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 2020 Annual Report on Form 10-K (2020 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 2020 Form 10-K; Item 1A Risk Factors included in our 2020 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 2020 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 2020 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 14 Segment Reporting in the Notes To Consolidated Financial Statements included in this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a 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.

See page 95 for a glossary of certain terms and acronyms used in this Report.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data Unaudited	Three months ended March 31 2021	2020
Financial Results (a)		
Revenue		
Net interest income	$ 2,348	$ 2,511
Noninterest income	1,872	1,825
Total revenue	4,220	4,336
Provision for (recapture of) credit losses	(551)	914
Noninterest expense	2,574	2,543
Income from continuing operations before income taxes and noncontrolling interests	$ 2,197	$ 879
Income taxes from continuing operations	371	120
Net income from continuing operations	$ 1,826	$ 759
Income from discontinued operations before taxes		$ 181
Income taxes from discontinued operations		25
Net income from discontinued operations		$ 156
Net income	$ 1,826	$ 915
Less:		
Net income attributable to noncontrolling interests	10	7
Preferred stock dividends (b)	57	63
Preferred stock discount accretion and redemptions	1	1
Net income attributable to common shareholders	$ 1,758	$ 844
Per Common Share		
Basic earnings from continuing operations	$ 4.11	$ 1.59
Basic earnings from discontinued operations		0.37
Total basic earnings	$ 4.11	$ 1.96
Diluted earnings from continuing operations	$ 4.10	$ 1.59
Diluted earnings from discontinued operations		0.36
Total diluted earnings	$ 4.10	$ 1.95
Cash dividends declared per common share	$ 1.15	$ 1.15
Effective tax rate from continuing operations (c)	16.9 %	13.7 %
Performance Ratios		
Net interest margin (d)	2.27 %	2.84 %
Noninterest income to total revenue	44 %	42 %
Efficiency	61 %	59 %
Return on:		
Average common shareholders' equity	14.31 %	7.51 %
Average assets	1.58 %	0.89 %

(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	March 31 2021	December 31 2020	March 31 2020
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$ 474,414	$ 466,679	$ 445,493
Loans	$ 237,013	$ 241,928	$ 264,643
Allowance for loan and lease losses	$ 4,714	$ 5,361	$ 3,944
Interest-earning deposits with banks (b)	$ 86,161	$ 85,173	$ 19,986
Investment securities	$ 98,255	$ 88,799	$ 90,546
Loans held for sale	$ 1,967	$ 1,597	$ 1,693
Equity investments	$ 6,386	$ 6,052	$ 4,694
Asset held for sale (c)			$ 8,511
Mortgage servicing rights	$ 1,680	$ 1,242	$ 1,082
Goodwill	$ 9,317	$ 9,233	$ 9,233
Other assets	$ 30,894	$ 30,999	$ 41,556
Noninterest-bearing deposits	$ 120,641	$ 112,637	$ 81,614
Interest-bearing deposits	$ 254,426	$ 252,708	$ 223,590
Total deposits	$ 375,067	$ 365,345	$ 305,204
Borrowed funds	$ 33,030	$ 37,195	$ 73,399
Allowance for unfunded lending related commitments	$ 507	$ 584	$ 450
Total shareholders' equity	$ 53,849	$ 54,010	$ 49,263
Common shareholders' equity	$ 50,331	$ 50,493	$ 45,269
Accumulated other comprehensive income	$ 1,290	$ 2,770	$ 2,518
Book value per common share	$ 118.47	$ 119.11	$ 106.70
Period-end common shares outstanding (in millions)	425	424	424
Loans to deposits	63 %	66 %	87 %
Common shareholders' equity to total assets	10.6 %	10.8 %	10.2 %
Client Assets (in billions)			
Discretionary client assets under management	$ 173	$ 170	$ 136
Nondiscretionary client assets under administration	161	154	128
Total client assets under administration	334	324	264
Brokerage account client assets	61	59	49
Total client assets	$ 395	$ 383	$ 313
Basel III Capital Ratios (d) (e)			
Common equity Tier 1	12.6 %	12.2 %	9.4 %
Common equity Tier 1 fully implemented (f)	12.3 %	11.8 %	9.2 %
Tier 1 risk-based	13.7 %	13.2 %	10.5 %
Total capital risk-based (g)	16.0 %	15.6 %	12.6 %
Leverage	9.7 %	9.5 %	9.5 %
Supplementary leverage	10.1 %	9.9 %	7.9 %
Asset Quality			
Nonperforming loans to total loans	0.90 %	0.94 %	0.62 %
Nonperforming assets to total loans, OREO and foreclosed assets	0.92 %	0.97 %	0.66 %
Nonperforming assets to total assets	0.46 %	0.50 %	0.39 %
Net charge-offs to average loans (for the three months ended) (annualized)	0.25 %	0.37 %	0.35 %
Allowance for loan and lease losses to total loans	1.99 %	2.22 %	1.49 %
Allowance for credit losses to total loans (h)	2.20 %	2.46 %	1.66 %
Allowance for loan and lease losses to nonperforming loans	220 %	235 %	240 %
Accruing loans past due 90 days or more (in millions)	$ 479	$ 509	$ 534

