systems (including looping grids and supply lines), major water transmission mains, wastewater collection systems, sewer force mains and water treatment plants. We believe ductile iron pipe is preferred for most municipal uses because of its longevity, strength, ease of installation, lack of maintenance problems and environmental sustainability.

Our Fast Fabricators business manufactures and sells a broad line of fabricated pipe, coated pipe and lined pipe products used primarily in wastewater treatment facilities.

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Anvil

Anvil products include a variety of fittings, couplings, hangers, nipples, valves and related pipe products for use in non-residential construction for industrial, power, HVAC, fire protection, energy and oil & gas applications. Anvil s net sales were $346.9 million, $469.9 million and $595.2 million in 2010, 2009 and 2008, respectively, of which $100.3 million, $179.5 million and $229.7 million, respectively, were of products manufactured by third parties.

The majority of Anvil products are not specified by an architect or an engineer, but are required to be manufactured to industry specifications, which could include material composition, tensile strength and various other requirements. Many products carry the Underwriters Laboratory (UL), Factory Mutual (FM) or other approval rating.

Fittings and Couplings. Anvil manufactures threaded and grooved pipe fittings. Pipe fittings and couplings join two pieces of pipe together. Listed below are the four primary categories of pipe fittings and couplings that we manufacture.

Cast Iron Fittings. Cast iron is the most economical threaded fittings material and is the standard used in the United States for low pressure applications such as sprinkler systems and other fire protection systems. We believe that the substantial majority of our cast iron products are used in the fire protection industry, with the remainder used in steam and other HVAC applications.

Malleable Iron Fittings and Unions. Malleable iron is a cast iron that is heat-treated to make it stronger, allowing a thinner wall and a lighter product. Malleable iron is primarily used to join pipe in various gas, plumbing and HVAC applications.

Grooved Fittings, Couplings and Valves. Grooved products use a threadless pipe-joining method that does not require welding.

Threaded Steel Pipe Couplings. Threaded steel pipe couplings are used by plumbing and electrical end users to join pipe and conduit and by pipe mills as threaded end protectors.

Hangers. Anvil manufactures a broad array of pipe hangers and supports. Standard pipe hangers and supports are used in fire protection sprinkler systems and HVAC applications where the objective is to provide rigid support from the building structure. Special order, or engineered, pipe supports are used in power plants, petrochemical plants and refineries where the objective is to support a piping system that is subject to thermal, dynamic or seismic movement.

Nipples. Anvil manufactures pipe nipples, which are used to expand or compress the flow between pipes of different diameters. The pipe nipples product line is a complementary product offering that is packaged with cast iron fittings for fire protection products, malleable iron fittings for industrial applications and our forged steel products for oil & gas and chemical applications. Pipe nipples are also general plumbing items.

Other Products. Anvil also distributes other products, including forged steel pipe fittings, hammer unions, bull plugs and swage nipples used to connect pipe in oil & gas applications.

Sales, Marketing and Distribution

We sell primarily to distributors. Our distributor relationships are generally non-exclusive, but we attempt to align ourselves with key distributors in every market we serve. We believe we have the most recognized brands in the water infrastructure industry.

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Mueller Co.

Mueller Co. sells its products, primarily through distributors, to a wide variety of end user customers, including municipalities, water and wastewater utilities, gas utilities, and fire protection and construction contractors. Sales of our products are heavily influenced by the specifications for the underlying projects. Approximately 22%, 17% and 19% of Mueller Co. s net sales were to Canadian customers in 2010, 2009 and 2008, respectively.

At September 30, 2010, Mueller Co. had 108 sales representatives in the field and 113 inside marketing and sales professionals, as well as 88 non-employee manufacturers representatives. In addition to calling on distributors, these representatives also call on municipalities, water companies and other end users to ensure that the products specified for their projects are our products or comparable to our products. Municipalities often require contractors to use the same products that have been historically used by that municipality.

Mueller Co. s large installed base, broad product range and well-known brands have led to many long-standing relationships with the leading distributors in the industries we serve. Our distribution network covers all of the major locations for our products in the United States and Canada. Although we have long-term relationships with most of our top distributors, we typically do not have long-term contracts with them. Distributors are generally able to carry competitor products and we do not have written contracts with our two largest distributors. These top two distributors together accounted for approximately 31%, 31% and 36% of Mueller Co. s gross sales in 2010, 2009 and 2008, respectively. The loss of either of these distributors could have a material adverse effect on our business. See Item 1A. RISK FACTORS We depend on a small group of major distributors for a significant portion of our sales.

U.S. Pipe

U.S. Pipe sells primarily to waterworks distributors, contractors, municipalities, utilities and other governmental agencies. A substantial percentage of ductile iron pipe orders result from contracts that are bid by contractors or directly issued by municipalities or utilities. An increasing portion of ductile iron pipe sales is made through independent waterworks distributors. We maintain numerous supply depots throughout the United States to better serve our customers.

At September 30, 2010, U.S. Pipe had a sales force of 35 sales representatives.

U.S. Pipe s top customer, HDS IP Holding, LLC (HD Supply) with whom we do not have a written contract, represented approximately 14%, 15% and 17% of U.S. Pipe s gross sales in 2010, 2009 and 2008, respectively. The loss of this customer could have a material adverse effect on our business. See Item 1A. RISK FACTORS We depend on a small group of major distributors for a significant portion of our sales.

Anvil

Anvil sells primarily to distributors who then sell the products to a wide variety of end users, including commercial contractors. At September 30, 2010, Anvil s sales force consisted of 137 sales and customer service representatives and 25 independent sales representatives. Anvil ships products primarily from four major regional distribution centers, from which we are generally able to provide 24-hour turnaround. Approximately 14%, 26% and 26% of Anvil s net sales were to Canadian customers during 2010, 2009 and 2008, respectively.

Anvil generally does not have written contracts with its distributors, although it has long-term relationships with most of its top distributors. Anvil s top three distributors together accounted for approximately 14%, 12% and 13% of Anvil s gross sales in 2010, 2009 and 2008, respectively. The loss of any one of these distributors could have a material adverse effect on our business. See Item 1A. RISK FACTORS We depend on a small group of major distributors for a significant portion of our sales.

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Backlog

Our backlog is not significant, except for U.S. Pipe and the Henry Pratt division of Mueller Co. Henry Pratt manufactures parts for large projects that typically require design and build specifications. The delivery lead time for parts used for these projects can be as long as nine months. Backlog for U.S. Pipe and Henry Pratt is presented below.

	September 30,	
	2010	2009
	(in millions)	
U.S. Pipe	$ 27.0	$ 58.3
Henry Pratt	61.3	63.8

Manufacturing

See Item 2. PROPERTIES for a description of our principal manufacturing facilities.

We will continue to expand the use of LEAN manufacturing and Six Sigma business improvement methodologies where appropriate to capture higher levels of quality, service and operational efficiency safely.

Mueller Co.

At September 30, 2010, Mueller Co. operated 13 manufacturing facilities in the United States, Canada and China. Our manufacturing operations include foundry, machining, fabrication, assembly, testing and painting operations. Not all facilities perform each of these operations. Our existing manufacturing capacity is sufficient for near-term requirements. We have no current plans to expand capacity.

Mueller Co. foundries use lost foam and green sand casting techniques. We utilize lost foam technology for fire hydrant production in our Albertville, Alabama facility and for iron gate valve production in our Chattanooga, Tennessee facility. The lost foam technique has several advantages over the green sand technique for high-volume products, including a reduction in the number of manual finishing operations, lower scrap levels and the ability to reuse some of the materials. The selection of the appropriate casting technique, pattern, core-making equipment, sand and other raw materials depends on the final product and its complexity, specifications, function and production volume.

U.S. Pipe

At September 30, 2010, U.S. Pipe operated two facilities in the United States for manufacturing ductile iron pipe. We utilize the DeLavaud centrifugal casting process, which consists of introducing molten iron into a rapidly turning steel mold and relying on the centrifugal force to distribute molten iron around the inner surface of the mold to produce ductile iron pipe of uniform thickness. Our Bessemer facility uses more automated machinery to improve manufacturing efficiency.

Fast Fabricators operates a small number of relatively small facilities throughout the United States that primarily fabricate, coat and line ductile iron pipe.

Anvil

At September 30, 2010, Anvil operated nine manufacturing facilities in the United States and Canada. Our manufacturing operations include foundry, heat treating, machining, fabricating, assembling, testing and painting

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operations. Not all facilities perform each of these operations. Our foundry operations employ automated vertical and horizontal green sand molding equipment. Our products are made in a high volume production environment using high-speed computer controlled machines and other automated equipment.

Raw Materials and Purchased Components

Our products are made using several basic raw materials, including scrap steel, scrap iron, sand, resin, brass ingot, steel pipe, coke and various purchased components. These materials have been and are expected to continue to be readily available and competitively priced.

The average scrap iron price paid by U.S. Pipe during 2010 was $317 per ton compared to $224 per ton during 2009. The average price paid during the fourth quarter of 2010 was $325 per ton. Approximately 95% of the metal content of U.S. Pipe s ductile iron pipe has been recycled.

The average price paid for brass ingot at Mueller Co. in 2010 was approximately 48% higher than the average price paid in 2009.

We can give no assurance that the price of raw materials will remain at current levels or that we will be able to increase prices to our customers to offset any future cost increases. See Item 1A. RISK FACTORS The costs of our raw materials or purchased components can be volatile.

Research and Development

Our research and development (R&D) facilities are located in Smithfield, Rhode Island for Mueller Co. and Anvil and Bessemer, Alabama for U.S. Pipe. The primary focus of these groups is to develop new products, improve and refine existing products and obtain and assure compliance with industry approval certifications or standards (such as American Water Works Association, UL, FM and The Public Health and Safety Company). At September 30, 2010, we employed 31 people dedicated to R&D activities. We actively seek patent protection where possible to prevent copying of our proprietary products.

In order for an R&D project to begin, manufacturing, marketing and R&D personnel must agree on the suitability of the project and determine an estimated return on investment. After approval, it typically takes six to 12 months to tool, test and start production. The R&D team typically works on various products simultaneously.

R&D expenses were $8.0 million, $6.9 million and $5.7 million during 2010, 2009 and 2008, respectively.

Patents, Licenses and Trademarks

We have active patents and trademarks relating to the design of our products and trademarks for our brands and products. Most of the patents for technology underlying our products have been in the public domain for many years, and we do not believe third-party patents individually or in the aggregate are material to our businesses. However, we consider the pool of proprietary information, consisting of expertise and trade secrets relating to the design, manufacture and operation of our products to be particularly important and valuable. We generally own the rights to the products that we manufacture and sell and we are not dependent in any material way upon any license or franchise to operate. U.S. Pipe has granted numerous trademark licenses around the world with respect to its ductile iron pipe accessories, such as joint restraint systems. See Item 1A. RISK FACTORS We may not adequately prevent others from using our intellectual property.

Seasonality

See Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Effect of Inflation; Seasonality and Item 1A. RISK FACTORS Sales of certain of our products are seasonal.

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Competition

The U.S. and Canadian markets for water infrastructure, flow control and piping component system products are competitive. See Item 1A. RISK FACTORS Our industry is very competitive and some of our products are similar to those manufactured by our competitors. However, there are only a few competitors for most of our product offerings. Many of our competitors are well-established companies with strong brand recognition. We consider our installed base, product quality, customer service level, brand recognition, price, effectiveness of distribution and technical support to be competitive strengths.

The competitive environment for Mueller Co. products is mature and most end users are slow to transition to brands other than their historically preferred brand. It is difficult to increase market share in this environment. We believe that Mueller Co. fire hydrants and valves enjoy strong competitive positions based largely on their quality, dependability, installed base and strong brand names. Our principal competitors for fire hydrants and iron gate valves are McWane, Inc. and American Cast Iron Pipe Company. The primary competitors for our brass products are The Ford Meter Box Company, Inc. and A.Y. McDonald Mfg. Co. Many brass valves are interchangeable among different manufacturers.

The ductile iron pipe industry is highly competitive with a small number of manufacturers of ductile iron pipe and fittings. Our major competitors are McWane, Inc., Griffin Pipe Products Co., Inc. and American Cast Iron Pipe Company. Additional competition for ductile iron pipe comes from pipe composed of other materials, such as PVC, high-density polyethylene (HDPE), concrete, fiberglass reinforced plastic and steel. Existing pipes may also be re-lined as an alternative to replacing the pipe. Although ductile iron pipe is typically more expensive to purchase than most competing forms of pipe, ductile iron pipe has the advantages of longevity, strength, ease of installation, lack of maintenance problems and environmental sustainability.

The environment for Anvil s products is highly competitive, price sensitive and vulnerable to the increased acceptance of products produced in perceived low-cost countries, such as China and India. We compete primarily on the basis of availability, service, price and breadth of product offerings. Our primary competitors in the United States are Ward Manufacturing L.L.C. for cast iron and malleable iron fittings, Victaulic Company and Tyco International Ltd. for ductile grooved fittings and ERICO International Corporation, NIBCO INC. and Carpenter & Paterson, Inc. for pipe hangers. Our mechanical and industrial customers have been slower to accept products manufactured outside the United States other than our fire protection customers.

Environmental Matters

We are subject to a wide variety of laws and regulations concerning the protection of the environment, both with respect to the operations at many of our properties and with respect to remediating environmental conditions that may exist at our own or other properties. We strive to comply with federal, state and local environmental laws and regulations. We accrue for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and reasonably estimable. These expenses were $4.5 million, $4.3 million and $6.8 million during 2010, 2009 and 2008, respectively. We capitalize environmental expenditures that increase the life or efficiency of long-term assets or that reduce or prevent environmental contamination. Capital expenditures for environmental requirements are anticipated to be $1.8 million during 2011. Capitalized environmental-related expenditures were $1.8 million, $3.7 million and $2.9 million during 2010, 2009 and 2008, respectively.

In September 1987, we implemented an Administrative Consent Order (ACO) for our Burlington property, which was required under the New Jersey Environmental Cleanup Responsibility Act (now known as the Industrial Site Recovery Act). The ACO required soil and ground water cleanup, and we have completed, and have received final approval on, the soil cleanup required by the ACO. We are continuing to monitor ground water at this site. Further remediation could be required. Long-term ground water monitoring is also required to verify natural attenuation. We do not know how long ground water monitoring will be required and do not

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believe monitoring or further remediation costs will have a material adverse effect on our consolidated financial condition or results of operations.

In June 2003, Solutia Inc. and Pharmacia Corporation (collectively Solutia) filed suit against U.S. Pipe and a number of co-defendant foundry-related companies in the U.S. District Court for the Northern District of Alabama for contribution and cost recovery allegedly incurred and to be incurred by Solutia in performing remediation of polychlorinated biphenyls (PCBs) and heavy metals in Anniston, Alabama, pursuant to a partial consent decree with the United States Environmental Protection Agency (EPA). U.S. Pipe and certain co-defendants subsequently reached a settlement with the EPA concerning their liability for certain contamination in and around Anniston, which was memorialized in an Administrative Agreement and Order on Consent (AOC) that became effective in January 2006. U.S. Pipe has reached a settlement agreement whereby Phelps Dodge Industries, Inc., a co-defendant and co-respondent on the AOC, has assumed U.S. Pipe s obligation to perform the work required under the AOC.

U.S. Pipe and the other settling defendants contend that the legal effect of the AOC extinguishes Solutia s claims and they filed a motion for summary judgment to that effect. Discovery in this matter had been stayed while the motion for summary judgment was pending. In June 2008, the court issued a summary judgment order, holding that plaintiffs claims for contribution are barred by the AOC but giving plaintiffs the right to seek to recover cleanup costs they voluntarily incurred. The court granted a motion for immediate appeal to the Eleventh Circuit Court of Appeals, but the Eleventh Circuit declined to take the appeal. The parties engaged in fact discovery in 2009, and U.S. Pipe has moved for reconsideration of the June 2008 summary judgment order that permitted plaintiffs to proceed with their claims to seek recovery of cleanup costs under Section 107(a) of the Comprehensive Environmental Response, Compensation, and Liability Act. On July 2, 2010, the court granted summary judgment on the cost recovery claims under Section 107(a) and dismissed those remaining counts against U.S. Pipe. On July 30, 2010, plaintiffs moved to clarify or amend the court s July 2, 2010 order to permit the plaintiffs to pursue a claim under Section 107(a) to recover costs that were not incurred under any removal order or settlement. On October 29, 2010, the district court denied plaintiffs motion. The deadline for plaintiffs to appeal that order is November 29, 2010. We continue to have no basis to form a view with respect to the probability or amount of liability in this matter.

U.S. Pipe and a number of co-defendant foundry-related companies were named in a putative civil class action case originally filed in April 2005 in the Circuit Court of Calhoun County, Alabama, and removed by defendants to the U.S. District Court for the Northern District of Alabama under the Class Action Fairness Act. The putative plaintiffs in the case filed an amended complaint with the U.S. District Court in December 2006. The amended complaint alleged state law tort claims (negligence, failure to warn, wantonness, nuisance, trespass and outrage) arising from creation and disposal of foundry sand alleged to contain harmful levels of PCBs and other toxins, including arsenic, cadmium, chromium, lead and zinc. The plaintiffs originally sought damages for real and personal property and for other unspecified personal injury. In June 2007, a motion to dismiss was granted to U.S. Pipe and certain co-defendants as to the claims for negligence, failure to warn, nuisance, trespass and outrage. The remainder of the complaint was dismissed with leave to file an amended complaint. On July 6, 2007, plaintiffs filed a second amended complaint, which dismissed prior claims relating to U.S. Pipe s former facility located at 2101 West 10th Street in Anniston, Alabama and no longer alleges personal injury claims. Plaintiffs filed a third amended complaint on July 27, 2007. U.S. Pipe and the other defendants have moved to dismiss the third amended complaint. In September 2008, the court issued an order on the motion, dismissing the claims for wantonness and permitting the plaintiffs to move forward with their claims of nuisance, trespass and negligence. The court has ordered the parties to mediate the dispute. The parties have reached an agreement in principle to resolve the matter and submitted the settlement agreement to the court for approval on October 26, 2010. On October 27, 2010, the court entered an order preliminarily approving the settlement and setting the settlement fairness hearing for February 17, 2011. The anticipated settlement amount has been accrued at September 30, 2010.

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On July 13, 2010, Rohcan Investments Limited (Rohcan), the former owner of property leased by Mueller Canada Ltd. and located in Milton, Ontario, filed suit against Mueller Canada Ltd. and its directors seeking C$10 million in damages arising from the defendants alleged environmental contamination of the property and breach of lease. Mueller Canada Ltd. leased the property from 1988 through 2008. We have tendered potential liabilities that might arise from this lawsuit to a former owner responsible for liabilities arising prior to the sale of Mueller Canada Ltd. to the Company and its predecessors. Based on the allegations stated in the complaint, the former owner has denied the tender. We have no basis to form a view with respect to the probability or amount of liability in this matter.

Environmental advocacy groups, relying on standards established by California s Proposition 65, are seeking to eliminate or reduce the content of lead in water infrastructure products offered for sale in California and other jurisdictions. Some of our subsidiaries previously entered into settlement agreements with environmental advocacy groups to modify products or offer substitutes for sale in California. California Assembly Bill No. 1953 redefined, as of January 1, 2010, the term lead free to refer to a weighted average lead content of the wetted surface area of the pipes, fittings and fixtures of not more than 0.25%. Mueller Co. ceased shipments of brass products not complying with this standard to customers in California in 2009. Legislation to substantially restrict lead content in water infrastructure products also has been introduced in the U.S. Congress. Congress or state jurisdictions may enact similar legislation to restrict the content of lead in products, which could require us to incur additional costs to modify our products. Although Mueller Co. now produces lead free brass products, most of Mueller Co. s brass products contain small amounts of lead.

In March 2004, Anvil entered into a Consent Order with the Georgia Department of Natural Resources regarding alleged hazardous waste violations at Anvil s former foundry facility in Statesboro, Georgia. Pursuant to the Consent Order, we agreed to perform various investigatory and remedial actions at our former foundry and landfill. These costs have been accrued at September 30, 2010.

Some of our subsidiaries have been named as defendants in asbestos-related lawsuits. We do not believe these lawsuits, either individually or in the aggregate, are material to our consolidated financial position or results of operations.

No assurance can be given that we will not be required in the future to make material expenditures relating to environmental laws or legally mandated site cleanup. Except for the foregoing, we are not aware of compliance or cleanup costs associated with the current laws and sites for which we have cleanup liability or any other future sites that are likely to have a material adverse effect on our financial condition or results of operations.

In the acquisition agreement pursuant to which a predecessor to Tyco International Ltd. (Tyco) sold our Mueller Co. and Anvil businesses to the prior owners of these businesses in August 1999, Tyco agreed to indemnify us and our affiliates, among other things, for all Excluded Liabilities. Excluded Liabilities include, among other things, substantially all liabilities relating to the time prior to August 1999, including environmental liabilities. The indemnity survives indefinitely. In addition, Tyco s indemnity does not cover liabilities to the extent caused by us or the operation of our businesses after August 1999, nor does it cover liabilities arising with respect to businesses or sites acquired after August 1999. In June 2007, Tyco was separated into three separate publicly traded companies. Should Tyco s successors become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities.

See Item 3. LEGAL PROCEEDINGS .

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Safety

We continuously strive to reduce injuries at our properties. In 2010, our total recordable injury rate decreased by 13% to 2.3 injuries per 100 employees and our days away from work rate decreased by 15% to 0.4 cases per 100 employees, each compared to 2009. This resulted in 18 fewer injuries and two fewer days away from work cases in 2010 compared to 2009.

Regulatory Matters

The production and marketing of our products is subject to the rules and regulations of various federal, state and local agencies, including laws governing our relationships with distributors. Regulatory compliance has not had a material effect on our results to date. We are not aware of any pending legislation that is likely to have a material adverse effect on our operations. See Item 3. LEGAL PROCEEDINGS, and Item 1A. RISK FACTORS Some of our brass products contain lead, which may be replaced in the future.

Employees

At September 30, 2010, we employed approximately 4,800 people, of whom approximately 93% work in the United States. At September 30, 2010, approximately 69% of our hourly workforce was covered by collective bargaining agreements. Our locations with employees covered by such agreements are presented below.

Location	Expiration of current agreement(s)
Albertville, AL	September 2011
Bessemer, AL	October 2010*
Union City, CA	December 2010
Aurora, IL	August 2011
Decatur, IL	June 2012
University Park, IL	April 2014
Burlington, NJ	March 2011
Columbia, PA	May 2011
Chattanooga, TN	September 2013 and September 2014
Henderson, TN	December 2011
St. Jerome, Canada	November 2011
Simcoe, Canada	November 2013

We believe that relations with our employees, including those represented by collective bargaining agreements, are good.

* As of the date of this annual report, employees at this location continue to work under the terms of the expired agreement while negotiations are ongoing.

Geographic Information

Geographical net sales information is presented below.

	United States	Canada	Other	Total
		(in millions)		
Net sales:				
2010	$1,109.0	$186.3	$42.2	$1,337.5
2009	1,184.1	215.8	28.0	1,427.9

2008	1,543.8	292.3	23.2	1,859.3

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Item 1A. RISK FACTORS
Risks Relating to Our Businesses

Our end markets are subject to economic cycles.

Our primary end markets in 2010 were the repair and replacement of municipal water distribution and treatment systems, non-residential construction and new water and wastewater infrastructure, which is dependent on residential construction associated with new community developments. Sustained uncertainty about these end markets could cause our distributors and our end use customers to delay purchasing, or determine not to purchase, our products. For example, our distributors and end customers may have been approaching their near-term spending decisions with caution given the uncertain economic climate. In addition, other factors, including high levels of unemployment and foreclosures, interest rate fluctuations, fuel and other energy costs, labor and healthcare costs, the state of credit markets (including mortgages, home equity loans and consumer credit), weather, natural disasters and other factors beyond our control, could adversely affect our sales, profitability and cash flows.

Water and wastewater infrastructure spending construction activity may further decline.

A portion of our business depends on local, state and federal spending on water and wastewater infrastructure upgrade, repair and replacement. A significant percentage of our products are ultimately used by municipalities or other governmental agencies in water transmission, distribution, collection and treatment systems.

A February 2010 report of the U.S. Conference of Mayors estimates that state and local government funding generally provides 98% of the total investment in public water and wastewater systems. Funds for water infrastructure repair and replacement typically come from local taxes or water rates and the ability of state and local governments to increase taxes or water rates may be limited. In addition, state and local governments that do not budget for capital expenditures in setting tax rates and water rates may be unable to pay for water infrastructure repair and replacement if they do not have other funding sources. It is not unusual for water projects to be delayed and rescheduled for a number of reasons, including changes in project priorities and difficulties in complying with environmental and other governmental regulations.

Some state and local governments have placed or may place significant restrictions on the use of water by their constituents. These water use restrictions have or may similarly lead to reduced water revenues by municipalities or other governmental agencies, which could similarly affect funding decisions for water-related projects.

Economic conditions may cause states and municipalities to receive lower than anticipated revenues, which may lead to reduced or delayed funding for water infrastructure projects. Even if favorable economic conditions exist, state and local governments may choose not to address deferred infrastructure needs among competing spending priorities.

As a result, our sales, profitability and cash flows could decline as a result of decreases in the number of projects undertaken by water agencies, government spending cuts, general budgetary constraints, difficulty in obtaining necessary permits or the inability of customers or end users to obtain financing.

Non-residential construction activity may face continued reductions in demand.

A portion of our business depends on non-residential construction, which is cyclical. Non-residential construction activity has declined significantly in 2010 and a continued reduction in non-residential construction could result in a decline in our sales, profitability and cash flows.

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New residential construction activity may face continued reductions in demand.

A portion of our business depends on new water and wastewater infrastructure spending, which in turn depends on residential construction, which is cyclical, and has historically represented a significant portion of our profitability and cash flows. Since January 2006, there have been steep declines in the construction of new homes in the United States, which has adversely affected our sales, profitability and cash flows. The disruption in the financial markets late in calendar 2008 exacerbated these declines. Independent forecasts of housing starts do not project a substantial near-term recovery in residential construction. Our residential construction related business recovery may lag any recovery in new home construction. A continued reduction in new residential construction activity or a failure of this market to recover substantially may continue to affect our sales, profitability and cash flows adversely.

We depend on a small group of major distributors for a significant portion of our sales.

We sell our products primarily to distributors and our success depends on these outside parties operating their businesses profitably and effectively. Their effectiveness can vary significantly from company to company and among regional groups served by the same company. Further, our distributors generally also carry competing products. We may fail to align our businesses with the most successful distributors in any market. For some of our products, we may have relationships with multiple distributors in a single market, or may use a national distributor in one market and a different national distributor in another market.

Approximately 33% of our 2010 gross sales were to our 10 largest distributors, and approximately 24% of our 2010 gross sales were to our three largest distributors: HD Supply, Ferguson Enterprises, Inc. and Mainline Supply Company. In 2010, HD Supply accounted for 15% and 14% of gross sales for Mueller Co. and U.S. Pipe, respectively.

While our relationships with our 10 largest distributors have been long-lasting, distributors in our industry have experienced consolidation in recent years. If such consolidation continues, our distributors could be acquired by other distributors who buy products from our competitors. Pricing pressure may also result if consolidation among distributors continues, which could lead to a decline in our sales, profitability and cash flows. The loss of any one of our major distributors in any market could also reduce our sales, profitability and cash flows.

Sales of certain of our products are seasonal.

Sales of some of our products, including ductile iron pipe, valves and fire hydrants are seasonal, with lower sales in our first and second quarters when weather conditions throughout most of North America tend to be cold resulting in lower levels of construction activity. In general, approximately 45% of a year s net sales occurs in the first half of the year with 55% occurring in the second half of the year. This seasonality in demand has resulted in fluctuations in our sales and operating results. In order to satisfy demand during expected peak periods, we may incur costs associated with inventory build-up, and our projections as to future needs may not be accurate. Because many of our expenses are fixed, seasonal trends can cause reductions in our profitability and profit margins and deterioration of our financial condition during periods affected by lower production or sales activity.

Our business strategy partly depends upon executing current and future cost-control measures successfully.

Part of our business strategy is to enhance our profitability by realizing cost savings. We have taken steps in recent years to lower our costs by reducing staff, compensation and employee benefits and implementing general cost-control measures, and we expect to continue some of these cost-control efforts for the foreseeable future. Our total operating costs may be greater than anticipated if we do not achieve the expected savings from, or if our operating costs increase as a result of, these initiatives. Reductions in staff, compensation and benefits could

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also adversely affect our ability to attract and retain key employees and directors. In addition, we operate with significant operating leverage. A significant portion of our expenses consists of fixed costs. As a result, we are limited in our ability to reduce costs in the short term. If we are unable to execute our current and future cost control measures successfully, our total operating costs would be greater than expected, which would adversely affect our profitability and cash flows.

Our industry is very competitive and some of our products are similar to those manufactured by our competitors.

The U.S. and Canadian markets for water infrastructure, flow control and piping component system products are very competitive. While there are only a few competitors for most of our offerings, many of our competitors are well-established companies with strong brand recognition. We compete on the basis of a variety of factors, including the quality and price of our products and services. Anvil s products in particular also compete on availability and breadth of product and are sold in fragmented markets with low barriers to entry. Our ability to retain our customers in the face of competition depends on our ability to market our products and services to our customers effectively. Also, competition for ductile iron pipe sold by U.S. Pipe comes not only from ductile iron pipe produced by a concentrated number of other manufacturers, but also from pipe composed of other materials, such as PVC, HDPE, concrete, fiberglass reinforced plastic and steel.

In addition to competition from U.S. companies, we face the threat of competition from companies from other countries. The intensity of competition from these companies is affected by fluctuations in the value of the U.S. dollar against their local currencies, by the cost to ship competitive products into North America and by the availability of trade remedies. Competition may also increase as a result of U.S. competitors shifting their operations to low-cost countries or otherwise reducing their costs.

Our competitors may reduce the prices of their products or services, improve their quality, improve their functionality or enhance their marketing or sales activities. Any of these potential developments could adversely affect our sales, profitability and cash flows.

The costs of our raw materials and purchased components can be volatile.

Our operations require substantial amounts of raw materials or purchased components, such as scrap steel, scrap iron, sand, resin brass ingot, steel pipe and coke. The cost and availability of these materials are subject to economic forces largely beyond our control, including North American and international demand, foreign currency exchange rates, freight costs and speculation. We generally purchase raw materials at current market costs and any hedging activities are small in relation to total purchases. We may not be able to pass on the entire cost of price increases for raw materials and purchased components to our customers or offset fully the effects of these higher costs through productivity improvements. In particular, when raw material and purchased component costs increase rapidly or to significantly higher than normal levels, we may not be able to pass cost increases through to our customers on a timely basis, if at all, which would reduce our profitability and cash flows. In addition, if raw materials or purchased components were not available, that would reduce our sales, profitability and cash flows. Our competitors could operate better under such changing market conditions than we do, which would give them a cost advantage compared to us.

We partially rely on the labor of individuals represented by collective bargaining agreements to produce and distribute our goods.

We are subject to a risk of work stoppages and other labor relations matters because a large portion of our hourly workforce is represented by collective bargaining agreements. At September 30, 2010, approximately 69% of our hourly workforce was covered by these agreements. These employees are represented by locals from six different unions, including the Glass, Molders, Pottery, Plastics and Allied Workers International Union, which represents the largest number of our employees. If we are unable to negotiate acceptable new agreements

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with the unions representing our employees upon expiration of existing contracts, we could experience strikes, work stoppages or other forms of labor slowdowns. Such actions could cause a significant disruption of operations at our facilities, which could have an adverse impact on us. New agreements with unions representing our employees could call for higher wages or benefits paid to union members, which would increase our operating costs. Labor costs are a significant element of the total costs involved in our manufacturing process, and an increase in the costs of labor could reduce sales, profitability and cash flows.

In addition, the freight companies that deliver our products to our customers generally use truck drivers represented by collective bargaining agreements, and our businesses could be harmed if these truck drivers face work stoppages or support other work stoppages.

Normal operations at our key manufacturing facilities may be interrupted.

Some of our key products, including fire hydrants, valves and ductile iron pipe, are manufactured at large manufacturing facilities that depend on critical pieces of heavy equipment that cannot be economically moved to other locations. We are therefore limited in our ability to shift production between locations. The operations at our manufacturing facilities may be interrupted or impaired by various operating risks, including, but not limited to:

- catastrophic events, such as fires, explosions, natural disasters or other similar occurrences;
- interruptions in the delivery of raw materials or other manufacturing inputs;
- adverse government regulations;
- equipment breakdowns or failures;
- information systems failures;
- violations of our permit requirements or revocation of permits;
- releases of pollutants and hazardous substances to air, soil, surface water or ground water;
- shortages of equipment or spare parts;
- labor disputes; and
- terrorist acts.

The occurrence of any of these events may impair our production capabilities and adversely affect our sales, profitability and cash flows.

Some of our brass products contain lead, which may be replaced in the future.

Several states restrict the use of lead in water infrastructure products. In addition, California and other state legislatures have in recent years enacted laws that impose further restrictions on products used in water transmission and otherwise. Legislation to substantially restrict lead content in water infrastructure products also has been passed by the U.S. House of Representatives and introduced in the U. S. Senate.

Future legislation could further restrict the permitted amount of lead or other materials in products we sell. Complying with new restrictions could increase our manufacturing costs or influence our decisions regarding which markets to serve.

Transportation costs are relatively high for most of our products.

Transportation costs are an important factor in a customer s purchasing decision. Increases in transportation costs could make our products less competitive with the same or alternative products from competitors.

We typically depend on rail, barge and trucking systems to deliver our products to customers. While our customers typically arrange and pay for transportation from our factory to the point of use, disruption of these

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transportation services because of weather-related problems, strikes, lock-outs or other events could temporarily impair our ability to supply our products to our customers, thereby resulting in lost sales, profitability and cash flows.

We manage our business as a decentralized organization.

We have three business segments and operate under a decentralized organizational structure. Our operations have different business practices, accounting policies, internal controls, procedures and compliance programs. We continue to communicate such policies, controls, procedures and programs and it could take time for such implementation to be complete. Further, we may need to modify existing programs and processes to increase efficiency and operating effectiveness and improve corporate visibility into our decentralized operations. We also regularly update compliance programs and processes to comply with existing laws, new interpretations of existing laws and new laws, and we may not implement those modifications effectively. It could take time for any such modifications to be implemented across our operations. During the implementation periods, our decentralized operating approach could result in inconsistent management practices and procedures, which could adversely affect our businesses. Once achieved, it may also be difficult to maintain operational consistency across our businesses.

We may be unsuccessful in identifying, acquiring or integrating suitable acquisitions.

A part of our growth strategy depends on expansion through acquisitions of businesses that can be integrated successfully into our existing businesses and that will provide us with complementary manufacturing capabilities, products, services, customers or end users. Any future growth through acquisitions will depend on the availability of suitable acquisition candidates at favorable prices and on satisfactory terms and conditions. In addition, if we identify a suitable acquisition candidate, our ability to complete the acquisition will depend on a variety of factors, including our ability to finance the acquisition. Our ability to finance an acquisition is subject to a number of factors, including the availability of adequate cash, cash flows from operations or acceptable financing terms and the availability of financing under our existing debt agreements. Moreover, other companies, some of which may have substantially greater financial resources, may compete with us for the right to acquire such businesses, and these companies may be able to offer better terms for an acquisition than we can offer. In addition, there may be many challenges to integrating acquired businesses into our Company, including eliminating redundant operations, facilities and systems, coordinating management and personnel, retaining key employees, managing different corporate cultures and achieving cost reductions and cross-selling opportunities. We may not be able to meet these challenges.

We may not adequately prevent others from using our intellectual property.

Our businesses depend on our technology and expertise, which is largely developed internally and not subject to statutory protection. We rely on a combination of patent protection, copyright and trademark laws, trade secrets protection, employee and third party confidentiality and nondisclosure agreements and technical measures to protect our intellectual property rights. The measures that we take to protect our intellectual property rights may not adequately deter infringement, misappropriation or independent third-party development of our technology, and they may not prevent an unauthorized third party from obtaining or using information or intellectual property that we regard as proprietary or keep others from using brand names similar to our own. The disclosure, misappropriation or infringement of our intellectual property could harm our competitive position. In addition, our actions to enforce our rights may result in substantial costs and diversion of management and other resources. We may also be subject to intellectual property infringement claims from time to time, which may result in our incurring additional expenses and diverting our resources to respond to these claims.

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We have a significant amount of debt and we may not be able to increase our borrowings.

At September 30, 2010, our total debt was $692.2 million compared to total assets of $1,568.2 million and total stockholders equity of $405.3 million. We may have a need or desire to incur significant additional debt from time to time. The level of our debt could limit our ability to obtain additional debt financing in the future for working capital, capital expenditures, acquisitions or other purposes.

We may not be able to generate sufficient cash flows from operating activities to service all of our debt.

There is a risk that our businesses will not generate sufficient cash flows from operating activities, that anticipated revenue growth and operating improvements will not be realized or that future borrowings may not be available to us in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs. We may not maintain a level of liquidity from operating activities sufficient to permit us to pay the principal and interest on our debt.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce investments and capital expenditures, sell assets, seek additional capital, restructure or refinance our debt. However, we may not be able to accomplish these actions on satisfactory terms, or at all. In addition, these actions, if accomplished, could adversely affect the operation and growth of our businesses and may not permit us to meet our debt service obligations.

Certain of our debt instruments contain restrictive covenants.

Our debt instruments contain various covenants that limit our ability to engage in certain transactions. The indentures governing our notes restrict our ability to, among other things, borrow money or issue preferred stock, pay dividends, make certain types of investments and other restricted payments, create liens, restrict dividend payments or other payments from subsidiaries, sell certain assets or merge with or into other companies, engage in sale and leaseback transactions and enter into certain transactions with affiliates. Our asset based lending agreement also requires the maintenance of a specified financial ratio when the excess availability is below a specified level.

Our ability to satisfy the financial ratio or other covenants can be affected by events beyond our control, and we may not meet those tests. A breach of any of these covenants could result in a default under our debt instruments. If an event of default were not remedied timely, the holders of our applicable debt would be able to declare the debt immediately due and payable; certain events of default cannot be remedied. Upon the occurrence of an event of default under our asset based lending agreement, the lenders could also terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure the debt under our asset based revolving credit agreement. We have pledged all of our U.S. receivables, inventories and certain other assets as security under our asset based lending agreement. If any lender is entitled to accelerate the repayment of borrowings, we may not have sufficient assets to repay these obligations.

Our ability to borrow money may be impacted by changes in our credit ratings or macroeconomic conditions.

Our cost of borrowing and ability to access the capital markets are affected not only by market conditions but also by the short- and long-term debt ratings assigned to our debt by major credit rating agencies. These ratings are based, in significant part, on our performance as measured by credit metrics, such as interest coverage and leverage ratios. Our Senior Unsecured Notes and Senior Subordinated Notes are each rated by Standard & Poor s and Moody s Investors Service and both series of notes are rated below investment grade by both rating agencies. Any future borrowings will reflect the impact of these ratings, and additional reductions in our credit

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ratings could reduce our access to credit markets, make new borrowings more expensive, subject us to more onerous terms and reduce our borrowing flexibility. Such limitations on our financing options may affect our ability to refinance existing debt or fund major acquisitions or capital-intensive internal initiatives.

In addition, deteriorating economic conditions, including a recession, market disruptions, tightened credit markets and significantly wider corporate borrowing spreads, may make it more difficult or costly for us to finance significant transactions or obtain replacement financing for our existing debt.

Our expenditures for postretirement benefits and pension obligations are significant and could be materially higher than we have predicted if our underlying assumptions prove to be incorrect.

We provide a range of benefits to our current and retired employees, including pensions and postretirement healthcare. In determining our future payment obligations under the plans, we assume certain rates of return on the plan assets and growth rates of certain costs. We contributed $23.0 million, $24.0 million and $20.3 million for 2010, 2009 and 2008, respectively, to our pension plans. At September 30, 2010, the market value of our pension plan assets was approximately $313.1 million. The Pension Protection Act of 2006 (PPA) generally targets U.S. plans to be fully funded by 2015. At September 30, 2010, our PPA-defined funded status was approximately 87%.

Assumed discount rates, expected return on plan assets, expected compensation increases and estimated healthcare cost trend rates have a significant effect on the amounts reported for the pension and healthcare plans. We expect that healthcare costs will increase generally at a rate above the rate of inflation. Our actual cost growth rates could be materially higher than projected. Further, significant adverse changes in credit and capital markets could result in actual rates of return on plan assets being materially lower than projected. As a result, we may be required to increase the amount of cash contributions we make into our pension plans and other plans in the future in order to meet funding level requirements. If adverse changes in credit and capital markets are particularly significant and sustained, our overall liquidity could be materially reduced, which could force us to reduce investments and capital expenditures, sell assets, seek additional capital or restructure or refinance our debt.

We are subject to the newly adopted healthcare legislation.

We provide a range of benefits to our current and retired employees, including healthcare coverage. In March 2010, the Patient Protection and Affordable Care Act and a reconciliation measure, the Health Care and Education Act of 2010 (collectively, the Healthcare Reform Legislation) were signed into law in the United States. Provisions of the Healthcare Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements, including further guidance and clarification in the form of implementing regulations. Due to the complexity of the Healthcare Reform Legislation, the pending status of implementing regulations and lack of interpretive guidance, and gradual implementation, the higher costs resulting from the Healthcare Reform Legislation on our business are not yet fully known and may not be known for several years.

We may be subject to product liability or warranty claims.

We are exposed to product liability, warranty and other claims in the event that the use of our products results, or is alleged to result in, bodily injury or property damage. We could incur product liability or warranty losses in the future, along with the related expenses to defend such claims, and such losses and expenses may be material and completely independent of the value of the underlying product or service. In some cases, replacement of our products can involve significant excavation and labor costs.

While we maintain product liability insurance, our product liability insurance coverage may not be adequate for liabilities that may ultimately be incurred or the coverage may not continue to be available on terms

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acceptable to us. A successful product liability claim brought against us in excess of our available insurance coverage could require us to make significant payments or a requirement to participate in a product recall may harm our reputation.

We rely on successors to Tyco to indemnify us for certain liabilities and they may become financially unable or fail to comply with the terms of the indemnity.

Under the terms of the acquisition agreement relating to the August 1999 sale by Tyco of the Mueller Co. and Anvil businesses to the prior owner of these businesses, we are indemnified by Tyco for all liabilities arising in connection with the operation of these businesses prior to their sale by Tyco, including with respect to products manufactured or sold prior to the closing of that transaction. The indemnity survives forever and is not subject to any dollar limits. In the past, Tyco has made substantial payments and/or assumed defense of claims pursuant to this indemnification provision. In addition, Tyco s indemnity does not cover product liabilities to the extent caused by our products manufactured after the date of that transaction. In June 2007, Tyco was separated into three separate publicly traded companies. Should any of Tyco s successors become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities. See Item 3. LEGAL PROCEEDINGS for more information about our potential product liabilities.

We are subject to complex corporate governance, public disclosure and accounting requirements.

We are subject to changing rules and regulations of federal and state government, as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board (PCAOB), the Securities and Exchange Commission (SEC) and the New York Stock Exchange, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by the U.S. Congress. For example, the Sarbanes-Oxley Act of 2002 and the rules and regulations subsequently implemented by the SEC and the PCAOB imposed and may impose compliance burdens and costs on us. Also, in July 2010, the Dodd-Frank Wall Street Reform and Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act includes significant corporate governance and executive compensation-related provisions that require the SEC to adopt additional rules and regulations in these areas, such as say-on-pay and proxy access. Our efforts to comply with new requirements of law and regulation are likely to result in an increase in expenses and a diversion of management s time from other business activities. Also, those laws, rules and regulations may make it more difficult and expensive for us to attract and retain key employees and members of our Board of Directors and to maintain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage.

We may be subject to any new governmental legislation or regulation relating to carbon dioxide emissions.

Certain of our manufacturing plants use significant amounts of electricity and natural gas and certain of our plants emit significant amounts of carbon dioxide. Federal and state courts and administrative agencies are considering the scope and scale of carbon dioxide emission regulation under various laws pertaining to the environment, energy use and development and greenhouse gas emissions. For example the EPA has begun promulgating regulations governing carbon emissions. Additionally, the U.S. House of Representatives has passed legislation that would regulate carbon dioxide emissions through a cap-and-trade system, under which emitters would be required to buy allowances to offset emissions of carbon dioxide. Similar legislation has been introduced in the U.S. Senate. In addition, several states are considering various carbon dioxide registration and reduction programs. Final carbon dioxide legislation or regulation could increase the price of the electricity we purchase, increase costs for our use of natural gas, restrict access to or the use of natural gas or require us to purchase allowances to offset our own emissions. Further, federal, state and local governments may also pass laws mandating the use of alternative energy sources, such as wind and solar, which may increase the cost of energy used in our operations. The final details and scope of these legislative and regulatory measures are unclear, and their potential to increase our costs remains uncertain.

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The potential physical impacts of climate change on our operations are highly uncertain. The EPA has found that global climate change could increase the severity and possibly the frequency of severe weather patterns, such as hurricanes. Although the financial impact of these potential changes is not reasonably estimable at this time, our operations in certain locations and those of our customers and suppliers could potentially be adversely affected. These effects could adversely affect our financial performance.

We are subject to environmental, health and safety laws and regulations.

We are subject to various laws and regulations relating to the protection of the environment and human health and safety and must incur capital and other expenditures to comply with these requirements. Failure to comply with any environmental, health or safety requirements could result in the assessment of damages, the imposition of penalties, suspension of production, changes to equipment or processes or a cessation of operations at our facilities. Because these laws are complex, subject to change and may be applied retroactively, these requirements, in particular as they change in the future, may impair our sales, profitability and cash flows.

In addition, we incurred costs to comply with the National Emissions Standards for Hazardous Air Pollutants issued by the EPA for iron and steel foundries and for our foundries painting operations. We may be required to conduct investigations and perform remedial activities that could require us to incur material additional costs in the future. Our operations involve the use of hazardous substances and the disposal of hazardous wastes. We may incur additional costs to manage these substances and wastes, and we may be subject to claims for damage for personal injury, property damage or damage to natural resources.

U.S. Pipe has been identified as a potentially responsible party liable under federal environmental laws for a portion of the cleanup costs with regard to two sites and is currently subject to an administrative consent order requiring certain monitoring and cleanup with regard to a property in New Jersey. Such cleanup costs could be substantial and could adversely affect our profitability and cash flows in any given reporting period. For more information about our environmental compliance and potential environmental liabilities, see Item 1. BUSINESS Environmental Matters.

Risks Relating to Our Relationship with Walter Energy

We may have substantial additional liability for federal income tax allegedly owed by Walter Energy.

Each member of a consolidated group for federal income tax purposes is severally liable for the federal income tax liability of each other member of the consolidated group for any year in which it is a member of the group at any time during such year. Each member of the Walter Energy consolidated group, which included us (including our subsidiaries) through December 14, 2006, is also jointly and severally liable for pension and benefit funding and termination liabilities of other group members, as well as certain benefit plan taxes. Accordingly, we could be liable under such provisions in the event any such liability is incurred, and not discharged, by any other member of the Walter Energy consolidated group for any period during which we were included in the Walter Energy consolidated group.

A dispute exists with regard to federal income taxes for years 1980 to 1994 and 1999 to 2001 allegedly owed by the Walter Energy consolidated group, which included U.S. Pipe during these periods. As a matter of law, we are jointly and severally liable for any final tax determination, which means that in the event Walter Energy is unable to pay any amounts owed, we would be liable.

The tax allocation agreement between us and Walter Energy allocates to us certain tax risks associated with the Spin-off.

Walter Energy effectively controlled all of our tax decisions for periods during which we were a member of the Walter Energy consolidated federal income tax group and certain combined, consolidated or unitary state and

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local income tax groups. Under the terms of the income tax allocation agreement between us and Walter Energy dated May 26, 2006, we generally compute our tax liability on a stand-alone basis, but Walter Energy has sole authority to respond to and conduct all tax proceedings (including tax audits) relating to our federal income and combined state returns, to file all such returns on our behalf and to determine the amount of our liability to (or entitlement to payment from) Walter Energy for such periods. This arrangement may result in conflicts of interests between us and Walter Energy. In addition, the tax allocation agreement provides that if the Spin-off is determined not to be tax-free pursuant to Section 355 of the Internal Revenue Code of 1986, as amended, we generally will be responsible for any taxes incurred by Walter Energy or its shareholders if such taxes result from certain of our actions or omissions and for a percentage of any such taxes that are not a result of our actions or omissions or Walter Energy s actions or omissions or taxes based on our market value relative to Walter Energy s market value. Additionally, to the extent that Walter Energy was unable to pay taxes, if any, attributable to the Spin-off and for which it is responsible under our tax allocation agreement, we could be liable for those taxes as a result of being a member of the Walter Energy consolidated group for the year in which the Spin-off occurred. Walter Energy s income tax returns for the year in which the Spin-off occurred are still open for federal examination.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

Our principal properties are listed below.

Location	Activity	Size (sq. ft.)	Owned or leased
Mueller Co.:			
Albertville, AL	Manufacturing	422,481	Leased
Ontario, CA	Distribution	72,994	Leased
Aurora, IL	Manufacturing	146,880	Owned
Decatur, IL	Manufacturing and selling, general and administration	467,044	Owned
Hammond, IN	Manufacturing	51,160	Owned
Cleveland, NC	Manufacturing	190,000	Owned
Bethlehem, PA	Manufacturing	104,000	Leased
Chattanooga, TN	Manufacturing	525,000	Owned
Cleveland, TN	Manufacturing	40,000	Owned
Murfreesboro, TN	Manufacturing	11,400	Owned
Murfreesboro, TN	Manufacturing	12,000	Leased
Brownsville, TX	Manufacturing	50,000	Leased
Calgary, Alberta	Distribution	11,000	Leased
Barrie, Ontario	Distribution	50,000	Leased
St. Jerome, Quebec	Manufacturing	55,000	Owned
Jingmen, China	Manufacturing	154,377	Owned
U.S. Pipe:			
Bessemer, AL	Manufacturing	962,000	Owned
Birmingham, AL	Selling, general and administration	66,000	Owned
Union City, CA	Manufacturing	139,000	Owned
Burlington, NJ	Distribution	158,289	Owned
Anvil:			
University Park, IL	Distribution	192,000	Leased
Sparks, NV*	Distribution	124,500	Leased
Portsmouth, NH	Selling, general and administration	13,740	Leased
Columbia, PA	Manufacturing	663,119	Owned
Greencastle, PA	Manufacturing	132,743	Owned
Pottstown, PA*	Manufacturing	46,000	Owned
Waynesboro, PA	Manufacturing	72,836	Owned
North Kingstown, RI	Manufacturing	170,822	Leased
Henderson, TN	Manufacturing	167,700	Owned
Houston, TX	Manufacturing and distribution	57,600	Owned
Houston, TX	Manufacturing	46,934	Owned
Irving, TX	Distribution	218,400	Leased
Longview, TX	Manufacturing	114,000	Owned
Simcoe, Ontario	Distribution	126,090	Owned
Montreal, Quebec	Distribution	36,559	Leased
Corporate			
Atlanta, GA	Corporate headquarters	24,728	Leased

* Subsequent to September 30, 2010, the facility at Sparks, NV was combined with the facility at Ontario, CA. The facility at Pottstown, PA was combined with the facilities at Greencastle, PA and Waynesboro, PA.

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We consider our facilities to be well maintained and believe we have sufficient capacity to meet our anticipated needs through 2011. Our leased properties have terms expiring at various dates through August 2019.

Item 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings that have arisen in the normal course of operations, including the proceedings summarized below. The effect of the outcome of these matters on our future results of operations cannot be predicted with certainty as any such effect depends on future results of operations and the amount and timing of the resolution of such matters. Other than the litigation described below, we do not believe that any of our outstanding litigation would have a material adverse effect on our businesses, operations or prospects.

Environmental. We are subject to a wide variety of laws and regulations concerning the protection of the environment, both with respect to the operations at many of our properties and with respect to remediating environmental conditions that may exist at our own or other properties. We strive to comply with federal, state and local environmental laws and regulations. We accrue for environmental expenses resulting from existing conditions that relate to past operations when the costs are probable and reasonably estimable. These expenses were $4.5 million, $4.3 million and $6.8 million during 2010, 2009 and 2008, respectively. We capitalize environmental expenditures that increase the life or efficiency of long-term assets or that reduce or prevent environmental contamination. Capital expenditures for environmental requirements are anticipated to be approximately $1.8 million during 2011. Capitalized environmental-related expenditures were $1.8 million, $3.7 million and $2.9 million during 2010, 2009 and 2008, respectively.

In September 1987, we implemented an Administrative Consent Order (ACO) for our Burlington property, which was required under the New Jersey Environmental Cleanup Responsibility Act (now known as the Industrial Site Recovery Act). The ACO required soil and ground water cleanup, and we have completed, and have received final approval on, the soil cleanup required by the ACO. U.S. Pipe continues to pump and treat ground water at this site. Further remediation could be required. Long-term ground water monitoring is also required to verify natural attenuation. We do not know how long ground water monitoring will be required, and do not believe monitoring or further remediation costs, if any, will have a material adverse effect on our financial condition or results of operations.

In June 2003, Solutia Inc. and Pharmacia Corporation (collectively Solutia) filed suit against U.S. Pipe and a number of co-defendant foundry-related companies in the U.S. District Court for the Northern District of Alabama for contribution and cost recovery allegedly incurred and to be incurred by Solutia in performing remediation of polychlorinated biphenyls (PCBs) and heavy metals in Anniston, Alabama, pursuant to a partial consent degree with the Environmental Protection Agency (EPA). U.S. Pipe and certain co-defendants subsequently reached a settlement with the EPA concerning their liability for certain contamination in and around Anniston, which was memorialized in an Administrative Order and Order on Consent (AOC) that became effective in January 2006. U.S. Pipe has reached a settlement agreement whereby Phelps Dodge Industries, Inc., a co-defendant and co-respondent on the AOC, has assumed U.S. Pipe s obligation to perform the work required under the AOC.

U.S. Pipe and the other settling defendants contend that the legal effect of the AOC extinguishes Solutia s claims and they filed a motion for summary judgment to that effect. Discovery in this matter was stayed while the motion for summary judgment was pending. The court recently issued a summary judgment order, holding that plaintiffs claims for contribution are barred by the AOC but giving plaintiffs the right to seek to recover cleanup costs they voluntarily incurred. The court granted a motion for immediate appeal to the Eleventh Circuit Court of Appeals, but the Eleventh Circuit Court of Appeals declined to take the appeal. The parties engaged in fact discovery in 2009, and U.S. Pipe has moved for reconsideration of the June 2008 summary judgment order that permitted plaintiffs to proceed with their claims to seek recovery of cleanup costs under Section 107(a) of the Comprehensive Environmental Response, Compensation, and Liability Act. On July 2, 2010, the court

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granted summary judgment on the cost recovery claims under Section 107(a) and dismissed those remaining counts against U.S. Pipe. On July 30, 2010, plaintiffs moved to clarify or amend the court s July 2, 2010 order to permit the plaintiffs to pursue a claim under Section 107(a) to recover costs that were not incurred under any removal order or settlement. On October 29, 2010, the district court denied plaintiffs motion. The deadline for plaintiffs to appeal that order is November 29, 2010. We continue to have no basis to form a view with respect to the probability or amount of liability in this matter.

U.S. Pipe and a number of co-defendant foundry-related companies were named in a putative civil class action case originally filed in April 2005 in the Circuit Court of Calhoun County, Alabama, and removed by defendants to the U.S. District Court for the Northern District of Alabama under the Class Action Fairness Act. The putative plaintiffs in the case filed an amended complaint with the U.S. District Court in December 2006. The amended complaint alleged state law tort claims (negligence, failure to warn, wantonness, nuisance, trespass and outrage) arising from the creation and disposal of foundry sand alleged to contain harmful levels of PCBs and other toxins, including arsenic, cadmium, chromium, lead and zinc. The plaintiffs originally sought damages for real and personal property and for other unspecified personal injury. On June 4, 2007, a motion to dismiss was granted to U.S. Pipe and certain co-defendants as to the claims for negligence, failure to warn, nuisance, trespass and outrage. The remainder of the complaint was dismissed with leave to file an amended complaint. On July 6, 2007, plaintiffs filed a second amended complaint, which dismissed prior claims relating to U.S. Pipe s former facility located at 2101 West 10th Street in Anniston, Alabama and no longer alleges personal injury claims. Plaintiffs filed a third amended complaint on July 27, 2007. U.S. Pipe and the other defendants have moved to dismiss the third amended complaint. On September 24, 2008, the court issued an order on the motion, dismissing the claims for wantonness and permitting the plaintiffs to move forward with their claims of nuisance, trespass and negligence. The court has ordered the parties to mediate the dispute. The parties have reached an agreement in principle to resolve the matter and submitted the settlement agreement to the court for approval on October 26, 2010. On October 27, 2010, the court entered an order preliminarily approving the settlement and setting the settlement fairness hearing for February 17, 2011.

On July 13, 2010, Rohcan Investments Limited (Rohcan), the former owner of property leased by Mueller Canada Ltd. and located in Milton, Ontario, filed suit against Mueller Canada Ltd. and its two directors seeking C$10 million in damages arising from the defendants alleged environmental contamination of the property and breach of lease. Mueller Canada Ltd. leased the property from 1988 through 2006 and paid rent until the lease expired in 2008. We have tendered potential liabilities that might arise from this lawsuit to a former owner responsible for liabilities arising prior to the sale of Mueller Canada Ltd. to the Company and its predecessors. Based on the allegations stated in the complaint, the former owner has denied the tender. We have no basis to form a view with respect to the probability or amount of liability in this matter.

Environmental advocacy groups, relying on standards established by California s Proposition 65, are seeking to eliminate or reduce the content of lead in water infrastructure products offered for sale in California and other jurisdictions. Some of our subsidiaries previously entered into settlement agreements with environmental advocacy groups to modify products or offer substitutes for sale in California. California Assembly Bill No. 1953 redefined, as of January 1, 2010, the term lead free to refer to a weighted average lead content of the wetted surface area of the pipes, fittings and fixtures of not more than 0.25%. Mueller Co. ceased shipments of brass products not complying with this standard to customers in California in 2009. Legislation to substantially restrict lead content in water infrastructure products also has been introduced in the U.S. Congress. Congress or state legislatures may enact similar legislation to restrict the content of lead in water products, which could require us to incur additional costs to modify our products. Although Mueller Co. now produces lead free brass products, most of Mueller Co. s brass products contain small amounts of lead.

In March 2004, Anvil entered into a Consent Order with the Georgia Department of Natural Resources regarding alleged hazardous waste violations at Anvil s former foundry facility in Statesboro, Georgia. Pursuant to the Consent Order, we have agreed to perform various investigatory and remedial actions at our former foundry and landfill. These costs have been accrued at September 30, 2010.

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Some of our subsidiaries have been named as defendants in asbestos-related lawsuits. We do not believe these lawsuits, either individually or in the aggregate, are material to our consolidated financial position or results of operations.

No assurance can be given that we will not be required in the future to make material expenditures relating to environmental laws or legally mandated site cleanup. Except for the foregoing, we are not aware of compliance or cleanup costs associated with the current laws and sites for which we have cleanup liability or any other future sites that are likely to have a material adverse effect on our financial condition or results of operations.

In the acquisition agreement pursuant to which a predecessor to Tyco sold our Mueller Co. and Anvil businesses to the prior owners of these businesses in August 1999, Tyco agreed to indemnify us and our affiliates, among other things, for all Excluded Liabilities. Excluded Liabilities include, among other things, substantially all liabilities relating to the time prior to August 1999, including environmental liabilities. The indemnity survives indefinitely. In addition, Tyco s indemnity does not cover liabilities to the extent caused by us or the operation of our businesses after August 1999, nor does it cover liabilities arising with respect to businesses or sites acquired after August 1999. In June 2007, Tyco was separated into three separate publicly traded companies. Should Tyco s successors become financially unable or fail to comply with the terms of the indemnity, we may be responsible for such obligations or liabilities.

