



**THE PNC FINANCIAL SERVICES GROUP, INC. ("PNC")**  
**DODD-FRANK ACT COMPANY-RUN STRESS TEST DISCLOSURES**  
**June 23, 2016**

Pursuant to regulations issued by the Board of Governors of the Federal Reserve System ("Federal Reserve") and the Office of the Comptroller of Currency ("OCC") under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), PNC (NYSE: PNC) and PNC Bank, National Association ("PNC Bank") are required to conduct an annual company-run stress test based on balance sheet information as of December 31, 2015 (the "2016 Stress Test"), and disclose certain results of the test.

***Background***

This annual Dodd-Frank Act company-run stress test is a forward-looking exercise under which PNC and PNC Bank each must estimate the impact of a hypothetical severely adverse macroeconomic scenario provided by the Federal Reserve and OCC on its financial condition and regulatory capital ratios over a nine-quarter planning period (the "stress period"). For the 2016 Stress Test, the stress period covers the period of January 1, 2016, through March 31, 2018. The test is designed to help assess whether PNC and PNC Bank have sufficient capital to absorb losses and support operations during hypothetical severely adverse economic conditions. While the 2016 Stress Test is conducted in conjunction with the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") process, the results of this stress test do not reflect, nor should they be interpreted as, any decision by the Federal Reserve on the capital plan that PNC submitted on April 5, 2016, as part of the 2016 CCAR process. The Federal Reserve previously announced that it will release the results of the 2016 CCAR, including its determination whether to object or not object to the proposed capital actions included in the capital plans submitted as part of the 2016 CCAR, at 4:30 p.m. (EDT) on June 29, 2016.

***2016 Supervisory Severely Adverse Scenario***

The supervisory severely adverse scenario for the 2016 Stress Test was released by the Federal Reserve on January 28, 2016. It is important to note that this hypothetical scenario involves economic conditions that are more adverse than currently expected by the Federal Reserve or PNC. Accordingly, the scenario is not a forecast of anticipated economic conditions, and the estimates produced under the 2016 Stress Test are not forecasts of expected losses, revenues, net income before taxes, or capital ratios. Rather, the severely adverse scenario is designed to test the strength and resilience of large banking organizations, including PNC and PNC Bank, and their ability to continue to meet the needs of consumers and businesses should severe economic and financial conditions develop in the future. In light of PNC's limited trading and custodial activities, PNC was not required to apply the additional global shock and counterparty default components of the supervisory severely adverse scenario.

The supervisory severely adverse scenario is characterized by a severe global recession, accompanied by a period of heightened corporate financial stress and negative yields for short-term U.S. Treasury securities. In the United States, the level of real Gross Domestic Product ("GDP") begins to decline in the first quarter of 2016 and reaches a trough in the first quarter of 2017 that is 6.2% below the pre-recession peak. The

unemployment rate increases by 5 percentage points, peaking at 10.0% in the third quarter of 2017, and the inflation rate, as measured by the Consumer Price Index ("CPI"), rises from 0.2% in the fourth quarter of 2015 to 1.9% in the third quarter of 2017, before the rate of increase moderates. Equity prices, as measured by the U.S. Dow Jones Total Stock Market Index, fall 50.7% from their level at December 31, 2015, to the trough in the fourth quarter of 2016, accompanied by a surge in equity market volatility, which approaches the levels attained in 2008, as measured by the U.S. Market Volatility Index. Housing prices, as measured by the CoreLogic House Price Index, fall from their level in the fourth quarter of 2015, decreasing by 24.4% by the end of the stress period. Commercial real estate prices, as measured using the Federal Reserve's U.S. Commercial Real Estate Price Index, also experience a considerable decline of 30.5% from the fourth quarter of 2015 to their trough in the first quarter of 2018. Corporate financial conditions are stressed severely in the hypothetical scenario, reflecting mounting credit losses, heightened investor risk aversion, and strained market liquidity conditions. The spread between yields on investment-grade corporate bonds and yields on long-term Treasury securities increases to 5.8 percentage points by the end of 2016. As a result of the severe decline in real activity and continued low, albeit increased, inflation, short-term Treasury rates fall to negative 0.5% in the third quarter of 2016 and remain at that level through the end of the stress period. Per the Federal Reserve's instructions for this scenario, it is assumed that the adjustment to negative short-term interest rates proceeds with no additional financial market disruptions. The 10-year Treasury yield drops to approximately 0.2% in the first quarter of 2016, rising gradually thereafter and reaching 1.2% by the end of the stress period. Additional information on the supervisory severely adverse scenario is available on the Federal Reserve's web site at <http://www.federalreserve.gov/newsevents/press/bcreg/20160128a.htm>.

