FINANCIAL REVIEW
THE PNC FINANCIAL SERVICES GROUP, INC.

This Financial Review, including the Consolidated Financial Highlights, should be read together with our unaudited Consolidated Financial Statements and unaudited Statistical Information included elsewhere in this Quarterly Report on Form 10-Q (the Report or Form 10-Q) and with Items 6, 7, 8 and 9A of our 2019 Annual Report on Form 10-K (2019 Form 10-K). We have reclassified certain prior period amounts to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements. For information regarding certain business, regulatory and legal risks, see the following: the Risk Management section of this Financial Review and of Item 7 in our 2019 Form 10-K; Item 1A Risk Factors included in our first quarter 2020 Form 10-Q and our 2019 Form 10-K; and the Commitments and Legal Proceedings Notes of the Notes To Consolidated Financial Statements included in Item 1 of this Report and Item 8 of our 2019 Form 10-K. Also, see the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and the Critical Accounting Estimates And Judgments section in this Financial Review and in our 2019 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 15 Segment Reporting in the Notes To Consolidated Financial Statements included in this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis. In this Report, "PNC", "we" or "us" refers to The PNC Financial Services Group, Inc. and its subsidiaries on a consolidated basis (except when referring to PNC as a public company, its common stock or other securities issued by PNC, which just refer to The PNC Financial Services Group, Inc.). References to The PNC Financial Services Group, Inc. or to any of its subsidiaries are specifically made where applicable.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data Unaudited	Three months ended June 30 2020	 2019	Six months ended June 30 2020	 2019
Financial Results (a)				
Revenue				
Net interest income	$ 2,527	$ 2,498	$ 5,038	$ 4,973
Noninterest income	1,549	1,717	3,374	3,303
Total revenue	4,076	4,215	8,412	8,276
Provision for credit losses	2,463	180	3,377	369
Noninterest expense	2,515	2,611	5,058	5,189
Income (loss) from continuing operations before income taxes and noncontrolling interests	$ (902)	$ 1,424	$ (23)	$ 2,718
Income taxes (benefit) from continuing operations	(158)	239	(38)	451
Net income (loss) from continuing operations	$ (744)	$ 1,185	$ 15	$ 2,267
Income from discontinued operations before taxes	$ 5,596	$ 224	$ 5,777	$ 449
Income taxes from discontinued operations	1,197	35	1,222	71
Net income from discontinued operations	$ 4,399	$ 189	$ 4,555	$ 378
Net income	$ 3,655	$ 1,374	$ 4,570	$ 2,645
Less:				
Net income attributable to noncontrolling interests	7	12	14	22
Preferred stock dividends (b)	55	55	118	118
Preferred stock discount accretion and redemptions	1	1	2	2
Net income attributable to common shareholders	$ 3,592	$ 1,306	$ 4,436	$ 2,503
Per Common Share				
Basic earnings (loss) from continuing operations	$ (1.90)	$ 2.47	$ (.29)	$ 4.68
Basic earnings from discontinued operations	10.28	.42	10.60	.83
Total basic earnings	$ 8.40	$ 2.89	$ 10.33	$ 5.51
Diluted earnings (loss) from continuing operations	$ (1.90)	$ 2.47	$ (.29)	$ 4.67
Diluted earnings from discontinued operations	10.28	.41	10.59	.82
Total diluted earnings	$ 8.40	$ 2.88	$ 10.32	$ 5.49
Cash dividends declared per common share	$ 1.15	$ .95	$ 2.30	$ 1.90
Effective tax rate from continuing operations (c)	17.5%	16.8%	165.2%	16.6%
Performance Ratios				
Net interest margin (d)	2.52%	2.91%	2.67%	2.94%
Noninterest income to total revenue	38%	41%	40%	40%
Efficiency	62%	62%	60%	63%
Return on:				
Average common shareholders' equity	30.11%	11.75%	19.15%	11.45%
Average assets	3.21%	1.39%	2.11%	1.36%

(a) The Executive Summary and Consolidated Income Statement Review portions of this Financial Review section provide information regarding items impacting the comparability of the periods presented.
(b) Dividends are payable quarterly other than Series O, Series R and Series S preferred stock, which are payable semiannually, with the Series O payable in different quarters than the Series R and Series S preferred stock.
(c) The effective income tax rates are generally lower than the statutory rate due to the relationship of pretax income to tax credits and earnings that are not subject to tax.
(d) Net interest margin is the total yield on interest-earning assets minus the total rate on interest-bearing liabilities and includes the benefit from use of noninterest-bearing sources. To provide more meaningful comparisons of net interest margins, we use net interest income on a taxable-equivalent basis in calculating average yields used in the calculation of net interest margin by increasing the interest income earned on tax-exempt assets to make it fully equivalent to interest income earned on taxable investments. This adjustment is not permitted under GAAP in the Consolidated Income Statement. For additional information, see Reconciliation of Taxable-Equivalent Net Interest Income (Non-GAAP) in the Statistical Information (Unaudited) section in Item 1 of this Report.

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

Unaudited	June 30 2020	December 31 2019	June 30 2019
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$ 458,978	$ 410,295	$ 405,761
Loans	$ 258,236	$ 239,843	$ 237,215
Allowance for loan and lease losses (b)	$ 5,928	$ 2,742	$ 2,721
Interest-earning deposits with banks (c)	$ 50,233	$ 23,413	$ 18,362
Investment securities	$ 98,493	$ 86,824	$ 88,303
Loans held for sale	$ 1,443	$ 1,083	$ 1,144
Equity investments	$ 4,943	$ 5,176	$ 4,817
Asset held for sale (d)		$ 8,558	$ 8,184
Mortgage servicing rights	$ 1,067	$ 1,644	$ 1,627
Goodwill	$ 9,233	$ 9,233	$ 9,221
Other assets	$ 34,920	$ 32,202	$ 34,193
Noninterest-bearing deposits	$ 99,458	$ 72,779	$ 69,867
Interest-bearing deposits	$ 246,539	$ 215,761	$ 203,393
Total deposits	$ 345,997	$ 288,540	$ 273,260
Borrowed funds	$ 47,026	$ 60,263	$ 69,025
Allowance for unfunded lending related commitments (b)	$ 662	$ 318	$ 291
Total shareholders' equity	$ 52,923	$ 49,314	$ 49,340
Common shareholders' equity	$ 48,928	$ 45,321	$ 45,349
Accumulated other comprehensive income	$ 3,069	$ 799	$ 631
Book value per common share	$ 115.26	$ 104.59	$ 101.53
Period-end common shares outstanding (in millions)	425	433	447
Loans to deposits	75 %	83 %	87 %
Common shareholders' equity to total assets	10.7 %	11.0 %	11.2 %
Client Assets (in billions)			
Discretionary client assets under management	$ 151	$ 154	$ 162
Nondiscretionary client assets under administration	138	143	132
Total client assets under administration	289	297	294
Brokerage account client assets	53	54	52
Total client assets	$ 342	$ 351	$ 346
Basel III Capital Ratios (e) (f)			
Common equity Tier 1	11.3 %	9.5 %	9.7 %
Common equity Tier 1 fully implemented (g)	10.9 %	N/A	N/A
Tier 1 risk-based	12.4 %	10.7 %	10.9 %
Total capital risk-based (h)	14.9 %	12.7 %	12.8 %
Leverage	9.4 %	9.1 %	9.6 %
Supplementary leverage	9.3 %	7.6 %	8.0 %
Asset Quality			
Nonperforming loans to total loans	.73 %	.68 %	.73 %
Nonperforming assets to total loans, OREO and foreclosed assets	.76 %	.73 %	.78 %
Nonperforming assets to total assets	.43 %	.43 %	.46 %
Net charge-offs to average loans (for the three months ended) (annualized)	.35 %	.35 %	.24 %
Allowance for loan and lease losses to total loans (i)	2.30 %	1.14 %	1.15 %
Allowance for credit losses to total loans (i) (j)	2.55 %	1.28 %	1.27 %
Allowance for loan and lease losses to nonperforming loans (i)	316 %	168 %	158 %
Accruing loans past due 90 days or more (in millions)	$ 456	$ 585	$ 524

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

(b) Amounts at June 30, 2020 reflect the impact of adopting Accounting Standards Update 2016-13 - Financial Instruments - *Credit Losses*, which is commonly referred to as the Current Expected Credit Losses (CECL) standard and our transition from an incurred loss methodology for these reserves to an expected credit loss methodology. See Note 1 Accounting Policies of this Report for additional information related to our adoption of this standard.

(c) Amounts include balances held with the Federal Reserve Bank of Cleveland (Federal Reserve Bank) of $ 50.0 billion, $ 23.2 billion and $ 18.1 billion as of June 30, 2020, December 31, 2019 and June 30, 2019, respectively.

(d) Represents our held for sale investment in BlackRock, Inc. In the second quarter of 2020, PNC divested its entire investment in BlackRock. Prior period BlackRock investment balances have been reclassified to the Asset held for sale line in accordance with ASC 205-20, Presentation of Financial Statements - Discontinued Operations. Refer to Note 1 Accounting Policies and Note 2 Discontinued Operations for additional details.
(e) All ratios are calculated using the regulatory capital methodology applicable to PNC during each period presented and calculated based on the standardized approach. See Basel III Capital discussion in the Capital Management portion of the Risk Management section of this Financial Review and the capital discussion in the Banking Regulation and Supervision section of Item 1 Business and Item 1A Risk Factors in our 2019 Form 10-K.
(f) The June 30, 2020 ratios are calculated to reflect PNC's election to adopt the CECL optional five-year transition provision, unless noted differently.
(g) The June 30, 2020 fully implemented CET1 ratio is calculated to reflect the full impact of CECL and excludes the benefits of the five-year transition provision.
(h) The 2020 and 2019 Basel III Total risk-based capital ratios include nonqualifying trust preferred capital securities of $40 million and $60 million, respectively, that are subject to a phase-out period that runs through 2021.
(i) Ratios at June 30, 2020 reflect the changes in methodology due to the adoption of the CECL accounting standard on January 1, 2020, along with increases in reserves during 2020 due to the significantly adverse economic impact of the pandemic and its resulting effects on loan portfolio credit quality and loan growth.
(j) Calculated as the Allowance for loan and lease losses plus the Allowance for unfunded lending related commitments divided by total loans.

Executive Summary

Headquartered in Pittsburgh, Pennsylvania, we are one of the largest diversified financial services companies in the United States (U.S.). We have businesses engaged in retail banking, including residential mortgage, corporate and institutional banking and asset management, providing many of our products and services nationally. Our retail branch network is located primarily in markets across the Mid-Atlantic, Midwest and Southeast. We also have strategic international offices in four countries outside the U.S.

Key Strategic Goals

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

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

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

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

Our capital priorities are to support customers and business investment, maintain appropriate capital in light of economic conditions, the Basel III framework, and other regulatory expectations, and return excess capital to shareholders. For more detail, see the Capital Highlights portion of this Executive Summary and the Liquidity and Capital Management portion of the Risk Management section of this Financial Review and the Supervision and Regulation section in Item 1 Business of our 2019 Form 10-K.

Economic Environment

The coronavirus (COVID-19) pandemic and public health response to contain it led to a severe recession in the first and second quarters of 2020, after the US economy reached a peak in economic activity in February 2020. Most measures of economic activity contracted with enormous declines in consumer spending, employment, retail sales, business investment, industrial production and corporate profitability. The unemployment rate peaked at 14.7% in April before declining in June 2020 to a still extremely elevated level of 11.1%. While economic conditions have started to improve, including a rebound in consumer spending and job growth, economic activity remains far below its pre-recession level with real GDP not expected to return to its pre-recession level until 2022. There is still a great deal of uncertainty about the length and severity of the pandemic and the strength or reversal of the economic rebound.

The Federal Reserve has undertaken extraordinary efforts to combat the economic weakness, reducing the federal funds rate 1.5 percentage points in March to a range of 0.00% to 0.25%. The central bank put downward pressure on long-term rates by expanding its balance sheet and purchasing long-term Treasury and mortgage-backed securities ("quantitative easing"). The Federal Reserve has also implemented multiple programs to support the flow of credit to businesses, consumers, and state and local governments, including, for the first time, direct purchases of corporate bonds and of bank loans to small and medium-sized businesses. In addition, the federal government has authorized $2.4 trillion in federal spending to support household incomes and businesses, including the $1.8 trillion Coronavirus Aid, Relief and Economic Security (CARES) Act.

PNC is committed to putting our resources to work to support our customers, communities and the broader financial system. PNC is participating in the Paycheck Protection Program (PPP) under the CARES Act and funded $13.7 billion of PPP loans during the second quarter of 2020. We granted short-term loan modifications for loan customers experiencing hardships through extensions, deferrals, partial payments and forbearance. In addition, we have temporarily halted the majority of consumer real estate related foreclosures, while we continue to monitor the situation. See the Troubled Debt Restructurings and Loan Modifications in the Credit Risk Management portion of the Risk Management section of this Financial Review for details on our commercial and consumer loan modifications.

Our retail branch operations remain temporarily modified and have begun a gradual return to business as usual as we continue to prioritize the safety and well-being of our customers and employees. A majority of our branch locations have remained open and offer full in-branch services by appointment only, as well as options for ATM and, in equipped branches, drive-up services. Additionally, digital and call center channels have experienced elevated customer activity.

See the Recent Regulatory Developments section of this Financial Review as well as the Recent Regulatory Developments section in our first quarter 2020 Form 10-Q for additional detail on the CARES Act and other governmental responses to the COVID-19 pandemic and its economic and financial impacts. See also Risk Factors in Part II, Item 1A of our first quarter 2020 Form 10-Q for a description of the associated risks.

Sale of Equity Investment in BlackRock, Inc.

During the second quarter, we divested our entire 22.4% investment in BlackRock. PNC completed the sale of31.6 million shares of BlackRock common and preferred stock through a registered secondary offering on May 15, 2020, and BlackRock repurchased 2.65 million shares from PNC. Total proceeds from the sale were$14.2 billion in cash, net of $.2 billion in expenses. The after-tax gain on the sale of$4.3 billion, and donation expense and BlackRock's results for all periods presented, are reported as discontinued operations. After completion of the registered secondary offering and BlackRock's share repurchase, PNC retained 500,000 shares of BlackRock common stock. These shares were donated to the PNC Foundation on May 18, 2020. As a result of the sale and donation, PNC and its affiliates only hold shares of BlackRock stock in a fiduciary capacity for clients of PNC and its affiliates. See Note 2 Discontinued Operations for additional details on our results and cash flows for the three and six months ended June 30, 2020 and 2019.

Income Statement Highlights

Results from continuing operations was a net loss of $744 million, or $1.90 loss per diluted common share for thesecond quarter of 2020, a decrease of $1.9 billion, compared to net income from continuing operations of $1.2 billion, or $2.47 per diluted common share, for the second quarter of 2019, driven by a higher provision for credit losses.

- Total revenue decreased $139 million, or 3%, to $4.1 billion.
    - Net interest income of $2.5 billion increased $29 million, or 1%.
    - Net interest margin decreased to 2.52% compared to 2.91% for the second quarter of 2019.
    - Noninterest income decreased $168 million, or 10%, to $1.6 billion.
- Provision for credit losses of $2.5 billion, which was calculated under the Current Expected Credit Losses (CECL) accounting standard adopted January 1, 2020, increased $2.3 billion compared to the second quarter of 2019 reflecting the change in methodology together with the significantly adverse economic impact of the pandemic and its resulting effects on loan portfolio credit quality and loan growth.
- Noninterest expense decreased $96 million, or 4%, to $2.5 billion.

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

Balance Sheet Highlights

Our balance sheet was strong and well positioned atJune 30, 2020 and December 31, 2019. In comparison to December 31, 2019:

- Total assets increased $48.7 billion, or 12%, to $459.0 billion.
- Total loans increased $18.4 billion, or 8%, to $258.2 billion.
    - Total commercial loans grew $19.6 billion, or 12%, to $180.2 billion, reflecting PPP lending under the CARES Act and higher utilization of loan commitments driven by the economic impact of the pandemic on customer liquidity preferences.
    - Total consumer loans decreased $1.2 billion, or 2%, to $78.0 billion.
- Investment securities increased $11.7 billion, or 13%, to $98.5 billion.
- Interest-earning deposits with banks, primarily with the Federal Reserve Bank, increased $26.8 billion to $50.2 billion due to higher liquidity from deposit growth and proceeds from the sale of our equity investment in BlackRock.

- Total deposits increased $57.5 billion, or 20%, to $346.0 billion due to growth in commercial deposits reflecting pandemic-related accumulation of liquidity by customers and higher consumer deposits driven by government stimulus payments and lower consumer spending.
- Borrowed funds decreased $13.2 billion, or 22%, to $47.0 billion reflecting use of liquidity from deposit growth and proceeds from the sale of our equity investment in BlackRock.

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

Credit Quality Highlights

Credit quality metrics in the second quarter of 2020 reflected a challenging economic environment.

- At June 30, 2020 compared to December 31, 2019:
  - Nonperforming assets of $2.0 billion increased $203 million, or 12%, driven by higher commercial nonperforming loans primarily related to industries economically impacted by the pandemic and the energy industry.
  - Overall loan delinquencies of $1.3 billion decreased $194 million, or 13%, reflecting CARES Act and other forbearance and extension treatments.
- Net charge-offs were $236 million, or .35% of average loans on an annualized basis, in the second quarter of 2020 compared to $142 million, or .24%, for the second quarter of 2019. Commercial loan net charge-offs increased $75 million and consumer loan net charge-offs increased $19 million.
- The allowance for credit losses increased to $6.6 billion, or 2.55% of total loans, at June 30, 2020, calculated under the CECL accounting standard adopted January 1, 2020, compared to $3.1 billion, or 1.28% of total loans, at December 31, 2019, due to the change in methodology together with the significantly adverse economic impact of the pandemic and its resulting effects on loan portfolio credit quality and loan growth.

For additional detail, including the adoption of the CECL accounting standard and the significant economic impact of COVID-19, see the Credit Risk Management portion of the Risk Management section of this Financial Review.

Capital Highlights

We further strengthened our already strong capital position.

