Market Risk Disclosure Overview

In June 2012, the Office of the Comptroller of Currency, Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation issued a new market risk capital rule (the “Market Risk Rule”) as an enhancement to the market risk capital framework adopted by the Basel Committee (commonly referred to as “Basel II.5”). With more than $1 billion in aggregate quarterly average trading assets and trading liabilities, PNC is subject to the Market Risk Capital Rule, which became effective January 1, 2013.

The Market Risk Rule defines the types of positions that are subject to the market risk capital framework (referred to as “covered positions”). Covered positions are generally defined as those positions that are held (i) for the purpose of short-term resale, (ii) with the intent of benefiting from actual or expected short term price movements, (iii) to lock in arbitrage profits, or (iv) in order to hedge any of these types of positions. In addition, subject to certain exceptions, foreign exchange and commodity positions are considered covered positions. Characterization of a position as “trading” for purposes of U.S. Generally Accepted Accounting Principles (GAAP) is not on its own sufficient to classify the position as a covered position under the Market Risk Rule. As a result, certain positions classified as trading under GAAP for our financial statement presentations are no longer subject to the market risk regulatory capital framework. The Market Risk Rule also established new stressed Value at Risk (“sVaR”) measures and no longer allows a bank to rely solely on credit ratings for calculating the standardized specific risk capital requirements for corporate debt positions. The Market Risk Rule requires a bank that is subject to the rule to publicly disclose certain information regarding the bank’s covered positions, the models and methodologies used by the bank to determine the regulatory capital charge for its covered positions under the rule, and the bank’s valuation policies, procedures and methodologies for covered positions.

Governance of Covered Positions

PNC has established a Covered Position Working Group (CPWG) to provide governance over the identification of covered positions under the Market Risk Rule. Specifically, the CPWG makes recommendations regarding which trading and other positions should be considered covered positions and is responsible for reviewing our compliance with policies governing management of covered positions. The CPWG is comprised of representatives from Business, Risk and Finance, and is governed by the Executive Capital Committee (ECC) of PNC.

Our covered positions primarily arise from the underwriting, investing and risk management services we provide to our customers and associated market risk mitigating hedge activities. Our covered positions, which are a subset of positions classified as trading for GAAP purposes, are measured and reported in our financial statements at fair value. The products that make up our covered positions are primarily fixed income securities and interest rate derivatives. The fixed income securities include mortgage-backed securities and municipal securities. Interest rate derivatives include interest rate swaps, swaptions, caps and floors. Our overall portfolio also includes foreign exchange derivatives and equity derivatives.

Valuation Policies, Procedures & Methodologies

For details regarding our valuation policies, procedures, and methodologies, please see Note 9 -- Fair Value in Part II, Item 8 of our 2012 Form 10-K and in Part I, Item 1 of our March 31, 2013 Form 10-Q. With respect to covered positions, our valuation of assets and liabilities may include methodologies, estimations and assumptions that are subject to differing interpretations and this, along with market factors such as volatility in one or more markets, could result in changes to asset valuations that may materially and adversely affect our results of operations or financial condition. For additional details regarding the risks associated with our valuation policies, procedures, and methodologies, please see Item 1A-Risk Factors in our 2012 Form 10-K.
Value at Risk ("VaR") Models
Our primary metrics used to measure the market risk of our covered position activity are Value at Risk ("VaR") and Stressed VaR ("sVaR"). VaR is 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 99 out of 100 days for a 99% VaR. Market Risk Management ("MRM") performs a VaR and sVaR calculation on a daily basis using a historical VaR methodology. 10-day VaR and sVaR are calculated at the 99% confidence interval by converting from corresponding daily measures while accounting for autocorrelation/mean-reversion. VaR is calculated using a look back period of 500 days with market data and sensitivities updated daily, while sVaR is computed based on a 250-day period of significant stress ("Stress Period") which remains constant through the quarter. The chosen Stress Period is designed to capture the buildup of volatility and profit and loss ("P&L") distribution widening. The selected 250-day stress period is monitored by MRM and is updated quarterly. The models used to measure VaR and sVaR take into account the following key market risk factors: interest rates, credit spreads, foreign exchange rates, mortgage rate basis, and implied interest rate, foreign exchange and equity volatilities.