### ***Capital Action Assumptions***

Pursuant to the Federal Reserve's Dodd-Frank Act company-run stress test regulations (12 C.F.R. § 252.50-58), bank holding companies, including PNC, must make a uniform set of assumptions regarding capital actions over the stress period. These assumptions are designed to assist the public in comparing disclosed results across the bank holding companies subject to the tests and reduce the effect of company-specific assumptions related to capital distributions on disclosed results. Under these regulations, financial information and capital ratios are calculated for the first quarter of 2016 using the actual capital actions undertaken in that quarter. For the remaining eight quarters of the stress period, firms must assume that (i) there are no issuances or redemptions of regulatory capital instruments (other than equity issuances pursuant to expensed employee compensation programs); (ii) the dollar amount of quarterly common stock dividends are equal to the quarterly average dollar amount of common stock dividends paid over the course of the second, third, and fourth quarters of 2015 and first quarter of 2016 (for PNC, the quarterly average amount of common dividends during this period was \$261 million); and (iii) payments on other regulatory capital instruments are made equal to the stated dividend, interest, or principal due. The financial information and capital ratios for PNC are calculated using the assumptions required by the Federal Reserve's stress test regulations. These assumptions may not represent the actual capital actions that would be taken should severely adverse economic conditions develop. For example, if the extreme economic conditions specified in the supervisory severely adverse scenario were indeed to develop, PNC would expect to respond by adjusting its capital actions to preserve or improve its capital and liquidity (e.g., by reducing capital payouts). Moreover, the Basel III capital rules would limit the ability of a banking organization to make capital distributions and certain discretionary incentive compensation payments if the organization's actual

risk-based regulatory capital levels fall below the required minimum level plus a capital conservation buffer amount that will be fully phased in as of January 1, 2018.

The OCC's stress test regulations applicable to PNC Bank do not require the use of the capital action assumptions described above. Thus, the capital ratios for PNC Bank provided below are calculated using management's estimate of the capital actions (e.g., dividends and capital issuances and redemptions) that PNC Bank would take in the assumed macroeconomic scenario.

### **Capital Framework for 2016 Stress Test**

As a result of the staggered phase-in schedule of the final Basel III capital rules issued in July 2013, the actual and projected Basel III regulatory capital ratios as of December 31, 2015, and through the stress period are based on the definitions of, and deductions from, capital under the Basel III rules, as such definitions and deductions are phased-in for 2015, 2016, 2017, and 2018. As a general matter, most of the definitions of, and deductions from, capital under the Basel III rules are fully phased-in as of January 1, 2018, and, thus, are reflected in the projected post-stress capital ratios as of the end of the stress period (1Q 2018). For example, under the phase-in schedule included in the Basel III rules, the individual and aggregate deductions from Basel III Common Equity Tier 1 capital for mortgage servicing rights, deferred tax assets, and significant common stock investments in unconsolidated financial institutions are phased-in at 40% in 2015, 60% in 2016, and 80% in 2017, and are fully phased-in at 100% in 2018. The required phase-out of trust preferred securities from Tier 1 regulatory capital, however, will not be fully implemented until January 1, 2022. We refer to the capital ratios calculated using the Basel III phase-in provisions during the stress period as the Transitional Basel III ratios. Risk-weighted assets used to calculate all of the projected Basel III regulatory risk-based capital ratios for PNC and PNC Bank are based on the Basel III Standardized Approach. Additional information on the Basel III capital framework can be found in PNC's 2015 Form 10-K within the Supervision and Regulation section of Item 1—Business.