- The Basel III common equity Tier 1 (CET1) capital ratio increased to 11.3% at June 30, 2020 from 9.5% at December 31, 2019.
  - The June 30, 2020 ratio reflects a capital increase due to proceeds from the sale of our equity investment in BlackRock, changes under the Tailoring Rules, effective January 1, 2020 for PNC, and our election of a five-year transition provision that delays CECL's estimated impact on CET1 capital, as defined by the rule. CECL's estimated impact on CET1 capital is defined as the change in retained earnings at adoption plus or minus 25% of the change in CECL Allowance for credit losses (ACL) at the balance sheet date compared to CECL ACL at transition. The estimated CECL impact is added to CET1 capital through December 31, 2021, then phased-out over the following three years.
- Common shareholders' equity increased 8% to $48.9 billion at June 30, 2020, compared to $45.3 billion at December 31, 2019.
- The PNC board of directors declared a quarterly cash dividend on common stock payable on August 5, 2020 of $1.15 per share, consistent with the second quarter dividend paid on May 5, 2020.
- We announced on March 16, 2020 a temporary suspension of our common stock repurchase program in conjunction with the Federal Reserve's effort to support the U.S. economy during the pandemic, and will continue the suspension through the third quarter of 2020, with the exception of share repurchases to offset the effects of employee benefit plan-related issuances as permitted by recent guidance from the Federal Reserve. The estimated amount of these repurchases in the third quarter of 2020 is $100 million, but the timing and amount of executed repurchases will be based on market conditions and other factors.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for more detail on our 2020 liquidity and capital actions as well as our capital ratios.

PNC's ability to take certain capital actions, including returning capital to shareholders beginning in the fourth quarter of 2020, is subject to PNC meeting or exceeding a stress capital buffer established by the Federal Reserve Board in connection with the Federal Reserve Board's Comprehensive Capital Analysis and Review (CCAR) process. The Federal Reserve also has imposed limitations on capital distributions in the third quarter of 2020 by CCAR-participating bank holding companies and may extend these limitations, potentially in modified form. For additional information, see Capital Management in the Risk Management section in this Financial Review and the Supervision and Regulation section in Item 1 Business of our 2019 Form 10-K.

Business Outlook

Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than those we are currently expecting and do not take into account potential legal and regulatory contingencies. These statements are based on our views, as follow:

- PNC's baseline economic forecast is for an economic recovery in the second half of 2020 and into 2021, following a very severe but short recession in the first half of 2020. Consumers are increasing their spending and workers are returning to their job sites as states are gradually lifting restrictions on businesses and activities because of the COVID-19 pandemic; fiscal stimulus from the federal government is also supporting economic growth in mid-2020. After a significant contraction in real GDP, steep job losses, and a large increase in the unemployment rate earlier in the second quarter, economic growth has resumed and the labor market is improving.
- In the baseline forecast, real GDP increases in the third quarter as consumers start to spend again. Fiscal stimulus and extremely low interest rates support the recovery. Real GDP surpasses its pre-recession peak in 2022, and growth is well above its long-term trend through 2023.
- The baseline forecast assumes that the Federal Open Market Committee keeps the federal funds rate in its current range of 0.00% to 0.25% into 2023.

Given the many unknowns and potential downside risks, including additional COVID-19 outbreaks, our forward-looking statements are subject to the risk that conditions will be substantially different than we are currently expecting. If efforts to contain COVID-19 are unsuccessful and restrictions on businesses and activities are reimposed or expanded, the economy could fall back into recession. The potential expiration of fiscal stimulus is also a major downside risk. The longer the labor market recovery takes, the more it will damage consumer fundamentals and sentiment. This could make the recovery weaker. Similarly, weak near-term growth could damage business fundamentals and an extended global recession due to COVID-19 would weaken the U.S. recovery. As a result, the outbreak and its consequences, including responsive measures to manage it, have had and are likely to continue to have an adverse effect, possibly materially, on our business and financial performance by adversely affecting, possibly materially, the demand and profitability of our products and services, the valuation of assets and our ability to meet the needs of our customers.

For the third quarter of 2020 compared to the second quarter of 2020, we expect:

- Average loans to decline in the low-single digits percentage range;
- Net interest income to be down approximately 1%;
- Noninterest income to be down between 3% and 5%, including our expectation for lower other noninterest income;
- Noninterest expense to be flat to down; and
- Net loan charge-offs to be between $250 million and $350 million.

For the full year 2020, we expect total revenue and noninterest expense to each be down between 2% and 5% and we expect the 2020 effective tax rate to be in the low teens percentage range.

See the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our first quarter 2020 Form 10-Q and 2019 Form 10-K for other factors that could cause future events to differ, perhaps materially, from those anticipated in these forward-looking statements.

Consolidated Income Statement Review

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

Results from continuing operations for the second quarter of 2020 was a net loss of $744 million, or $1.90 diluted loss per common share, a decrease of $1.9 billion compared to net income from continuing operations of $1.2 billion, or $2.47 per diluted common share, for the second quarter of 2019. For the first six months of 2020, net income from continuing operations was $15 million, or $0.29 diluted loss per common share, compared to $2.3 billion, or $4.67 per diluted common share, for the first six months of 2019.

The second quarter loss was driven by a $2.3 billion increase in the provision for credit losses, calculated under the CECL accounting standard adopted January 1, 2020 and reflecting the change in methodology together with the significantly adverse economic impact of the pandemic and its resulting effects on loan portfolio credit quality and loan growth.

Net Interest Income

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

Three months ended June 30 Dollars in millions	2020 Average Balances	Average Yields/ Rates	Interest Income/ Expense	2019 Average Balances	Average Yields/ Rates	Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$ 88,430	2.41 %	$ 533	$ 83,641	3.03 %	$ 635
Loans	268,114	3.37 %	2,270	234,845	4.56 %	2,693
Interest-earning deposits with banks	34,600	0.10 %	9	13,469	2.38 %	80
Other	10,867	2.26 %	62	13,145	3.55 %	116
Total interest-earning assets/interest income	$ 402,011	2.85 %	2,874	$ 345,100	4.06 %	3,524
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$ 241,445	.23 %	141	$ 201,234	1.03 %	515
Borrowed funds	53,229	1.39 %	187	62,335	3.08 %	484
Total interest-bearing liabilities/interest expense	$ 294,674	.44 %	328	$ 263,569	1.51 %	999
Net interest margin/income (Non-GAAP)		2.52 %	2,546		2.91 %	2,525
Taxable-equivalent adjustments			(19)			(27)
Net interest income (GAAP)			$ 2,527			$ 2,498

Six months ended June 30 Dollars in millions	2020 Average Balances	Average Yields/ Rates	Interest Income/ Expense	2019 Average Balances	Average Yields/ Rates	Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$ 86,426	2.59 %	$ 1,121	$ 82,983	3.04 %	$ 1,262
Loans	255,843	3.71 %	4,766	231,712	4.58 %	5,315
Interest-earning deposits with banks	26,085	0.50 %	65	14,238	2.41 %	171
Other	10,167	2.84 %	144	12,113	3.82 %	231
Total interest-earning assets/interest income	$ 378,521	3.21 %	6,096	$ 341,046	4.09 %	6,979
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$ 228,390	.45 %	516	$ 198,540	1.00 %	987
Borrowed funds	55,209	1.80 %	501	61,066	3.14 %	965
Total interest-bearing liabilities/interest expense	$ 283,599	.71 %	1,017	$ 259,606	1.50 %	1,952
Net interest margin/income (Non-GAAP)		2.67 %	5,079		2.94 %	5,027
Taxable-equivalent adjustments			(41)			(54)
Net interest income (GAAP)			$ 5,038			$ 4,973

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

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

Net interest income increased $29 million, or 1%, and $65 million, or 1%, for the second quarter and first six months of 2020, respectively, compared with the same periods in 2019. The increase in both comparisons was driven by lower rates on borrowings and deposits and higher average loans, balances held with the Federal Reserve Bank and securities, partially offset by lower yields on interest-earning assets. Net interest margin in the quarterly comparison decreased 39 basis points reflecting the full quarter impact of the 1.5% reduction in the federal funds rate by the Federal Reserve in March 2020 and related changes in other short-term rates.

Average investment securities increased $4.8 billion, or 6%, in the quarterly comparison and $3.4 billion, or 4% in the year-to-date comparison. The increase in both comparisons was primarily due to increases in agency residential mortgage-backed securities and commercial mortgage-backed securities, partially offset by a decrease in U.S. Treasury and government agency securities.

Average investment securities represented 22% of average interest-earning assets for the second quarter of 2020 and 23% for the first six months of 2020 compared to 24% for the same periods in 2019.

Average loans grew $33.3 billion, or 14%, and $24.1 billion, or 10%, in the quarterly and year-to-date comparisons, respectively. Loan growth was driven by an increase in both commercial and consumer loans. Average commercial loans increased by $29.2 billion and $19.2 billion in the respective comparisons, reflecting PPP lending under the CARES Act and higher utilization of loan commitments at the end of first quarter and extending through most of the second quarter 2020, driven by the economic impact of the pandemic on customer liquidity preferences.

Average consumer loans increased $4.1 billion and $4.9 billion in the quarterly and year-to-date comparisons, respectively. Growth in residential mortgage, auto, credit card, and unsecured installment loans was partially offset by declines in education loans due to runoff in the guaranteed government loan portfolio and home equity loan paydowns and payoffs that exceeded new origination volumes.

Average loans represented 67% and 68% of average interest-earning assets for thesecond quarter of 2020 and 2019, respectively, and 68% for the first six months of both 2020 and 2019.

Average interest-earning deposits with banks increased $21.1 billion and $11.8 billion in the respective quarterly and year-to-date comparisons, as average balances held with the Federal Reserve Bank increased due to higher liquidity from deposit growth and proceeds from the sale of our equity investment in BlackRock.

Average interest-bearing deposits grew $40.2 billion, or 20%, and $29.9 billion, or 15%, in the respective quarterly and year-to-date comparisons reflecting pandemic-related accumulation of customer liquidity as well as growth in commercial and consumer deposits and customers. In total, average interest-bearing deposits increased to 82% and 81% of average interest-bearing liabilities for the second quarter and first six months of 2020 compared to 76% for the same periods in 2019.

Average borrowed funds decreased $9.1 billion, or 15%, compared with the second quarter of 2019 and $5.9 billion, or 10%, compared with the first six months of 2019 primarily due to a decline in Federal Home Loan Bank (FHLB) borrowings and federal funds purchased reflecting use of liquidity from deposit growth and proceeds from the sale of our equity investment in BlackRock, partially offset by higher bank notes and senior and subordinated debt.

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

Noninterest Income

Table 3: Noninterest Income

	Three months ended June 30				Six months ended June 30			
			Change				Change	
Dollars in millions	2020	2019	$	%	2020	2019	$	%
Noninterest income								
Asset management	$ 199	$ 221	$ (22)	(10)%	$ 400	$ 433	$ (33)	(8)%
Consumer services	330	392	(62)	(16)%	707	763	(56)	(7)%
Corporate services	512	484	28	6 %	1,038	946	92	10 %
Residential mortgage	158	82	76	93 %	368	147	221	150 %
Service charges on deposits	79	171	(92)	(54)%	247	339	(92)	(27)%
Other	271	367	(96)	(26)%	614	675	(61)	(9)%
Total noninterest income	$ 1,549	$ 1,717	$ (168)	(10)%	$ 3,374	$ 3,303	$ 71	2 %

Noninterest income as a percentage of total revenue was 38% and 41% for the second quarter of 2020 and 2019, respectively, and 40% for the first six months of both 2020 and 2019.

Asset management revenue declined due to the impact on fees of PNC's divestiture activity in 2019 of the recordkeeping retirement business and proprietary mutual funds. PNC's discretionary client assets under management decreased to $151 billion at June 30, 2020 from $162 billion at June 30, 2019, primarily as a result of our fourth quarter 2019 sale of PNC's proprietary mutual funds.

Consumer services revenue declined in the quarterly and year-to-date comparisons as a result of lower transaction volumes and activity reflecting lower consumer spending.

Service charges on deposits decreased in both comparisons due to lower transaction volumes and fees waived to assist customers as a result of the pandemic.

Corporate services revenue in the quarterly and year-to-date comparison increased due to higher revenue from commercial mortgage banking activities and asset-backed finance structuring fees and loan syndication fees, partially offset by lower merger and acquisition advisory fees.

Residential mortgage revenue increased in the quarterly comparison due to higher loan sales revenue from higher origination volumes. Revenue increases in the year-to-date comparison were attributable to higher residential mortgage servicing rights (RMSR) hedging gains and loan sales revenue.

The decrease in other noninterest income in the quarterly and year-to-date comparisons was primarily attributable to negative valuation adjustments of private equity investments and the second quarter 2019 gain on the sale of the retirement recordkeeping business, partially offset by higher capital markets-related revenue, and higher net securities gains in the year-to-date comparison.

Noninterest Expense

Table 4: Noninterest Expense

	Three months ended June 30				Six months ended June 30			
			Change				Change	
Dollars in millions	2020	2019	$	%	2020	2019	$	%
Noninterest expense								
Personnel	$ 1,373	$ 1,365	$ 8	1 %	$ 2,742	$ 2,779	$ (37)	(1)%
Occupancy	199	212	(13)	(6)%	406	427	(21)	(5)%
Equipment	301	298	3	1 %	588	571	17	3 %
Marketing	47	83	(36)	(43)%	105	148	(43)	(29)%
Other	595	653	(58)	(9)%	1,217	1,264	(47)	(4)%
Total noninterest expense	$ 2,515	$ 2,611	$ (96)	(4)%	$ 5,058	$ 5,189	$ (131)	(3)%

The decrease in noninterest expense in the quarterly and year-to-date comparisons reflected lower business activity related to the economic impact of the pandemic, including lower marketing expense and costs associated with business travel. In the year-to-date comparison, personnel expense declined due to variable costs associated with decreased business activity, partially offset by higher equipment expense related to technology investments.

Effective Income Tax Rate

The effective income tax rate from continuing operations was17.5% in the second quarter of 2020 compared to 16.8% in the second quarter of 2019 and 165.2% in the first six months of 2019 compared to 16.6% in the same period in 2019.

Provision For Credit Losses

Table 5: Provision for Credit Losses

	Three months ended June 30		Six months ended June 30	
Dollars in millions	2020	2019	2020	2019
Provision for credit losses				
Loans and leases	$ 2,220	$ 180	$ 3,172	$ 369
Unfunded lending related commitments (a)	212		165	
Investment securities	30		30	
Other financial assets	1		10	
Total provision for credit losses	$ 2,463	$ 180	$ 3,377	$ 369

(a) For the three and six months ended June 30, 2019, the provision for unfunded lending related commitments was included in the provision for loans and leases.

The provision for credit losses increased $2.3 billion and $3.0 billion for the second quarter and first six months of 2020, respectively, compared with the same periods in 2019. The provision in the 2020 periods was calculated under the CECL accounting standard adopted January 1, 2020 and the increase in both the quarterly and year-to-date comparison reflects the change in methodology together with the significantly adverse economic impact of the pandemic and its resulting effects on loan portfolio credit quality and loan growth.

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

Net Income from Discontinued Operations

Table 6: Discontinued Operations

The following table summarizes net income from our investment in BlackRock, which is now reported as discontinued operations as a result of the divestiture.

	Three months ended June 30		Six months ended June 30	
Dollars in millions	2020	2019	2020	2019
Net income from discontinued operations	$ 4,399	$ 189	$ 4,555	$ 378

For additional details on the divestiture of our equity investment in BlackRock, see the Executive Summary within this Financial Review and Note 2 Discontinued Operations in the Notes To Consolidated Financial Statements of this Report.

CONSOLIDATED BALANCE SHEET REVIEW

Table 7: Summarized Balance Sheet Data

	June 30	December 31	Change	
Dollars in millions	2020	2019	$	%
Assets				
Interest-earning deposits with banks	$ 50,233	$ 23,413	$ 26,820	115 %
Loans held for sale	1,443	1,083	360	33 %
Asset held for sale (a)		8,558	(8,558)	(100)%
Investment securities	98,493	86,824	11,669	13 %
Loans	258,236	239,843	18,393	8 %
Allowance for loan and lease losses (b)	(5,928)	(2,742)	(3,186)	(116)%
Mortgage servicing rights	1,067	1,644	(577)	(35)%
Goodwill	9,233	9,233	—	—
Other	46,201	42,439	3,762	9 %
Total assets	$ 458,978	$ 410,295	$ 48,683	12 %
Liabilities				
Deposits	$ 345,997	$ 288,540	$ 57,457	20 %
Borrowed funds	47,026	60,263	(13,237)	(22)%
Allowance for unfunded lending related commitments (b)	662	318	344	108 %
Other	12,345	11,831	514	4 %
Total liabilities	406,030	360,952	45,078	12 %
Equity				
Total shareholders' equity	52,923	49,314	3,609	7 %
Noncontrolling interests	25	29	(4)	(14)%
Total equity	52,948	49,343	3,605	7 %
Total liabilities and equity	$ 458,978	$ 410,295	$ 48,683	12 %

(a) Represents our held for sale investment in BlackRock. In the second quarter of 2020, PNC divested its entire investment in BlackRock. Prior period BlackRock investment balances have been reclassified to the Asset held for sale line in accordance with ASC 205-20, Presentation of Financial Statements - Discontinued Operations. Refer to Note 1 Accounting Policies and Note 2 Discontinued Operations for additional details.

(b) Amounts as of June 30, 2020 reflect the impact of adopting the CECL accounting standard and our transition from an incurred loss methodology for these reserves to an expected credit loss methodology. Prior period amounts represent ALLL under the incurred loss methodology. Refer to Note 1 Accounting Policies in this Report for additional detail on the adoption of this standard.

The summarized balance sheet data in Table 7 is based upon our Consolidated Balance Sheet in Part I, Item 1 of this Report.

Our balance sheet was strong and well positioned at bothJune 30, 2020 and December 31, 2019.

- Total assets increased as a result of higher interest-earning deposits with banks, primarily the Federal Reserve Bank, loan growth, and higher investment securities;
- Total liabilities increased primarily due to deposit growth reflecting pandemic-related accumulation of liquidity by customers partially offset by lower FHLB borrowings and federal funds purchased;
- Total equity increased as higher retained earnings driven by the gain on sale of our equity investment in BlackRock and higher accumulated other comprehensive income (AOCI) was partially offset by share repurchases, dividends on common and preferred stock, and the day-one effect of adopting the CECL accounting standard.

The ACL related to loans totaled $6.6 billion at June 30, 2020, an increase of $3.5 billion since December 31, 2019. The increase was attributable to the $.6 billion day-one CECL transition adjustment and a $3.3 billion provision for credit losses, partially offset by net charge-offs of $.4 billion. The provision reflects the significantly adverse economic impact of the pandemic and its resulting effects on loan portfolio credit quality and loan growth. See the following for additional information related to our ACL related to loans:

- Allowance for Credit Losses in the Credit Risk Management section of this Financial Review, and
- Note 1 Accounting Policies and Note 4 Loans and Related Allowance for Credit Losses in the Notes To Consolidated Financial Statements included in this Report.

The following discussion provides additional information about the major components of our balance sheet. Information regarding our capital and regulatory compliance is included in the Liquidity and Capital Management portion of the Risk Management section in this Financial Review and in Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements included in our 2019 Form 10-K.