Other Litigation. We are parties to a number of other lawsuits arising in the ordinary course of our businesses, including product liability cases for products manufactured by us or third parties. We provide for costs relating to these matters when a loss is probable and the amount is reasonably estimable. Administrative costs related to these matters are expensed as incurred. The effect of the outcome of these matters on our future results of operations cannot be predicted with certainty as any such effect depends on future results of operations and the amount and timing of the resolution of such matters. While the results of litigation cannot be predicted with certainty, we believe that the final outcome of such other litigation is not likely to have a materially adverse effect on our consolidated financial statements.

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PART II

Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Series A common stock has been listed on the New York Stock Exchange under the trading symbol MWA since May 26, 2006. The shares of Series A common stock had identical rights as shares of Series B common stock except that the Series A common stock has one vote per share and the Series B common stock had eight votes per share. On January 28, 2009, each share of Series B common stock was converted into one share of Series A common stock.

Covenants contained in certain of the debt instruments referred to in Note 7 of Notes to Consolidated Financial Statements restrict the amount we can pay in cash dividends. Future dividends will be declared at the discretion of our Board of Directors and will depend on our future earnings, financial condition and other factors.

The range of high and low intraday sales prices of our common stock and the dividends declared per share is presented below.

	Series A		Series B		Dividends
	High	**Low**	**High**	**Low**	**per share**
Year ended September 30, 2010:					
4th quarter	$ 4.15	$ 2.21	$ NA	$ NA	$ 0.0175
3rd quarter	5.99	3.33	NA	NA	0.0175
2nd quarter	5.80	4.23	NA	NA	0.0175
1st quarter	5.93	4.26	NA	NA	0.0175
Year ended September 30, 2009:					
4th quarter	$ 5.81	$ 2.52	$ NA	$ NA	$ 0.0175
3rd quarter	5.17	3.05	NA	NA	0.0175
2nd quarter	8.47	1.48	8.42*	6.28*	0.0175
1st quarter	9.07	3.40	8.44	3.33	0.0175

* Through January 28, 2009.

At September 30, 2010, there were 137 stockholders of record for our Series A common stock.

Equity Compensation Plan Information

The information regarding our compensation plans under which equity securities are authorized for issuance is set forth in Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Sale of Unregistered Securities

We did not issue any unregistered securities during 2010.

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Issuer Purchases of Equity Securities

During the three months ended September 30, 2010, we repurchased shares of our Series A common stock as presented below.

Period	Number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
July 1-31, 2010	1,310	$ 3.80	-	-
August 1-31, 2010	-	-	-	-
September 1-30, 2010	-	-	-	-

(1) Consists of shares surrendered to the Company to pay the tax withholding obligations in connection with the vesting of restricted stock units issued to employees.

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Stock Price Performance Graphs

The following graph compares the cumulative quarterly stock market performance of our Series A common stock with the Russell 2000 Stock Index (Russell 2000) and the Dow Jones U.S. Building Materials & Fixtures Index (DJ Building Materials & Fixtures). Our Series A common stock first traded on May 26, 2006.

Total return values were calculated based on cumulative total return assuming (i) the investment of $100 in our common stock, the Russell 2000 and the DJ Building Materials & Fixtures on the dates indicated and (ii) reinvestment of all dividends.

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Item 6. SELECTED FINANCIAL DATA

On October 3, 2005, Walter Energy acquired all outstanding shares of capital stock representing the Mueller Co. and Anvil businesses and contributed its U.S. Pipe business to form the Company. U.S. Pipe was deemed the acquirer of Mueller Co. and Anvil. The selected financial and other data presented below should be read in conjunction with, and are qualified by reference to, Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS and the consolidated financial statements and notes thereto included elsewhere in this annual report.

	2010	2009	2008	2007	2006
		(in millions, except per share data)			
Statement of operations data:					
Net sales	$ 1,337.5	$ 1,427.9	$ 1,859.3	$ 1,849.0	$ 1,933.4
Cost of sales (1)	1,101.1	1,171.0	1,420.3	1,385.8	1,525.7
Gross profit	236.4	256.9	439.0	463.2	407.7
Selling, general and administrative expenses (2)	219.3	239.1	274.6	253.2	250.1
Impairment (3)	-	970.9	-	-	-
Restructuring (4)	13.1	47.8	18.3	-	28.6
Income (loss) from operations	4.0	(1,000.9)	146.1	210.0	129.0
Interest expense, net	68.0	78.3	72.4	86.8	107.4
Loss on early extinguishment of debt	4.6	3.8	-	36.5	8.5
Income (loss) before income taxes	(68.6)	(1,083.0)	73.7	86.7	13.1
Income tax expense (benefit)	(23.4)	(86.3)	31.7	38.5	8.0
Net income (loss)	$ (45.2)	$ (996.7)	$ 42.0	$ 48.2	$ 5.1
Net income (loss) per share:					
Basic and diluted	$ (0.29)	$ (8.55)	$ 0.36	$ 0.42	$ 0.05
Weighted average shares outstanding:					
Basic	154.3	116.6	115.1	114.7	95.5
Diluted	154.3	116.6	115.5	115.3	95.5
Other data:					
Depreciation and amortization	$ 84.6	$ 90.2	$ 93.1	$ 101.4	$ 96.9
Capital expenditures	32.8	39.7	88.1	88.3	71.1
Cash dividends declared per share (5)	0.07	0.07	0.07	0.07	5.32
Balance sheet data (at September 30):					
Cash and cash equivalents	83.7	61.5	183.9	98.9	81.4
Working capital	452.7	525.3	755.6	709.7	680.0
Property, plant and equipment, net	264.4	296.4	356.8	351.8	337.0
Total assets	1,568.2	1,739.5	3,090.2	3,009.2	2,989.9
Total debt	692.2	740.2	1,095.5	1,100.5	1,127.3
Long-term obligations	813.7	902.4	1,170.8	1,150.6	1,229.2
Total liabilities	1,162.9	1,303.2	1,761.3	1,698.2	1,762.9
Stockholders equity	405.3	436.3	1,328.9	1,311.0	1,227.0

(1) 2006 includes $70.4 million of adjustments related to valuing Mueller Co. and Anvil inventory acquired on October 3, 2005 at fair value and $21.3 million of inventory write-offs and higher per unit overhead costs resulting from the closure of U.S. Pipe s Chattanooga, Tennessee plant.

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(2) Includes related party corporate charges from Walter Energy of $1.6 million and $8.0 million during 2007 and 2006, respectively.

(3) In 2009, goodwill was determined to be fully impaired resulting in charges of $717.3 million for Mueller Co., $92.7 million for Anvil and $59.5 million for U.S. Pipe. Mueller Co. s trademarks and trade names were determined to be partially impaired resulting in a charge of $101.4 million.

(4) 2010 includes $12.0 million resulting from actions to close U.S. Pipe s North Birmingham facility and $1.1 million related to severance and other closing activities. 2009 includes $38.5 million resulting from actions related to U.S. Pipe s North Birmingham facility to lower costs and reduce capacity and $9.3 million of primarily severance costs related to Company-wide workforce reductions in response to lower demand for our products. 2008 includes $18.3 million to cease manufacturing operations at U.S. Pipe s Burlington, New Jersey facility. 2006 includes $28.6 million to close U.S. Pipe s Chattanooga, Tennessee plant and transfer the valve and fire hydrant production of that plant to Mueller Co. s Chattanooga, Tennessee and Albertville, Alabama plants.

(5) During 2006, the Company declared dividends of $456.5 million to Walter Energy. The 85,844,920 shares of Series B common stock distributed to Walter Energy in December 2006 were deemed the only equity securities outstanding when these dividends were paid.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto that appear elsewhere in this annual report. This report contains certain statements that may be deemed forward-looking statements within the meaning the Private Securities Litigation Reform Act of 1995. All statements, that address activities, events or developments that the Company s management intends, expects, plans, projects, believes or anticipates will or may occur in the future are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding general economic conditions, spending by municipalities, the outlook for the residential and non-residential construction markets and the recovery, if any, of our end markets and the impact of these factors on our businesses. Forward-looking statements are based on certain assumptions and assessments made by management in light of their experience and their perception of historical trends, current conditions and expected future developments. Actual results and the timing of events may differ materially from those contemplated by the forward-looking statements due to a number of factors, including regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- *the spending level for water and wastewater infrastructure;*
- *the demand level of manufacturing and construction activity;*
- *our ability to service our debt obligations; and*
- *the other factors that are described in the section entitled RISK FACTORS in Item 1A of this annual report.*

Undue reliance should not be placed on any forward-looking statements. The Company does not have any intention or obligation to update forward-looking statements except as required by law.

Overview

Organization

On October 3, 2005, Walter Energy acquired all outstanding shares of capital stock representing the Mueller Co. and Anvil businesses and contributed them to its U.S. Pipe business to form the Company. In December 2006, Walter Energy distributed to its shareholders all of its equity interests in the Company, consisting of all of the Company s outstanding shares of Series B common stock. On January 28, 2009, each share of Series B common stock was converted into one share of Series A common stock.

Unless the context indicate otherwise, whenever we refer to a particular year, we mean the fiscal year ended or ending September 30 in that particular calendar year. We manage our businesses and report operations through three business segments: Mueller Co., U.S. Pipe and Anvil, based largely on the products sold and the customers served.

Business

The impact of the overall weakness of the U.S. economy on our end markets continues to affect our operations adversely. Net sales have decreased significantly from 2008 levels, though shipment volumes in 2010 were higher than 2009. Our manufacturing operations include significant fixed costs. With relatively low shipment volumes, these fixed costs represent a relatively higher percentage of the total cost to manufacture our products and our profitability is reduced.

In August 2010, we entered into two new credit agreements. See Liquidity and Capital Resources for additional information regarding these new credit agreements.

A significant portion of our net sales is directly related to municipal water infrastructure, non-residential construction and residential construction activity in the United States. We expect non-residential construction to

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decrease in calendar 2010 as a result of a slowdown in general economic activity. Independent forecasts of calendar 2011 non-residential construction activity indicate a small increase compared to calendar 2010. Annualized housing starts in September 2010 were approximately 60% lower than the 50-year average of about 1.5 million units per year. Based on independent forecasts of housing starts, we do not expect substantial near-term recovery in residential construction, and we expect our related sales growth to lag any recovery in the residential construction market.

As a result, most of our manufacturing facilities are operating significantly below their optimal capacities. Since the end of 2008, we have reduced headcount, consolidated facilities, reduced operating days and reduced overall spending activities in response to lower demand for our products. Capacity utilization increased in 2010 in all three business segments and is expected to increase further in 2011. We continually monitor our production activities in response to evolving business conditions and expect to take additional steps to improve financial results.

U.S. Pipe closed its manufacturing facility in North Birmingham, Alabama and recorded a restructuring charge of $12.0 million during 2010, consisting of $4.4 million of asset impairment charges and $7.6 million of employee-related and other charges. We expect to record additional restructuring charges related to this closure of $1 million to $2 million in 2011.

In January 2010, Anvil sold its Canadian wholesale distribution business for $40.3 million, including post-closing adjustments. This business had 2009 net sales of approximately $107 million and its operating income was not material to the Company s operating income. We recorded a pre-tax gain of $2.8 million to selling, general and administrative expenses in connection with this transaction. Anvil also entered into a 3 1/2 year supply agreement with the buyer requiring the buyer to purchase at least a specified amount of products from Anvil.

U.S. Pipe experienced a 12% decline in the ductile iron pipe average per ton sale price in 2010 compared to 2009. The average scrap iron price paid by U.S. Pipe during 2010 was 42% higher per ton than was paid during 2009. However, due to unusually high scrap iron prices in inventory at the end of 2008, scrap iron prices per ton reflected in cost of sales were lower in 2010 than 2009.

An analysis of the funded status of our U.S. pension plan as of January 1, 2011 will be performed for purposes of determining funding thresholds under provisions of the Pension Protection Act. A significant portion of the assets invested in our defined benefit pension plans is invested in equity securities. If we lower our estimated rate of return on these assets, this would cause pension expense to increase and require higher levels of Company contributions to these plans. The total market value of our U.S. pension plan assets was $301.9 million and $270.0 million at September 30, 2010 and 2009, respectively. During 2010, the investment performance of these assets was a gain of $32.0 million. We currently estimate contributing between $16 million and $20 million to our U.S. pension plan during 2011.

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Results of Operations

Year Ended September 30, 2010 Compared to Year Ended September 30, 2009

	Year ended September 30, 2010				
	Mueller Co.	U.S. Pipe	Anvil (in millions)	Corporate	Total
Net sales	$ 612.8	$ 377.8	$ 346.9	$ -	$ 1,337.5
Gross profit (loss)	$ 170.3	$ (22.7)	$ 88.8	$ -	$ 236.4
Operating expenses:					
Selling, general and administrative	89.2	30.5	66.2	33.4	219.3
Restructuring	0.1	12.5	0.5	-	13.1
	89.3	43.0	66.7	33.4	232.4
Income (loss) from operations	$ 81.0	$ (65.7)	$ 22.1	$ (33.4)	4.0
Interest expense, net					68.0
Loss on early extinguishment of debt					4.6
Loss before income taxes					(68.6)
Income tax benefit					(23.4)
Net loss					$ (45.2)

	Year ended September 30, 2009				
	Mueller Co.	U.S. Pipe	Anvil (in millions)	Corporate	Total
Net sales	$ 547.1	$ 410.9	$ 469.9	$ -	$ 1,427.9
Gross profit (loss)	$ 134.3	$ (5.7)	$ 128.2	$ 0.1	$ 256.9
Operating expenses:					
Selling, general and administrative	84.2	35.6	84.9	34.4	239.1
Impairment	818.7	59.5	92.7	-	970.9
Restructuring	2.0	41.6	4.0	0.2	47.8
	904.9	136.7	181.6	34.6	1,257.8

Loss from operations	$ (770.6)	$ (142.4)	$ (53.4)	$ (34.5)	(1,000.9)
Interest expense, net					78.3
Loss on early extinguishment of debt, net					3.8
Loss before income taxes					(1,083.0)
Income tax benefit					(86.3)
Net loss					$ (996.7)

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Consolidated Analysis

Net sales for 2010 decreased to $1,337.5 million from $1,427.9 million in 2009. Net sales decreased $90.0 primarily due to the divestiture of two Anvil businesses and $35.8 million due to lower pricing at U.S. Pipe. These decreases were partially offset by $20.5 million due to higher shipment volumes and $14.9 million due to favorable changes in Canadian currency exchange rates.

Gross profit for 2010 decreased to $236.4 million from $256.9 million in 2009. Gross profit decreased $35.8 million due to lower sales prices and $15.7 million due to the divestiture of two Anvil businesses. These decreases were partially offset by $17.2 million of manufacturing and other cost savings. Gross margin decreased to 17.7% for 2010 from 18.0% for 2009.

Selling, general and administrative expenses for 2010 decreased to $219.3 million from $239.1 million in 2009 primarily due to the divestiture of two Anvil businesses.

During 2009, we suspended production throughout the Company for varying time periods in response to reduced demand for our products, implemented temporary compensation reductions, furloughs and reduced work weeks for certain employees and directors and reduced headcount by approximately 17%. Restructuring activities at North Birmingham resulted in lower fixed costs, reduced capacity and a $38.5 million non-cash restructuring charge, primarily for impairment of property, plant and equipment. 2009 restructuring charges also included $9.3 million of mostly severance and other charges.

We closed U.S. Pipe s North Birmingham facility and recorded a restructuring charge of $12.0 million during 2010, consisting of $4.4 million of asset impairment charges and $7.6 million of employee-related and other charges. We expect to record additional restructuring charges of $1 million to $2 million in 2011 related to this closure.

During 2009, we recorded impairment charges of $970.9 million relating to goodwill and other intangible assets.

Interest expense, net was $68.0 million for 2010 compared to $78.3 million in 2009. The components of interest expense, net are detailed below.

	2010	2009
	(in millions)	
2007 Credit Agreement, including interest rate swap contracts	$ 20.8	$ 37.6
7 3/8% Senior Subordinated Notes	31.0	31.0
8 3/4% Senior Unsecured Notes	2.0	-
Terminated interest rate swap contracts:		
Costs deferred	(4.7)	-
Costs recognized	12.7	6.3
Deferred financing fees amortization	2.9	2.2
Other interest expense	3.6	2.9
Interest income	(0.3)	(1.7)
	$ 68.0	$ 78.3

Net interest expense for 2010 declined from 2009 primarily due to lower borrowing levels under the 2007 Credit Agreement resulting from principal prepayments in June 2009, August 2009, September 2009, January 2010 and the termination of this agreement in August 2010. Some of these prepayments led to the cancellation of

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interest rate swap contracts. All deferred interest expense under interest rate swap contracts at such times was either immediately charged to expense or scheduled to be expensed over the remainder of the original term of the contracts.

Loss on early extinguishment of debt represents writing off deferred financing fees pursuant to debt prepayments. A net gain of $1.5 million from repurchasing $5.0 million of our 7 3/8 Senior Subordinated Notes on the open market is also included in 2009.

The income tax benefit for 2010 included a $2.2 million expense related to the repatriation of earnings from Canada. After the divestiture of a Canadian business early in 2010, we determined the Canadian operations no longer needed approximately $21 million of cash, which we repatriated. Excluding this item, income tax benefit in 2010 would have resulted in an effective tax rate of 37%. There was very limited income tax benefit associated with the goodwill impairment recorded in 2009. Excluding goodwill impairment, the effective tax rate for 2009 was 38%. In 2010 and 2009, the other differences between income taxes and that expected using the U.S. federal statutory rate of 35% related primarily to state income taxes and non-deductible compensation.

Segment Analysis

Mueller Co.

Net sales for 2010 increased to $612.8 million from $547.1 million in 2009. Net sales increased primarily due to $55.7 million in higher shipment volumes.

Gross profit for 2010 increased to $170.3 million from $134.3 million in 2009. Gross profit increased $20.3 million due to higher shipment volumes and $16.8 million due to manufacturing and other cost savings. Gross margin was 27.8% in 2010 compared to 24.5% in 2009. Gross margin increased primarily due to manufacturing and other cost savings.

Selling, general and administrative expenses in 2010 increased to $89.2 million from $84.2 million in 2009. These expenses increased primarily due to additional development of our Mueller Systems meter and metering technology business.

We recorded in 2009 impairment and restructuring charges of $820.7 million. The impairment charges were $717.3 million against goodwill and $101.4 against other intangible assets.

U.S. Pipe

Net sales for 2010 decreased to $377.8 million from to $410.9 million in 2009. Net sales decreased $36.3 million due to lower prices.

Gross loss for 2010 increased to $22.7 million from $5.7 million in 2009. Gross loss increased primarily due to $36.3 million of lower sales prices. This increase was partially offset by $9.6 million of lower raw material costs and $10.9 million of manufacturing and other cost savings.

Selling, general and administrative expenses for 2010 decreased to $30.5 million from $35.6 million in 2009. The amount in 2009 included $3.2 million of bad debt expense for a specific customer. The decrease in these expenses is otherwise attributed primarily to lower headcount.

We closed our North Birmingham facility and recorded a restructuring charge of $12.0 million during 2010, consisting of $4.4 million of asset impairment charges and $7.6 million of employee-related and other charges. We expect to record additional restructuring charges of $1 million to $2 million in 2011.

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In 2009, we recorded impairment and restructuring charges of $101.1 million, which included goodwill impairment of $59.5 million and a non-cash restructuring charge of $38.5 million, primarily for impairment of property, plant and equipment, at our North Birmingham facility.

Anvil

Net sales for 2010 decreased to $346.9 million from $469.9 million in 2009. Net sales decreased $90.0 million due to divested businesses and $38.4 million due to lower shipment volumes.

Gross profit for 2010 decreased to $88.8 million from $128.2 million in 2009. Gross profit decreased $15.7 million due to divested businesses, $13.5 million due to lower shipment volumes and $10.4 million due to higher manufacturing and other costs. Gross margin was 25.6% in 2010 compared to 27.3% in 2009. Gross margin decreased primarily due to higher per-unit overhead costs, partially offset by eliminating the lower margin divested businesses.

Selling, general and administrative expenses for 2010 decreased to $66.2 million from $84.9 million in 2009. These expenses declined $16.3 million related to the divested businesses. The amount in 2010 included gains totaling $4.4 million from the sale of divested businesses. The amount in 2009 included a $3.5 million gain from the sale of a building.

We recorded impairment and restructuring charges of $96.7 million in 2009.

Corporate

Selling, general and administrative expenses for 2010 decreased to $33.4 million from $34.4 million in 2009. This decrease was primarily due to $1.2 million of fees incurred in 2009 related to the conversion of Series B common stock into Series A common stock.

Year Ended September 30, 2009 Compared to Year Ended September 30, 2008

	Year ended September 30, 2009				
	Mueller Co.	**U.S. Pipe**	**Anvil** (in millions)	**Corporate**	**Total**
Net sales	$ 547.1	$ 410.9	$ 469.9	$ -	$ 1,427.9
Gross profit (loss)	$ 134.3	$ (5.7)	$ 128.2	$ 0.1	$ 256.9
Operating expenses:					
Selling, general and administrative	84.2	35.6	84.9	34.4	239.1
Impairment	818.7	59.5	92.7	-	970.9
Restructuring	2.0	41.6	4.0	0.2	47.8
	904.9	136.7	181.6	34.6	1,257.8
Loss from operations	$ (770.6)	$ (142.4)	$ (53.4)	$ (34.5)	(1,000.9)
Interest expense, net					78.3
Loss on early extinguishment of debt, net					3.8
Loss before income taxes					(1,083.0)
Income tax benefit					(86.3)

Net loss	$	(996.7)

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	Year ended September 30, 2008				
	Mueller Co.	U.S. Pipe	Anvil (in millions)	Corporate	Total
Net sales	$ 718.1	$ 546.0	$ 595.2	$ -	$ 1,859.3
Gross profit	$ 218.4	$ 43.8	$ 176.2	$ 0.6	$ 439.0
Operating expenses:					
Selling, general and administrative	90.0	42.9	102.1	39.6	274.6
Restructuring	-	18.3	-	-	18.3
	90.0	61.2	102.1	39.6	292.9
Income (loss) from operations	$ 128.4	$ (17.4)	$ 74.1	$ (39.0)	146.1
Interest expense, net					72.4
Income before income taxes					73.7
Income tax expense					31.7
Net income					$ 42.0

Consolidated Analysis

Net sales for 2009 decreased to $1,427.9 million from $1,859.3 million in 2008. Net sales decreased primarily due to $485.7 million of lower shipment volumes and $30.2 million due to unfavorable changes in Canadian currency exchange rates partially offset by $84.5 million of higher prices.

Gross profit for 2009 decreased $256.9 million compared to $439.0 million in 2008. Gross profit decreased $151.9 million due to lower shipment volumes, $106.7 million due to higher per-unit overhead costs due to lower production and $48.9 million due to higher raw material costs. These decreases were partially offset by higher sales prices and $45.2 million of manufacturing cost savings. Gross margin decreased to 18.0% for 2009 from 23.6% in 2008. Gross margin decreased approximately 3 percentage points due to lower shipments of relatively high margin products and higher per-unit overhead costs at Mueller Co. and decreased approximately 3 percentage points primarily due to higher per-unit overhead costs at U.S. Pipe.

Selling, general and administrative expenses for 2009 decreased to $239.1 million from $274.6 million in 2008. Anvil recognized a $3.5 million gain from the sale of a building during 2009. We recognized bad debt expense of $3.9 million related to a specific customer and fees of $1.2 million related to the conversion of Series B common stock into Series A common stock during 2009. Other decreases in selling, general and administrative expenses for 2009 from 2008 were due to lower shipment volumes and personnel related and other cost saving actions.

We recorded impairment charges of $970.9 million in 2009.

We suspended production throughout the Company for varying time periods during 2009 in response to reduced demand for our products, implemented temporary compensation reductions, furloughs and reduced work weeks for certain employees and directors and reduced headcount by approximately 17%. Restructuring charges recorded during 2009 totaled $47.8 million. Restructuring activities at U.S. Pipe s North Birmingham facility resulted in lower fixed costs, reduced capacity and a $38.5 million non-cash restructuring charge, primarily for impairment of property, plant and equipment. Restructuring charges of $18.3 million during 2008 related to the closure of manufacturing operation in Burlington, New Jersey.

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The components of interest expense, net are presented below.

	2009		2008
		(in millions)	
2007 Credit Agreement, including interest rate swap contracts	$ 37.6	$	40.7
7 3/8% Senior Subordinated Notes	31.0		31.3
Terminated interest rate swap contracts:			
Costs recognized	6.3		-
Deferred financing fees amortization	2.2		1.7
Capitalized interest	-		(1.0)
Other interest expense	2.9		3.8
Interest income	(1.7)		(4.1)
	$ 78.3	$	72.4

Loss on the early extinguishment of debt includes write-offs of $5.3 million of unamortized deferred financing fees in connection with the June 2009 amendment to our 2007 Credit Agreement and subsequent prepayments of amounts outstanding under the amended 2007 Credit Agreement during 2009. In November 2008, we repurchased $5.0 million in principal of the 7 3/8% Senior Subordinated Notes resulting in a gain of $1.5 million.

The income tax benefit of $86.3 million during 2009 represented an effective income tax rate of 8.0%. There was very limited tax benefit associated with the goodwill impairment. Excluding goodwill impairment, the effective tax rate for 2009 would have been 38% compared to the federal statutory rate of 35%. The effective tax rate for 2008 was 43%.

Segment Analysis

Mueller Co.

Net sales for 2009 decreased to $547.1 million from $718.1 in 2008. Lower shipment volumes of $196.1 million were partially offset by higher sales prices of $33.0 million. Lower shipment volumes occurred for iron gate valves, fire hydrants and brass service products.

Gross profit for 2009 decreased to $134.3 million from $218.4 million in 2008. Gross profit decreased $76.3 million due to lower shipment volumes, $44.5 million due to higher per-unit overhead costs due to lower production and $12.9 million due to higher raw material costs, partially offset by higher sales prices of $33.0 million and manufacturing cost savings of $21.5 million. Gross margin was 24.5% for 2009 compared to 30.4% in 2008. Higher per-unit overhead costs reduced gross margin by approximately 5 percentage points and changes in product mix reduced gross margin by approximately 3 percentage points. Higher sales prices in excess of higher raw material costs increased gross margin by approximately 2 percentage points.

We recorded impairment and restructuring charges of $820.7 million in 2009.

Excluding the impairment and restructuring charges, income from operations during 2009 was $50.1 million compared to $128.4 million in 2008. This decline was primarily due to decreased gross profit.

U.S. Pipe

Net sales for 2009 decreased to $410.9 million from $546.0 million in 2008. Net sales decreased $149.8 million due to lower shipment volumes, but increased $14.7 million due to higher prices.

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Gross loss for 2009 was $5.7 million compared to gross profit of $43.8 million in 2008. Gross profit decreased $38.0 million due to lower shipment volumes, $30.7 million due to higher per-unit overhead costs due to lower production and $15.5 million due to higher raw material costs. These decreases were partially offset by $17.0 million of manufacturing cost savings and $14.7 million of higher sales prices. Gross margin was (1.4)% for 2009 compared to 8.0% in 2008. Gross margin decreased approximately 6 percentage points due to changes in product mix and decreased approximately 3 percentage points due to higher per-unit overhead costs.

We recorded impairment and restructuring charges of $101.1 million in 2009.

Excluding the impairment and restructuring charges, results from operations decreased $42.2 million during 2009 compared to 2008. This decrease was due to $49.5 million of lower gross profit partially offset by $7.3 million of lower selling, general and administrative expenses. Selling, general and administrative expenses declined due to lower shipment volumes and cost saving actions.

Anvil

Net sales for 2009 decreased to $469.9 million from $595.2 in 2008. Net sales decreased $139.8 million due to lower shipment volumes and $22.3 million due to unfavorable changes in Canadian currency exchange rates. These factors were partially offset by $36.8 million of higher prices.

Gross profit for 2009 decreased to $128.2 million from $176.2 million in 2008. Gross profit decreased $37.6 million due to lower shipment volumes, $31.5 million due to higher per-unit overhead costs due to lower production and $20.5 million due to higher raw material costs. These decreases were partially offset by $36.8 million of higher sales prices and $6.7 million of manufacturing cost savings. Gross margin was 27.3% in 2009 compared to 29.6% in 2008. Gross margin increased approximately 1 percentage point due to changes in product mix, increased approximately 1 percentage point due to higher sales prices exceeding higher raw material costs and decreased approximately 4 percentage points due to higher per-unit overhead costs.

We recorded impairment and restructuring charges of $96.7 million in 2009.

Excluding the impairment and restructuring charges, income from operations for 2009 was $43.3 million compared to $74.1 million in 2008. This decrease was due to $48.0 million of lower gross profit, partially offset by $17.2 million of lower selling, general and administrative expenses. Lower selling, general and administrative expenses were primarily due to a $3.5 million gain from the sale of a building during 2009, lower shipment volumes and cost saving actions.

Corporate

Corporate expenses in 2009 decreased to $34.4 million from $39.6 million in 2008. During 2009, $1.2 million of professional fees were expensed related to the conversion of the Series B common stock into Series A common stock. Corporate expenses otherwise decreased due to personnel and other related cost saving actions.

Financial Condition

Cash and cash equivalents were $83.7 million at September 30, 2010 compared to $61.5 million at September 30, 2009. Cash and cash equivalents increased during 2010 as a result of cash provided by operating activities and investing activities of $63.0 million and $23.6 million, respectively, offset by cash used in financing activities of $65.9 million. Cash and cash equivalents increased $1.5 million during 2010 due to changes in currency exchange rates.

Receivables, net were $202.5 million at September 30, 2010 compared to $216.3 million at September 30, 2009. Receivables at September 30, 2010 represented approximately 53.2 days net sales compared to

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September 30, 2009 receivables representing approximately 52.5 days net sales. We consider this variation in days net sales in receivables normal as this measure has been in the low to mid-50s in recent periods.

Inventories were $268.4 million at September 30, 2010 compared to $342.8 million at September 30, 2009. We continue improving our processes to minimize inventory levels. Inventory was $459.4 million at September 30, 2008. The divestiture of Anvil s Canadian distribution business also contributed to the decrease in inventory during 2010. Inventory turns per year at the end of 2010 were approximately 3.6, which was about half a turn faster than at the end of 2009.

Property, plant and equipment, net was $264.4 million at September 30, 2010 compared to $296.4 million at September 30, 2009. Capital expenditures were $32.8 million during 2010 with depreciation of $53.6 million.

Identifiable intangible assets were $632.4 million at September 30, 2010 compared to $663.6 million at September 30, 2009. Finite-lived intangible assets, $332.2 million of net book value at September 30, 2010, are amortized over their estimated useful lives. Such amortization expense was $31.0 million during 2010 and is expected to be a similar amount for each of the next five years. Indefinite-lived identifiable intangible assets, $300.3 million at September 30, 2010, are not amortized, but tested at least annually for possible impairment.

Accounts payable and other current liabilities were $183.0 million at September 30, 2010 compared to $209.1 million at September 30, 2009. Payment patterns for various purchases vary significantly, ranging from payroll which is paid very frequently to incentive compensation and customer rebates that might only be paid once per year.

Outstanding borrowings were $692.2 million at September 30, 2010 compared to $740.2 million at September 30, 2009. The decrease of $48.0 million during 2010 was due primarily to prepayments of $40 million of borrowings under the amended 2007 Credit Agreement in January 2010.

Deferred income taxes were net liabilities of $135.2 million at September 30, 2010 compared to net liabilities of $149.2 million at September 30, 2009. Deferred tax liabilities related to property, plant and equipment and identifiable intangible assets were $247.9 million and $251.1 million at September 30, 2010 and 2009, respectively.

Liquidity and Capital Resources

We had cash and cash equivalents of $83.7 million and $151.6 million of excess availability under our asset based lending agreement (the ABL Agreement) at September 30, 2010.

Cash flows from operating activities are categorized below.

	2010	2009
	(in millions)	
Collections from customers	$ 1,339.1	$ 1,496.7
Disbursements, other than interest and income taxes	(1,227.8)	(1,279.1)
Interest payments, net	(77.5)	(74.8)
Income tax refunds (payments), net	29.2	(12.3)
Cash provided by operating activities	$ 63.0	$ 130.5

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Collections of receivables were lower during 2010 compared to 2009. 2010 net sales were $90.4 million lower than 2009. 2009 collections also benefited from relatively high net sales prior to the end of 2008.

Reduced disbursements, other than interest and income taxes, during 2010 reflect timing differences and lower volumes of material, labor and overhead purchased. 2009 disbursements were relatively smaller compared to sales activity than 2010 due to larger inventory reductions occurring during 2009 than during 2010.

Interest payments include $18.3 million and $6.3 million to cancel interest rate swap contracts in 2010 and 2009, respectively. Interest payments do not include approximately $10 million in each of 2010 and 2009 that were capitalized as deferred financing fees.

An income tax refund was received in 2010 by carrying back the 2009 losses to earlier years.

Capital expenditures were $32.8 million during 2010 compared to $39.7 million during 2009. Also during 2009, Mueller Co. purchased data collection-related technology associated with its Hersey Meters products for $8.7 million. 2011 capital expenditures are estimated to be between $38 million and $42 million.

An analysis of the funded status of our U.S. pension plan as of January 1, 2011 will be performed for purposes of determining funding thresholds under provisions of the Pension Protection Act. A significant portion of the assets invested in our defined benefit pension plans is invested in equity securities. If we lower our estimated rate of return on these assets, this would cause pension expense to increase and require higher levels of Company contributions to these plans. We currently estimate contributing between $16 million and $20 million to our pension plans during 2011.

We anticipate that our existing cash, cash equivalents and borrowing capacity combined with our expected operating cash flows will be sufficient to meet our anticipated operating expenses, capital expenditures, pension contributions and debt service obligations as they become due through September 30, 2011. However, our ability to make these payments will depend partly upon our future operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory, business and other factors beyond our control.

In August 2010, we issued $225.0 million principal amount of 8 3/4% Senior Unsecured Notes maturing September 1, 2020 (the Senior Unsecured Notes) at 98.37% of their principal amount to yield approximately 9%. Concurrently with the closing of this agreement, we entered into the ABL Agreement. We used the net proceeds from the offering of the Senior Unsecured Notes, together with amounts borrowed under the ABL Agreement and cash on hand to repay all amounts outstanding under the 2007 Credit Agreement.

ABL Agreement

The ABL Agreement consists of a revolving credit facility of up to $275 million of revolving credit borrowings, swing line loans and letters of credit. The ABL Agreement also permits us to increase the size of the credit facility by an additional $150 million. We may borrow up to $25 million through swing line loans and have up to $60 million of letters of credit outstanding.

Borrowings under the ABL Agreement bear interest at a floating rate equal to LIBOR plus a margin ranging from 275 to 325 basis points, or a base rate as defined in the ABL Agreement plus a margin ranging from 175 to 225 basis points. At September 30, 2010, the applicable rate was LIBOR plus 300 basis points.

The ABL Agreement terminates in August 2015 and had outstanding borrowings of $49.0 million at September 30, 2010. We pay a commitment fee of 50 basis points for any unused borrowing capacity under the ABL Agreement. The borrowing capacity under the ABL Agreement is not subject to any financial maintenance covenants unless excess availability is less than the greater of $34 million and 12.5% of the aggregate commitments under the ABL Agreement. Excess availability has been reduced by outstanding borrowings, outstanding letters of credit and accrued fees and expenses.

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The ABL Agreement is subject to mandatory prepayments if total outstanding borrowings under the ABL Agreement are greater than the aggregate commitments under the revolving credit facility or if we dispose of overdue accounts receivable in certain circumstances. The borrowing base under the ABL Agreement is equal to the sum of (a) 85% of the value of eligible accounts receivable and (b) the lesser of (i) 65% of the value of eligible inventory or (ii) 85% of the net orderly liquidation value of the value of eligible inventory, less certain reserves. Prepayments can be made at any time with no penalty.

Substantially all of our U.S. subsidiaries are borrowers under the ABL Agreement and are jointly and severally liable for any outstanding borrowings. Our obligations under the ABL Agreement are secured by a first-priority perfected lien on all of our U.S. inventory, accounts receivable, certain cash and other supporting obligations.

The ABL Agreement contains customary negative covenants and restrictions on our ability to engage in specified activities, such as:

- limitations on other debt, liens, investments and guarantees;
- restrictions on dividends and redemptions of our capital stock and prepayments and redemptions of debt; and
- restrictions on mergers and acquisition, sales of assets and transaction with affiliates.

8 3/4% Senior Unsecured Notes

We owed $225 million of principal of 8 3/4% Senior Unsecured Notes at September 30, 2010. Interest on the Senior Unsecured Notes is payable semi-annually and the principal is due September 2020. We may redeem up to $22.5 million of the Senior Unsecured Notes at a redemption price of 103% plus accrued and unpaid interest once in each year ending September 1, 2011, 2012, and 2013. We may also redeem up to $78.8 million of the originally issued principal amount of the Senior Unsecured Notes at a redemption price of 108.75%, plus accrued and unpaid interest, with net cash proceeds from certain equity offerings prior to September 2013, provided that at least $146.2 million in principal amount of the Senior Unsecured Notes remains outstanding immediately after such redemption. After August 2015, the Senior Unsecured Notes may be redeemed at specified redemption prices plus accrued and unpaid interest. Upon a Change of Control (as defined in the indenture securing the Senior Unsecured Notes), we are required to offer to purchase the outstanding Senior Unsecured Notes at a purchase price of 101%, plus accrued and unpaid interest. The Senior Unsecured Notes are essentially guaranteed by all of our U.S. subsidiaries, but are subordinate to borrowings under the ABL Agreement.

7 3/8% Senior Subordinated Notes

We also owed $420.0 million of principal of 7 3/8% Senior Subordinated Notes (Senior Subordinated Notes) at September 30, 2010. Interest on the Senior Subordinated Notes is payable semi-annually and the principal is due June 2017. After May 2012, we may redeem any portion of the Senior Subordinated Notes at specified redemption prices plus accrued and unpaid interest. Upon a Change of Control (as defined in the indenture securing the Senior Subordinated Notes), we are required to offer to purchase the outstanding Senior Subordinated Notes at a purchase price of 101%, plus accrued and unpaid interest. The Senior Subordinated Notes are secured by the guarantees of essentially all of our U.S. subsidiaries, but are subordinate to the borrowings under the ABL Agreement and the Senior Unsecured Notes.

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Credit Ratings

Our credit ratings issued by Moody s and Standard & Poor s were as follows.

	September 30, 2010		September 30, 2009	
	Moody s	Standard & Poor s	Moody s	Standard & Poor s
Corporate credit rating	B2	B	B2	B
ABL Agreement	Not rated	Not rated	n/a	n/a
2007 Credit Agreement	n/a	n/a	B1	BB-
8 3/4% Senior Unsecured Notes	B1	B+	n/a	n/a
7 3/8% Senior Subordinated Notes	B3	CCC+	Caa1	B-
Outlook	Stable	Stable	Stable	Stable

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt or any derivative contracts other than those described in Item 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK or synthetic leases. Therefore, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

We use letters of credit and surety bonds in the ordinary course of business to ensure the performance of contractual obligations. At September 30, 2010, we had $39.2 million of letters of credit and $26.8 million of surety bonds outstanding.

Contractual Obligations

Our contractual obligations at September 30, 2010 are presented below.

	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
			(in millions)		
Long-term debt:					
Principal payments (1)	$ 0.7	$ 0.8	$ 49.1	$ 645.2	$ 695.8
Interest (2)	52.8	104.7	104.0	160.4	421.9
Operating leases	9.4	11.6	5.2	5.8	32.0
Unconditional purchase obligations (3)	46.2	0.1	-	-	46.3
Other noncurrent liabilities (4)	16.8	-	-	-	16.8
	$ 125.9	$ 117.2	$ 158.3	$ 811.4	$ 1,212.8

(1) The principal payments on long-term debt include $3.6 million of discount on the 8 3/4 % Senior Unsecured Notes.

(2)

Interest on the ABL Agreement is calculated using LIBOR of 0.29% at September 30, 2010. Actual interest payments will likely be different.

(3) Includes contractual obligations for purchases of raw materials and capital expenditures.

(4) Consists of obligations for pension plans and represents the estimated minimum payments required to meet funding obligations. Actual payments may differ. We have not estimated these payments beyond 2011.

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Effect of Inflation; Seasonality

We experience changing price levels related to purchases of raw materials and purchased components. The average purchase price per ton of scrap iron at U.S. Pipe. in 2010 was 42% higher than in 2009. The average purchase price per ton of brass ingot at Mueller Co. in 2010 was 48% higher than in 2009. We do not believe that changing prices for other goods had a material impact on our financial position or results of operations in 2010 compared to 2009.

Our water infrastructure businesses are dependent upon construction activity, which is seasonal due to the impact of cold weather conditions on construction. Net sales and operating income have historically been lowest in the three-month periods ending December 31 and March 31 when the northern United States and all of Canada generally face weather conditions that restrict significant construction activity. In general, approximately 45% of a year s net sales occurs in the first half of the year with 55% occurring in the second half of the year. See Item 1A. RISK FACTORS Sales of certain of our products are seasonal.

Critical Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. These estimates are based upon experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. We consider an accounting estimate to be critical if changes in the estimate that are reasonably likely to occur over time or the use of reasonably different estimates could have a material impact on our financial condition or results of operations. We consider the accounting topics presented below to include our critical accounting estimates.

Revenue Recognition

We recognize revenue when delivery of a product has occurred and there is persuasive evidence of a sales arrangement, sales prices are fixed and determinable and collectability from the customers is reasonably assured. Sales are recorded net of estimated discounts, returns and rebates. Discounts, returns and rebates are estimated based upon current offered sales terms and actual historical return and allowance rates.

Receivables

The estimated allowance for doubtful receivables is based upon judgments and estimates of expected losses and specific identification of problem accounts. Significantly weaker than anticipated industry or economic conditions could impact customers ability to pay such that actual losses may be greater than the amounts provided for in this allowance. The periodic evaluation of the adequacy of the allowance for doubtful receivables is based on an analysis of prior collection experience, specific customer creditworthiness and current economic trends within the industries served. In circumstances where a specific customer s inability to meet its financial obligation is known to us (e.g., bankruptcy filings or substantial downgrading of credit ratings), we record a specific allowance to reduce the receivable to the amount we reasonably believe will be collected.

Inventories

We record inventories at the lower of first-in, first-out method cost or market value. Inventory cost includes an overhead component that can be affected by levels of production and actual costs incurred. We evaluate the need to record adjustments for impairment of inventory at least quarterly. This evaluation includes such factors as anticipated usage, inventory turnover, inventory levels and ultimate product sales value. Inventory that, in the judgment of management, is obsolete or in excess of our normal usage is written-down to its estimated market value, if less than its cost. Significant judgments must be made when establishing the reserve for obsolete and excess inventory.

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Income Taxes

We recognize deferred tax liabilities and deferred tax assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax liabilities and assets are determined based on the differences between the financial statements and the tax basis of assets and liabilities, using enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset any net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. If we were to reduce our estimates of future taxable income, we could be required to record additional valuation allowances against our deferred tax assets. Our tax balances are based on our expectations of future operating performance, tax planning strategies, interpretation of the tax regulations currently enacted and rulings in numerous tax jurisdictions.

We only record tax benefits for positions that we believe are more likely than not of being sustained under audit examination based solely on the technical merits of the associated tax position. The amount of tax benefit recognized for any position that meets the more likely than not threshold is the largest amount of the tax benefit that we believe is greater than 50% likely of being realized.

Accounting for the Impairment of Long-Lived Assets Including Goodwill and Other Intangible Assets

We test long-lived assets, including goodwill and intangible assets that have an indefinite life, for impairment annually (or more frequently if events or circumstances indicate possible impairment). Finite-lived intangible assets are amortized over their respective estimated useful lives and reviewed if events or circumstances indicate possible impairment. We perform our annual impairment testing at September 1.

We test goodwill for possible impairment by first determining the fair value of the related reporting unit and comparing this value to the recorded net assets of the reporting unit, including goodwill. Fair value is determined using a combination of a discounted cash flow model and stock market comparable valuations for a peer group of companies. Significant judgments and estimates must be made when estimating future cash flows, determining the appropriate discount rate and identifying appropriate comparable companies.

Litigation, Investigations and Claims

We are involved in litigation, investigations and claims arising out of the normal conduct of our businesses. We estimate and accrue liabilities resulting from such matters based on a variety of factors, including outstanding legal claims and proposed settlements; assessments by internal counsel of pending or threatened litigation; and assessments of potential environmental liabilities and remediation costs. We believe we have adequately accrued for these potential liabilities; however, facts and circumstances may change and could cause the actual liability to exceed the estimates, or may require adjustments to the recorded liability balances in the future.

Workers Compensation, Defined Benefit Pension and Other Postretirement Benefits, Environmental and Other Long-term Liabilities

We are obligated for various liabilities that will ultimately be determined over what could be a very long future time period. We established the recorded liabilities for such items at September 30, 2010 using estimates for when such amounts will be paid and what the amounts of such payments will be. These estimates are subject to change based on numerous factors, including among others, regulatory changes, technology changes, the investment performance of related assets, the lifespan of plan participants and other individuals and changes to plan designs.

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Item 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK

We are exposed to various market risks, which are potential losses arising from adverse changes in market rates and prices, such as interest rates and foreign exchange fluctuations. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

Our primary financial instruments are cash and cash equivalents. This includes cash in banks and highly rated, liquid money market investments. We believe that those instruments are not subject to material potential near-term losses in future earnings from reasonably possible near-term changes in market rates or prices.

Interest Rate Risk

At September 30, 2010, we had fixed rate debt of $643.2 million and variable rate debt of $49.0 million. The pre-tax earnings and cash flow impact resulting from a 100 basis point increase in interest rates on variable rate debt, holding other variables constant, would be approximately $0.5 million per year.

Currency Risk

We maintain assets and operations in Canada and, to a much lesser extent, China and Europe. The functional currency for these operations is their local currency. The assets and liabilities of non-U.S. subsidiaries are translated into U.S. dollars at currency exchange rates in effect at the end of each period, with the effect of such translation reflected in other comprehensive loss. Our stockholders equity will fluctuate depending upon the weakening or strengthening of the U.S. dollar against these non-U.S. currencies. Net sales and expenses of non-U.S. subsidiaries are translated into U.S. dollars at the average currency exchange rate during the period. At September 30, 2010, $70.6 million of our net assets were denominated in non-U.S. currencies.

We also have relatively small amounts of receivables and payables denominated in currencies other than an entity s functional currency. Changes in currency exchange rates between when these balances originate and when they are settled result in foreign exchange gains and losses that are recognized as they occur.

We settled our outstanding foreign currency forward contracts during 2010 with a cash payment of $1.7 million.

Raw Materials Risk

Our products are made using several basic raw materials, including scrap steel, scrap iron, sand, resin, brass ingot, steel pipe, coke and various purchased components. Product margins and the level of profitability can fluctuate if we do not pass changes in raw material and purchased component costs to our customers.

We experience changing price levels related to purchases of raw materials and purchased components. The average purchase price per ton of scrap iron at U.S. Pipe. in 2010 was 42% higher than in 2009. The average purchase price per ton of brass ingot at Mueller Co. in 2010 was 48% higher than in 2009. We do not believe that changing prices for other goods had a material impact on our financial position or results of operations in 2010 compared to 2009. We expect these prices to fluctuate based on marketplace demand. See Item 1A. RISK FACTORS The costs of our raw materials and purchased components can be volatile.

Commodities Risk

We use natural gas to fuel our ductile iron pipe foundries. We generally purchase natural gas at prices fixed each month based on market rates for specified volumes. We are exposed to price changes from month to month.

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We use natural gas swap contracts to hedge against cash flow variability arising from changes in natural gas prices. These contracts fix our purchase price for a portion of our anticipated natural gas purchases at a price of $4.43 per MMBtu through September 2011 and are accounted for as effective hedges. The fair value of gas swap liability contracts was $0.1 million at September 30, 2010. We recorded in 2010 an immaterial unrealized loss from our swap contracts, net of tax, in accumulated other comprehensive loss.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and supplementary data are filed as part of this annual report beginning on page F-1 and incorporated by reference in this Item 8.

Index to financial statements	Reference
Reports of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets at September 30, 2010 and 2009	F-3
Consolidated Statements of Operations for the years ended September 30, 2010, 2009 and 2008	F-4
Consolidated Statements of Stockholders Equity for the years ended September 30, 2010, 2009 and 2008	F-5
Consolidated Statements of Cash Flows for the years ended September 30, 2010, 2009 and 2008	F-6
Notes to Consolidated Financial Statements	F-7

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this annual report. Based on this evaluation, those officers have concluded that our disclosure controls and procedures were effective at September 30, 2010.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act). Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting at September 30, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Management has concluded that, at September 30, 2010, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting at September 30, 2010, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included in this annual report.

Item 9B. OTHER INFORMATION

None

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The name, age at November 15, 2010 and position of each of our executive officers and directors are presented below.

Name	Age	Position
Gregory E. Hyland	59	Chairman of the Board of Directors, President and Chief Executive Officer
Robert Barker	53	Executive Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary
Robert D. Dunn	53	Senior Vice President, Human Resources
Thomas E. Fish	56	President, Anvil
Evan L. Hart	45	Senior Vice President and Chief Financial Officer
Robert P. Keefe	56	Senior Vice President and Chief Information Officer
Robert G. Leggett	51	Executive Vice President and Chief Operating Officer
Kevin G. McHugh	52	Vice President and Controller
Gregory S. Rogowski	51	President, Mueller Co.
Paul Ciolino	49	President, U.S. Pipe
Marietta Edmunds Zakas	51	Senior Vice President, Strategy, Corporate Development and Communications
Donald N. Boyce	72	Director
Howard L. Clark, Jr.	66	Director
Shirley C. Franklin	65	Director
Jerry W. Kolb	74	Director
Joseph B. Leonard	67	Director
Mark J. O Brien	67	Director
Bernard G. Rethore	69	Director
Neil A. Springer	72	Director
Lydia W. Thomas	66	Director
Michael T. Tokarz	60	Director

Gregory E. Hyland has served as Chairman of the Board of Directors since October 2005 and as President and Chief Executive Officer since January 2006. Mr. Hyland served as Chairman, President and Chief Executive Officer of Walter Energy, a homebuilding, financial services and natural resources company, from September 2005 to December 2006. Prior to that time, Mr. Hyland served as President, U.S. Fleet Management Solutions of Ryder System, Inc. (Ryder), a transportation and logistics company, from June 2005 to September 2005. He served as Executive Vice President, U.S. Fleet Management Solutions of Ryder from October 2004 to June 2005. Mr. Hyland earned Bachelor and Master of Business Administration degrees from the University of Pittsburgh.

Robert Barker has served as our Executive Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary since November 2006. Previously, he was a partner with the law firm of Powell Goldstein LLP in Atlanta, Georgia since August 2001. Mr. Barker earned an A.B. in History and Political Science from Stanford University and earned a Juris Doctor from the University of Virginia School of Law.

Robert D. Dunn has served as our Senior Vice President, Human Resources since November 2007. Previously, he served as Senior Vice President, Human Resources of Dean Foods Company (formerly Suiza Foods Corporation), a food and dairy company since 1999. Mr. Dunn earned a Bachelor of Science degree from Murray State University and a Master of Business Administration degree from Embry Riddle Aeronautical University.

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Thomas E. Fish has served as President of our Anvil segment since 2000. From January 2005 through November 2005, Mr. Fish served as Mueller Co. s Interim Chief Financial Officer. Mr. Fish earned a Bachelor of Science degree from the University of Rhode Island and is a certified public accountant.

Evan L. Hart has served as our Senior Vice President and Chief Financial Officer since July 2008, as our Controller from December 2007 to July 2008 and as Vice President of Financial Planning and Analysis from September 2006 to December 2007. Previously, Mr. Hart had been Vice President, Controller and Treasurer for Unisource Worldwide, Inc., a marketer and distributor of commercial printing & business imaging papers, packaging systems and facility supplies and equipment from 2002 to 2006. Mr. Hart earned a Bachelor of Science degree from Birmingham-Southern College and is a certified public accountant.

Robert P. Keefe has served as our Senior Vice President and Chief Information Officer since March 2007. Previously, Mr. Keefe was Corporate Vice President and Chief Information Officer at Russell Corporation, an athletic apparel, footwear and equipment company, from August 2002 to August 2006. Mr. Keefe is a director of the Society for Information Management, International (SIM), a non-profit trade organization. Mr. Keefe earned a Bachelor degree from the State University of New York at Oswego and a Master of Business Administration degree from Pace University.

Robert G. Leggett has served as our Chief Operating Officer since September 2008. Mr. Leggett served from 2002 to 2008 as a Senior Vice President for Armstrong World Industries, a global leader in the design manufacture of floors, ceilings and cabinets, primarily leading the America s Building Products business. Mr. Leggett earned a Bachelor of Science degree from the Pennsylvania State University.

Kevin G. McHugh has served as our Vice President and Controller since July 2008 and our Vice President, Financial Reporting from January 2008 to July 2008. Previously, he was Corporate Controller at Unisource Worldwide, Inc. from 2003 to 2007. Mr. McHugh earned a Bachelor of Business Administration degree from the University of Notre Dame and is a certified public accountant.

Gregory S. Rogowski has served as President of our Mueller Co. segment since May 2009. Previously he was President and Chief Executive Officer of Performance Fibers, Inc., a polyester industrial fibers business, since 2004. Mr. Rogowski earned a Bachelor of Science degree from Virginia Polytechnic Institute and State University, a Master of Science degree from the University of Akron and a Master of Business Administration degree from the University of Richmond.

Paul Ciolino has served as President of our U.S. Pipe segment since August 2010. Previously, he served as President of Griffin Pipe Products Co. Inc. (Griffin), a ductile iron pipe manufacturer. Mr. Ciolino joined Griffin in 2002 as Vice President of marketing and was named President of Griffin later that year. Prior to joining Griffin, Mr. Ciolino served as managing director of ASF-Keystone Europe, an engineered products and metals manufacturing business. Mr. Ciolino earned a Bachelor of Science degree from Cornell University and a Master of Business Administration degree from Rutgers University.

Marietta Edmunds Zakas has served as Senior Vice President, Strategy, Corporate Development and Communications, since November 2006. Previously Ms. Zakas served in various positions at Russell Corporation, from September 2001 to August 2006, culminating in her role as Corporate Vice President, Chief of Staff, Business Development and Treasurer. Ms. Zakas earned a Bachelor of Arts degree from Randolph-Macon Woman s College (now known as Randolph College), a Master of Business Administration degree from the University of Virginia Darden School of Business and a Juris Doctor from the University of Virginia School of Law.

Donald N. Boyce has been a member of our Board of Directors since April 2006. He was a director of Walter Energy, from August 1998 to April 2006. Mr. Boyce served as Chairman of the Board of Walter Energy from November 2000 to March 2002 and as Chairman of the Board, President and Chief Executive Officer of

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Walter Energy from August 2000 to November 2000. During this time, Walter Energy owned U.S. Pipe. Mr. Boyce was Chairman of the Board of Directors of IDEX Corporation, a proprietary engineered industrial products manufacturing company, from April 1999 to March 2000, Chairman of the Board of Directors and Chief Executive Officer of IDEX Corporation from March 1998 to March 1999 and Chairman of the Board of Directors, President and Chief Executive Officer of IDEX Corporation from January 1988 to March 1998.

Howard L. Clark, Jr. has been a member of our Board of Directors since April 2006. He has been a director of Walter Energy since March 1995. Mr. Clark has been a Vice Chairman in the Investment Banking Division at Barclays Capital, an investment banking firm, since September 2008. He previously served as Vice Chairman of Lehman Brothers Inc., an investment banking firm, from February 1993 to September 2008 and, before that, as Chairman and Chief Executive Officer of Shearson Lehman Brothers Inc. Mr. Clark is also a director of United Rentals, Inc., an equipment rental company, and White Mountains Insurance Group, Ltd., a financial services holding company. Mr. Clark is a director of NIBCO Inc., a company that provides flow control solutions.

Shirley C. Franklin has been a member of our Board of Directors since November 2010. Ms. Franklin served as mayor of the city of Atlanta, Georgia from 2002 to 2009. She has served on a special task force for the Department of Homeland Security and serves on the board of directors of the United Nations Institute for Training and Research. In addition, Ms. Franklin is the Co-Chair of the Atlanta Regional Commission on Homelessness, Co-Chair of the board of directors of the National Center for Civil and Human Rights and Senior Advisor to the Alliance for Digital Equality.

Jerry W. Kolb has been a member of our Board of Directors since April 2006. He has been a director of Walter Energy since June 2003. Mr. Kolb previously served as a Vice Chairman of Deloitte & Touche LLP, a registered public accounting firm, from 1986 to 1988.

Joseph B. Leonard has been a member of our Board of Directors since April 2006. He was a director of Walter Energy from June 2005 to April 2007 and he rejoined that board in February 2009. In March 2010, he became Interim Chief Executive Officer of Walter Energy. Mr. Leonard was Chairman of AirTran Holdings, Inc., a full service airline company, from November 2007 to June 2008, Chairman and Chief Executive Officer of AirTran Holdings, Inc. from January 1999 to November 2007 and President of AirTran Holdings, Inc. from January 1999 to January 2001. Mr. Leonard is a director of Air Canada, a full service airline company.

Mark J. O Brien has been a member of our Board of Directors since April 2006. He was a director of Walter Energy from June 2005 to April 2009. Since March 2006, Mr. O Brien has served as Chairman and Chief Executive Officer of Walter Investment Management Corp. (formerly Walter Energy s Homes Business). Mr. O Brien has served as President and Chief Executive Officer of Brier Patch Capital and Management, Inc., a real estate investment firm, since September 2004. Mr. O Brien served in various executive capacities at Pulte Homes, Inc., a home building company, for 21 years, retiring as President and Chief Executive Officer in June 2003.

Bernard G. Rethore has been a member of our Board of Directors since April 2006. He has been a director of Walter Energy since March 2002. He has been Chairman of the Board Emeritus of Flowserve Corporation, a manufacturer of pumps, valves, seals and components, since April 2000. From January 2000 to April 2000, he served as Flowserve Corporation s Chairman. He had previously served as Chairman, Chief Executive Officer and President of Flowserve Corporation. Mr. Rethore is a director of Belden, Inc., a manufacturer of specialty signal-transmission products, and Dover Corp., a diversified manufacturer of a wide range of proprietary products.

Neil A. Springer has been a member of our Board of Directors since April 2006. He was a director of Walter Energy from August 2000 to April 2006. Mr. Springer has been managing director of Springer & Associates LLC, a board consulting and executive recruitment company, since 1994. Mr. Springer is a director of IDEX Corporation.

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Lydia W. Thomas has been a member of our Board of Directors since January 2008. She served as President and Chief Executive Officer of Noblis, Inc., a public interest scientific research, technology and strategy company, from 1996 to 2007. She was previously with The MITRE Corporation, Center for Environment, Resources and Space, serving as Senior Vice President and General Manager from 1992 to 1996, Vice President from 1989 to 1992 and Technical Director from 1982 to 1989. She is a director of Cabot Corporation, a global performance materials company, and Washington Mutual Investors Fund, a registered investment company.