Table 1 illustrates the minimum required Transitional Basel III capital ratios in effect during the stress period:

**Table 1: Minimum Transitional Basel III Regulatory Ratios in Effect during the Stress Period**

	Minimum Transitional Basel III Regulatory Ratios in Effect	
	2016 - 2018	
Common Equity Tier 1 Capital Ratio	4.5%	
Tier 1 Risk-Based Capital Ratio	6.0%	
Total Risk-Based Capital Ratio	8.0%	
Tier 1 Leverage Ratio	4.0%	

**Detailed Results of 2016 Company-Run Stress Test**

The following tables provide the results of the 2016 Stress Test. All projections represent hypothetical outcomes under the assumed supervisory severely adverse scenario conditions and are not forecasts of expected losses, revenues, net income before taxes, risk-weighted assets, or capital ratios.

**Table 2: Actual Q4 2015 and Projected Basel III Transitional Regulatory Capital Ratios through Q1 2018 under the Supervisory Severely Adverse Scenario**

	Actual	Projected Stressed Capital Ratios (a)	
	Q4 2015	Ending Q1 2018	Minimum
<b>The PNC Financial Services Group, Inc.</b>			
Common Equity Tier 1 Capital Ratio	10.6%	8.0%	8.0%
Tier 1 Risk-Based Capital Ratio	12.0%	9.1%	9.1%
Total Risk-Based Capital Ratio	14.6%	11.6%	11.6%
Tier 1 Leverage Ratio	10.1%	8.3%	8.3%
<b>PNC Bank, N.A.</b>			
Common Equity Tier 1 Capital Ratio	9.7%	8.9%	8.8%
Tier 1 Risk-Based Capital Ratio	10.4%	8.9%	8.9%
Total Risk-Based Capital Ratio	12.9%	11.2%	11.2%
Tier 1 Leverage Ratio	8.7%	7.9%	7.9%

(a) The capital ratios for PNC through the stress period are calculated using the capital action assumptions included in the Federal Reserve's Dodd-Frank Act stress testing rules. The capital ratios for PNC Bank through the stress period are calculated using management's estimate of the capital actions that PNC Bank would take in the supervisory severely adverse scenario. All risk-based regulatory capital ratios are calculated based on the Basel III Standardized Approach for the risk-weighting of assets. These projections represent hypothetical estimates that involve an economic outcome that is more adverse than expected. The projected minimum capital ratios presented are the minimum quarter-end ratios for the relevant metrics during the stress period.

**Table 3: Actual Q4 2015 and Projected Q1 2018 Standardized Approach Risk-Weighted Assets Under the Supervisory Severely Adverse Scenario for The PNC Financial Services Group, Inc.**

In billions	Actual Q4 2015	Projected Q1 2018
Risk-Weighted Assets (a)	\$295.9	\$284.9

(a) Risk-weighted assets for the Basel III ratios are calculated under the Basel III Standardized Approach.

**Table 4: Projected Losses, Revenue, and Net Income Before Taxes Q1 2016 through Q1 2018 under the Supervisory Severely Adverse Scenario for The PNC Financial Services Group, Inc.**

		Billions of Dollars	% of Avg Assets (a)
Pre-Provision Net Revenue (b)	\$	7.1	2.1%
Other Revenue (c)	\$	0.0	0.0%
Less: Provision	\$	9.1	2.7%
Realized (Gains)/Losses on Securities (AFS & HTM)	\$	0.1	0.0%
Trading and Counterparty Losses (d)	\$	0.0	0.0%
Other Losses/(Gains) (e)	\$	0.0	0.0%
Equals: Net Income/(Loss) Before Taxes	\$	<u>(2.0)</u>	-0.6%
<b>Memo Items</b>			
Other Comprehensive Income (f)	\$	(1.3)	
<i>Other effects on capital</i>		Q4 2015	Q1 2018
Accumulated Other Comprehensive Income included in capital (AOCI) (g)	\$	(0.2)	\$ (1.2)

\* Numbers may not foot due to rounding.

(a) Average assets is the nine-quarter average of total assets.

(b) Pre-provision net revenue includes losses from operational risk events, mortgage repurchase expenses, other real estate owned ("OREO") costs, and expenses associated with the change in the allowance for unfunded commitments.