Loans

Table 8: Loans

Dollars in millions	June 30 2020	December 31 2019	Change $	Change %
Commercial				
Commercial and industrial	$ 144,335	$ 125,337	$ 18,998	15 %
Commercial real estate	28,763	28,110	653	2 %
Equipment lease financing	7,097	7,155	(58)	(1)%
Total commercial	180,195	160,602	19,593	12 %
Consumer				
Home equity	24,879	25,085	(206)	(1)%
Residential real estate	22,469	21,821	648	3 %
Automobile	16,157	16,754	(597)	(4)%
Credit card	6,575	7,308	(733)	(10)%
Education	3,132	3,336	(204)	(6)%
Other consumer	4,829	4,937	(108)	(2)%
Total consumer	78,041	79,241	(1,200)	(2)%
Total loans	$ 258,236	$ 239,843	$ 18,393	8 %

Commercial loan growth reflected the impact of PPP lending under the CARES Act and higher utilization of loan commitments driven by the economic impact of the pandemic on customer liquidity preferences. PNC funded $13.7 billion of PPP loans during the second quarter of 2020, which benefited over 73,000 of our customers. At June 30, 2020, we had $12.8 billion of PPP loans in our commercial loan balance.

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

Consumer loans declined as new originations decreased due to the economic impact of the pandemic and lower customer spending. Residential mortgage loans increased as the low interest rate environment resulted in an increase in origination volumes primarily of nonconforming loans, which are loans that do not meet agency standards as a result of exceeding agency conforming loan limits.

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

For additional information regarding our loan portfolio see Note 1 Accounting Policies and Note4 Loans and Related Allowance for Credit Losses in the Notes To Consolidated Financial Statements included in this Report.

Investment Securities

Investment securities of $98.5 billion at June 30, 2020 increased $11.7 billion, or 13%, compared to December 31, 2019, due primarily to net purchases and an increase in the fair value of agency residential mortgage-backed and U.S. Treasury securities.

The level and composition of the investment securities portfolio fluctuates over time based on many factors including market conditions, loan and deposit growth, and balance sheet management activities. We manage our investment securities portfolio to optimize returns, while providing a reliable source of liquidity for our banking and other activities, considering the Liquidity Coverage Ratio (LCR) and other internal and external guidelines and constraints. During the first half of 2020, $16.2 billion of debt securities were transferred from held to maturity to available for sale, including $49 million in the second quarter of 2020 pursuant to elections made under recently adopted accounting standards. See further discussion in Note 1 Accounting Policies.

Table 9: Investment Securities

	June 30, 2020		December 31, 2019		Ratings (a) as of June 30, 2020				
Dollars in millions	Amortized Cost (b)	Fair Value	Amortized Cost	Fair Value	AAA/ AA	A	BBB	BB and Lower	No Rating
U.S. Treasury and government agencies	$ 20,040	$ 21,119	$ 16,926	$ 17,348	100%				
Agency residential mortgage-backed	55,630	57,480	50,266	50,984	100%				
Non-agency residential mortgage-backed	1,472	1,682	1,648	1,954	13%	1%	2%	47%	37%
Agency commercial mortgage-backed	3,002	3,140	3,153	3,178	100%				
Non-agency commercial mortgage-backed (c)	4,134	4,039	3,782	3,806	85%	1%	5%	1%	8%
Asset-backed (d)	5,312	5,368	5,096	5,166	91%	2%		6%	1%
Other (e)	5,512	5,839	4,580	4,771	67%	23%	8%		2%
Total investment securities (f)	$ 95,102	$ 98,667	$ 85,451	$ 87,207	96%	1%	1%	1%	1%

(a) Ratings percentages allocated based on amortized cost, net of allowance for securities.
(b) Amortized cost is presented net of applicable allowance for securities of $32 million at June 30, 2020 in accordance with the adoption of the CECL accounting standard. See the Recently Adopted Accounting Standards portion of Note 1 Accounting Policies for additional detail on the adoption of this ASU.
(c) Collateralized primarily by retail properties, office buildings, lodging properties and multifamily housing.
(d) Collateralized primarily by corporate debt, government guaranteed education loans and other consumer credit products.
(e) Includes state and municipal securities.
(f) Includes available for sale and held to maturity securities, which are recorded on our balance sheet at fair value and amortized cost, respectively.

Table 9 presents the distribution of our total investment securities portfolio by amortized cost and fair value, as well as by credit rating. We have included credit ratings information because we believe that the information is an indicator of the degree of credit risk to which we are exposed. Changes in credit ratings classifications could indicate increased or decreased credit risk and could be accompanied by a reduction or increase in the fair value of our investment securities portfolio. We continually monitor the credit risk in our portfolio and maintain the allowance for securities at an appropriate level to absorb expected credit losses on our investment securities portfolio for the remaining contractual term of the securities adjusted for expected prepayments. See Note 1 Accounting Policies and Note 3 Investment Securities in the Notes To Consolidated Financial Statements for additional details regarding the methodology for determining the allowance and the amount of the allowance for investment securities, respectively.

The duration of investment securities was 2 years at June 30, 2020. We estimate that at June 30, 2020 the effective duration of investment securities was 2.5 years for an immediate 50 basis points parallel increase in interest rates and 1.5 years for an immediate 50 basis points parallel decrease in interest rates.

Based on expected prepayment speeds, the weighted-average expected maturity of the investment securities portfolio was 3.3 years at June 30, 2020 compared to 4.1 years at December 31, 2019.

Table 10: Weighted-Average Expected Maturities of Mortgage and Asset-Backed Debt Securities

June 30, 2020	Years
Agency residential mortgage-backed	3.0
Non-agency residential mortgage-backed	6.4
Agency commercial mortgage-backed	3.5
Non-agency commercial mortgage-backed	2.6
Asset-backed	2.1

Additional information regarding our investment securities is included in Note 3 Investment Securities and Note 12 Fair Value in the Notes To Consolidated Financial Statements included in this Report.

Funding Sources

Table 11: Details of Funding Sources

	June 30	December 31	Change	
Dollars in millions	2020	2019	$	%
Deposits				
Noninterest-bearing	$ 99,458	$ 72,779	$ 26,679	37 %
Interest-bearing				
Money market	62,688	54,115	8,573	16 %
Demand	85,379	71,692	13,687	19 %
Savings	77,252	68,291	8,961	13 %
Time deposits	21,220	21,663	(443)	(2)%
Total interest-bearing deposits	246,539	215,761	30,778	14 %
Total deposits	345,997	288,540	57,457	20 %
Borrowed funds				
FHLB borrowings	8,500	16,341	(7,841)	(48)%
Bank notes and senior debt	27,704	29,010	(1,306)	(5)%
Subordinated debt	6,500	6,134	366	6 %
Other	4,322	8,778	(4,456)	(51)%
Total borrowed funds	47,026	60,263	(13,237)	(22)%
Total funding sources	$ 393,023	$ 348,803	$ 44,220	13 %

Growth in both interest-bearing and noninterest-bearing deposits reflected pandemic-related accumulation of liquidity by commercial and consumer customers, including from government stimulus payments and lower consumer spending. In addition, there was a shift from interest-bearing to noninterest-bearing deposits in the first six months of 2020 that reflected the impact of the current interest rate environment.

Borrowed funds decreased due to lower FHLB borrowings, federal funds purchased included in other borrowed funds and bank notes and senior debt, reflecting the use of liquidity from deposit growth and proceeds from the sale of our equity investment in BlackRock.
The level and composition of borrowed funds fluctuates over time based on many factors including market conditions, loan, investment securities and deposit growth, and capital considerations. We manage our borrowed funds to provide a reliable source of liquidity for our banking and other activities, considering our LCR requirements and other internal and external guidelines and constraints.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for additional information regarding our 2020 liquidity and capital activities. See Note 8 Borrowed Funds in the Notes to Consolidated Financial Statements in Item 1 of this Report for additional information related to our borrowings.

Shareholders' Equity

Total shareholders' equity was $52.9 billion at June 30, 2020, an increase of $3.6 billion compared to December 31, 2019. The increase resulted from net income of $4.6 billion driven by the gain on sale of our equity investment in BlackRock and higher AOCI of $2.3 billion, partially offset by common share repurchases of $1.3 billion, common and preferred stock dividends of $1.1 billion, and a day-one transition adjustment of $.7 billion for the adoption of the CECL accounting standard.

PNC announced on March 16, 2020 a temporary suspension of its common stock repurchase program in conjunction with the Federal Reserve's effort to support the U.S. economy during the pandemic, and will continue the suspension through the third quarter of 2020, with the exception of share repurchases to offset the effects of employee benefit plan-related issuances as permitted by recent guidance from the Federal Reserve. The estimated amount of these repurchases in the third quarter of 2020 is $100 million, but the timing and amount of executed repurchases will be based on market conditions and other factors.

BUSINESS SEGMENTS REVIEW

We have three reportable business segments:

- Retail Banking
- Corporate & Institutional Banking
- Asset Management Group

Business segment results and a description of each business are included in Note 15 Segment Reporting in the Notes To Consolidated Financial Statements in this Report. Certain amounts included in this Business Segments Review differ from those amounts shown in Note 15, primarily due to the presentation in this Financial Review of business net interest income on a taxable-equivalent basis.

During the second quarter, we divested our entire 22.4% investment in BlackRock. See Note 2 Discontinued Operations in the Notes To Consolidated Financial Statements in this Report for additional information on the sale and details on our results and cash flows for the three and six months ended June 30, 2020 and 2019. Following the sale and donation, PNC and its affiliates only hold shares of BlackRock stock in a fiduciary capacity for clients of PNC and its affiliates.

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

Total business segment financial results differ from total consolidated net income. The impact of these differences is reflected in the “Other” category as shown in Table 81 in Note 15 Segment Reporting in Item 1 of this Report. “Other” includes residual activities that do not meet the criteria for disclosure as a separate reportable business, such as asset and liability management activities including net securities gains or losses, ACL for investment securities, certain trading activities, certain runoff consumer loan portfolios, private equity investments, intercompany eliminations, certain corporate overhead, tax adjustments that are not allocated to business segments, exited businesses, 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.

See the Executive Summary of this Financial Review for our discussion of the impact of COVID-19 related developments on our business and operations, including COVID-19 relief efforts for our customers. We have granted loan modifications through extensions, deferrals, and forbearance to assist our customers in need during the pandemic. See Loan Modifications in the Troubled Debt Restructurings and Loan Modifications section of Credit Risk Management for details on our commercial and consumer loan modifications.

Retail Banking

Retail Banking's core strategy is to acquire and retain customers who maintain their primary checking and transaction relationships with us. We seek to deepen relationships by meeting the broad range of our customers' financial needs with savings, liquidity, lending, investment and retirement solutions. A strategic priority for us is to differentiate the customer experience and drive transformation and automation. A key element of our strategy is to expand the use of lower-cost alternative distribution channels, with an emphasis on digital capabilities, while continuing to optimize the traditional branch network. In addition, we have a disciplined process to continually improve the engagement of both our employees and customers, which is a strong driver of customer growth, retention and relationship expansion.

Table 12: Retail Banking Table

(Unaudited) Six months ended June 30 Dollars in millions, except as noted	2020	2019	Change $	Change %
Income Statement				
Net interest income	$ 2,846	$ 2,725	$ 121	4 %
Noninterest income	1,373	1,252	121	10 %
Total revenue	4,219	3,977	242	6 %
Provision for credit losses	1,206	209	997	477 %
Noninterest expense	3,036	2,995	41	1 %
Pretax earnings	(23)	773	(796)	(103)%
Income taxes (benefit)	(1)	184	(185)	(101)%
Earnings	$ (22)	$ 589	$ (611)	(104)%
Average Balance Sheet				
Loans held for sale	$ 804	$ 498	$ 306	61 %
Loans				
Consumer				
Home equity	$ 22,763	$ 22,804	$ (41)	— %
Residential real estate	18,104	15,388	2,716	18 %
Automobile	16,892	14,917	1,975	13 %
Credit card	6,948	6,291	657	10 %
Education	3,281	3,740	(459)	(12)%
Other consumer	2,494	2,123	371	17 %
Total consumer	70,482	65,263	5,219	8 %
Commercial	12,068	10,471	1,597	15 %
Total loans	$ 82,550	$ 75,734	$ 6,816	9 %
Total assets	$ 99,583	$ 91,805	$ 7,778	8 %
Deposits				
Noninterest-bearing demand	$ 35,680	$ 30,956	$ 4,724	15 %
Interest-bearing demand	45,102	42,607	2,495	6 %
Money market	22,903	26,283	(3,380)	(13)%
Savings	65,364	54,596	10,768	20 %
Certificates of deposit	11,947	12,543	(596)	(5)%
Total deposits	$ 180,996	$ 166,985	$ 14,011	8 %
Performance Ratios				
Return on average assets	(.04)%	1.29%		
Noninterest income to total revenue	33 %	31%		
Efficiency	72 %	75%		

Six months ended June 30 Dollars in millions, except as noted		2020		2019	Change $		Change %
Supplemental Noninterest Income Information							
Consumer services	$	687	$	751	$	(64)	(9)%
Residential mortgage	$	368	$	147	$	221	150 %
Service charges on deposits	$	246	$	326	$	(80)	(25)%
Residential Mortgage Information							
Residential mortgage servicing statistics (in billions, except as noted) (a)							
Serviced portfolio balance (b)	$	122	$	124	$	(2)	(2)%
Serviced portfolio acquisitions	$	13	$	6	$	7	117 %
MSR asset value (b)	$	0.6	$	1.0	$	(.4)	(40)%
MSR capitalization value (in basis points) (b)		47		80		(33)	(41)%
Servicing income: (in millions)							
Servicing fees, net (c)	$	80	$	95	$	(15)	(16)%
Mortgage servicing rights valuation, net of economic hedge	$	121	$	(2)	$	123	*
Residential mortgage loan statistics							
Loan origination volume (in billions)	$	7.4	$	4.6	$	2.8	61 %
Loan sale margin percentage		3.45%		2.28%			
Percentage of originations represented by:							
Purchase volume (d)		35%		55%			
Refinance volume		65%		45%			
Other Information (b)							
Customer-related statistics (average)							
Non-teller deposit transactions (e)		61%		56%			
Digital consumer customers (f)		72%		69%			
Credit-related statistics							
Nonperforming assets (g)	$	1,037	$	1,074	$	(37)	(3)%
Net charge-offs - loans and leases	$	308	$	252	$	56	22 %
Other statistics							
ATMs		9,058		9,072		(14)	— %
Branches (h)		2,256		2,321		(65)	(3)%
Brokerage account client assets (in billions) (i)	$	53	$	52	$	1	2 %

* - Not Meaningful
(a) Represents mortgage loan servicing balances for third parties and the related income.
(b) Presented as of June 30, except for customer-related statistics, which are averages for the six months ended, and net charge-offs, which are for the six months ended.
(c) Servicing fees net of impact of decrease in MSR value due to passage of time, including the impact from both regularly scheduled loan payments, prepayments, and loans that were paid down or paid off during the period.
(d) Mortgages with borrowers as part of residential real estate purchase transactions.
(e) Percentage of total consumer and business banking deposit transactions processed at an ATM or through our mobile banking application.
(f) Represents consumer checking relationships that process the majority of their transactions through non-teller channels.
(g) Primarily nonperforming loans of $ 1.0 billion and $1.1 billion for June 30, 2020 and June 30, 2019, respectively.
(h) Excludes stand-alone mortgage offices and satellite offices (*e.g.*, drive-ups, electronic branches and retirement centers) that provide limited products and/or services.
(i) Includes cash and money market balances.

Retail Banking had a loss of $22 million in the first six months of 2020 compared with earnings of $589 million for the same period in 2019. The decrease in earnings was attributable to higher provision for credit losses and increased noninterest expense partially offset by higher noninterest income and net interest income.

Net interest income increased primarily due to growth in loan and deposit balances and wider interest rate spreads on the value of loans, partially offset by narrower interest rate spreads on the value of deposits.

Noninterest income increased largely due to growth in residential mortgage revenue attributable to higher results from residential mortgage servicing rights valuation, net of economic hedge, and increased loan sales revenue from higher origination volumes partially offset by service charges on deposits and consumer services fees reflecting lower transaction volumes, fees waived to assist customers in the pandemic and lower consumer spending. The increase in noninterest income was also driven by lower negative derivative fair value adjustments related to Visa Class B common shares of $24 million for the first six months of 2020 compared with the negative adjustments of $47 million for the same period in 2019.

Provision for credit losses increased in the first six months of 2020 compared to the same period in 2019 reflecting changes in methodology due to the adoption of the CECL accounting standard, together with the significantly adverse economic impact of the pandemic.

Higher noninterest expense primarily resulted from higher personnel, equipment and branch-related expenses, partially offset by lower advertising and marketing.

The deposit strategy of Retail Banking is to remain disciplined on pricing and focused on growing and retaining relationship-based balances, executing on market-specific deposit growth strategies and providing a source of low-cost funding and liquidity to PNC. In the first six months of 2020, average total deposits increased compared to the same period in 2019 primarily driven by savings deposits which increased due, in part, to a shift from money market deposits to relationship-based savings products as well as growth in demand deposits. Savings and demand deposits also benefited from the impact of government stimulus payments and lower consumer spending due to the pandemic.

Retail Banking average total loans increased in the first six months of 2020 compared with the same period in 2019.

- Average residential mortgages increased primarily as a result of growth in nonconforming residential mortgage loans and a robust refinance market driven by historically low interest rates.
- Average auto loans increased primarily due to strong new indirect auto loan volumes, including in our Southeast and expansion markets.
- Average commercial loans increased primarily due to PPP loans.
- Average credit card balances increased as we continued to focus on our long-term objective of deepening penetration within our existing customer base as well as new client acquisition.
- Average unsecured installment loans increased primarily driven by growth in originations through digital channels.
- Average education loans decreased driven by a decline in the runoff portfolio of government guaranteed education loans.
- Average home equity loans decreased as paydowns and payoffs on loans exceeded new originated volume.

In 2018, we launched our national expansion strategy designed to grow customers with digitally-led banking and an ultra-thin branch network in markets outside of our existing retail branch network and began offering a digital high yield savings deposit product and opened our first solution center in Kansas City. Solution centers are an emerging branch operating model with a distinctive layout, where routine transactions are supported through a combination of technology and skilled banker assistance to create personalized experiences. The primary focus of the solution center is to bring a community element to our digital banking capabilities. The solution center provides a collaborative environment that connects our customers with our digital solutions and banking services, beyond deposits and withdrawals. Deposit products are led by a digital high yield savings account. Following the first solution center opening in 2018, four additional solution centers opened in 2019 with a second in Kansas City and three in the Dallas/Fort Worth market. We also offer digital unsecured installment and small business loans in the expansion markets. We continue to execute our national expansion strategy in 2020 including physical expansion into three new markets, Boston, Houston, and Nashville. The first solution centers in Houston and Nashville were opened successfully in July. The first solution center in Boston is on track to open later in the year.