For the three months ended March 31, 2013, our VaR and sVaR metrics were as follows:

Table 1: VaR-based metrics for the Three Months Ended March 31, 2013(a)

<table>
<thead>
<tr>
<th></th>
<th>Credit Spread Risk</th>
<th>Interest Rate Risk</th>
<th>Equity Price Risk</th>
<th>Foreign Exchange Risk</th>
<th>Overall Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Min VaR</strong> (b)</td>
<td>$1.0</td>
<td>$0.2</td>
<td>-</td>
<td>$0.9</td>
<td>$2.2</td>
</tr>
<tr>
<td><strong>Max VaR</strong> (b)</td>
<td>$1.7</td>
<td>$0.6</td>
<td>$0.2</td>
<td>$1.1</td>
<td>$3.3</td>
</tr>
<tr>
<td><strong>Average (Mean) VaR</strong></td>
<td>$1.3</td>
<td>$0.3</td>
<td>$0.2</td>
<td>$1.0</td>
<td>$2.7</td>
</tr>
<tr>
<td><strong>Period End VaR</strong></td>
<td>$1.6</td>
<td>$0.6</td>
<td>-</td>
<td>$1.0</td>
<td>$3.3</td>
</tr>
<tr>
<td><strong>Min SVaR</strong> (b)</td>
<td>$3.6</td>
<td>$0.7</td>
<td>-</td>
<td>$1.4</td>
<td>$7.0</td>
</tr>
<tr>
<td><strong>Max SVaR</strong> (b)</td>
<td>$7.8</td>
<td>$2.5</td>
<td>$1.2</td>
<td>$1.8</td>
<td>$11.4</td>
</tr>
<tr>
<td><strong>Average (Mean) SVaR</strong></td>
<td>$5.0</td>
<td>$1.2</td>
<td>$0.3</td>
<td>$1.6</td>
<td>$8.1</td>
</tr>
<tr>
<td><strong>Period End SVaR</strong></td>
<td>$7.8</td>
<td>$1.9</td>
<td>-</td>
<td>$1.5</td>
<td>$11.2</td>
</tr>
</tbody>
</table>

(a) PNC does not trade in commodities or commodity-based products and accordingly our covered positions are not subject to commodity price risk.
(b) The min and the max for the overall portfolio may have occurred on different trading days than the min and max for the individual components, as such the min and max for the overall portfolio will not equal sum of the individual components.

For calculating regulatory capital under the Market Risk Rule, daily VaRs assume a zero diversification benefit. Under the Market Risk Rule, a bank that measures the specific risk of debt positions using internal models must calculate an incremental risk measure for those positions using an incremental risk model. We use the standardized measurement method, as defined by the Market Risk Rule, to determine the specific risk charge for our covered positions and therefore we are not required to calculate and hold incremental risk capital. In addition, our trading policies do not permit the conduct of correlation trading (as defined in the Market Risk Rule). Therefore, we are not required to calculate and hold comprehensive risk capital for our covered positions. As a result, no disclosures are provided related to the high, low and mean incremental risk capital requirement or comprehensive risk capital requirement.

Back testing
To help ensure the integrity of the models used to calculate VaR for our portfolio of covered positions, we use a back testing process, which consists of comparing actual observations of gains or losses against the VaR levels that were calculated at the close of the prior day. Actual gains and losses for these purposes is calculated by holding end-of-day positions constant, and excludes fees, commissions, reserves, net interest income, income from customer transactions and intraday trading in order to isolate the impact of market price changes on end-of-day positions. Because of these adjustments, actual gains or losses for purposes of back testing under the Market Risk Rule is also referred to as “Clean P&L.”
We utilize a variety of market risk measures to monitor trading activities, as identified within our Market Risk Management policies. We also utilize the same market risk measures to identify significant outliers per the Market Risk Rule requirements.

The following graph shows a comparison of actual gains and losses against prior-day non-diversified VaR for the period. During the first quarter 2013 there were no back testing exceptions for our overall portfolio of covered positions.

![Total PNC Corporation VaR Back Testing](chart)

**Model Validation**
The Model Risk Management Group (MRMG) performs independent validations to evaluate the conceptual framework used by the VaR and sVaR models (e.g., historical simulation), the assumptions underlying the models, the sufficiency and completeness of the risk factors identified as key risk drivers, as well as the sufficiency and accuracy of the historical market data used in the models. Part of the evaluation considers the approach used in the VaR calculations, assesses the parameters used in the models, the accuracy of estimated profit and loss amounts, as well as the extent to which they may be auto-correlated, and corresponding adjustments. MRMG also performs procedures that include validating results when the models are implemented.

MRMG assesses the results of back testing to verify that the number of exceptions observed over the back testing period do not exceed the expected number of exceptions. Model owners monitor the potential sensitivity of PNC exposures to changes in risk factors.

The sVaR calculations use the same conceptual framework as the VaR model, and rely on systematic approaches to identify the stress periods. These calculations use a look-back window and select a 250-day stress period (per regulatory guidance). The stress period is determined using a sliding window approach. MRMG validates that the determination of the stress period and the sVaR calculations are consistent with the Market Risk Rule. MRMG also reviews model implementation (e.g., implementation of the sVaR stress period selection).

In conducting model validation work with respect to the VaR and sVaR models, the MRMG follows the OCC’s supervisory guidance on model risk management (OCC Bulletin 2011-12) and PNC Model Lifecycle Standards, as well as applicable requirements of the Market Risk Rule.