Michael T. Tokarz has been a member of our Board of Directors since April 2006. He has served as non-executive Chairman of the Board of Walter Energy since December 2006. Since February 2002, he has been a member of the Tokarz Group, LLC, a venture capital investment company. From January 1996 until February 2002, Mr. Tokarz was a member of the limited liability company that serves as the general partner of Kohlberg Kravis Roberts & Co. L.P., a private equity company. From 2004 until 2010, he served on the board of directors of Dakota Growers Pasta Company, Inc., a manufacturer and marketer of dry pasta products. Mr. Tokarz is a director of IDEX Corporation, Conseco, Inc., an insurance provider, MVC Capital, Inc., a registered investment company, and Walter Investment Management Corp.

Additional Information

Additional information required by this item will be contained in our definitive proxy statement issued in connection with the 2011 annual meeting of stockholders filed with the SEC within 120 days after September 30, 2010 and is incorporated herein by reference.

Our website address is *www.muellerwaterproducts.com*. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports from the investors section of our website. These reports are available on our website as soon as reasonably practicable after we file them with the SEC. These reports should also be available through the SEC s website at *www.sec.gov*.

We have adopted a written code of conduct that applies to all directors, officers and employees, including a separate code that applies only our principal executive officer and senior financial officers in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder. Our Code of Business Conduct and Ethics is available in the corporate governance section of our website. In the event that we make changes in, or provide waivers from, the provisions of this Code of Business Conduct and Ethics that the SEC requires us to disclose, we will disclose these events in the corporate governance section of our website.

We have adopted corporate governance guidelines. The guidelines and the charters of our board committees are available in the corporate governance section of our website. Copies of the Code of Business Conduct and Ethics, corporate governance guidelines and board committee charters are also available in print upon written request to the Corporate Secretary, Mueller Water Products, Inc., 1200 Abernathy Road N.E., Suite 1200, Atlanta, GA 30328.

Item 11. EXECUTIVE COMPENSATION

The information required by this item will be contained in our definitive proxy statement issued in connection with the 2011 annual meeting of stockholders is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except for the information set forth below and the information set forth in Part II, Item 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES, the information required by this item will be contained in our definitive proxy statement issued in connection with the 2011 annual meeting of stockholders and is incorporated herein by reference.

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Securities Authorized for Issuance under Equity Compensation Plans

We have two compensation plans under which our equity securities are authorized for issuance. The Mueller Water Products, Inc. 2006 Employee Stock Purchase Plan was approved by our sole stockholder in May 2006 and the Mueller Water Products, Inc. 2006 Stock Incentive Plan was approved by our sole stockholder in May 2006 and amended by our stockholders in January 2008 and January 2009. The following table sets forth certain information relating to these equity compensation plans at September 30, 2010.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by stockholders:			
Mueller Water Products, Inc. 2006 Stock Incentive Plan	6,820,259 (1)	$ -	7,109,324 (2)
Mueller Water Products, Inc. 2006 Employee Stock Purchase Plan	-	-	2,913,588 (3)
Total	6,820,259		10,022,912
Equity compensation plans not approved by stockholders	-	-	-

(1) Consists of shares to be issued upon exercise of outstanding options granted under the Mueller Water Products, Inc. 2006 Stock Incentive Plan.

(2) The number of shares available for future issuance under the Mueller Water Products, Inc. 2006 Stock Incentive Plan is 16,000,000 shares less the cumulative number of awards granted under the plan plus the cumulative number of awards cancelled under the plan.

(3) The number of shares available for future issuance under the Mueller Water Products, Inc. 2006 Stock Purchase Plan is 4,000,000 shares less the cumulative number of shares issued under the plan.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be contained in our definitive proxy statement issued in connection with the 2011 annual meeting of stockholders is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be contained in our definitive proxy statement issued in connection with the 2011 annual meeting of stockholders is incorporated herein by reference.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

Index to financial statements	Page number
Reports of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets at September 30, 2010 and 2009	F-3
Consolidated Statements of Operations for the years ended September 30, 2010, 2009 and 2008	F-4
Consolidated Statements of Stockholders Equity for the years ended September 30, 2010, 2009 and 2008	F-5
Consolidated Statements of Cash Flows for the years ended September 30, 2010, 2009 and 2008	F-6
Notes to Consolidated Financial Statements	F-7

(b) Financial Statement Schedules

Except for Schedule II, Valuation and Qualifying Accounts, the schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted. The information required by Schedule II is included in the notes to consolidated financial statements.

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(c) Exhibits

Exhibit no.	Document
2.1	Agreement and Plan of Merger dated as of June 17, 2005 among Mueller Water Products, Inc., Walter Industries, Inc., JW MergerCo, Inc. and DLJ Merchant Banking II, Inc., as stockholders representative. Incorporated by reference to Exhibit 2.1 to Mueller Water Products, Inc. Form 8-K (File no. 333-116590) filed on June 21, 2005.
2.1.1	Letter Agreement dated as of February 23, 2006 between Walter Industries, Inc. and Mueller Water Products, Inc. Incorporated by reference to Exhibit 10.1 to Mueller Water Products, Inc. Form 8-K (File no. 333-131521) filed February 27, 2006.
2.2	Agreement and Plan of Merger, dated as of January 31, 2006, by and among Mueller Holding Company, Inc., Mueller Water Products, LLC and Mueller Water Products Co-Issuer, Inc. Incorporated by reference to Exhibit 2.1 Mueller Water Products, Inc. Form 8-K (File no. 333-116590) filed on February 3, 2006.
3.1	Second Restated Certificate of Incorporation of Mueller Water Products, Inc. Incorporated by reference to Exhibit 3.4 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on January 29, 2009.
3.1.1	Certificate of Merger, dated February 2, 2006, of Mueller Water Products, LLC and Mueller Water Products Co-Issuer, Inc. with and into Mueller Holding Company, Inc. Incorporated by reference to Exhibit 3.1.2 to Mueller Water Products, Inc. Form 8-K (File no. 333-116590) filed on February 3, 2006.
3.2	Amended and Restated Bylaws of Mueller Water Products, Inc. Incorporated by reference to Exhibit 3.1 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on August 22, 2008.
4.1	Indenture, dated as of April 29, 2004, between Mueller Holdings (N.A.), Inc. and Law Debenture Trust Company of New York for the 14.75% Senior Discount Notes due 2014. Incorporated by reference to Exhibit 4.1 to Mueller Water Products, LLC Registration Statement on Form S-1 (File no. 333-116590) filed on June 17, 2004.
4.1.1	Supplemental Indenture, dated as of October 3, 2005, by and among Mueller Water Products, LLC, Mueller Water Products Co-Issuer, Inc. and Law Debenture Trust Company of New York. Incorporated by reference to Exhibit 4.1 to Mueller Water Products, Inc. Form 10-Q (File no. 333-131521) filed on February 22, 2006.
4.1.2	Second Supplemental Indenture, dated as of February 2, 2006, between, by and among Mueller Holding Company, Inc., Mueller Water Products, LLC, Mueller Water Products Co-Issuer, Inc. and Law Debenture Trust Company of New York. Incorporated by reference to Exhibit 10.1 to Mueller Water Products, Inc. Form 8-K (File no. 333-116590) filed on February 3, 2006.
4.1.3	Third Supplemental Indenture, dated as of May 14, 2007, to the Indenture dated as of April 29, 2004 among Mueller Water Products, Inc. and Law Debenture Trust Company of New York, as trustee. Incorporated by reference to Exhibit 4.1.3 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on May 17, 2007.
4.2	Indenture dated as of May 24, 2007 among Mueller Water Products, Inc., the guarantors named on the signature pages thereto and The Bank of New York (including form of global notes). Incorporated by reference to Exhibit 4.6 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on May 30, 2007.

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4.3	Indenture, dated August 26, 2010, among Mueller Water Products, Inc., the guarantors named on the signature pages thereto and The Bank of New York Mellon Trust Company, N.A., as trustee (including form of global notes). Incorporated by reference to Exhibit 4.6 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on August 27, 2010.
10.1	Amended and Restated Credit Agreement among Mueller Water Products, Inc., as Borrower, Mueller Group, LLC, as prior borrower, Bank of America, N.A., as Administrative Agent, Swing Line Lender, and an L/C Issuer, JPMorgan Chase Bank, N.A., as Syndication Agent, and an L/C Issuer and the lenders named on the signature pages thereto. Incorporated by reference to Exhibit 10.17 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on May 30, 2007.
10.1.1	Amendment No.1 to Amended and Restated Credit Agreement, dated as of June 21, 2007, among Mueller Water Products, Inc., Bank of America, N.A., and each of the guarantors named on the signature pages thereto. Incorporated by reference to Exhibit 10.20 to Mueller Water Products, Inc. Form 10-Q (File no. 001-32892) for the quarter ended June 30, 2007.
10.1.2	Amendment No. 2 to Amended and Restated Credit Agreement, dated as of June 18, 2009, among Mueller Water Products, Inc., Bank of America, N.A., and each of the guarantors named on the signature pages thereto. Incorporated by reference to Exhibit 10.1.2 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on June 18, 2009.
10.2	Income Tax Allocation Agreement by and among Walter Industries, Inc., the Walter Affiliates (as defined therein), Mueller Water Products, Inc. and the Mueller Affiliates (as defined therein). Incorporated by reference to Exhibit 10.2 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on May 30, 2006.
10.3	Mueller Water Products, Inc. Amended and Restated 2006 Stock Incentive Plan.
10.4	Mueller Water Products, Inc. Form of Notice of Stock Option Grant. Incorporated by reference to Exhibit 10.5.2 to Mueller Water Products, Inc. Form 10-Q for the quarter ended December 31, 2007 (File no. 001-32892) filed on February 11, 2008.
10.5	Mueller Water Products, Inc. Form of Restricted Stock Unit Award Agreement. Incorporated by reference to Exhibit 10.5.3 to Mueller Water Products, Inc. Form 10-Q for the quarter ended December 31, 2007 (File no. 001-32892) filed on February 11, 2008.
10.6	Mueller Water Products, Inc. 2006 Employee Stock Purchase Plan, as amended September 27, 2006. Incorporated by reference to Exhibit 10.5 to Mueller Water Products, Inc. Form 10-K (File no. 001-32892) filed on December 21, 2006.
10.7	Mueller Water Products, Inc. Directors Deferred Fee Plan. Incorporated by reference to Exhibit 10.7 to Mueller Water Products, Inc. 8-K (File no. 001-32892) filed on May 30, 2006.
10.8	Form of Mueller Water Products, Inc. Director Indemnification Agreement. Incorporated by reference to Exhibit 99.2 to Mueller Water Products, Inc. 8-K (File no. 001-32892) filed on October 31, 2008.
10.9	Executive Incentive Plan of Mueller Water Products, Inc. Incorporated by reference to Exhibit 10.6 to Mueller Water Products, Inc. 8-K (File no. 001-32892) filed on May 30, 2006.
10.10	Mueller Water Products, Inc. Executive Deferred Compensation Plan. Incorporated by reference to Exhibit 99.3 to Mueller Water Products, Inc. 8-K (File no. 001-32892) filed on October 31, 2008.
10.11	Employment Agreement, dated September 15, 2008 between Mueller Water Products, Inc. and Gregory E. Hyland. Incorporated by reference to Exhibit 99.1 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on October 6, 2008.

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10.11.1	Amendment, dated as of March 2, 2006, to Executive Employment Agreement dated September 9, 2005 between Walter Industries, Inc. and Gregory E. Hyland. Incorporated by reference to Exhibit 10.1 to Mueller Water Products, Inc. Form 8-K (File no. 333-131521) filed on March 3, 2006.
10.11.2	Amended and Restated Mueller Water Products, Inc. Supplemental Defined Contribution Plan, effective as of January 1, 2009. Incorporated by reference to Exhibit 10.13.2 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on February 9, 2009.
10.11.3	Amendment, dated December 1, 2009, to Executive Employment Agreement, dated September 9, 2005, between Mueller Water Products, Inc. and Gregory E. Hyland. Incorporated by reference to Exhibit 99.1 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on December 4, 2009.
10.12	Executive Employment Agreement, dated January 23, 2006, between Mueller Holding Company, Inc. and Dale B. Smith. Incorporated by reference to Exhibit 10.2 to Mueller Water Products, LLC Form 8-K (File no. 333-116590) filed on January 27, 2006.
10.12.1	Amendment dated as of November 1, 2007 to Employment Agreement with Dale B. Smith dated January 23, 2006. Incorporated by reference to Exhibit 99.2 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on November 2, 2007.
10.12.2	Amendment No. 2 dated as of October 1, 2008 to Employment Agreement with Dale B. Smith dated January 23, 2006. Incorporated by reference to Exhibit 99.1 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on October 31, 2008.
10.13	Employment Agreement, dated as of September 15, 2008, between Mueller Water Products, Inc. and Robert Leggett. Incorporated by reference to Exhibit 99.1 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on September 30, 2008.
10.13.1	Amendment, dated December 1, 2009, to Executive Employment Agreement, dated September 15, 2008, between Mueller Water Products, Inc. and Robert Leggett. Incorporated by reference to Exhibit 99.2 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on December 4, 2009.
10.14	Executive Employment Agreement, dated as of July 16, 2008, between Mueller Water Products, Inc. and Evan L. Hart. Incorporated by reference to Exhibit 10.18 to Mueller Water Products, Inc. Form 10-Q for the quarter ended June 30, 2008 (File 001-32892) filed on August 11, 2008.
10.14.1	Amendment, dated December 1, 2009, to Executive Employment Agreement, dated September 6, 2006, between Mueller Water Products, Inc. and Evan L. Hart. Incorporated by reference to Exhibit 99.3 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on December 4, 2009.
10.15	Employment Agreement, dated as of July 31, 2006, between Mueller Water Products, Inc. and Thomas E. Fish. Incorporated by reference to Exhibit 10.2 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on August 3, 2006.
10.15.1	Mueller Water Products, Inc. Special Bonus, Incentive Award and Termination Protection Program. Incorporated by reference to Exhibit 10.18 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on December 14, 2007.
10.15.2	Employment Agreement, dated as of February 22, 2010, between Mueller Water Products, Inc. and Thomas E. Fish. Incorporated by reference to Exhibit 99.1 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on February 26, 2010.
10.15.3	Executive Change-in-Control Severance Agreement, dated February 22, 2010, between Mueller Water Products, Inc. and Thomas E. Fish. Incorporated by reference to Exhibit 99.2 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on February 26, 2010.

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10.16	Employment Agreement, dated September 15, 2008, between Mueller Water Products, Inc and Raymond P. Torok. Incorporated by reference to Exhibit 99.2 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892 filed on October 6, 2008.
10.16.1	Amendment, dated December 1, 2009, to Executive Employment Agreement, dated July 12, 2004, between Mueller Water Products, Inc. and Raymond P. Torok. Incorporated by reference to Exhibit 99.4 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on December 4, 2009.
10.16.2	Second Amendment to Employment Agreement, dated August 2, 2010, between Mueller Water Products, Inc. and Raymond P. Torok. Incorporated by reference to Exhibit 10.1 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on August 6, 2010.
10.17	Joint Litigation Agreement dated December 14, 2006 between Walter Industries, Inc. and Mueller Water Products, Inc. Incorporated by reference to Exhibit 10.3 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on December 19, 2006.
10.18	Form of Executive Change-in-Control Severance Agreement. Incorporated by reference to Exhibit 99.3 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on October 6, 2008.
10.19	Form of Amendment to Executive Employment Agreement. Incorporated by reference to Exhibit 99.1 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on February 6, 2009.
10.20	Mueller Water Products, Inc. 2010 Management Incentive Plan. Incorporated by reference to Exhibit 10.20 to Mueller Water Products, Inc. Form 10-Q (File no. 001-32892) filed on February 9, 2010.
10.21	Second Amended and Restated 2006 Stock Incentive Plan. Incorporated by reference to Exhibit 10.21 to Mueller Water Products, Inc. Form 10-Q (File no. 001-32892) filed on February 9, 2010.
10.22	Amended and Restated 2006 Stock Incentive Plan. Incorporated by reference to Exhibit 10.22 to Mueller Water Products, Inc. Form 10-Q (File no. 001-32892) filed on February 9, 2010.
10.23	Employment Agreement, dated August 9, 2010, between Mueller Water Products, Inc. and Paul Ciolino. Incorporated by reference to Exhibit 10.20 to Mueller Water Products, Inc. Form 10-Q (File no. 001-32892) filed on August 9, 2010.
10.23.1	Executive Change-in-Control Severance Agreement, dated August 9, 2010, between Mueller Water Products, Inc. and Paul Ciolino. Incorporated by reference to Exhibit 10.21 to Mueller Water Products, Inc. Form 10-Q (File no. 001-32892) filed on August 9, 2010.
10.24	Purchase Agreement, dated August 19, 2010, between Mueller Water Products, Inc. and the Guarantors named therein and Banc of America Securities LLC. Incorporated by reference to Exhibit 10.22 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on August 20, 2010.
10.25	Credit Agreement, dated August 26, 2010, among Mueller Water Products, Inc. and the borrowing subsidiaries named on the signature pages thereto, each as a Borrower, certain financial institutions, as Lenders, JPMorgan Chase Bank, N.A., as Syndication Agent, Wells Fargo Bank, National Association and SunTrust Bank, as Co-Documentation Agents, Bank of America, N.A. as Administrative Agent and Banc of America Securities LLC and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners. Incorporated by reference to Exhibit 10.23 to Mueller Water Products, Inc. Form 8-K (File no. 001-32892) filed on August 27, 2010.
10.26**	Employment Agreement, dated April 10, 2009, between Mueller Water Products, Inc. and Gregory Rogowski.
10.27**	Amendment to Employment Agreement, dated December 1, 2009, between Mueller Water Products, Inc. and Gregory Rogowski.
10.28**	Executive Change-in-Control Severance Agreement, dated May 4, 2009, between Mueller Water Products, Inc. and Gregory Rogowski.
12.1**	Computation of Ratio of Earnings to Fixed Charges.

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14.1	Code of Business Conduct and Ethics for Mueller Water Products, Inc. Incorporated by reference to Exhibit 14.1 to Mueller Water Products, Inc. Form 10-K (File no. 001-32892) for the year ended September 30, 2008.
21.1**	Subsidiaries of Mueller Water Products, Inc.
23.1**	Consent of Ernst & Young LLP.
31.1**	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

** Filed with this annual report

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 23, 2010

MUELLER WATER PRODUCTS, INC.

By: /s/ Gregory E. Hyland
Name: Gregory E. Hyland
Title: *Chairman, President and Chief Executive Officer*

Pursuant to the requirements of the Securities Act of 1934, as amended, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Gregory E. Hyland Gregory E. Hyland	Chairman of the Board of Directors, President and Chief Executive Officer (principal executive officer)	November 23, 2010
/s/ Evan L. Hart Evan L. Hart	Senior Vice President and Chief Financial Officer (principal financial officer)	November 23, 2010
/s/ Kevin G. McHugh Kevin G. McHugh	Vice President and Controller (principal accounting officer)	November 23, 2010
/s/ Donald N. Boyce Donald N. Boyce	Director	November 23, 2010
/s/ Howard L. Clark Howard L. Clark	Director	November 23, 2010
/s/ Shirley C. Franklin Shirley C. Franklin	Director	November 23, 2010
/s/ Jerry W. Kolb Jerry W. Kolb	Director	November 23, 2010
/s/ Joseph B. Leonard Joseph B. Leonard	Director	November 23, 2010

/s/ Mark J. O Brien	Director	November 23, 2010
Mark J. O Brien		
/s/ Bernard G. Rethore	Director	November 23, 2010
Bernard G. Rethore		
/s/ Neil A. Springer	Director	November 23, 2010
Neil A. Springer		
	Director	
Lydia W. Thomas		
/s/ Michael T. Tokarz	Director	November 23, 2010
Michael T. Tokarz		

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Mueller Water Products, Inc.

We have audited the accompanying consolidated balance sheet of Mueller Water Products, Inc. and subsidiaries as of September 30, 2010 and 2009, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the three years in the period ended September 20, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mueller Water Products, Inc. and subsidiaries at September 30, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2010 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Mueller Water Products, Inc. s internal control over financial reporting as of September 30, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 23, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia

November 23, 2010

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Mueller Water Products, Inc.

We have audited Mueller Water Products, Inc. and subsidiaries internal control over financial reporting as of September 30, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Mueller Water Products, Inc. and subsidiaries management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Mueller Water Products, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010, based on the COSO criteria. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Mueller Water Products, Inc. and subsidiaries as of September 30, 2010 and 2009 and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended September 30, 2010 and our report dated November 23, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia

November 23, 2010

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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2010	September 30, 2009
	(in millions)	
Assets:		
Cash and cash equivalents	$ 83.7	$ 61.5
Receivables, net	202.5	216.3
Inventories	268.4	342.8
Deferred income taxes	30.3	30.8
Assets held for sale	-	13.9
Other current assets	51.5	80.8
Total current assets	636.4	746.1
Property, plant and equipment, net	264.4	296.4
Identifiable intangible assets	632.4	663.6
Other noncurrent assets	35.0	33.4
Total assets	$ 1,568.2	$ 1,739.5
Liabilities and stockholders equity:		
Current portion of long-term debt	$ 0.7	$ 11.7
Accounts payable	93.2	111.7
Other current liabilities	89.8	97.4
Total current liabilities	183.7	220.8
Long-term debt	691.5	728.5
Deferred income taxes	165.5	180.0
Other noncurrent liabilities	122.2	173.9
Total liabilities	1,162.9	1,303.2
Commitments and contingencies (Note 19)		
Common stock:		
Series A: 600,000,000 shares authorized, 154,708,474 and 153,790,887 shares outstanding at September 30, 2010 and 2009, respectively	1.5	1.5
Additional paid-in capital	1,597.5	1,599.0
Accumulated deficit	(1,123.5)	(1,078.3)
Accumulated other comprehensive loss	(70.2)	(85.9)
Total stockholders equity	405.3	436.3
Total liabilities and stockholders equity	$ 1,568.2	$ 1,739.5

The accompanying notes are an integral part of the consolidated financial statements.

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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended September 30,		
	2010	**2009**	**2008**
	(in millions, except per share amounts)		
Net sales	$ 1,337.5	$ 1,427.9	$ 1,859.3
Cost of sales	1,101.1	1,171.0	1,420.3
Gross profit	236.4	256.9	439.0
Operating expenses:			
Selling, general and administrative	219.3	239.1	274.6
Impairment	-	970.9	-
Restructuring	13.1	47.8	18.3
Total operating expenses	232.4	1,257.8	292.9
Income (loss) from operations	4.0	(1,000.9)	146.1
Interest expense, net	68.0	78.3	72.4
Loss on early extinguishment of debt, net	4.6	3.8	-
Income (loss) before income taxes	(68.6)	(1,083.0)	73.7
Income tax expense (benefit)	(23.4)	(86.3)	31.7
Net income (loss)	$ (45.2)	$ (996.7)	$ 42.0
Basic and diluted net income (loss) per share	$ (0.29)	$ (8.55)	$ 0.36
Weighted average shares outstanding:			
Basic	154.3	116.6	115.1
Diluted	154.3	116.6	115.5
Dividends declared per share	$ 0.07	$ 0.07	$ 0.07

The accompanying notes are an integral part of the consolidated financial statements.

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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common stock	Additional paid-in capital	Accumu-lated deficit	Accumulated other comprehensive income (loss)	Total
			(in millions)		
Balance at September 30, 2007	$ 1.1	$ 1,422.0	$ (124.8)	$ 12.7	$ 1,311.0
Adjustment related to uncertain income tax positions	-	-	0.6	-	0.6
Balance at October 1, 2007	1.1	1,422.0	(124.2)	12.7	1,311.6
Net income	-	-	42.0	-	42.0
Effect of changing pension plans and other postretirement benefit plans measurement dates to September 30	-	-	0.6	-	0.6
Dividends declared	-	(8.1)	-	-	(8.1)
Stock-based compensation	-	13.2	-	-	13.2
Stock issued under stock compensation plans	0.1	1.8	-	-	1.9
Derivative instruments	-	-	-	(6.5)	(6.5)
Foreign currency translation	-	-	-	(2.7)	(2.7)
Minimum pension liability	-	-	-	(23.1)	(23.1)
Balance at September 30, 2008	1.2	1,428.9	(81.6)	(19.6)	1,328.9
Net loss	-	-	(996.7)	-	(996.7)
Sale of common stock in public offering	0.3	165.7	-	-	166.0
Dividends declared	-	(8.1)	-	-	(8.1)
Stock-based compensation	-	11.6	-	-	11.6
Stock issued under stock compensation plans	-	0.9	-	-	0.9
Derivative instruments	-	-	-	(3.8)	(3.8)
Foreign currency translation	-	-	-	(3.4)	(3.4)
Minimum pension liability	-	-	-	(59.1)	(59.1)
Balance at September 30, 2009	1.5	1,599.0	(1,078.3)	(85.9)	436.3
Net loss	-	-	(45.2)	-	(45.2)
Dividends declared	-	(10.8)	-	-	(10.8)
Stock-based compensation	-	8.3	-	-	8.3
Stock issued under stock compensation plans	-	1.0	-	-	1.0
Derivative instruments	-	-	-	3.5	3.5
Foreign currency translation	-	-	-	3.4	3.4
Minimum pension liability	-	-	-	8.8	8.8

Balance at September 30, 2010	$ 1.5	$ 1,597.5	$ (1,123.5)	$ (70.2)	$ 405.3

The accompanying notes are an integral part of the consolidated financial statements.

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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended September 30,		
	2010	2009	2008
	(in millions)		
Operating activities:			
Net income (loss)	$ (45.2)	$ (996.7)	$ 42.0
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	53.6	59.5	63.6
Amortization	31.0	30.7	29.5
Impairments and non-cash restructuring	4.4	1,009.4	14.8
Provision (benefit) for doubtful receivables	(0.6)	6.4	3.7
Loss on early extinguishment of debt, net	4.6	3.8	-
Stock-based compensation expense	8.3	11.6	13.2
Deferred income taxes	(21.1)	(57.8)	(4.2)
Gain on disposal of assets	(4.8)	(2.9)	(0.9)
Retirement plans	8.1	5.2	(0.9)
Interest rate swap contracts	3.9	-	-
Other, net	1.0	2.9	3.8
Changes in assets and liabilities, net of acquisitions:			
Receivables	1.6	68.8	(11.3)
Inventories	54.3	109.8	(18.2)
Other current assets and other noncurrent assets	37%		

(a) Presented as of March 31, except for net charge-offs and net charge-off ratios, which are for the three months ended.
(b) Includes nonperforming loans of $1.2 billion at both March 31, 2014 and March 31, 2013.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Ratios for the first three months of 2013 include additional consumer charge-offs taken as a result of alignment with interagency guidance on practices for loans and lines of credit we implemented in the first quarter of 2013.
(e) Lien position, LTV and FICO statistics are based upon customer balances.
(f) Lien position and LTV calculations reflect the use of revised assumptions where data is missing.
(g) LTV statistics are based upon current information.
(h) Represents FICO scores that are updated at least quarterly.
(i) Data based upon recorded investment. Past due amounts exclude purchased impaired loans, even if contractually past due, as we are currently accreting interest income over the expected life of the loans.
(j) Excludes satellite offices (*e.g.*, drive-ups, electronic branches and retirement centers) that provide limited products and/or services.
(k) Percentage of total deposit transactions processed at an ATM or through our mobile banking application.
(l) Represents consumer checking relationships that process the majority of their transactions through non-branch channels.

Retail Banking earned $158 million in the first quarter of 2014 compared with earnings of $120 million for the same period a year ago. The increase in earnings was driven by an increase in noninterest income and lower noninterest expense and provision for credit losses, partially offset by lower net interest income.

Retail Banking continues to augment and refine its core checking account products to enhance the customer experience and grow value. In the first quarter of 2014 we improved the Cash Flow Insight features and customer experience, and we discontinued the sale of free checking to our business banking customers. Retail Banking also continued to focus on growing consumer share of wallet through the sale of liquidity, banking and investment products and improved product value for customers. We are currently piloting Total Insight, an integrated banking and investing experience for our customers.

Retail Banking also continued to focus on providing more cost effective alternative servicing channels that meet customers evolving preferences for convenience.

- In the first quarter of 2014, approximately 43% of consumer customers used non-branch channels for the majority of their transactions compared with 37% for the same period in 2013.
- Non-branch deposit transactions via ATM and mobile channels increased to 31% of total deposit transactions in the first quarter of 2014 compared with 20% for the same period a year ago.
- As part of PNC s retail branch transformation strategy, 45 branches were converted to universal branches as of March 31, 2014 in a pilot program, and 22 branches were closed or consolidated in the first quarter of 2014. Retail Banking s primary geographic footprint extends across 17 states and Washington, D.C. Our retail branch network covers nearly half the U.S. population, with 2,703 branches and 8,001 ATMs.

Total revenue for the first three months of 2014 remained stable at $1.5 billion. Net interest income of $980 million decreased $69 million compared with the same period a year ago. The decrease resulted primarily from interest rate spread compression on the value of deposits due to the continued low rate environment and lower purchase accounting accretion and lower yields on loans. Noninterest income increased $80 million compared to the first quarter of 2013. The increase was due primarily to the $62 million pretax gain on the sale of 1 million Visa Class B common shares in the first quarter of 2014, the impact of higher customer-initiated fee-based transactions and growth in brokerage fees.

Net charge-offs were $145 million in the first quarter of 2014 compared with $250 million for the same period in 2013. The decrease was primarily attributable to the impact of alignment with interagency guidance in the first quarter of 2013.

Noninterest expense decreased $31 million in the first three months of 2014 compared to the same period in 2013. The decrease was due to disciplined expense management and the impact of branch consolidations in 2013, partially offset by higher non-credit losses and marketing expense.

Growing core checking deposits is key to Retail Banking s growth and to providing a source of low-cost funding and liquidity to PNC. The deposit product strategy of Retail Banking is to remain disciplined on pricing, target specific products and markets for growth, and focus on the retention and growth of customer balances. In the first three months of 2014, average total deposits of $135.5 billion increased $2.1 billion, or 2%, compared with the same period in 2013.

- Average transaction deposits grew $4.1 billion, or 4%, and average savings deposit balances grew $751 million, or 7%, compared to the prior year quarter as a result of organic deposit growth and continued customer preference for liquidity. In the first three months of 2014, compared with the same period a year ago, average demand deposits increased $2.9 billion, or 6%, to $54.8 billion and average money market deposits increased $1.2 billion, or 2%, to $49.5 billion.
- Total average certificates of deposit decreased $2.8 billion, or 12%, compared to the same period of 2013. The decline in average certificates of deposit was due to the expected run-off of maturing accounts.

Retail Banking continued to focus on a relationship-based lending strategy that targets specific products and markets for growth, small businesses, and auto dealerships. In the first quarter of 2014, average total loans were $67.1 billion, an increase of $1.6 billion, or 2%, over the first quarter of 2013.

- Average indirect auto loans increased $2.0 billion, or 28%, compared to the first three months of 2013. The increase was primarily due to the expansion of our indirect sales force and product introduction to acquired markets, as well as overall increases in auto sales.
- Average home equity loans increased $404 million, or 1%, compared to the first three months of 2013. The portfolio grew modestly as increases in term loans were partially offset by declines in lines of credit. Retail Banking s home equity loan portfolio is relationship based, with 97% of the portfolio attributable to borrowers in our primary geographic footprint.
- Average auto dealer floor plan loans grew $359 million, or 18%, in the first three months of 2014, compared to the same period a year ago, primarily resulting from dealer line utilization and penetration into the Southeast market.
- Average credit card balances increased $163 million, or 4%, over the first three months of 2013 as a result of organic growth.
- For the first three months of 2014, compared to the same period a year ago, average loan balances for the remainder of the portfolio declined a net $1.3 billion, driven by a decline in the education portfolio of $673 million and commercial & commercial real estate of $239 million. The discontinued government guaranteed education loan, indirect other and residential mortgage portfolios are primarily run-off portfolios.

Nonperforming assets totaled $1.2 billion at March 31, 2014, a decrease of $49 million, or 4%, over the same period of 2013, driven by a $58 million decline in commercial nonperforming assets.

Corporate & Institutional Banking

(Unaudited)

Table 22: Corporate & Institutional Banking Table

Three months ended March 31

Dollars in millions, except as noted	2014	2013
Income Statement		
Net interest income	$ 934	$ 956
Noninterest income		
Corporate service fees	268	246
Other	96	139
Noninterest income	364	385
Total revenue	1,298	1,341
Provision for credit losses (benefit)	(13)	14
Noninterest expense	488	480
Pretax earnings	823	847
Income taxes	300	306
Earnings	$ 523	$ 541
Average Balance Sheet		
Loans		
Commercial	$ 75,506	$ 69,817
Commercial real estate	20,039	16,876
Equipment lease financing	6,789	6,552
Total commercial lending	102,334	93,245
Consumer	1,125	1,083
Total loans	103,459	94,328
Goodwill and other intangible assets	3,826	3,752
Loans held for sale	894	1,236
Other assets	9,758	12,355
Total assets	$ 117,937	$ 111,671
Deposits		
Noninterest-bearing demand	$ 42,772	$ 40,572
Money market	20,678	17,023
Other	7,531	6,979
Total deposits	70,981	64,574
Other liabilities	7,476	18,779
Total liabilities	$ 78,457	$ 83,353
Performance Ratios		
Return on average assets	1.80%	1.96%
Noninterest income to total revenue	28	29
Efficiency	38	36
Commercial Mortgage Servicing Portfolio Serviced For PNC and Others (in billions)		
Beginning of period	$ 308	$ 282
Acquisitions/additions	23	21
Repayments/transfers	(18)	(13)
End of period	$ 313	$ 290
Other Information		
Consolidated revenue from: (a)		
Treasury Management (b)	$ 311	$ 329
Capital Markets (c)	$ 157	$ 131
Commercial mortgage loans held for sale (d)	$ 19	$ 38
Commercial mortgage loan servicing income (e)	55	53
Commercial mortgage servicing rights valuation, net of economic hedge (f)	11	11
Total commercial mortgage banking activities	$ 85	$ 102
Average Loans (by C&IB business)		
Corporate Banking	$ 52,253	$ 49,241
Real Estate	26,003	20,790
Business Credit	12,534	11,181
Equipment Finance	10,210	9,811
Other	2,459	3,305

Total average loans	$ 103,459	$ 94,328
Total loans (g)	$ 105,398	$ 94,843
Net carrying amount of commercial mortgage servicing rights (g)	$ 529	$ 452
Credit-related statistics:		
Nonperforming assets (g) (h)	$ 786	$ 1,082
Purchased impaired loans (g) (i)	$ 428	$ 768
Net charge-offs	$ 2	$ 58

(a) Represents consolidated PNC amounts. See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of the Corporate & Institutional Banking portion of this Business Segments Review section.
(b) Includes amounts reported in net interest income and corporate service fees.
(c) Includes amounts reported in net interest income, corporate service fees and other noninterest income.
(d) Includes other noninterest income for valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination fees, gains on sale of loans held for sale and net interest income on loans held for sale.
(e) Includes net interest income and noninterest income, primarily in corporate services fees, from loan servicing and ancillary services, net of changes in fair value on commercial mortgage servicing rights due to time and payoffs for the first three months of 2014 and net of commercial mortgage servicing rights amortization for the first three months of 2013. Commercial mortgage servicing rights valuation, net of economic hedge is shown separately.
(f) Includes amounts reported in corporate services fees.
(g) As of March 31.
(h) Includes nonperforming loans of $.7 billion at March 31, 2014 and $.9 billion at March 31, 2013.
(i) Recorded investment of purchased impaired loans related to acquisitions.

Corporate & Institutional Banking earned $523 million in the first three months of 2014, a decrease of $18 million compared with the first three months of 2013. The decrease in earnings was due to lower net interest income and lower noninterest income partially offset by a current quarter benefit from the provision for credit losses compared to provision expense in the 2013 period. We continued to focus on building client relationships, including increasing cross sales and adding new clients where the risk-return profile was attractive.

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

Corporate & Institutional Banking continued to execute on strategic initiatives, including in the Southeast, by organically growing and deepening client relationships that meet our risk-return measures.

Loan commitments increased 1%, or $2.4 billion, to $198.5 billion at March 31, 2014 compared to $196.1 billion at December 31, 2013 and 9%, or $15.9 billion, compared to $182.6 billion at March 31, 2013, primarily due to growth in our Real Estate, Corporate Banking and Business Credit businesses.

Period-end loan balances have increased for the fourteenth consecutive quarter increasing 4%, or $3.6 billion, to $105.4 billion at March 31, 2014 compared with $101.8 billion at December 31, 2013 and 11%, or $10.6 billion, compared with $94.8 billion at March 31, 2013.

Our Treasury Management business, which ranks among the top providers in the country, continued to invest in markets, products and infrastructure as well as major initiatives such as healthcare. During the first quarter of 2014, following the receipt of regulatory approvals, PNC Bank Canada Branch, PNC Bank, N.A. s branch in Toronto, Canada, expanded its commercial banking capabilities to include commercial deposits and a comprehensive range of treasury management services.

Midland Loan Services was the number one servicer of Fannie Mae and Freddie Mac multifamily and healthcare loans and was the second leading servicer

of commercial and multifamily loans by volume as of December 31, 2013 according to Mortgage Bankers Association. Midland is the only U.S. commercial mortgage servicer to receive the highest primary, master and special servicer ratings from Fitch Ratings, Standard & Poor s and Morningstar.

Net interest income was $934 million in the first three months of 2014, a decrease of $22 million from the first three months of 2013, reflecting lower purchase accounting accretion and continued interest rate spread compression on loans and deposits, partially offset by higher average loans and deposits.

Corporate service fees were $268 million in the first three months of 2014, increasing $22 million compared to the first three months of 2013. This increase was primarily due to higher merger and acquisition advisory fees. Corporate service fees include the noninterest portion of treasury management revenue, corporate finance fees, including revenue from certain capital markets-related products and services, the noninterest portion of commercial mortgage loan servicing income, and commercial mortgage servicing rights valuation, net of economic hedge.

Other noninterest income was $96 million in the first three months of 2014 compared with $139 million in the first three months of 2013. The decrease of $43 million was driven by lower revenue associated with credit valuations for customer-related derivatives activities and lower multifamily loans originated for sale, primarily to Agencies.

For the first three months of 2014, there was a benefit from the provision for credit losses of $13 million compared to a provision for credit losses of $14 million in first three months of 2013, reflecting continuing improvement in credit quality. Net charge-offs were $2 million in first three months of 2014, which represents a decrease of $56 million compared with the first three months of 2013, primarily attributable to lower levels of commercial real estate and commercial charge-offs.

Nonperforming assets were $786 million, a 27% decrease from March 31, 2013 resulting from improving credit quality.

Noninterest expense was $488 million in the first three months of 2014, an increase of $8 million from the first three months of 2013, primarily driven by higher incentive compensation costs associated with business activity.

Average loans were $103.5 billion in the first three months of 2014 compared with $94.3 billion in the first three months of 2013, an increase of 10% reflecting strong growth in Real Estate, Corporate Banking and Business Credit.

Corporate Banking provides lending, treasury management and capital markets-related products and services to mid-sized and large corporations, government and not-for-profit entities. Average loans for this business increased $3.0 billion, or 6%, in the first three months of 2014 compared with the first three months of 2013, primarily due to an increase in loan commitments from specialty lending businesses.

PNC Real Estate provides commercial real estate and real estate-related lending and is one of the industry s top providers of both conventional and affordable multifamily financing. Average loans for this business increased $5.2 billion, or 25%, in the first three months of 2014 compared with the first three months of 2013 due to increased originations.

PNC Business Credit was one of the top four asset-based lenders in the country as of December 31, 2013, with increasing market share according to the Commercial Finance Association. The loan portfolio is relatively high yielding, with acceptable risk as the loans are mainly secured by short-term assets. Average loans increased $1.4 billion, or 12%, in the first three months of 2014 compared with the first three months of 2013 due to an increase in loan usage and new customer loan originations.

PNC Equipment Finance is a recognized leader in providing equipment financing solutions to clients throughout the U.S. and in Canada with over $11.6 billion in equipment finance assets as of March 31, 2014. Average equipment finance assets for the leasing company in the first three months of 2014 were $11.6 billion, an increase of $473 million, or 4%, compared with the first three months of 2013.

Average deposits were $71.0 billion in the first three months of 2014, an increase of $6.4 billion, or 10%, compared with the first three months of 2013 as a result of business growth and inflows into money market and noninterest-bearing deposits.

The commercial mortgage servicing portfolio was $313 billion at March 31, 2014, an increase of 2% compared with December 31, 2013 and an increase of 8% compared to March 31, 2013, as servicing additions exceeded portfolio run-off.

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, capital markets-related products and services, and commercial mortgage banking activities, for customers of all our business segments. 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 22 in this Business Segments Review section includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue

from these services follows.

Treasury management revenue, comprised of fees and net interest income from customer deposit balances, totaled $311 million for the first three months of 2014 compared with $329 million for the first three months of 2013. Lower spreads on deposits drove the decline in revenue in the first three months of 2014 compared with the first three months of 2013. Growth in deposit balances and products such as liquidity management products and payables was strong.

Capital markets revenue includes merger and acquisition advisory fees, loan syndications, derivatives, foreign exchange, asset-backed finance revenue and fixed income activities. Revenue from capital markets-related products and services totaled $157 million in the first three months of 2014 compared with $131 million in the first three months of 2013. The increase in the comparison was driven by the impact of higher merger and acquisition advisory fees and higher corporate finance fees partially offset by lower revenue associated with credit valuations for customer-related derivatives activities.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (including net interest income and noninterest income from loan servicing and ancillary services, net of changes in commercial mortgage servicing rights due to time and payoffs, and commercial mortgage servicing rights valuations, net of economic hedge and, for the 2013 periods, mortgage servicing rights amortization), and revenue derived from commercial mortgage loans held for sale and related hedges (including loan origination fees, net interest income, valuation adjustments and gains or losses on sales).

Commercial mortgage banking activities resulted in revenue of $85 million in the first three months of 2014 compared with $102 million in the first three months of 2013. The decrease in the comparison was mainly due to lower multifamily loans originated for sale, primarily to Agencies.

Asset Management Group

(Unaudited)

Table 23: Asset Management Group Table

Three months ended March 31

Dollars in millions, except as noted	2014	2013
Income Statement		
Net interest income	$ 71	$ 73
Noninterest income	199	182
Total revenue	270	255
Provision for credit losses	12	5
Noninterest expense	199	183
Pretax earnings	59	67
Income taxes	22	24
Earnings	$ 37	$ 43
Average Balance Sheet		
Loans		
Consumer	$ 5,311	$ 4,793
Commercial and commercial real estate	1,023	1,037
Residential mortgage	771	772
Total loans	7,105	6,602
Goodwill and other intangible assets	272	306
Other assets	222	223
Total assets	$ 7,599	$ 7,131
Deposits		
Noninterest-bearing demand	$ 1,338	$ 1,331
Interest-bearing demand	3,893	3,616
Money market	3,889	3,841
Total transaction deposits	9,120	8,788
CDs/IRAs/savings deposits	436	454
Total deposits	9,556	9,242
Other liabilities	53	60
Total liabilities	$ 9,609	$ 9,302
Performance Ratios		
Return on average assets	1.97%	2.45%
Noninterest income to total revenue	74	71

Efficiency	74	72
Other Information		
Total nonperforming assets (a) (b)	$ 80	$ 65
Purchased impaired loans (a) (c)	$ 96	$ 105
Total net charge-offs	$ 1	$ 3
Assets Under Administration (in billions) (a) (d)		
Personal	$ 112	$ 112
Institutional	143	124
Total	$ 255	$ 236
Asset Type		
Equity	$ 145	$ 130
Fixed Income	66	70
Liquidity/Other	44	36
Total	$ 255	$ 236
Discretionary assets under management		
Personal	$ 84	$ 77
Institutional	46	41
Total	$ 130	$ 118
Asset Type		
Equity	$ 71	$ 62
Fixed Income	34	39
Liquidity/Other	25	17
Total	$ 130	$ 118
Nondiscretionary assets under administration		
Personal	$ 28	$ 35
Institutional	97	83
Total	$ 125	$ 118
Asset Type		
Equity	$ 74	$ 68
Fixed Income	32	31
Liquidity/Other	19	19
Total	$ 125	$ 118

(a) As of March 31.
(b) Includes nonperforming loans of $75 million at March 31, 2014 and $62 million at March 31, 2013.
(c) Recorded investment of purchased impaired loans related to acquisitions.
(d) Excludes brokerage account assets.

Asset Management Group earned $37 million in the first quarter of 2014 compared with $43 million in the first quarter of 2013. Assets under administration were $255 billion as of March 31, 2014 compared to $236 billion as of March 31, 2013. Earnings decreased due to higher noninterest expense and provision for credit losses, partially offset by higher noninterest income.

The core growth strategies of the business include increasing sales sourced from other PNC lines of business, maximizing front line productivity and optimizing market presence including additions to staff in high opportunity markets. Wealth Management and Hawthorn provide investment management, private banking and family wealth services to affluent and ultra affluent clients. The businesses have 103 offices operating in 7 out of the 10 most affluent states with a majority co-located with retail banking branches. The businesses strategies primarily focus on growing assets under management through expanding relationships directly and through other PNC lines of business and increasing the share of our clients investable assets. Institutional Asset Management provides advisory, custody, and retirement administration services to institutional clients primarily within our banking footprint. The business segment also offers a lineup of PNC proprietary mutual funds. Institutional Asset Management is strengthening its partnership with the Corporate Bank to drive growth and is focused on building retirement capabilities and expanding product solutions for all customers.

Assets under administration increased $19 billion compared to a year ago. Discretionary assets under management were $130 billion at March 31, 2014 compared with $118 billion at March 31, 2013. The increase was driven by higher average equity markets and strong sales resulting in positive net flows of $1.6 billion primarily from the institutional business, after adjustments to total net flows for cyclical client activities.

Total revenue for the first quarter of 2014 increased $15 million to $270 million compared with $255 million for 2013, primarily relating to noninterest income due to stronger average equity markets and positive net flows.

Noninterest expense was $199 million in the first quarter of 2014, an increase of $16 million, or 9%, from the prior year first quarter. The increase was primarily attributable to compensation expense and the impact of a legal benefit in the first quarter of 2013. Over the last 12 months, total full-time headcount has increased by approximately 105 positions, or 3%. The business remains focused on managing expenses as it invests in growth opportunities.

Average deposits for the first quarter of 2014 increased $.3 billion, or 3%, from the prior year first quarter. Average transaction deposits grew 4% to $9.1 billion compared with the first quarter of 2013 and were partially offset by the run-off of maturing certificates of deposit. Average loan balances of $7.1 billion increased $.5 billion, or 8%, from the prior year first quarter due to continued growth in the consumer loan portfolio, primarily home equity installment loans, due to favorable interest rates.

Residential Mortgage Banking

(Unaudited)

Table 24: Residential Mortgage Banking Table

Three months ended March 31

Dollars in millions, except as noted	2014	2013
Income Statement		
Net interest income	$ 40	$ 48
Noninterest income		
Loan servicing revenue		
Servicing fees	61	41
Mortgage servicing rights valuation, net of economic hedge	(1)	37
Loan sales revenue		
Benefit / (Provision) for residential mortgage repurchase obligations	19	(4)
Loan sales revenue	88	172
Other	(1)	(3)
Total noninterest income	166	243
Total revenue	206	291

Provision for credit losses (benefit)	(1)	20
Noninterest expense	213	200
Pretax earnings (loss)	(6)	71
Income taxes (benefit)	(2)	26
Earnings (loss)	$ (4)	$ 45
Average Balance Sheet		
Portfolio loans	$ 2,036	$ 2,553
Loans held for sale	1,068	2,038
Mortgage servicing rights (MSR)	1,073	764
Other assets	4,600	5,448
Total assets	$ 8,777	$ 10,803
Deposits	$ 2,100	$ 3,106
Borrowings and other liabilities	3,464	3,487
Total liabilities	$ 5,564	$ 6,593
Performance Ratios		
Return on average assets	(.18)%	1.69%
Noninterest income to total revenue	81	84
Efficiency	103	69
Residential Mortgage Servicing Portfolio Serviced for Third Parties (in billions)		
Beginning of period	$ 114	$ 119
Acquisitions	2	6
Additions	2	4
Repayments/transfers	(4)	(9)
End of period	$ 114	$ 120
Servicing portfolio third-party statistics: (a)		
Fixed rate	94%	92%
Adjustable rate/balloon	6%	8%
Weighted-average interest rate	4.56%	4.80%
MSR asset value (in billions)	$ 1.1	$ .8
MSR capitalization value (in basis points)	92	65
Weighted-average servicing fee (in basis points)	28	28
Residential Mortgage Repurchase Reserve		
Beginning of period	$ 131	$ 614
(Benefit)/ Provision	(19)	4
Losses loan repurchases	(9)	(96)
End of Period	$ 103	$ 522
Other Information		
Loan origination volume (in billions)	$ 1.9	$ 4.2
Loan sale margin percentage	4.53%	4.07%
Percentage of originations represented by:		
Agency and government programs	99%	100%
Purchase volume (b)	37%	19%
Refinance volume	63%	81%
Total nonperforming assets (a) (c)	$ 173	$ 236

(a) As of March 31.
(b) Mortgages with borrowers as part of residential real estate purchase transactions.
(c) Includes nonperforming loans of $130 million at March 31, 2014 and $192 million at March 31, 2013.

Residential Mortgage Banking lost $4 million in the first three months of 2014 compared with earnings of $45 million in the first three months of 2013. Earnings declined from the prior year three month period primarily as a result of decreased loan sales revenue.

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

Residential Mortgage Banking overview:

- Total loan originations were $1.9 billion for the first three months of 2014 compared with $4.2 billion in the comparable period of 2013. Loans continue to be originated primarily through direct channels under Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Housing Administration (FHA)/Department of Veterans Affairs (VA) agency guidelines. Refinancings were 63% of originations for the first three months of 2014 and 81% in the first three months of 2013. During the first three months of 2014, 28% of loan originations were under the Home Affordable Refinance Program (HARP).
- Investors having purchased mortgage loans may request PNC to indemnify them against losses on certain loans or to repurchase loans that they believe do not comply with applicable contractual loan origination covenants and representations and warranties we have made. At March 31, 2014, the liability for estimated losses on repurchase and indemnification claims for the Residential Mortgage Banking business segment was $103 million compared with $522 million at March 31, 2013. See the Recourse And Repurchase Obligations section of this Financial Review and Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.
- Residential mortgage loans serviced for others totaled $114 billion at March 31, 2014 and $120 billion at March 31, 2013 as payoffs continued to outpace new direct loan origination volume and acquisitions.
- Noninterest income was $166 million in the first three months of 2014 compared with $243 million in the first three months of 2013. Increased servicing fees and improvement in residential mortgage repurchase obligations provision were more than offset by decreased loans sales revenue and MSR valuation, net of economic hedge.
- Noninterest expense was $213 million in the first three months of 2014 compared with $200 million in the first three months of 2013. Increased legal accruals were partially offset by a decrease in foreclosure expenses.
- The fair value of mortgage servicing rights was $1.1 billion at March 31, 2014 compared with $.8 billion at March 31, 2013. The increase was due to higher mortgage interest rates at March 31, 2014.

BlackRock

(Unaudited)

Table 25: BlackRock Table

Information related to our equity investment in BlackRock follows:

Three months ended March 31 Dollars in millions	2014	2013
Business segment earnings (a)	$ 123	$ 108
PNC s economic interest in BlackRock (b)	22%	22%

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

In billions	March 31 2014	December 31 2013
Carrying value of PNC s investment in BlackRock (c)	$ 5.9	$ 6.0
Market value of PNC s investment in BlackRock (d)	11.2	11.3

(c)

PNC accounts for its investment in BlackRock under the equity method of accounting, exclusive of a related deferred tax liability of $2.0 billion at both March 31, 2014 and December 31, 2013. Our voting interest in BlackRock common stock was approximately 21% at March 31, 2014.

(d) Does not include liquidity discount.

PNC accounts for its BlackRock Series C Preferred Stock at fair value, which offsets the impact of marking-to-market the obligation to deliver these shares to BlackRock to partially fund BlackRock long-term incentive plan (LTIP) programs. The fair value amount of the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in the caption Other assets. Additional information regarding the valuation of the BlackRock Series C Preferred Stock is included in Note 8 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and in Note 9 Fair Value in the Notes To Consolidated Financial Statements in Item 8 of our 2013 Form 10-K.

At March 31, 2014, we held approximately 1.3 million shares of BlackRock Series C Preferred Stock, which are available to fund our obligation in connection with the BlackRock LTIP programs.

Our 2013 Form 10-K includes additional information about our investment in BlackRock.

NON-STRATEGIC ASSETS PORTFOLIO

(Unaudited)

Table 26: Non-Strategic Assets Portfolio Table

Three months ended March 31

Dollars in millions	2014	2013
Income Statement		
Net interest income	$ 142	$ 203
Noninterest income	6	16
Total revenue	148	219
Provision for credit losses (benefit)	(52)	42
Noninterest expense	26	52
Pretax earnings	174	125
Income taxes	64	46
Earnings	$ 110	$ 79
Average Balance Sheet		
Commercial Lending:		
Commercial/Commercial real estate	$ 220	$ 537
Lease financing	681	688
Total commercial lending	901	1,225
Consumer Lending:		
Home equity	3,625	4,158
Residential real estate	5,104	5,938
Total consumer lending	8,729	10,096
Total portfolio loans	9,630	11,321
Other assets (a)	(741)	(586)
Total assets	$ 8,889	$ 10,735
Deposits and other liabilities	$ 231	$ 168
Total liabilities	$ 231	$ 168
Performance Ratios		
Return on average assets	5.02%	2.98%
Noninterest income to total revenue	4	7
Efficiency	18	24
Other Information		
Nonperforming assets (b) (c)	$ 798	$ 999
Purchased impaired loans (b) (d)	$ 4,654	$ 5,372
Net charge-offs	$ 31	$ 87
Annualized net charge-off ratio	1.31%	3.12%
Loans (b)		
Commercial Lending		
Commercial/Commercial real estate	$ 201	$ 493
Lease financing	683	690
Total commercial lending	884	1,183
Consumer Lending		
Home equity	3,554	4,209
Residential real estate	5,092	5,880
Total consumer lending	8,646	10,089
Total loans	$ 9,530	$ 11,272

(a) Other assets includes deferred taxes, ALLL and other real estate owned (OREO). Other assets were negative in both periods due to the ALLL.
(b) As of March 31.
(c) Includes nonperforming loans of $.6 billion at March 31, 2014 and $.7 billion at March 31, 2013.
(d) Recorded investment of purchased impaired loans related to acquisitions. At March 31, 2014, this segment contained 80% of PNC s purchased impaired loans.

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

Non-Strategic Assets Portfolio had earnings of $110 million in the first three months of 2014 compared with $79 million in the first three months of 2013. Earnings increased year-over-year due to a current quarter benefit from the provision for credit losses compared to provision expense in the prior year period and lower noninterest expense, partially offset by lower net interest income.

Non-Strategic Assets Portfolio overview:

- Net interest income was $142 million in the first three months of 2014 compared with $203 million in the first three months of 2013. The decrease was driven by lower scheduled accretion and excess cash recoveries on purchased impaired loans as well as lower average loan balances.
- Noninterest income was $6 million in the first three months of 2014 compared with $16 million in the first three months of 2013. The decrease was driven by higher provision for estimated losses on home equity loans/lines repurchase obligations.
- The first three months of 2014 reflected a benefit from the provision for credit losses of $52 million compared to an expense of $42 million in the first three months of 2013. The decline in provision reflected overall credit quality improvement. A contributing economic factor was the increasing value of residential real estate that improved expected cash flows on our purchased impaired loans.
- Noninterest expense in the first three months of 2014 was $26 million compared with $52 million in the first three months of 2013. The decrease was driven by lower OREO expense, primarily due to lower write-downs on commercial properties as well as lower write-offs of protective advances on residential mortgages.
- Average portfolio loans declined to $9.6 billion in the first three months of 2014 compared with $11.3 billion in the first three months of 2013. The overall decline was driven by customer payment activity and portfolio management activities to reduce under-performing assets.
- Nonperforming loans were $.6 billion at March 31, 2014 and $.7 billion at March 31, 2013. The consumer lending portfolio comprised 90% of the nonperforming loans in this segment at March 31, 2014. Nonperforming consumer loans decreased $20 million from March 31, 2013. The commercial lending portfolio comprised 10% of the nonperforming loans as of March 31, 2014. Nonperforming commercial loans decreased $76 million from March 31, 2013.
- Net charge-offs were $31 million in the first three months of 2014 and $87 million in the first three months of 2013. The decline was due to lower charge-offs experienced across the entire lending portfolio.

At March 31, 2014, the liability for estimated losses on repurchase and indemnification claims for the Non-Strategic Assets Portfolio was $19 million compared to $25 million at March 31, 2013. See Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for additional information.

Critical Accounting Estimates and Judgments

Note 1 Accounting Policies in Item 8 of our 2013 Form 10-K and in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report describe the most significant accounting policies that we use to prepare our consolidated financial statements. Certain of these policies require us to make estimates or economic assumptions that may prove inaccurate or be subject to variations that may significantly affect our reported results and financial position for the period or in future periods.

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

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

We discuss the following critical accounting policies and judgments under this same heading in Item 7 of our 2013 Form 10-K:

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

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

The following critical accounting estimate and judgment has been updated during the first three months of 2014.

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

We maintain the ALLL and the Allowance for Unfunded Loan Commitments and Letters of Credit at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolio and on the unfunded credit facilities as of the balance sheet date. Our determination of these allowances is based on periodic evaluations of the loan and lease portfolios and unfunded credit facilities and other relevant factors. These critical estimates include the use of significant amounts of PNC s own historical data and complex methods to interpret them. We have an ongoing process to evaluate and enhance the quality, quantity and timeliness of our data and interpretation methods used in the determination of these allowances. These evaluations are inherently subjective as they require material estimates, and may be susceptible to significant change, and include, among others:

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

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans. We also allocate reserves to provide coverage for probable losses incurred in the portfolio at the balance sheet date based upon current market conditions, which may not be reflected in historical loss data. Commercial lending is the largest category of credits and is sensitive to changes in assumptions and judgments underlying the determination of the ALLL. We have allocated approximately $1.5 billion, or 44%, of the ALLL at March 31, 2014 to the commercial lending category. Consumer lending allocations are made based on historical loss experience adjusted for recent activity. Approximately $2.0 billion, or 56%, of the ALLL at March 31, 2014 has been allocated to these

consumer lending categories.

Recently Issued Accounting Standards

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-04, Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. This ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon (1) the

creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. This ASU will also require additional disclosures, including: (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate properties that are in the process of foreclosure. This guidance is effective as of January 1, 2015 and may be adopted using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. We do not expect this ASU to have a material effect on our results of operations or financial position.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* This ASU will limit discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity s operations and financial results. Additionally, the ASU will also require expanded disclosures for discontinued operations. This ASU is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014 and is to be applied prospectively. Early adoption is permitted for disposals or classifications as held for sale that have not been previously reported in financial statements. We do not expect this ASU to have a material effect on our results of operations or financial position.

Recently Adopted Accounting Standards

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

Status Of Qualified Defined Benefit Pension Plan

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

We currently estimate pretax pension income of $9 million in 2014 compared with pretax expense of $74 million in 2013. This year-over-year expected decrease reflects the impact of favorable returns on plan assets experienced in 2013, as well as the effects of the higher discount rate required to be used in 2014.

The table below reflects the estimated effects on pension expense of certain changes in annual assumptions, using 2014 estimated expense as a baseline.