(c) Other revenue includes one-time income and (expense) items not included in pre-provision net revenue.

(d) Trading and counterparty losses include mark-to-market losses and credit valuation adjustment ("CVA") losses. PNC was not subject to the global market shock or counterparty default scenario component of the stress test.

(e) Other losses/(gains) include goodwill impairment losses.

(f) Represents cumulative net change over the stress period of the following primary components of other comprehensive income ("OCI"): net unrealized gains/(losses) on available for sale securities and cash flow hedge derivatives, and adjustments related to pension and other postretirement benefit plans.

(g) For 2015, 2016, 2017, and 2018, includes 40%, 60%, 80%, and 100%, respectively, of the after-tax AOCI related to the net unrealized gains/(losses) on available for sale securities and adjustments related to pension and other postretirement benefit plans.



**Table 5: Projected Loan Losses by Type of Loans for Q1 2016 through Q1 2018 under the Supervisory Severely Adverse Scenario for The PNC Financial Services Group, Inc.**

	Billions of Dollars		Portfolio Loss Rates (%) (a)
Loan Losses (Net Charge-offs):			
First Lien Mortgage, Domestic	\$	0.3	1.3%
Junior Lien Mortgages & HELOCs, Domestic	\$	0.8	3.5%
Commercial and Industrial (b)	\$	1.9	3.0%
Commercial Real Estate, Domestic (c)	\$	1.6	5.0%
Credit Cards	\$	0.6	13.2%
Other Consumer (d)	\$	0.5	2.7%
Other Loans (e)	\$	0.3	1.1%
<b>Total Loan Losses (Net Charge-offs)</b>	<b>\$</b>	<b>6.1</b>	<b>3.1%</b>
Change in Allowance for Loan and Lease Losses	\$	3.0	
<b>Total Provision</b>	<b>\$</b>	<b>9.1</b>	

\* Numbers may not foot due to rounding.

(a) Average loan balances used to calculate portfolio loss rates exclude loans held for sale and loans held for investment under the fair-value option, and are calculated over nine quarters.

(b) Commercial and industrial loans include small- and medium-enterprise loans and corporate cards.

(c) CRE includes loans secured by farmland.

(d) Other consumer loans include student loans and automobile loans.

(e) Other loans include loans to non-profit organizations, commercial leases, other commercial loans not classified elsewhere and international real estate loans (if any).

In the supervisory severely adverse scenario, depressed earnings and losses (which in large part are due to increased credit losses), in combination with the required capital action assumptions, result in a reduction in projected regulatory capital. Credit losses are primarily concentrated in three asset classes. Specifically, of the \$6.1 billion in cumulative loan losses projected for the stress period under the severely adverse scenario, approximately 71.2% were losses attributable to commercial and industrial (“C&I”) loans, commercial real estate (“CRE”) loans, and domestic junior lien mortgages and home equity lines of credit (“HELOCs”). C&I loans together with CRE loans and domestic junior lien mortgages and HELOCs comprise the majority of PNC’s loan portfolio (averaging 60.3% of all loans over the stress period). Estimated loss rates in the CRE (5.0%) and junior lien mortgage and HELOC (3.5%) categories are above the estimated aggregate loss rate for all PNC loan portfolios (3.1%). Projected total provision expense is \$9.1 billion over the stress period, which provides for both the cumulative net charge-offs during the period of \$6.1 billion as well as an increase in the allowance for loan and lease losses of \$3.0 billion for expected future losses. Pre-provision net revenue of \$7.1 billion over the stress period, which reflects, among other things, a projected decline in loan balances and net interest income resulting from the economic stress in the scenario, as well as projected losses from operational risk events, is insufficient to cover provision expense.

PNC’s Transitional Basel III Common Equity Tier 1 Capital ratio declines from 10.6% (actual) as of the fourth quarter of 2015 to a low point of 8.0% by the end of the stress period. This level of decline is primarily due to losses and depressed earnings, the required assumption that historical common dividends continue, as well as the phase-in of adjustments to and deductions from Basel III capital, including those related to AOCI, net operating loss carry forwards, and the quantitative limits for mortgage servicing rights, deferred tax assets, and significant common stock investments in unconsolidated financial institutions. As described

earlier, such adjustments and deductions are phased in at 40% in 2015, 60% in 2016, 80% in 2017, and 100% in 2018.