**Stress Testing**
Market Risk Management (“MRM”) performs daily stress-testing of covered positions based on eight different historical stress periods. Stress testing is designed to measure potential cumulative losses due to
extreme market movements over a period greater than one day. Stress testing is an additional risk management tool that allows PNC to assess its market risk exposure relative to its risk appetite. This is different from VaR which estimates a potential one day loss in a normal market environment. The stress tests employed are actual historical events which differ in terms of duration and severity. The P&L estimate for each scenario is treated as an instantaneous shock for each trading desk. We consider the following risk factors in performing our daily stress-testing: interest rates, credit spreads, foreign exchange rates, mortgage rate basis and implied interest rate volatility.

**Internal Capital Adequacy Assessment Process**

The primary goal of PNC’s internal capital adequacy assessment process (“ICAAP”) is to maintain a strong capital position for The PNC Financial Services Group, Inc. (“PNC”) and PNC Bank, National Association (“PNC Bank”). In order to meet this goal, PNC and PNC Bank seek to hold sufficient capital, both in terms of quantity and quality, designed to: cover all of the entity’s risks, including credit, market, and operational risk, and help ensure the entity’s long-term viability; operate safely and effectively through a range of economic scenarios, including stress scenarios, by maintaining ready access to funding, meeting obligations to depositors, creditors and counterparties, and continuing to serve as a credit intermediary; and maintain capital flexibility such that the entity will be well positioned to execute strategic plans and take advantage of future investment opportunities even during a period of economic stress. Consistent with these objectives, PNC as part of its ICAAP seeks to ensure that the firm is positioned to meet existing and proposed regulatory capital requirements over the long-term across a range of economic scenarios, including stressed environments; maintains a capital buffer above and beyond regulatory requirements consistent with the firm’s overall risk profile; and maintains adequate liquidity and contingent liquidity sources to support the firm’s commitment to a strong capital position. PNC determines the appropriate size and composition of its capital buffer through the firm’s ICAAP using multiple inputs, including: the nature and risks of the firm’s business activities; the relative position of the economy within the business cycle; earnings and balance sheet trends; tactical and strategic business goals and plans; the strength of the firm’s risk identification, measurement (including modeling) and management processes; stress testing results; and potential future regulatory capital requirements.

Sound stress testing practices and methodologies are a key component of PNC’s ICAAP for PNC and PNC Bank. PNC’s stress testing process and methodologies are intended to yield clear, actionable, and well supported stress test results that are used in both the BHC-level and bank-level ICAAP.

PNC believes that capital strength must be supported with liquidity strength. Accordingly, the firm has established internal guidelines that are designed to allow the firm to maintain sufficient liquidity to deal with extended periods of market stress.

We also have a rigorous process for assessing our overall capital adequacy in relation to our market risk. Our ICAAP process takes into account risks that may not be captured fully in the VaR-based measure, including concentration and liquidity risk under stressed conditions. As it relates to risk exposure from trading, this is incorporated into the overall ICAAP process within the market risk category. Starting with the trading position’s VaR (at the one-day, 99% confidence level) the potential loss over a 3-month horizon at the 99.9% confidence level is estimated and then included as part of the assessment of capital adequacy through the ICAAP.

**Securitization Positions**

Under the Market Risk Rule, a securitization position is defined as a covered position (whether on- or off-balance sheet) that arises directly or indirectly from a securitization. A securitization in turn is generally defined as a transaction in which (i) a portion of the credit risk of some underlying pool of exposures is transferred to one or more third parties, (ii) the credit risk of the underlying exposures is separated into different tranches based on seniority and performance is dependent on the performance of the underlying exposures; (iii) all or most of the underlying exposures are financial exposures (including loans, commitments, credit derivatives, asset-backed securities, mortgage-backed securities, other debt, or equity securities); and (iv) for non-synthetic securitizations, the underlying exposures are not owned by an operating company. For complete information on the definition of a securitization and a securitization position, please see the Market Risk Rule.
PNCCM is the only PNC business unit that may trade securitization positions considered a covered position under the Market Risk Rule. The Broker Dealer unit is responsible for performing and documenting due diligence on any securitization position. This information is shared with Market Risk Management monthly and balances are validated quarterly as part of the market risk capital charge calculation process.

Market Risk Management uses VaR to monitor and measure changes to market risk daily in its covered positions, which include securitization positions. Changes in the credit risk of securitization positions are captured in Market Risk Management’s Specific Risk calculation. Market Risk Management monitors changes to the credit and collateral characteristics of its securitization positions looking for significant changes in the positions held (size of positions, credit quality, underlying collateral, etc.). Based on the underlying credit and collateral characteristics, Market Risk Management assigns an appropriate risk factor for each debt position that qualifies as a securitization for inclusion in its Specific Risk calculation. As of March 31, 2013, we have no on or off-balance sheet securitization positions that are covered positions under the Market Risk Rule.

We currently do not hold any covered positions that are re-securitization positions as defined by the Market Risk Rule, and our trading desks currently do not purchase credit protection for securitization positions.