Table 27: Pension Expense Sensitivity Analysis

Change in Assumption (a)	Estimated Increase/(Decrease) to 2014 Pension Expense (In millions)
.5% decrease in discount rate	$ (2)
.5% decrease in expected long-term return on assets	$ 21
.5% increase in compensation rate	$ 1

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

We provide additional information on our pension plan in Note 15 Employee Benefit Plans in the Notes To Consolidated Financial Statements in Item 8 of our 2013 Form 10-K.

Recourse And Repurchase Obligations

As discussed in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report, PNC has sold commercial mortgage, residential mortgage and home equity loans/ lines of credit directly or indirectly through securitization and loan sale transactions in which we have continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets.

COMMERCIAL MORTGAGE LOAN RECOURSE OBLIGATIONS

We originate, close and service certain multi-family commercial mortgage loans which are sold to FNMA under FNMA s Delegated Underwriting and Servicing (DUS) program. We participated in a similar program with the FHLMC. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment. For more information regarding our Commercial Mortgage Loan Recourse Obligations, see the Recourse and Repurchase Obligations section of Note 17 Commitments and Guarantees included in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

RESIDENTIAL MORTGAGE REPURCHASE OBLIGATIONS

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to situations where PNC is alleged to have breached certain origination covenants and representations and warranties made to purchasers of the loans in the respective purchase and sale agreements. Residential mortgage loans covered by these

loan repurchase obligations include first and second-lien mortgage loans we have sold through Agency securitizations, Non-Agency securitizations, and loan sale transactions. As discussed in Note 2 in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report, Agency securitizations consist of mortgage loan sale transactions with FNMA, FHLMC and the Government National Mortgage Association (GNMA), while Non-Agency securitizations consist of mortgage loan sale transactions with private investors. Mortgage loan sale transactions that are not part of a securitization may involve FNMA, FHLMC or private investors. Our historical exposure and activity associated with Agency securitization repurchase obligations has primarily been related to transactions with FNMA and FHLMC, as indemnification and repurchase losses associated with FHA and VA-insured and uninsured loans pooled in GNMA securitizations historically have been minimal. In addition to indemnification and repurchase risk, however, we face other risks of loss with respect to our participation in these programs, some of which are described in Note 23 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 in our 2013 Form 10-K with respect to governmental inquiries related to FHA-insured loans. Repurchase obligation activity associated with residential mortgages is reported in the Residential Mortgage Banking segment.

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

For more information see the Recourse and Repurchase Obligations section included in Item 7 of our 2013 Form 10-K and Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

The following tables present the unpaid principal balance of repurchase claims by vintage and total unresolved repurchase claims at the respective balance sheet dates.

Table 28: Analysis of Quarterly Residential Mortgage Repurchase Claims by Vintage

Dollars in millions	March 31 2014	December 31 2013
2004 & Prior	$ 6	$ 66
2005	4	88
2006	3	27
2007	3	35
2008		9
2008 & Prior	16	225
2009 2014	29	19
Total	$ 45	$ 244
FNMA, FHLMC and GNMA %	82%	96%

Table 29: Analysis of Quarterly Residential Mortgage Unresolved Asserted Indemnification and Repurchase Claims

Dollars in millions	March 31 2014	December 31 2013
FNMA, FHLMC and GNMA Securitizations	$ 21	$ 13
Private Investors (a)	24	22
Total unresolved claims	$ 45	$ 35
FNMA, FHLMC and GNMA %	47%	37%

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

The table below details our indemnification and repurchase claim settlement activity during the first three months of 2014 and 2013.

Table 30: Analysis of Residential Mortgage Indemnification and Repurchase Claim Settlement Activity

	2014			2013		
Three months ended March 31 In millions	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)	Unpaid Principal Balance (a)	Losses Incurred (b)	Fair Value of Repurchased Loans (c)
Residential mortgages (d):						
FNMA, FHLMC and GNMA securitizations	$ 14	$ 6	$ 6	$ 155	$ 91	$ 34
Private investors (e)	3	3		10	5	2
Total indemnification and repurchase settlements	$ 17	$ 9	$ 6	$ 165	$ 96	$ 36

(a) Represents unpaid principal balance of loans at the indemnification or repurchase date. Excluded from these balances are amounts associated with pooled settlement payments as loans are typically not repurchased in these transactions.
(b) Represents both i) amounts paid for indemnification/settlement payments and ii) the difference between loan repurchase price and fair value of the loan at the repurchase date. These losses are charged to the indemnification and repurchase liability.
(c) Represents fair value of loans repurchased only as we have no exposure to changes in the fair value of loans or underlying collateral when indemnification/settlement payments are made to investors.
(d) Repurchase activity associated with insured loans, government-guaranteed loans and loans repurchased through the exercise of our removal of account provision (ROAP) option are excluded from this table. Refer to Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for further discussion of ROAPs.
(e) Activity relates to loans sold through Non-Agency securitizations and loan sale transactions.

Residential mortgages that we service through FNMA, FHLMC and GNMA securitizations, and for which we could experience a loss if required to repurchase a delinquent loan due to a breach in representations or warranties, were $49 billion at March 31, 2014, of which $230 million was 90 days or more delinquent. These amounts were $48 billion and $253 million, respectively, at December 31, 2013.

In the fourth quarter of 2013, PNC reached agreements with both FNMA and FHLMC to resolve their repurchase claims with respect to loans sold between 2000 and 2008. PNC paid a total of $191 million related to these settlements. The volume of new repurchase demand claims dropped significantly in the first quarter of 2014 compared to the fourth quarter of 2013 as a result of the settlement agreements. Additionally, the liability for estimated losses on indemnification and repurchase claims for residential mortgages decreased to $103 million at March 31, 2014 from $131 million at December 31, 2013.

We believe our indemnification and repurchase liability appropriately reflects the estimated probable losses on indemnification and repurchase claims for all residential mortgage loans sold and outstanding as of March 31, 2014 and December 31, 2013. In making these estimates, we consider

the losses that we expect to incur over the life of the sold loans. See Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

Home Equity Repurchase Obligations

PNC s repurchase obligations include obligations with respect to certain brokered home equity loans/lines of credit that were sold to a limited number of private investors in the financial services industry by National City prior to our acquisition of National City. PNC is no longer engaged in the brokered home equity lending business, and our exposure under these loan repurchase obligations is limited to repurchases of the loans sold in these transactions. Repurchase activity associated with brokered home equity loans/ lines of credit is reported in the Non-Strategic Assets Portfolio segment.

For more information regarding our Home Equity Repurchase Obligations, see the Recourse and Repurchase Obligations section under Item 7 of our 2013 Form 10-K and Note 17 Commitments and Guarantees included in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Risk Management

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

The Risk Management section included in Item 7 of our 2013 Form 10-K describes our enterprise risk management framework including risk appetite and strategy, risk culture, risk organization and governance, risk identification and quantification, risk control and limits, and risk monitoring and reporting. Additionally, our 2013 Form 10-K provides an analysis of our key areas of risk, which include but are not limited to credit, operational, model, liquidity and market. Our use of financial derivatives as part of our overall asset and liability risk management process is also addressed within the Risk Management section.

The following information updates our 2013 Form 10-K risk management disclosures.

Credit Risk Management

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

Asset Quality Overview

Asset quality trends for the first three months of 2014, improved from both December 31, 2013 and March 31, 2013.

- Overall credit quality continued to improve during the first quarter of 2014. Nonperforming assets at March 31, 2014 decreased $153 million compared with December 31, 2013 as a result of improvements in both consumer and commercial lending. Consumer lending nonperforming loans decreased $84 million, commercial real estate nonperforming loans declined $38 million and commercial nonperforming loans decreased $20 million. Nonperforming assets to total assets were 1.02 percent at March 31, 2014 compared with 1.08 percent at December 31, 2013 and 1.31 percent at March 31, 2013.
- Overall loan delinquencies of $2.2 billion decreased $.3 billion, or 11%, from year-end 2013 levels. The reduction was largely due to a reduction in accruing
government insured residential real estate loans past due 90 days or more of $101 million, the majority of which we took possession of and conveyed the real estate, or are in the process of conveyance and claim resolution.
- Net charge-offs for the first quarter of 2014 were stable compared with fourth quarter 2013 as lower home equity loan net charge-offs were offset by higher residential real estate and commercial loan net charge-offs. In the comparison with first quarter 2013, net charge-offs decreased $270 million reflecting improving credit quality, which was partially offset by $134 million of charge-offs due to the impact of alignment with interagency supervisory guidance in the first quarter of 2013.
- Provision for credit losses for first quarter 2014 decreased $19 million compared with fourth quarter 2013 and $142 million compared with first quarter 2013 as overall credit quality has continued to improve. A contributing economic factor was the increasing value of residential real estate, which improved expected cash flows from our purchased impaired loans.
- The level of ALLL decreased to $3.5 billion at March 31, 2014 from $3.6 billion at December 31, 2013 and $3.8 billion at March 31, 2013.

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets, including OREO and Foreclosed Assets

Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming troubled debt restructurings (TDRs), OREO and foreclosed assets. Loans held for sale, certain government insured or guaranteed loans, purchased impaired loans and loans accounted for under the fair value option are excluded from nonperforming loans. Additional information regarding our nonperforming loans and nonaccrual policies is included in Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report. The major categories of nonperforming assets are presented in Table 31.

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

loans (home equity loans and lines of credit and residential mortgages) where the first-lien loan was 90 days or more past due, (ii) government guaranteed loans where the guarantee may not result in collection of substantially all contractual principal and interest and (iii) certain loans with borrowers in or discharged from bankruptcy. In the first quarter of 2013, nonperforming loans increased by $426 million and net

charge-offs increased by $134 million as a result of completing the alignment of the aforementioned policies. Additionally, overall delinquencies decreased $395 million due to loans now being reported as either nonperforming or, in the case of loans accounted for under the fair value option, nonaccruing or having been charged off. Certain consumer nonperforming loans were charged-off to the respective collateral value less costs to sell, and any associated allowance at the time of charge-off was reduced to zero. Therefore, the charge-off activity resulted in a reduction to the allowance. As the interagency guidance was adopted, incremental provision for credit losses was recorded if the related loan charge-off exceeded the associated allowance. Subsequent declines in collateral value for these loans will result in additional charge-offs to maintain recorded investment at collateral value less costs to sell.

At March 31, 2014, TDRs included in nonperforming loans were $1.4 billion, or 48%, of total nonperforming loans compared to $1.5 billion, or 49%, of total nonperforming loans as of December 31, 2013. Within consumer nonperforming loans, residential real estate TDRs comprise 57% of total residential real estate nonperforming loans at March 31, 2014, down from 59% at December 31, 2013. Home equity TDRs comprise 51% of home equity nonperforming loans at March 31, 2014, down from 54% at December 31, 2013. TDRs generally remain in nonperforming status until a borrower has made at least six consecutive months of payments under the modified terms or ultimate resolution occurs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC are not returned to accrual status.

At March 31, 2014, our largest nonperforming asset was $35 million in the Real Estate, Rental and Leasing Industry and our average nonperforming loans associated with commercial lending were under $1 million. All of the ten largest outstanding nonperforming assets are from the commercial lending portfolio and represent 17% and 5% of total commercial lending nonperforming loans and total nonperforming assets, respectively, as of March 31, 2014.

Table 31: Nonperforming Assets By Type

In millions	March 31 2014	December 31 2013
Nonperforming loans		
Commercial lending		
Commercial		
Retail/wholesale trade	$ 49	$ 57
Manufacturing	63	58
Service providers	90	108
Real estate related (a)	122	124
Financial services	5	7
Health care	17	19
Other industries	91	84
Total commercial	437	457
Commercial real estate		
Real estate projects (b)	401	436
Commercial mortgage	79	82
Total commercial real estate	480	518
Equipment lease financing	6	5
Total commercial lending	923	980
Consumer lending (c)		
Home equity (d)	1,117	1,139
Residential real estate		
Residential mortgage (d)	829	890
Residential construction	13	14
Credit card	4	4
Other consumer (d)	61	61
Total consumer lending	2,024	2,108
Total nonperforming loans (e)	2,947	3,088
OREO and foreclosed assets		
Other real estate owned (OREO) (f)	343	360
Foreclosed and other assets	14	9
Total OREO and foreclosed assets	357	369
Total nonperforming assets	$ 3,304	$ 3,457
Amount of commercial lending nonperforming loans contractually current as to remaining principal and interest	$ 303	$ 266
Percentage of total commercial lending nonperforming loans	33%	27%
Amount of TDRs included in nonperforming loans	$ 1,405	$ 1,511
Percentage of total nonperforming loans	48%	49%

Nonperforming loans to total loans	1.49%	1.58%
Nonperforming assets to total loans, OREO and foreclosed assets	1.66	1.76
Nonperforming assets to total assets	1.02	1.08
Allowance for loan and lease losses to total nonperforming loans (g)	120	117

(a) Includes loans related to customers in the real estate and construction industries.
(b) Includes both construction loans and intermediate financing for projects.
(c) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.
(d) Pursuant to alignment with interagency supervisory guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013, nonperforming home equity loans increased $214 million, nonperforming residential mortgage loans increased $187 million and nonperforming other consumer loans increased $25 million. Charge-offs were taken on these loans where the fair value less costs to sell the collateral was less than the recorded investment of the loan and were $134 million.
(e) Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.
(f) OREO excludes $238 million and $245 million at March 31, 2014 and December 31, 2013, respectively, related to commercial and residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the FHA or guaranteed by the VA or guaranteed by the Department of Housing and Urban Development.

(g) The allowance for loan and lease losses includes impairment reserves attributable to purchased impaired loans. See Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

Table 32 : OREO and Foreclosed Assets

In millions	March 31 2014	December 31 2013
Other real estate owned (OREO):		
Residential properties	$ 171	$ 164
Residential development properties	58	74
Commercial properties	114	122
Total OREO	343	360
Foreclosed and other assets	14	9
Total OREO and foreclosed assets	$ 357	$ 369

Total OREO and foreclosed assets decreased $12 million during the first three months of 2014 from $369 million at December 31, 2013, to $357 million at March 31, 2014 and is 11% of total nonperforming assets at March 31, 2014. As of March 31, 2014 and December 31, 2013, 48% and 44%, respectively, of our OREO and foreclosed assets were comprised of 1-4 family residential properties. The lower level of OREO and foreclosed assets was driven mainly by continued elevated sales activity offset slightly by an increase in foreclosures.

Table 33: Change in Nonperforming Assets

In millions	2014	2013
January 1	$ 3,457	$ 3,794
New nonperforming assets (a)	633	1,032
Charge-offs and valuation adjustments (b)	(152)	(343)
Principal activity, including paydowns and payoffs	(323)	(258)
Asset sales and transfers to loans held for sale	(85)	(114)
Returned to performing status	(226)	(184)
March 31	$ 3,304	$ 3,927

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

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

The table above presents nonperforming asset activity during the first three months of 2014 and 2013, respectively. Nonperforming assets decreased $153 million from $3.5 billion at December 31, 2013, as a result of improvements in both consumer and commercial lending. Consumer lending nonperforming loans decreased $84 million, commercial real estate nonperforming loans declined $38 million and commercial nonperforming loans decreased $20 million. Approximately 88% of total nonperforming loans are secured by collateral which would be expected to reduce credit losses

and require less reserve in the event of default, and 33% of commercial lending nonperforming loans are contractually current as to both principal and interest obligations. As of March 31, 2014, commercial lending nonperforming loans are carried at approximately 67% of their unpaid principal balance, due to charge-offs recorded to date, before consideration of the ALLL. See Note 4 Asset Quality in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on these loans.

Purchased impaired loans are considered performing, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans. The accretable yield represents the excess of the expected cash flows on the loans at the measurement date over the carrying value. Generally decreases, other than interest rate decreases for variable rate notes, in the net present value of expected cash flows of individual commercial or pooled purchased impaired loans would result in an impairment charge to the provision for loan losses in the period in which the change is deemed probable. Generally increases in the net present value of expected cash flows of purchased impaired loans would first result in a recovery of previously recorded allowance for loan losses, to the extent applicable, and then an increase to accretable yield for the remaining life of the purchased impaired loans. Total nonperforming loans and assets in the tables above are significantly lower than they would have been due to this accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of nonperforming loans to total loans and a higher ratio of ALLL to nonperforming loans. See Note 5 Purchased Loans in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on these loans.

Loan Delinquencies

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

Total early stage loan delinquencies (accruing loans past due 30 to 89 days) decreased from $1.0 billion at December 31, 2013 to $0.9 billion at March 31, 2014. The reduction in both Consumer and Commercial lending early stage delinquencies resulted from improving credit quality. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements of this Report for additional information regarding our nonperforming loan and nonaccrual policies.

Accruing loans past due 90 days or more are referred to as late stage delinquencies. These loans are not included in nonperforming loans and continue to accrue interest because they are well secured by collateral, and/or are in the process of collection, are managed in homogenous portfolios with specified charge-off timeframes adhering to regulatory guidelines, or are certain government insured or guaranteed loans. These loans decreased $.2 billion, or 12%, from $1.5 billion at December 31, 2013, to $1.3 billion at March 31, 2014, mainly due to a decline in government insured residential real estate loans of $.1 billion, the majority of which we took possession of and conveyed the real estate, or are in the process of conveyance and claim resolution. The following tables display the delinquency status of our loans at March 31, 2014 and December 31, 2013. Additional information regarding accruing loans past due is included in Note 4 Asset Quality in the Notes To Consolidated Financial Statements of this Report.

Table 34: Accruing Loans Past Due 30 To 59 Days (a)

	Amount		Percentage of Total Outstandings	
Dollars in millions	March 31 2014	December 31 2013	March 31 2014	December 31 2013
Commercial	$ 93	$ 81	.09%	.09%
Commercial real estate	35	54	.16	.25
Equipment lease financing	17	31	.23	.41
Home equity	76	86	.21	.24
Residential real estate				
Non government insured	101	112	.68	.74
Government insured	82	105	.55	.70
Credit card	26	29	.60	.66
Other consumer				
Non government insured	51	62	.23	.28
Government insured	149	154	.66	.68
Total	$ 630	$ 714	.32	.37

(a) Amounts in table represent recorded investment.

Table 35: Accruing Loans Past Due 60 To 89 Days (a)

	Amount		Percentage of Total Outstandings	
Dollars in millions	March 31 2014	December 31 2013	March 31 2014	December 31 2013
Commercial	$ 20	$ 20	.02%	.02%
Commercial real estate	25	11	.11	.05
Equipment lease financing		2		.03
Home equity	32	34	.09	.09
Residential real estate				
Non government insured	27	30	.18	.20
Government insured	43	57	.29	.38
Credit card	19	19	.44	.43
Other consumer				
Non government insured	16	18	.07	.08
Government insured	104	94	.46	.42
Total	$ 286	$ 285	.14	.15

(a) Amounts in table represent recorded investment.

Table 36: Accruing Loans Past Due 90 Days Or More (a)

	Amount		Percentage of Total Outstandings	
Dollars in millions	March 31 2014	December 31 2013	March 31 2014	December 31 2013
Commercial	$ 28	$ 42	.03%	.05%
Commercial real estate		2		.01
Residential real estate				
Non government insured	30	35	.20	.23
Government insured	924	1,025	6.24	6.80
Credit card	31	34	.72	.77
Other consumer				
Non government insured	13	14	.06	.06
Government insured	284	339	1.26	1.50
Total	$ 1,310	$ 1,491	.66	.76

(a) Amounts in table represent recorded investment.

On a regular basis our Special Asset Committee closely monitors loans, primarily commercial loans, that are not included in the nonperforming or accruing past due categories and for which we are uncertain about the borrower s ability to comply with existing repayment terms over the next six months. These loans totaled $.2 billion at both March 31, 2014 and December 31, 2013.

Home Equity Loan Portfolio

Our home equity loan portfolio totaled $35.9 billion as of March 31, 2014, or 18% of the total loan portfolio. Of that total, $21.3 billion, or 59%, was outstanding under primarily variable-rate home equity lines of credit and $14.6 billion, or 41%, consisted of closed-end home equity installment loans. Approximately 3% of the home equity portfolio was on nonperforming status as of March 31, 2014.

As of March 31, 2014, we are in an originated first lien position for approximately 49% of the total portfolio and, where originated as a second lien, we currently hold or service the first lien position for approximately an additional 2% of the portfolio. Historically, we have originated and sold first lien residential real estate mortgages, which resulted in a low percentage of home equity loans where we hold the first lien mortgage position. The remaining 49% of the portfolio was secured by second liens where we do not hold the first lien position. The credit performance of the majority of the home equity portfolio where we are in, hold or service the first lien position, is superior to the portion of the portfolio where we hold the second lien position but do not hold the first lien.

Lien position information is generally based upon original LTV at the time of origination. However, after origination PNC is not typically notified when a senior lien position that is not held by PNC is satisfied. Therefore, information about the current lien status of junior lien loans is less readily available in cases where PNC does not also hold the senior lien. Additionally, PNC is not typically notified when a junior lien position is added after origination of a PNC first lien. This

updated information for both junior and senior liens must be obtained from external sources, and therefore, PNC has contracted with an industry leading third-party service provider to obtain updated loan, lien and collateral data that is aggregated from public and private sources.

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

In establishing our ALLL for non-impaired loans, we utilize a delinquency roll-rate methodology for pools of loans. In accordance with accounting principles, under this methodology, we establish our allowance based upon incurred losses and not lifetime expected losses. We also consider the incremental expected losses when home equity lines of credit transition from interest-only products to principal and interest products in establishing our ALLL. The roll-rate methodology estimates transition/roll of loan balances from one delinquency state (*e.g.*, 30-59 days past due) to another delinquency state (*e.g.*, 60-89 days past due) and ultimately to charge-off. The roll through to charge-off is based on

PNC s actual loss experience for each type of pool. Since a pool may consist of first and second liens, the charge-off amounts for the pool are proportionate to the composition of first and

second liens in the pool. Our experience has been that the ratio of first to second lien loans has been consistent over time and is appropriately represented in our pools used for roll-rate calculations.

Generally, our variable-rate home equity lines of credit have either a seven or ten year draw period, followed by a 20-year amortization term. During the draw period, we have home equity lines of credit where borrowers pay interest only and home equity lines of credit where borrowers pay principal and interest. We view home equity lines of credit where borrowers are paying principal and interest under the draw period as less risky than those where the borrowers are paying interest only, as these borrowers have a demonstrated ability to make some level of principal and interest payments. The risk associated with our home equity lines of credit end of period draw dates is considered in establishing our ALLL. Based upon outstanding balances at March 31, 2014, the following table presents the periods when home equity lines of credit draw periods are scheduled to end.

Table 37: Home Equity Lines of Credit Draw Period End Dates

In millions	Interest Only Product	Principal and Interest Product
Remainder of 2014	$ 1,394	$ 337
2015	1,781	608
2016	1,479	474
2017	2,656	643
2018	1,168	873
2019 and thereafter	3,846	4,676
Total (a) (b)	$ 12,324	$ 7,611

(a) Includes all home equity lines of credit that mature in the remainder of 2014 or later, including those with borrowers where we have terminated borrowing privileges.

(b) Includes approximately $141 million, $187 million, $52 million, $62 million, $45 million and $561 million of home equity lines of credit with balloon payments, including those where we have terminated borrowing privileges, with draw periods scheduled to end in the remainder of 2014, 2015, 2016, 2017, 2018 and 2019 and thereafter, respectively.

Based upon outstanding balances, and excluding purchased impaired loans, at March 31, 2014, for home equity lines of credit for which the borrower can no longer draw (*e.g.*, draw period has ended or borrowing privileges have been terminated), approximately 3.37% were 30-89 days past due and approximately 5.61% were 90 days or more past due. Generally, when a borrower becomes 60 days past due, we terminate borrowing privileges and those privileges are not subsequently reinstated. At that point, we continue our collection/recovery processes, which may include a loss mitigation loan modification resulting in a loan that is classified as a TDR.

See Note 4 Asset Quality in the Notes To Consolidated Financial Statements of this Report for additional information.

Loan Modifications and Troubled Debt Restructurings

Consumer Loan Modifications

We modify loans under government and PNC-developed programs based upon our commitment to help eligible homeowners and borrowers avoid foreclosure, where appropriate. Initially, a borrower is evaluated for a modification under a government program. If a borrower does not qualify under a government program, the borrower is then evaluated under a PNC program. Our programs utilize both temporary and permanent modifications and typically reduce the interest rate, extend the term and/or defer principal. Temporary and permanent modifications under programs involving a change to loan terms are generally classified as TDRs. Further, certain payment plans and trial payment arrangements which do not include a contractual change to loan terms may be classified as TDRs. Additional detail on TDRs is discussed below as well as in Note 4 Asset Quality in the Notes To Consolidated Financial Statements of this Report.

A temporary modification, with a term between 3 and 24 months, involves a change in original loan terms for a period of time and reverts to a calculated exit rate for the remaining term of the loan as of a specific date. A permanent modification, with a term greater than 24 months, is a modification in which the terms of the original loan are changed. Permanent modifications primarily include the government-created Home Affordable Modification Program (HAMP) or PNC-developed HAMP-like modification programs.

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

We also monitor the success rates and delinquency status of our loan modification programs to assess their effectiveness in serving our customers needs while mitigating credit losses. Table 38 provides the number of accounts and unpaid principal balance of modified consumer real estate related loans and Table 39 provides the number of accounts and unpaid principal balance of modified loans that were 60 days or more past due as of six months, nine months, twelve months and fifteen months after the modification date.

Table 38: Consumer Real Estate Related Loan Modifications

Dollars in millions	March 31, 2014 Number of Accounts	March 31, 2014 Unpaid Principal Balance	December 31, 2013 Number of Accounts	December 31, 2013 Unpaid Principal Balance
Home equity				
Temporary Modifications	6,292	$ 502	6,683	$ 539
Permanent Modifications	12,235	927	11,717	889
Total home equity	18,527	1,429	18,400	1,428
Residential Mortgages				
Permanent Modifications	7,338	1,427	7,397	1,445
Non-Prime Mortgages				
Permanent Modifications	4,420	626	4,400	621
Residential Construction				
Permanent Modifications	2,376	773	2,260	763
Total Consumer Real Estate Related Loan Modifications	32,661	$ 4,255	32,457	$ 4,257

Table 39: Consumer Real Estate Related Loan Modifications Re-Default by Vintage (a) (b)

March 31, 2014	Six Months		Nine Months		Twelve Months		Fifteen Months		
Dollars in thousands	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Number of Accounts Re-defaulted	% of Vintage Re-defaulted	Unpaid Principal Balance (c)
Permanent Modifications									
Home Equity									
Third Quarter 2013	32	2.7%							$ 2,570
Second Quarter 2013	25	2.0	44	3.5%					3,982
First Quarter 2013	36	2.9	47	3.8	57	4.7%			4,406
Fourth Quarter 2012	38	3.0	50	4.0	63	5.0	79	6.3%	8,961
Third Quarter 2012	46	2.9	73	4.6	97	6.0	110	6.9	8,997
Residential Mortgages									
Third Quarter 2013	100	9.2							17,324
Second Quarter 2013	138	16.7	162	19.6					28,705
First Quarter 2013	132	16.7	186	23.5	199	25.1			33,261
Fourth Quarter 2012	119	16.7	197	27.6	227	31.8	236	33.1	40,020
Third Quarter 2012	190	20.3	226	24.2	289	30.9	308	32.9	48,023
Non-Prime Mortgages									
Third Quarter 2013	26	15.2							2,986
Second Quarter 2013	25	18.8	40	30.1					8,414
First Quarter 2013	12	14.8	12	14.8	16	19.8			2,669
Fourth Quarter 2012	23	19.7	28	23.9	30	25.6	37	31.6	4,803
Third Quarter 2012	24	17.8	31	23.0	33	24.4	38	28.2	5,463
Residential Construction									
Third Quarter 2013	1	0.7							7
Second Quarter 2013	3	1.5	7	3.5					788
First Quarter 2013	2	1.2	5	2.9	5	2.9			906
Fourth Quarter 2012	2	1.1	4	2.2	6	3.4	5	2.8	885
Third Quarter 2012	3	1.3	1	0.4	4	1.7	6	2.6	1,230
Temporary Modifications									
Home Equity									
Third Quarter 2013	4	9.8%							$ 276
Second Quarter 2013	12	15.8	18	23.7%					1,800
First Quarter 2013	2	2.5	7	8.6	8	9.9%			450
Fourth Quarter 2012	4	4.1	13	13.3	16	16.3	18	18.4%	1,324
Third Quarter 2012	17	11.0	21	13.6	31	20.0	32	20.7	2,329

(a) An account is considered in re-default if it is 60 days or more delinquent after modification. The data in this table represents loan modifications completed during the quarters ending September 30, 2012 through September 30, 2013 and represents a vintage look at all quarterly accounts and the number of those modified accounts (for each quarterly vintage) 60 days or more delinquent at six, nine, twelve, and fifteen months after modification. Account totals include active and inactive accounts that were delinquent when they achieved inactive status. Accounts that are no longer 60 days or more delinquent, or were re-modified since prior period, are removed from re-default status in the period they are cured or re-modified.
(b) Vintage refers to the quarter in which the modification occurred.
(c) Reflects March 31, 2014 unpaid principal balances of the re-defaulted accounts for the Third Quarter 2013 Vintage at Six Months, for the Second Quarter 2013 Vintage at Nine Months, for the First Quarter 2013 Vintage at Twelve Months, and for the Fourth Quarter 2012 and prior Vintages at Fifteen Months.

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

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

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

Residential conforming and certain residential construction loans have been permanently modified under HAMP or, if they do not qualify for a HAMP modification, under PNC-developed programs, which in some cases may operate similarly to HAMP. These programs first require a reduction of the interest rate followed by an extension of term and, if appropriate, deferral of principal payments. As of March 31, 2014 and December 31, 2013, 6,262 accounts with a balance of $.9 billion and 5,834 accounts with a balance of $.9 billion, respectively, of residential real estate loans had been modified under HAMP and were still outstanding on our balance sheet.

We do not re-modify a defaulted modified loan except for subsequent significant life events, as defined by the Office of the Comptroller of the Currency (OCC). A modified loan

continues to be classified as a TDR for the remainder of its term regardless of subsequent payment performance.

Commercial Loan Modifications and Payment Plans

Modifications of terms for commercial loans are based on individual facts and circumstances. Commercial loan modifications may involve reduction of the interest rate, extension of the term of the loan and/or forgiveness of principal. Modified commercial loans are usually already nonperforming prior to modification. We evaluate these modifications for TDR classification based upon whether we granted a concession to a borrower experiencing financial difficulties. Additional detail on TDRs is discussed below as well as in Note 4 Asset Quality in the Notes To Consolidated Financial Statements of this Report.

We have established certain commercial loan modification and payment programs for small business loans, Small Business Administration loans, and investment real estate loans. As of March 31, 2014 and December 31, 2013, $44 million and $47 million, respectively, in loan balances were covered under these modification and payment plan programs. Of these loan balances, $15 million and $16 million have been determined to be TDRs as of March 31, 2014 and December 31, 2013, respectively.

Troubled Debt Restructurings

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs result from our loss mitigation activities and include rate reductions, principal forgiveness, postponement/reduction of scheduled amortization and extensions, which are intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Additionally, TDRs also result from borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC. For the three months ended March 31, 2014, $.3 billion of loans held for sale, loans accounted for under the fair value option and pooled purchased impaired loans, as well as certain consumer government insured or guaranteed loans, were excluded from the TDR population. The comparable amount for the three months ended March 31, 2013 was $.7 billion.

Table 40: Summary of Troubled Debt Restructurings

In millions	March 31 2014	December 31 2013
Consumer lending:		
Real estate-related	$ 1,925	$ 1,939
Credit card	157	166
Other consumer	52	56
Total consumer lending	2,134	2,161
Total commercial lending	579	578
Total TDRs	$ 2,713	$ 2,739
Nonperforming	$ 1,405	$ 1,511
Accruing (a)	1,151	1,062
Credit card	157	166
Total TDRs	$ 2,713	$ 2,739

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

Total TDRs decreased $26 million, or 1%, during the first three months of 2014. Nonperforming TDRs totaled $1.4 billion, which represents approximately 48% of total nonperforming loans.

TDRs that are performing, including credit card loans, are excluded from nonperforming loans. Generally, these loans have been returned to performing status as the borrowers have been performing under the restructured terms for at least six consecutive months. These TDRs increased $80 million, or 7%, during 2014 to $1.3 billion as of March 31, 2014. This increase reflects the further seasoning and performance of the TDRs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC are not returned to accrual status. See Note 4 Asset Quality in the Notes To Consolidated Financial Statements in this Report for additional information.

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

We recorded $186 million in net charge-offs for the first three months of 2014, compared to $456 million in the first three months of 2013. Commercial lending net charge-offs decreased from $121 million in the first three months of 2013 to $31 million in the first three months of 2014. Consumer lending net charge-offs decreased from $335 million, which included $134 million due to the impact of alignment with interagency supervisory guidance, in the first three months of 2013 to $155 million in the first three months of 2014.

Table 41: Loan Charge-Offs And Recoveries

Three months ended March 31 Dollars in millions	Gross Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	Percent of Average Loans (annualized)
2014				
Commercial	$ 85	$ 51	$ 34	.15%
Commercial real estate	18	20	(2)	(.04)
Equipment lease financing	2	3	(1)	(.05)
Home equity	95	19	76	.85
Residential real estate	8	(1)	9	.25
Credit card	43	5	38	3.60
Other consumer	49	17	32	.57
Total	$ 300	$ 114	$ 186	.38
2013				
Commercial	$ 114	$ 63	$ 51	.25%

Commercial real estate	86	13	73	1.57
Equipment lease financing	3	6	(3)	(.17)
Home equity	194	13	181	2.05
Residential real estate	79	(1)	80	2.15
Credit card	50	5	45	4.42
Other consumer	43	14	29	.55
Total	$ 569	$ 113	$ 456	.99

Total net charge-offs are lower than they would have been otherwise due to the accounting treatment for purchased impaired loans. This treatment also results in a lower ratio of net charge-offs to average loans. See Note 5 Purchased Loans

in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information on net charge-offs related to these loans.

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

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

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

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

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

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

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

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

Purchased impaired loans are initially recorded at fair value and applicable accounting guidance prohibits the carry over or creation of valuation allowances at acquisition. Because the initial fair values of these loans already reflect a credit component, additional reserves are established when performance is expected to be worse than our expectations as of the acquisition date. At March 31, 2014, we had established reserves of $.9 billion for purchased impaired loans. In addition, loans (purchased impaired and non-impaired) acquired after January 1, 2009 were recorded at fair value. No allowance for loan losses was carried over and no allowance was created at the date of acquisition. See Note 5 Purchased Loans in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

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

We refer you to Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for further information on certain key asset quality indicators that we use to evaluate our portfolio and establish the allowances.

Table 42: Allowance for Loan and Lease Losses

Dollars in millions	2014	2013
January 1	$ 3,609	$ 4,036
Total net charge-offs	(186)	(456)
Provision for credit losses	94	236
Net change in allowance for unfunded loan commitments and letters of credit	14	12
Other	(1)	
March 31	$ 3,530	$ 3,828
Net charge-offs to average loans (for the three months ended) (annualized) (a)	.38%	.99%
Allowance for loan and lease losses to total loans	1.78	2.05
Commercial lending net charge-offs	$ (31)	$ (121)
Consumer lending net charge-offs	(155)	(335)
Total net charge-offs	$ (186)	$ (456)
Net charge-offs to average loans (for the three months ended) (annualized)		
Commercial lending	.11%	.45%
Consumer lending (a)	.81	1.78

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

The provision for credit losses totaled $94 million for the first three months of 2014 compared to $236 million for the first three months of 2013. The primary driver of the decrease to the provision was improved overall credit quality, including improved commercial loan risk factors, lower consumer loan delinquencies, and the increasing value of residential real estate, which resulted in greater expected cash flows for our purchased impaired loans. For the first three months of 2014, the provision for commercial lending credit losses decreased by $37 million, or 67%, from the first three months of 2013. The provision for consumer lending credit losses decreased $105 million, or 58%, from the first three months of 2013.

At March 31, 2014, total ALLL to total nonperforming loans was 120%. The comparable amount for December 31, 2013 was 117%. These ratios are 76% and 72%, respectively, when excluding the $1.3 billion and $1.4 billion, respectively, of ALLL at March 31, 2014 and December 31, 2013 allocated to consumer loans and lines of credit not secured by residential real estate and purchased impaired loans. We have excluded consumer loans and lines of credit not secured by real estate as they are charged off after 120 to 180 days past due and not placed on nonperforming status. Additionally, we have excluded purchased impaired loans as they are considered performing regardless of their delinquency status as interest is accreted based on our estimate of expected cash flows and additional allowance is recorded when these cash flows are below recorded investment. See Table 31 within this Credit Risk Management section for additional information.

The ALLL balance increases or decreases across periods in relation to fluctuating risk factors, including asset quality trends, charge-offs and changes in aggregate portfolio balances. During the first three months of 2014, improving asset quality trends, including, but not limited to, delinquency status and improving economic conditions, realization of previously estimated losses through charge-offs and overall portfolio growth, combined to result in the ALLL balance declining $.1 billion, or 2% to $3.5 billion as of March 31, 2014 compared to December 31, 2013.

See Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit and Note 5 Purchased Loans in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report regarding changes in the ALLL and in the allowance for unfunded loan commitments and letters of credit.

Liquidity Risk Management

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

Management monitors liquidity through a series of early warning indicators that may indicate a potential market, or PNC-specific, liquidity stress event. In addition, management performs a set of liquidity stress tests over multiple time horizons with varying levels of severity and maintains a contingency funding plan to address a potential stress event. In the most severe liquidity stress simulation, we assume that PNC s liquidity position is under pressure, while the market in general is under systemic pressure. The simulation considers, among other things, the

impact of restricted access to both secured and unsecured external sources of funding, accelerated run-off of customer deposits, valuation pressure on assets and heavy demand to fund contingent obligations. Risk limits are established within our Enterprise Capital and Liquidity Management Policy. Management s Asset and Liability Committee and the Board of Directors Risk Committee regularly review compliance with the established limits.

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

Management s Asset and Liability Committee and the Board of Directors Risk Committee regularly review compliance with the established limits.

Bank Level Liquidity Uses

At the bank level, primary contractual obligations include funding loan commitments, satisfying deposit withdrawal requests and maturities and debt service related to bank borrowings. As of March 31, 2014, there were approximately $9.6 billion of bank borrowings with contractual maturities of less than one year. We also maintain adequate bank liquidity to meet future potential loan demand and provide for other business needs, as necessary. See the Bank Level Liquidity Sources section below.

Bank Level Liquidity Sources

Our largest source of bank liquidity on a consolidated basis is the deposit base that comes from our retail and commercial businesses. Total deposits increased to $222.4 billion at March 31, 2014 from $220.9 billion at December 31, 2013, primarily driven by growth in transactions deposits. Assets determined by PNC to be liquid (liquid assets) and unused borrowing capacity from a number of sources are also available to maintain our liquidity position. Borrowed funds come from a diverse mix of short and long-term funding sources.

At March 31, 2014, our liquid assets consisted of short-term investments (Federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling $18.4 billion and securities available for sale totaling $47.5 billion. Of our total liquid assets of $65.9 billion, we had $17.3 billion pledged as collateral for borrowings, trust, and other commitments. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and balance sheet management activities.

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

On January 16, 2014, PNC Bank, N.A. established a new bank note program under which it may from time to time offer up to $25 billion aggregate principal amount at any one time outstanding of its unsecured senior and subordinated notes due more than nine months from their date of issue (in the case of senior notes) and due five years or more from their date of issue (in the case of subordinated notes). The $25 billion of notes authorized to be issued and outstanding at any one time includes notes issued by PNC Bank, N.A. prior to January 16, 2014 under the 2004 bank note program and those notes PNC Bank, N.A. has acquired through the acquisition of other

banks, in each case for so long as such notes remain outstanding. The terms of the new program do not affect any of the bank notes issued prior to January 16, 2014. At March 31, 2014, PNC Bank, N.A. had $14.2 billion of bank notes outstanding including the following issued during 2014:

- $750 million of senior notes with a maturity date of January 28, 2019. Interest is payable semi-annually, at a fixed rate of 2.200% on January 28 and July 28 of each year, beginning on July 28, 2014,
- $1.0 billion of senior notes with a maturity date of January 27, 2017. Interest is payable semi-annually, at a fixed rate of 1.125% on January 27 and July 27 of each year, beginning on July 27, 2014, and
- $1.0 billion of senior extendible floating rate bank notes issued to an affiliate with an initial maturity date of April 15, 2015, subject to the holder s monthly option to extend, and a final maturity date of April 15, 2016. Interest is payable at the 3-month LIBOR rate, reset quarterly, plus a spread of .235%, which spread is subject to four potential one basis point increases in the event of certain extensions of maturity by the holder. Interest is payable on January 15, April 15, July 15 and October 15 of each year, beginning on July 15, 2014.

Total senior and subordinated debt of PNC Bank, N.A. increased to $15.5 billion at March 31, 2014 from $14.6 billion at December 31, 2013 primarily due to $2.8 billion in new borrowing less $1.9 billion in calls and maturities.

PNC Bank, N.A. is a member of the FHLB-Pittsburgh and, as such, has access to advances from FHLB-Pittsburgh secured generally by residential mortgage loans, other mortgage-related loans and commercial mortgage-backed securities. At March 31, 2014, our unused secured borrowing capacity was $12.3 billion with FHLB-Pittsburgh. Total FHLB borrowings increased to $13.9 billion at March 31, 2014 from $12.9 billion at December 31, 2013 due to $4.0 billion of new issuances offset by $3.0 billion in calls and maturities. The FHLB-Pittsburgh also periodically provides standby letters of credit on behalf of PNC Bank, N.A. to secure certain public deposits. PNC Bank, N.A. began using standby letters of credit issued by the FHLB-Pittsburgh in response to anticipated short-term regulatory standards. If the FHLB-Pittsburgh is required to make payment for a beneficiary s draw, the payment amount is converted into a collateralized advance to PNC Bank, N.A. At both March 31, 2014 and December 31, 2013, standby letters of credit issued on our behalf by the FHLB-Pittsburgh totaled $6.2 billion.

PNC Bank, N.A. has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of March 31, 2014, there was $4.9 billion outstanding under this program. During the fourth quarter of 2013, PNC finalized the wind down of Market Street Funding LLC (Market Street), a multi-seller asset-backed commercial paper conduit administered by PNC Bank, N.A. As part of the wind down

process, the commitments and outstanding loans of Market Street were assigned to PNC Bank, N.A., which will fund these commitments and loans by utilizing its diversified funding sources. In conjunction with the assignment of commitments and loans, the associated liquidity facilities were terminated along with the program-level credit enhancement provided to Market Street. The wind down did not have a material impact to PNC s financial condition or results of operation.

PNC Bank, N.A. can also borrow from the Federal Reserve Bank of Cleveland s (Federal Reserve Bank) discount window to meet short-term liquidity requirements. The Federal Reserve Bank, however, is not viewed as the primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. These potential borrowings are secured by commercial loans. At March 31, 2014, our unused secured borrowing capacity was $20.2 billion with the Federal Reserve Bank.

PARENT COMPANY LIQUIDITY USES

The parent company s contractual obligations consist primarily of debt service related to parent company borrowings and funding non-bank affiliates. As of March 31, 2014, there were approximately $2.3 billion of parent company borrowings with maturities of less than one year.

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

See Capital and Liquidity Actions in the Executive Summary section of this Financial Review for information on our 2014 capital plan that was accepted by the Federal Reserve, which included certain share repurchases under PNC s existing common stock repurchase authorization and the dividend increase described below.

On April 3, 2014, consistent with our 2014 capital plan, our Board of Directors approved an increase to PNC s quarterly common stock dividend from 44 cents per common share to 48 cents per common share. For the second quarter of 2014, the increased dividend was payable to shareholders of record at the close of business on April 15, 2014 and was paid on May 5, 2014.

See the Supervision and Regulation section of Item 1 Business in our 2013 Form 10-K for additional information regarding the Federal Reserve s CCAR process and the factors the Federal Reserve takes into consideration in evaluating capital plans, as well as for information on new qualitative and quantitative liquidity risk management standards proposed by the U.S. banking agencies.

During 2014, the parent company used cash for the following:

- On March 28, 2014, we used $1.0 billion of parent company cash to purchase senior extendible floating rate bank notes issued by PNC Bank, N.A., and
- In March 2014, PNC repurchased $50 million of common shares to mitigate the financial impact of employee benefit plan transactions, as described in more detail in Item 2 Unregistered Sales Of Equity Securities And Use of Proceeds in Part II of this Report.

PARENT COMPANY LIQUIDITY SOURCES

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

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

There are statutory and regulatory limitations on the ability of national banks to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. The amount available for dividend payments by PNC Bank, N.A. to the parent company without prior regulatory approval was approximately $1.2 billion at March 31, 2014. See Note 22 Regulatory Matters in Item 8 of our 2013 Form 10-K for a further discussion of these limitations. We provide additional information on certain contractual restrictions in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in Item 8 of our 2013 Form 10-K.

In addition to dividends from PNC Bank, N.A., other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. As of March 31, 2014, the parent company had approximately $5.4 billion in funds available from its cash and investments.

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

statement pursuant to which we can issue additional debt, equity and other capital instruments. Total senior and subordinated debt and hybrid capital instruments decreased to $10.2 billion at March 31, 2014 from $10.7 billion at December 31, 2013.

See Note 19 Subsequent Events in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for information on the issuance of subordinated notes of $750 million on April 28, 2014.

The parent company, through its subsidiary PNC Funding Corp, has the ability to offer up to $3.0 billion of commercial paper to provide additional liquidity. As of March 31, 2014, there were no issuances outstanding under this program.

Note 19 Equity in Item 8 of our 2013 Form 10-K describes the 16,885,192 warrants we have outstanding, each to purchase one share of PNC common stock at an exercise price of $67.33 per share. These warrants were sold by the U.S. Treasury in a secondary public offering in May 2010 after the U.S. Treasury exchanged its TARP Warrant. These warrants will expire December 31, 2018. These warrants are considered in the calculation of diluted earnings per common share in Note 13 Earnings Per Share in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report.

Status of Credit Ratings

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

In general, rating agencies base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current legislative and regulatory environment, including implied government support. In

addition, rating agencies themselves have been subject to scrutiny arising from the most recent financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in Dodd-Frank. Potential changes in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above, could impact our liquidity and financial condition. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect liquidity and financial condition.

Table 43: Credit Ratings as of March 31, 2014 for PNC and PNC Bank, N.A.

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

Commitments

The following tables set forth contractual obligations and various other commitments as of March 31, 2014 representing required and potential cash outflows.

Table 44: Contractual Obligations

		Payment Due By Period			
March 31, 2014 in millions	Total	Less than one year	One to three years	Four to five years	After five years
Remaining contractual maturities of time deposits (a)	$ 22,380	$ 15,525	$ 3,542	$ 614	$ 2,699
Borrowed funds (a) (b)	46,806	16,292	15,025	6,635	8,854
Minimum annual rentals on noncancellable leases	2,627	383	617	467	1,160

Nonqualified pension and postretirement benefits	534	58	113	111	252
Purchase obligations (c)	682	400	232	27	23
Total contractual cash obligations	$ 73,029	$ 32,658	$ 19,529	$ 7,854	$ 12,988

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

At March 31, 2014, we had a liability for unrecognized tax benefits of $109 million, which represents a reserve for tax positions that we have taken in our tax returns which ultimately may not be sustained upon examination by taxing authorities. Since the ultimate amount and timing of any future cash settlements cannot be predicted with reasonable certainty, this estimated liability has been excluded from the contractual obligations table. See Note 15 Income Taxes in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

Our contractual obligations totaled $73.5 billion at December 31, 2013. The decrease in the comparison is primarily attributable to a decline in time deposits partially offset by the increase in borrowed funds. See Funding and Capital Sources in the Consolidated Balance Sheet Review section of this Financial Review for additional information regarding our funding sources.

Table 45: Other Commitments (a)

March 31, 2014 in millions	Total Amounts Committed	Amount Of Commitment Expiration By Period Less than one year	One to three years	Four to five years	After five years
Net unfunded credit commitments	$ 129,644	$ 51,240	$ 44,180	$ 33,279	$ 945
Net outstanding standby letters of credit (b)	10,607	4,739	4,748	1,119	1
Reinsurance agreements (c)	5,168	2,675	29	29	2,435
Other commitments (d)	933	674	221	35	3
Total commitments	$ 146,352	$ 59,328	$ 49,178	$ 34,462	$ 3,384

(a) Other commitments are funding commitments that could potentially require performance in the event of demands by third parties or contingent events. Loan commitments are reported net of syndications, assignments and participations.
(b) Includes $6.3 billion of standby letters of credit that support remarketing programs for customers variable rate demand notes.
(c) Reinsurance agreements are with third-party insurers related to insurance sold to our customers. Balances represent estimates based on availability of financial information.
(d) Includes unfunded commitments related to private equity investments of $153 million and additional obligations related to direct investment of $6 million that are not on our Consolidated Balance Sheet. Also includes commitments related to tax credit investments of $698 million and other direct equity investments of $76 million that are included in Other liabilities on our Consolidated Balance Sheet.

Our total commitments were relatively flat at March 31, 2014 compared to the $146.8 billion reported at December 31, 2013.

Market Risk Management

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

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

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

Market Risk Management Interest Rate Risk

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

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

Sensitivity results and market interest rate benchmarks for the first quarters of 2014 and 2013 follow:

Table 46: Interest Sensitivity Analysis

	First Quarter 2014	First Quarter 2013
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over following 12 months of:		
100 basis point increase	2.1%	2.1%
100 basis point decrease (a)	(.8)%	(1.2)%
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	6.9%	8.0%
100 basis point decrease (a)	(4.5)%	(4.8)%
Duration of Equity Model (a)		
Base case duration of equity (in years)	(2.2)	(5.6)
Key Period-End Interest Rates		
One-month LIBOR	.15%	.20%
Three-year swap	.99%	.54%

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

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. The following Net Interest Income Sensitivity to Alternative Rate Scenarios (First Quarter 2014) table reflects the percentage change in net interest income over the next two 12-month periods assuming (i) the PNC Economist s most likely rate forecast, (ii) implied market forward rates and (iii) Yield Curve Slope Flattening (a 100 basis point yield curve slope flattening between 1-month and ten-year rates superimposed on current base rates) scenario.

Table 47: Net Interest Income Sensitivity to Alternative Rate Scenarios (First Quarter 2014)

	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	.5%	1.0%	(.7)%
Second year sensitivity	3.3%	4.7%	(3.6)%

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

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business and the behavior of existing on- and off-balance sheet positions. These

assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in the above table. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates. We also consider forward projections of purchase accounting accretion when forecasting net interest income.

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

Table 48: Alternate Interest Rate Scenarios: One Year Forward

The first quarter 2014 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 (CVA) related to our customer derivatives portfolio are marked-to-market daily and reported as customer-related trading activities. We do not engage in proprietary trading of these products.

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

During the first three months of 2014, our 95% VaR ranged between $3.1 million and $3.9 million, averaging $3.5 million. During the first three months of 2013, our 95% VaR ranged between $3.2 million and $5.3 million, averaging $3.8 million.

To help ensure the integrity of the models used to calculate VaR for each portfolio and enterprise-wide, we use a process known as backtesting. The backtesting process consists of comparing actual observations of gains or losses against the VaR levels that were calculated at the close of the prior day. This assumes that market exposures remain constant throughout the day and that recent historical market variability is a good predictor of future variability. Our customer-related trading activity includes customer revenue and intraday hedging which helps to reduce losses, and may reduce the number of instances of actual losses exceeding the prior day VaR measure. There were no such instances during the first three months of 2014 or the first three months of 2013 where actual losses exceeded the prior day VaR measure under our diversified VaR measure. We use a 500 day look back period for backtesting and include customer-related revenue.

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

Table 49: Enterprise-Wide Gains/Losses Versus Value-at-Risk

Total customer-related trading revenue was as follows:

Table 50: Customer-Related Trading Revenue

Three months ended March 31

In millions	2014	2013
Net interest income	$ 8	$ 9
Noninterest income	42	51
Total customer-related trading revenue	$ 50	$ 60
Securities underwriting and trading (a)	$ 21	$ 25
Foreign exchange	28	19
Financial derivatives and other	1	16
Total customer-related trading revenue	$ 50	$ 60

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

Customer-related trading revenue for the first quarter of 2014 decreased $10 million compared with the first quarter of 2013. The decrease was mainly due to the impact of changes in market interest rates on credit valuations related to customer-related derivatives.

Market Risk Management   Equity And Other Investment Risk

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

The primary risk measurement for equity and other investments is economic capital. Economic capital is a common measure of risk for credit, market and operational risk. It is an estimate of the potential value depreciation over a one year horizon commensurate with solvency expectations of an institution rated single-A by the credit rating agencies. Given the illiquid nature of many of these types of investments, it can be a challenge to determine their fair values. See Note 8 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report and Note 9 Fair Value in Item 8 of our 2013 Form 10-K for additional information.

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

A summary of our equity investments follows:

Table 51: Equity Investments Summary

In millions	March 31 2014	December 31 2013
BlackRock	$ 5,942	$ 5,940
Tax credit investments (a)	2,271	2,572
Private equity	1,748	1,656
Visa	135	158
Other	241	234
Total	$ 10,337	$ 10,560

(a) The December 31, 2013 amount has been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.

BlackRock

PNC owned approximately 36 million common stock equivalent shares of BlackRock equity at March 31, 2014, accounted for under the equity method. The primary risk measurement, similar to other equity investments, is economic capital. The Business Segments Review section of this Financial Review includes additional information about BlackRock.

TAX CREDIT INVESTMENTS

Included in our equity investments are direct tax credit investments and equity investments held by consolidated partnerships which totaled $2.3 billion at March 31, 2014 and $2.6 billion at December 31, 2013. These equity investment balances include unfunded commitments totaling $698 million and $802 million at March 31, 2014 and December 31, 2013, 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 Part I, Item 1 of this Report has further information on Tax Credit Investments.

PRIVATE EQUITY

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

Private equity investments carried at estimated fair value totaled $1.7 billion at both March 31, 2014 and December 31, 2013. As of March 31, 2014, $1.1 billion was invested directly in a variety of companies and $.6 billion was invested indirectly through various private equity funds. Included in direct investments are investment activities of two private equity funds that are consolidated for financial reporting purposes. The noncontrolling interests of these funds totaled $229 million as of March 31, 2014. The interests held in indirect private equity funds are not redeemable, but PNC may receive distributions over the life of the partnership from liquidation of the underlying investments. See the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors included in our 2013 Form 10-K for discussion of potential impacts of the Volcker Rule provisions of Dodd-Frank on our holding interests in and sponsorship of private equity or hedge funds.

Our unfunded commitments related to private equity totaled $153 million at March 31, 2014 compared with $164 million at December 31, 2013.

VISA

During the first three months of 2014, we sold 1 million of Visa Class B common shares, in addition to the 13 million shares sold in the previous two years. We have entered into swap agreements with the purchaser of the shares as part of these sales. See Note 8 Fair Value in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information. At March 31, 2014, our investment in Visa Class B common shares totaled approximately 9 million shares and was valued at $135 million. Based on the March 31, 2014 closing price of $215.86 for the Visa Class A common shares, the fair value of our total investment was approximately $850 million at the current conversion rate, which reflects adjustments in respect of all litigation funding by Visa to date. The Visa Class B common

shares that we own are transferable only under limited circumstances (including those applicable to the sales in the first quarter of 2014 and in the previous two years) until they can be converted into shares of the publicly traded class of stock, which cannot happen until the settlement of all of the specified litigation.

Our 2013 Form 10-K has additional information regarding the October 2007 Visa restructuring, our involvement with judgment and loss sharing agreements with Visa and certain other banks, and the status of pending interchange litigation. See also Note 17 Commitments and Guarantees in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report for additional information.

OTHER INVESTMENTS

We also make investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. The economic values could be driven by either the fixed-income market or the equity markets, or both. At March 31, 2014, other investments totaled $241 million compared with $234 million at December 31, 2013. We recognized net gains related to these investments of $8 million and $20 million during the first three months of 2014 and 2013, respectively.

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

Our unfunded commitments related to other investments were immaterial at both March 31, 2014 and December 31, 2013.

FINANCIAL DERIVATIVES

We use a variety of financial derivatives as part of the overall asset and liability risk management process to help manage exposure to interest rate, market and credit risk inherent in our business activities. Substantially all such instruments are used to manage risk related to changes in

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

Financial derivatives involve, to varying degrees, interest rate, market and credit risk. For interest rate swaps and total return swaps, options and futures contracts, only periodic cash payments and, with respect to options, premiums are exchanged. Therefore, cash requirements and exposure to credit risk are significantly less than the notional amount on these instruments.

Further information on our financial derivatives is presented in Note 1 Accounting Policies and Note 9 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K and in Note 8 Fair Value and Note 12

Financial Derivatives in the Notes To Consolidated Financial Statements in Part I, Item 1 of this Report, which is incorporated here by reference.

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

The following table summarizes the notional or contractual amounts and net fair value of financial derivatives at March 31, 2014 and December 31, 2013.

Table 52: Financial Derivatives Summary

	March 31, 2014		December 31, 2013	
In millions	Notional/ Contractual Amount	Net Fair Value (a)	Notional/ Contractual Amount	Net Fair Value (a)
Derivatives designated as hedging instruments under GAAP				
Total derivatives designated as hedging instruments	$ 37,458	$ 821	$ 36,197	$ 825
Derivatives not designated as hedging instruments under GAAP				
Total derivatives used for residential mortgage banking activities	$ 114,805	$ 319	$ 119,679	$ 330
Total derivatives used for commercial mortgage banking activities	49,880	(5)	53,149	(12)
Total derivatives used for customer-related activities	172,878	137	169,534	138
Total derivatives used for other risk management activities	2,910	(430)	2,697	(422)
Total derivatives not designated as hedging instruments	$ 340,473	$ 21	$ 345,059	$ 34
Total Derivatives	$ 377,931	$ 842	$ 381,256	$ 859

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

Internal Controls And Disclosure Controls And Procedures

As of March 31, 2014, we performed an evaluation under the supervision and with the participation of our management, including the 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 Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, as amended) were effective as of March 31, 2014, and that there has been no change in PNC s internal control over financial reporting that occurred during the first quarter of 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Glossary Of Terms

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

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

Annualized   Adjusted to reflect a full year of activity.

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

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

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

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

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

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

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

Basis point   One hundredth of a percentage point.

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

Cash recoveries   Cash recoveries used in the context of purchased impaired loans represent cash payments from customers that exceeded the recorded investment of the designated impaired loan.

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

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

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

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

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

Credit spread   The difference in yield between debt issues of similar maturity. The excess of yield attributable to credit spread is often used as a measure of relative creditworthiness, with a reduction in the credit spread reflecting an improvement in the borrower s perceived creditworthiness.

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

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

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

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

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

Efficiency   Noninterest expense divided by total revenue.

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

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

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

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

Funds transfer pricing   A management accounting methodology designed to recognize the net interest income effects of sources and uses of funds provided by the assets and liabilities of a business segment. We assign these balances LIBOR-based funding rates at origination that represent the interest cost for us to raise/invest funds with similar maturity and repricing structures.

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

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

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

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

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

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

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

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

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

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

Loss given default (LGD) An estimate of loss, net of recovery based on collateral type, collateral value, loan exposure, or the guarantor(s) quality and guaranty type (full or partial). Each

loan has its own LGD. The LGD risk rating measures the percentage of exposure of a specific credit obligation that we expect to lose if default occurs. LGD is net of recovery, through either liquidation of collateral or deficiency judgments rendered from foreclosure or bankruptcy proceedings.

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

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

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

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

Nonperforming assets Nonperforming assets include nonperforming loans and OREO and foreclosed assets, but exclude certain government insured or guaranteed loans for which we expect to collect substantially all principal and interest, loans held for sale, loans accounted for under the fair value option and purchased impaired loans. We do not accrue interest income on assets classified as nonperforming.