PNC's minimum 8.0% Transitional Basel III Common Equity Tier 1 ratio in this 2016 Stress Test, which covers the period from the first quarter of 2016 through and including the first quarter of 2018, is lower than the 9.2% minimum ratio in PNC's 2015 annual company-run stress test results released in March 2015, which covered a nine-quarter period through year-end 2016. This reduction in the minimum ratio is primarily due to the fact that most of the Basel III adjustments to, and deductions from, capital are fully phased-in as of Q1 2018 (the end of the 2016 stress test period), compared to the 60% phase-in percentage applicable as of Q4 2016 (the end of the 2015 stress test period). Also contributing to the lower projected ratios compared to the 2015 Stress Test were a more severe supervisory severely adverse scenario for the 2016 Stress Test and the implementation of a revised framework for projecting operational risk losses.

### ***Overview of PNC's Stress Test Methodology and Scenario Development***

The 2016 Stress Test conducted by PNC incorporates a broad spectrum of risks that affect PNC including, among others, credit risk, operational risk, mortgage repurchase risk, realized losses on securities, and accumulated other comprehensive income ("AOCI") included in capital. Credit risk represents the risk that losses will be incurred as a result of borrowers not performing in accordance with the contractual terms of their obligations. Operational risk refers to the risk of financial loss, adverse customer experience, or negative regulatory or reputational impacts resulting from inadequate or failed processes, people, systems, or external events. Mortgage repurchase risk refers to the risk of loss arising from demands or legal action initiated by mortgage investors as a result of claims that PNC breached representations or warranties in selling mortgages. Credit risk primarily affects the loan classes identified in Table 5. Operational risk losses are estimated for all businesses and segments of PNC. Mortgage repurchase risk primarily affects first-lien residential mortgages that have been sold.

PNC applies both quantitative and qualitative methods to project losses, balances, income, and risk-weighted assets over the stress period. PNC has continued to enhance its approaches to estimating such items over the years as a result of model development, an increased focus on the use of quantitative approaches, and supervisory guidance and feedback. Estimated losses for C&I loans are primarily modeled by projecting the probability of default, estimated loss given default (taking into account available collateral and guarantees), and estimated exposure at default. The probability of default model for C&I loans is based on a credit migration approach and its inputs include, among other things, macroeconomic variables and loan-level characteristics such as loan type, tenor, segment, and internal credit ratings. The estimated losses on owner-occupied properties within the CRE portfolio generally are modeled using a methodology similar to that used for C&I loans. CRE losses on construction, stabilized, and multifamily loans are primarily modeled using a third-party vendor model. The inputs to the vendor model include, among other things, macroeconomic variables and loan-level inputs such as collateral, geography, loan-to-value ratio, and debt service coverage ratio. The model simulates future paths of the collateral's net operating income and market value. Along each simulation path, the conditional probability of default and loss given default are estimated based on the forecast environment and the resulting performance metrics for each loan. For residential development loans, expert judgment governs the expectation of loss, with consideration for, among other things, previously incurred purchase accounting marks (if any) and estimated future cash flows. Losses for retail auto loans are modeled based on a segment level regression model that forecasts probability of

default, exposure at default, and loss given default. Losses for small business loans are also modeled based on a segment level regression model that forecasts probability of default, exposure at default, and loss given default.

For residential real estate loans, including first lien mortgages, junior lien mortgages, and domestic HELOCs, credit losses are projected using separate internal loan-level transition rate models for mortgages and home equity loans. The model for HELOCs also takes into account additional credit losses that may arise when an interest-only HELOC reaches the end of its draw period and either converts to an amortizing loan (with a higher monthly payment) or becomes fully payable. Models are also used for several consumer segments including credit card and federal student loans. The models for credit card and federal student loans project transition rates at a granular level that helps capture the underlying nature and projected behavior of the portfolio. Mortgage repurchase losses are modeled primarily based on estimated levels of defaults on sold mortgage loans, investor demands, or other actions following default.