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

(b) Amounts include balances held with the Federal Reserve Bank of Cleveland (Federal Reserve Bank) of $85.8 billion, $84.9 billion and $19.6 billion as of March 31, 2021, December 31, 2020 and March 31, 2020, respectively.

(c) 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 2 Acquisition and Divestiture Activity in the Notes to Consolidated Financial Statements in Item 1 of this Report for additional details.

(d) 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 2020 Form 10-K.

(e) Ratios are calculated to reflect PNC's election to adopt the CECL optional five-year transition provision, unless noted differently.
(f) The fully implemented CET1 ratio is calculated to reflect the full impact of CECL and excludes the benefits of the five-year transition provision.
(g) The 2021 and 2020 Basel III Total risk-based capital ratios include nonqualifying trust preferred capital securities of $20 million and $40 million, respectively, that are subject to a phase-out period that runs through 2021.
(h) 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 institutions in the 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 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, 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 2020 Form 10-K.

Pending Acquisition of BBVA USA Bancshares, Inc.

On November 16, 2020, PNC announced a definitive agreement with BBVA, S.A. to acquire BBVA, a U.S. financial holding company conducting its business operations primarily through its U.S. banking subsidiary, BBVA USA, for a fixed purchase price of $11.6 billion in cash. BBVA USA has over 600 branches in Texas, Alabama, Arizona, California, Florida, Colorado and New Mexico. The transaction is expected to add approximately $102 billion in total assets, $86 billion of deposits and $66 billion of loans to PNC's Consolidated Balance Sheet and to close in mid-2021, subject to customary closing conditions, including receipt of regulatory approvals. Note 2 Acquisition and Divestiture Activity in the Notes to Consolidated Financial Statements in Item 1 of this Report and our Current Reports on Form 8-K dated November 16, 2020, November 19, 2020 and April 20, 2021 contain additional information regarding this pending acquisition.

Discontinued Operations

In the second quarter of 2020, PNC divested its entire 22.4% equity investment in BlackRock. Net proceeds from the sale were $14.2 billion with an after-tax gain on sale of $4.3 billion. BlackRock's historical results are reported as discontinued operations. For additional details on the divestiture of our equity investment in BlackRock, see Note 2 Acquisition and Divestiture Activity in the Notes to Consolidated Financial Statements in Item 1 of this Report.

Income Statement Highlights

Net income from continuing operations of $1.8 billion, or $4.10 per diluted common share, for the first quarter of 2021 increased $1.1 billion compared to net income from continuing operations of $0.8 billion, or $1.59 per diluted common share, for the first quarter of 2020 primarily due to a provision recapture, driven by improvements in macroeconomic factors and lower loans outstanding.