Nonperforming loans Loans accounted for at amortized cost for which we do not accrue interest income. Nonperforming loans include loans to commercial, commercial real estate, equipment lease financing, home equity, residential real estate, credit card and other consumer customers as well as TDRs which have not returned to performing status. Nonperforming loans exclude certain government insured or guaranteed loans for

which we expect to collect substantially all principal and interest, loans held for sale, loans accounted for under the fair value option and purchased impaired loans. Nonperforming loans exclude purchased impaired loans as we are currently accreting interest income over the expected life of the loans.

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

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

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

Other real estate owned (OREO) and foreclosed assets Assets taken in settlement of troubled loans primarily through deed-in-lieu of foreclosure or foreclosure. Foreclosed assets include real and personal property, equity interests in corporations, partnerships, and limited liability companies.

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

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

Pretax earnings Income before income taxes and noncontrolling interests.

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

Primary client relationship A corporate banking client relationship with annual revenue generation of $10,000 to $50,000 or more, and for Asset Management Group, a client relationship with annual revenue generation of $10,000 or more.

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

Purchase accounting accretion Accretion of the discounts and premiums on acquired assets and liabilities. The purchase accounting accretion is recognized in net interest income over the weighted-average life of the financial instruments using

the constant effective yield method. Accretion for purchased impaired loans includes any cash recoveries received in excess of the recorded investment.

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

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

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

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

Residential mortgage servicing rights valuation, net of economic hedge We have elected to measure acquired or originated residential mortgage servicing rights (MSRs) at fair value under GAAP. We employ a risk management strategy designed to protect the economic value of MSRs from changes in interest rates. This strategy utilizes securities and a portfolio of derivative instruments to hedge changes in the fair value of MSRs arising from changes in interest rates. These financial instruments are expected to have changes in fair value which are negatively correlated to the change in fair value of the MSR portfolio. Net MSR hedge gains/(losses) represent the change in the fair value of MSRs, exclusive of changes due to time decay and payoffs, combined with the change in the fair value of the associated securities and derivative instruments.

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

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

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

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

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

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

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

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

Securitization The process of legally transforming financial assets into securities.

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

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

Taxable-equivalent interest The interest income earned on certain assets is completely or partially exempt from Federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of yields and margins for all interest-earning assets, we use interest income on a taxable-equivalent basis in calculating average yields and net interest margins by increasing the interest income earned on tax-exempt assets to

make it fully equivalent to interest income earned on other taxable investments. This adjustment is not permitted under GAAP on the Consolidated Income Statement.

Total equity Total shareholders equity plus noncontrolling interests.

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

Transaction deposits The sum of interest-bearing money market deposits, interest-bearing demand deposits, and noninterest-bearing deposits.

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

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

- Our businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:
  - Changes in interest rates and valuations in debt, equity and other financial markets.
  - Disruptions in the liquidity and other functioning of U.S. and global financial markets.
  - The impact on financial markets and the economy of any changes in the credit ratings of U.S. Treasury obligations and other U.S. government-backed debt, as well as issues surrounding the levels of U.S. and European government debt and concerns regarding the creditworthiness of certain sovereign governments, supranationals and financial institutions in Europe.
  - Actions by the Federal Reserve, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.
  - Changes in customers , suppliers and other counterparties performance and creditworthiness.
  - Slowing or reversal of the current U.S. economic expansion.
  - Continued residual effects of recessionary conditions and uneven spread of positive impacts of recovery on the economy and our counterparties, including adverse impacts on levels of unemployment, loan utilization rates, delinquencies, defaults and counterparty ability to meet credit and other obligations.
  - Changes in customer preferences and behavior, whether due to changing business and economic conditions, legislative and regulatory initiatives, or other factors.
- Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than we are currently expecting. These statements are based on our current view that the U.S. economic expansion will speed up to an above trend growth rate near 2.8 percent in 2014 as drags from Federal fiscal restraint subside and that short-term interest rates will remain very low and bond yields will rise only slowly in 2014. These forward-looking statements also do not, unless otherwise indicated, take into account the impact of potential legal and regulatory contingencies.
- PNC s ability to take certain capital actions, including paying dividends and any plans to increase common stock dividends, repurchase common stock under current or future programs, or issue or redeem preferred stock or other regulatory capital instruments, is subject to the review of such proposed actions by the Federal Reserve as part of PNC s comprehensive capital plan for the applicable period in connection with the regulators Comprehensive Capital Analysis and Review (CCAR) process and to the acceptance of such capital plan and non-objection to such capital actions by the Federal Reserve.
- PNC s regulatory capital ratios in the future will depend on, among other things, the company s financial performance, the scope and terms of final capital regulations then in effect (particularly those implementing the Basel Capital Accords), and management actions affecting the composition of PNC s balance sheet. In addition, PNC s ability to determine, evaluate and forecast regulatory capital ratios, and to take actions (such as capital distributions) based on actual or forecasted capital ratios, will be dependent on the ongoing development, validation and regulatory approval of related models.
- Legal and regulatory developments could have an impact on our ability to operate our businesses, financial condition, results of operations, competitive position, reputation, or pursuit of attractive acquisition opportunities. Reputational impacts could affect matters such as business generation and retention, liquidity, funding, and ability to attract and retain management. These developments could include:
  - Changes resulting from legislative and regulatory reforms, including major reform of the regulatory oversight structure of the financial services industry and changes to laws and regulations involving tax, pension, bankruptcy,

consumer protection, and other industry aspects, and changes in accounting policies and principles. We will be impacted by extensive reforms provided for in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and otherwise growing out of the most recent financial crisis, the precise nature, extent and timing of which, and their impact on us, remains uncertain.

Changes to regulations governing bank capital and liquidity standards, including due to the Dodd-Frank Act and to Basel-related initiatives.

Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. In addition to matters relating to PNC s business and activities, such matters may include proceedings, claims, investigations, or inquiries relating to pre-acquisition business and activities of acquired companies, such as National City. These matters may result in monetary judgments or settlements or other remedies, including fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to PNC.

Results of the regulatory examination and supervision process, including our failure to satisfy requirements of agreements with governmental agencies.

Impact on business and operating results of any costs associated with obtaining rights in intellectual property claimed by others and of adequacy of our intellectual property protection in general.

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

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

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

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

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

We provide greater detail regarding these as well as other factors in our 2013 Form 10-K and elsewhere in this Report, including in the Risk Factors and Risk Management sections and the Legal Proceedings and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements in those reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.

CONSOLIDATED INCOME STATEMENT

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions, except per share data Unaudited	Three months ended March 31 2014	2013
Interest Income		
Loans	$ 1,899	$ 2,029
Investment securities	427	470
Other	84	112
Total interest income	2,410	2,611
Interest Expense		
Deposits	78	93
Borrowed funds	137	129
Total interest expense	215	222
Net interest income	2,195	2,389
Noninterest Income		
Asset management	364	308
Consumer services	290	296
Corporate services	301	277
Residential mortgage	161	234
Service charges on deposits	147	136
Net gains on sales of securities	10	14
Other-than-temporary impairments	(2)	(1)
Less: Noncredit portion of other-than-temporary impairments (a)		9
Net other-than-temporary impairments	(2)	(10)
Other	311	311
Total noninterest income	1,582	1,566
Total revenue	3,777	3,955
Provision For Credit Losses	94	236
Noninterest Expense		
Personnel	1,080	1,169
Occupancy	218	211
Equipment	201	183
Marketing	52	45
Other (b)	713	760
Total noninterest expense	2,264	2,368
Income before income taxes and noncontrolling interests	1,419	1,351
Income taxes (b)	359	356
Net income	1,060	995
Less: Net income (loss) attributable to noncontrolling interests (b)	(2)	(8)
Preferred stock dividends and discount accretion and redemptions	70	75
Net income attributable to common shareholders	$ 992	$ 928
Earnings Per Common Share		
Basic	$ 1.86	$ 1.76
Diluted	1.82	1.74
Average Common Shares Outstanding		
Basic	532	526
Diluted	539	528

(a) Included in accumulated other comprehensive income (loss). The amount for the first quarter of 2014 was less than $.5 million.

(b) Prior period amounts have been updated to reflect the first quarter 2014 adoption of Accounting Standards Update (ASU) 2014-01 related to investments in low income housing tax credits.

See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

THE PNC FINANCIAL SERVICES GROUP, INC.

In millions	Three months ended March 31	
Unaudited	2014	2013
Net income (a)	$ 1,060	$ 995
Other comprehensive income (loss), before tax and net of reclassifications into Net income:		
Net unrealized gains (losses) on non-OTTI securities	189	(170)
Net unrealized gains (losses) on OTTI securities	66	141
Net unrealized gains (losses) on cash flow hedge derivatives	(5)	(107)
Pension and other postretirement benefit plan adjustments	82	46
Other	11	(6)
Other comprehensive income (loss), before tax and net of reclassifications into Net income	343	(96)
Income tax benefit (expense) related to items of other comprehensive income	(123)	29
Other comprehensive income (loss), after tax and net of reclassifications into Net income	220	(67)
Comprehensive income	1,280	928
Less: Comprehensive income (loss) attributable to noncontrolling interests (a)	(2)	(8)
Comprehensive income attributable to PNC	$ 1,282	$ 936

(a) Prior period amounts have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.
See accompanying Notes To Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

THE PNC FINANCIAL SERVICES GROUP, INC.

Unaudited

In millions, except par value	March 31 2014	December 31 2013
Assets		
Cash and due from banks (includes $5 and $5 for VIEs) (a)	$ 4,723	$ 4,043
Federal funds sold and resale agreements (includes $186 and $207 measured at fair value) (b)	1,143	1,986
Trading securities	2,381	3,073
Interest-earning deposits with banks (includes $6 and $7 for VIEs) (a)	14,877	12,135
Loans held for sale (includes $1,634 and $1,901 measured at fair value) (b)	2,102	2,255
Investment securities	58,644	60,294
Loans (includes $1,632 and $1,736 for VIEs) (a) (includes $1,050 and $1,025 measured at fair value) (b)	198,242	195,613
Allowance for loan and lease losses (includes $(55) and $(58) for VIEs) (a)	(3,530)	(3,609)
Net loans	194,712	192,004
Goodwill	9,074	9,074
Other intangible assets	2,115	2,216
Equity investments (includes $375 and $582 for VIEs) (a) (c)	10,337	10,560
Other (includes $537 and $591 for VIEs) (a) (includes $337 and $338 measured at fair value) (b)	23,315	22,552
Total assets	$ 323,423	$ 320,192
Liabilities		
Deposits		
Noninterest-bearing	$ 70,063	$ 70,306
Interest-bearing	152,319	150,625
Total deposits	222,382	220,931
Borrowed funds		
Federal funds purchased and repurchase agreements	3,233	4,289
Federal Home Loan Bank borrowings	13,911	12,912
Bank notes and senior debt	13,861	12,603
Subordinated debt	8,289	8,244
Commercial paper	4,923	4,997
Other (includes $402 and $414 for VIEs) (a) (includes $181 and $184 measured at fair value) (b)	2,589	3,060
Total borrowed funds	46,806	46,105
Allowance for unfunded loan commitments and letters of credit	228	242
Accrued expenses (includes $75 and $83 for VIEs) (a) (c)	4,808	4,690
Other (includes $157 and $252 for VIEs) (a)	4,281	4,187
Total liabilities	278,505	276,155
Equity		
Preferred stock (d)		
Common stock ($5 par value, authorized 800 shares, issued 540 shares)	2,700	2,698
Capital surplus preferred stock	3,943	3,941
Capital surplus common stock and other	12,394	12,416
Retained earnings (c)	24,010	23,251
Accumulated other comprehensive income	656	436
Common stock held in treasury at cost: 6 and 7 shares	(382)	(408)
Total shareholders equity	43,321	42,334
Noncontrolling interests (c)	1,597	1,703
Total equity	44,918	44,037
Total liabilities and equity	$ 323,423	$ 320,192

(a) Amounts represent the assets or liabilities of consolidated variable interest entities (VIEs).
(b) Amounts represent items for which we have elected the fair value option.
(c) Prior period amounts have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.
(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	Three months ended March 31	
In millions	2014	2013
Operating Activities		
Net income (a)	$ 1,060	$ 995
Adjustments to reconcile net income to net cash provided (used) by operating activities		
Provision for credit losses	94	236
Depreciation and amortization	236	283
Deferred income taxes (a)	17	259
Net gains on sales of securities	(10)	(14)
Net other-than-temporary impairments	2	10
Mortgage servicing rights valuation adjustment	125	(41)
Gain on sale of Visa Class B common shares	(62)	
Undistributed earnings of BlackRock	(101)	(73)
Excess tax benefits from share-based payment arrangements	(16)	(4)
Net change in		
Trading securities and other short-term investments	616	112
Loans held for sale	(12)	69
Other assets	(356)	66
Accrued expenses and other liabilities (a)	356	(845)
Other (a)	(29)	(41)
Net cash provided (used) by operating activities	1,920	1,012
Investing Activities		
Sales		
Securities available for sale	1,347	1,240
Loans	697	351
Repayments/maturities		
Securities available for sale	1,654	2,610
Securities held to maturity	520	708
Purchases		
Securities available for sale	(1,690)	(2,770)
Securities held to maturity		(186)
Loans	(216)	(361)
Net change in		
Federal funds sold and resale agreements	842	187
Interest-earning deposits with banks	(2,741)	2,443
Loans	(3,318)	(975)
Other (b)	(80)	133
Net cash provided (used) by investing activities	(2,985)	3,380

(continued on following page)

CONSOLIDATED STATEMENT OF CASH FLOWS

THE PNC FINANCIAL SERVICES GROUP, INC.

(continued from previous page)

In millions	Three months ended March 31	
Unaudited	2014	2013
Financing Activities		
Net change in		
Noninterest-bearing deposits	$ (254)	$ (5,307)
Interest-bearing deposits	1,694	3,806
Federal funds purchased and repurchase agreements	(1,055)	674
Commercial paper	(19)	(1,090)
Other borrowed funds	(626)	(242)
Sales/issuances		
Federal Home Loan Bank borrowings	4,000	
Bank notes and senior debt	1,743	998
Subordinated debt		744
Commercial paper	3,152	2,372
Other borrowed funds	335	275
Common and treasury stock	126	29
Repayments/maturities		
Federal Home Loan Bank borrowings	(3,001)	(3,954)
Bank notes and senior debt	(495)	(444)
Subordinated debt	16	17
Commercial paper	(3,207)	(2,782)
Other borrowed funds	(336)	(90)
Excess tax benefits from share-based payment arrangements	16	4
Redemption of noncontrolling interests		(375)
Acquisition of treasury stock	(41)	(22)
Preferred stock cash dividends paid	(68)	(67)
Common stock cash dividends paid	(235)	(210)
Net cash provided (used) by financing activities	1,745	(5,664)
Net Increase (Decrease) In Cash And Due From Banks	680	(1,272)
Cash and due from banks at beginning of period	4,043	5,220
Cash and due from banks at end of period	$ 4,723	$ 3,948
Supplemental Disclosures		
Interest paid	$ 205	$ 233
Income taxes paid	20	32
Income taxes refunded	1	
Non-cash Investing and Financing Items		
Transfer from (to) loans to (from) loans held for sale, net	70	(17)
Transfer from loans to foreclosed assets	161	201

(a) Prior period amounts have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.
(b) Includes the impact of the consolidation of a variable interest entity as of March 31, 2013.
See accompanying Notes To Consolidated Financial Statements.

Notes To Consolidated Financial Statements (Unaudited)

The PNC Financial Services Group, Inc.

Business

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

PNC has businesses engaged in retail banking, corporate and institutional banking, asset management, and residential mortgage banking, providing many of its products and services nationally, as well as other products and services in PNC s primary geographic markets located in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, North Carolina, Florida, Kentucky, Washington, D.C., Delaware, Alabama, Virginia, Missouri, Georgia, Wisconsin and South Carolina. PNC also provides 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, and 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 2014 presentation, which did not have a material impact on our consolidated financial condition or results of operations. We also evaluate the materiality of identified errors in the financial statements using both an income statement and a balance sheet approach, based on relevant quantitative and qualitative factors. The financial statements include certain adjustments to correct immaterial errors related to previously reported periods. Prior period financial statements also reflect the retrospective application of Accounting Standards Update (ASU) 2014-01, Investments Equity Method and Joint Ventures (Topic 323): *Accounting for Investments in Qualified Affordable Housing Projects.*

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.

When preparing these unaudited interim consolidated financial statements, we have assumed that you have read the audited consolidated financial statements included in our 2013 Annual Report on Form 10-K. Reference is made to Note 1 Accounting Policies in the 2013 Form 10-K for a detailed

description of significant accounting policies. Included herein are policies that are required to be disclosed on an interim basis as well as policies where there has been a significant change within the first three months of 2014. These interim consolidated financial statements serve to update the 2013 Form 10-K and may not include all information and notes necessary to constitute a complete set of financial statements.

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

Use Of Estimates

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

Investment In BlackRock, Inc.

We account for our investment in the common stock and Series B Preferred Stock of BlackRock (deemed to be in-substance common stock) under the equity method of accounting. The investment in BlackRock is reflected on our Consolidated Balance Sheet in Equity investments, while our equity in earnings of BlackRock is reported on our Consolidated Income Statement in Asset management revenue.

We also hold shares of Series C Preferred Stock of BlackRock pursuant to our obligation to partially fund a portion of certain BlackRock long-term incentive plan (LTIP) programs. Since these preferred shares are not deemed to be in-substance common stock, we have elected to account for these preferred shares at fair value and the changes in fair value will offset the impact of marking-to-market the obligation to deliver these shares to BlackRock. Our investment in the BlackRock Series C Preferred Stock is included on our Consolidated Balance Sheet in Other assets. Our obligation to transfer these shares to BlackRock is classified as a derivative not designated as a hedging instrument under GAAP as disclosed in Note 12 Financial Derivatives.

NONPERFORMING ASSETS

Nonperforming assets consists of nonperforming loans and leases, other real estate owned (OREO) and foreclosed assets. Nonperforming loans and leases include nonperforming troubled debt restructurings (TDRs).

Commercial Loans

We generally classify Commercial Lending (Commercial, Commercial Real Estate, and Equipment Lease Financing)

loans as nonperforming and place them on nonaccrual status when we determine that the collection of interest or principal is not probable, including when delinquency of interest or principal payments has existed for 90 days or more and the loans are not well-secured and/or in the process of collection. A loan is considered well-secured when the collateral in the form of liens on (or pledges of) real or personal property, including marketable securities, has a realizable value sufficient to discharge the debt in full, including accrued interest. Such factors that would lead to nonperforming status would include, but are not limited to, the following:

- Deterioration in the financial position of the borrower resulting in the loan moving from accrual to cash basis accounting;
- The collection of principal or interest is 90 days or more past due unless the asset is both well-secured and/or in the process of collection;
- Reasonable doubt exists as to the certainty of the borrower s future debt service ability, whether 90 days have passed or not;
- The borrower has filed or will likely file for bankruptcy;
- The bank advances additional funds to cover principal or interest;
- We are in the process of liquidating a commercial borrower; or
- We are pursuing remedies under a guarantee.

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

Additionally, in general, for smaller dollar commercial loans of $1 million or less, a partial or full charge-off will occur at 120 days past due for term loans and 180 days past due for revolvers.

Certain small business credit card balances are placed on nonaccrual status when they become 90 days or more past due. Such loans are charged-off at 180 days past due.

Consumer Loans

Nonperforming loans are those loans accounted for at amortized cost that have deteriorated in credit quality to the extent that full collection of contractual principal and interest is not probable. These loans are also classified as nonaccrual. For these loans, the current year accrued and uncollected interest is reversed through Net interest income and prior year accrued and uncollected interest is charged-off. Additionally, these loans may be charged-off down to the fair value less costs to sell.

Loans acquired and accounted for under ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality are reported as performing and accruing loans due to the accretion of interest income.

Loans accounted for under the fair value option and loans accounted for as held for sale are reported as performing loans as these loans are accounted for at fair value and the lower of carrying value or the fair value less costs to sell, respectively. However, based upon the nonaccrual policies discussed below, interest income is not accrued. Additionally, based upon the nonaccrual policies discussed below, certain government insured loans for which we do not expect to collect substantially all principal and interest are reported as nonperforming and do not accrue interest. Alternatively, certain government insured loans for which we expect to collect substantially all principal and interest are not reported as nonperforming loans and continue to accrue interest.

Loans where a borrower has been discharged from personal liability in bankruptcy and has not formally reaffirmed its loan obligation to PNC are classified as nonperforming TDRs. These loans are charged off to collateral value less costs to sell, and any associated allowance at the time of charge-off is reduced to zero. The charge-off activity results in a reduction in the allowance, an increase in provision for credit losses, if the related loan charge-off exceeds the associated allowance, as well as a difference in the pre-TDR recorded investment to the post-TDR recorded investment reflected in Table 67. Collateral values are updated at least semi-annually. Subsequent declines in collateral values are charged-off and incremental provision for credit loss is incurred. These nonperforming TDRs are not eligible to be returned to performing status.

A consumer loan is considered well-secured when the collateral in the form of liens on (or pledges of) real or personal property, including marketable securities, has a realizable value sufficient to discharge the debt in full, including accrued interest. Home equity installment loans and lines of credit, whether well-secured or not, are classified as nonaccrual at 90 days past due. Well-secured residential real estate loans are classified as nonaccrual at 180 days past due. In addition to these delinquency-related policies, a consumer loan may also be placed on nonaccrual status when:

- The loan has been modified and classified as a TDR, as further discussed below;
- Notification of bankruptcy has been received and the loan is 30 days or more past due;
- The bank holds a subordinate lien position in the loan and the first lien loan is seriously stressed (*i.e.*, 90 days or more past due);

Other loans within the same borrower relationship have been placed on nonaccrual or charge-off has been taken on them;
The bank has repossessed non-real estate collateral securing the loan; or
The bank has charged-off the loan to the value of the collateral.

Most consumer loans and lines of credit, not secured by residential real estate, are charged off after 120 to 180 days past due. Generally, they are not placed on nonaccrual status as permitted by regulatory guidance.

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

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

Accounting for Nonperforming Assets

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

Nonaccrual loans are generally not returned to accrual status until the borrower has performed in accordance with the contractual terms for a reasonable period of time (*e.g.*, 6 months). When a nonperforming loan is returned to accrual status, it is then considered a performing loan.

A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs may include restructuring certain terms of loans, receipts of assets from debtors in partial satisfaction of loans, or a combination thereof. For TDRs, payments are applied based upon their contractual terms unless the related loan is deemed non-performing. TDRs are generally included in nonperforming loans until returned to performing status through the fulfilling of restructured terms for a reasonable period of time (generally 6 months). TDRs

resulting from borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC are not returned to accrual status.

See Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional TDR information.

Foreclosed assets are comprised of any asset seized or property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure. Other real estate owned is comprised principally of commercial real estate and residential real estate properties obtained in partial or total satisfaction of loan obligations. After obtaining a foreclosure judgment, or in some jurisdictions the initiation of proceedings under a power of sale in the loan instruments, the property will be sold. When we are awarded title, we transfer the loan to foreclosed assets included in Other assets on our Consolidated Balance Sheet. Property obtained in satisfaction of a loan is initially recorded at estimated fair value less cost to sell. Based upon the estimated fair value less cost to sell, the recorded investment of the loan is adjusted and, typically, a charge-off/recovery is recognized to the ALLL. We estimate fair values primarily based on appraisals, or sales agreements with third parties. Fair value also considers the proceeds expected from government insurance and guarantees upon the conveyance of the other real estate owned (OREO).

Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or estimated fair value less cost to sell. Valuation adjustments on these assets and gains or losses realized from disposition of such property are reflected in Other noninterest expense.

See Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

Allowance for Loan and Lease Losses

We maintain the ALLL at a level that we believe to be appropriate to absorb estimated probable credit losses incurred in the loan and lease portfolios as of the balance sheet date. Our determination of the allowance is based on periodic evaluations of these loan and lease portfolios and other relevant factors. This critical estimate includes the use of significant amounts of PNC s own historical data and complex methods to interpret them. We have an ongoing process to evaluate and enhance the quality, quantity and timeliness of our data and interpretation methods

used in the determination of this allowance. These evaluations are inherently subjective, as they require material estimates and may be susceptible to significant change, and include, among others:

- Probability of default (PD),
- Loss given default (LGD),
- Outstanding balance of the loan,
- Movement through delinquency stages,

- Amounts and timing of expected future cash flows,
- Value of collateral, which may be obtained from third parties, and
- Qualitative factors, such as changes in current economic conditions, that may not be reflected in modeled results.

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

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

In determining the appropriateness of the ALLL, we make specific allocations to impaired loans and allocations to portfolios of commercial and consumer loans.

Nonperforming loans that are considered impaired under ASC 310 Receivables are evaluated for a specific reserve. Specific reserve allocations are determined as follows:

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

When applicable, this process is applied across all the loan classes in a similar manner. However, as previously discussed, certain consumer loans and lines of credit, not secured by residential real estate, are charged off.

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

See Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

Allowance for Unfunded Loan Commitments and Letters of Credit

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

See Note 4 Asset Quality and Note 6 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit for additional information.

Residential and Commercial Mortgage Servicing Rights

We elect to measure our residential mortgage servicing rights (MSRs) at fair value. This election was made to be consistent with our risk management strategy to hedge changes in the fair value of these assets as described below. The fair value of residential MSRs is estimated by using a discounted cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors which are determined based on current market conditions.

Commercial MSRs are purchased or originated when loans are sold with servicing retained. As of January 1, 2014, PNC made an irrevocable election to prospectively measure all classes of commercial MSRs at fair value in order to eliminate any potential measurement mismatch between our economic hedges and the commercial MSRs. The impact of the election was not material. We recognize gain/(loss) on changes in the fair value of commercial MSRs as a result of that election. Prior to 2014, commercial MSRs were initially recorded at fair value and subsequently accounted for at the lower of amortized cost or fair value. These commercial MSRs were periodically evaluated for impairment. For purposes of impairment, the commercial MSRs were stratified based on asset type, which characterized the predominant risk of the underlying financial asset.

The fair value of commercial MSRs is estimated by using a discounted cash flow model incorporating inputs for assumptions as to constant prepayment rates, discount rates and other factors determined based on current market conditions and expectations.

Earnings Per Common Share

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

Diluted earnings per common share is calculated under the more dilutive of either the treasury method or the two-class method. For the diluted calculation, we increase the weighted-average number of shares of common stock outstanding by the assumed conversion of outstanding convertible preferred stock from the beginning of the year or date of issuance, if later, and the number of shares of common stock that would be issued assuming the exercise of stock options and warrants and the issuance of incentive shares using the treasury stock method. These adjustments to the weighted-average number of shares of common stock outstanding are made only when such adjustments will dilute earnings per common share. See Note 13 Earnings Per Share for additional information.

Recent Accounting Standards

In January 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-01, Investments Equity Method and Joint Ventures (Topic 323): *Accounting for Investments in Qualified Affordable Housing Projects.* This ASU provides guidance on accounting for investments in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low income housing tax credit. If certain criteria are satisfied, investment amortization, net of tax credits, may be recognized in the income statement as a component of income taxes attributable to continuing

operations under either the proportional amortization method or the practical expedient method to the proportional amortization method. This ASU is effective for annual periods, beginning after December 15, 2014. Retrospective application is required and early adoption is permitted. We early adopted this guidance in the first quarter of 2014 for interim and annual reporting periods because we believe the presentation more accurately reflects the economics of tax credit investments. We elected to amortize our qualifying investments in low income housing tax credits under the practical expedient method to the proportional amortization method while continuing to account for our other tax credit investments under the equity method.

For prior periods, pursuant to ASU 2014-01, (i) amortization expense related to our qualifying investments in low income housing tax credits was reclassified from Other noninterest expense to Income taxes, and (ii) additional amortization, net of the associated tax benefits was recognized in Income taxes as a result of our adoption of the practical expedient to the proportional amortization method. The cumulative effect to retained earnings as of January 1, 2014 of adopting this guidance was a reduction of $74 million, inclusive of a $55 million reduction to retained earnings as of January 1, 2013.

During the first quarter of 2014, we recognized $44 million of amortization, $50 million of tax credits, and $16 million of other tax benefits associated with these investments within Income taxes. At March 31, 2014, the amount of investments in low income housing tax credits that were accounted for under ASU 2014-01 was $1.8 billion. These investments are reflected in Equity investments on our Consolidated Balance Sheet.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This ASU clarifies existing guidance to require that an unrecognized tax benefit or a portion thereof be presented in the statement of financial position as a reduction to a deferred tax asset for a net operating loss (NOL) carryforward, similar tax loss, or a tax credit carryforward except when an NOL carryforward, similar tax loss, or tax credit carryforward is not available under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position. In such a case, the unrecognized tax benefit would be presented in the statement of financial position as a liability. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We adopted ASU

2013-11 in the first quarter of 2014 using prospective application to all unrecognized tax benefits that existed at the effective date. Adoption of this ASU did not have a material effect on our results of operations or financial position.

In June 2013, the FASB issued ASU 2013-08, Financial Services Investment Companies (Topic 946): *Amendments to the Scope, Measurement and Disclosure Requirements*. This ASU modifies the guidance in ASC 946 for determining whether an entity is an investment company, as well as the measurement and disclosure requirements for investment companies. The ASU does not change current accounting where a noninvestment company parent retains the specialized accounting applied by an investment company subsidiary in consolidation. ASU 2013-08 is being applied prospectively for all periods beginning after December 15, 2013. We adopted ASU 2013-08 in the first quarter of 2014. Adoption of the ASU did not have a material effect on our results of operations or financial position. See Note 8 Fair Value for the new required disclosures.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830): *Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. This ASU clarifies the timing of release of Currency Translation Adjustments (CTA) from Accumulated Other Comprehensive Income upon deconsolidation or derecognition of a foreign entity, subsidiary or a group of assets within a foreign entity and in a step acquisition. ASU 2013-05 is being applied prospectively for all periods beginning after December 15, 2013. We adopted ASU 2013-05 in the first quarter of 2014. Adoption of the ASU did not have a material effect on our results of operations or financial position.

In February 2013, the FASB issued ASU 2013-04, Liabilities (Topic 405): *Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. This ASU requires entities to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, as the sum of the following: a) the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors and b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. Required disclosures include a description of the joint and several arrangements and the total outstanding amount of the obligation for all joint parties. ASU 2013-04 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and should be applied retrospectively to joint and several obligations existing at the beginning of 2014. We adopted ASU 2013-04 in the first quarter of 2014. Adoption of the ASU did not have a material effect on our results of operations or financial position.

NOTE 2 LOAN SALE AND SERVICING ACTIVITIES AND VARIABLE INTEREST ENTITIES

LOAN SALE AND SERVICING ACTIVITIES

We have transferred residential and commercial mortgage loans in securitization or sales transactions in which we have continuing involvement. These transfers have occurred through Agency securitization, Non-agency securitization, and loan sale transactions. Agency securitizations consist of securitization transactions with Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC) and Government National Mortgage Association (GNMA) (collectively the Agencies). FNMA and FHLMC generally securitize our transferred loans into mortgage-backed securities for sale into the secondary market through special purpose entities (SPEs) that they sponsor. We, as an authorized GNMA issuer/servicer, pool Federal Housing Administration (FHA) and Department of Veterans Affairs (VA) insured loans into mortgage-backed securities for sale into the secondary market. In Non-agency securitizations, we have transferred loans into securitization SPEs. In other instances, third-party investors have also purchased our loans in loan sale transactions and in certain instances have subsequently sold these loans into securitization SPEs. Securitization SPEs utilized in the Agency and Non-agency securitization transactions are variable interest entities (VIEs).

Our continuing involvement in the FNMA, FHLMC, and GNMA securitizations, Non-agency securitizations, and loan sale transactions generally consists of servicing, repurchases of previously transferred loans under certain conditions and loss share arrangements, and, in limited circumstances, holding of mortgage-backed securities issued by the securitization SPEs.

Depending on the transaction, we may act as the master, primary, and/or special servicer to the securitization SPEs or third-party investors. Servicing responsibilities typically consist of collecting and remitting monthly borrower principal and interest payments, maintaining escrow deposits, performing loss mitigation and foreclosure activities, and, in certain instances, funding of servicing advances. Servicing advances, which are reimbursable, are recognized in Other assets at cost and are made for principal and interest and collateral protection.

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, we recognize a servicing right at fair value. Servicing rights are recognized in Other intangible assets on our Consolidated Balance Sheet and when subsequently accounted for at fair value are classified within Level 3 of the fair value hierarchy. See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further discussion of our residential and commercial servicing rights.

Certain loans transferred to the Agencies contain removal of account provisions (ROAPs). Under these ROAPs, we hold an option to repurchase at par individual delinquent loans that meet certain criteria. In other limited cases, the U.S. Department of Housing and Urban Development (HUD) has granted us the right to repurchase current loans when we intend to modify the borrower s interest rate under established guidelines. When we have the unilateral ability to repurchase a loan, effective control over the loan has been regained and we recognize an asset (in either Loans or Loans held for sale) and a corresponding liability (in Other borrowed funds) on the balance sheet regardless of our intent to repurchase the loan. At March 31, 2014 and December 31, 2013, these assets and liabilities both totaled $156 million and $128 million, respectively.

The Agency and Non-agency mortgage-backed securities issued by the securitization SPEs that are purchased and held on our balance sheet are typically purchased in the secondary market. PNC does not retain any credit risk on its Agency mortgage-backed security positions as FNMA, FHLMC, and the U.S. Government (for GNMA) guarantee losses of principal and interest. Substantially all of the Non-agency mortgage-backed securities acquired and held on our balance sheet are senior tranches in the securitization structure.

We also have involvement with certain Agency and Non-agency commercial securitization SPEs where we have not transferred commercial mortgage loans. These SPEs were sponsored by independent third-parties and the loans held by these entities were purchased exclusively from other third-parties. Generally, our involvement with these SPEs is as servicer with servicing activities consistent with those described above.

We recognize a liability for our loss exposure associated with contractual obligations to repurchase previously transferred loans due to breaches of representations and warranties and also for loss sharing arrangements (recourse obligations) with the Agencies. Other than providing temporary liquidity under servicing advances and our loss exposure associated with our repurchase and recourse obligations, we have not provided nor are we required to provide any type of credit support, guarantees, or commitments to the securitization SPEs or third-party investors in these transactions. See Note 17 Commitments and Guarantees for further discussion of our repurchase and recourse obligations.

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

Table 53: Certain Financial Information and Cash Flows Associated with Loan Sale and Servicing Activities

In millions	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/Lines (b)
FINANCIAL INFORMATION March 31, 2014			
Servicing portfolio (c)	$ 113,573	$ 175,382	$ 4,830
Carrying value of servicing assets (d)	1,039	529	
Servicing advances (e)	541	379	7
Repurchase and recourse obligations (f)	103	33	19
Carrying value of mortgage-backed securities held (g)	3,991	1,312	
FINANCIAL INFORMATION December 31, 2013			
Servicing portfolio (c)	$ 113,994	$ 176,510	$ 4,902
Carrying value of servicing assets (d)	1,087	549	
Servicing advances (e)	571	412	11
Repurchase and recourse obligations (f)	131	33	22
Carrying value of mortgage-backed securities held (g)	4,144	1,475	

In millions	Residential Mortgages	Commercial Mortgages (a)	Home Equity Loans/Lines (b)
CASH FLOWS Three months ended March 31, 2014			
Sales of loans (h)	$ 2,095	$ 439	
Repurchases of previously transferred loans (i)	209		$ 6
Servicing fees (j)	87	41	5
Servicing advances recovered/(funded), net	30	32	3
Cash flows on mortgage-backed securities held (g)	232	144	
CASH FLOWS Three months ended March 31, 2013			
Sales of loans (h)	$ 3,804	$ 926	
Repurchases of previously transferred loans (i)	372		$ 2
Servicing fees (j)	90	46	6
Servicing advances recovered/(funded), net	(6)	(5)	
Cash flows on mortgage-backed securities held (g)	367	123	

(a) Represents financial and cash flow information associated with both commercial mortgage loan transfer and servicing activities.
(b) These activities were part of an acquired brokered home equity lending business in which PNC is no longer engaged. See Note 17 Commitments and Guarantees for further information.
(c) For our continuing involvement with residential mortgages, this amount represents the outstanding balance of loans we service, including loans transferred by us and loans originated by others where we have purchased the associated servicing rights. For home equity loan/line of credit transfers, this amount represents the outstanding balance of loans transferred and serviced. For commercial mortgages, this amount represents our overall servicing portfolio in which loans have been transferred by us or third parties to VIEs.
(d) See Note 8 Fair Value and Note 9 Goodwill and Other Intangible Assets for further information.
(e) Pursuant to certain contractual servicing agreements, represents outstanding balance of funds advanced (i) to investors for monthly collections of borrower principal and interest, (ii) for borrower draws on unused home equity lines of credit, and (iii) for collateral protection associated with the underlying mortgage collateral.
(f) Represents liability for our loss exposure associated with loan repurchases for breaches of representations and warranties for our Residential Mortgage Banking and Non-Strategic Assets Portfolio segments, and our commercial mortgage loss share arrangements for our Corporate & Institutional Banking segment. See Note 17 Commitments and Guarantees for further information.
(g) Represents securities held where PNC transferred to and/or services loans for a securitization SPE and we hold securities issued by that SPE.
(h) There were no gains or losses recognized on the transaction date for sales of residential mortgage loans as these loans are recognized on the balance sheet at fair value. For transfers of commercial mortgage loans not recognized on the balance sheet at fair value, gains/losses recognized on sales of these loans were insignificant for the periods presented.
(i) Includes government insured or guaranteed loans eligible for repurchase through the exercise of our ROAP option and loans repurchased due to breaches of origination covenants or representations and warranties made to purchasers.
(j) Includes contractually specified servicing fees, late charges and ancillary fees.

The table below presents information about the principal balances of transferred loans not recorded on our balance sheet, including residential mortgages, that we service. Additionally, the table below includes principal balances of commercial mortgage securitization and sales transactions where we service those assets. Serviced delinquent loans are 90 days or more past due.

Table 54: Principal Balance, Delinquent Loans (Loans 90 Days or More Past Due), and Net Charge-offs Related to Serviced Loans

In millions	Residential Mortgages	Commercial Mortgages	Home Equity Loans/Lines (a)
Serviced Loan Information March 31, 2014			
Total principal balance	$ 84,391	$ 62,951	$ 4,830
Delinquent loans	3,282	1,599	2,004
Serviced Loan Information December 31, 2013			
Total principal balance	$ 85,758	$ 62,872	$ 4,902
Delinquent loans	3,562	2,353	1,985

In millions	Residential Mortgages	Commercial Mortgages	Home Equity Loans/Lines (a)
Three months ended March 31, 2014			
Net charge-offs (b)	$ 41	$ 355	$ 17
Three months ended March 31, 2013			
Net charge-offs (b)	$ 70	$ 243	$ 44

(a) These activities were part of an acquired brokered home equity lending business in which PNC is no longer engaged. See Note 17 Commitments and Guarantees for further information.
(b) Net charge-offs for Residential mortgages and Home equity loans/lines represent credit losses less recoveries distributed and as reported to investors during the period. Net charge-offs for Commercial mortgages represents credit losses less recoveries distributed and as reported by the trustee for CMBS

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 our 2013 Form 10-K, we are involved with various entities in the normal course of business that are deemed to be VIEs. The following provides a summary of VIEs, including those that we have consolidated and those in which we hold variable interests but have not consolidated into our financial statements as of March 31, 2014 and December 31, 2013. We have not provided additional financial support to these entities which we are not contractually required to provide.

Table 55: Consolidated VIEs Carrying Value (a) (b)

March 31, 2014

In millions	Credit Card and Other Securitization Trusts	Tax Credit Investments	Total
Assets			
Cash and due from banks		$ 5	$ 5
Interest-earning deposits with banks		6	6
Loans	$ 1,632		1,632
Allowance for loan and lease losses	(55)		(55)
Equity investments		375	375
Other assets	9	528	537
Total assets	$ 1,586	$ 914	$ 2,500
Liabilities			
Other borrowed funds	$ 181	$ 221	$ 402
Accrued expenses		75	75
Other liabilities		157	157
Total liabilities	$ 181	$ 453	$ 634

December 31, 2013

In millions	Credit Card and Other Securitization Trusts	Tax Credit Investments	Total
Assets			
Cash and due from banks		$ 5	$ 5
Interest-earning deposits with banks		7	7
Loans	$ 1,736		1,736
Allowance for loan and lease losses	(58)		(58)
Equity investments		582	582
Other assets	25	566	591
Total assets	$ 1,703	$ 1,160	$ 2,863
Liabilities			
Other borrowed funds	$ 184	$ 230	$ 414
Accrued expenses		83	83
Other liabilities		252	252
Total liabilities	$ 184	$ 565	$ 749

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

(b) Difference between total assets and total liabilities represents the equity portion of the VIE or intercompany assets and liabilities which are eliminated in consolidation.

Table 56: Non-Consolidated VIEs

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss (a)	Carrying Value of Assets	Carrying Value of Liabilities
March 31, 2014					
Commercial Mortgage-Backed Securitizations (b)	$ 60,948	$ 60,948	$ 1,539	$ 1,539 (d)	
Residential Mortgage-Backed Securitizations (b)	37,342	37,342	4,009	4,009 (d)	$ 4 (f)
Tax Credit Investments and Other (c)	7,087	2,613	2,009	2,038 (e)	750 (g)

Total	$ 105,377	$ 100,903	$ 7,557	$ 7,586	$ 754

In millions	Aggregate Assets	Aggregate Liabilities	PNC Risk of Loss (a)	Carrying Value of Assets	Carrying Value of Liabilities
December 31, 2013					
Commercial Mortgage-Backed Securitizations (b)	$ 65,757	$ 65,757	$ 1,747	$ 1,747 (d)	
Residential Mortgage-Backed Securitizations (b)	37,962	37,962	4,171	4,171 (d)	$ 5 (f)
Tax Credit Investments and Other (c) (h)	7,086	2,622	2,030	2,055 (e)	826 (g)
Total	$ 110,805	$ 106,341	$ 7,948	$ 7,973	$ 831

(a) This represents loans, investments and other assets related to non-consolidated VIEs, net of collateral (if applicable). Our total exposure related to our involvement in loan sale and servicing activities is disclosed in Table 53. Additionally, we also invest in other mortgage and asset-backed securities issued by third-party VIEs with which we have no continuing involvement. Further information on these securities is included in Note 7 Investment Securities and values disclosed represent our maximum exposure to loss for those securities holdings.

(b) Amounts reflect involvement with securitization SPEs where PNC transferred to and/or services loans for an SPE and we hold securities issued by that SPE. Asset amounts equal outstanding liability amounts of the SPEs due to limited availability of SPE financial information.

(c) Aggregate assets and aggregate liabilities are based on limited availability of financial information associated with certain acquired partnerships and certain LLCs engaged in solar power generation to which PNC provides lease financing. The aggregate assets and aggregate liabilities of LLCs engaged in solar power generation may not be reflective of the size of these VIEs due to differences in classification of leases by these entities.

(d) Included in Trading securities, Investment securities, Other intangible assets and Other assets on our Consolidated Balance Sheet.

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

(f) Included in Other liabilities on our Consolidated Balance Sheet.

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

(h) PNC Risk of Loss and Carrying Value of Assets have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.

Credit Card Securitization Trust

We were the sponsor of several credit card securitizations facilitated through a trust. This bankruptcy-remote SPE was established to purchase credit card receivables from the sponsor and to issue and sell asset-backed securities created by it to independent third-parties. The SPE was financed primarily through the sale of these asset-backed securities. These transactions were originally structured to provide liquidity and to afford favorable capital treatment.

Our continuing involvement in these securitization transactions consisted primarily of holding certain retained interests and acting as the primary servicer. For each securitization series that was outstanding, our retained interests held were in the form of a pro-rata undivided interest in the transferred receivables, subordinated tranches of asset-backed securities, interest-only strips, discount receivables and subordinated interests in accrued interest and fees in securitized receivables. We consolidated the SPE as we were deemed the primary beneficiary of the entity based upon our level of continuing involvement. Our role as primary servicer gave us the power to direct the activities of the SPE that most significantly affect its economic performance and our holding of retained interests gave us the obligation to absorb expected losses, or the ability to receive residual returns that could be potentially significant to the SPE. The underlying assets of the consolidated SPE were restricted only for payment of the beneficial interests issued by the SPE. Additionally, creditors of the SPE have no direct recourse to PNC.

During the first quarter of 2012, the last series issued by the SPE, Series 2007-1, matured. At March 31, 2014, the SPE continued to exist and we consolidated the entity as we continued to be the primary beneficiary of the SPE through our holding of seller s interest and our role as the primary servicer.

Tax Credit Investments and Other

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.

Also, we are a national syndicator of affordable housing equity. In these syndication transactions, we create funds in which our subsidiaries are the general partner or managing member and sell limited partnership or non-managing member interests to third parties. In some cases PNC may also purchase a limited partnership or non-managing member interest in the fund. The purpose of this business is to generate income from the syndication of these funds, generate servicing fees by managing the funds, and earn tax credits to reduce our tax liability. General partner or managing member activities include selecting, evaluating, structuring, negotiating, and closing the fund investments in operating limited partnerships or LLCs, as well as oversight of the ongoing operations of the fund portfolio.

Typically, the general partner or managing member will be the party that has the right to make decisions that will most significantly impact the economic performance of the entity. However, certain partnership or LLC agreements provide the limited partner or non-managing member the ability to remove the general partner or managing member without cause. This results in the limited partner or non-managing member being the

party that has the right to make decisions that will most significantly impact the economic performance of the entity. The primary sources of benefits for these investments are the tax credits and passive losses which reduce our tax liability. We have consolidated investments in which we have the power to direct the activities that most significantly impact the entity s performance, and have an obligation to absorb

expected losses or receive benefits that could be potentially significant. The assets are primarily included in Equity investments and Other assets on our Consolidated Balance Sheet with the liabilities classified in Other borrowed funds, Accrued expenses, and Other liabilities and the third-party investors interests included in the Equity section as Noncontrolling interests. Neither creditors nor equity investors in these investments have any recourse to our general credit. The consolidated assets and liabilities of these investments are provided in Table 55 and reflected in the Other business segment.

For tax credit investments in which we do not have the right to make decisions that will most significantly impact the economic performance of the entity, we are not the primary beneficiary and thus they are not consolidated. These investments are disclosed in Table 56. The table also reflects our maximum exposure to loss exclusive of any potential tax credit recapture. Our maximum exposure to loss is equal to our legally binding equity commitments adjusted for recorded impairment, partnership results, or proportional amortization for qualifying low income housing tax credit investments when applicable. For all legally binding unfunded equity commitments, we increase our recognized investment and recognize a liability. As of March 31, 2014, we had a liability of $543 million related to investments in low income housing tax credits which is reflected in Other liabilities on our Consolidated Balance Sheet.

Table 56 also includes our involvement in lease financing transactions with LLCs engaged in solar power generation that to a large extent provided returns in the form of tax credits. The outstanding financings and operating lease assets are reflected as Loans and Other assets, respectively, on our Consolidated Balance Sheet, whereas related liabilities are reported in Deposits and Other liabilities.

Residential and Commercial Mortgage-Backed Securitizations

In connection with each Agency and Non-agency securitization discussed above, we evaluate each SPE utilized in these transactions for consolidation. In performing these assessments, we evaluate our level of continuing involvement in these transactions as the nature of our involvement ultimately determines whether or not we hold a variable interest and/or are the primary beneficiary of the SPE. Factors we consider in our consolidation assessment include the significance of (i) our role as servicer, (ii) our holdings of mortgage-backed securities issued by the securitization SPE, and (iii) the rights of third-party variable interest holders.

The first step in our assessment is to determine whether we hold a variable interest in the securitization SPE. We hold variable interests in Agency and Non-agency securitization SPEs through our holding of mortgage-backed securities issued by the SPEs and/or our recourse obligations. Each SPE in which we hold a variable interest is evaluated to determine whether we are the primary beneficiary of the entity. For Agency securitization

transactions, our contractual role as servicer does not give us the power to direct the activities that most significantly affect the economic performance of the SPEs. Thus, we are not the primary beneficiary of these entities. For Non-agency securitization transactions, we would be the primary beneficiary to the extent our servicing activities give us the power to direct the activities that most significantly affect the economic performance of the SPE and we hold a more than insignificant variable interest in the entity.

Details about the Agency and Non-agency securitization SPEs where we hold a variable interest and are not the primary beneficiary are included in Table 56. Our maximum exposure to loss as a result of our involvement with these SPEs is the carrying value of the mortgage-backed securities, servicing assets, servicing advances, and our liabilities associated with our recourse obligations. Creditors of the securitization SPEs have no recourse to PNC s assets or general credit.

Note 3 Loans and Commitments to Extend Credit

A summary of the major categories of loans outstanding follows:

Table 57: Loans Summary

In millions	March 31 2014	December 31 2013
Commercial lending		
Commercial	$ 91,101	$ 88,378
Commercial real estate	22,151	21,191
Equipment lease financing	7,521	7,576
Total commercial lending	120,773	117,145
Consumer lending		
Home equity	35,872	36,447

Residential real estate	14,806	15,065
Credit card	4,309	4,425
Other consumer	22,482	22,531
Total consumer lending	77,469	78,468
Total loans (a) (b)	$ 198,242	$ 195,613

(a) Net of unearned income, net deferred loan fees, unamortized discounts and premiums, and purchase discounts and premiums totaling $2.0 billion and $2.1 billion at March 31, 2014 and December 31, 2013, respectively.

(b) Future accretable yield related to purchased impaired loans is not included in the loans summary.

At March 31, 2014, we pledged $24.3 billion of commercial loans to the Federal Reserve Bank (FRB) and $41.7 billion of residential real estate and other loans to the Federal Home Loan Bank (FHLB) as collateral for the contingent ability to borrow, if necessary. The comparable amounts at December 31, 2013 were $23.4 billion and $40.4 billion, respectively.

Table 58: Net Unfunded Credit Commitments

In millions	March 31 2014	December 31 2013
Total commercial lending	$ 89,044	$ 90,104
Home equity lines of credit	18,632	18,754
Credit card	17,476	16,746
Other	4,492	4,266
Total (a)	$ 129,644	$ 129,870

(a) Excludes standby letters of credit. See Note 17 Commitments and Guarantees for additional information on standby letters of credit.

Commitments to extend credit represent arrangements to lend funds or provide liquidity subject to specified contractual conditions. At March 31, 2014, commercial commitments reported above exclude $25.9 billion of syndications, assignments and participations, primarily to financial institutions. The comparable amount at December 31, 2013 was $25.0 billion.

Commitments generally have fixed expiration dates, may require payment of a fee, and contain termination clauses in the event the customer s credit quality deteriorates. Based on our historical experience, most commitments expire unfunded, and therefore cash requirements are substantially less than the total commitment.

NOTE 4 ASSET QUALITY

Asset Quality

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

The trends in nonperforming assets represent another key indicator of the potential for future credit losses. Nonperforming assets include nonperforming loans, OREO and foreclosed assets. Nonperforming loans are those loans accounted for at amortized cost that have deteriorated in credit quality 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 5 Purchased Loans for further information.

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

The following tables display the delinquency status of our loans and our nonperforming assets at March 31, 2014 and December 31, 2013, respectively.

Table 59: Analysis of Loan Portfolio (a)

In millions	Current or Less Than 30 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	Accruing 90 Days Or More Past Due	Total Past Due (b)	Nonperforming Loans	Fair Value Option Nonaccrual Loans (c)	Purchased Impaired	Total Loans
March 31, 2014									
Commercial	$ 90,391	$ 93	$ 20	$ 28	$ 141	$ 437		$ 132	$ 91,101
Commercial real estate	21,174	35	25		60	480		437	22,151
Equipment lease financing	7,498	17			17	6			7,521
Home equity	32,421	76	32		108	1,117		2,226	35,872
Residential real estate (d)	9,355	183	70	954	1,207	842	$ 373	3,029	14,806
Credit card	4,229	26	19	31	76	4			4,309
Other consumer (e)	21,804	200	120	297	617	61			22,482
Total	$ 186,872	$ 630	$ 286	$ 1,310	$ 2,226	$ 2,947	$ 373	$ 5,824	$ 198,242
Percentage of total loans	94.26%	.32%	.14%	.66%	1.12%	1.49%	.19%	2.94%	100.00%
December 31, 2013									
Commercial	$ 87,621	$ 81	$ 20	$ 42	$ 143	$ 457		$ 157	$ 88,378
Commercial real estate	20,090	54	11	2	67	518		516	21,191
Equipment lease financing	7,538	31	2		33	5			7,576
Home equity	32,877	86	34		120	1,139		2,311	36,447
Residential real estate (d)	9,311	217	87	1,060	1,364	904	$ 365	3,121	15,065
Credit card	4,339	29	19	34	82	4			4,425
Other consumer (e)	21,788	216	112	353	681	61		1	22,531
Total	$ 183,564	$ 714	$ 285	$ 1,491	$ 2,490	$ 3,088	$ 365	$ 6,106	$ 195,613
Percentage of total loans	93.83%	.37%	.15%	.76%	1.28%	1.58%	.19%	3.12%	100.00%

(a) Amounts in table represent recorded investment and exclude loans held for sale.
(b) Past due loan amounts exclude purchased impaired loans, even if contractually past due (or if we do not expect to receive payment in full based on the original contractual terms), as we are currently accreting interest income over the expected life of the loans.
(c) Consumer loans accounted for under the fair value option for which we do not expect to collect substantially all principal and interest are subject to nonaccrual accounting and classification upon meeting any of our nonaccrual policies. Given that these loans are not accounted for at amortized cost, these loans have been excluded from the nonperforming loan population.
(d) Past due loan amounts at March 31, 2014 include government insured or guaranteed Residential real estate mortgages totaling $82 million for 30 to 59 days past due, $43 million for 60 to 89 days past due and $924 million for 90 days or more past due. Past due loan amounts at December 31, 2013 include government insured or guaranteed Residential real estate mortgages totaling $105 million for 30 to 59 days past due, $57 million for 60 to 89 days past due and $1,025 million for 90 days or more past due.
(e) Past due loan amounts at March 31, 2014 include government insured or guaranteed Other consumer loans totaling $149 million for 30 to 59 days past due, $104 million for 60 to 89 days past due and $284 million for 90 days or more past due. Past due loan amounts at December 31, 2013 include government insured or guaranteed Other consumer loans totaling $154 million for 30 to 59 days past due, $94 million for 60 to 89 days past due and $339 million for 90 days or more past due.

Table 60: Nonperforming Assets

Dollars in millions	March 31 2014	December 31 2013
Nonperforming loans		
Commercial lending		
Commercial	$ 437	$ 457
Commercial real estate	480	518
Equipment lease financing	6	5
Total commercial lending	923	980
Consumer lending (a)		
Home equity	1,117	1,139
Residential real estate	842	904
Credit card	4	4
Other consumer	61	61
Total consumer lending	2,024	2,108
Total nonperforming loans (b)	2,947	3,088
OREO and foreclosed assets		
Other real estate owned (OREO) (c)	343	360
Foreclosed and other assets	14	9
Total OREO and foreclosed assets	357	369
Total nonperforming assets	$ 3,304	$ 3,457
Nonperforming loans to total loans	1.49%	1.58%
Nonperforming assets to total loans, OREO and foreclosed assets	1.66	1.76
Nonperforming assets to total assets	1.02	1.08

(a) Excludes most consumer loans and lines of credit, not secured by residential real estate, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.
(b) Nonperforming loans exclude certain government insured or guaranteed loans, loans held for sale, loans accounted for under the fair value option and purchased impaired loans.
(c) OREO excludes $238 million and $245 million at March 31, 2014 and December 31, 2013, respectively, related to commercial and residential real estate that was acquired by us upon foreclosure of serviced loans because they are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or guaranteed by the Department of Housing and Urban Development (HUD).

Nonperforming loans also include certain loans whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. In accordance with applicable accounting guidance, these loans are considered TDRs. See Note 1 Accounting Policies and the TDR section of this Note 4 for additional information. For the three months ended March 31, 2014, $.3 billion of loans held for sale, loans accounted for under the fair value option, pooled purchased impaired loans, as well as certain consumer government insured or guaranteed loans which were evaluated for TDR consideration, are not classified as TDRs. The comparable amount for the three months ended March 31, 2013 was $.7 billion.

Total nonperforming loans in the nonperforming assets table above include TDRs of $1.4 billion at March 31, 2014 and $1.5 billion at December 31, 2013. TDRs that are performing,

including credit card loans, totaled $1.3 billion and $1.2 billion at March 31, 2014 and December 31, 2013, respectively, and are excluded from nonperforming loans. Generally, these loans have demonstrated a period of at least six months of consecutive performance under the restructured terms. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC are not returned to accrual status. At March 31, 2014 and December 31, 2013, remaining commitments to lend additional funds to debtors in a commercial or consumer TDR were immaterial.

Additional Asset Quality Indicators

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

COMMERCIAL LENDING ASSET CLASSES

Commercial Loan Class

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

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

Commercial Real Estate Loan Class

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

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

Equipment Lease Financing Loan Class

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

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

Commercial Purchased Impaired Loan Class

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

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

See Note 5 Purchased Loans for additional information.

Table 61: Commercial Lending Asset Quality Indicators (a)(b)

		Criticized Commercial Loans			
In millions	Pass Rated	Special Mention (c)	Substandard (d)	Doubtful (e)	Total Loans
March 31, 2014					
Commercial	$ 86,539	$ 1,922	$ 2,417	$ 91	$ 90,969
Commercial real estate	20,358	261	1,015	80	21,714
Equipment lease financing	7,359	73	84	5	7,521

Purchased impaired loans		28	432	109	569
Total commercial lending	$ 114,256	$ 2,284	$ 3,948	$ 285	$ 120,773
December 31, 2013					
Commercial	$ 83,903	$ 1,894	$ 2,352	$ 72	$ 88,221
Commercial real estate	19,175	301	1,113	86	20,675
Equipment lease financing	7,403	77	93	3	7,576
Purchased impaired loans	10	31	469	163	673
Total commercial lending	$ 110,491	$ 2,303	$ 4,027	$ 324	$ 117,145

(a) Based upon PDs and LGDs. We apply a split rating classification to certain loans meeting threshold criteria. By assigning a split classification, a loan s exposure amount may be split into more than one classification category in the above table.

(b) Loans are included above based on the Regulatory Classification definitions of Pass , Special Mention , Substandard and Doubtful .

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

(d) Substandard rated loans have a well-defined weakness or weaknesses that jeopardize the collection or liquidation of debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.
(e) Doubtful rated loans possess all the inherent weaknesses of a Substandard loan with the additional characteristics that the weakness makes collection or liquidation in full improbable due to existing facts, conditions, and values.

CONSUMER LENDING ASSET CLASSES

Home Equity and Residential Real Estate Loan Classes

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

Delinquency/Delinquency Rates: We monitor trending of delinquency/delinquency rates for home equity and residential real estate loans. See the Asset Quality section of this Note 4 for additional information.

Nonperforming Loans: We monitor trending of nonperforming loans for home equity and residential real estate loans. See the Asset Quality section of this Note 4 for additional information.

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

LTV (inclusive of combined loan-to-value (CLTV) for first and subordinate lien positions): At least semi-annually, we update the property values of real estate collateral and calculate an updated LTV ratio. For open-end credit lines secured by real estate in regions experiencing significant declines in property values, more frequent valuations may occur. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.

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

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

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

Consumer Purchased Impaired Loan Class

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

See Note 5 Purchased Loans for additional information.