Retail Banking continues to enhance the customer experience with refinements to product and service offerings that drive value for consumers and small businesses. We are focused on meeting the financial needs of our customers by providing a broad range of liquidity, banking and investment products. Retail Banking also continued to execute on its strategy of transforming the customer experience through transaction channel migration, branch network and home lending process transformations and multi-channel engagement and service strategies. We are also continually assessing our current branch network for optimization opportunities as usage of alternative channels has increased.

- Approximately 72% of consumer customers used non-teller channels for the majority of their transactions in the first six months of 2020 compared with 69% for the same period in 2019.
- Deposit transactions via ATM and mobile channels increased to 61% of total deposit transactions in the first six months of 2020 from 56% for the same period in 2019.

Retail Banking continues to make progress on its multi-year initiative to redesign the home lending process, including integrating mortgage and home equity lending into a common platform. Technology enhancements supported increased residential mortgage origination volume. In addition, we enhanced the home equity origination process to make it easier and to reach additional customers by offering the product in new states. The improvements and expansion are planned to continue throughout 2020.

Corporate & Institutional Banking

Corporate & Institutional Banking's strategy is to be the leading relationship-based provider of traditional banking products and services to its customers through the economic cycles. We aim to grow our market share and drive higher returns by delivering value-added solutions that help our clients better run their organizations, all while maintaining prudent risk and expense management. We continue to focus on building client relationships where the risk-return profile is attractive.

Table 13: Corporate & Institutional Banking Table

(Unaudited) Six months ended June 30 Dollars in millions	2020	2019	Change $	Change %
Income Statement				
Net interest income	$ 2,030	$ 1,815	$ 215	12 %
Noninterest income	1,420	1,237	183	15 %
Total revenue	3,450	3,052	398	13 %
Provision for credit losses	2,043	171	1,872	1,095 %
Noninterest expense	1,395	1,384	11	1 %
Pretax earnings	12	1,497	(1,485)	(99)%
Income taxes	—	343	(343)	(100)%
Earnings	$ 12	$ 1,154	$ (1,142)	(99)%
Average Balance Sheet				
Loans held for sale	$ 550	$ 338	$ 212	63 %
Loans				
Commercial				
Commercial and industrial	$ 128,139	$ 111,186	$ 16,953	15 %
Commercial real estate	26,848	26,098	750	3 %
Equipment lease financing	7,051	7,274	(223)	(3)%
Total commercial	162,038	144,558	17,480	12 %
Consumer	9	18	(9)	(50)%
Total loans	$ 162,047	$ 144,576	$ 17,471	12 %
Total assets	$ 185,878	$ 160,551	$ 25,327	16 %
Deposits				
Noninterest-bearing demand	$ 46,904	$ 39,156	$ 7,748	20 %
Interest-bearing demand	24,388	18,267	$ 6,121	34 %
Money market	32,532	26,292	6,240	24 %
Other	8,706	5,830	2,876	49 %
Total deposits	$ 112,530	$ 89,545	$ 22,985	26 %
Performance Ratios				
Return on average assets	.01%	1.45%		
Noninterest income to total revenue	41%	41%		
Efficiency	40%	45%		
Other Information				
Consolidated revenue from: (a)				
Treasury Management (b)	$ 960	$ 912	$ 48	5 %
Capital Markets (b)	$ 732	$ 559	$ 173	31 %
Commercial mortgage banking activities:				
Commercial mortgage loans held for sale (c)	$ 71	$ 35	$ 36	103 %
Commercial mortgage loan servicing income (d)	136	119	17	14 %
Commercial mortgage servicing rights valuation, net of economic hedge (e)	42	16	26	163 %
Total	$ 249	$ 170	$ 79	46 %
Commercial mortgage servicing rights asset value (f)	$ 490	$ 630	$ (140)	(22)%
Average Loans by C&IB business				
Corporate Banking	$ 84,846	$ 72,736	$ 12,110	17 %
Real Estate	39,746	36,752	2,994	8 %
Business Credit	23,597	22,306	1,291	6 %
Commercial Banking	9,246	8,099	1,147	14 %
Other	4,612	4,683	(71)	(2)%
Total average loans	$ 162,047	$ 144,576	$ 17,471	12 %
Credit-related statistics				
Nonperforming assets (f) (g)	$ 674	$ 497	$ 177	36 %
Net charge-offs - loans and leases	$ 149	$ 28	$ 121	432 %

(a) See the additional revenue discussion regarding treasury management, capital markets-related products and services, and commercial mortgage banking activities in the Product Revenue section of this Corporate & Institutional Banking section.

(b) Amounts are reported in net interest income and noninterest income.

(c) Represents other noninterest income for valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, originations fees, gains on sale of loans held for sale and net interest income on loans held for sale.

(d) Represents net interest income and noninterest income (primarily in corporate service fees) from loan servicing net of reduction in commercial mortgage servicing rights due to amortization expense and payoffs. Commercial mortgage servicing rights valuation, net of economic hedge is shown separately.

(e) Amounts are reported in corporate service fees.

(f) As of June 30.

(g) Primarily nonperforming loans of $ .7 billion and $.5 billion at June 30, 2020 and June 30, 2019, respectively.

Corporate & Institutional Banking earned $12 million in the first six months of 2020 compared to $1.2 billion for the same period in 2019. Higher provision for credit losses was partially offset by higher revenue.

Net interest income increased in the comparison, primarily due to higher average loan and deposit balances, partially offset by narrower interest rate spreads on the value of deposits.

Growth in noninterest income in the comparison reflected broad-based increases including higher capital markets-related revenue and higher revenue from commercial mortgage banking activities.

Provision for credit losses increased in the first six months of 2020 compared to the same period in 2019 reflecting changes in methodology due to the adoption of the CECL accounting standard, together with the significantly adverse economic impact of the pandemic and its resulting effects on loan portfolio credit quality and loan growth.

The first six months of 2020 experienced an increase in nonperforming assets and net loan and lease charge-offs compared to the same period in 2019 primarily related to industries economically impacted by the pandemic and the energy industry.

Noninterest expense increased in the comparison largely due to investments in strategic initiatives, mostly offset by lower variable costs associated with decreased business activity related to the pandemic.

Average loans increased in the comparison across all businesses primarily due to increased utilization of loan commitments driven by the economic impact of the pandemic on customer liquidity preferences and the impact of PPP loan originations:

- Corporate Banking provides lending, treasury management and capital markets-related products and services to mid-sized and large corporations, and government and not-for-profit entities. Average loans for this business grew reflecting increased utilization and new production, including PPP loan originations.
- PNC Real Estate provides banking, financing and servicing solutions for commercial real estate clients across the country. Average loans for this business increased primarily driven by higher commercial mortgage and multifamily agency warehouse lending, partially offset by project loan payoffs.
- Business Credit provides asset-based lending. The loan portfolio is relatively high yielding, with acceptable risk as the loans are mainly secured by short-term assets. Average loans for this business increased primarily due to new originations, partially offset by lower utilization.
- Commercial Banking provides lending, treasury management and capital markets-related products and services to smaller corporations and businesses. Average loans for this business increased primarily driven by PPP loan originations.

The deposit strategy of Corporate & Institutional Banking is to remain disciplined on pricing and focused on growing and retaining relationship-based balances over time, executing on customer and segment-specific deposit growth strategies and continuing to provide funding and liquidity to PNC. Average total deposits increased in the comparison reflecting customers maintaining liquidity due to the economic impact of the pandemic. We continue to actively monitor the interest rate environment and make adjustments in response to evolving market conditions, bank funding needs and client relationship dynamics.

Corporate & Institutional Banking continues to expand its Corporate Banking business, focused on the middle market and larger sectors. We are continuing to execute on our expansion plans into the Seattle and Portland markets in 2020. This follows offices opened in Boston and Phoenix in 2019, Denver, Houston and Nashville in 2018, and Dallas, Kansas City and Minneapolis in 2017. These locations complement Corporate & Institutional Banking national businesses with a significant presence in these cities, and build on past successes in the markets where PNC's retail banking presence was limited, such as in the Southeast. Our full suite of commercial products and services is offered in these locations.

Product Revenue

In addition to credit and deposit products for commercial customers, Corporate & Institutional Banking offers other services, including treasury management, capital markets-related products and services, and commercial mortgage banking activities, for customers of all business segments. On a consolidated basis, the revenue from these other services is included in net interest income, corporate service fees and other noninterest income. From a business 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 13 includes the consolidated revenue to PNC for these services. A discussion of the consolidated revenue from these services follows.

The Treasury Management business provides payables, receivables, deposit and account services, liquidity and investments, and online and mobile banking products and services to our clients. Treasury management revenue is reported in noninterest income and net interest income. Noninterest income includes treasury management product revenue less earnings credits provided to customers on compensating deposit balances used to pay for products and services. Net interest income primarily includes revenue from all treasury management customer deposit balances. Compared with the first six months of2019, treasury management revenue increased primarily due to higher deposit balances, partially offset by narrower interest rate spreads on the value of deposits.

Capital markets-related products and services include foreign exchange, derivatives, securities underwriting, loan syndications, mergers and acquisitions advisory and equity capital markets advisory related services. The increase in capital markets-related revenue in the comparison was broad-based across most products and services and included higher underwriting fees and fees on customer-related derivatives activities.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (both net interest income and noninterest income) and revenue derived from commercial mortgage loans held for sale and related hedges. Total revenue from commercial mortgage banking activities increased in the comparison due to higher revenue across all activities.

Asset Management Group

Asset Management Group is focused on being a premier bank-held individual and institutional asset manager in each of the markets it serves. The business seeks to deliver high quality banking, trust and investment management services to our high net worth, ultra high net worth and institutional client sectors through a broad array of products and services. Asset Management Group's priorities are to serve our clients' financial objectives, grow and deepen customer relationships and deliver solid financial performance with prudent risk and expense management.

Table 14: Asset Management Group Table

(Unaudited) Six months ended June 30 Dollars in millions, except as noted	2020	2019	Change $	Change %
Income Statement				
Net interest income	$ 177	$ 138	$ 39	28 %
Noninterest income	408	503	(95)	(19)%
Total revenue	585	641	(56)	(9)%
Provision for credit losses	42	(1)	43	*
Noninterest expense	436	479	(43)	(9)%
Pretax earnings	107	163	(56)	(34)%
Income taxes	25	38	(13)	(34)%
Earnings	$ 82	$ 125	$ (43)	(34)%
Average Balance Sheet				
Loans				
Consumer				
Residential real estate	$ 2,511	$ 1,758	$ 753	43 %
Other consumer	4,013	4,289	(276)	(6)%
Total consumer	6,524	6,047	477	8 %
Commercial	869	741	128	17 %
Total loans	$ 7,393	$ 6,788	$ 605	9 %
Total assets	$ 7,880	$ 7,204	$ 676	9 %
Deposits				
Noninterest-bearing demand	$ 1,445	$ 1,368	$ 77	6 %
Interest-bearing demand	7,296	2,983	4,313	145 %
Money market	1,653	1,910	(257)	(13)%
Savings	7,297	5,799	1,498	26 %
Other	785	747	38	5 %
Total deposits	$ 18,476	$ 12,807	$ 5,669	44 %
Performance Ratios				
Return on average assets	2.10%	3.50%		
Noninterest income to total revenue	70%	78%		
Efficiency	75%	75%		
Supplemental Noninterest Income Information				
Asset management fees	$ 400	$ 433	$ (33)	(8)%
Other Information				
Nonperforming assets (a) (b)	$ 38	$ 45	$ (7)	(16)%
Net charge-offs (recoveries) - loans and leases	$ (1)	$ 1	$ (2)	(200)%
Client Assets Under Administration (in billions) (a) (c)				
Discretionary client assets under management	$ 151	$ 162	$ (11)	(7)%
Nondiscretionary client assets under administration	138	132	6	5 %
Total	$ 289	$ 294	$ (5)	(2)%
Discretionary client assets under management				
Personal	$ 94	$ 99	$ (5)	(5)%
Institutional	57	63	(6)	(10)%
Total	$ 151	$ 162	$ (11)	(7)%

* - Not meaningful
(a) As of June 30.
(b) Primarily nonperforming loans of $ 38 million at June 30, 2020 and $45 million at June 30, 2019.
(c) Excludes brokerage account client assets.

Asset Management Group earned $82 million in the first six months of 2020 compared with earnings of $125 million for the same period in 2019. Earnings decreased due to lower revenue and higher provision for credit losses, partially offset by lower noninterest expense.

Net interest income increased due to higher average loan and deposit balances partially offset by narrower interest rate spreads on the value of deposits.

Noninterest income decreased due to lower asset management fees resulting from the impact of 2019 divestiture activities and the 2019 gain on the sale of the retirement recordkeeping business.

Noninterest expense decreased in the comparison and was primarily attributable to the impact of the 2019 divestitures.

Provision for credit losses increased reflecting changes in methodology due to the adoption of the CECL accounting standard, together with the significantly adverse economic impact of the pandemic.

Asset Management Group's discretionary client assets under management decreased in comparison to the prior year primarily attributable to the sale of components of the PNC Capital Advisors investment management business.

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

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

Institutional Asset Management provides outsourced chief investment officer, custody, private real estate, cash and fixed income client solutions, and fiduciary retirement advisory services to institutional clients including corporations, healthcare systems, insurance companies, unions, municipalities, and non-profits.

Risk Management

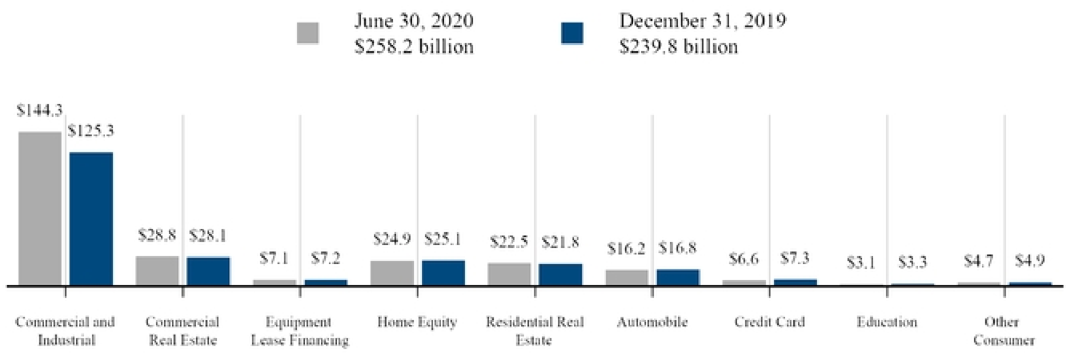
The Risk Management section included in Item 7 of our 2019 Form 10-K describes our enterprise risk management framework including risk culture, enterprise strategy, risk governance and framework, risk identification, risk assessment, risk controls and monitoring, and risk aggregation and reporting. Additionally, our 2019 Form 10-K provides an analysis of our key areas of risk, which include but are not limited to credit, liquidity and capital, market, operational, compliance and information security.

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 our 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 appetite and credit concentration limits, and reported, along with specific mitigation activities, to management and the Board of Directors through our governance structure. Our most significant concentration of credit risk is in our loan portfolio.

Loan Portfolio Characteristics and Analysis

Table 15: Details of Loans
In billions



We use several credit quality indicators, as further detailed in Note4 Loans and Related Allowance for Credit Lossesin the Notes To Consolidated Financial Statements in this Report, to monitor and measure our exposure to credit risk within our loan portfolio. The following provides additional information about our significant loan classes.

Commercial

Commercial and Industrial
Commercial and industrial loans comprised56% and 52% of our total loan portfolio atJune 30, 2020 and December 31, 2019, respectively. The majority of our commercial and industrial loans are secured by collateral that provides a secondary source of repayment for the loan should the borrower experience cash generation difficulties. Examples of this collateral include short-term assets, such as accounts receivable, inventory and securities, and long-lived assets, such as equipment, real estate and other business assets.

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

Table 16: Commercial and Industrial Loans by Industry

	June 30, 2020		December 31, 2019	
Dollars in millions	Amount	% of Total	Amount	% of Total
Commercial and industrial				
Manufacturing	$ 25,590	18%	$ 21,540	17%
Retail/wholesale trade	21,747	15	21,565	17
Service providers	21,347	15	16,112	13
Real estate related (a)	14,634	10	12,346	10
Financial services	13,596	9	11,318	9
Health care	10,109	7	8,035	6
Transportation and warehousing	7,771	5	7,474	6
Other industries	29,541	21	26,947	22
Total commercial and industrial loans	$ 144,335	100%	$ 125,337	100%

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

Commercial and industrial loan increases at June 30, 2020 were driven by loan growth, including the impact of PPP lending under the CARES Act and higher utilization of loan commitments driven by the economic impact of the pandemic on customer liquidity preferences. See the Commercial High Impact Industries discussion within this Credit Risk Management for additional discussion of the impact of COVID-19 on our commercial portfolio and how we are evaluating and monitoring the portfolio for elevated levels of credit risk.

Commercial Real Estate
Commercial real estate loans comprised $17.5 billion related to commercial mortgages, $6.4 billion of real estate project loans and $4.9 billion of intermediate term financing loans as of June 30, 2020. Comparable amounts were $17.0 billion, $5.6 billion and $5.5 billion, respectively, as of December 31, 2019.

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

Table 17: Commercial Real Estate Loans by Geography and Property Type

	June 30, 2020		December 31, 2019	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography (a)				
California	$ 4,524	16%	$ 4,393	16%
Florida	2,863	10	2,557	9
Texas	1,847	6	1,717	6
Maryland	1,771	6	1,889	7
Virginia	1,577	5	1,547	6
Pennsylvania	1,351	5	1,310	4
Ohio	1,280	4	1,307	4
New Jersey	1,209	4	1,106	4
Illinois	999	4	1,001	4
North Carolina	961	3	1,015	4
Other	10,381	37	10,268	36
Total commercial real estate loans	$ 28,763	100%	$ 28,110	100%
Property Type				
Multifamily	$ 9,326	32%	$ 9,003	32%
Office	7,785	27	7,641	27
Retail	3,615	13	3,702	13
Industrial/Warehouse	2,069	7	2,003	7
Hotel/Motel	1,923	7	1,813	7
Senior Housing	1,309	5	1,123	4
Mixed Use	905	3	943	3
Other	1,831	6	1,882	7
Total commercial real estate loans	$ 28,763	100%	$ 28,110	100%

(a) Presented in descending order based on loan balances at June 30, 2020.