- Total revenue decreased $116 million, or 3%, to $4.2 billion.
  - Net interest income of $2.3 billion decreased $163 million, or 6%, due to lower yields on earning assets partially offset by lower rates on deposits, higher average earning assets and a decline in borrowing costs and balances.

    - Net interest margin decreased to 2.27% compared to 2.84% for the first quarter of 2020 reflecting the impact of higher balances held with the Federal Reserve Bank and lower yields on securities and loans, partially offset by lower rates on deposits.
  - Noninterest income increased $47 million, or 3%, to $1.9 billion.
- Provision recapture was $551 million for the first quarter of 2021 driven by improvements in macroeconomic factors and lower loans outstanding. Provision for credit losses for securities and other assets was $28 million for the first quarter of 2021.
- Noninterest expense increased $31 million, or 1%, to $2.6 billion, due to higher deferred compensation, partially offset by lower costs associated with business travel and marketing activity.

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 at March 31, 2021 and December 31, 2020. In comparison to December 31, 2020:
- Total assets increased $7.7 billion, or 2%, to $474.4 billion.
- Total loans decreased $4.9 billion, or 2%, to $237.0 billion.
  - Total commercial loans decreased $2.7 billion, or 2%, to $164.5 billion.
    - At March 31, 2021, PNC had $14.0 billion of PPP loans outstanding, $10.1 billion from the first round of PPP and $3.9 billion from the second round.
  - Total consumer loans decreased $2.2 billion, or 3%, to $72.5 billion.
- Investment securities increased $9.5 billion, or 11%, to $98.3 billion, resulting from accelerated purchase activity near the end of the first quarter as the interest rate environment improved. Purchase activity was primarily focused on U.S. Treasury and government agency securities as well as agency residential mortgage-backed securities.
- Interest-earning deposits with banks, primarily with the Federal Reserve Bank, increased $1.0 billion to $86.2 billion.
- Total deposits increased $9.7 billion, or 3%, to $375.1 billion due to higher consumer deposits driven by government stimulus payments.
- Borrowed funds decreased $4.2 billion, or 11%, to $33.0 billion reflecting use of liquidity from deposit growth and lower loans outstanding.

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

Credit Quality Highlights

Credit quality metrics in the first quarter of 2021 reflected improvements in the economic environment.
- At March 31, 2021 compared to December 31, 2020:
  - Nonperforming assets of $2.2 billion decreased $158 million, or 7%, primarily due to lower commercial nonperforming loans, partially offset by higher consumer nonperforming loans.
  - Overall loan delinquencies of $1.1 billion decreased $217 million, or 16%, driven by lower consumer delinquencies primarily in auto and residential real estate loans.
  - The ACL related to loans decreased to $5.2 billion, or 2.20% of total loans, at March 31, 2021 compared to $5.9 billion, or 2.46% of total loans, at December 31, 2020. The decrease was primarily related to improvements in macroeconomic factors and lower loans outstanding in the first quarter.
- Net charge-offs were $146 million, or 0.25% of average loans on an annualized basis, in the first quarter of 2021 compared to $212 million, or 0.35%, for the same quarter of 2020.

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

Capital Highlights

We maintained our strong capital position.
- The CET1 ratio increased to 12.6% at March 31, 2021 from 12.2% at December 31, 2020.
  - Capital benefited from our election of a five-year transition period for CECL's estimated impact on CET1 capital. 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 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 decreased to $50.3 billion at March 31, 2021, compared to $50.5 billion at December 31, 2020.
- In the first quarter of 2021, PNC returned capital to shareholders through dividends on common shares of $0.5 billion.

- On April 1, 2021, the PNC board of directors declared a quarterly cash dividend on common stock of $1.15 per share payable on May 5, 2021.
- During the first quarter PNC refrained from repurchasing shares and expects to continue to do so for the remainder of the period leading up to the close of our pending BBVA transaction. Following the close, PNC expects to resume repurchases in the second half of 2021.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for more detail on our 2021 liquidity and capital actions as well as our capital ratios.