Table 62: Home Equity and Residential Real Estate Balances

In millions	March 31	December 31

	2014	2013
Home equity and residential real estate loans excluding purchased impaired loans (a)	$ 43,894	$ 44,376
Home equity and residential real estate loans purchased impaired loans (b)	5,345	5,548
Government insured or guaranteed residential real estate mortgages (a)	1,529	1,704
Purchase accounting adjustments purchased impaired loans	(90)	(116)
Total home equity and residential real estate loans (a)	$ 50,678	$ 51,512

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

Table 63: Home Equity and Residential Real Estate Asset Quality Indicators Excluding Purchased Impaired Loans (a) (b)

March 31, 2014 in millions	Home Equity 1st Liens	2nd Liens	Residential Real Estate	Total
Current estimated LTV ratios (c)				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$ 425	$ 1,733	$ 481	$ 2,639
Less than or equal to 660 (d) (e)	72	347	149	568
Missing FICO	1	10	21	32
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	907	2,601	943	4,451
Less than or equal to 660 (d) (e)	147	452	210	809
Missing FICO	2	6	27	35
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	967	1,843	786	3,596
Less than or equal to 660	121	299	129	549
Missing FICO	2	3	20	25
Less than 90% and updated FICO scores:				
Greater than 660	13,556	7,732	6,587	27,875
Less than or equal to 660	1,356	1,021	643	3,020
Missing FICO	25	18	252	295
Missing LTV and updated FICO scores:				
Total home equity and residential real estate loans	$ 17,581	$ 16,065	$ 10,248	$ 43,894

December 31, 2013 in millions	Home Equity 1st Liens	2nd Liens	Residential Real Estate	Total
Current estimated LTV ratios (c)				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$ 438	$ 1,914	$ 563	$ 2,915
Less than or equal to 660 (d) (e)	74	399	185	658
Missing FICO	1	11	20	32
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	987	2,794	1,005	4,786
Less than or equal to 660 (d) (e)	150	501	210	861
Missing FICO	2	5	32	39
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	1,047	1,916	844	3,807
Less than or equal to 660	134	298	131	563
Missing FICO	2	3	22	27
Less than 90% and updated FICO scores:				
Greater than 660	13,445	7,615	6,309	27,369
Less than or equal to 660	1,349	1,009	662	3,020
Missing FICO	25	17	256	298
Missing LTV and updated FICO scores:				
Greater than 660			1	1
Total home equity and residential real estate loans	$ 17,654	$ 16,482	$ 10,240	$ 44,376

(a) Excludes purchased impaired loans of approximately $5.3 billion and $5.4 billion in recorded investment, certain government insured or guaranteed residential real estate mortgages of approximately $1.5 billion and $1.7 billion, and loans held for sale at March 31, 2014 and December 31, 2013, respectively. See the Home Equity and Residential Real Estate Asset Quality Indicators Purchased Impaired Loans table below for additional information on purchased impaired loans.

(b) Amounts shown represent recorded investment.

(c) Based upon updated LTV (inclusive of combined loan-to-value (CLTV) for first and subordinate lien positions). Updated LTV are estimated using modeled property values. These ratios are updated at least semi-annually. The related estimates and inputs are based upon an approach that uses a combination of third-party automated valuation models (AVMs), HPI indices, property location, internal and external balance information, origination data and management assumptions. In cases where we are in an originated second lien position, we

generally utilize origination balances provided by a third-party which do not include an amortization assumption when calculating updated LTV. Accordingly, the results of these calculations do not represent actual appraised loan level collateral or updated LTV based upon a current first lien balance, and as such, are necessarily imprecise and subject to change as we enhance our methodology. In the second quarter of 2013, we enhanced our CLTV determination process by further refining the data and correcting certain methodological inconsistencies.

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

(e) The following states had the highest percentage of higher risk loans at March 31, 2014: New Jersey 14%, Pennsylvania 12%, Illinois 11%, Ohio 11%, Florida 9%, Maryland 5%, Michigan 5%, and California 5%. The remainder of the states had lower than 4% of the higher risk loans individually, and collectively they represent approximately 28% of the higher risk loans. The following states had the highest percentage of higher risk loans at December 31, 2013: New Jersey 13%, Illinois 12%, Pennsylvania 12%, Ohio 11%, Florida 9%, Maryland 5%, Michigan 5%, and California 4%. The remainder of the states had lower than 4% of the high risk loans individually, and collectively they represent approximately 29% of the higher risk loans.

Table 64: Home Equity and Residential Real Estate Asset Quality Indicators Purchased Impaired Loans (a)

	Home Equity (b) (c)		Residential Real Estate (b) (c)	
March 31, 2014 in millions	1st Liens	2nd Liens		Total
Current estimated LTV ratios (d)				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$ 13	$ 393	$ 314	$ 720
Less than or equal to 660	12	193	242	447
Missing FICO		11	19	30
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	21	518	334	873
Less than or equal to 660	14	225	270	509
Missing FICO		13	16	29
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	13	201	196	410
Less than or equal to 660	10	100	145	255
Missing FICO		6	6	12
Less than 90% and updated FICO scores:				
Greater than 660	98	262	682	1,042
Less than or equal to 660	124	192	604	920
Missing FICO	1	11	45	57
Missing LTV and updated FICO scores:				
Greater than 660	1		13	14
Less than or equal to 660	3		20	23
Missing FICO			4	4
Total home equity and residential real estate loans	$ 310	$ 2,125	$ 2,910	$ 5,345

December 31, 2013 in millions	Home Equity (b) (c) 1st Liens	2nd Liens	Residential Real Estate (b) (c)	Total
Current estimated LTV ratios (d)				
Greater than or equal to 125% and updated FICO scores:				
Greater than 660	$ 13	$ 435	$ 361	$ 809
Less than or equal to 660	15	215	296	526
Missing FICO		12	24	36
Greater than or equal to 100% to less than 125% and updated FICO scores:				
Greater than 660	21	516	373	910
Less than or equal to 660	15	239	281	535
Missing FICO		14	14	28
Greater than or equal to 90% to less than 100% and updated FICO scores:				
Greater than 660	15	202	197	414
Less than or equal to 660	12	101	163	276
Missing FICO		7	6	13
Less than 90% and updated FICO scores:				
Greater than 660	93	261	646	1,000
Less than or equal to 660	126	198	590	914
Missing FICO	1	11	47	59
Missing LTV and updated FICO scores:				
Greater than 660	1		11	12
Less than or equal to 660			13	13
Missing FICO			3	3
Total home equity and residential real estate loans	$ 312	$ 2,211	$ 3,025	$ 5,548

(a) Amounts shown represent outstanding balance. See Note 5 Purchased Loans for additional information.

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

(c) The following states had the highest percentage of purchased impaired loans at March 31, 2014: California 17%, Florida 16%, Illinois 11%, Ohio 8%, North Carolina 8%, and Michigan 5%. The remainder of the states had lower than a 4% concentration of purchased impaired loans individually, and collectively they represent approximately 35% of the purchased impaired portfolio. The following states had the highest percentage of purchased impaired loans at December 31, 2013: California 17%, Florida 16%, Illinois 11%, Ohio 8%, North Carolina 8% and Michigan 5%. The remainder of the states had lower than a 4% concentration of purchased impaired loans individually, and collectively they represent approximately 35% of the purchased impaired portfolio.

(d) Based upon updated LTV (inclusive of combined loan-to-value (CLTV) for first and subordinate lien positions). Updated LTV are estimated using modeled property values. These ratios are updated at least semi-annually. The related estimates and inputs are based upon an approach that uses a combination of third-party automated valuation models (AVMs), HPI indices, property location, internal and external balance information, origination data and management assumptions. In cases where we are in an originated second lien position, we generally utilize origination balances provided by a third-party which do not include an amortization assumption when calculating updated LTV. Accordingly, the results of these calculations do not represent actual appraised loan level collateral or updated LTV based upon a current first lien balance, and as such, are necessarily imprecise and subject to change as we enhance our methodology. In the second quarter of 2013, we enhanced our CLTV determination process by further refining the data and correcting certain methodological inconsistencies.

Credit Card and Other Consumer Loan Classes

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

Table 65: Credit Card and Other Consumer Loan Classes Asset Quality Indicators

	Credit Card (a)		Other Consumer (b)	
Dollars in millions	Amount	% of Total Loans Using FICO Credit Metric	Amount	% of Total Loans Using FICO Credit Metric
March 31, 2014				
FICO score greater than 719	$ 2,286	53%	$ 8,771	63%
650 to 719	1,165	27	3,520	25
620 to 649	186	4	534	4
Less than 620	233	6	649	5
No FICO score available or required (c)	439	10	377	3
Total loans using FICO credit metric	4,309	100%	13,851	100%
Consumer loans using other internal credit metrics (b)			8,631	
Total loan balance	$ 4,309		$ 22,482	
Weighted-average updated FICO score (d)		729		741
December 31, 2013				
FICO score greater than 719	$ 2,380	54%	$ 8,596	63%
650 to 719	1,198	27	3,511	26
620 to 649	194	4	527	4
Less than 620	246	6	628	4
No FICO score available or required (c)	407	9	474	3
Total loans using FICO credit metric	4,425	100%	13,736	100%
Consumer loans using other internal credit metrics (b)			8,795	
Total loan balance	$ 4,425		$ 22,531	
Weighted-average updated FICO score (d)		729		741

(a) At March 31, 2014, we had $32 million of credit card loans that are higher risk (i.e., loans with both updated FICO scores less than 660 and in late stage (90+ days) delinquency status). The majority of the March 31, 2014 balance related to higher risk credit card loans is geographically distributed throughout the following areas: Ohio 18%, Pennsylvania 16%, Michigan 11%, Illinois 7%, Florida 7%, Indiana 6%, New Jersey 5% and Kentucky 4%. All other states had less than 4% individually and make up the remainder of the balance. At December 31, 2013, we had $34 million of credit card loans that are higher risk. The majority of the December 31, 2013 balance related to higher risk credit card loans is geographically distributed throughout the following areas: Ohio 18%, Pennsylvania 17%, Michigan 11%, Illinois 7%, New Jersey 7%, Indiana 6%, Florida 6% and Kentucky 4%. All other states had less than 3% individually and make up the remainder of the balance.

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

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

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

Troubled Debt Restructurings (TDRs)

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 borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC. In those situations where principal is forgiven, the amount of such principal forgiveness is immediately charged off.

Some TDRs may not ultimately result in the full collection of principal and interest, as restructured, and result in potential incremental losses. These potential incremental losses have been factored into our overall ALLL estimate. The level of any subsequent defaults will likely be affected by future economic conditions. Once a loan becomes a TDR, it will continue to be reported as a TDR until it is ultimately repaid in full, the collateral is foreclosed upon, or it is fully charged off. We held specific reserves in the ALLL of $.5 billion and $.5 billion at March 31, 2014 and December 31, 2013, respectively, for the total TDR portfolio.

Table 66: Summary of Troubled Debt Restructurings

In millions	Mar. 31 2014	Dec. 31 2013
Total consumer lending	$ 2,134	$ 2,161
Total commercial lending	579	578
Total TDRs	$ 2,713	$ 2,739
Nonperforming	$ 1,405	$ 1,511
Accruing (a)	1,151	1,062
Credit card	157	166
Total TDRs	$ 2,713	$ 2,739

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

Table 67 quantifies the number of loans that were classified as TDRs as well as the change in the recorded investments as a result of the TDR classification during the first three months of 2014 and 2013. Additionally, the table provides information about the types of TDR concessions. The Principal Forgiveness TDR category includes principal forgiveness and accrued interest forgiveness. These types of TDRs result in a write down of the recorded investment and a charge-off if such action has not already taken place. The Rate Reduction TDR category includes reduced interest rate and interest deferral. The TDRs within this category would result in reductions to future interest income. The Other TDR

category primarily includes consumer borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC, as well as postponement/reduction of scheduled amortization and contractual extensions for both consumer and commercial borrowers.

In some cases, there have been multiple concessions granted on one loan. This is most common within the commercial loan portfolio. When there have been multiple concessions granted in the commercial loan portfolio, the principal forgiveness TDR was prioritized for purposes of determining the inclusion in the table below. For example, if there is principal forgiveness in conjunction with lower interest rate and postponement of amortization, the type of concession will be reported as Principal Forgiveness. Second in priority would be rate reduction. For example, if there is an interest rate reduction in conjunction with postponement of amortization, the type of concession will be reported as a Rate Reduction. In the event that multiple concessions are granted on a consumer loan, concessions resulting from discharge from personal liability through Chapter 7 bankruptcy without formal affirmation of the loan obligations to PNC would be prioritized and included in the Other type of concession in the table below. After that, consumer loan concessions would follow the previously discussed priority of concessions for the commercial loan portfolio.

Table 67: Financial Impact and TDRs by Concession Type (a)

During the three months ended March 31, 2014		Pre-TDR	Post-TDR Recorded Investment (c)			
Dollars in millions	Number of Loans	Recorded Investment (b)	Principal Forgiveness	Rate Reduction	Other	Total
Commercial lending						
Commercial	34	$ 41	$	$	$ 38	$ 38
Commercial real estate	23	41	19		11	30
Total commercial lending	57	82	19		49	68
Consumer lending						
Home equity	831	52		20	27	47
Residential real estate	119	18		6	12	18
Credit card	1,972	16		16		16
Other consumer	265	4			3	3
Total consumer lending	3,187	90		42	42	84
Total TDRs	3,244	$ 172	$ 19	$ 42	$ 91	$ 152
During the three months ended March 31, 2013						

Dollars in millions						
Commercial lending						
Commercial	32	$ 42	$	$ 2	$ 24	$ 26
Commercial real estate	36	135	6	40	74	120
Total commercial lending	68	177	6	42	98	146
Consumer lending						
Home equity	958	73		39	28	67
Residential real estate	320	46		12	33	45
Credit card	2,530	18		18		18
Other consumer	480	8			7	7
Total consumer lending	4,288	145		69	68	137
Total TDRs	4,356	$ 322	$ 6	$ 111	$ 166	$ 283

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

TDRs may result in charge-offs and interest income not being recognized. The amount of principal balance charged-off at or around the time of modification for the three months ended March 31, 2014 was not material. A financial effect of rate reduction TDRs is that interest income is not recognized. Interest income not recognized that otherwise would have been earned in the three months ended March 31, 2014 and 2013, related to both commercial TDRs and consumer TDRs, was not material.

After a loan is determined to be a TDR, we continue to track its performance under its most recent restructured terms. In Table 68, 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 following table presents the recorded investment of loans that were classified as TDRs or were subsequently modified during each 12-month period prior to the reporting periods preceding January 1, 2014 and January 1, 2013, respectively, and subsequently defaulted during these reporting periods.

Table 68: TDRs that were Modified in the Past Twelve Months which have Subsequently Defaulted

During the three months ended
March 31, 2014

Dollars in millions	Number of Contracts	Recorded Investment	
Commercial lending			
Commercial	10	$	6
Commercial real estate	7		10
Total commercial lending	17		16
Consumer lending			
Home equity	417		25
Residential real estate	219		29
Credit card	1,157		9
Other consumer	83		1
Total consumer lending	1,876		64
Total TDRs	1,893	$	80

During the three months ended
March 31, 2013

Dollars in millions	Number of Contracts	Recorded Investment	
Commercial lending			
Commercial	15	$	10
Commercial real estate	6		10
Total commercial lending	21		20
Consumer lending			
Home equity	152		11
Residential real estate	94		13
Credit card	1,427		11
Other consumer	33		1
Total consumer lending	1,706		36
Total TDRs	1,727	$	56

The impact to the ALLL for commercial lending TDRs is the effect of moving to the specific reserve methodology from the quantitative reserve methodology for those loans that were not already classified as nonaccrual. There is an impact to the ALLL as a result of the concession made, which generally results in the expectation of reduced future cash flows. The decline in expected cash flows, consideration of collateral value, and/or the application of a present value discount rate, when compared to the recorded investment, results in a charge-off or increased ALLL. As TDRs are individually evaluated under the specific reserve methodology, which builds in expectations of future performance, subsequent defaults do not generally have a significant additional impact to the ALLL.

For consumer lending TDRs, except TDRs resulting from borrowers that have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to PNC, the ALLL is calculated using a discounted cash flow model, which

leverages subsequent default, prepayment, and severity rate assumptions based upon historically observed data. Similar to the commercial lending specific reserve methodology, the reduced expected cash flows resulting from the concessions granted impact the consumer lending ALLL. The decline in expected cash flows due to the application of a present value discount rate or the consideration of collateral value, when compared to the recorded investment, results in increased ALLL or a charge-off.

Impaired Loans

Impaired loans include commercial nonperforming loans and consumer and commercial TDRs, regardless of nonperforming status. TDRs that were previously recorded at amortized cost and are now classified and accounted for as held for sale are also included. Excluded from impaired loans are nonperforming leases, loans accounted for as held for sale other than the TDRs described in the preceding sentence, loans accounted for under the fair value option, smaller balance homogeneous type loans and purchased impaired loans. See Note 5 Purchased Loans for additional information. Nonperforming equipment lease financing loans of $6 million and $5 million at March 31, 2014 and December 31, 2013, respectively, are excluded from impaired loans pursuant to authoritative lease accounting guidance. We did not recognize any interest income on impaired loans that have not returned to performing status, while they were impaired during the three months ended March 31, 2014 and March 31, 2013. The following table provides further detail on impaired loans individually evaluated for impairment and the associated ALLL. Certain commercial impaired loans and loans to consumers discharged from bankruptcy and not formally reaffirmed do not have a related ALLL as the valuation of these impaired loans exceeded the recorded investment.

Table 69: Impaired Loans

In millions	Unpaid Principal Balance	Recorded Investment (a)	Associated Allowance (b)	Average Recorded Investment (a)
March 31, 2014				
Impaired loans with an associated allowance				
Commercial	$ 521	$ 397	$ 86	$ 399
Commercial real estate	460	289	80	315
Home equity	1,003	990	327	990
Residential real estate	576	419	68	428
Credit card	157	157	34	162
Other consumer	68	52	2	55
Total impaired loans with an associated allowance	$ 2,785	$ 2,304	$ 597	$ 2,349
Impaired loans without an associated allowance				
Commercial	$ 215	$ 145		$ 154
Commercial real estate	446	336		325
Home equity	377	128		127
Residential real estate	393	388		387
Total impaired loans without an associated allowance	$ 1,431	$ 997		$ 993
Total impaired loans	$ 4,216	$ 3,301	$ 597	$ 3,342
December 31, 2013				
Impaired loans with an associated allowance				
Commercial	$ 549	$ 400	$ 90	$ 442
Commercial real estate	517	349	89	478
Home equity	999	992	334	900
Residential real estate	573	436	74	645
Credit card	166	166	36	189
Other consumer	71	57	2	68
Total impaired loans with an associated allowance	$ 2,875	$ 2,400	$ 625	$ 2,722
Impaired loans without an associated allowance				
Commercial	$ 309	$ 163		$ 161
Commercial real estate	421	315		354
Home equity	366	124		166
Residential real estate	415	386		267
Total impaired loans without an associated allowance	$ 1,511	$ 988		$ 948
Total impaired loans	$ 4,386	$ 3,388	$ 625	$ 3,670

(a) Recorded investment in a loan includes the unpaid principal balance plus accrued interest and net accounting adjustments, less any charge-offs. Recorded investment does not include any associated valuation allowance. Average recorded investment is for the three months ended March 31, 2014 and the year ended December 31, 2013, respectively.

(b) Associated allowance amounts include $.5 billion and $.5 billion for TDRs at March 31, 2014 and December 31, 2013, respectively.

NOTE 5 PURCHASED LOANS

Purchased Impaired Loans

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

aggregated into pools where appropriate. Commercial loans with a total commitment greater than a defined threshold are accounted for individually. The excess of undiscounted cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized as interest income over the remaining life of the loan using the constant effective yield method. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. Subsequent changes in the expected cash flows of individual or pooled purchased impaired loans from the date of acquisition will either impact the accretable yield or result in an impairment charge to provision for credit losses in the period in which the changes become probable. Decreases to the net present value of expected cash flows will generally result in an impairment charge recorded as a provision for credit losses, resulting in an increase to the allowance for loan and lease losses, and a reclassification from accretable yield to nonaccretable difference.

The following table provides purchased impaired loans at March 31, 2014 and December 31, 2013:

Table 70: Purchased Impaired Loans Balances

	March 31, 2014			December 31, 2013		
In millions	Outstanding Balance	Recorded Investment	Carrying Value	Outstanding Balance	Recorded Investment	Carrying Value
Commercial lending						
Commercial	$ 249	$ 132	$ 108	$ 282	$ 157	$ 131
Commercial real estate	550	437	338	655	516	409
Total commercial lending	799	569	446	937	673	540
Consumer lending						
Consumer	2,435	2,226	1,914	2,523	2,312	1,971
Residential real estate	2,910	3,029	2,516	3,025	3,121	2,591
Total consumer lending	5,345	5,255	4,430	5,548	5,433	4,562
Total	$ 6,144	$ 5,824	$ 4,876	$ 6,485	$ 6,106	$ 5,102

During the first three months of 2014, $43 million of provision recapture and $14 million of charge-offs were recorded on purchased impaired loans. The comparative amounts for the three months ended March 31, 2013, were $57 million of provision and $45 million of charge-offs. At March 31, 2014, the allowance for loan and lease losses was $.9 billion on $5.1 billion of purchased impaired loans while the remaining $.7 billion of purchased impaired loans required no allowance as the net present value of expected cash flows equaled or exceeded the recorded investment. As of December 31, 2013, the allowance for loan and lease losses related to purchased impaired loans was $1.0 billion. If any allowance for loan losses is recognized on a purchased

impaired pool, which is accounted for as a single asset, the entire balance of that pool would be disclosed as requiring an allowance. Subsequent increases in the net present value of cash flows will result in a recovery of any previously recorded allowance for loan and lease losses, to the extent applicable, and/or a reclassification from non-accretable difference to accretable yield, which will be recognized prospectively. Disposals of loans, which may include sales of loans or foreclosures, result in removal of the loans for cash flow estimation purposes. The cash flow re-estimation process is completed quarterly to evaluate the appropriateness of the allowance associated with the purchased impaired loans.

Activity for the accretable yield during the first three months of 2014 and 2013 follows:

Table 71: Purchased Impaired Loans Accretable Yield

In millions	2014	2013
January 1	$ 2,055	$ 2,166
Accretion (including excess cash recoveries)	(154)	(207)
Net reclassifications to accretable from non-accretable (a)	95	219
Disposals	(8)	(6)
March 31	$ 1,988	$ 2,172

(a) Approximately 95% and 52% of the net reclassifications for the quarters ended March 31, 2014 and 2013, respectively, were within the consumer portfolio primarily due to increases in the expected average life of residential and home equity loans. The remaining net reclassifications were predominantly due to future cash flow improvements within the commercial portfolio.

NOTE 6 ALLOWANCES FOR LOAN AND LEASE LOSSES AND UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT

We maintain the ALLL and the Allowance for Unfunded Loan Commitments and Letters of Credit at levels that we believe to be appropriate to absorb estimated probable credit losses incurred in the portfolios as of the balance sheet date. We use the two main portfolio segments Commercial Lending and Consumer Lending and we develop and document the ALLL under separate methodologies for each of these segments as further discussed and presented below.

Allowance for Loan and Lease Losses Components

For all loans, except purchased impaired loans, the ALLL is the sum of three components: (i) asset specific/individual impaired reserves, (ii) quantitative (formulaic or pooled) reserves and (iii) qualitative (judgmental) reserves. See Note 5 Purchased Loans for additional ALLL information. The reserve calculation and determination process is dependent on the use of key assumptions. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions are periodically updated.

Asset Specific/Individual Component

Commercial nonperforming loans and all TDRs are considered impaired and are evaluated for a specific reserve. See Note 1 Accounting Policies for additional information.

Commercial Lending Quantitative Component

The estimates of the quantitative component of ALLL for incurred losses within the commercial lending portfolio segment are determined through statistical loss modeling utilizing PD, LGD and outstanding balance of the loan. Based upon loan risk ratings, we assign PDs and LGDs. Each of these statistical parameters is determined based on internal historical data and market data. PD is influenced by such

factors as liquidity, industry, obligor financial structure, access to capital and cash flow. LGD is influenced by collateral type, original and/or updated LTV and guarantees by related parties.

Consumer Lending Quantitative Component

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

Qualitative Component

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

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

Allowance for Purchased Non-Impaired Loans

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

Allowance for Purchased Impaired Loans

ALLL for purchased impaired loans is determined in accordance with ASC 310-30 by comparing the net present value of the cash flows expected to be collected to the recorded investment for a given loan (or pool of loans). In cases where the net present value of expected cash flows is lower than the recorded investment, ALLL is established. Cash flows expected to be collected represent management s best estimate of the cash flows expected over the life of a loan (or pool of loans). For large balance commercial loans, cash flows are separately estimated and compared to the Recorded Investment at the loan level. For smaller balance pooled loans, cash flows are estimated using cash flow models and compared at the risk pool level, which was defined at

acquisition based on the risk characteristics of the loan. Our cash flow models use loan data including, but not limited to, delinquency status of the loan, updated borrower FICO credit scores, geographic information, historical loss experience, and updated LTVs, as well as best estimates for changes in unemployment rates, home prices and other economic factors, to determine estimated cash flows.

Table 72: Rollforward of Allowance for Loan and Lease Losses and Associated Loan Data

In millions	Commercial Lending	Consumer Lending	Total
March 31, 2014			
Allowance for Loan and Lease Losses			
January 1	$ 1,547	$ 2,062	$ 3,609
Charge-offs	(105)	(195)	(300)
Recoveries	74	40	114
Net charge-offs	(31)	(155)	(186)
Provision for credit losses	18	76	94
Net change in allowance for unfunded loan commitments and letters of credit	16	(2)	14
Other	(1)		(1)
March 31	$ 1,549	$ 1,981	$ 3,530
TDRs individually evaluated for impairment	$ 33	$ 431	$ 464
Other loans individually evaluated for impairment	133		133
Loans collectively evaluated for impairment	1,260	725	1,985
Purchased impaired loans	123	825	948
March 31	$ 1,549	$ 1,981	$ 3,530
Loan Portfolio			
TDRs individually evaluated for impairment (a)	$ 576	$ 2,134	$ 2,710
Other loans individually evaluated for impairment	588		588
Loans collectively evaluated for impairment (b)	119,040	69,030	188,070
Fair value option loans (c)		1,050	1,050
Purchased impaired loans	569	5,255	5,824
March 31	$ 120,773	$ 77,469	$ 198,242
Portfolio segment ALLL as a percentage of total ALLL	44%	56%	100%
Ratio of the allowance for loan and lease losses to total loans	1.28%	2.56%	1.78%
March 31, 2013			
Allowance for Loan and Lease Losses			
January 1	$ 1,774	$ 2,262	$ 4,036
Charge-offs (d)	(203)	(366)	(569)
Recoveries	82	31	113
Net charge-offs	(121)	(335)	(456)
Provision for credit losses	55	181	236
Net change in allowance for unfunded loan commitments and letters of credit	12		12
March 31	$ 1,720	$ 2,108	$ 3,828
TDRs individually evaluated for impairment	$ 35	$ 480	$ 515
Other loans individually evaluated for impairment	233		233
Loans collectively evaluated for impairment	1,254	717	1,971
Purchased impaired loans	198	911	1,109
March 31	$ 1,720	$ 2,108	$ 3,828
Loan Portfolio			
TDRs individually evaluated for impairment (a)	$ 610	$ 2,231	$ 2,841
Other loans individually evaluated for impairment	936		936
Loans collectively evaluated for impairment (b)	107,679	67,341	175,020
Fair value option loans (c)		634	634
Purchased impaired loans	1,079	5,994	7,073
March 31	$ 110,304	$ 76,200	$ 186,504
Portfolio segment ALLL as a percentage of total ALLL	45%	55%	100%
Ratio of the allowance for loan and lease losses to total loans	1.56%	2.77%	2.05%

(a) TDRs individually evaluated for impairment exclude TDRs that were subsequently identified and accounted for as held for sale loans, but continue to be disclosed as TDRs.
(b) Includes $246 million of loans collectively evaluated for impairment based upon collateral values and written down to the respective collateral value less costs to sell at March 31, 2014. Accordingly, there is no allowance recorded for these loans. The comparative amount as of March 31, 2013 was $309 million.
(c) 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.
(d) Pursuant to alignment with interagency guidance on practices for loans and lines of credit related to consumer lending in the first quarter of 2013, additional charge-offs of $134 million were taken.

Allowance for Unfunded Loan Commitments and Letters of Credit

We maintain the allowance for unfunded loan commitments and letters of credit at a level we believe is appropriate to absorb estimated probable credit losses on these unfunded credit facilities as of the balance sheet date. See Note 1 Accounting Policies for additional information.

Table 73: Rollforward of Allowance for Unfunded Loan Commitments and Letters of Credit

In millions	2014	2013
January 1	$ 242	$ 250
Net change in allowance for unfunded loan commitments and letters of credit	(14)	(12)
March 31	$ 228	$ 238

NOTE 7 INVESTMENT SECURITIES

Table 74: Investment Securities Summary

In millions	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2014				
Securities Available for Sale				
Debt securities				
U.S. Treasury and government agencies	$ 4,424	$ 152	$ (3)	$ 4,573
Residential mortgage-backed				
Agency	21,371	410	(150)	21,631
Non-agency	5,268	332	(128)	5,472
Commercial mortgage-backed				
Agency	623	15	(1)	637
Non-agency	3,753	123	(14)	3,862
Asset-backed	5,513	77	(35)	5,555
State and municipal	2,732	90	(29)	2,793
Other debt	2,593	55	(12)	2,636
Total debt securities	46,277	1,254	(372)	47,159
Corporate stocks and other	325		(1)	324
Total securities available for sale	$ 46,602	$ 1,254	$ (373)	$ 47,483
Securities Held to Maturity				
Debt securities				
U.S. Treasury and government agencies	$ 241	$ 19		$ 260
Residential mortgage-backed				
Agency	5,671	89	$ (40)	5,720
Non-agency	288		(4)	284
Commercial mortgage-backed				
Agency	1,221	56		1,277
Non-agency	1,357	19	(1)	1,375
Asset-backed	996	2	(7)	991
State and municipal	1,054	38		1,092
Other debt	333	9		342
Total securities held to maturity	$ 11,161	$ 232	$ (52)	$ 11,341
December 31, 2013				
Securities Available for Sale				
Debt securities				
U.S. Treasury and government agencies	$ 3,990	$ 135	$ (7)	$ 4,118
Residential mortgage-backed				
Agency	22,669	384	(222)	22,831
Non-agency	5,457	308	(160)	5,605
Commercial mortgage-backed				
Agency	632	15	(1)	646
Non-agency	3,937	123	(18)	4,042
Asset-backed	5,754	66	(48)	5,772
State and municipal	2,609	52	(44)	2,617
Other debt	2,506	55	(18)	2,543
Total debt securities	47,554	1,138	(518)	48,174
Corporate stocks and other	434		(1)	433
Total securities available for sale	$ 47,988	$ 1,138	$ (519)	$ 48,607

In millions	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Held to Maturity				
Debt securities				
U.S. Treasury and government agencies	$ 239	$ 8	$ (4)	$ 243
Residential mortgage-backed				
Agency	5,814	71	(64)	5,821
Non-agency	293		(4)	289
Commercial mortgage-backed				
Agency	1,251	49		1,300
Non-agency	1,687	20	(5)	1,702
Asset-backed	1,009	2	(10)	1,001
State and municipal	1,055	10	(4)	1,061
Other debt	339	9		348
Total securities held to maturity	$ 11,687	$ 169	(91)	$ 11,765

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 Accumulated other comprehensive income or loss, net of tax, unless credit-related. Securities held to maturity are carried at amortized cost. At March 31, 2014, Accumulated other comprehensive income included pretax gains of $67 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 75 presents gross unrealized losses on securities available for sale at March 31, 2014 and December 31, 2013. 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 Accumulated other comprehensive income (loss).

Table 75: Gross Unrealized Loss and Fair Value of Securities Available for Sale

	Unrealized loss position less than 12 months		Unrealized loss position 12 months or more		Total	
In millions	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value
March 31, 2014						
Debt securities						
U.S. Treasury and government agencies	$ (3)	$ 1,369			$ (3)	$ 1,369
Residential mortgage-backed						
Agency	(136)	6,505	$ (14)	$ 488	(150)	6,993
Non-agency	(8)	407	(120)	1,655	(128)	2,062
Commercial mortgage-backed						
Agency	(1)	34			(1)	34
Non-agency	(14)	1,058		11	(14)	1,069
Asset-backed	(8)	1,621	(27)	254	(35)	1,875
State and municipal	(7)	236	(22)	291	(29)	527
Other debt	(11)	744	(1)	12	(12)	756
Total debt securities	(188)	11,974	(184)	2,711	(372)	14,685
Corporate stocks and other	(1)	15			(1)	15
Total	$ (189)	$ 11,989	$ (184)	$ 2,711	$ (373)	$ 14,700
December 31, 2013						
Debt securities						
U.S. Treasury and government agencies	$ (7)	$ 1,066			$ (7)	$ 1,066
Residential mortgage-backed						
Agency	(210)	7,950	$ (12)	$ 293	(222)	8,243
Non-agency	(18)	855	(142)	1,719	(160)	2,574
Commercial mortgage-backed						
Agency	(1)	23			(1)	23
Non-agency	(18)	1,315		14	(18)	1,329
Asset-backed	(11)	1,752	(37)	202	(48)	1,954
State and municipal	(23)	897	(21)	286	(44)	1,183
Other debt	(17)	844	(1)	12	(18)	856
Total debt securities	(305)	14,702	(213)	2,526	(518)	17,228
Corporate stocks and other	(1)	15			(1)	15
Total	$ (306)	$ 14,717	$ (213)	$ 2,526	$ (519)	$ 17,243

The gross unrealized loss on debt securities held to maturity was $61 million at March 31, 2014 and $98 million at December 31, 2013. The majority of the gross unrealized loss at March 31, 2014 related to agency residential mortgage-backed securities. The fair value of debt securities held to maturity that were in a continuous loss position for less than 12 months was $2.7 billion and $3.6 billion at March 31, 2014 and December 31, 2013, respectively, and positions that were in a continuous loss position for 12 months or more were $45 million and $48 million at March 31, 2014 and December 31, 2013, respectively. For securities transferred to held to maturity from available for sale, the unrealized loss for purposes of this analysis is determined by comparing the security s original amortized cost to its current estimated fair value.

Evaluating Investment Securities for Other-than-Temporary Impairments

For the securities in the preceding Table 75, as of March 31, 2014 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.

At least quarterly, we conduct a comprehensive security-level assessment on all securities. For those securities in an unrealized loss position we determine if OTTI exists. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. An OTTI loss must be recognized for a debt security in an unrealized loss position if we intend to sell the security or it is more likely than not we will be required to sell the security prior to recovery of its amortized cost basis.

In this situation, the amount of loss recognized in income is equal to the difference between the fair value and the amortized cost basis of the security. Even if we do not expect to sell the security, we must evaluate the expected cash flows to be received to determine if we believe a credit loss has occurred. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in income. The portion of the unrealized loss relating to other factors, such as liquidity conditions in the market or changes in market interest rates, is recorded in accumulated other comprehensive income (loss).

The security-level assessment is performed on each security, regardless of the classification of the security as available for sale or held to maturity. Our assessment considers the security structure, recent security collateral performance metrics if applicable, external credit ratings, failure of the issuer to make scheduled interest or principal payments, our judgment and expectations of future performance, and relevant independent industry research, analysis and forecasts. Results of the periodic assessment are reviewed by a cross-functional senior management team representing Asset & Liability Management, Finance, and Market Risk Management. The senior management team considers the results of the assessments, as well as other factors, in determining whether the impairment is other-than-temporary.

Substantially all of the credit impairment we have recognized relates to non-agency residential mortgage-backed securities and asset-backed securities collateralized by first-lien and second-lien non-agency residential mortgage loans. Potential credit losses on these securities are evaluated on a security-by-security basis. Collateral performance assumptions are developed for each security after reviewing collateral composition and collateral performance statistics. This includes analyzing recent delinquency roll rates, loss severities, voluntary prepayments and various other collateral and performance metrics. This information is then combined with general expectations on the housing market, employment and other macroeconomic factors to develop estimates of future performance.

Security level assumptions for prepayments, loan defaults and loss given default are applied to each non-agency residential mortgage-backed security and asset-backed security collateralized by first-lien and second-lien non-agency residential mortgage loans using a third-party cash flow model. The third-party cash flow model then generates projected cash flows according to the structure of each security. Based on the results of the cash flow analysis, we determine whether we expect that we will recover the amortized cost basis of our security.

The following table provides detail on the significant assumptions used to determine credit impairment for non-agency residential mortgage-backed and asset-backed securities collateralized by first-lien and second-lien non-agency residential mortgage loans.

Table 76: Credit Impairment Assessment Assumptions Non-Agency Residential Mortgage-Backed and Asset-Backed Securities

March 31, 2014	Range	Weighted-average (a)
Long-term prepayment rate (annual CPR)		
Prime	7-20%	13%
Alt-A	5-12	6
Option ARM	3-6	3
Remaining collateral expected to default		
Prime	1-39%	15%
Alt-A	8-54	30
Option ARM	12-57	42
Loss severity		
Prime	25-65%	43%
Alt-A	30-80	56
Option ARM	40-75	60

(a) Calculated by weighting the relevant assumption for each individual security by the current outstanding cost basis of the security.

The following table presents a rollforward of the cumulative OTTI credit losses recognized in earnings for all debt securities for which a portion of an OTTI loss was recognized in Accumulated other comprehensive income (loss).

Table 77: Rollforward of Cumulative OTTI Credit Losses Recognized in Earnings

Three months ended March 31,

In millions	2014	2013
Balance at beginning of period	$ (1,160)	$ (1,201)
Additional loss where credit impairment was previously recognized	(2)	(10)
Reduction due to credit impaired securities sold or matured	5	46
Balance at end of period	$ (1,157)	$ (1,165)

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

Table 78: Gains (Losses) on Sales of Securities Available for Sale

In millions	Proceeds	Gross Gains	Gross Losses	Net Gains	Tax Expense
For the three months ended March 31					
2014	$ 1,361	$ 16	$ (6)	$ 10	$ 4
2013	1,255	17	(3)	14	5

The following table presents, by remaining contractual maturity, the amortized cost, fair value and weighted-average yield of debt securities at March 31, 2014.

Table 79: Contractual Maturity of Debt Securities

March 31, 2014

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		$ 1,151	$ 2,922	$ 351	$ 4,424
Residential mortgage-backed					
Agency		85	434	20,852	21,371
Non-agency		9	1	5,258	5,268
Commercial mortgage-backed					
Agency	$ 65	424	36	98	623
Non-agency		58	54	3,641	3,753
Asset-backed	30	869	2,237	2,377	5,513
State and municipal	5	115	364	2,248	2,732
Other debt	433	1,411	494	255	2,593
Total debt securities available for sale	$ 533	$ 4,122	$ 6,542	$ 35,080	$ 46,277
Fair value	$ 536	$ 4,215	$ 6,672	$ 35,736	$ 47,159
Weighted-average yield, GAAP basis	3.04%	2.46%	2.37%	3.10%	2.94%
Securities Held to Maturity					
U.S. Treasury and government agencies				$ 241	$ 241
Residential mortgage-backed					
Agency				5,671	5,671
Non-agency				288	288
Commercial mortgage-backed					
Agency		$ 1,003	$ 214	4	1,221
Non-agency		6		1,351	1,357
Asset-backed			293	703	996

State and municipal	$ 20	16	503	515	1,054
Other debt			333		333
Total debt securities held to maturity	$ 20	$ 1,025	$ 1,343	$ 8,773	$ 11,161
Fair value	$ 21	$ 1,067	$ 1,384	$ 8,869	$ 11,341
Weighted-average yield, GAAP basis	4.42%	3.38%	3.35%	3.63%	3.58%

Based on current interest rates and expected prepayment speeds, the weighted-average expected maturity of the investment securities portfolio (excluding corporate stocks and other) was 4.8 years at March 31, 2014 and 4.9 years at December 31, 2013. The weighted-average expected maturity of mortgage and other asset-backed debt securities were as follows as of March 31, 2014

Table 80: Weighted-Average Expected Maturity of Mortgage and Other Asset-Backed Debt Securities

March 31, 2014	Years
Agency residential mortgage-backed securities	4.7
Non-agency residential mortgage-backed securities	5.9
Agency commercial mortgage-backed securities	3.4
Non-agency commercial mortgage-backed securities	3.1
Asset-backed securities	3.9

Weighted-average yields are based on historical cost with effective yields weighted for the contractual maturity of each security. At March 31, 2014, there were no securities of a single issuer, other than FNMA, that exceeded 10% of Total shareholders equity.

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

Table 81: Fair Value of Securities Pledged and Accepted as Collateral

In millions	March 31 2014	December 31 2013
Pledged to others	$ 17,343	$ 18,772
Accepted from others:		
Permitted by contract or custom to sell or repledge	1,015	1,571
Permitted amount repledged to others	812	1,343

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 8 FAIR VALUE

FAIR VALUE MEASUREMENT

GAAP establishes a fair value reporting hierarchy to maximize the use of observable inputs when measuring fair value. There are three levels of inputs used to measure fair value. For more information regarding the fair value hierarchy and the valuation methodologies for assets and liabilities measured at fair value on a recurring basis, see Note 9 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

Valuation Processes

We have various processes and controls in place to help ensure that fair value is reasonably estimated. Any models used to determine fair values or to validate dealer quotes are subject to review and independent testing as part of our model validation and internal control testing processes. Our Model Risk Management Committee reviews significant models at least annually. In addition, we have teams independent of the traders that verify marks and assumptions used for valuations at each period end.

Assets and liabilities measured at fair value, by their nature, result in a higher degree of financial statement volatility. Assets and liabilities classified within Level 3 inherently require the use of various assumptions, estimates and judgments when measuring their fair value. As observable market activity is commonly not available to use when estimating the fair value of Level 3 assets and liabilities, we must estimate fair value using various modeling techniques. These techniques include the use of a variety of inputs/assumptions including credit quality, liquidity, interest rates or other relevant inputs across the entire population of our Level 3 assets and liabilities. Changes in the significant underlying factors or assumptions (either an increase or a decrease) in any of these areas underlying our estimates may result in a significant increase/decrease in the Level 3 fair value measurement of a particular asset and/or liability from period to period.

Financial Instruments Accounted For at Fair Value on a Recurring Basis

A cross-functional team comprised of representatives from Asset & Liability Management, Finance and Market Risk Management oversees the governance of the processes and methodologies used to estimate the fair value of securities and the price validation testing that is performed. This management team reviews pricing sources and trends and the results of validation testing.

For more information regarding the fair value of financial instruments accounted for at fair value on a recurring basis, see Note 9 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

The following disclosures for financial instruments accounted for at fair value have been updated during the first three months of 2014:

Financial Derivatives

In connection with the sales of portions of our Visa Class B common shares, we entered into additional swap agreements with the purchaser of the shares to account for future changes in the value of the Class B common shares resulting from changes in the settlement of certain specified litigation and its effect on the conversion rate of Class B common shares into Visa Class A common shares and to make payments calculated by reference to the market price of the Class A common shares and a fixed rate of interest. The swaps are classified as Level 3 instruments and the fair values of the liability positions totaled $100 million at March 31, 2014 and $90 million at December 31, 2013, respectively.

Commercial Mortgage Servicing Rights

As of January 1, 2014, PNC made an irrevocable election to subsequently measure all classes of commercial mortgage servicing rights (MSRs) at fair value in order to eliminate any potential measurement mismatch between our economic hedges and the commercial MSRs. The impact of the cumulative-effect adjustment to retained earnings was not material. We will recognize recurring gains/(losses) on changes in the fair value of commercial MSRs as a result of the election. Assumptions incorporated into the commercial valuation model reflect management s best estimate of factors that a market participant would use in valuing the commercial MSRs. Although sales of commercial MSRs do occur, commercial MSRs do not trade in an active, open market with readily observable prices so the precise terms and conditions of sales are not available. Due to the nature of the valuation inputs and the limited availability of market pricing, commercial MSRs are classified as Level 3.

The fair value of commercial MSRs is estimated by using a discounted cash flow model incorporating unobservable inputs for assumptions as to constant prepayment rates, discount rates and other factors. Significant increases (decreases) in constant prepayment rates and discount rates would result in significantly lower (higher) commercial MSR value determined based on current market conditions and expectations.

Assets and liabilities measured at fair value on a recurring basis, including instruments for which PNC has elected the fair value option, follow.

Table 82: Fair Value Measurements Recurring Basis Summary

	March 31, 2014				December 31, 2013			
In millions	Level 1	Level 2	Level 3	Total Fair Value	Level 1	Level 2	Level 3	Total Fair Value
Assets								
Securities available for sale								
U.S. Treasury and government agencies	$ 3,922	$ 651		$ 4,573	$ 3,460	$ 658		$ 4,118
Residential mortgage-backed								
Agency		21,631		21,631		22,831		22,831
Non-agency		238	$ 5,234	5,472		247	$ 5,358	5,605
Commercial mortgage-backed								
Agency		637		637		646		646
Non-agency		3,862		3,862		4,042		4,042
Asset-backed		4,913	642	5,555		5,131	641	5,772
State and municipal		2,462	331	2,793		2,284	333	2,617
Other debt		2,604	32	2,636		2,505	38	2,543
Total debt securities	3,922	36,998	6,239	47,159	3,460	38,344	6,370	48,174
Corporate stocks and other	309	15		324	417	16		433
Total securities available for sale	4,231	37,013	6,239	47,483	3,877	38,360	6,370	48,607
Financial derivatives (a) (b)								
Interest rate contracts	22	4,315	28	4,365	25	4,540	34	4,599
Other contracts		177	2	179		192	2	194
Total financial derivatives	22	4,492	30	4,544	25	4,732	36	4,793
Residential mortgage loans held for sale (c)		1,052	5	1,057		1,307	8	1,315
Trading securities (d)								
Debt (e)	1,245	1,084	32	2,361	2,159	862	32	3,053
Equity	20			20	20			20
Total trading securities	1,265	1,084	32	2,381	2,179	862	32	3,073
Trading loans (a)		7		7		6		6
Residential mortgage servicing rights (f)			1,039	1,039			1,087	1,087
Commercial mortgage servicing rights (f) (g)			529	529				
Commercial mortgage loans held for sale (c)			577	577			586	586
Equity investments (a) (h)								
Direct investments			1,163	1,163			1,069	1,069
Indirect investments (i)			594	594			595	595
Total equity investments			1,757	1,757			1,664	1,664
Customer resale agreements (j)		186		186		207		207
Loans (k)		544	506	1,050		513	512	1,025
Other assets (a)								
BlackRock Series C Preferred Stock (l)			330	330			332	332
Other	196	205	8	409	209	184	8	401
Total other assets	196	205	338	739	209	184	340	733
Total assets	$ 5,714	$ 44,583	$ 11,052	$ 61,349	$ 6,290	$ 46,171	$ 10,635	$ 63,096
Liabilities								
Financial derivatives (b) (m)								
Interest rate contracts	$ 9	$ 3,078	$ 6	$ 3,093	$ 6	$ 3,307	$ 13	$ 3,326
BlackRock LTIP			330	330			332	332
Other contracts		175	104	279		182	94	276
Total financial derivatives	9	3,253	440	3,702	6	3,489	439	3,934
Trading securities sold short (n)								
Debt	806	23		829	1,341	1		1,342
Total trading securities sold short	806	23		829	1,341	1		1,342
Other borrowed funds			181	181			184	184
Total liabilities	$ 815	$ 3,276	$ 621	$ 4,712	$ 1,347	$ 3,490	$ 623	$ 5,460

(a) Included in Other assets on our Consolidated Balance Sheet.
(b) Amounts at March 31, 2014 and December 31, 2013 are presented gross and are not reduced by the impact of legally enforceable master netting agreements that allow PNC to net positive and negative positions and cash collateral held or placed with the same counterparty. The net asset amounts were $1.7 billion at both March 31, 2014 and December 31, 2013, and the net liability amounts were $.8 billion and $.9 billion, respectively.
(c) Included in Loans held for sale on our Consolidated Balance Sheet. PNC has elected the fair value option for certain residential and commercial mortgage loans held for sale.
(d) Fair value includes net unrealized gains of $15 million at March 31, 2014 compared with net unrealized gains of $11 million at December 31, 2013.
(e) Approximately 30% of these securities are residential mortgage-backed securities and 54% are U.S. Treasury and government agencies securities at March 31, 2014. Comparable amounts at December 31, 2013 were 17% and 69%, respectively.
(f) Included in Other intangible assets on our Consolidated Balance Sheet.
(g) As of January 1, 2014, PNC made an irrevocable election to measure all classes of commercial MSRs at fair value. Accordingly, beginning with the first quarter of 2014, commercial MSRs are measured at fair value on a recurring basis.
(h) Our adoption of ASU 2013-08, Financial Services Investment Companies (Topic 946): *Amendments to the Scope, Measurement and Disclosure Requirements*, did not result in a change in classification or status of our accounting for investment companies.
(i) The indirect equity funds are not redeemable, but PNC receives distributions over the life of the partnership from liquidation of the underlying investments by the investee, which we expect to occur over the next twelve years. The amount of unfunded contractual commitments related to indirect equity investments was $120 million and related to direct equity investments was $33 million as of March 31, 2014, respectively. Comparable amounts at December 31, 2013 were $128 million and $36 million, respectively.
(j) Included in Federal funds sold and resale agreements on our Consolidated Balance Sheet. PNC has elected the fair value option for these items.
(k) Included in Loans on our Consolidated Balance Sheet.
(l) PNC has elected the fair value option for these shares.
(m) Included in Other liabilities on our Consolidated Balance Sheet.
(n) Included in Other borrowed funds on our Consolidated Balance Sheet.

Reconciliations of assets and liabilities measured at fair value on a recurring basis using Level 3 inputs for 2014 and 2013 follow.

Table 83: Reconciliation of Level 3 Assets and Liabilities

Three Months Ended March 31, 2014

		Total realized / unrealized gains or losses for the period (a)									Unrealized gains (losses) on assets and liabilities held on
Level 3 Instruments Only In millions	Fair Value Dec. 31, 2013	Included in Earnings	Included in Other comprehensive income	Purchases	Sales	Issuances	Settlements	Transfers into Level 3 (b)	Transfers out of Level 3 (b)	Fair Value Mar. 31, 2014	Consolidated Balance Sheet at Mar. 31, 2014 (c)
Assets											
Securities available for sale											
Residential mortgage backed non-agency	$ 5,358	$ 34	$ 54				$ (212)			$ 5,234	$ (2)
Asset-backed	641	4	19				(22)			642	
State and municipal	333	(2)	1				(1)			331	
Other debt	38	1			$ (6)		(1)			32	
Total securities available for sale	6,370	37	74		(6)		(236)			6,239	(2)
Financial derivatives	36	60					(66)			30	52
Residential mortgage loans held for sale	8			$ 5	(2)			$ 3	$ (9)	5	
Trading securities Debt	32									32	
Residential mortgage servicing rights	1,087	(59)		17		$ 23	(29)			1,039	(58)
Commercial mortgage servicing rights		(14)		7		7	529 (d)			529	(14)
Commercial mortgage loans held for sale	586	2					(11)			577	2
Equity investments											
Direct investments	1,069	34		69	(9)					1,163	33
Indirect investments	595	18		6	(26)		1			594	17
Total equity investments	1,664	52		75	(35)		1			1,757	50
Loans	512	9			(6)		(19)	39	(29)	506	6
Other assets											

BlackRock Series C Preferred Stock	332	(2)								330	(2)
Other	8									8	
Total other assets	340	(2)								338	(2)
Total assets	$ 10,635	$ 85 (f)	$ 74	$ 104	$ (49)	$ 30	$ 169	$ 42	$ (38)	$ 11,052	$ 34 (g)
Liabilities											
Financial derivatives (e)	$ 439	$ 40			$ 1		$ (40)			$ 440	$ (4)
Other borrowed funds	184	4					(7)			181	
Total liabilities	$ 623	$ 44 (f)			$ 1		$ (47)			$ 621	$ (4) (g)

Three Months Ended March 31, 2013

Level 3 Instruments Only In millions	Fair Value Dec. 31, 2012	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 (b)	Transfers out of Level 3 (b)	Fair Value Mar. 31, 2013	Unrealized gains (losses) on assets and liabilities held on Consolidated Balance Sheet at Mar. 31, 2013(c)
Assets											
Securities available for sale											
Residential mortgage-backed non-agency	$ 6,107	$ 43	$ 139				$ (251)			$ 6,038	$ (7)
Commercial mortgage backed non-agency		1					(1)				
Asset-backed	708	3	25				(35)			701	(3)
State and municipal	339	1	2				(12)			330	
Other debt	48			$ 1						49	
Total securities available for sale	7,202	48	166	1			(299)			7,118	(10)
Financial derivatives	106	89		1			(103)			93	76
Residential mortgage loans held for sale	27	1		28				$ 3	$ (15)	44	1
Trading securities Debt	32									32	
Residential mortgage servicing rights	650	78		64		$ 37	(50)			779	75
Commercial mortgage loans held for sale	772	1			$ (2)		(2)			769	
Equity investments											
Direct investments	1,171	19		14	(11)					1,193	14
Indirect investments	642	13		4	(32)					627	13
Total equity investments	1,813	32		18	(43)					1,820	27
Loans	134	5					125	12	(4)	272	5
Other assets											
BlackRock Series C Preferred Stock	243	60					(33)			270	60
Other	9									9	
Total other assets	252	60					(33)			279	60
Total assets	$ 10,988	$ 314(f)	$ 166	$ 112	$ (45)	$ 37	$ (362)	$ 15	$ (19)	$ 11,206	$ 234(g)
Liabilities											
Financial derivatives (e)	$ 376	$ 76					$ (52)			$ 400	$ 51
Other borrowed funds							130			130	
Total liabilities	$ 376	$ 76(f)					$ 78			$ 530	$ 51(g)

(a) Losses for assets are bracketed while losses for liabilities are not.
(b) PNC s policy is to recognize transfers in and transfers out as of the end of the reporting period.
(c) The amount of the total gains or losses for the period included in earnings that is attributable to the change in unrealized gains or losses related to those assets and liabilities held at the end of the reporting period.
(d) Settlements relating to commercial MSRs of $552 million represent the fair value as of January 1, 2014 as a result of an irrevocable election to measure all classes of commercial MSRs at fair value. Refer to Note 9 Goodwill and Other Intangible Assets for additional information on commercial MSRs.
(e) Financial derivatives, which include swaps entered into in connection with sales of certain Visa Class B common shares.
(f) Net gains (realized and unrealized) included in earnings relating to Level 3 assets and liabilities were $41 million for the first three months of 2014 compared with net gains (realized and unrealized) of $238 million for the first three months of 2013. These amounts also included amortization and accretion of $41 million for the first three months of 2014 compared with $57 million for the first three months of 2013. The amortization and accretion amounts were included in Interest income on the Consolidated Income Statement and the remaining net gains/(losses) (realized and unrealized) were included in Noninterest income on the Consolidated Income Statement.
(g) Net unrealized gains relating to those assets and liabilities held at the end of the reporting period were $38 million for the first three months of 2014, compared with net unrealized gains of $183 million for the first three months of 2013. These amounts were included in Noninterest income on the Consolidated Income Statement.

An instrument s categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification (transfer) of assets or liabilities between hierarchy levels. PNC s policy is to recognize transfers in and transfers out as of the end of the reporting period. During the first three months of 2014, there were transfers of residential mortgage loans held for sale and loans from Level 2 to Level 3 of $3 million and $32 million, respectively, as a result of reduced market activity in the nonperforming residential mortgage sales market which reduced the observability of valuation inputs. Also during the first three months of 2014, there were transfers out of Level 3 residential mortgage loans held for sale and loans of $2 million and $29 million, respectively, primarily due to the transfer of residential mortgage loans held for sale and loans to OREO. In addition, there was approximately $7 million of Level 3 residential mortgage loans held for sale reclassified to Level 3 loans during the first three months of 2014 due to the loans being reclassified from held for sale loans to held in portfolio loans. This amount was included in Transfers out of Level 3 residential mortgages loans held for sale and Transfers into Level 3 loans within Table 83.

During the first three months of 2013, there were transfers of residential mortgage loans held for sale and loans from Level 2 to Level 3 of $3 million and $1 million, respectively, as a result of reduced market activity in the nonperforming residential mortgage sales market which reduced the observability of valuation inputs. Also during the first three months of 2013, there were transfers out of Level 3 residential mortgage loans held for sale and loans of $4 million and $4 million, respectively, primarily due to the transfer of residential mortgage loans held for sale and loans to OREO. In addition, there was approximately $11 million of Level 3 residential mortgage loans held for sale reclassified to Level 3 loans during the first three months of 2013 due to the loans being reclassified from held for sale loans to held in portfolio loans. This amount was included in Transfers out of Level 3 residential mortgage loans held for sale and Transfers into Level 3 loans within Table 83.