The loan loss estimates presented in Table 5 represent estimates of the net charge-off activity recorded during the nine-quarter stress period. The amount of the allowance for loan and lease losses ("ALLL") established for stress testing purposes, at any point in time, is derived from the estimated expected future net charge-offs to be incurred. ALLL for portfolios or segments is modeled using processes similar to those for estimating losses in the relevant portfolio or segment and are calculated in accordance with the applicable regulatory guidance for stress testing. The provision expense, which includes both net charge-offs and the change in ALLL, is reflected in net income and consequently is reflected in capital levels and ratios during the period.

Projected realized losses on investment securities are estimated through other than temporary impairment ("OTTI") write-downs included in the income statement. Such losses are generally driven by declining housing prices and rising unemployment, which result in deterioration in credit quality. Generally, OTTI on available-for-sale ("AFS") and held to maturity ("HTM") securities is estimated using internally and vendor-developed models that are applied at the security level. Major inputs to the OTTI models include macroeconomic variables and collateral characteristics (if applicable), and the output for each model includes projected cash flows for each security. These cash flows are then discounted at the original, credit-adjusted book yield on the security to calculate the estimated OTTI. Projected changes in unrealized gains/(losses) on investment securities are included in AOCI. This component of AOCI reflects changes in market and book value of AFS securities due to differences in maturities/run-off, interest rates, spreads, and economic conditions. PNC uses an internally developed model that leverages a third party vendor model in projecting AOCI on its AFS holdings and on forecasted security additions during the stress period. Cash flow models are used to project non-interest income and balance sheet items related to capitalized commercial mortgage servicing rights ("CMSRs") and capitalized residential mortgage servicing rights ("RMSRs") under various stressed market scenarios. These calculations require the projection of cash flows over the stress period as well as the projection of any changes to the CMSR and RMSR asset fair values to be realized over the stress period.

Operational risk-related losses are estimated using the following framework. Non-legal losses are modeled within each unit of measure (as defined in the Basel III Advanced Approaches rules) using a framework that leverages historical internal loss data (where such data are deemed sufficient for modeling). In particular, non-legal losses are estimated based on the product of historical average loss severities per event and event



frequencies estimated with regression models when a significant relationship to either economic stress or business drivers can be found for the relevant unit of measure. When a significant relationship to either economic stress or business drivers cannot be found for event frequencies, non-legal losses are estimated based on historical average losses from a stressed period for the relevant unit of measure. Loss projections for legal matters are based on historical average legal losses and stressed estimates of potential outcomes on significant current, pending, or threatened matters. These components are supplemented by loss projections resulting from scenario analysis, with scenarios selected based on PNC's structured risk identification process. Scenario analysis is designed to incorporate additional stress into projections under the supervisory severely adverse scenario, and the estimated losses from the analysis are added directly to the non-legal and legal loss projections.

Using the limited set of macroeconomic variables provided by the Federal Reserve for the hypothetical supervisory severely adverse scenario, PNC utilizes three internal models to construct a comprehensive, fully integrated severely adverse scenario. These models are a macroeconomic model of the U.S. economy that projects approximately 100 variables, a regional model that forecasts housing prices and unemployment rates for all U.S. metropolitan areas based on projected macroeconomic and local economic conditions, and an interest rate model that forecasts approximately 40 interest rate variables including swap, treasury, mortgage, and corporate rates. This allows for a broader set of variables to be used as modeling inputs for the balance sheet estimates, as well as for the models, assumptions, or other processes used to estimate interest and noninterest income, expense, credit loss, securities losses, and other losses over the stress period.

Estimates of loan balances over the stress period are used as inputs to the various credit models to estimate losses for each portfolio for the duration of the stress period. Additionally, the balance sheet projections serve as the primary input utilized in calculating projected risk-weighted assets for each quarter of the stress period. Risk-weighted assets are calculated under the Basel III Standardized Approach framework utilizing an estimated balance sheet and certain off-balance sheet exposures. Standardized Approach risk-weighted assets are then used together with estimated levels of regulatory capital to calculate the risk-based capital ratios in Table 2.