Commercial High Impact Industries
In light of the current economic circumstances related to COVID-19, we are evaluating and monitoring our entire commercial portfolio for elevated levels of credit risk; however, we believe the industry sectors most likely to be impacted by the effects of the pandemic are:

- Non-real estate related
  - Leisure recreation: restaurants, casinos, hotels, convention centers
  - Non-essential retail: retail excluding auto, gas, staples
  - Healthcare facilities: elective, private practices
  - Consumer services: religious organizations, childcare
  - Leisure travel: cruise, airlines, other travel/transportation
  - Other impacted areas: shipping, senior living, specialty education

- Real estate related
    - Non-essential retail and restaurants: malls, lifestyle centers, outlets, restaurants
    - Hotel: full service, limited service, extended stay
    - Senior housing: assisted living, independent living

As of June 30, 2020, our outstanding loan balances in these industries totaled $19.6 billion, or approximately 8% of our total loan portfolio, while additional unfunded loan commitments totaled $9.2 billion. We continue to carefully monitor and manage these loans, and while we have not yet experienced material charge-offs in these industries, we expect to see charge-offs increase over time if the current economic trends continue.

In our non-real estate related category we have $11.5 billion in loans outstanding, $2.0 billion of which are funded through the PPP and guaranteed by the Small Business Administration (SBA) under the CARES Act. Nonperforming loans in these industries totaled $.1 billion, or .9% of total loans outstanding in the non-real estate related category, while criticized assets totaled $1.0 billion at June 30, 2020 with the greatest stress seen in the leisure recreation and leisure travel sectors.

Within the commercial real estate related category, we have $8.1 billion in loans outstanding which includes real estate projects of $4.8 billion. Nonperforming loans in this category totaled $.1 billion at June 30, 2020, or 1.2% of total loans outstanding in the commercial real estate related category, driven primarily by one real estate investment trust related loan. In this category, we continue to see substantial stress in the non-essential retail and hotel segments.

Oil and Gas Loan Portfolio
We are also monitoring our oil and gas portfolio closely for elevated levels of credit risk given the continued pressures on the energy industry. As of June 30, 2020, our outstanding loans in the oil and gas sector totaled $4.1 billion or 1.6% of total loans, which includes $.1 billion funded through the PPP and guaranteed by the SBA under the CARES Act. This portfolio comprised approximately $1.9 billion in the midstream and downstream sectors, $1.1 billion of oil services companies and $1.1 billion related to exploration and production companies. Of the oil services category, approximately $.2 billion is not asset-based or investment grade. Nonperforming loans in the oil and gas sector as of June 30, 2020 totaled $.2 billion, or 4.9% of total loans outstanding in this sector. Additional unfunded loan commitments in the oil and gas portfolio totaled $6.9 billion at June 30, 2020.

Consumer

Home Equity
Home equity loans comprised $13.3 billion of primarily variable-rate home equity lines of credit and $11.6 billion of closed-end home equity installment loans at June 30, 2020. Comparable amounts were $13.9 billion and $11.2 billion, respectively, as of December 31, 2019.

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

The credit quality of newly originated loans over the last twelve months was strong overall with a weighted-average LTV on originations of 68% and a weighted-average FICO score of 770.

The credit performance of the majority of the home equity portfolio where we hold the first lien position is superior to the portion of the portfolio where we hold the second lien position, but do not hold the first lien. Lien position information is generally determined at the time of origination and monitored on an ongoing basis for risk management purposes. We use an industry-leading third-party service provider to obtain updated loan information, including lien and collateral data that is aggregated from public and private sources.

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

Table 18: Home Equity Loans by Geography and by Lien Type

	June 30, 2020		December 31, 2019	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography (a)				
Pennsylvania	$ 5,750	23%	$ 5,812	23%
New Jersey	3,648	15	3,728	15
Ohio	2,845	11	2,899	12
Illinois	1,497	6	1,544	6
Florida	1,497	6	1,340	5
Michigan	1,408	6	1,371	5
Maryland	1,399	6	1,420	6
North Carolina	1,083	4	1,092	4
Kentucky	970	4	990	4
Virginia	827	3	810	3
Other	3,955	16	4,079	17
Total home equity loans	$ 24,879	100%	$ 25,085	100%
Lien type				
1st lien		61%		59%
2nd lien		39		41
Total		100%		100%

(a) Presented in descending order based on loan balances at June 30, 2020.

Residential Real Estate

Residential real estate loans primarily consisted of residential mortgage loans at both June 30, 2020 and December 31, 2019.

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

The credit quality of newly originated loans that we retained on our balance sheet over the last twelve months was strong overall as evidenced by a weighted-average LTV on originations of 69% and a weighted-average FICO score of 771.

The following table presents our residential real estate loans by geography.

Table 19: Residential Real Estate Loans by Geography

	June 30, 2020		December 31, 2019	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography (a)				
California	$ 7,618	34%	$ 6,800	31%
New Jersey	1,786	8	1,779	8
Florida	1,567	7	1,580	7
Pennsylvania	1,096	5	1,113	5
Illinois	1,068	5	1,118	5
New York	990	4	1,008	5
Washington	923	4	646	3
Virginia	908	4	868	4
Maryland	895	4	923	4
North Carolina	848	4	877	4
Other	4,770	21	5,109	24
Total residential real estate loans	$ 22,469	100%	$ 21,821	100%

(a) Presented in descending order based on loan balances at June 30, 2020.

We originate residential mortgage loans nationwide through our national mortgage business as well as within our branch network. Residential mortgage loans underwritten to agency standards, including conforming loan amount limits, are typically sold with servicing retained by us. We also originate nonconforming residential mortgage loans that do not meet agency standards, which we retain on our balance sheet. The originated nonconforming residential mortgage portfolio had strong credit quality at June 30, 2020 with an average original LTV of 69% and an average original FICO score of 773. Our portfolio of originated nonconforming residential mortgage loans totaled $17.4 billion at June 30, 2020 with 40% located in California.

Automobile
Within auto loans, $14.5 billion resided in the indirect auto portfolio while $1.7 billion were in the direct auto portfolio as of June 30, 2020. Comparable amounts as of December 31, 2019 were $15.1 billion and $1.7 billion, respectively. The indirect auto portfolio pertains to loans originated through franchised dealers, including from expansion into new markets. This business is strategically aligned with our core retail banking business.

We continue to focus on borrowers with strong credit profiles as evidenced by a weighted-average loan origination FICO score over the last twelve months of 765 for indirect auto loans and 769 for direct auto loans. The weighted-average term of loan originations over the last twelve months was 73 months for indirect auto loans and 63 months for direct auto loans. We offer both new and used auto financing to customers through our various channels. At June 30, 2020, the portfolio was composed of 56% new vehicle loans and 44% used vehicle loans. Comparable amounts at December 31, 2019 were 55% and 45%, respectively.

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

Nonperforming Assets and Loan Delinquencies

Nonperforming Assets
Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming troubled debt restructurings (TDRs), other real estate owned (OREO) and foreclosed assets. Loans held for sale, certain government insured or guaranteed loans and loans accounted for under the fair value option are excluded from nonperforming loans. Amounts as of December 31, 2019 also excluded purchased impaired loans as we were accreting interest income over the expected life of the loans. In connection with the adoption of the CECL standard, nonperforming loans as of June 30, 2020 include purchased credit deteriorated (PCD) loans which meet the criteria to be classified as nonperforming. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in this Report for details on our nonaccrual policies and additional information related to the adoption of the CECL standard, including the discontinuation of purchased impaired loan accounting.

The following table presents a summary of nonperforming assets by major category.

Table 20: Nonperforming Assets by Type

			Change	
Dollars in millions	June 30, 2020	December 31, 2019	$	%
Nonperforming loans				
Commercial	$ 758	$ 501	$ 257	51 %
Consumer (a)	1,118	1,134	(16)	(1)%
Total nonperforming loans	1,876	1,635	241	15 %
OREO and foreclosed assets	79	117	(38)	(32)%
Total nonperforming assets	$ 1,955	$ 1,752	$ 203	12 %
TDRs included in nonperforming loans	$ 860	$ 843	$ 17	2 %
Percentage of total nonperforming loans	46 %	52 %		
Nonperforming loans to total loans	.73 %	.68 %		
Nonperforming assets to total loans, OREO and foreclosed assets	.76 %	.73 %		
Nonperforming assets to total assets	.43 %	.43 %		
Allowance for loan and lease losses to nonperforming loans (b)	316 %	168 %		

(a) Excludes most unsecured consumer loans and lines of credit, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.
(b) Ratio at June 30, 2020 reflects the changes in ALLL methodology due to the adoption of the CECL accounting standard on January 1, 2020, along with increases in reserves during 2020 due to the significantly adverse economic impact of the pandemic, and its resulting effects on loan portfolio credit quality and loan growth.

The increase in nonperforming assets at June 30, 2020 was primarily attributable to higher nonperforming commercial loans in industries economically impacted by the pandemic and the energy industry, partially offset by the decline in OREO and foreclosed assets due to asset sales and the suspension of pandemic-related foreclosures. See the discussions of Commercial High Impact Industries and the Oil and Gas Loan Portfolio within this Credit Risk Management section for further detail on these industries.

The following table provides details on the change in nonperforming assets for the six months ended June 30, 2020 and 2019.

Table 21: Change in Nonperforming Assets

In millions	2020	2019
January 1	$ 1,752	$ 1,808
New nonperforming assets	849	695
Charge-offs and valuation adjustments	(249)	(334)
Principal activity, including paydowns and payoffs	(243)	(193)
Asset sales and transfers to loans held for sale	(48)	(40)
Returned to performing status	(106)	(86)
June 30	$ 1,955	$ 1,850

As of June 30, 2020, approximately 81% of total nonperforming loans were secured by collateral which lessened reserve requirements and is expected to reduce credit losses. As of June 30, 2020, commercial nonperforming loans were carried at approximately 78% of their unpaid principal balance, due to charge-offs recorded to date, before consideration of the ALLL.

Within consumer nonperforming loans, residential real estate TDRs comprised 77% and 79% of total residential real estate nonperforming loans at June 30, 2020 and December 31, 2019, respectively, while home equity TDRs comprised 45% and 49% of home equity nonperforming loans at June 30, 2020 and December 31, 2019, respectively. TDRs generally remain in nonperforming status until a borrower has made at least six consecutive months of both principal and interest payments under the modified terms or ultimate resolution occurs. Loans where borrowers have been discharged from personal liability through Chapter 7 bankruptcy and have not formally reaffirmed their loan obligations to us and loans to borrowers not currently obligated to make both principal and interest payments under the restructured terms are not returned to accrual status. Loans that have been restructured for COVID-19 related hardships and meet certain criteria under the CARES Act are not identified as TDRs. Refer to the Troubled Debt Restructurings and Loan Modifications discussion in this Credit Risk Management section for more information on the treatment of loan modifications under the CARES Act.

At June 30, 2020, our largest nonperforming asset was $99 million in the Real Estate and Rental and Leasing industry and the ten largest individual nonperforming assets represented 18% of total nonperforming assets.

Loan Delinquencies
We regularly monitor the level of loan delinquencies and believe these levels may be a key indicator of credit quality in our loan portfolio. 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 include government insured or guaranteed loans, loans accounted for under the fair value option and at June 30, 2020 also include PCD loans. Amounts exclude loans held for sale, while amounts as of December 31, 2019 also excluded purchased impaired loans.

Pursuant to the interagency guidance issued in April 2020 and in connection with the credit reporting rules from the CARES Act, the delinquency status of loans modified due to COVID-19 related hardships are being reported as of June 30, 2020 in alignment with the rules set forth for banks to report delinquency status to the credit agencies. These rules require that COVID-19 related loan modifications be reported as follows: (i) if current at the time of modification, the loan remains current throughout the modification period, (ii) if delinquent at the time of modification and the borrower was not made current as part of the modification, the loan maintains its reported as delinquent status during the modification period, or (iii) if delinquent at the time of modification and the borrower was made current as part of the modification or became current during the modification period, the loan is reported as current. As a result, certain loans modified due to COVID-19 related hardships are not being reported as past due as of June 30, 2020 based on the contractual terms of the loan, even where borrowers may not be making payments on their loans during the modification period. See Recent Regulatory Developments in Item 2 of our first quarter 2020 Form 10-Q for more information on the CARES Act and the related interagency guidance.

Table 22: Accruing Loans Past Due (a)

	Amount				% of Total Loans Outstanding	
			Change			
Dollars in millions	June 30 2020	December 31 2019	$	%	June 30 2020	December 31 2019
Early stage loan delinquencies						
Accruing loans past due 30 to 59 days	$ 590	$ 661	$ (71)	(11)%	.23%	.28%
Accruing loans past due 60 to 89 days	264	258	6	2 %	.10%	.11%
Total early stage loan delinquencies	854	919	(65)	(7)%	.33%	.38%
Late stage loan delinquencies						
Accruing loans past due 90 days or more	456	585	(129)	(22)%	.18%	.24%
Total accruing loans past due	$ 1,310	$ 1,504	$ (194)	(13)%	.51%	.63%

(a) Past due loan amounts include government insured or guaranteed loans of $.5 billion at June 30, 2020 and $.6 billion at December 31, 2019.

Accruing loans past due 90 days or more continue to accrue interest because they are (i) well secured by collateral and are in the process of collection, (ii) managed in homogeneous portfolios with specified charge-off timeframes adhering to regulatory guidelines, or (iii) certain government insured or guaranteed loans. As such, they are excluded from nonperforming loans.

Troubled Debt Restructurings and Loan Modifications

Troubled Debt Restructurings
A TDR is a loan whose terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulties. TDRs result from our loss mitigation activities and include rate reductions, principal forgiveness, postponement/reduction of scheduled amortization and extensions, which are intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Additionally, TDRs also result from court imposed concessions (e.g., a Chapter 7 bankruptcy where the debtor is discharged from personal liability to us and a court approved Chapter 13 bankruptcy repayment plan). Loans to borrowers experiencing COVID-19 related hardships that meet certain criteria under the CARES Act are not categorized as TDRs.

Table 23: Summary of Troubled Debt Restructurings (a)

			Change	
Dollars in millions	June 30 2020	December 31 2019	$	%
Commercial	$ 404	$ 361	$ 43	12 %
Consumer	1,181	1,303	(122)	(9)%
Total TDRs	$ 1,585	$ 1,664	$ (79)	(5)%
Nonperforming	$ 860	$ 843	$ 17	2 %
Accruing (b)	725	821	(96)	(12)%
Total TDRs	$ 1,585	$ 1,664	$ (79)	(5)%

(a) Amounts in table do not include associated valuation allowances.
(b) Accruing loans include consumer credit card loans and loans that have demonstrated a period of at least six months of performance under the restructured terms and are excluded from nonperforming loans.

Nonperforming TDRs represented approximately 46% and 52% of total nonperforming loans at June 30, 2020 and December 31, 2019, respectively, and 54% and 51% of total TDRs at June 30, 2020 and December 31, 2019, respectively. The remaining portion of TDRs represents TDRs that have been returned to accrual status after performing under the restructured terms for at least six consecutive months.

See Note 1 Accounting Policies and 4 Loans and Related Allowance for Credit Losses in the Notes to Consolidated Financial Statements in this Report for additional information on TDRs. For additional information on the CARES Act, see the Recent Regulatory Developments section in Item 2 of our first quarter 2020 Form 10-Q.

Loan Modifications

PNC is working to provide relief and flexibility to our customers, many of whom are suffering hardships as a result of COVID-19 and the resulting economic downturn, through a variety of solutions, including granting loan and lease modifications. We continue to monitor the success rates and delinquency status of our loan and lease modification programs to assess their effectiveness in serving our borrowers' and servicing customers' needs while mitigating credit losses.

Due to the passage of the CARES Act, loan modifications meeting certain criteria qualify the loan for relief from TDR treatment. These criteria include (i) the loan modification results from a COVID-19 related hardship, (ii) the borrower is no more than 30 days past due as of December 31, 2019, and (iii) the loan modification does not result in a permanent reduction of interest or principal. Loans that do not meet the criteria for TDR relief under the CARES Act may be evaluated under interagency guidance, which allows banks to not designate certain short-term modifications as TDRs for borrowers with COVID-19 hardships who were current on their payments prior to the modification. Loans that are permanently modified or receive longer term modifications under programs involving a change to loan terms due to customer financial difficulty and PNC concessions are evaluated for TDR accounting.

Refer to the Loan Delinquencies discussion in this Credit Risk Management section for information on how these hardship related loan modification are reported from a delinquency perspective as of June 30, 2020. For additional information on the CARES Act and interagency guidance, see the Recent Regulatory Developments section in Item 2 of our first quarter 2020 Form 10-Q.

The impact of modifications made through one of the hardship programs was considered within the modified loans' quarterly reserve determination. See the Allowance for Credit Losses discussion within this Credit Risk Management for additional information.

Commercial Loan and Lease Modifications Under COVID-19 Hardship Relief Programs

PNC is granting temporary loan and lease modifications to our commercial clients in the form of principal and/or interest deferrals, covenant waivers and other types of modifications including term extensions. Initial principal and/or interest deferrals are being offered with terms typically up to 90 days, and we are analyzing and making decisions on these modifications based on each individual borrower's situation. Modifications made in the form of covenant waivers include modifying financial covenants, waiving covenants currently in default, amending reporting requirements and waiving the receipt of required reporting.

The following table presents a summary as of June 30, 2020 of the principal and/or interest deferral modifications PNC has granted due to COVID-19 related hardships in the commercial portfolio. As of June 30, 2020, the unpaid principal balance on these modifications represented approximately 4% of the total commercial loan portfolio. In some cases, individual loans have been modified more than once. Regardless of the number of modifications granted on a loan, each loan is counted only once in Table 24.

Table 24: Unpaid Principal Balance of Commercial Loans with a COVID-19 Related Principal/Interest Deferral Modification(a)

As of June 30, 2020 - Dollars in millions	Number of Accounts	Unpaid Principal Balance
Commercial		
Commercial and industrial	12,534	$ 4,939
Commercial real estate	407	1,544
Equipment lease financing	2,774	285
Total commercial	15,715	$ 6,768

(a) Amounts include loan modifications that qualify for TDR accounting totaling $40 million.

Consumer Loan Modifications Under Hardship Relief Programs

We are also granting temporary loan and line modifications for our consumer loan customers through extensions, deferrals, partial payments and forbearance. The consumer loan modifications are inclusive of all hardship related modifications granted in 2020. In addition, we have temporarily halted the majority of consumer real estate related foreclosures, while we continue to monitor the situation.

Our consumer loan modification programs are in response to current customer hardships and the primary offerings by loan class in the reported period are described in the following matrix.