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

Table 84: Fair Value Measurements Recurring Quantitative Information

March 31, 2014

Level 3 Instruments Only

Dollars in millions	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)	
Residential mortgage-backed non-agency securities	$ 5,234	Priced by a third-party vendor	Constant prepayment rate (CPR)	1.0% - 32.1% (6.7%)	(a)
		using a discounted cash flow	Constant default rate (CDR)	0% - 21.9% (6.3%)	(a)
		pricing model (a)	Loss severity	6.1% - 96.4% (52.5%)	(a)
			Spread over the benchmark curve (b)	230bps weighted average	(a)
Asset-backed securities	642	Priced by a third-party vendor	Constant prepayment rate (CPR)	1.0% - 14.2% (5.8%)	(a)
		using a discounted cash flow	Constant default rate (CDR)	1.0% - 13.9% (8.2%)	(a)
		pricing model (a)	Loss severity	10.0% - 100% (72.5%)	(a)
			Spread over the benchmark curve (b)	302bps weighted average	(a)
State and municipal securities	131	Discounted cash flow	Spread over the benchmark curve (b)	60bps - 210bps (76bps)	
	200	Consensus pricing (c)	Credit and Liquidity discount	0% - 25.0% (8.3%)	
Other debt securities	32	Consensus pricing (c)	Credit and Liquidity discount	7.0% - 95.0% (88.4%)	
Trading securities - Debt	32	Consensus pricing (c)	Credit and Liquidity discount	5% - 20.0% (8.3%)	
Residential mortgage servicing rights	1,039	Discounted cash flow	Constant prepayment rate (CPR)	2.2% - 36.5% (8.3%)	
			Spread over the benchmark curve (b)	889bps - 1,888bps (1,023bps)	
Commercial mortgage servicing rights	529	Discounted cash flow	Constant prepayment rate (CPR)	5.8% - 13.1% (8.0%)	
			Discount rate	4.7% - 9.3% (6.7%)	
Commercial mortgage loans held for sale	577	Discounted cash flow	Spread over the benchmark curve (b)	455bps - 8,015bps (1,034bps)	
Equity investments - Direct investments	1,163	Multiple of adjusted earnings	Multiple of earnings	3.3x - 10.8x (7.2x)	
Equity investments - Indirect (d)	594	Net asset value	Net asset value		
Loans - Residential real estate	227	Consensus pricing (c)	Cumulative default rate	2.0% - 100% (80.9%)	
			Loss severity	0% - 100% (45.8%)	
			Gross discount rate	9.1% - 13.0% (11.7%)	
	159	Discounted cash flow	Loss severity	8.0% weighted average	
			Gross discount rate	10.0% weighted average	
Loans - Home equity (e)	120	Consensus pricing (c)	Credit and Liquidity discount	36.0% - 99.0% (57.0%)	
BlackRock Series C Preferred Stock	330	Consensus pricing (c)	Liquidity discount	20.0%	
BlackRock LTIP	(330)	Consensus pricing (c)	Liquidity discount	20.0%	
Swaps related to sales of certain Visa Class B common shares	(100)	Discounted cash flow	Estimated conversion factor of Class B shares into Class A shares	41.7%	
			Estimated growth rate of Visa Class A share price	12.4%	
Other borrowed funds (e)	(181)	Consensus pricing (c)	Credit and Liquidity discount	0% - 99.0% (17.0%)	
			Spread over the benchmark curve (b)	55bps	
Insignificant Level 3 assets, net of liabilities (f)	33				
Total Level 3 assets, net of liabilities (g)	$ 10,431				

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Level 3 Instruments Only

Dollars in millions	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)	
Residential mortgage-backed non-agency securities	$ 5,358	Priced by a third-party vendor	Constant prepayment rate (CPR)	1.0% - 32.1% (6.0%)	(a)
		using a discounted cash flow	Constant default rate (CDR)	0% - 21.9% (6.6%)	(a)
		pricing model (a)	Loss severity	6.1% - 92.9% (52.3%)	(a)
			Spread over the benchmark curve (b)	237bps weighted average	(a)
Asset-backed securities	641	Priced by a third-party vendor	Constant prepayment rate (CPR)	1.0% - 11.1% (5.0%)	(a)
		using a discounted cash flow	Constant default rate (CDR)	1.0% - 13.9% (8.7%)	(a)
		pricing model (a)	Loss severity	10.0% - 100% (70.1%)	(a)
			Spread over the benchmark curve (b)	326bps weighted average	(a)
State and municipal securities	132	Discounted cash flow	Spread over the benchmark curve (b)	80bps - 240bps (97bps)	
	201	Consensus pricing (c)	Credit and Liquidity discount	0% - 25.0% (8.3%)	
Other debt securities	38	Consensus pricing (c)	Credit and Liquidity discount	7.0% - 95.0% (88.4%)	
Trading securities Debt	32	Consensus pricing (c)	Credit and Liquidity discount	0% - 20.0% (8.3%)	
Residential mortgage servicing rights	1,087	Discounted cash flow	Constant prepayment rate (CPR)	2.2% - 32.9% (7.6%)	
			Spread over the benchmark curve (b)	889bps - 1,888bps (1,024bps)	
Commercial mortgage loans held for sale	586	Discounted cash flow	Spread over the benchmark curve (b)	460bps - 6,655bps (972bps)	
Equity investments Direct investments	1,069	Multiple of adjusted earnings	Multiple of earnings	4.5x - 10.8x (7.2x)	
Equity investments Indirect (d)	595	Net asset value	Net asset value		
Loans Residential real estate	225	Consensus pricing (c)	Cumulative default rate	2.0% - 100% (80.0%)	
			Loss severity	0% - 100% (48.4%)	
			Gross discount rate	12.0% - 13.0% (12.2%)	
	164	Discounted cash flow	Loss severity	8.0% weighted average	
			Gross discount rate	10.0% weighted average	
Loans Home equity (e)	123	Consensus pricing (c)	Credit and Liquidity discount	36.0% - 99.0% (55.0%)	
BlackRock Series C Preferred Stock	332	Consensus pricing (c)	Liquidity discount	20.0%	
BlackRock LTIP	(332)	Consensus pricing (c)	Liquidity discount	20.0%	
Swaps related to sales of certain Visa Class B common shares	(90)	Discounted cash flow	Estimated conversion factor of Class B shares into Class A shares	41.7%	
			Estimated growth rate of Visa Class A share price	8.6%	
Other borrowed funds (e)	(184)	Consensus pricing (c)	Credit and Liquidity discount	0% - 99.0% (18.0%)	
			Spread over the benchmark curve (b)	13bps	
Insignificant Level 3 assets, net of liabilities (f)	35				
Total Level 3 assets, net of liabilities (g)	$ 10,012				

(a) Level 3 residential mortgage-backed non-agency and asset-backed securities with fair values as of March 31, 2014 totaling $4,563 million and $611 million, respectively, were priced by a third-party vendor using a discounted cash flow pricing model that incorporates consensus pricing, where available. The comparable amounts as of December 31, 2013 were $4,672 million and $610 million, respectively. The significant unobservable inputs for these securities were provided by the third-party vendor and are disclosed in the table. Our procedures to validate the prices provided by the third-party vendor related to these securities are discussed further in the Fair Value Measurement section of Note 9 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K. Certain Level 3 residential mortgage-backed non-agency and asset-backed securities with fair values as of March 31, 2014 of $671 million and $31 million, respectively, were valued using a pricing source, such as a dealer quote or comparable security price, for which the significant unobservable inputs used to determine the price were not reasonably available. The comparable amounts as of December 31, 2013 were $686 million and $31 million, respectively.

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

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

(d) The range on these indirect equity investments has not been disclosed since these investments are recorded at their net asset redemption values.

(e) Primarily includes a consolidated Non-agency securitization.

(f) Represents the aggregate amount of Level 3 assets and liabilities measured at fair value on a recurring basis that are individually and in the aggregate insignificant. The amount includes certain financial derivative assets and liabilities, residential mortgage loans held for sale and other assets. For additional information, please see commercial mortgage loan commitment assets and liabilities, residential mortgage loan commitment assets, interest rate option assets and liabilities and risk participation agreement assets and liabilities within the Financial Derivatives discussion, and the Residential Mortgage Loans Held for Sale and Other Assets and Liabilities discussions included in Note 9 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

(g)

Consisted of total Level 3 assets of $11,052 million and total Level 3 liabilities of $621 million as of March 31, 2014 and $10,635 million and $623 million as of December 31, 2013, respectively.

Other Financial Assets Accounted for at Fair Value on a Nonrecurring Basis

We may be required to measure certain other financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower-of-cost-or-fair value accounting or write-downs of individual assets due to impairment and are included in Table 85 and Table 86. For more information regarding the valuation methodologies for assets measured at fair value on a nonrecurring basis, see Note 9 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

Table 85: Fair Value Measurements Nonrecurring (a)

	Fair Value		Gains (Losses) Three months ended	
In millions	March 31 2014	December 31 2013	March 31 2014	March 31 2013
Assets				
Nonaccrual loans	$ 58	$ 35	$ (8)	$ (10)
Loans held for sale	78	224	(2)	(3)
Equity investments	6	6		
Commercial mortgage servicing rights (b)		543		13
OREO and foreclosed assets	129	181	(12)	(19)
Long-lived assets held for sale	10	51	(4)	(16)
Total assets	$ 281	$ 1,040	$ (26)	$ (35)

(a) All Level 3 as of March 31, 2014 and December 31, 2013.

(b) As of January 1, 2014, PNC made an irrevocable election to measure all classes of commercial MSRs at fair value. Accordingly, beginning with the first quarter of 2014, commercial MSRs are measured at fair value on a recurring basis.

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

Table 86: Fair Value Measurements Nonrecurring Quantitative Information

Level 3 Instruments Only

Dollars in millions	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
March 31, 2014				
Assets				
Nonaccrual loans (a)	$ 45	Fair value of collateral	Loss severity	5.5% - 80.6% (24.3%)
Loans held for sale	78	Discounted cash flow	Spread over the benchmark curve (b)	52bps - 317bps (108bps)
			Embedded servicing value	.8% - 3.5% (2.2%)
Equity investments	6	Discounted cash flow	Market rate of return	6.5%
Other (c)	152	Fair value of property or collateral	Appraised value/sales price	Not meaningful
Total Assets	$ 281			
December 31, 2013				
Assets				
Nonaccrual loans (a)	$ 21	Fair value of collateral	Loss severity	7.0% - 84.9% (36.6%)
Loans held for sale	224	Discounted cash flow	Spread over the benchmark curve (b)	35bps - 220bps (144bps)
			Embedded servicing value	.8% - 3.5% (2.0%)
Equity investments	6	Discounted cash flow	Market rate of return	6.5%
Commercial mortgage servicing rights (d)	543	Discounted cash flow	Constant prepayment rate (CPR)	7.1% - 11.8% (7.7%)
			Discount rate	5.4% - 7.6% (6.7%)
Other (c)	246	Fair value of property or collateral	Appraised value/sales price	Not meaningful
Total Assets	$ 1,040			

(a) The fair value of nonaccrual loans included in this line item is determined based on internal loss rates. The fair value of nonaccrual loans where the fair value is determined based on the appraised value or sales price is included within Other, below.

(b)

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

(c) Other included Nonaccrual loans of $13 million, OREO and foreclosed assets of $129 million and Long-lived assets held for sale of $10 million as of March 31, 2014. Comparably, as of December 31, 2013, Other included Nonaccrual loans of $14 million, OREO and foreclosed assets of $181 million and Long-lived assets held for sale of $51 million. The fair value of these assets is determined based on appraised value or sales price, the range of which is not meaningful to disclose.

(d) As of January 1, 2014, PNC made an irrevocable election to measure all classes of commercial MSRs at fair value. Accordingly, beginning with the first quarter of 2014, commercial MSRs are measured at fair value on a recurring basis.

Financial Instruments Accounted For Under Fair Value Option

For more information regarding financial instruments we elected to measure at fair value under fair value option on our Consolidated Balance Sheet, see Note 9 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

The changes in fair value included in Noninterest income for items for which we elected the fair value option are included in the table below.

Table 87: Fair Value Option Changes in Fair Value (a)

	Gains (Losses)	
	Three months ended	
In millions	March 31 2014	March 31 2013
Assets		
Customer resale agreements	$ (1)	$ (2)
Trading loans		1
Commercial mortgage loans held for sale	2	1
Residential mortgage loans held for sale	79	63
Residential mortgage loans portfolio	11	6
BlackRock Series C Preferred Stock	(2)	60
Liabilities		
Other borrowed funds	(4)	

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

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

Table 88: Fair Value Option Fair Value and Principal Balances

In millions	Fair Value	Aggregate Unpaid Principal Balance	Difference
March 31, 2014			
Assets			
Customer resale agreements	$ 186	$ 176	$ 10
Trading loans	7	7	
Residential mortgage loans held for sale			
Performing loans	1,044	1,002	42
Accruing loans 90 days or more past due	3	3	
Nonaccrual loans	10	13	(3)
Total	1,057	1,018	39
Commercial mortgage loans held for sale (a)			
Performing loans	570	657	(87)
Nonaccrual loans	7	9	(2)
Total	577	666	(89)
Residential mortgage loans portfolio			
Performing loans	228	320	(92)
Accruing loans 90 days or more past due (b)	450	530	(80)
Nonaccrual loans	372	593	(221)
Total	1,050	1,443	(393)
Liabilities			
Other borrowed funds (c)	$ 181	$ 219	$ (38)
December 31, 2013			
Assets			
Customer resale agreements	$ 207	$ 196	$ 11
Trading loans	6	6	
Residential mortgage loans held for sale			
Performing loans	1,298	1,260	38
Accruing loans 90 days or more past due	2	2	
Nonaccrual loans	15	18	(3)
Total	1,315	1,280	35
Commercial mortgage loans held for sale (a)			
Performing loans	583	669	(86)
Nonaccrual loans	3	9	(6)
Total	586	678	(92)
Residential mortgage loans portfolio			
Performing loans	215	313	(98)
Accruing loans 90 days or more past due (b)	445	517	(72)
Nonaccrual loans	365	598	(233)
Total	1,025	1,428	(403)
Liabilities			
Other borrowed funds (c)	$ 184	$ 225	$ (41)

(a) There were no accruing loans 90 days or more past due within this category at March 31, 2014 or December 31, 2013.
(b) The majority of these loans are government insured loans, which positively impacts the fair value. Also included are home equity loans owned by private investors, which negatively impacts the fair value.
(c) Related to a Non-agency securitization that PNC consolidated in the first quarter of 2013.

The following table provides additional information regarding the fair value and classification within the fair value hierarchy of financial instruments.

Table 89: Additional Fair Value Information Related to Financial Instruments

	Carrying	Fair Value			
In millions	Amount	Total	Level 1	Level 2	Level 3
March 31, 2014					
Assets					
Cash and due from banks	$ 4,723	$ 4,723	$ 4,723		
Short-term assets	17,047	17,047		$ 17,047	
Trading securities	2,381	2,381	1,265	1,084	$ 32
Investment securities	58,644	58,824	4,491	48,080	6,253
Trading loans	7	7		7	
Loans held for sale	2,102	2,103		1,052	1,051
Net loans (excludes leases)	187,137	188,374		544	187,830
Other assets	4,222	4,937(a)	196	1,796	2,945
Financial derivatives					
Designated as hedging instruments under GAAP	1,105	1,105		1,105	
Not designated as hedging instruments under GAAP	3,439	3,439	22	3,387	30
Total Assets	$ 280,807	$ 282,940	$ 10,697	$ 74,102	$ 198,141
Liabilities					
Demand, savings and money market deposits	$ 200,002	$ 200,002		$ 200,002	
Time deposits	22,380	22,391		22,391	
Borrowed funds	47,112	47,978	$ 806	45,689	$ 1,483
Financial derivatives					
Designated as hedging instruments under GAAP	284	284		284	
Not designated as hedging instruments under GAAP	3,418	3,418	9	2,969	440
Unfunded loan commitments and letters of credit	209	209			209
Total Liabilities	$ 273,405	$ 274,282	$ 815	$ 271,335	$ 2,132
December 31, 2013					
Assets					
Cash and due from banks	$ 4,043	$ 4,043	$ 4,043		
Short-term assets	15,113	15,113		$ 15,113	
Trading securities	3,073	3,073	2,179	862	$ 32
Investment securities	60,294	60,372	4,120	49,865	6,387
Trading loans	6	6		6	
Loans held for sale	2,255	2,256		1,307	949
Net loans (excludes leases)	184,305	185,887		513	185,374
Other assets	4,162	4,975(a)	209	1,791	2,975
Financial derivatives					
Designated as hedging instruments under GAAP	1,189	1,189		1,189	
Not designated as hedging instruments under GAAP	3,604	3,604	25	3,543	36
Total Assets	$ 278,044	$ 280,518	$ 10,576	$ 74,189	$ 195,753
Liabilities					
Demand, savings and money market deposits	$ 197,465	$ 197,465		$ 197,465	
Time deposits	23,466	23,487		23,487	
Borrowed funds	46,427	47,258	$ 1,341	44,431	$ 1,486
Financial derivatives					
Designated as hedging instruments under GAAP	364	364		364	
Not designated as hedging instruments under GAAP	3,570	3,570	6	3,125	439
Unfunded loan commitments and letters of credit	224	224			224
Total Liabilities	$ 271,516	$ 272,368	$ 1,347	$ 268,872	$ 2,149

(a)

Includes $850 million for Visa Class B common shares, which was estimated solely based upon the March 31, 2014 closing price for the Visa Class A common shares and the current Visa Class B common shares conversion rate. The Class B common shares are transferable only under limited circumstances, which could impact the aforementioned estimate, until they can be converted into Class A common shares. The comparable amount at December 31, 2013 was $971 million. For additional information, see Note 24 Commitments and Guarantees in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

The aggregate fair value of financial instruments in Table 89 does not represent the total market value of PNC s assets and liabilities as the table excludes the following:

- real and personal property,
- lease financing,
- loan customer relationships,
- deposit customer intangibles,
- mortgage servicing rights,
- retail branch networks,
- fee-based businesses, such as asset management and brokerage, and
- trademarks and brand names.

For more information regarding the fair value amounts for financial instruments and their classifications within the fair value hierarchy, see Note 9 Fair Value in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

The aggregate carrying value of our FHLB and FRB stock was $1.6 billion at both March 31, 2014 and December 31, 2013, which approximates fair value at each date.

Note 9 Goodwill and Other Intangible Assets

Goodwill

Goodwill by business segment consisted of the following:

Table 90: Goodwill by Business Segment (a)

In millions	March 31 2014	December 31 2013
Retail Banking	$ 5,795	$ 5,795
Corporate & Institutional Banking	3,215	3,215
Asset Management Group	64	64
Total	$ 9,074	9,074

(a) The Residential Mortgage Banking and Non-Strategic Assets Portfolio business segments did not have any goodwill allocated to them as of March 31, 2014 and December 31, 2013.

Other Intangible Assets

As of January 1, 2014, PNC made an irrevocable election to measure all classes of commercial MSRs at fair value, which precludes the recognition of valuation allowance or accumulated amortization. Refer to the Mortgage Servicing Rights section of this Note 9 for additional information regarding commercial mortgage servicing rights.

The gross carrying amount, accumulated amortization and net carrying amount of other intangible assets by major category consisted of the following:

Table 91: Other Intangible Assets

In millions	March 31 2014	December 31 2013
Customer-related and other intangibles		
Gross carrying amount	$ 1,671	$ 1,676
Accumulated amortization	(1,124)	(1,096)
Net carrying amount	$ 547	$ 580
Mortgage servicing rights (a)		
Gross carrying amount	$ 1,568	$ 2,620
Valuation allowance		(88)
Accumulated amortization		(896)

Net carrying amount	$ 1,568	$ 1,636
Total	$ 2,115	$ 2,216

(a) Upon the first quarter 2014 irrevocable election of fair value for commercial MSRs, the gross carrying amount of MSRs as of March 31, 2014 represents the fair value of both classes of MSRs.

Amortization expense on existing intangible assets follows:

Table 92: Amortization Expense on Existing Intangible Assets

In millions	
Three months ended March 31, 2014	$ 33
Three months ended March 31, 2013 (a)	65
Remainder of 2014	94
2015	110
2016	93
2017	79
2018	68
2019	57

(a) Includes amortization expense recorded during the first quarter 2013 for commercial MSRs. As of January 1, 2014, PNC made an irrevocable election to measure commercial MSRs at fair value, and, accordingly, amortization expense for commercial MSRs is no longer recorded.

Customer-Related and Other Intangible Assets

Our customer-related and other intangible assets have finite lives. Core deposit intangibles are amortized on an accelerated basis, whereas the remaining other intangible assets are amortized on a straight-line basis. For customer-related and other intangibles, the estimated remaining useful lives range from less than 1 year to 10 years, with a weighted-average remaining useful life of 7 years.

Changes in customer-related and other intangible assets during the first three months of 2014 follow:

Table 93: Summary of Changes in Customer-Related and Other Intangible Assets

In millions	Customer-Related
December 31, 2013	$ 580
Amortization	(33)
March 31, 2014	$ 547

Mortgage Servicing Rights

We recognize as an other intangible asset the right to service mortgage loans for others. MSRs are purchased or originated when loans are sold with servicing retained. As of January 1, 2014, PNC made an irrevocable election to subsequently measure all classes of commercial MSRs at fair value in order to eliminate any potential measurement mismatch between our economic hedges and the commercial MSRs. The impact of the cumulative-effect adjustment to retained earnings was not material, and the valuation allowance associated with the commercial MSRs was reclassified to the gross carrying amount of commercial MSRs. We will recognize gains/(losses) on changes in the fair value of commercial MSRs as a result of the election. Commercial MSRs are subject to declines in value from actual or expected prepayment of the underlying loans and also from defaults. We manage this risk by economically hedging the fair value of commercial MSRs with securities and derivative instruments which are expected to increase (or decrease) in value when the value of commercial MSRs declines (or increases).

The fair value of commercial MSRs is estimated by using a discounted cash flow model incorporating inputs for assumptions as to constant prepayment rates, discount rates and other factors determined based on current market conditions and expectations.

Changes in commercial MSRs accounted for at fair value during the first quarter 2014 follow:

Table 94: Commercial Mortgage Servicing Rights Accounted for at Fair Value

In millions	2014
January 1	$ 552
Additions:	
From loans sold with servicing retained	7
Purchases	7
Changes in fair value due to:	
Time and payoffs (a)	(23)
Other (b)	(14)
March 31	$ 529
Unpaid principal balance of loans serviced for others at March 31	$ 144,332

(a) Represents decrease in MSR value due to passage of time, including the impact from both regularly scheduled loan principal payments and loans that were paid down or paid off during the period.
(b) Represents MSR value changes resulting primarily from market-driven changes in interest rates.

Prior to 2014, commercial MSRs were initially recorded at fair value and subsequently accounted for at the lower of amortized cost or fair value. These rights were substantially amortized in proportion to and over the period of estimated net servicing income of 5 to 10 years. Commercial MSRs were periodically evaluated for impairment. For purposes of impairment, the commercial MSRs were stratified based on asset type, which characterized the predominant risk of the underlying financial asset. If the carrying amount of any individual stratum exceeded its fair value, a valuation reserve was established with a corresponding charge to Corporate services on our Consolidated Income Statement.

Changes in commercial MSRs during the first quarter 2013, prior to the irrevocable fair value election, follow:

Table 95: Commercial Mortgage Servicing Rights Accounted for Under the Amortization Method

In millions	2013
Commercial Mortgage Servicing Rights Net Carrying Amount	

January 1	$ 420
Additions (a)	47
Amortization expense	(28)
Change in valuation allowance	13
March 31	$ 452
Commercial Mortgage Servicing Rights Valuation Allowance	
January 1	$ (176)
Provision	(4)
Recoveries	17
March 31	$ (163)

(a) Additions for the first three months of 2013 included $20 million from loans sold with servicing retained and $27 million from purchases of servicing rights from third parties.

We recognize mortgage servicing right assets on residential real estate loans when we retain the obligation to service these loans upon sale and the servicing fee is more than adequate compensation. Residential MSRs are subject to declines in value principally from actual or expected prepayment of the underlying loans and also from defaults. We manage this risk by economically hedging the fair value of residential MSRs with securities and derivative instruments which are expected to increase (or decrease) in value when the value of residential MSRs declines (or increases).

The fair value of residential MSRs is estimated by using a discounted cash flow valuation model which calculates the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors which are determined based on current market conditions.

Changes in the residential MSRs follow:

Table 96: Residential Mortgage Servicing Rights

In millions	2014	2013
January 1	$ 1,087	$ 650
Additions:		
From loans sold with servicing retained	23	37
Purchases	17	64
Changes in fair value due to:		
Time and payoffs (a)	(29)	(50)
Other (b)	(59)	78
March 31	$ 1,039	$ 779
Unpaid principal balance of loans serviced for others at March 31	$ 113,573	$ 120,490

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

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

The fair value of commercial and residential MSRs and significant inputs to the valuation models as of March 31, 2014 are shown in the tables below. The expected and actual rates of mortgage loan prepayments are significant factors driving the fair value. Management uses both internal proprietary models and a third-party model to estimate future commercial mortgage loan prepayments and a third-party model to estimate future residential mortgage loan prepayments. These models have been refined based on current market conditions and management judgment. Future interest rates are another important factor in the valuation of MSRs. Management utilizes market implied forward interest rates to estimate the future direction of mortgage and discount rates. The forward rates utilized are derived from the current yield curve for U.S. dollar interest rate swaps and are consistent with pricing of capital markets instruments. Changes in the shape and slope of the forward curve in future periods may result in volatility in the fair value estimate.

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

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

Table 97: Commercial Mortgage Loan Servicing Rights Key Valuation Assumptions

Dollars in millions	March 31 2014	December 31 2013
Fair Value	$ 529	$ 552
Weighted-average life (years)	5.1	5.3
Weighted-average constant prepayment rate	8.04%	7.52%
Decline in fair value from 10% adverse change	$ 11	$ 12
Decline in fair value from 20% adverse change	$ 22	$ 23
Effective discount rate	6.70%	6.91%
Decline in fair value from 10% adverse change	$ 15	$ 18
Decline in fair value from 20% adverse change	$ 31	$ 35

Table 98: Residential Mortgage Loan Servicing Rights Key Valuation Assumptions

Dollars in millions	March 31 2014	December 31 2013

Fair value	$ 1,039	$ 1,087
Weighted-average life (years)	7.5	7.9
Weighted-average constant prepayment rate	8.34%	7.61%
Decline in fair value from 10% adverse change	$ 36	$ 34
Decline in fair value from 20% adverse change	$ 70	$ 67
Weighted-average option adjusted spread	10.23%	10.24%
Decline in fair value from 10% adverse change	$ 43	$ 47
Decline in fair value from 20% adverse change	$ 84	$ 91

Fees from mortgage loan servicing, comprised of contractually specified servicing fees, late fees and ancillary fees, follows:

Table 99: Fees from Mortgage Loan Servicing

In millions	2014	2013
Three months ended March 31	$ 129	$ 137

We also generate servicing fees from fee-based activities provided to others for which we do not have an associated servicing asset.

Fees from commercial and residential MSRs are reported on our Consolidated Income Statement in the line items Corporate services and Residential mortgage, respectively.

NOTE 10 CAPITAL SECURITIES OF A SUBSIDIARY TRUST AND PERPETUAL TRUST SECURITIES

Capital Securities of a Subsidiary Trust

Our capital securities of a subsidiary trust (Trust) are described in Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities in our 2013 Form 10-K. This Trust is a wholly-owned finance subsidiary of PNC. In the event of certain changes or amendments to regulatory requirements or federal tax rules, the capital securities are redeemable in whole. In accordance with GAAP, the financial statements of the Trust are not included in PNC s consolidated financial statements.

The obligations of the parent of the Trust, when taken collectively, are the equivalent of a full and unconditional guarantee of the obligations of the Trust under the terms of the Capital Securities. Such guarantee is subordinate in right of payment in the same manner as other junior subordinated debt. There are certain restrictions on PNC s overall ability to obtain funds from its subsidiaries. For additional disclosure on these funding restrictions, including an explanation of dividend and intercompany loan limitations, see Note 22 Regulatory Matters in our 2013 Form 10-K.

PNC is also subject to restrictions on dividends and other provisions potentially imposed under the Exchange Agreement with PNC Preferred Funding Trust II, as described in Note 14 in our 2013 Form 10-K in the Perpetual Trust Securities section, and to other provisions similar to or in some ways more restrictive than those potentially imposed under that agreement.

Perpetual Trust Securities

Our perpetual trust securities are described in Note 14 in our 2013 Form 10-K. Our 2013 Form 10-K also includes additional information regarding the PNC Preferred Funding Trust I and Trust II Securities, including descriptions of replacement capital and dividend restriction covenants.

NOTE 11 CERTAIN EMPLOYEE BENEFIT AND STOCK BASED COMPENSATION PLANS

Pension And Postretirement Plans

As described in Note 15 Employee Benefit Plans in our 2013 Form 10-K, we have a noncontributory, qualified defined benefit pension plan covering eligible employees. Benefits are determined using a cash balance formula where earnings credits are a percentage of eligible compensation. Pension contributions are based on an actuarially determined amount necessary to fund total benefits payable to plan participants.

We also maintain nonqualified supplemental retirement plans for certain employees and provide certain health care and life insurance benefits for qualifying retired employees (postretirement benefits) through various plans. The nonqualified pension and postretirement benefit plans are unfunded. The Company reserves the right to terminate plans or make plan changes at any time.

The components of our net periodic pension and postretirement benefit cost for the first three months of 2014 and 2013, respectively, were as follows:

Table 100: Net Periodic Pension and Postretirement Benefits Costs

Three months ended March 31	Qualified Pension Plan		Nonqualified Retirement Plans		Postretirement Benefits	
In millions	2014	2013	2014	2013	2014	2013
Net periodic cost consists of:						
Service cost	$ 25	$ 28	$ 1	$ 1	$ 1	$ 1
Interest cost	47	42	3	3	4	4
Expected return on plan assets	(72)	(72)				
Amortization of prior service credit	(2)	(2)				(1)

Amortization of actuarial losses		22	1	2		
Net periodic cost/(benefit)	$ (2)	$ 18	$ 5	$ 6	$ 5	$ 4

Stock Based Compensation Plans

As more fully described in Note 16 Stock Based Compensation Plans in our 2013 Form 10-K, we have long-term incentive award plans (Incentive Plans) that provide for the granting of incentive stock options, nonqualified stock options, stock appreciation rights, incentive shares/performance units, restricted stock, restricted share units, other share-based awards and dollar-denominated awards to executives and, other than incentive stock options, to non-employee directors. Certain

Incentive Plan awards may be paid in stock, cash or a combination of stock and cash. We typically grant a substantial portion of our stock-based compensation awards during the first quarter of the year. As of March 31, 2014, no stock appreciation rights were outstanding.

Total compensation expense recognized related to all share-based payment arrangements during the first three months of 2014 and 2013 was $50 million and $41 million, respectively.

At March 31, 2014, there was $231 million of unamortized share-based compensation expense related to nonvested equity compensation arrangements granted under the Incentive Plans. This unamortized cost is expected to be recognized as expense over a period of no longer than five years.

Nonqualified Stock Options

Beginning in 2014, PNC discontinued the use of stock options as a standard element of our long-term equity incentive compensation programs under our Incentive Plans and did not grant any options in the first quarter of 2014. Prior to 2014, options were granted at exercise prices not less than the market value of common stock on the grant date. Generally, options become exercisable in installments after the grant date. No option may be exercisable after 10 years from its grant date. Payment of the option exercise price may be in cash or by surrendering shares of common stock at market value on the exercise date. The exercise price may be paid by using previously owned shares.

For purposes of computing stock option expense for 2013, we estimated the fair value of stock options at the grant date by using the Black-Scholes option-pricing model. Option pricing models require the use of numerous assumptions, many of which are subjective. We used the following assumptions in the Black-Scholes model to determine the 2013 grant date fair value, as follows:

Table 101: Option Pricing Assumptions (a)

Weighted-average for the three months ended March 31	2013
Risk-free interest rate	.9%
Dividend yield	2.5
Volatility	34.0
Expected life	6.5 yrs.
Grant-date fair value	$ 16.35

(a) PNC did not grant any stock options in the first quarter of 2014.

There were no options granted in 2013 where the grant date fair value exceeded the market value. The following table represents the stock option activity for the first three months of 2014.

Table 102: Stock Option Rollforward

	PNC		PNC Options Converted From National City Options		Total	
In thousands, except weighted-average data	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2013	10,354	$ 57.57	544	$ 662.28	10,898	$ 87.75
Granted (a)						
Exercised	(1,907)	61.14			(1,907)	61.14
Cancelled	(33)	57.55	(8)	519.01	(41)	149.10
Outstanding at March 31, 2014	8,414	$ 56.76	536	$ 664.45	8,950	$ 93.15
Exercisable at March 31, 2014	8,165	$ 56.59	536	$ 664.45	8,701	$ 94.04

(a) PNC did not grant any stock options in the first quarter of 2014.

During the first three months of 2014, we issued approximately 1.4 million common shares from treasury stock in connection with stock option exercise activity. As with past exercise activity, we currently intend to utilize primarily treasury stock for any future stock option exercises.

Incentive/Performance Unit Share Awards and Restricted Stock/Share Unit Awards

The fair value of nonvested incentive/performance unit share awards and restricted stock/share unit awards is initially determined based on prices not less than the market value of our common stock on the date of grant. The value of certain incentive/performance unit share awards is subsequently remeasured based on the achievement of one or more financial and other performance goals. The Personnel and Compensation Committee (P&CC) of the Board of Directors approves the final award payout with respect to certain incentive/performance unit share awards.

Beginning in 2013, we incorporated several enhanced risk-related performance changes to certain long-term incentive compensation programs. In addition to achieving certain

financial performance metrics on both an absolute basis and relative to our peers, final payout amounts will be subject to reduction if PNC fails to meet certain risk-related performance metrics as specified in the award agreement. However, the P&CC has the discretion to waive any or all of this reduction under certain circumstances. These awards have either a three-year or a four-year performance period and are payable in either stock or a combination of stock and cash.

Table 103: Nonvested Incentive/Performance Unit Share Awards and Restricted Stock/Share Unit Awards Rollforward

Shares in thousands	Nonvested Incentive/ Performance Unit Shares	Weighted-Average Grant Date Fair Value	Nonvested Restricted Stock/ Share Units	Weighted-Average Grant Date Fair Value
December 31, 2013	1,647	$ 63.49	3,483	$ 62.70
Granted	723	79.90	1,095	81.23
Vested/Released	(513)	63.64	(797)	63.63
Forfeited	(9)	64.21	(29)	65.28
March 31, 2014	1,848	$ 69.86	3,752	$ 67.89

In the preceding table, the unit shares and related weighted-average grant date fair value of the incentive/performance awards exclude the effect of dividends on the underlying shares, as those dividends will be paid in cash.

Liability Awards

A summary of all nonvested, cash-payable incentive/performance units and restricted share unit activity follows:

Table 104: Nonvested Cash-Payable Incentive/Performance Units and Restricted Share Units Rollforward

In thousands	Cash-Payable Incentive/ Performance Units	Cash-Payable Restricted Share Units	Total
Outstanding at December 31, 2013	116	825	941
Granted	100	269	369
Vested and Released	(39)	(424)	(463)
Forfeited		(2)	(2)
Outstanding at March 31, 2014	177	668	845

Included in the preceding table are cash-payable restricted share units granted to certain executives. These grants were made primarily as part of an annual bonus incentive deferral plan. While there are time-based and other vesting criteria,

there are generally no market or performance criteria associated with these awards. Compensation expense recognized related to these awards was recorded in prior periods as part of annual cash bonus criteria. As of March 31, 2014, the aggregate intrinsic value of all outstanding nonvested cash-payable incentive/performance units and restricted share units was $73 million.

NOTE 12 FINANCIAL DERIVATIVES

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

For more information regarding derivatives see Note 1 Accounting Policies and Note 17 Financial Derivatives in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

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

Table 105: Total Gross Derivatives

	March 31, 2014			December 31, 2013		
In millions	Notional/ Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)	Notional/ Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)
Derivatives designated as hedging instruments under GAAP	$ 37,458	$ 1,105	$ 284	$ 36,197	$ 1,189	$ 364
Derivatives not designated as hedging instruments under GAAP	340,473	3,439	3,418	345,059	3,604	3,570
Total gross derivatives	$ 377,931	$ 4,544	$ 3,702	$ 381,256	$ 4,793	$ 3,934

(a) Included in Other assets on our Consolidated Balance Sheet.
(b) Included in Other liabilities on our Consolidated Balance Sheet.

All derivatives are carried on our Consolidated Balance Sheet at fair value. Any nonperformance risk, including credit risk, is included in the determination of the estimated net fair value of the derivatives. Derivative balances are presented on the Consolidated Balance Sheet on a net basis taking into consideration the effects of legally enforceable master netting agreements and any related cash collateral exchanged with counterparties.

Derivatives Designated As Hedging Instruments under GAAP

Certain derivatives used to manage interest rate and foreign exchange risk as part of our asset and liability risk management activities are designated as accounting hedges under GAAP.

Derivatives hedging the risks associated with changes in the fair value of assets or liabilities are considered fair value hedges, derivatives hedging the variability of expected future cash flows are considered cash flow hedges, and derivatives hedging a net investment in a foreign subsidiary are considered net investment hedges. Designating derivatives as accounting hedges allows for gains and losses on those derivatives, to the extent effective, to be recognized in the income statement in the same period the hedged items affect earnings.

For additional information on derivatives designated as hedging instruments under GAAP see Note 17 Financial Derivatives in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

Further detail regarding the notional amounts and fair values related to derivatives designated in hedge relationships is presented in the following table:

Table 106: Derivatives Designated As Hedging Instruments under GAAP

	March 31, 2014			December 31, 2013		
In millions	Notional/ Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)	Notional/ Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)
Interest rate contracts:						
Fair value hedges:						
Receive-fixed swaps (c)	$ 18,124	$ 812	$ 155	$ 16,446	$ 871	$ 230
Pay-fixed swaps (c) (d)	4,081	24	77	4,076	54	66
Subtotal	$ 22,205	$ 836	$ 232	$ 20,522	$ 925	$ 296
Cash flow hedges:						
Receive-fixed swaps (c)	$ 14,298	$ 269	$ 34	$ 14,737	$ 264	$ 58
Forward purchase commitments						
Subtotal	$ 14,298	$ 269	$ 34	$ 14,737	$ 264	$ 58
Foreign exchange contracts:						
Net investment hedge	955		18	938		10
Total derivatives designated as hedging instruments	$ 37,458	$ 1,105	$ 284	$ 36,197	$ 1,189	$ 364

(a) Included in Other assets on our Consolidated Balance Sheet.
(b) Included in Other liabilities on our Consolidated Balance Sheet.
(c) The floating rate portion of interest rate contracts is based on money-market indices. As a percent of notional amount, 40% were based on 1-month LIBOR and 60% on 3-month LIBOR at March 31, 2014 compared with 43% and 57%, respectively, at December 31, 2013.
(d) Includes zero-coupon swaps.

Fair Value Hedges

We enter into receive-fixed, pay-variable interest rate swaps to hedge changes in the fair value of outstanding fixed-rate debt and borrowings caused by fluctuations in market interest rates. We also enter into pay-fixed, receive-variable interest rate swaps and zero-coupon swaps to hedge changes in the fair value of fixed rate and zero-coupon investment securities caused by fluctuations in market interest rates. For these hedge relationships, we use statistical regression analysis to assess hedge effectiveness at both the inception of the hedge relationship and on an ongoing basis. There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness.

Further detail regarding gains (losses) on fair value hedge derivatives and related hedged items is presented in the following table:

Table 107: Gains (Losses) on Derivatives and Related Hedged Items Fair Value Hedges

			Three months ended			
			March 31, 2014		March 31, 2013	
In millions	Hedged Items	Location	Gain (Loss) on Derivatives Recognized in Income Amount	Gain (Loss) on Related Hedged Items Recognized in Income Amount	Gain (Loss) on Derivatives Recognized in Income Amount	Gain (Loss) on Related Hedged Items Recognized in Income Amount
Interest rate contracts	U.S. Treasury and Government Agencies Securities	Investment securities (interest income)	$ (30)	$ 31	$ 22	$ (23)
Interest rate contracts	Other Debt Securities	Investment securities (interest income)	1		2	(2)
Interest rate contracts	Subordinated debt	Borrowed funds (interest expense)	23	(29)	(68)	66
Interest rate contracts	Bank notes and senior debt	Borrowed funds (interest expense)	9	(10)	(65)	64
Total (a)			$ 3	$ (8)	$ (109)	$ 105

(a) The ineffective portion of the change in value of our fair value hedge derivatives resulted in net losses of $5 million for the first three months of 2014 compared with net losses of $4 million for the first three months of 2013.

Cash Flow Hedges

We enter into receive-fixed, pay-variable interest rate swaps to modify the interest rate characteristics of designated commercial loans from variable to fixed in order to reduce the impact of changes in future cash flows due to market interest rate changes. For these cash flow hedges, any changes in the fair value of the derivatives that are effective in offsetting changes in the forecasted interest cash flows are recorded in Accumulated other comprehensive income and are reclassified to interest income in conjunction with the recognition of interest received on the loans. In the 12 months that follow March 31, 2014, we expect to reclassify from the amount currently reported in Accumulated other comprehensive income, net derivative gains of $228 million pretax, or $148 million after-tax, in association with interest received on the hedged loans. This amount could differ from amounts actually recognized due to changes in interest rates, hedge de-designations, and the addition of other hedges subsequent to March 31, 2014. The maximum length of time over which forecasted loan cash flows are hedged is 10 years. We use statistical regression analysis to assess the effectiveness of these hedge relationships at both the inception of the hedge relationship and on an ongoing basis.

We also periodically enter into forward purchase and sale contracts to hedge the variability of the consideration that will be paid or received related to the purchase or sale of investment securities. The forecasted purchase or sale is consummated upon gross settlement of the forward contract itself. As a result, hedge ineffectiveness, if any, is typically minimal. Gains and losses on these forward contracts are recorded in Accumulated other comprehensive income and are recognized in earnings when the hedged cash flows affect earnings. In the 12 months that follow March 31, 2014, we expect to reclassify from the amount currently reported in Accumulated other comprehensive income, net derivative gains of $13 million pretax, or $8 million after-tax, as adjustments of yield on investment securities. As of March 31, 2014 there were no forward purchase or sale contracts designated in a cash flow hedge relationship.

There were no components of derivative gains or losses excluded from the assessment of hedge effectiveness related to either cash flow hedge strategy.

During the first three months of 2014 and 2013, there were no gains or losses from cash flow hedge derivatives reclassified to earnings because it became probable that the original forecasted transaction would not occur.

Further detail regarding gains (losses) on derivatives and related cash flows is presented in the following table:

Table 108: Gains (Losses) on Derivatives and Related Cash Flows Cash Flow Hedges (a) (b)

	Three months ended March 31	
In millions	2014	2013
Gains (Losses) on Derivatives Recognized in OCI (Effective Portion)	$ 72	$ 14
Less: Gains (Losses) Reclassified from Accumulated OCI into Income (Effective Portion)		
Interest income	72	106
Noninterest income	5	15
Total Gains (Losses) Reclassified from Accumulated OCI into Income (Effective Portion)	77	121
Net unrealized gains (losses) on cash flow hedge derivatives	$ (5)	$ (107)

(a) All cash flow hedge derivatives are interest rate contracts as of March 31, 2014 and March 31, 2013.
(b) The amount of cash flow hedge ineffectiveness recognized in income was not material for the periods presented.

Net Investment Hedges

We enter into foreign currency forward contracts to hedge non-U.S. Dollar (USD) net investments in foreign subsidiaries against adverse changes in foreign exchange rates. We assess whether the hedging relationship is highly effective in achieving offsetting changes in the value of the hedge and hedged item by qualitatively verifying that the critical terms of the hedge and hedged item match at the inception of the hedging relationship and on an ongoing basis. There were no components of derivative gains or losses excluded from the assessment of the hedge effectiveness.

For the first three months of 2014 and 2013, there was no net investment hedge ineffectiveness.

Further detail on gains (losses) on net investment hedge derivatives is presented in the following table:

Table 109: Gains (Losses) on Derivatives Net Investment Hedges

	Three months ended March 31	
In millions	2014	2013
Gains (Losses) on Derivatives Recognized in OCI (Effective Portion)		
Foreign exchange contracts	$ (7)	$ 57

Derivatives Not Designated As Hedging Instruments under GAAP

We also enter into derivatives that are not designated as accounting hedges under GAAP.

For additional information on derivatives not designated as hedging instruments under GAAP see Note 17 Financial Derivatives in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

Further detail regarding the notional amounts and fair values related to derivatives not designated in hedge relationships is presented in the following table:

Table 110: Derivatives Not Designated As Hedging Instruments under GAAP

	March 31, 2014			December 31, 2013		
In millions	Notional/ Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)	Notional/ Contract Amount	Asset Fair Value (a)	Liability Fair Value (b)
Derivatives used for residential mortgage banking activities:						
Residential mortgage servicing						
Interest rate contracts:						
Swaps	$ 38,267	$ 589	$ 294	$ 37,424	$ 654	$ 360
Swaptions	1,448	19	19	845	18	18
Futures (c)	37,148			49,250		
Futures options	29,350	9	5	24,000	10	2
Mortgage-backed securities commitments	350	3		832		3
Subtotal	$ 106,563	$ 620	$ 318	$ 112,351	$ 682	$ 383
Loan sales						
Interest rate contracts:						
Futures (c)	$ 250			$ 350		
Bond options	200	$ 1		200	$ 1	
Mortgage-backed securities commitments	5,648	5	$ 7	5,173	26	$ 9
Residential mortgage loan commitments	2,144	18		1,605	13	
Subtotal	$ 8,242	$ 24	$ 7	$ 7,328	$ 40	$ 9
Subtotal	$ 114,805	$ 644	$ 325	$ 119,679	$ 722	$ 392
Derivatives used for commercial mortgage banking activities						
Interest rate contracts:						
Swaps	$ 2,977	$ 27	$ 47	$ 2,158	$ 23	$ 52
Swaptions	514	2	1	125		3
Futures (c)	9,020			4,598		
Futures options	36,750	13	4	45,500	15	4
Commercial mortgage loan commitments	524	9	4	673	20	11
Subtotal	$ 49,785	$ 51	$ 56	$ 53,054	$ 58	$ 70
Credit contracts:						
Credit default swaps	95			95		
Subtotal	$ 49,880	$ 51	$ 56	$ 53,149	$ 58	$ 70
Derivatives used for customer-related activities:						
Interest rate contracts:						
Swaps	$ 135,535	$ 2,476	$ 2,395	$ 134,408	$ 2,540	$ 2,445
Caps/floors Sold	4,845		16	4,789		11
Caps/floors Purchased	5,653	37		5,519	37	
Swaptions	2,413	48	32	2,354	49	51
Futures (c)	2,063			1,856		
Mortgage-backed securities commitments	3,230	4	3	1,515	4	3
Subtotal	$ 153,739	$ 2,565	$ 2,446	$ 150,441	$ 2,630	$ 2,510
Foreign exchange contracts	14,311	177	157	14,316	192	172
Credit contracts:						
Risk participation agreements	4,828	2	4	4,777	2	4
Subtotal	$ 172,878	$ 2,744	$ 2,607	$ 169,534	$ 2,824	$ 2,686

In millions	March 31, 2014 Notional/ Contract Amount	March 31, 2014 Asset Fair Value (a)	March 31, 2014 Liability Fair Value (b)	December 31, 2013 Notional/ Contract Amount	December 31, 2013 Asset Fair Value (a)	December 31, 2013 Liability Fair Value (b)
Derivatives used for other risk management activities:						
Interest rate contracts:						
Swaps	$ 492			$ 511		
Futures (c)	1,005			838		
Subtotal	$ 1,497			$ 1,349		
Foreign exchange contracts	6			8		
Other contracts (d)	1,407		$ 430	1,340		$ 422
Subtotal	$ 2,910		$ 430	$ 2,697		$ 422
Total derivatives not designated as hedging instruments	$ 340,473	$ 3,439	$ 3,418	$ 345,059	$ 3,604	$ 3,570

(a) Included in Other assets on our Consolidated Balance Sheet.
(b) Included in Other liabilities on our Consolidated Balance Sheet.
(c) Futures contracts settle in cash daily and therefore, no derivative asset or liability is recognized on our Consolidated Balance Sheet.
(d) Includes PNC s obligation to fund a portion of certain BlackRock LTIP programs and the swaps entered into in connection with sales of a portion of Visa Class B common shares in the first quarter of 2014 and in the second and third quarters of 2013. Refer to Note 8 Fair Value for additional information on the Visa swaps.

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

Table 111: Gains (Losses) on Derivatives Not Designated As Hedging Instruments under GAAP

In millions	Three months ended March 31 2014	Three months ended March 31 2013
Derivatives used for residential mortgage banking activities:		
Residential mortgage servicing		
Interest rate contracts	$ 53	$ (39)
Loan sales		
Interest rate contracts	1	85
Gains (losses) included in residential mortgage banking activities (a)	$ 54	$ 46
Derivatives used for commercial mortgage banking activities:		
Interest rate contracts (b) (c)	$ 20	$ 6
Credit contracts (c)		(1)
Gains (losses) from commercial mortgage banking activities	$ 20	$ 5
Derivatives used for customer-related activities:		
Interest rate contracts	$ (1)	$ 19
Foreign exchange contracts	24	39
Equity contracts		(3)
Credit contracts	1	(1)
Gains (losses) from customer-related activities (c)	$ 24	$ 54
Derivatives used for other risk management activities:		
Interest rate contracts	$ (4)	
Other contracts (d)	(8)	$ (59)
Gains (losses) from other risk management activities (c)	$ (12)	$ (59)
Total gains (losses) from derivatives not designated as hedging instruments	$ 86	$ 46

(a) Included in Residential mortgage noninterest income.
(b) Included in Corporate services noninterest income.
(c) Included in Other noninterest income.
(d) Includes BlackRock LTIP funding obligation, a forward purchase commitment for certain loans upon conversion from a variable rate to a fixed rate, and the swaps entered into in connection with sales of a portion of Visa Class B common shares.

Credit Derivatives

We enter into credit derivatives, specifically credit default swaps and risk participation agreements, as part of our commercial mortgage banking hedging activities and for customer and other risk management purposes. The credit derivative underlying is based on the credit risk of a specific entity, entities, or an index. Detail regarding credit default swaps and risk participations sold follows.

Table 112: Credit Default Swaps (a)

	March 31, 2014		December 31, 2013	
Dollars in millions	Notional Amount	Weighted-Average Remaining Maturity In Years	Notional Amount	Weighted-Average Remaining Maturity In Years
Credit Default Swaps Purchased (b)				
Single name	$ 35	7.0	$ 35	7.3
Index traded	60	35.0	60	35.2
Total	$ 95	24.7	$ 95	24.9

(a) There were no credit default swaps sold as of March 31, 2014 and December 31, 2013.
(b) The fair value of credit default swaps purchased was less than $1 million as of March 31, 2014 and December 31, 2013.

The notional amount of these credit default swaps by credit rating is presented in the following table:

Table 113: Credit Ratings of Credit Default Swaps (a)

In millions	March 31, 2014	December 31, 2013
Credit Default Swaps Purchased		
Investment grade (b)	$ 95	$ 95
Total (c)	$ 95	$ 95

(a) There were no credit default swaps sold as of March 31, 2014 and December 31, 2013.
(b) Investment grade with a rating of BBB-/Baa3 or above based on published rating agency information.
(c) There were no subinvestment grade credit default swaps purchased as of March 31, 2014 and December 31, 2013. Subinvestment grade represents a rating below BBB-/Baa3 based on published rating agency information.

The referenced/underlying assets for these credit default swaps is presented in the following table:

Table 114: Referenced/Underlying Assets of Credit Default Swaps

	March 31, 2014	December 31, 2013
Corporate Debt	37%	37%
Commercial mortgage-backed securities	63%	63%

Risk Participation Agreements

We also periodically enter into risk participation agreements to share some of the credit exposure with other counterparties related to interest rate derivative contracts or to take on credit exposure to generate revenue. We will make/receive payments under these agreements if a customer defaults on its obligation to perform under certain derivative swap contracts. Risk participation agreements purchased and sold are included in these derivative tables: Tables 110 and 111.

Further detail regarding the notional amount, fair value and weighted average remaining maturities in years for risk participation agreements sold is presented in the following table:

Table 115: Risk Participation Agreements Sold

	March 31, 2014			December 31, 2013		
Dollars in millions	Notional Amount	Fair Value	Weighted-Average Remaining Maturity In Years	Notional Amount	Fair Value	Weighted-Average Remaining Maturity In Years
Risk Participation Agreements Sold	$ 2,822	$ (4)	6.0	$ 2,770	$ (4)	6.1

Based on our internal risk rating process of the underlying third parties to the swap contracts, the percentages of the exposure amount of risk participation agreements sold by internal credit rating follow:

Table 116: Internal Credit Ratings of Risk Participation Agreements Sold

	March 31, 2014	December 31, 2013
Pass (a)	99%	98%
Below pass (b)	1%	2%

(a) Indicates the expected risk of default is currently low.
(b) Indicates a higher degree of risk of default.

We have sold risk participation agreements with terms ranging from less than 1 year to 23 years. We will be required to make payments under these agreements if a customer defaults on its obligation to perform under certain derivative swap contracts with third parties. Assuming all underlying swap counterparties defaulted at March 31, 2014, the exposure from these agreements would be $90 million based on the fair value of the underlying swaps, compared with $77 million at December 31, 2013.

Offsetting, Counterparty Credit Risk, and Contingent Features

We, generally, utilize a net presentation on the Consolidated Balance Sheet for those derivative financial instruments

entered into with counterparties under legally enforceable master netting agreements. The master netting agreements reduce credit risk by permitting the closeout netting of various types of derivative instruments with the same counterparty upon the occurrence of an event of default.

For additional information on derivative offsetting, counterparty credit risk, and contingent features see Note 17 Financial Derivatives in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

The following derivative Table 117 shows the impact legally enforceable master netting agreements had on our derivative assets and derivative liabilities as of March 31, 2014 and December 31, 2013. The table also includes the fair value of any securities collateral held or pledged under legally enforceable master netting agreements. Cash and securities collateral amounts are included in the table only to the extent of the related net derivative fair values.

For further discussion on ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities and the impact of other instruments entered into under master netting arrangements, see Note 1 Accounting Policies in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K. Refer to Note 17 Commitments and Guarantees for additional information related to resale and repurchase agreements offsetting.

Table 117: Derivative Assets and Liabilities Offsetting

March 31, 2014 In millions	Gross Fair Value Derivative Assets	Amounts Offset on the Consolidated Balance Sheet: Fair Value Offset Amount	Amounts Offset on the Consolidated Balance Sheet: Cash Collateral	Net Fair Value Derivative Assets	Securities Collateral Held Under Master Netting Agreements	Net Amounts
Derivative assets						
Interest rate contracts	$ 4,365	$ 2,302	$ 492	$ 1,571	$ 123	$ 1,448
Foreign exchange contracts	177	59	10	108		108
Credit contracts	2	1		1		1
Total derivative assets (a) (b)	$ 4,544	$ 2,362	$ 502	$ 1,680 (c)	$ 123	$ 1,557

March 31, 2014 In millions	Gross Fair Value Derivative Liabilities	Amounts Offset on the Consolidated Balance Sheet: Fair Value Offset Amount	Amounts Offset on the Consolidated Balance Sheet: Cash Collateral	Net Fair Value Derivative Liabilities	Securities Collateral Pledged Under Master Netting Agreements	Net Amounts
Derivative liabilities						
Interest rate contracts	$ 3,093	$ 2,287	$ 487	$ 319		$ 319
Foreign exchange contracts	175	72	32	71		71
Credit contracts	4	3	1			
Other contracts	430			430		430
Total derivative liabilities (a) (b)	$ 3,702	$ 2,362	$ 520	$ 820 (d)		$ 820

December 31, 2013 In millions	Gross Fair Value Derivative Assets	Amounts Offset on the Consolidated Balance Sheet: Fair Value Offset Amount	Amounts Offset on the Consolidated Balance Sheet: Cash Collateral	Net Fair Value Derivative Assets	Securities Collateral Held Under Master Netting Agreements	Net Amounts
Derivative assets						
Interest rate contracts	$ 4,599	$ 2,468	$ 556	$ 1,575	$ 115	$ 1,460
Foreign exchange contracts	192	64	9	119		119
Credit contracts	2	1		1		1
Total derivative assets (a) (b)	$ 4,793	$ 2,533	$ 565	$ 1,695 (c)	$ 115	$ 1,580

December 31, 2013 In millions	Gross Fair Value Derivative Liabilities	Amounts Offset on the Consolidated Balance Sheet: Fair Value Offset Amount	Amounts Offset on the Consolidated Balance Sheet: Cash Collateral	Net Fair Value Derivative Liabilities	Securities Collateral Pledged Under Master Netting Agreements	Net Amounts
Derivative liabilities						
Interest rate contracts	$ 3,326	$ 2,447	$ 473	$ 406		$ 406
Foreign exchange contracts	182	83	23	76		76
Credit contracts	4	3	1			
Other contracts	422			422		422
Total derivative liabilities (a) (b)	$ 3,934	$ 2,533	$ 497	$ 904 (d)		$ 904

(a) There were no derivative assets and liabilities equity contracts as of March 31, 2014 and December 31, 2013.

(b) Included derivative assets and derivative liabilities as of March 31, 2014 totaling $243 million and $182 million, respectively, related to interest rate contracts executed bilaterally with counterparties in the OTC market and novated to and cleared through a central clearing house. The comparable amounts as of December 31, 2013 totaled $331 million and $224 million, respectively. Derivative assets and liabilities as of March 31, 2014 and December 31, 2013 related to exchange-traded interest rate contracts were not material. As of March 31, 2014 and December 31, 2013, these contracts were not subject to offsetting. The

remaining gross and net derivative assets and liabilities relate to contracts executed bilaterally with counterparties that are not settled through an organized exchange or central clearing house.

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

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

In addition to using master netting and related collateral agreements to reduce credit risk associated with derivative instruments, we also seek to minimize credit risk by entering into transactions with counterparties with high credit ratings and by using internal credit approvals, limits, and monitoring procedures. Collateral may also be exchanged under certain derivative agreements that are not considered master netting agreements.

At March 31, 2014, we held cash, U.S. government securities and mortgage-backed securities totaling $720 million under master netting and other collateral agreements to collateralize net derivative assets due from counterparties, and we have pledged cash totaling $561 million under these agreements to collateralize net derivative liabilities owed to counterparties. These totals may differ from the amounts presented in the preceding offsetting table because they may include collateral exchanged under an agreement that does not qualify as a master netting agreement or because the total amount of collateral held or pledged exceeds the net derivative fair value with the counterparty as of the balance sheet date due to timing or other factors. To the extent not netted against the derivative fair value under a master netting agreement, the receivable for cash pledged is included in Other assets and the

obligation for cash held is included in Other borrowed funds on our Consolidated Balance Sheet. Securities held from counterparties are not recognized on our balance sheet. Likewise securities we have pledged to counterparties remain on our balance sheet.

Certain of the master netting agreements and certain other derivative agreements also contain provisions that require PNC s debt to maintain an investment grade credit rating from each of the major credit rating agencies. If PNC s debt ratings were to fall below investment grade, we would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position on March 31, 2014 was $732 million for which PNC had posted collateral of $537 million in the normal course of business. The maximum additional amount of collateral PNC would have been required to post if the credit-risk-related contingent features underlying these agreements had been triggered on March 31, 2014 would be $195 million.

NOTE 13 EARNINGS PER SHARE

Table 118: Basic and Diluted Earnings per Common Share

Three months ended March 31

In millions, except per share data	2014	2013
Basic		
Net income (a)	$ 1,060	$ 995
Less:		
Net income (loss) attributable to noncontrolling interests (a)	(2)	(8)
Preferred stock dividends and discount accretion and redemptions	70	75
Dividends and undistributed earnings allocated to nonvested restricted shares	3	4
Net income attributable to basic common shares	$ 989	$ 924
Basic weighted-average common shares outstanding	532	526
Basic earnings per common share (b)	$ 1.86	$ 1.76
Diluted		
Net income attributable to basic common shares	$ 989	$ 924
Less: Impact of BlackRock earnings per share dilution	6	5
Net income attributable to diluted common shares	$ 983	$ 919
Basic weighted-average common shares outstanding	532	526
Dilutive potential common shares (c) (d)	7	2
Diluted weighted-average common shares outstanding	539	528
Diluted earnings per common share (b)	$ 1.82	$ 1.74

(a) Prior period amounts have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.
(b) Basic and diluted earnings per share under the two-class method are determined on net income reported on the income statement less earnings allocated to nonvested restricted shares (participating securities).
(c) Excludes stock options considered to be anti-dilutive of 1 million and 3 million for the three months ended March 31, 2014 and March 31, 2013, respectively.
(d)

Excludes warrants considered to be anti-dilutive of 17 million for the three months ended March 31, 2013. As of March 31, 2014, these warrants were considered to be dilutive.

NOTE 14 TOTAL EQUITY AND OTHER COMPREHENSIVE INCOME

Activity in total equity for the first three months of 2013 and 2014 follows.