Models are developed for many material noninterest income and noninterest expense categories, and the scope of categories covered by models has increased over time. For all other noninterest income and noninterest expense line items, PNC employs a standardized analytical framework with a focus on sound and thoroughly documented assumptions and effective challenge provided through Line of Business and Finance reviews. Pre-provision net revenue is estimated based on the net interest income projection, which is derived from balance sheet estimates and the impact of the respective interest rate and spread forecasts in the hypothetical supervisory severely adverse scenario, combined with outputs of noninterest income and noninterest expense projections.

PNC's forecast models are developed using historical data when sufficient relevant data exist to support robust modeling. These data reflect the performance and behavior of PNC's portfolios and business through recent credit cycles. The models also take into account macroeconomic variables and their relation to, in the case of credit models, customer credit migration, changes in delinquency status, and charge-off behavior. For some portfolios, PNC develops alternative competing models that are assessed prior to the selection of the final model to be used for the portfolio. PNC's stress testing models utilize a variety of

modeling techniques and functional forms and may use different variables for different asset classes. As part of PNC's overall model risk management and stress testing processes, significant management review of the performance and fit of stress testing models is undertaken. All of the models employed by PNC to conduct the 2016 Stress Test are subject to PNC's internal model governance framework and procedures. Additional information on PNC's Model Risk Management framework and the risks associated with the use of models can be found in PNC's 2015 Form 10-K at Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Model Risk Management and Item 1A—Risk Factors. When considering the appropriateness of models for stress testing, both management as well as PNC's independent Model Risk Management Group consider the models' projections across the stress scenarios against the performance experienced in prior economic downturns.

PNC has established a robust governance framework to oversee its stress testing and capital planning processes, consistent with the key principles issued by the Federal Reserve for capital adequacy processes at large banking organizations. PNC's governance framework includes oversight by the Board of Directors, its Risk Committee, and senior management, including the review of internal capital goals and targets, the economic scenarios utilized in the stress testing process, significant assumptions and uncertainties in the stress testing and capital planning process, and approval of capital actions. PNC's Executive Capital Committee is the senior management committee responsible for overseeing PNC's stress testing and capital planning process, including the review and approval of any adjustments or overlays to model outputs. In considering the appropriateness and size of any such adjustment or overlay, the committee may consider, among other things, the expected timing of losses, model uncertainty, internal ratings, data quality, actual historical experience of losses (including PNC historical losses in recent economic downturns), past supervisory estimates of losses and provisions, the characteristics of the specific economic scenario developed, and the evolution of the firm's business strategy or balance sheet that may influence the relevance of model results.

In addition to modeled outcomes, PNC utilizes various assumptions in estimating its income and capital ratios through the stress period. For example, we use assumptions related to projected interest rates and spreads on deposits and loans, forecasts for certain balance sheet items, and potential expense changes. Sensitivity analyses are conducted for key assumptions and the results are reviewed by PNC's Executive Capital Committee and made available to the Board of Directors and its Risk Committee.

PNC utilizes a robust internal capital adequacy assessment process ("ICAAP") to evaluate its capital adequacy in light of a wide range of inputs. These inputs include capital stress test results as well as risks that may not be adequately captured by capital stress testing, such as idiosyncratic risks, liquidity risks, reputational risks, and general model risks. The Board of Directors, its Risk Committee, and senior management use the firm's ICAAP results to assess the appropriate level of capital for the firm to maintain in light of the range of risks it faces, the firm's business strategy, and its risk appetite.

Internal Audit employs a risk-based audit approach to help ensure comprehensive coverage of the end-to-end capital adequacy process over a multi-year period. Internal Audit conducts regular audits to assess the adequacy and effectiveness of the controls supporting PNC's capital planning and forecasting processes, including governance, qualitative assessments, the detail and quality of reporting, and the process by which deficiencies are identified and remediated. On a sample basis, as part of its risk-based approach, Internal Audit also assesses the accuracy of the spot capital data that is being relied on by senior management and

the regulators and independently challenges the reasonableness of the forecasted results. The results of Internal Audit's evaluation of the control framework supporting PNC's capital adequacy process are formally presented in an Audit Report, which is distributed to PNC's executive management and the Risk Committee and Audit Committee of the Board of Directors.

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