Modification Type	Home Equity	Residential Real Estate	Automobile	Credit Card	Education	Other Consumer
Extensions - Defers current payments and moves them to the end of the loan by extending the loan's maturity or the extension re-amortizes the remaining principal balance.	□		□		□	□
Forbearance - Payment is deferred and moved to the end of the forbearance period. Balance is due at the end of the forbearance period, but payment options may be available to repay the forborne amount, including for many borrowers an option to delay payment until the payoff or maturity of the loan.		□				
Minimum payment suspension - Reduces required minimum payment to $0 for a period of time.				□		
New loan terms - Sets loan terms to a new monthly payment of principal and interest based on customer's financial situation.	□	□				
Reduced payments - Allows the customer to make a lower payment for a period of time, with any deferred balance being moved to the end of the loan term or extending the loan's maturity.	□		□			□
Repayment plan - Allows reduced payment and interest rate for a period of time.				□		

Interest continues to accrue during the forbearance, extension or deferral period of the loan modification unless it was designated as a nonperforming TDR or on nonaccrual at the date of modification. The method of collection of the accrued interest is dependent on the product type and modification offered.

The following table presents a summary as of June 30, 2020 of the hardship related loan modifications PNC has granted in our consumer loan portfolio during 2020. As of June 30, 2020, the unpaid principal balance on these modifications represented approximately 8% of the total consumer loan portfolio. In some cases, there have been multiple modifications of individual loans. Regardless of the number of modifications granted on a loan, each loan is counted only once in Table 25.

Table 25: Unpaid Principal Balance of Consumer Loan Modifications Under Hardship Relief Programs (a)

As of June 30, 2020 - Dollars in millions	Number of Accounts	Unpaid Principal Balance
Consumer		
Home equity	14,245	$ 1,403
Residential real estate (b)	5,619	1,620
Automobile	83,933	2,044
Credit card	39,235	266
Education (b)	84,615	579
Other consumer	14,671	204
Total consumer loan modifications	242,318	$ 6,116

(a) Amounts include loan modifications that qualify for TDR accounting totaling $348 million.
(b) Includes government insured or guaranteed loans totaling $208 million and $433 million in the Residential real estate and Education loan classes, respectively.

The initial consumer loan modifications granted in response to the COVID-19 outbreak and the surrounding economic circumstances were short-term and temporary in nature and generally meet the qualifications for relief from TDR treatment under the CARES Act. However, in response to customers' hardships that have extended beyond the initial relief period, PNC continues to offer options to customers which include both temporary and permanent modifications that may reduce the payment, the interest rate or extend the term and/or defer principal and interest payments. Permanent modifications would not meet the qualifications for relief from TDR treatment under the CARES Act.

Allowance for Credit Losses

On January 1, 2020 we adopted the CECL standard which replaced the incurred loss methodology for our credit related reserves with an expected credit loss methodology for the remaining estimated contractual term of in-scope assets and off-balance sheet exposures. Our ACL is based on historical loss experience, borrower characteristics, current economic conditions, reasonable and supportable forecasts of future conditions and other relevant factors. We maintain the ACL at an appropriate level for expected losses on our existing investment securities, loans, finance leases, trade receivables and other financial assets and off-balance sheet credit exposures and determine this allowance based on quarterly assessments of the remaining estimated contractual term of the assets or exposures as of the balance sheet date.

Expected losses are estimated using a combination of (i) the expected losses over a reasonable and supportable forecast period (RSFP), (ii) a period of reversion to long run average expected losses (reversion period) where applicable, and (iii) long run average (LRA) expected losses for the remaining estimated contractual term.

We use forward-looking information in estimating expected credit losses for the RSFP. For this purpose, we have established a framework which includes a three year reasonable and supportable forecast period and the use of four economic scenarios and associated probability weights, which in combination create a forecast of expected economic outcomes over our RSFP of three years. Forward looking information, such as forecasted relevant macroeconomic variables, is incorporated into the expected credit loss estimates using quantitative techniques, as well as through analysis from PNC's economists and management's judgment in qualitatively assessing the ACL.

The reversion period is used to bridge RSFP and LRA expected credit losses. We may consider a number of factors in determining the duration of the reversion period, such as contractual maturity of the asset, observed historical patterns and the estimated credit loss rates at the end of RSFP relative to the beginning of the LRA period.

The LRA expected credit losses are derived from our available historical credit information. We use LRA expected loss for the portfolio for the estimated remaining contractual term beyond the RSFP and reversion period.

The following discussion provides additional information related to our reserves under CECL for loans and leases as well as unfunded lending related commitments. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in this Report for further discussion on our ACL, including details of our methodologies and discussion of the allowances for investment securities and other financial assets. See also the Critical Accounting Estimates and Judgments section of this Financial Review for further discussion of the assumptions used in the determination of the ACL and the predicted impacts on the ACL of deteriorating economic conditions as a result of COVID-19.

Allowance for Loan and Lease Losses

Our pooled expected loss methodology is based upon the quantification of PD, LGD, exposure at default (EAD) and the remaining estimated contractual term for a loan or loan segment. We also consider the impact of prepayments and amortization on contractual maturity in our expected loss estimates. We use historical data, current borrower characteristics and forecasted economic variables in quantitative methods, including statistical models, to estimate these risk parameters by credit risk characteristics. PDs represent a quantification of risk that a borrower may not be able to pay their contractual obligation over a defined period of time. LGD describes the estimate of potential loss if a borrower were to default, and EAD (or utilization rates for revolving loans) is the estimated balance outstanding at the time of default and loss. These parameters are calculated for each forecasted scenario, and are combined to generate expected loss estimates by scenario in proportion to the scenario weights.

We use a discounted cash flow methodology for our consumer real estate related loan classes and for certain commercial and consumer TDR loans. For non-TDR residential real estate loans and lines, we determine effective interest rates considering contractual cash flows adjusted for prepayments and market interest rates. We then determine the net present value of expected cash flows and ALLL by discounting contractual cash flows adjusted for both prepayments and expected credit losses using the effective interest rates.

We establish individually assessed reserves for loans and leases that do not share similar risk characteristics with a pool of loans using methods prescribed by GAAP. Reserves for individual commercial nonperforming loans and commercial TDRs exceeding a defined dollar threshold are based on an analysis of the present value of the loan's expected future cash flows or the fair value of the collateral, if appropriate under our policy for collateral dependent loans. Commercial loans that are below the defined threshold and accruing TDRs are collectively reserved for, as we believe these loans continue to share similar risk characteristics. For consumer nonperforming loans classified as collateral dependent, charge-off and ALLL related to recovery of amounts previously charged-off are evaluated through an analysis of the fair value of the collateral less costs to sell.

While our reserve methodologies strive to reflect all relevant credit 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 expected and actual outcomes. We may hold additional reserves that are designed to provide coverage for losses attributable to such risks. A portion of the allowance is related to qualitative measurement factors. These factors may include, but are not limited to, the following:

- Industry concentrations and conditions,
- Changes in market conditions, including regulatory and legal requirements,
- Changes in the nature and volume of our portfolio,
- Recent credit quality trends, including the impact of COVID-19 hardship related loan modifications,
- Recent loss experience in particular portfolios, including specific and unique events,
- Recent macro-economic factors that may not be reflected in the forecast information,
- Limitations of available data, including historical loss information and recent data such as collateral values,
- Model imprecision,
- Changes in lending policies and procedures, including changes in loss recognition and mitigation policies and procedures,
- Timing of available information, including the performance of first lien positions, and
- Other relevant factors.

Allowance for Unfunded Lending Related Commitments

We maintain the allowance for unfunded lending related commitments on off-balance sheet credit exposures that are not unconditionally cancelable, (*e.g.,* unfunded loan commitments, letters of credit and certain financial guarantees) at a level we believe is appropriate as of the balance sheet date to absorb expected credit losses on these exposures. Other than the estimation of the probability of funding, this reserve is estimated in a manner similar to the methodology used for determining reserves for loans and leases. The allowance for unfunded lending related commitments is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to this reserve are included in the provision for credit losses.

Table 26: Allowance for Credit Losses by Loan Class(a)

	June 30, 2020			December 31, 2019		
Dollars in millions	Allowance Amount	Total Loans	% of Total Loans	Allowance Amount	Total Loans	% of Total Loans
Allowance for loans and lease losses						
Commercial						
Commercial and industrial	$ 2,834	$ 144,335	1.96%	$ 1,489	$ 125,337	1.19%
Commercial real estate	382	28,763	1.33%	278	28,110	.99%
Equipment lease financing	164	7,097	2.31%	45	7,155	.63%
Total commercial	3,380	180,195	1.88%	1,812	160,602	1.13%
Consumer						
Home equity	382	24,879	1.54%	87	25,085	.35%
Residential real estate	50	22,469	.22%	258	21,821	1.18%
Automobile	450	16,157	2.79%	160	16,754	.95%
Credit card	1,010	6,575	15.36%	288	7,308	3.94%
Education	151	3,132	4.82%	17	3,336	.51%
Other consumer	505	4,829	10.46%	120	4,937	2.43%
Total consumer	2,548	78,041	3.26%	930	79,241	1.17%
Total	5,928	$ 258,236	2.30%	2,742	$ 239,843	1.14%
Allowance for unfunded lending related commitments	662			318		
Allowance for credit losses	$ 6,590			$ 3,060		
Allowance for credit losses to total loans			2.55%			1.28%
Commercial			2.18%			1.33%
Consumer			3.41%			1.18%

(a) Excludes allowances for investment securities and other financial assets.

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

Table 27: Loan Charge-Offs and Recoveries

Six months ended June 30 Dollars in millions	Gross Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	% of Average Loans (Annualized)
2020				
Commercial				
Commercial and industrial	$ 190	$ 31	$ 159	.23 %
Commercial real estate	—	4	(4)	(.03)%
Equipment lease financing	15	4	11	.31 %
Total commercial	205	39	166	.19 %
Consumer				
Home equity	19	29	(10)	(.08)%
Residential real estate	2	8	(6)	(.05)%
Automobile	153	64	89	1.06 %
Credit card	154	17	137	3.96 %
Education	10	4	6	.37 %
Other consumer	75	9	66	2.69 %
Total consumer	413	131	282	.72 %
Total	$ 618	$ 170	$ 448	.35 %
2019				
Commercial				
Commercial and industrial	$ 75	$ 31	$ 44	.07 %
Commercial real estate	5	5	—	—
Equipment lease financing	4	4	—	—
Total commercial	84	40	44	.06 %
Consumer				
Home equity	41	36	5	.04 %
Residential real estate	4	7	(3)	(.03)%
Automobile	112	55	57	.77 %
Credit card	132	14	118	3.78 %
Education	13	4	9	.49 %
Other consumer	56	8	48	2.10 %
Total consumer	358	124	234	.64 %
Total	$ 442	$ 164	$ 278	.24 %

Total net charge-offs increased $170 million, or 61%, for the first six months of 2020 compared to the same period in 2019. The increase in commercial net charge-offs reflected the impact of certain individual credits, while the increases in automobile, credit card and other consumer loan net charge-offs were due in part to loan portfolio growth.

See Note 1 Accounting Policies and Note 4 Loans and Related Allowance for Credit Losses in the Notes To Consolidated Financial Statements in this report for additional information.

Liquidity and Capital Management

Liquidity risk, including our liquidity monitoring measures and tools, is described in further detail in the Liquidity and Capital Management section of our 2019 Form 10-K.

One of the ways we monitor our liquidity is by reference to the Liquidity Coverage Ratio (LCR), a regulatory minimum liquidity requirement designed to ensure that covered banking organizations maintain an adequate level of liquidity to meet net liquidity needs over the course of a hypothetical 30-day stress scenario. The LCR is calculated by dividing the amount of an institution’s high quality, unencumbered liquid assets (HQLA), as defined and calculated in accordance with the LCR rules, by its estimated, weighted net cash outflows, with net cash outflows determined by applying the assumed outflow factors in the LCR rules. The resulting quotient is expressed as a percentage. Effective January 1, 2020, PNC and PNC Bank, as Category III institutions under the Tailoring Rules, were subject to a reduced LCR requirement, with each company's net outflows reduced by 15%, thereby reducing the amount of HQLA each institution must hold to meet the LCR minimum requirement. The minimum LCR that PNC and PNC Bank are required to maintain continues to be 100%. PNC and PNC Bank calculate the LCR daily, and as of June 30, 2020, the LCR for PNC and PNC Bank exceeded the requirement of 100%.

We provide additional information regarding regulatory liquidity requirements and their potential impact on us in the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors of our 2019 Form 10-K.

Sources of Liquidity

Our largest source of liquidity on a consolidated basis is the customer deposit base generated by our banking businesses. These deposits provide relatively stable and low-cost funding. Total deposits increased to $346.0 billion at June 30, 2020 from $288.5 billion at December 31, 2019 driven by growth in both interest-bearing and noninterest-bearing deposits. See the Funding Sources portion of the Consolidated Balance Sheet Review section of this Financial Review for additional information related to our deposits. Additionally, certain assets determined by us to be liquid as well as unused borrowing capacity from a number of sources are also available to manage our liquidity position.

At June 30, 2020, our liquid assets consisted of cash and due from banks and short-term investments (federal funds sold, resale agreements, trading securities and interest-earning deposits with banks) totaling $61.6 billion and securities available for sale totaling $97.1 billion. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and balance sheet management activities. Our liquid assets included $23.4 billion of securities available for sale and trading securities pledged as collateral to secure public and trust deposits, repurchase agreements and for other purposes. In addition, $.1 billion of securities held to maturity were also pledged as collateral for these purposes.

We also obtain liquidity through various forms of funding, including long-term debt (senior notes, subordinated debt and FHLB borrowings) and short-term borrowings (securities sold under repurchase agreements, commercial paper and other short-term borrowings). See Note 8 Borrowed Funds in the Notes To Consolidated Financial Statements and the Funding Sources section of the Consolidated Balance Sheet Review in this Report, and Note 10 Borrowed Funds in Item 8 of our 2019 Form 10-K for additional information related to our borrowings.

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

Table 28: Senior and Subordinated Debt

In billions	2020
January 1	$ 35.1
Issuances	3.5
Calls and maturities	(5.9)
Other	1.5
June 30	$ 34.2

Bank Liquidity

Under PNC Bank's 2014 bank note program, as amended, PNC Bank may from time to time offer up to $40.0 billion aggregate principal amount outstanding at any one time of its unsecured senior and subordinated notes with maturity dates more than nine months (in the case of senior notes) and five years or more (in the case of subordinated notes) from their date of issue. At June 30, 2020, PNC Bank had $21.6 billion of notes outstanding under this program of which $16.6 billion were senior bank notes and $5.0 billion were subordinated bank notes.

PNC Bank maintains additional secured borrowing capacity with the FHLB-Pittsburgh and through the Federal Reserve Bank discount window. The Federal Reserve Bank, however, is not viewed as a primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. At June 30, 2020, our unused secured borrowing capacity at the FHLB-Pittsburgh and the Federal Reserve Bank totaled $80.8 billion. The Federal Reserve also has established certain special liquidity facilities under its emergency lending authority in Section 13(3) of the Federal Reserve Act in response to the economic impact of the pandemic. For additional information on these special liquidity facilities see the Recent Regulatory Developments section of the first quarter 2020 Form 10-Q.

PNC Bank has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of June 30, 2020, there were no issuances outstanding under this program.

From time to time, the parent company may make capital contributions to PNC Bank. In the second quarter of 2020, a capital contribution to PNC Bank of $2.5 billion was made by the parent company.

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

As of June 30, 2020, available parent company liquidity totaled $17.7 billion which includes proceeds from our second quarter 2020 sale of our equity investment in BlackRock. See Note 2 Discontinued Operations in the Notes To Consolidated Financial Statements of this Report for additional information.

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

The principal source of parent company liquidity is the dividends it receives from PNC Bank, which may be impacted by the following:
- Bank-level capital needs,
- Laws and regulations,
- Corporate policies,
- Contractual restrictions, and
- Other factors.

There are statutory and regulatory limitations on the ability of a national bank to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. The amount available for dividend payments by PNC Bank to the parent company without prior regulatory approval was approximately $1.8 billion at June 30, 2020. See Note 18 Regulatory Matters in the Notes To Consolidated Financial Statements in our 2019 Form 10-K for a further discussion of these limitations.

In addition to dividends from PNC Bank, other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. We can also generate liquidity for the parent company and PNC's non-bank subsidiaries through the issuance of debt and equity securities, including certain capital instruments, in public or private markets and commercial paper. The parent company has the ability to offer up to $5.0 billion of commercial paper to provide additional liquidity. As of June 30, 2020, there were no commercial paper issuances outstanding.

The parent company has an effective shelf registration statement pursuant to which we can issue additional debt, equity and other capital instruments.

Parent company senior and subordinated debt outstanding totaled $11.5 billion and $9.8 billion at June 30, 2020 and December 31, 2019, respectively.

Contractual Obligations and Commitments
We have contractual obligations representing required future payments on borrowed funds, time deposits, leases, pension and postretirement benefits and purchase obligations. See the Liquidity and Capital Management portion of the Risk Management section in our 2019 Form 10-K for more information on these future cash outflows. Additionally, in the normal course of business we have various commitments outstanding, certain of which are not included on our Consolidated Balance Sheet. We provide information on our commitments in Note 9 Commitments in the Notes To Consolidated Financial Statements of this Report.

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

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

Table 29: Credit Ratings for PNC and PNC Bank

	June 30, 2020		
	Moody's	Standard & Poor's	Fitch
PNC			
Senior debt	A3	A-	A+
Subordinated debt	A3	BBB+	A-
Preferred stock	Baa2	BBB-	BBB
PNC Bank			
Senior debt	A2	A	A+
Subordinated debt	A3	A-	A
Long-term deposits	Aa2	A	AA-
Short-term deposits	P-1	A-1	F1+
Short-term notes	P-1	A-1	F1

On July 10, 2020, Fitch downgraded PNC's senior debt rating from A+ to A in conjunction with the finalization of ratings methodology changes for Category II and III banking organizations. The ratings downgrade was solely a function of criteria changes and does not reflect a change in Fitch's current or expected view of PNC's credit fundamentals. No impact to PNC or its businesses is expected as a result of this downgrade. Additionally, PNC Bank's senior unsecured and subordinated debt ratings were affirmed at A+ and A, respectively.

Capital Management

Detailed information on our capital management processes and activities, including additional information on our previous CCAR submissions and capital plans, is included in the Capital Management portion of the Risk Management section in our 2019 Form 10-K.