Table 119: Rollforward of Total Equity

				Shareholders Equity					
In millions	Shares Outstanding Common Stock	Common Stock	Capital Surplus - Preferred Stock	Capital Surplus - Common Stock and Other	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-controlling Interests	Total Equity
Balance at December 31, 2012	528	$ 2,690	$ 3,590	$ 12,193	$ 20,265	$ 834	$ (569)	$ 2,762	$ 41,765
Cumulative effect of adopting ASU 2014-01 (a)					(55)			10	(45)
Balance at January 1, 2013	528	$ 2,690	$ 3,590	$ 12,193	$ 20,210	$ 834	$ (569)	$ 2,772	$ 41,720
Net income (a)					1,003			(8)	995
Other comprehensive income (loss), net of tax						(67)			(67)
Cash dividends declared									
Common ($.40 per share)					(210)				(210)
Preferred					(67)				(67)
Preferred stock discount accretion			1		(1)				
Redemption of noncontrolling interests (b)					(7)			(368)	(375)
Common stock activity (c)				7					7
Treasury stock activity	1			(17)			17		
Other				(9)				30	21
Balance at March 31, 2013 (d)	529	$ 2,690	$ 3,591	$ 12,174	$ 20,928	$ 767	$ (552)	$ 2,426	$ 42,024
Balance at December 31, 2013	533	$ 2,698	$ 3,941	$ 12,416	$ 23,325	$ 436	$ (408)	$ 1,689	$ 44,097
Cumulative effect of adopting ASU 2014-01 (a)					(74)			14	(60)
Cumulative effect of adopting ASC 860-50 (e)					2				2
Balance at January 1, 2014	533	$ 2,698	$ 3,941	$ 12,416	$ 23,253	$ 436	$ (408)	$ 1,703	$ 44,039
Net income					1,062			(2)	1,060
Other comprehensive income (loss), net of tax						220			220
Cash dividends declared									
Common ($.44 per share)					(235)				(235)
Preferred					(68)				(68)
Preferred stock discount accretion			2		(2)				
Common stock activity (c)		2		28					30
Treasury stock activity	1			7			26		33
Other				(57)				(104)	(161)
Balance at March 31, 2014 (d)	534	$ 2,700	$ 3,943	$ 12,394	$ 24,010	$ 656	$ (382)	$ 1,597	$ 44,918

(a) Prior period amounts have been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits. See Note 1 Accounting Policies for further detail of the adoption.

(b) Relates to the redemption of REIT preferred securities in the first quarter of 2013. See Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities for additional information in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K.

(c) Common stock activity totaled less than .5 million shares issued.

(d) The par value of our preferred stock outstanding was less than $.5 million at each date and, therefore, is excluded from this presentation.

(e) Amount represents the cumulative impact of our January 1, 2014 irrevocable election to prospectively measure all classes of commercial MSRs at fair value. See Note 1 Accounting Policies and Note 9 Goodwill and Other Intangible Assets for more information on this election.

Table 120: Other Comprehensive Income

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

In millions	Pretax	Tax	After-tax
Net unrealized gains (losses) on non-OTTI securities			
Balance at December 31, 2012	$ 1,858	$ (681)	$ 1,177
First Quarter 2013 activity			
Increase in net unrealized gains (losses) on non-OTTI securities	(157)	57	(100)
Less: Net gains (losses) realized as a yield adjustment reclassified to investment securities interest income	14	(5)	9
Less: Net gains (losses) realized on sales of securities reclassified to noninterest income	(1)		(1)
Net unrealized gains (losses) on non-OTTI securities	(170)	62	(108)
Balance at March 31, 2013	1,688	(619)	1,069
Balance at December 31, 2013	647	(238)	409
First Quarter 2014 activity			
Increase in net unrealized gains (losses) on non-OTTI securities	201	(74)	127
Less: Net gains (losses) realized as a yield adjustment reclassified to investment securities interest income	7	(3)	4
Less: Net gains (losses) realized on sales of securities reclassified to noninterest income	5	(2)	3
Net unrealized gains (losses) on non-OTTI securities	189	(69)	120
Balance at March 31, 2014	$ 836	$ (307)	$ 529
Net unrealized gains (losses) on OTTI securities			
Balance at December 31, 2012	$ (195)	$ 72	$ (123)
First Quarter 2013 activity			
Increase in net unrealized gains (losses) on OTTI securities	131	(47)	84
Less: OTTI losses realized on securities reclassified to noninterest income	(10)	4	(6)
Net unrealized gains (losses) on OTTI securities	141	(51)	90
Balance at March 31, 2013	(54)	21	(33)
Balance at December 31, 2013	36	(12)	24
First Quarter 2014 activity			
Increase in net unrealized gains (losses) on OTTI securities	64	(24)	40
Less: OTTI losses realized on securities reclassified to noninterest income	(2)	1	(1)
Net unrealized gains (losses) on OTTI securities	66	(25)	41
Balance at March 31, 2014	$ 102	$ (37)	$ 65
Net unrealized gains (losses) on cash flow hedge derivatives			
Balance at December 31, 2012	$ 911	$ (333)	$ 578
First Quarter 2013 activity			
Increase in net unrealized gains (losses) on cash flow hedge derivatives	14	(5)	9
Less: Net gains (losses) realized as a yield adjustment reclassified to loan interest income (a)	87	(32)	55
Less: Net gains (losses) realized as a yield adjustment reclassified to investment securities interest income (a)	19	(7)	12
Less: Net gains (losses) realized on sales of securities reclassified to noninterest income (a)	15	(5)	10
Net unrealized gains (losses) on cash flow hedge derivatives	(107)	39	(68)
Balance at March 31, 2013	804	(294)	510
Balance at December 31, 2013	384	(141)	243
First Quarter 2014 activity			
Increase in net unrealized gains (losses) on cash flow hedge derivatives	72	(26)	46
Less: Net gains (losses) realized as a yield adjustment reclassified to loan interest income (a)	69	(25)	44
Less: Net gains (losses) realized as a yield adjustment reclassified to investment securities interest income (a)	3	(1)	2
Less: Net gains (losses) realized on sales of securities reclassified to noninterest income (a)	5	(2)	3
Net unrealized gains (losses) on cash flow hedge derivatives	(5)	2	(3)
Balance at March 31, 2014	$ 379	$ (139)	$ 240

In millions	Pretax	Tax	After-tax
Pension and other postretirement benefit plan adjustments			
Balance at December 31, 2012	$ (1,226)	$ 449	$ (777)
First Quarter 2013 activity			
Net pension and other postretirement benefit plan activity	25	(9)	16
Amortization of actuarial loss (gain) reclassified to other noninterest expense	24	(9)	15
Amortization of prior service cost (credit) reclassified to other noninterest expense	(3)	1	(2)
Total First Quarter 2013 activity	46	(17)	29
Balance at March 31, 2013	(1,180)	432	(748)
Balance at December 31, 2013	(374)	137	(237)
First Quarter 2014 activity			
Net pension and other postretirement benefit plan activity	83	(31)	52
Amortization of actuarial loss (gain) reclassified to other noninterest expense	1		1
Amortization of prior service cost (credit) reclassified to other noninterest expense	(2)	1	(1)
Total First Quarter 2014 activity	82	(30)	52
Balance at March 31, 2014	$ (292)	$ 107	$ (185)
Other			
Balance at December 31, 2012	$ (41)	$ 20	$ (21)
First Quarter 2013 Activity			
PNC s portion of BlackRock s OCI	(4)	(5)	(9)
Net investment hedge derivatives (b)	57	(21)	36
Foreign currency translation adjustments	(59)	22	(37)
Total First Quarter 2013 activity	(6)	(4)	(10)
Balance at March 31, 2013	(47)	16	(31)
Balance at December 31, 2013	(20)	17	(3)
First Quarter 2014 Activity			
PNC s portion of BlackRock s OCI	11	(4)	7
Net investment hedge derivatives (b)	(7)	3	(4)
Foreign currency translation adjustments	7		7
Total First Quarter 2014 activity	11	(1)	10
Balance at March 31, 2014	$ (9)	$ 16	$ 7

(a) Cash flow hedge derivatives are interest rate contract derivatives designated as hedging instruments under GAAP.
(b) Net investment hedge derivatives are foreign exchange contracts designated as hedging instruments under GAAP.

Table 121: Accumulated Other Comprehensive Income (Loss) Components

	March 31, 2014		December 31, 2013	
In millions	Pretax	After-tax	Pretax	After-tax
Net unrealized gains (losses) on non-OTTI securities	$ 836	$ 529	$ 647	$ 409
Net unrealized gains (losses) on OTTI securities	102	65	36	24
Net unrealized gains (losses) on cash flow hedge derivatives	379	240	384	243
Pension and other postretirement benefit plan adjustments	(292)	(185)	(374)	(237)
Other	(9)	7	(20)	(3)
Accumulated other comprehensive income (loss)	$ 1,016	$ 656	$ 673	$ 436

NOTE 15 INCOME TAXES

The net operating loss carryforwards at March 31, 2014 and December 31, 2013 follow:

Table 122: Net Operating Loss Carryforwards and Tax Credit Carryforwards

In millions	March 31 2014	December 31 2013
Net Operating Loss Carryforwards:		
Federal	$ 1,096	$ 1,116
State	2,844	2,958
Tax Credit Carryforwards:		
Federal	$ 171	$ 221
State	7	7

The federal net operating loss carryforward expires in 2032. The state net operating loss carryforwards will expire from 2014 to 2031. The majority of the tax credit carryforwards expire in 2033. All federal and most state net operating loss and credit carryforwards are from acquired entities and utilization is subject to various statutory limitations. It is anticipated that the company will be able to fully utilize its carryforwards for federal tax purposes, but a valuation allowance of $56 million has been recorded against certain state tax carryforwards as of March 31, 2014. ASU 2013-11, which was adopted as of January 1, 2014, requires entities to present an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryover. If these tax positions were successfully challenged by a state, the state net operating losses listed above could be reduced by $457 million.

Examinations are substantially completed for PNC s consolidated federal income tax returns for 2007 and 2008 and there are no outstanding unresolved issues. The Internal Revenue Service (IRS) is currently examining PNC s 2009 and 2010 returns. National City s consolidated federal income tax returns through 2008 have been audited by the IRS. Certain adjustments remain under review by the IRS Appeals Division for years 2004 through 2008.

The Company had unrecognized tax benefits of $109 million at March 31, 2014 and $110 million at December 31, 2013. At March 31, 2014, $87 million of unrecognized tax benefits, if recognized, would favorably impact the effective income tax rate.

It is reasonably possible that the liability for unrecognized tax benefits could increase or decrease in the next twelve months due to completion of tax authorities exams or the expiration of statutes of limitations. Management estimates that the liability for unrecognized tax benefits could decrease by $65 million within the next twelve months.

ASU 2014-01 was adopted effective January 1, 2014. Under this standard, amortization of qualified low income housing

tax credit investments is reported within income tax expense. Certain prior period amounts including income tax provision have been updated to reflect the adoption.

NOTE 16 LEGAL PROCEEDINGS

We establish accruals for legal proceedings, including litigation and regulatory and governmental investigations and inquiries, when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated. Any such accruals are adjusted thereafter as appropriate to reflect changed circumstances. When we are able to do so, we also determine estimates of possible losses or ranges of possible losses, whether in excess of any related accrued liability or where there is no accrued liability, for disclosed legal proceedings (Disclosed Matters, which are those matters disclosed in this Note 16 as well as those matters disclosed in Note 23 Legal Proceedings in Part II, Item 8 of our 2013 Form 10-K (such prior disclosure referred to as Prior Disclosure)). For Disclosed Matters where we are able to estimate such possible losses or ranges of possible losses, as of March 31, 2014, we estimate that it is reasonably possible that we could incur losses in an aggregate amount of up to approximately $725 million. The estimates included in this amount are based on our analysis of currently available information and are subject to significant judgment and a variety of assumptions and uncertainties. As new information is obtained we may change our estimates. Due to the inherent subjectivity of the assessments and unpredictability of outcomes of legal proceedings, any amounts accrued or included in this aggregate amount may not represent the ultimate loss to us from the legal proceedings in question. Thus, our exposure and ultimate losses may be higher, and possibly significantly so, than the amounts accrued or this aggregate amount.

The aggregate estimated amount provided above does not include an estimate for every Disclosed Matter, as we are unable, at this time, to estimate the losses that it is reasonably possible that we could incur or ranges of such losses with respect to some of the matters disclosed for one or more of the following reasons. In our experience, legal proceedings are inherently unpredictable. In many legal proceedings, various factors exacerbate this inherent unpredictability, including, among others, one or more of the following: the proceeding is in its early stages; the damages sought are unspecified, unsupported or uncertain; it is unclear whether a case brought as a class action will be allowed to proceed on that basis or, if permitted to proceed as a class action, how the class will be defined; the other party is seeking relief other than or in addition to compensatory damages (including, in the case of regulatory and governmental investigations and inquiries, the possibility of fines and penalties); the matter presents meaningful legal uncertainties, including novel issues of law; we have not engaged in meaningful settlement discussions; discovery has not started or is not complete; there are

significant facts in dispute; and there are a large number of parties named as defendants (including where it is uncertain how damages or liability, if any, will be shared among multiple defendants). Generally, the less progress that has been made in the proceedings or the broader the range of potential results, the harder it is for us to estimate losses or ranges of losses that it is reasonably possible we could incur. Therefore, as the estimated aggregate amount disclosed above does not include all of the Disclosed Matters, the amount disclosed above does not represent our maximum reasonably possible loss exposure for all of the Disclosed Matters. The estimated aggregate amount also does not reflect any of our exposure to matters not so disclosed, as discussed below under Other.

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

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

The following updates our disclosure of legal proceedings from that provided in Prior Disclosure.

Overdraft Litigation

With respect to the two cases consolidated for pre-trial proceedings in the United States District Court for the Southern District of Florida (the MDL Court) under the caption *In re Checking Account Overdraft Litigation* (MDL No. 2036, Case No. 1:09-MD-02036-JLK), *Dasher v. RBC Bank* and *Avery v. RBC Bank*, we filed a motion asking the U.S. Court of Appeals for the Eleventh Circuit to reconsider its decision in February 2014 affirming the order of the MDL Court denying arbitration. The court of appeals denied our motion in March 2014. In April 2014, we filed a motion asking the court of appeals to stay its ruling pending the filing of a petition for a writ of certiorari with the U.S. Supreme Court. The court of appeals granted our motion later in April 2014 and stayed its ruling until July 2, 2014. If a petition for a writ of certiorari is filed with the Supreme Court before that date, the stay will continue until final disposition of the case by the Supreme Court.

FHLB

In March 2014, PNC and the Federal Home Loan Bank of Chicago reached an agreement in principle to settle the lawsuit

pending in the Circuit Court of Cook County, Illinois under the caption *Federal Home Loan Bank of Chicago v. Bank of America Funding Corp., et al.* (Case No. 10CH45033). The settlement remains subject, among other things, to final documentation. The amount of the settlement is not material to PNC.

Lender Placed Insurance Litigation

In February 2014, the plaintiff in *Lauren vs. PNC Bank, N.A.*, *et al*, (Case No. 2:13-cv-00762-TFM), now pending in the United States District Court for the Southern District of Ohio, moved to amend her complaint to, among other things, assert a nationwide RICO claim on behalf of the class. The motion is pending.

In March 2014, an additional class action complaint (*Tighe v. PNC Bank, N.A., et al.*, Case No. 14-CV-2017) was filed in the United States District Court for the Southern District of New York against PNC Bank, Alpine Indemnity Limited, a reinsurance subsidiary of PNC, ASIC and its parent, Assurant, Inc. The allegations of this complaint are similar to those found in the *Lauren* complaint. The plaintiff asserts breach of contract by PNC, breach of its duty of good faith and fair dealing, unjust enrichment, breach of a fiduciary duty, and violations of Texas statutes pertaining to deceptive and unfair trade practices. These plaintiffs also assert claims under the federal TILA and RICO statutes. The plaintiff seeks a nationwide class on all claims except the state law statutory claim, for which they seek to certify a subclass of Texas residents.

Mortgage Repurchase Litigation

In March 2014, we filed a motion to dismiss the complaint in *Residential Funding Company, LLC v. PNC Bank, N.A., et al.* (Civil No. 13-3498-JRT-JSM) pending in the United States District Court for the District of Minnesota. Residential Funding Company then filed an amended complaint, as well as a motion to transfer the lawsuit to the United States Bankruptcy Court for the Southern District of New York. In April 2014, we moved to dismiss the amended complaint.

Other Regulatory and Governmental Inquiries

PNC is the subject of investigations, audits and other forms of regulatory and governmental inquiry covering a broad range of issues in our banking, securities and other financial services businesses, in some cases as part of reviews of specified activities at multiple industry participants. Over the last few years, we have experienced an increase in regulatory and governmental investigations, audits and other inquiries. Areas of current regulatory or governmental inquiry with respect to PNC include consumer protection, fair lending, mortgage origination and servicing, mortgage and non mortgage-related insurance and reinsurance, municipal finance activities, conduct by broker-dealers, and participation in government insurance or guarantee programs, some of which are described in Prior Disclosure. These inquiries, including those described in Prior Disclosure, may lead to administrative, civil or

criminal proceedings, and possibly result in remedies including fines, penalties, restitution, or alterations in our business practices, and in additional expenses and collateral costs.

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

Other

In addition to the proceedings or other matters described above and in Prior Disclosure, PNC and persons to whom we may have indemnification obligations, in the normal course of business, are subject to various other pending and threatened legal proceedings in which claims for monetary damages and other relief are asserted. We do not anticipate, at the present time, that the ultimate aggregate liability, if any, arising out of such other legal proceedings will have a material adverse effect on our financial position. However, we cannot now determine whether or not any claims asserted against us or others to whom we may have indemnification obligations, whether in the proceedings or other matters described above or otherwise, will have a material adverse effect on our results of operations in any future reporting period, which will depend on, among other things, the amount of the loss resulting from the claim and the amount of income otherwise reported for the reporting period.

See Note 17 Commitments and Guarantees for additional information regarding the Visa indemnification and our other obligations to provide indemnification, including to current and former officers, directors, employees and agents of PNC and companies we have acquired.

NOTE 17 COMMITMENTS AND GUARANTEES

Equity Funding and Other Commitments

During the first quarter of 2014, financial support to existing direct and indirect investments of $16 million was provided. Of this amount, $6 million was funded to satisfy commitments to various private equity investments. Support to direct investments generally provided growth financing.

Unfunded obligations at March 31, 2014 included unfunded commitments to various private equity investments of $153 million and additional obligations to direct investments of $6 million.

Standby Letters of Credit

We issue standby letters of credit and have risk participations in standby letters of credit issued by other financial institutions, in each case to support obligations of our customers to third parties, such as insurance requirements and the facilitation of transactions involving capital markets product execution. Net outstanding standby letters of credit and internal credit ratings were as follows:

Table 123: Net Outstanding Standby Letters of Credit

Dollars in billions	March 31 2014	December 31 2013
Net outstanding standby letters of credit (a)	$ 10.6	$ 10.5
Internal credit ratings (as a percentage of portfolio):		
Pass (b)	96%	96%
Below pass (c)	4%	4%

(a) The amounts above exclude participations in standby letters of credit of $3.4 billion and $3.3 billion to other financial institutions as of March 31, 2014 and December 31, 2013, respectively. The amounts above include $6.3 billion and $6.6 billion which support remarketing programs at March 31, 2014 and December 31, 2013, respectively.
(b) Indicates that expected risk of loss is currently low.
(c) Indicates a higher degree of risk of default.

If the customer fails to meet its financial or performance obligation to the third party under the terms of the contract or there is a need to support a remarketing program, then upon a draw by a beneficiary, subject to the terms of the letter of credit, we would be obligated to make payment to them. The standby letters of credit outstanding on March 31, 2014 had terms ranging from less than 1 year to 8 years.

As of March 31, 2014, assets of $1.9 billion secured certain specifically identified standby letters of credit. In addition, a portion of the remaining standby letters of credit issued on behalf of specific customers is also secured by collateral or guarantees that secure the customers other obligations to us. The carrying amount of the liability for our obligations related to standby letters of credit and participations in standby

letters of credit was $207 million at March 31, 2014.

Standby Bond Purchase Agreements and Other Liquidity Facilities

We enter into standby bond purchase agreements to support municipal bond obligations. At March 31, 2014, the aggregate of our commitments under these facilities was $1.0 billion. We also enter into certain other liquidity facilities to support individual pools of receivables acquired by commercial paper conduits. There were no commitments under these facilities at March 31, 2014.

Indemnifications

We are a party to numerous acquisition or divestiture agreements under which we have purchased or sold, or agreed to purchase or sell, various types of assets. These agreements can cover the purchase or sale of entire businesses, loan portfolios, branch banks, partial interests in companies, or other types of assets.

These agreements generally include indemnification provisions under which we indemnify the third parties to these agreements against a variety of risks to the indemnified parties as a result of the transaction in question. When PNC is the seller, the indemnification provisions will generally also provide the buyer with protection relating to the quality of the assets we are selling and the extent of any liabilities being assumed by the buyer. Due to the nature of these indemnification provisions, we cannot quantify the total potential exposure to us resulting from them.

We provide indemnification in connection with securities offering transactions in which we are involved. When we are the issuer of the securities, we provide indemnification to the underwriters or placement agents analogous to the indemnification provided to the purchasers of businesses from us, as described above. When we are an underwriter or placement agent, we provide a limited indemnification to the issuer related to our actions in connection with the offering and, if there are other underwriters, indemnification to the other underwriters intended to result in an appropriate sharing of the risk of participating in the offering. Due to the nature of these indemnification provisions, we cannot quantify the total potential exposure to us resulting from them.

In the ordinary course of business, we enter into certain types of agreements that include provisions for indemnifying third parties. We also enter into certain types of agreements, including leases, assignments of leases, and subleases, in which we agree to indemnify third parties for acts by our agents, assignees and/or sublessees, and employees. We also enter into contracts for the delivery of technology service in which we indemnify the other party against claims of patent and copyright infringement by third parties. Due to the nature of these indemnification provisions, we cannot calculate our aggregate potential exposure under them.

In the ordinary course of business, we enter into contracts with third parties under which the third parties provide services on behalf of PNC. In many of these contracts, we agree to indemnify the third party service provider under certain circumstances. The terms of the indemnity vary from contract to contract and the amount of the indemnification liability, if any, cannot be determined.

We are a general or limited partner in certain asset management and investment limited partnerships, many of which contain indemnification provisions that would require us to make payments in excess of our remaining unfunded commitments. While in certain of these partnerships the maximum liability to us is limited to the sum of our unfunded commitments and partnership distributions received by us, in the others the indemnification liability is unlimited. As a result, we cannot determine our aggregate potential exposure for these indemnifications.

In some cases, indemnification obligations of the types described above arise under arrangements entered into by predecessor companies for which we become responsible as a result of the acquisition.

Pursuant to their bylaws, PNC and its subsidiaries provide indemnification to directors, officers and, in some cases, employees and agents against certain liabilities incurred as a result of their service on behalf of or at the request of PNC and its subsidiaries. PNC and its subsidiaries also advance on behalf of covered individuals costs incurred in connection with certain claims or proceedings, subject to written undertakings by each such individual to repay all amounts advanced if it is ultimately determined that the individual is not entitled to indemnification. We generally are responsible for similar indemnifications and advancement obligations that companies we acquire had to their officers, directors and sometimes employees and agents at the time of acquisition. We advanced such costs on behalf of several such individuals with respect to pending litigation or investigations during 2014. It is not possible for us to determine the aggregate potential exposure resulting from the obligation to provide this indemnity or to advance such costs.

Visa Indemnification

Our payment services business issues and acquires credit and debit card transactions through Visa U.S.A. Inc. card association or its affiliates (Visa). Our 2013 Form 10-K has additional information regarding the October 2007 Visa restructuring, our involvement with judgment and loss sharing agreements with Visa and certain other banks, and the status of pending interchange litigation. See also Note 23 Legal Proceedings in our 2013 Form 10-K for information on interchange litigation. Additionally, we continue to have an obligation to indemnify Visa for judgments and settlements for the remaining specified litigation.

Recourse and Repurchase Obligations

As discussed in Note 2 Loan Sale and Servicing Activities and Variable Interest Entities, PNC has sold commercial mortgage, residential mortgage and home equity loans/ lines of credit directly or indirectly through securitization and loan sale transactions in which we have continuing involvement. One form of continuing involvement includes certain recourse and loan repurchase obligations associated with the transferred assets.

Commercial Mortgage Loan Recourse Obligations

We originate, close and service certain multi-family commercial mortgage loans which are sold to FNMA under FNMA s Delegated Underwriting and Servicing (DUS) program. We participated in a similar program with the FHLMC.

Under these programs, we generally assume up to a one-third pari passu risk of loss on unpaid principal balances through a loss share arrangement. At both March 31, 2014 and

December 31, 2013, the unpaid principal balance outstanding of loans sold as a participant in these programs was $11.7 billion. The potential maximum exposure under the loss share arrangements was $3.6 billion at both March 31, 2014 and December 31, 2013.

We maintain a reserve for estimated losses based upon our exposure. The reserve for losses under these programs totaled $33 million as of both March 31, 2014 and December 31, 2013, and is included in Other liabilities on our Consolidated Balance Sheet. The comparable reserve as of March 31, 2013 was $42 million.

If payment is required under these programs, we would not have a contractual interest in the collateral underlying the mortgage loans on which losses occurred, although the value of the collateral is taken into account in determining our share of such losses. Our exposure and activity associated with these recourse obligations are reported in the Corporate & Institutional Banking segment.

Table 124: Analysis of Commercial Mortgage Recourse Obligations

In millions	2014	2013
January 1	$ 33	$ 43
Reserve adjustments, net		(1)
March 31	$ 33	$ 42

Residential Mortgage Loan and Home Equity Loan/ Line of Credit Repurchase Obligations

While residential mortgage loans are sold on a non-recourse basis, we assume certain loan repurchase obligations associated with mortgage loans we have sold to investors. These loan repurchase obligations primarily relate to

situations where PNC is alleged to have breached certain origination covenants and representations and warranties made to purchasers of the loans in the respective purchase and sale agreements.

In the fourth quarter of 2013, PNC reached agreements with both FNMA and FHLMC to resolve their repurchase claims with respect to loans sold between 2000 and 2008. PNC paid a total of $191 million related to these settlements.

PNC s repurchase obligations also include certain brokered home equity loans/lines of credit that were sold to a limited number of private investors in the financial services industry by National City prior to our acquisition of National City. PNC is no longer engaged in the brokered home equity lending business, and our exposure under these loan repurchase obligations is limited to repurchases of loans sold in these transactions. Repurchase activity associated with brokered home equity loans/lines of credit is reported in the Non-Strategic Assets Portfolio segment.

Indemnification and repurchase liabilities are initially recognized when loans are sold to investors and are subsequently evaluated by management. Initial recognition and subsequent adjustments to the indemnification and repurchase liability for the sold residential mortgage portfolio are recognized in Residential mortgage revenue on the Consolidated Income Statement. Since PNC is no longer engaged in the brokered home equity lending business, only subsequent adjustments are recognized to the home equity loans/lines indemnification and repurchase liability. These adjustments are recognized in Other noninterest income on the Consolidated Income Statement.

Management s subsequent evaluation of these indemnification and repurchase liabilities is based upon trends in indemnification and repurchase requests, actual loss experience, risks in the underlying serviced loan portfolios, and current economic conditions. As part of its evaluation, management considers estimated loss projections over the life of the subject loan portfolio. At March 31, 2014 and December 31, 2013, the total indemnification and repurchase liability for estimated losses on indemnification and repurchase claims totaled $122 million and $153 million, respectively, and was included in Other liabilities on the Consolidated Balance Sheet. An analysis of the changes in this liability during 2014 and 2013 follows:

Table 125: Analysis of Indemnification and Repurchase Liability for Asserted Claims and Unasserted Claims

In millions	2014 Residential Mortgages (a)	2014 Home Equity Loans/ Lines (b)	2014 Total	2013 Residential Mortgages (a)	2013 Home Equity Loans/ Lines (b)	2013 Total
January 1	$ 131	$ 22	$ 153	$ 614	$ 58	$ 672
Reserve adjustments, net	(19)	3	(16)	4	(3)	1
Losses loan repurchases and private investor settlements	(9)	(6)	(15)	(96)	(30)	(126)
March 31	$ 103	$ 19	$ 122	$ 522	$ 25	$ 547

(a) Repurchase obligation associated with sold loan portfolios of $90.2 billion and $101.3 billion at March 31, 2014 and March 31, 2013, respectively.

(b) Repurchase obligation associated with sold loan portfolios of $3.6 billion and $3.9 billion at March 31, 2014 and March 31, 2013, respectively. PNC is no longer engaged in the brokered home equity lending business, which was acquired with National City.

Management believes the indemnification and repurchase liabilities appropriately reflect the estimated probable losses on indemnification and repurchase claims for all loans sold and outstanding as of March 31, 2014 and 2013. In making these estimates, we consider the losses that we expect to incur over the life of the sold loans. While management seeks to obtain all relevant information in estimating the indemnification and repurchase liability, the estimation process is inherently uncertain and imprecise and, accordingly, it is reasonably possible that future indemnification and repurchase losses could be more or less than our established liability. Factors that could affect our estimate include the volume of valid claims driven by investor strategies and behavior, our ability to successfully negotiate claims with investors, housing prices and other economic conditions. At March 31, 2014, we estimate that it is reasonably possible that we could incur additional losses in excess of our accrued indemnification and repurchase liability of up to approximately $87 million for our portfolio of residential mortgage loans sold. At March 31, 2014, the reasonably possible loss above our accrual for our portfolio of home equity loans/lines of credit sold was not material. This estimate of potential additional losses in excess of our liability is based on assumed higher repurchase claims and lower claim rescissions than our current assumptions.

Reinsurance Agreements

We have two wholly-owned captive insurance subsidiaries which provide reinsurance to third-party insurers related to insurance sold to our customers. These subsidiaries enter into various types of reinsurance agreements with third-party insurers where the subsidiary assumes the risk of loss through either an excess of loss or quota share agreement up to 100% reinsurance. In excess of loss agreements, these subsidiaries assume the risk of loss for an excess layer of coverage up to specified limits, once a defined first loss percentage is met. In quota share agreements, the subsidiaries and third-party insurers share the responsibility for payment of all claims.

These subsidiaries provide reinsurance for accidental death & dismemberment, credit life, accident & health, lender placed hazard and borrower and lender paid mortgage insurance with an aggregate maximum exposure up to the specified limits for all reinsurance contracts as follows:

Table 126: Reinsurance Agreements Exposure (a)

In millions	March 31 2014	December 31 2013
Accidental Death & Dismemberment	$ 1,867	$ 1,902
Credit Life, Accident & Health	570	621
Lender Placed Hazard (b)	2,645	2,679
Borrower and Lender Paid Mortgage Insurance	86	133
Maximum Exposure	$ 5,168	$ 5,335
Percentage of reinsurance agreements:		
Excess of Loss Mortgage Insurance	1%	2%
Quota Share	99%	98%
Maximum Exposure to Quota Share Agreements with 100% Reinsurance	$ 569	$ 620

(a) Reinsurance agreements exposure balances represent estimates based on availability of financial information from insurance carriers.
(b) Through the purchase of catastrophe reinsurance connected to the Lender Placed Hazard Exposure, should a catastrophic event occur, PNC will benefit from this reinsurance. No credit for the catastrophe reinsurance protection is applied to the aggregate exposure figure.

A rollforward of the reinsurance reserves for probable losses for the first three months 2014 and 2013 follows:

Table 127: Reinsurance Reserves Rollforward

In millions	2014	2013
January 1	$ 32	$ 61
Paid Losses	(7)	(12)
Net Provision	3	5
March 31	$ 28	$ 54

There were no changes to the terms of existing agreements, nor were any new relationships entered into or existing relationships exited.

There is a reasonable possibility that losses could be more than or less than the amount reserved due to ongoing uncertainty in various economic, social and other factors that could impact the frequency and severity of claims covered by these reinsurance agreements. At March 31, 2014, the reasonably possible loss above our accrual was not material.

Resale and Repurchase Agreements

We enter into repurchase and resale agreements where we transfer investment securities to/from a third party with the agreement to repurchase/resell those investment securities at a future date for a specified price. Repurchase and resale agreements are treated as collateralized financing transactions for accounting purposes and are generally carried at the amounts at which the securities will be subsequently reacquired or resold, including accrued interest. Our policy is to take possession of securities purchased under agreements to resell. We monitor the market value of securities to be repurchased and resold and additional collateral may be obtained where considered appropriate to protect against credit exposure.

Repurchase and resale agreements are typically entered into with counterparties under industry standard master netting agreements which provide for the right to setoff amounts owed to one another with respect to multiple repurchase and resale agreements under such master netting agreement (referred to as netting arrangements) and liquidate the purchased or borrowed securities in the event of counterparty default. In order for an arrangement to be eligible for netting under GAAP, we must obtain the requisite assurance that the offsetting rights included in the master netting agreement would be legally enforceable in the event of bankruptcy, insolvency, or a similar proceeding of such third party. Enforceability is evidenced by obtaining a legal opinion that supports, with sufficient confidence, the enforceability of the master netting agreement in bankruptcy.

In accordance with the disclosure requirements of ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities, Table 128 shows the amounts owed under resale and repurchase agreements and the securities collateral associated with those agreements where a legal opinion supporting the enforceability of the offsetting rights has been obtained. We do not present resale and repurchase agreements entered into with the same counterparty under a legally enforceable master netting agreement on a net basis on our Consolidated Balance Sheet or within Table 128. The amounts reported in Table 128 exclude the fair value adjustment on the structured resale agreements of $10 million and $11 million at March 31, 2014 and December 31, 2013,

respectively, that we have elected to account for at fair value. Refer to Note 8 Fair Value for additional information regarding the structured resale agreements at fair value.

For further discussion on ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities and the impact of other instruments entered into under master netting arrangements, see Note 1 Accounting Policies in our Notes To Consolidated Financial Statements under Item 8 of our 2013 Form 10-K. Refer to Note 12 Financial Derivatives for additional information related to offsetting of financial derivatives.

Table 128: Resale and Repurchase Agreements Offsetting

In millions	Gross Resale Agreements	Amounts Offset on the Consolidated Balance Sheet	Net Resale Agreements (a) (b)	Securities Collateral Held Under Master Netting Agreements (c)	Net Amounts (b)
Resale Agreements					
March 31, 2014	$ 990		$ 990	$ 901	$89
December 31, 2013	1,542		1,542	1,453	89

In millions	Gross Repurchase Agreements	Amounts Offset on the Consolidated Balance Sheet	Net Repurchase Agreements (d) (e)	Securities Collateral Pledged Under Master Netting Agreements (c)	Net Amounts (e)
Repurchase Agreements					
March 31, 2014	$ 3,184		$ 3,184	$ 2,313	$ 871
December 31, 2013	4,183		4,183	3,166	1,017

(a) Represents the resale agreement amount included in Federal funds sold and resale agreements on our Consolidated Balance Sheet and the related accrued interest income in the amount of $1 million at both March 31, 2014 and December 31, 2013, respectively, which is included in Other Assets on the Consolidated Balance Sheet.

(b) These amounts include certain long term resale agreements of $89 million at both March 31, 2014 and December 31, 2013, respectively, which are fully collateralized but do not have the benefits of a netting opinion and, therefore, might be subject to a stay in insolvency proceedings and therefore are not eligible under ASC 210-20 for netting.

(c) In accordance with the requirements of ASU 2011-11, represents the fair value of securities collateral purchased or sold, up to the amount owed under the agreement, for agreements supported by a legally enforceable master netting agreement.

(d) Represents the repurchase agreement amount included in Federal funds purchased and repurchase agreements on our Consolidated Balance Sheet and the related accrued interest expense in the amount of less than $1 million at both March 31, 2014 and December 31, 2013, which is included in Other Liabilities on the Consolidated Balance Sheet.

(e) These amounts include overnight repurchase agreements of $871 million and $966 million at March 31, 2014 and December 31, 2013, respectively, entered into with municipalities, pension plans, and certain trusts and insurance companies as well as certain long term repurchase agreements of zero and $50 million at March 31, 2014 and December 31, 2013, respectively, which are fully collateralized but do not have the benefits of a netting opinion and, therefore, might be subject to a stay in insolvency proceedings and therefore are not eligible under ASC 210-20 for netting.

NOTE 18 SEGMENT REPORTING

We have six reportable business segments:

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

Results of individual businesses are presented based on our internal management reporting practices. There is no comprehensive, authoritative body of guidance for management accounting equivalent to GAAP; therefore, the financial results of our individual businesses are not necessarily comparable with similar information for any other company. We periodically refine our internal methodologies

as management reporting practices are enhanced. To the extent practicable, retrospective application of new methodologies is made to prior period reportable business segment results and disclosures to create comparability with the current period.

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

Assets receive a funding charge and liabilities and capital receive a funding credit based on a transfer pricing methodology that incorporates product maturities, duration and other factors. A portion of capital is intended to cover unexpected losses and is assigned to our business segments using our risk-based economic capital model, including

consideration of the goodwill at those business segments, as well as the diversification of risk among the business segments, ultimately reflecting PNC s portfolio risk adjusted capital allocation.

We have allocated the allowances for loan and lease losses and for unfunded loan commitments and letters of credit based on the loan exposures within each business segment s portfolio. Key reserve assumptions and estimation processes react to and are influenced by observed changes in loan portfolio performance experience, the financial strength of the borrower, and economic conditions. Key reserve assumptions are periodically updated.

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

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

Business Segment Products and Services

Retail Banking provides deposit, lending, brokerage, investment management and cash management services to consumer and small business customers within our primary geographic markets. Our customers are serviced through our branch network, ATMs, call centers, online banking and mobile channels. The branch network is located primarily in Pennsylvania, Ohio, New Jersey, Michigan, Illinois, Maryland, Indiana, North Carolina, Florida, Kentucky, Washington, D.C., Delaware, Alabama, Virginia, Missouri, Georgia, Wisconsin and South Carolina.

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

services. Capital markets-related products and services include foreign exchange, derivatives, securities, loan syndications and mergers and acquisitions advisory and related services to middle-market companies. We also provide commercial loan servicing, and real estate advisory and technology solutions, for the commercial real estate finance industry. Products and services are generally provided within our primary geographic markets, with certain products and services offered nationally and internationally.

Asset Management Group includes personal wealth management for high net worth and ultra high net worth clients and institutional asset management. Wealth management products and services include investment and retirement planning, customized investment management, private banking, tailored credit solutions, and trust management and administration for individuals and their families. Institutional asset management provides investment management, custody administration and retirement administration services. Institutional clients include corporations, unions, municipalities, non-profits, foundations and endowments, primarily located in our geographic footprint.

Residential Mortgage Banking directly originates first lien residential mortgage loans on a nationwide basis with a significant presence within the retail banking footprint. Mortgage loans represent loans collateralized by one-to-four-family residential real estate. These loans are typically underwritten to government agency and/or third-party standards, and sold, servicing retained, to secondary mortgage conduits of FNMA, FHLMC, Federal Home Loan Banks and third-party investors, or are securitized and issued under the GNMA program. The mortgage servicing operation performs all functions related to servicing mortgage loans, primarily those in first lien position, for various investors and for loans owned by PNC.

BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. BlackRock provides diversified investment management services to institutional clients, intermediary investors and individual investors through various investment vehicles. Investment management services primarily consist of the management of equity, fixed income, multi-asset class, alternative investment and cash management products. BlackRock offers its investment products in a variety of vehicles, including open-end and closed-end mutual funds, *iShares®* exchange-traded funds (ETFs), collective investment trusts and separate accounts. In addition, BlackRock provides market risk management, financial markets advisory and enterprise investment system services to a broad base of clients. Financial markets advisory services include valuation services relating to illiquid securities, dispositions and workout assignments (including long-term portfolio liquidation assignments), risk management and strategic planning and execution.

We hold an equity investment in BlackRock, which is a key component of our diversified revenue strategy. BlackRock is a publicly traded company, and additional information regarding its business is available in its filings with the Securities and Exchange Commission (SEC). At March 31, 2014, our economic interest in BlackRock was 22%.

PNC received cash dividends from BlackRock of $71 million and $63 million during the first three months of 2014 and 2013, respectively.

Non-Strategic Assets Portfolio includes a consumer portfolio of mainly residential mortgage and brokered home equity loans and lines of credit, and a small commercial/commercial real estate loan and lease portfolio. We obtained a significant portion of these non-strategic assets through acquisitions of other companies.

Table 129: Results Of Businesses

Three months ended March 31 In millions	Retail Banking	Corporate & Institutional Banking	Asset Management Group	Residential Mortgage Banking	BlackRock	Non-Strategic Assets Portfolio	Other (a)	Consolidated (a)
2014								
Income Statement								
Net interest income	$ 980	$ 903	$ 71	$ 40		$ 142	$ 59	$ 2,195
Noninterest income	514	364	199	166	$ 160	6	173	1,582
Total revenue	1,494	1,267	270	206	160	148	232	3,777
Provision for credit losses (benefit)	145	(13)	12	(1)		(52)	3	94
Depreciation and amortization	44	31	10	3			93	181
Other noninterest expense	1,056	457	189	210		26	145	2,083
Income (loss) before income taxes and noncontrolling interests	249	792	59	(6)	160	174	(9)	1,419
Income taxes (benefit)	91	269	22	(2)	37	64	(122)	359
Net income (loss)	$ 158	$ 523	$ 37	$ (4)	$ 123	$ 110	$ 113	$ 1,060
Inter-segment revenue	$ 1	$ (2)	$ 3	$ 4	$ 4	$ (3)	$ (7)	
Average Assets (b)	$ 75,920	$ 117,937	$ 7,599	$ 8,777	$ 6,272	$ 8,889	$ 94,168	$ 319,562
2013								
Income Statement								
Net interest income	$ 1,049	$ 926	$ 73	$ 48		$ 203	$ 90	$ 2,389
Noninterest income	434	385	182	243	$ 138	16	168	1,566
Total revenue	1,483	1,311	255	291	138	219	258	3,955
Provision for credit losses (benefit)	162	14	5	20		42	(7)	236
Depreciation and amortization	47	33	10	3			82	175
Other noninterest expense	1,084	447	173	197		52	240	2,193
Income (loss) before income taxes and noncontrolling interests	190	817	67	71	138	125	(57)	1,351
Income taxes (benefit)	70	276	24	26	30	46	(116)	356
Net income	$ 120	$ 541	$ 43	$ 45	$ 108	$ 79	$ 59	$ 995
Inter-segment revenue		$ 6	$ 3	$ 1	$ 4	$ (2)	$ (12)	
Average Assets (b)	$ 74,116	$ 111,671	$ 7,131	$ 10,803	$ 5,859	$ 10,735	$ 83,051	$ 303,366

(a) Prior period amounts have been updated to reflect first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.
(b) Period-end balances for BlackRock.

Note 19 Subsequent Events

On April 28, 2014, PNC issued $750 million of subordinated notes with a maturity date of April 29, 2024. Interest is payable semi-annually, at a fixed rate of 3.90% on April 29 and October 29 of each year, beginning on October 29, 2014.

STATISTICAL INFORMATION (UNAUDITED)

The PNC Financial Services Group, Inc.

Average Consolidated Balance Sheet And Net Interest Analysis

Taxable-equivalent basis Dollars in millions	First Quarter 2014 Average Balances	First Quarter 2014 Interest Income/ Expense	First Quarter 2014 Average Yields/ Rates	Fourth Quarter 2013 Average Balances	Fourth Quarter 2013 Interest Income/ Expense	Fourth Quarter 2013 Average Yields/ Rates
Assets						
Interest-earning assets:						
Investment securities						
Securities available for sale						
Residential mortgage-backed						
Agency	$ 21,823	$ 143	2.61%	$ 22,327	$ 150	2.68%
Non-agency	5,375	66	4.91	5,539	71	5.14
Commercial mortgage-backed	4,474	42	3.81	4,460	42	3.83
Asset-backed	5,593	25	1.79	5,814	28	1.92
U.S. Treasury and government agencies	4,169	13	1.30	2,507	9	1.36
State and municipal	2,652	32	4.78	2,275	25	4.31
Other debt	2,505	15	2.39	2,523	15	2.30
Corporate stock and other	409		.10	359		.15
Total securities available for sale	47,000	336	2.86	45,804	340	2.96
Securities held to maturity						
Residential mortgage-backed	5,995	53	3.55	5,726	49	3.42
Commercial mortgage-backed	2,748	28	4.09	3,153	34	4.28
Asset-backed	1,004	4	1.51	1,047	4	1.57
U.S. Treasury and government agencies	240	2	3.77	238	2	3.82
State and municipal	1,055	15	5.61	1,056	15	5.65
Other	337	3	3.00	341	3	4.20
Total securities held to maturity	11,379	105	3.68	11,561	107	3.72
Total investment securities	58,379	441	3.02	57,365	447	3.11
Loans						
Commercial	89,517	784	3.50	88,185	795	3.53
Commercial real estate	21,652	228	4.20	20,587	236	4.50
Equipment lease financing	7,470	68	3.64	7,428	69	3.74
Consumer	63,093	662	4.26	63,203	684	4.29
Residential real estate	14,849	189	5.09	15,180	196	5.18
Total loans	196,581	1,931	3.95	194,583	1,980	4.02
Interest-earning deposits with banks	12,157	7	.23	10,455	6	.26
Loans held for sale	1,949	23	4.71	2,225	31	5.40
Federal funds sold and resale agreements	1,416	1	.32	864	2	.79
Other	5,296	53	4.02	4,993	58	4.51
Total interest-earning assets/interest income	275,778	2,456	3.58	270,485	2,524	3.69
Noninterest-earning assets:						
Allowance for loan and lease losses	(3,591)			(3,667)		
Cash and due from banks	3,890			3,904		
Other	43,485			43,346		
Total assets	$ 319,562			$ 314,068		
Liabilities and Equity						
Interest-bearing liabilities:						
Interest-bearing deposits						
Money market	$ 74,034	32	.17	$ 73,534	33	.18
Demand	42,635	5	.05	41,151	4	.05
Savings	11,408	2	.08	11,010	2	.08
Retail certificates of deposit	20,538	38	.75	21,138	41	.76
Time deposits in foreign offices and other time	2,069	1	.18	2,013	1	.17
Total interest-bearing deposits	150,684	78	.21	148,846	81	.22
Borrowed funds						
Federal funds purchased and repurchase agreements	4,250	1	.11	4,120	2	.14

Federal Home Loan Bank borrowings	13,100	17	.50	11,348	14	.48
Bank notes and senior debt	13,327	50	1.49	12,252	47	1.51
Subordinated debt	8,040	51	2.54	7,900	52	2.63
Commercial paper	4,931	3	.28	5,297	3	.26
Other	2,740	15	2.20	2,156	14	2.44
Total borrowed funds	46,388	137	1.18	43,073	132	1.21
Total interest-bearing liabilities/interest expense	197,072	215	.44	191,919	213	.44
Noninterest-bearing liabilities and equity:						
Noninterest-bearing deposits	67,679			68,193		
Allowance for unfunded loan commitments and letters of credit	241			236		
Accrued expenses and other liabilities	10,123			10,622		
Equity	44,447			43,098		
Total liabilities and equity	$ 319,562			$ 314,068		
Interest rate spread			3.14			3.25
Impact of noninterest-bearing sources			.12			.13
Net interest income/margin		$ 2,241	3.26%		$ 2,311	3.38%

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

Third Quarter 2013			Second Quarter 2013			First Quarter 2013		
Average Balances	Interest Income/ Expense	Average Yields/ Rates	Average Balances	Interest Income/ Expense	Average Yields/ Rates	Average Balances	Interest Income/ Expense	Average Yields/ Rates
$ 23,674	$ 140	2.36%	$ 24,339	$ 152	2.50%	$ 25,168	$ 182	2.90%
5,862	83	5.70	5,889	82	5.51	6,025	81	5.40
4,349	42	3.82	3,855	38	4.00	3,745	38	4.02
5,962	28	1.87	5,919	27	1.80	5,731	27	1.92
2,013	10	1.90	2,074	7	1.37	2,715	11	1.65
2,354	20	4.24	2,182	24	4.48	2,189	28	4.93
2,630	15	2.38	2,728	17	2.39	2,649	17	2.58
339		.12	304		.14	368		.12
47,183	338	2.91	47,290	347	2.93	48,590	384	3.16
3,794	37	3.92	3,833	31	3.26	4,146	36	3.44
3,276	35	4.29	3,521	38	4.34	3,747	44	4.71
1,064	4	1.59	978	4	1.74	826	4	1.80
236	3	3.81	233	2	3.80	231	2	3.77
658	13	5.55	640	7	4.27	639	7	4.23
346	3	2.90	349	3	2.89	352	2	2.82
9,374	95	3.86	9,554	85	3.57	9,941	95	3.82
56,557	433	3.06	56,844	432	3.04	58,531	479	3.27
86,456	800	3.62	86,015	807	3.71	83,476	841	4.03
19,558	232	4.64	18,860	231	4.84	18,850	238	5.05
7,296	68	3.75	7,350	82	4.41	7,241	73	4.05
62,277	677	4.31	61,587	676	4.40	61,411	707	4.67
14,918	187	5.00	14,794	190	5.13	15,121	200	5.29
190,505	1,964	4.06	188,606	1,986	4.19	186,099	2,059	4.45
4,626	3	.22	2,063	1	.28	2,410	2	.25
3,071	41	5.34	3,072	32	4.22	3,279	53	6.49
664	2	1.10	1,141	2	.61	1,176	2	.74
4,183	48	4.54	4,376	56	5.26	4,685	56	4.79
259,606	2,491	3.79	256,102	2,509	3.91	256,180	2,651	4.15
(3,761)			(3,821)			(3,937)		
3,984			3,869			4,055		
43,371			45,783			47,068		
$ 303,200			$ 301,933			$ 303,366		
$ 70,557	32	.18	$ 69,123	30	.18	$ 69,003	33	.19
39,866	5	.05	40,172	5	.05	39,372	4	.04
11,007	3	.10	11,124	2	.10	10,671	3	.10
21,859	43	.79	22,641	47	.82	23,488	49	.85
1,804	1	.22	2,164	2	.43	2,267	4	.61
145,093	84	.23	145,224	86	.24	144,801	93	.26
2,967	1	.15	4,132	1	.14	4,328	2	.16
8,208	10	.48	7,218	10	.53	7,657	11	.61
11,256	49	1.71	10,886	47	1.71	10,469	48	1.83
7,334	53	2.89	7,003	49	2.78	7,249	51	2.83
7,109	4	.22	7,263	4	.22	7,967	5	.25
1,792	13	2.91	2,099	14	2.62	2,057	12	2.28

38,666	130	1.33	38,601	125	1.28	39,727	129	1.30
183,759	214	.46	183,825	211	.46	184,528	222	.48
66,834			64,749			64,850		
242			238			249		
10,327			10,890			11,858		
42,038			42,231			41,881		
$ 303,200			$ 301,933			$ 303,366		
		3.33			3.45			3.67
		.14			.13			.14
	$ 2,277	3.47%		$ 2,298	3.58%		$ 2,429	3.81%

Loan fees for the three months ended March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013 and March 31, 2013 were $59 million, $63 million, $57 million, $58 million and $52 million, respectively.

Interest income includes the effects of taxable-equivalent adjustments using a statutory federal income tax rate of 35% to increase tax-exempt interest income to a taxable-equivalent basis. The taxable-equivalent adjustments to interest income for the three months ended March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013 and March 31, 2013 were $46 million, $45 million, $43 million, $40 million and $40 million, respectively.

Estimated Pro forma Fully Phased-In Basel III Common Equity Tier 1 Capital Ratio 2013 Periods (a)

	Pro forma Fully Phased-In Basel III (b)	
	December 31	March 31
Dollars in millions	2013	2013
Common stock, related surplus and retained earnings, net of treasury stock	$ 38,031	$ 35,305
Less regulatory capital adjustments:		
Goodwill and disallowed intangibles, net of deferred tax liabilities	(9,321)	(9,412)
Basel III total threshold deductions	(1,386)	(2,076)
Accumulated other comprehensive income (c)	196	289
All other adjustments (d)	(64)	(580)
Estimated Common equity Tier 1 capital	$ 27,456	$ 23,526
Estimated Basel III standardized approach risk-weighted assets (e)	$ 291,977	$ N/A
Estimated Basel III advanced approaches risk-weighted assets (f)	$ 290,080	$ 293,810
Estimated Basel III Common equity Tier 1 capital ratio	9.4%	8.0%
Risk-weighted assets utilized	Standardized	Advanced

(a) Amounts have not been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to investments in low income housing tax credits.
(b) See Basel III Capital Ratios discussion in the Capital portion of the Consolidated Balance Sheet Review section of the Financial Review in Part I, Item 2 of this Report.
(c) Represents net adjustments related to accumulated other comprehensive income for securities currently and previously held as available for sale, as well as pension and other postretirement plans.
(d) Includes adjustments as required based on whether the standardized approach or advanced approaches is utilized.
(e) Basel III standardized approach risk-weighted assets were estimated based on the standardized approach rules and include credit and market risk.
(f) Basel III advanced approaches risk-weighted assets were estimated based on the advanced approaches rules, and include credit, market and operational risk.

2013 Basel I Tier 1 Common Capital Ratio (a) (b)

Dollars in millions	December 31 2013	March 31 2013
Basel I Tier 1 common capital	$ 28,484	$ 25,680
Basel I risk-weighted assets	272,169	261,491
Basel I Tier 1 common capital ratio	10.5%	9.8%

(a) Effective January 1, 2014, the Basel I Tier 1 common capital ratio no longer applies to PNC (except for stress testing purposes). Our 2013 Form 10-K included additional information regarding our Basel I capital ratios.
(b) Amounts have not been updated to reflect the first quarter 2014 adoption of ASU 2014-01 related to low income housing tax credits.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See the information set forth in Note 16 Legal Proceedings in the Notes To Consolidated Financial Statements under Part I, Item 1 of this Report, which is incorporated by reference in response to this item.

ITEM 1A. RISK FACTORS

There are no material changes from any of the risk factors previously disclosed in PNC s 2013 Form 10-K in response to Part I, Item 1A.

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

(c) Details of our repurchases of PNC common stock during the first quarter of 2014 are included in the following table:

In thousands, except per share data

2014 period	Total shares purchased (a)	Average price paid per share	Total shares purchased as part of publicly announced programs (b)	Maximum number of shares that may yet be purchased under the programs (b)
January 1 31	20	$ 76.95		21,551
February 1 28	440	$ 80.25		21,551
March 1 31	636	$ 85.68	582	20,969
Total	1,096	$ 83.34		

(a) Includes PNC common stock purchased in connection with our various employee benefit plans. Note 15 Employee Benefit Plans and Note 16 Stock Based Compensation Plans in the Notes to Consolidated Financial Statements in Item 8 of our 2013 Annual Report on Form 10-K include additional information regarding our employee benefit plans that use PNC common stock.

(b) Our current stock repurchase program authorization allows us to purchase up to 25 million shares on the open market or in privately negotiated transactions. This program was authorized on October 4, 2007 and will remain in effect until fully utilized or until modified, superseded or terminated. The extent and timing of share repurchases under this program will depend on a number of factors including, among others, market and general economic conditions, economic capital and regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, and contractual and regulatory limitations, including the results of the supervisory assessment of capital adequacy and capital planning processes undertaken by the Federal Reserve and our primary bank regulators as part of the CCAR process. See Capital and Liquidity Actions in the Executive Summary portion of the Financial Review section included in Part I, Item 2 of this Report for more information on the share repurchase programs under the existing common stock repurchase authorization referenced above for the period April 1, 2014 through March 31, 2015 included in the 2014 capital plan accepted by the Federal Reserve. The 582,000 shares repurchased in open-market transactions during March 2014 to mitigate the financial impact of employee benefit plan transactions were not repurchased under the share repurchase programs included in the 2014 capital plan.

ITEM 6. EXHIBITS

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

EXHIBIT INDEX

10.49	Form of Time-Sharing Agreement between PNC and certain executives
	Incorporated by reference to Exhibit 10.49 of PNC s Current Report on Form 8-K filed April 4, 2014
12.1	Computation of Ratio of Earnings to Fixed Charges
12.2	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101	Interactive Data File (XBRL)

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

CORPORATE INFORMATION

The PNC Financial Services Group, Inc.

Corporate Headquarters

The PNC Financial Services Group, Inc.

One PNC Plaza, 249 Fifth Avenue

Pittsburgh, Pennsylvania 15222-2707

412-762-2000

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

Internet Information The PNC Financial Services Group, Inc. s financial reports and information about its products and services are available on the internet at www.pnc.com. We provide information for investors on our corporate website under About PNC Investor Relations, such as Investor Events, Quarterly Earnings, SEC Filings, Financial Information, Financial Press Releases, Regulatory Disclosures, and Message from the Chairman. Under Investor Relations, we will from time to time post information that we believe may be important or useful to investors. We use our Twitter account, @pncnews, as an additional way of disseminating public information from time to time to investors. We generally post the following on our corporate website shortly before or promptly following its first use or release: financially-related press releases (including earnings releases), various SEC filings, presentation materials associated with earnings and other investor conference calls or events, and access to live and taped audio from earnings and other investor conference calls or events. In some cases, we may post the presentation materials for other investor conference calls or events several days prior to the call or event. When warranted, we will also use our website to expedite public access to time-critical information regarding PNC in advance of distribution of a press release or a filing with the SEC disclosing the same information.

PNC is required to provide additional public disclosure regarding estimated income, losses and pro forma regulatory capital ratios under a supervisory hypothetical severely adverse economic scenario in March of each year and under a PNC-developed hypothetical severely adverse economic scenario in September of each year, as well as information concerning its capital stress testing processes, pursuant to the stress testing regulations adopted by the Federal Reserve and the OCC. PNC is also required to make certain market risk-related public disclosures under the Federal banking agencies final market risk capital rule that implements the enhancements to the market risk framework adopted by the Basel Committee (commonly referred to as Basel II.5). In addition, pursuant to regulations adopted by the Federal Reserve and the OCC, PNC will be required to make additional regulatory capital-related disclosures beginning in 2015. Under these regulations, PNC may be able to satisfy at least a portion of these requirements through postings on its

website, and PNC has done so and expects to continue to do so without also providing disclosure of this information through filings with the Securities and Exchange Commission.

You can also find the SEC reports and corporate governance information described in the sections below in the Investor Relations section of our website.

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

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

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

Inquiries For financial services call 888-PNC-2265.

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

Analysts and institutional investors should contact William H. Callihan, Senior Vice President, Director of Investor Relations, at 412-762-8257 or via email at investor.relations@pnc.com.

News media representatives and others seeking general information should contact Fred Solomon, Senior Vice President, Corporate Communications, at 412-762-4550 or via email at corporate.communications@pnc.com.

Common Stock Prices/Dividends Declared The table below sets forth by quarter the range of high and low sale and quarter-end closing prices for The PNC Financial Services Group, Inc. common stock and the cash dividends declared per common share.

	High	Low	Close	Cash Dividends Declared (a)
2014 Quarter				
First	$ 87.80	$ 76.06	$ 87.00	$ .44
Total				$ .44
2013 Quarter				
First	$ 66.93	$ 58.96	$ 66.50	$ .40
Second	74.19	63.69	72.92	.44
Third	77.93	71.48	72.45	.44
Fourth	78.36	70.63	77.58	.44
Total				$ 1.72

(a) Our Board approved a second quarter 2014 cash dividend of $.48 per common share, which was payable on May 5, 2014.

Dividend Policy Holders of PNC common stock are entitled to receive dividends when declared by the Board of Directors out of funds legally available for this purpose. Our Board of Directors may not pay or set apart dividends on the common stock until dividends for all past dividend periods on any series of outstanding preferred stock have been paid or declared and set apart for payment. The Board presently intends to continue the policy of paying quarterly cash dividends. The amount of any future dividends will depend on economic and market conditions, our financial condition and operating results, and other factors, including contractual restrictions and applicable government regulations and policies (such as those relating to the ability of bank and non-bank subsidiaries to pay dividends to the parent company and regulatory capital limitations, including the results of the supervisory assessment of capital adequacy undertaken by the Federal Reserve and our primary bank regulators as part of the Comprehensive Capital Analysis and Review (CCAR) process).

Dividend Reinvestment And Stock Purchase Plan

The PNC Financial Services Group, Inc. Dividend Reinvestment and Stock Purchase Plan enables holders of our common and preferred Series B stock to conveniently purchase additional shares of common stock. You can obtain a prospectus and enrollment form by contacting Shareholder Services at 800-982-7652.

Registrar And Stock Transfer Agent

Computershare Trust Company, N.A.

250 Royall Street

Canton, MA 02021

800-982-7652

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on May 8, 2014 on its behalf by the undersigned thereunto duly authorized.

The PNC Financial Services Group, Inc.

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