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

PNC announced on March 16, 2020 a temporary suspension of our common stock repurchase program in conjunction with the Federal Reserve's effort to support the U.S. economy during the pandemic, and will continue the suspension through the third quarter of 2020, with the exception of share repurchases to offset the effects of employee benefit plan-related issuances as permitted by recent guidance from the Federal Reserve. The estimated amount of these repurchases in the third quarter of 2020 is $100 million, but the timing and amount of executed repurchases will be based on market conditions and other factors.

We paid dividends on common stock of $.5 billion, or $1.15 per common share, during the second quarter of 2020. The PNC Board of Directors declared a quarterly cash dividend on common stock payable on August 5, 2020 of $1.15 per share, consistent with the second quarter dividend paid on May 5, 2020. In April 2020, PNC submitted its capital plan to the Federal Reserve and OCC as part of the 2020 annual Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act stress testing (DFAST) process.

On June 25, 2020, the Federal Reserve released the results of its supervisory stress tests conducted as part of the 2020 CCAR/DFAST process, as well as the results of additional sensitivity analysis it conducted to account for the uncertainty presented by the COVID-19 pandemic. Based on the results of the Federal Reserve's supervisory stress tests, PNC's Stress Capital Buffer (SCB), which is scheduled to go into effect on October 1, 2020, was set at 2.5%, the minimum level permitted under applicable rules. For additional information on the SCB and its potential impact on PNC's capital distributions, see the Recent Regulatory Developments section of the Financial Review of our first quarter 2020 Form 10-Q.

Following completion of the 2020 CCAR/DFAST process, the Federal Reserve announced certain limitations on the capital distributions of any CCAR-participating bank holding company (including PNC) during the third quarter of 2020. Under these limitations, PNC and other CCAR-participating firms, absent Federal Reserve approval, are permitted to make only the following capital distributions during the third quarter of 2020:

- Pay common dividends at the same per share level as paid during the second quarter of 2020, provided that the amount does not exceed the average of the firm's net income for the four preceding calendar quarters;
- Purchase common shares in an amount that equals the amount of share issuances related to expensed employee compensation; and
- Make scheduled payments on additional Tier 1 and Tier 2 capital instruments.

The Federal Reserve has indicated that it reserves the right to extend these limitations to additional quarters, potentially in modified form.

In June 2020, the Federal Reserve also announced that all 2020 CCAR-participating firms (including PNC) would be required to conduct an additional round of company and supervisory stress tests in the fourth quarter of 2020 using updated baseline and stressed scenarios that better incorporate the current, expected and potential effects of the COVID-19 pandemic. The Federal Reserve has indicated it will provide updated supervisory scenarios to firms by September 30, 2020, and stress test projections and updated capital plans will be due within 45 days of distribution of the supervisory scenarios. It is unclear at this time how the Federal Reserve expects to utilize the results of this additional 2020 stress test or what, if any, impact this additional round of stress testing may have on the SCB or authorized capital distributions of participating firms.

Table 30: Basel III Capital

Dollars in millions	Basel III June 30, 2020 (a)	June 30, 2020 (Fully Implemented) (estimated) (b)
Common equity Tier 1 capital		
Common stock plus related surplus, net of treasury stock	$ 873	$ 873
Retained earnings	46,381	44,986
Goodwill, net of associated deferred tax liabilities	(9,025)	(9,025)
Other disallowed intangibles, net of deferred tax liabilities	(197)	(197)
Other adjustments/(deductions)	(75)	(78)
Common equity Tier 1 capital	$ 37,957	$ 36,559
Additional Tier 1 capital		
Preferred stock plus related surplus	3,995	3,995
Other adjustments/(deductions)	—	—
Tier 1 capital	$ 41,952	$ 40,554
Additional Tier 2 capital		
Qualifying subordinated debt	4,100	4,100
Trust preferred capital securities	40	—
Eligible credit reserves includable in Tier 2 capital	4,192	4,192
Total Basel III capital	$ 50,284	$ 48,846
Risk-weighted assets		
Basel III standardized approach risk-weighted assets (c)	$ 336,990	$ 335,615
Average quarterly adjusted total assets	$ 446,741	$ 445,343
Supplementary leverage exposure (d)	$ 452,000	$ 522,843
Basel III risk-based capital and leverage ratios (a)(e)		
Common equity Tier 1	11.3 %	10.9 %
Tier 1	12.4 %	12.1 %
Total (f)	14.9 %	14.6 %
Leverage (g)	9.4 %	9.1 %
Supplementary leverage ratio (d)(h)	9.3 %	7.8 %

(a) The ratios are calculated to reflect PNC's election to adopt the CECL optional five-year transition provision.
(b) The ratios are calculated to reflect the full impact of CECL and excludes the benefits of the optional five-year transition provision.
(c) Basel III standardized approach weighted-assets are based on the Basel III standardized approach rules and include credit and market risk-weighted assets.
(d) As of June 30, 2020 the Supplementary leverage exposure and Supplementary leverage ratio reflects the temporary exclusions of U.S. Treasury securities and deposits at Federal Reserve Banks.
(e) All ratios are calculated using the regulatory capital methodology applicable to PNC and calculated based on the standardized approach.
(f) The Basel III Total risk-based capital ratios include nonqualifying trust preferred capital securities of $40 million that are subject to a phase-out period that runs through 2021.
(g) Leverage ratio is calculated based on Tier 1 capital divided by Average quarterly adjusted total assets.
(h) The Supplementary leverage ratio is calculated based on Tier 1 capital divided by Supplementary leverage exposure, which takes into account both on balance sheet assets as well as certain off-balance sheet items, including loan commitments and potential future exposure under derivative contracts.

As of January 1, 2020, the 2019 Tailoring Rules became effective for PNC. The most significant changes involve the election to exclude specific AOCI items from common equity Tier 1 (CET1) capital and higher thresholds used to calculate CET1 capital deductions. Effective January 1, 2020, PNC must deduct from CET1 capital (net of associated deferred tax liabilities) investments in unconsolidated financial institutions, mortgage servicing rights and deferred tax assets to the extent such items individually exceed 25% of the institution's adjusted CET1 capital.

PNC's regulatory risk-based capital ratios in 2020 are calculated using the standardized approach for determining risk-weighted assets. Under the standardized approach for determining credit risk-weighted assets, exposures are generally assigned a pre-defined risk weight. Exposures to high volatility commercial real estate, past due exposures and equity exposures are generally subject to higher risk weights than other types of exposures.

On March 27, 2020, the regulatory agencies issued an interim final rule permitting banks to delay the estimated impact on regulatory capital stemming from implementing CECL. CECL's estimated impact on CET1 capital, as defined by the rule, is the change in retained earnings at adoption plus or minus 25% of the change in CECL ACL at the balance sheet date compared to the CECL ACL at transition. The estimated CECL impact is added to CET1 capital through December 31, 2021, then phased-out over the following three years. PNC elected to adopt this optional transition provision effective March 31, 2020. See additional discussion of this interim final rule in the Recent Regulatory Developments section and Item 2 Risk Management of our first quarter 2020 Form 10-Q.

In April 2020, in response to the economic conditions caused by COVID-19, the Federal Reserve issued an interim final rule that revises, on a temporary basis, the calculation of supplementary leverage exposure (the denominator of the supplementary leverage ratio) by bank holding companies to exclude the on-balance sheet amounts of U.S. Treasury securities and deposits at Federal Reserve Banks. The rule was effective as of April 14, 2020 and will remain in effect through March 31, 2021. See additional discussion of this interim final rule in the Recent Regulatory Developments section of our first quarter 2020 Form 10-Q.

Federal banking regulators have stated that they expect the largest U.S. bank holding companies (BHCs), including PNC, to have a level of regulatory capital well in excess of the regulatory minimum and have required the largest U.S. BHCs, including PNC, to have a capital buffer sufficient to withstand losses and allow them to meet the credit needs of their customers through estimated stress scenarios. We seek to manage our capital consistent with these regulatory principles, and believe that our June 30, 2020 capital levels were aligned with them.

At June 30, 2020, PNC and PNC Bank, our sole bank subsidiary, were both considered "well capitalized," based on applicable U.S. regulatory capital ratio requirements. To qualify as "well capitalized", PNC must have Basel III capital ratios of at least 6% for Tier 1 risk-based capital and 10% for Total risk-based capital, and PNC Bank must have Basel III capital ratios of at least 6.5% for Common equity Tier 1 risk-based capital, 8% for Tier 1 risk-based capital, 10% for Total risk-based capital and a Leverage ratio of at least 5%.

See the Recent Regulatory Developments section of our first quarter 2020 Form 10-Q for recent developments that could have a potential impact on our Basel III capital ratios. We provide additional information regarding regulatory capital requirements and some of their potential impacts on us in the Supervision and Regulation section of Item 1 Business, Item 1A Risk Factors and Note 18 Regulatory Matters in our 2019 Form 10-K.

Market Risk Management

See the Market Risk Management portion of the Risk Management Section in our 2019 Form 10-K for additional discussion regarding market risk.

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.

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

Sensitivity results and market interest rate benchmarks for the second quarter of 2020 and 2019 follow.

Table 31: Interest Sensitivity Analysis

	Second Quarter 2020	Second Quarter 2019
Net Interest Income Sensitivity Simulation (a)		
Effect on net interest income in first year from gradual interest rate change over the following 12 months of:		
100 basis point increase	3.2 %	1.9 %
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	11.2 %	4.8 %
Duration of Equity Model (a)		
Base case duration of equity (in years)	(8.1)	(4.7)
Key Period-End Interest Rates		
One-month LIBOR	.16 %	2.40 %
Three-month LIBOR	.30 %	2.32 %
Three-year swap	.23 %	1.74 %

(a) Given the inherent limitations in certain of these measurement tools and techniques, results become less meaningful as interest rates approach zero. Senior management approved the suspension of the 100bps decrease in rate change sensitivities considering the current low rate environment.

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. Table 32 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 50 basis point yield curve slope flattening between one-month and ten-year rates superimposed on current base rates) scenario.

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

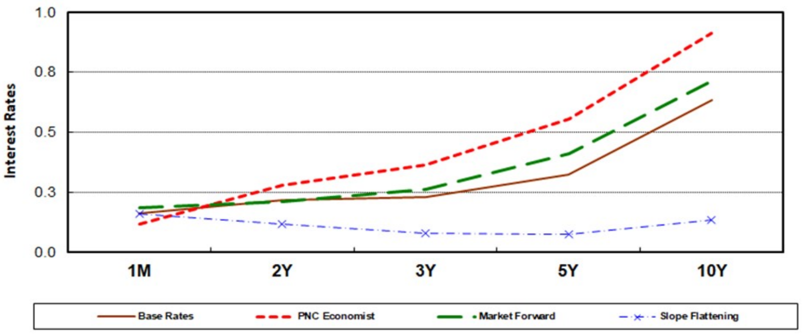
Table 32: Net Interest Income Sensitivity to Alternative Rate Scenarios

	June 30, 2020		
	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	(.5)%	1.0 %	(1.0)%
Second year sensitivity	.4 %	1.4 %	(3.1)%

When forecasting net interest income, we make assumptions about interest rates and the shape of the yield curve, the volume and characteristics of new business and the behavior of existing on- and off-balance sheet positions. These assumptions determine the future level of simulated net interest income in the base interest rate scenario and the other interest rate scenarios presented in Tables 31 and 32. These simulations assume that as assets and liabilities mature, they are replaced or repriced at then current market rates.

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

Table 33: Alternate Interest Rate Scenarios: One Year Forward



The second quarter 2020 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.

The planned discontinuance of the requirement that banks submit rates for the calculation of LIBOR after 2021 presents risks to the financial instruments originated, held, or serviced by PNC that use LIBOR as a reference rate. PNC holds instruments and services its instruments and instruments owned by others that may be impacted by the likely discontinuance of LIBOR, including loans, investments, hedging products, floating-rate obligations, and other financial instruments that use LIBOR as a reference rate. The transition from LIBOR as an interest rate benchmark will subject PNC to financial, legal, operational, and reputational risks.

PNC has established a cross functional governance structure to oversee the overall strategy for the transition from LIBOR and mitigate risks associated with the transition. An initial LIBOR impact and risk assessment has been performed, which identified the associated risks across products, systems, models and processes. PNC is actively monitoring its overall firm-wide exposure to LIBOR and using these results to plan transitional strategies and track progress versus these goals.

We also continue to focus our transition efforts on:

- enhancing fallback language in new contracts and reviewing existing legal contracts/agreements to assess fallback language impacts;
- making preparations for internal operational readiness;
- making necessary enhancements to our infrastructure including systems, models, valuation tools, and processes;
- developing and delivering on internal and external LIBOR cessation communication plans;
- engaging with our clients, industry working groups, and regulators; and
- monitoring developments associated with LIBOR alternatives and industry practices related to LIBOR-indexed instruments.

See the Risk Factors section in Item IA and Risk Management Market Rate Management - Interest Rate Risk section in Item 7 disclosed in our 2019 Form 10-K for additional information regarding the planned discontinuance of LIBOR as a reference rate.

Market Risk Management – Customer-Related Trading Risk

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

We use value-at-risk (VaR) as the primary means to measure and monitor market risk in customer-related trading activities. VaR is used to estimate the probability of portfolio losses based on the statistical analysis of historical market risk factors. A diversified VaR reflects empirical correlations across different asset classes. We calculate a diversified VaR at a 95% confidence interval and the results for the first six months of 2020 and 2019 were within our acceptable limits.

See the Market Risk Management – Customer-Related Trading Risk section of our 2019 Form 10-K for more information on our models used to calculate VaR and our backtesting process.

Customer related trading revenue was $185 million for the six months ended June 30, 2020 compared to $135 million for the same period in2019. For the quarterly period, customer related trading revenue was $114 million for the second quarter of 2020 compared to $87 million in 2019. The increase was primarily due to higher derivative sales to clients mainly due to interest rate and oil price volatility.

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

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

A summary of our equity investments follows:

Table 34: Equity Investments Summary

Dollars in millions	June 30 2020	December 31 2019	Change $	Change %
Tax credit investments	$ 2,141	$ 2,218	$ (77)	(3)%
Private equity and other	2,802	2,958	(156)	(5)%
Total	$ 4,943	$ 5,176	$ (233)	(5)%

Tax Credit Investments
Included in our equity investments are direct tax credit investments and equity investments held by consolidated entities. These tax credit investment balances included unfunded commitments totaling $.8 billion and $1.0 billion at June 30, 2020 and December 31, 2019, 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 our2019 Form 10-K has further information on Tax Credit Investments.

Private Equity and Other
The majority of our other equity investments consists of our private equity portfolio. The private equity portfolio is an illiquid portfolio consisting of mezzanine and equity investments that vary by industry, stage and type of investment. Private equity investments carried at estimated fair value totaled $1.4 billion and $1.5 billion at June 30, 2020 and December 31, 2019, respectively. As of June 30, 2020, $1.2 billion was invested directly in a variety of companies and $.2 billion was invested indirectly through various private equity funds. See the Supervision and Regulation section in Item 1 of our 2019 Form 10-K for discussion of the potential impacts of the Volcker Rule provisions of Dodd-Frank on our interests in and other relationships with private funds covered by the Volcker Rule.

Included in our other equity investments are Visa Class B common shares, which are recorded at cost. Visa Class B common shares that we own are transferable only under limited circumstances until they can be converted into shares of the publicly-traded Class A common shares, which cannot happen until the resolution of the pending interchange litigation. Based upon the June 30, 2020 per share closing price of $193.17 for a Visa Class A common share, the estimated value of our total investment in the Class B common shares was approximately $1.1 billion at the current conversion rate of Visa B shares to Visa A shares, while our cost basis was not significant. See Note 6 Fair Value and Note 19 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of our 2019 10-K for additional information regarding our Visa agreements. The estimated value does not represent fair value of the Visa B common shares given the share's limited transferability and the lack of observable transactions in the marketplace.

We also have certain other equity investments, the majority of which represent investments in affiliated and non-affiliated funds with both traditional and alternative investment strategies. Net gains related to these investments were not significant at June 30, 2020 and June 30, 2019.

Financial Derivatives
We use a variety of financial derivatives as part of the overall asset and liability risk management process to help manage exposure to market (primarily interest rate) and credit risk inherent in our business activities. We also enter into derivatives with customers to facilitate their risk management activities.

Financial derivatives involve, to varying degrees, market and credit risk. 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 and an underlying as specified in the contract. 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, Note 6 Fair Value and Note 13 Financial Derivatives in our Notes To Consolidated Financial Statements in our 2019 Form 10-K and in Note 12 Fair Value and Note 13 Financial Derivatives in the Notes To Consolidated Financial Statements in this Report.

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

Recent Regulatory Developments

Since the outbreak of COVID-19, the U.S. Government has taken a wide variety of actions in order to aid businesses and consumers financially impacted by COVID-19, facilitate the orderly functioning of financial markets and assist banking organizations in being able to meet the credit and other banking needs of their customers and communities. The following provides an overview of the most significant recent COVID-related actions affecting U.S. banking organizations, such as PNC. See Item 2 Recent Regulatory Developments and Item 1A Risk Factors in our first quarter 2020 Form 10-Q for a description of the risks presented by COVID-19.

CARES Act Related Developments

In July 2020, President Trump signed an extension of the PPP, which provides forgivable loans to small and medium-sized businesses affected by the pandemic. The extension authorizes the SBA to continue to accept PPP loan applications until August 8, 2020. PNC Bank continues to participate in the PPP with our focus shifting to the loan forgiveness process.

Capital, Capital Planning and Liquidity

In June 2020, the Federal Reserve announced the results of its stress tests for 2020 and additional sensitivity analyses that the agency conducted in light of COVID-19. See the Liquidity and Capital Management portion of the Risk Management section in this Item 2 for a discussion of PNC's results and capital actions. Concurrently, the Federal Reserve announced that it will, among other actions, require banks like PNC to suspend share repurchases (except those to offset the effects of employee benefit plan-related issuances), resubmit their capital plans, and conduct additional stress analyses later this year as economic conditions evolve. These capital distribution limitations will apply for the third quarter of 2020, and may be extended by the Federal Reserve.

In May 2020, the Federal Reserve, Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC) issued an interim final rule that modifies the agencies' LCR rule to support banking organizations' participation in the Federal Reserve's Money Market Mutual Fund Liquidity Facility (MMLF) and the PPP Liquidity Facility (PPPLF). The interim final rule neutralizes the LCR impact associated with the non-recourse funding provided by these facilities. Separately, in June 2020, the FDIC issued a final rule to mitigate the deposit insurance assessment effects of participating in the PPP, the PPPLF, and the MMLF. Among other changes, the final rule removes the effect of participation in the PPP and borrowings under the PPPLF on various risk measures used to calculate the assessment rate of an insured depository institution like PNC Bank, and provides an offset to an insured depository institution's assessment for the increase to its assessment base attributable to participation in the PPP and MMLF. The final rule will be applied to assessments starting in the second quarter of 2020. Similarly, in June 2020, the OCC issued an interim final rule that will reduce assessments due to be paid to the OCC on September 30, 2020. Under the interim final rule, assessments due will be calculated using the lower of the bank's assets on December 31, 2019 or June 30, 2020.

In May 2020, the Federal Reserve, FDIC, and OCC issued an interim final rule that permits depository institutions like PNC Bank to elect to exclude, until March 31, 2021, U.S. Treasury securities and deposits at Federal Reserve Banks from its supplementary leverage exposure for purposes of calculating the institution's supplementary leverage ratio (SLR). If a depository institution elects to exclude these items from its SLR calculation, it must obtain the approval of its primary federal banking regulator before making capital distributions as long as the exclusion is in effect. In light of PNC Bank's strong SLR, PNC Bank has not elected to take advantage of this interim final rule.

In May 2020, the Federal Reserve and FDIC extended, until September 29, 2021, the submission date for the next resolution plans for Category II and Category III organizations, such as PNC, under section 165(d) of the Dodd-Frank Act.

In April 2020, the Federal Reserve announced temporary actions aimed at increasing the availability of intraday credit extended by Federal Reserve Banks on both a collateralized and uncollateralized basis. Among other actions, the Federal Reserve suspended uncollateralized intraday credit limits (net debit caps), waived overdraft fees for institutions that are eligible for the primary credit program, and suspended two collections of information that are used to calculate net debit caps. These temporary actions are currently scheduled to remain in effect until September 30, 2020.

In April 2020, the Federal Reserve also amended Regulation D (reserve requirements for depository institutions) to eliminate the regulatory six-per-month limit on certain types of transfers from the savings deposits, which may result in certain changes to how depository institutions (such as PNC Bank) classify and report deposit balances.

Other Developments

The regulatory agencies also recently finalized a number of non-COVID-19-related rules. For example, in July 2020, the CFPB issued a final rule rescinding the mandatory underwriting provisions of its 2017 payday lending rule that required lenders to make certain underwriting determinations prior to issuing payday and other covered loans, but leaving intact the payments provisions of the 2017 rule. In connection with issuing this final rule, the CFPB also issued a statement indicating that it did not intend to take supervisory or enforcement action to enforce the application of the final rule to loans with an original principal balance that exceeds $58,300.

In June 2020, the Federal Reserve, FDIC, OCC, SEC, and the Commodity Futures Trading Commission (CFTC) finalized a rule modifying the Volcker rule’s prohibition on banking entities investing in or sponsoring hedge funds or private equity funds (referred to under the rule as covered funds). The final rule streamlines several aspects of the covered funds portion of the rule; allows banking organizations to offer and sponsor venture capital funds and a wider array of loan-related funds; and permits banking entities to offer financial services to, and engage in other activities with, covered funds that do not raise concerns that the Volcker rule was intended to address. The final rule will be effective October 1, 2020.

In June 2020, the Federal Reserve, FDIC, OCC, Farm Credit Administration, and the Federal Housing Finance Agency finalized amendments to the swap margin rule. Under the final rule, entities that are part of the same banking organization-like PNC Bank and its affiliates-generally will no longer be required to hold a specific amount of initial margin for uncleared swaps with each other (known as inter-affiliate swaps), unless the aggregate initial margin calculation amount for such swaps exceeds 15 percent of the covered swap entity’s tier 1 capital. Additionally, among other changes, the final rule allows swap entities to amend legacy swaps to replace references to the London Inter-bank Offered Rate (LIBOR) or other reference rates that are expected to be discontinued without triggering margin exchange requirements. Separately, the agencies issued an interim final rule that extends the compliance date under the swap margin rule for entities like PNC to September 1, 2021.

In June 2020, the OCC released a notice of proposed rulemaking (NPR) to update its rules for national bank and federal savings association activities and operations. Among other significant changes, the NPR would incorporate and streamline interpretations addressing permissible derivatives activities and codify interpretations that permit national banks to engage in certain tax equity finance transactions and participate in payment systems. Separately, the OCC also released an advance notice of proposed rulemaking (ANPR) seeking public comment on how the OCC’s rules could be modified to better facilitate the provision of banking products and services through digital means. Comments for the NPR and ANPR are due on August 3, 2020.

With respect to consumer financial protection matters, in June 2020, the Consumer Financial Protection Bureau (CFPB) issued an interim final rule amending its Regulation X to facilitate the offering of COVID-19 related loss mitigation options to mortgage borrowers. The amendments temporarily permit mortgage servicers like PNC Bank to offer certain loss mitigation options without obtaining a complete loss mitigation application. Mortgage servicers may offer such loss mitigation options to borrowers participating in COVID-related payment forbearance programs or experiencing financial hardships due to COVID-19.

In June 2020, the U.S. Supreme Court held that the Dodd-Frank Act provision that allows the President to remove the CFPB’s single director only for inefficiency, neglect, or malfeasance violates the separation of powers in the U.S. Constitution, but otherwise left the structure and powers of the CFPB intact. In response, the CFPB in July 2020 issued a ratification through its now removable-at-will director of the large majority of its existing regulations and certain other regulatory actions taken from January 4, 2012 through June 30, 2020.

In May 2020, the CFPB issued a final rule covering remittance transfers, which allows certain banks and credit unions to continue to provide estimates of the exchange rate and certain remittance fees under certain conditions.

In May 2020, the OCC finalized amendments to its regulations implementing the Community Reinvestment Act (CRA), which requires the agencies to assess a bank’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods. The final rule significantly revamps for national banks like PNC Bank how the OCC defines what qualifies for CRA credit, where such activity must be conducted to receive credit, how CRA performance is measured, and how CRA performance is documented and reported. The final rule is effective October 1, 2020, with a compliance date of January 1, 2023, for PNC Bank. The OCC has indicated it will conduct a future rulemaking to set the quantitative levels of CRA activity that a national bank would have to achieve to receive a Satisfactory or Outstanding CRA rating, either within a particular assessment area or overall.

In May 2020, the OCC finalized a rule to address the legal uncertainty regarding the effect of a transfer on a loan’s permissible interest rate caused by the Second Circuit’s 2015 decision in Madden v. Midland Funding, LLC. The rule clarifies that when a national bank like PNC Bank sells, assigns, or otherwise transfers a loan, interest permissible before the transfer continues to be permissible after the transfer. In June 2020, the FDIC issued a final regulation for state banks that mirrors the OCC’s rule.

Critical Accounting Estimates and Judgments

Note 1 Accounting Policies of our 2019 Form 10-K describes the most significant accounting policies that we use to prepare our consolidated financial statements, including discussion of our policies for the Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit, prior to the adoption of the CECL standard. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements in this Report regarding the impact of new accounting pronouncements, including CECL, that were adopted in the first and second quarters of 2020.

Certain policies require us to make estimates or economic assumptions that may vary under different assumptions or conditions, and such variations may significantly affect our reported results and financial position for the period or in future periods.

The following critical accounting policies and judgments are described in more detail in Critical Accounting Estimates and Judgments in Item 7 of our 2019 Form 10-K:

- Fair Value Measurements
- Residential and Commercial Mortgage Servicing Rights

Allowance for Credit Losses

We maintain the ACL at levels that we believe to be appropriate as of the balance sheet date to absorb expected credit losses on our existing investment securities, loans, finance leases (including residual values), other financial assets and unfunded lending related commitments, for the remaining contractual term of the assets taking into consideration expected prepayments. Our determination of the ACL is based on historical loss experience, borrower characteristics, current economic conditions, reasonable and supportable forecasts of future conditions and other relevant factors. We use methods sensitive to changes in economic conditions, to interpret these factors to estimate expected credit losses. We evaluate and, when appropriate, enhance the quality of our data and models and other methods used to estimate ACL on an ongoing basis. We apply qualitative factors to reflect in the ACL our best estimate of amounts that we do not expect to collect because of, among other things, idiosyncratic risk factors, changes in economic conditions that may not be reflected in forecasted results, or other potential methodology weaknesses. The ACL estimates are therefore susceptible to various factors, including, but not limited to, the following major factors:

- Current economic conditions and borrower quality: Our forecast of expected losses depends on conditions and portfolio quality as of the estimation date. As current conditions evolve, forecasted losses could be materially affected.
- Scenario weights and design: Our loss estimates are sensitive to the shape and severity of macroeconomic forecasts and thus vary significantly between upside and downside scenarios. Change to probability weights assigned to these scenarios and timing of peak business cycles reflected by the scenarios could materially affect our loss estimates.
- Portfolio volume and mix: Changes to portfolio volume and mix could materially affect our estimates, as CECL reserves would be recognized upon origination or acquisition.

For all assets and unfunded lending related commitments within the scope of the CECL standard, the applicable ACL is composed of one or a combination of the following components: (i) collectively assessed or pooled reserves, (ii) individually assessed reserves, and (iii) qualitative (judgmental) reserves. Our methodologies and key assumptions for each of these components are discussed in Note1 Accounting Policies in the Notes To Consolidated Financial Statements of this Report.

Reasonable and Supportable Economic Forecast

Under CECL, we are required to consider reasonable and supportable forecasts in estimating expected credit losses. For this purpose, we have established a framework which includes a three year reasonable and supportable economic forecast period and the use of four economic scenarios with associated probability weights, which in combination create a forecast of expected economic outcomes over our reasonable and supportable forecast period (RSFP). Our RSFP credit loss estimates are sensitive to the shape and severity of the scenarios used and weights assigned to them.

To generate the four economic forecast scenarios we use a combination of quantitative macroeconomic models, other measures of economic activity and forward-looking expert judgment to forecast the distribution of economic outcomes over the RSFP. Each scenario is then given an associated probability (weight) in order to represent our current expectation within that distribution over the RSFP. This process is informed by current economic conditions, expected business cycle evolution and the expert judgment of PNC’s CECL Reserve Adequacy Committee (CECL RAC). This approach seeks to provide a reasonable representation of the forecast of expected economic outcomes and is used to estimate expected credit losses across a variety of loans and securities. Each quarter the scenarios are presented for approval to PNC’s CECL RAC and the committee determines and approves CECL scenarios weights for use for the current reporting period.

The scenarios used for the period ended June 30, 2020 were designed to address the impact of the continuing COVID-19 crisis on the macroeconomic environment, based on our best estimate as of June 30, 2020. We used a number of economic variables, with the largest drivers being GDP and the unemployment rate measures. Using a weighted average of our four economic forecast scenarios, we estimated at June 30, 2020 that annualized GDP contracts 6.2% in the third quarter of 2020, finishing the year down 4.9% from fourth quarter 2019 levels and recovering to pre-recession peak levels by the first quarter of 2022. Additionally, the quarterly unemployment rate falls to 9.5% in the fourth quarter of 2020, from a peak of 13.6% in the second quarter, with the labor market continuing to recover in 2021 and 2022. We believe that the economic assumptions used in the scenarios for the second quarter of 2020 sufficiently reflect the life of loan losses in the current portfolio, and based on these assumptions we do not anticipate any substantial reserve builds related to our current portfolio during the remainder of 2020.

For internal analytical purposes, we considered what our capital ratios would be if we had an ACL at December 31, 2020 equal to the Federal Reserve's estimated nine quarter credit losses for PNC under the 2020 CCAR supervisory severely adverse scenario of $12.1 billion, essentially adding $5.5 billion in reserves over the next two quarters. This analysis resulted in a CET1 ratio of approximately 10.0% at December 31, 2020, a level well above 7.0%, which is our regulatory minimum of 4.5% plus our Stress Capital Buffer of 2.5%. This scenario was not our expectation at June 30, 2020 and does not reflect our current expectation, nor does it capture all the potential unknown variables that would likely arise through the remainder of 2020, but it provides an approximation of a possible outcome under hypothetical severe conditions. The CECL methodology inherently requires a high degree of judgment. As a result, it is possible that we may, at another point in time, reach different conclusions regarding our credit loss estimates. See the following for additional details on the components of our ACL, as well as the methodologies and related assumptions:

- Allowance For Credit Losses in the Credit Risk Management section of this Financial Review, and
- Note 1 Accounting Policies, Note 3 Investment Securities and Note 4 Loans and Related Allowance for Credit Losses in the Notes To Consolidated Financial Statements included in this Report.

Off-Balance Sheet Arrangements And Variable Interest Entities

We engage in a variety of activities that involve entities that are not consolidated or otherwise reflected in our Consolidated Balance Sheet that are generally referred to as off-balance sheet arrangements. Additional information on these types of activities is included in our 2019 Form 10-K and in Note 5 Loan Sale and Servicing Activities and Variable Interest Entities and Note 9 Commitments in the Notes To Consolidated Financial Statements included in this Report.

A summary and further description of variable interest entities (VIEs) is included in Note 1 Accounting Policies and Note 2 Loan Sale and Servicing Activities and Variable Interest Entities in our 2019 Form 10-K.

Trust Preferred Securities

See Note 10 Borrowed Funds in the Notes To Consolidated Financial Statements in our 2019 Form 10-K for additional information on trust preferred securities issued by PNC Capital Trust C including information on contractual limitations potentially imposed on payments (including dividends) with respect to PNC's equity securities.

Internal Controls And Disclosure Controls And Procedures

As of June 30, 2020, we performed an evaluation under the supervision of and with the participation of our management, including the Chairman, President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chairman, President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were effective as of June 30, 2020, and that there has been no change in PNC's internal control over financial reporting that occurred during the second quarter of 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Glossary of Terms

For a glossary of terms commonly used in our filings, please see the glossary of terms updated in our first quarter 2020 Form 10-Q and our 2019 Form 10-K.

Cautionary Statement Regarding Forward-Looking Information

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

Forward-looking statements are necessarily subject to numerous assumptions, risks and uncertainties, which change over time. Future events or circumstances may change our outlook and may also affect the nature of the assumptions, risks and uncertainties to which our forward-looking statements are subject. 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. As a result, we caution against placing undue reliance on any forward-looking statements.

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

- Our businesses, financial results and balance sheet values are affected by business and economic conditions, including the following:
  - Changes in interest rates and valuations in debt, equity and other financial markets.
  - Disruptions in the U.S. and global financial markets.
  - Actions by the Federal Reserve Board, U.S. Treasury and other government agencies, including those that impact money supply and market interest rates.
  - Changes in customer behavior due to changing business and economic conditions or legislative or regulatory initiatives.
  - Changes in customers’, suppliers’ and other counterparties’ performance and creditworthiness.
  - Impacts of tariffs and other trade policies of the U.S. and its global trading partners.
  - The length and extent of economic contraction as a result of the COVID-19 pandemic.
  - Commodity price volatility.
- Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than those we are currently expecting and do not take into account potential legal and regulatory contingencies. These statements are based on our view that:
  - PNC’s baseline economic forecast is for an economic recovery in the second half of 2020 and into 2021, following a very severe but short recession in the first half of 2020. Consumers are increasing their spending and workers are returning to their job sites as states are gradually lifting restrictions on businesses and activities because of the COVID-19 pandemic; fiscal stimulus from the federal government is also supporting economic growth in mid-2020. After a significant contraction in real GDP, steep job losses, and a large increase in the unemployment rate earlier in the second quarter, economic growth has resumed and the labor market is improving.
  - In the baseline forecast, real GDP increases in the third quarter as consumers start to spend again. Fiscal stimulus and extremely low interest rates support the recovery. Real GDP surpasses its pre-recession peak in 2022, and growth is well above its long-term trend through 2023.
  - The baseline forecast assumes that the Federal Open Market Committee keeps the federal funds rate in its current range of 0.00% to 0.25% into 2023.
- Given the many unknowns and potential downside risks, including additional COVID-19 outbreaks, our forward-looking statements are subject to the risk that conditions will be substantially different than we are currently expecting. If efforts to contain COVID-19 are unsuccessful and restrictions on businesses and activities are reimposed or expanded, the economy could fall back into recession. The potential expiration of fiscal stimulus is also a major downside risk. The longer the labor market recovery takes, the more it will damage consumer fundamentals and sentiment. This could make the recovery weaker. Similarly, weak near-term growth could damage business fundamentals. And an extended global recession due to COVID-19 would weaken the U.S. recovery. As a result, the outbreak and its consequences, including responsive measures to manage it, have had and are likely to continue to have an adverse effect, possibly materially, on our business and financial performance by adversely affecting, possibly materially, the demand and profitability of our products and services, the valuation of assets and our ability to meet the needs of our customers.
- PNC’s ability to take certain capital actions, including returning capital to shareholders beginning in the fourth quarter of 2020, is subject to PNC meeting or exceeding a stress capital buffer established by the Federal Reserve Board in connection with the Federal Reserve Board's Comprehensive Capital Analysis and Review (CCAR) process. The Federal Reserve also has imposed limitations on capital distributions in the third quarter of 2020 by CCAR-participating bank holding companies and may extend these limitations, potentially in modified form.
- 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 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 at least in part on the development, validation and regulatory review 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 to laws and regulations, including changes affecting oversight of the financial services industry, consumer protection, bank capital and liquidity standards, pension, bankruptcy and other industry aspects, and changes in accounting policies and principles.
  – Unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries. These matters may result in monetary judgments or settlements or other remedies, including fines, penalties, restitution or alterations in our business practices, and in additional expenses and collateral costs, and may cause reputational harm to 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 systems and controls, third-party insurance, derivatives, and capital management techniques, and to meet evolving regulatory capital and liquidity standards.
- We grow our business in part through acquisitions and new strategic initiatives. Risks and uncertainties include those presented by the nature of the business acquired and strategic initiative, including in some cases those associated with our entry into new businesses or new geographic or other markets and risks resulting from our inexperience in those new areas, as well as risks and uncertainties related to the acquisition transactions themselves, regulatory issues, and the integration of the acquired businesses into PNC after closing.
- Competition can have an impact on customer acquisition, growth and retention and on credit spreads and product pricing, which can affect market share, deposits and revenues. Our ability to anticipate and respond to technological changes can also impact our ability to respond to customer needs and meet competitive demands.
- Business and operating results can also be affected by widespread natural and other disasters, pandemics, dislocations, terrorist activities, system failures, security breaches, cyberattacks or international hostilities through impacts on the economy and financial markets generally or on us or our counterparties specifically.

We provide greater detail regarding these as well as other factors in our 2019 Form 10-K and first quarter 2020 Form 10-Q and elsewhere in this Report, including in the Risk Factors and Risk Management sections and the Legal Proceedings and Commitments Notes of the Notes To Consolidated Financial Statements in these reports. In particular, our forward-looking statements are subject to risks and uncertainties related to the COVID-19 pandemic and the resulting governmental and societal responses. Our forward-looking statements may also be subject to other risks and uncertainties, including those we may discuss elsewhere in this Report or in our other filings with the SEC.