PNC’s ability to take certain capital actions, including returning capital to shareholders, 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 CCAR process. The Federal Reserve also has imposed additional limitations on capital distributions through the second quarter of 2021 by CCAR-participating bank holding companies. 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 and Item 1A Risk Factors of our 2020 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 follows:

- The U.S. economy is in an economic recovery, following a very severe but very short economic contraction in the first half of 2020 due to the COVID-19 pandemic and public health measures to contain it.
- Despite the improvement in the economy since the spring of 2020, economic activity remains below its pre-pandemic level and unemployment remains elevated.
- Growth will pick up in the spring of 2021 as vaccine distribution continues and the federal government provides aid to households, small and medium-sized businesses, and state and local governments. PNC expects real GDP to return to its pre-pandemic level in the third quarter of 2021, and employment in the second half of 2022.
- PNC expects the FOMC to keep the fed funds rate in its current range of 0.00% to 0.25% until at least late 2023.

For the second quarter of 2021 compared to the first quarter of 2021 where appropriate, we expect:

- Average loans to be stable,
- Net interest income to be up approximately 2%,
- Fee income to be up approximately 3% to 5%,
- Other noninterest income to be between $300 million and $350 million,
- Noninterest expense to be stable, and
- Net loan charge-offs to be between $150 million and $200 million.

For the PNC standalone full year 2021, excluding one-time costs related to the BBVA transaction, compared to full year 2020 where appropriate, we expect:

- Average loans to be down approximately 3% to 4%,
- Revenue to be stable,
- Noninterest expense to be stable, and
- The effective tax rate to be 17%.

Assuming a mid-2021 close date and excluding one-time integration costs, we expect the pending BBVA acquisition to be approximately $700 million accretive to PNC’s 2021 pre-tax preprovision net revenue.

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

Consolidated Income Statement Review

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

Net income from continuing operations of $1.8 billion, or $4.10 per diluted common share for the first quarter of 2021 increased $1.1 billion compared to net income from continuing operations of $0.8 billion, or $1.59 per diluted common share, for the first quarter of 2020. The increase was primarily due to a provision recapture, driven by improvements in macroeconomic factors and lower loans outstanding.

Net Interest Income

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

Three months ended March 31 Dollars in millions	2021 Average Balances	2021 Average Yields/ Rates	2021 Interest Income/ Expense	2020 Average Balances	2020 Average Yields/ Rates	2020 Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$ 86,396	1.97 %	$ 426	$ 84,422	2.78 %	$ 588
Loans	238,135	3.38 %	2,006	243,572	4.08 %	2,496
Interest-earning deposits with banks	85,410	0.10 %	21	17,569	1.27 %	56
Other	7,829	2.34 %	45	9,468	3.51 %	82
Total interest-earning assets/interest income	$ 417,770	2.40 %	2,498	$ 355,031	3.62 %	3,222
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$ 252,077	0.06 %	40	$ 215,336	0.70 %	375
Borrowed funds	35,196	1.09 %	95	57,188	2.18 %	314
Total interest-bearing liabilities/interest expense	$ 287,273	0.19 %	135	$ 272,524	1.00 %	689
Net interest margin/income (Non-GAAP)		2.27 %	2,363		2.84 %	2,533
Taxable-equivalent adjustments			(15)			(22)
Net interest income (GAAP)			$ 2,348			$ 2,511

(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 decreased $163 million, or 6%, for the first quarter of 2021 compared to the same period in 2020. The decrease was due to lower yields on earning assets partially offset by lower rates on deposits, higher average earning assets and a decline in borrowing costs and balances. Net interest margin decreased 57 basis points reflecting higher balances held with the Federal Reserve Bank and lower yields on securities and loans, partially offset by lower rates on deposits, lower borrowing costs and balances.

Average investment securities increased $2.0 billion, or 2%. The increase was primarily due to an increase in U.S. treasury and government securities partially offset by lower residential mortgage-backed securities. Average investment securities represented 21% of average interest-earning assets for the first quarter of 2021 compared to 24% for the same period in 2020.

Average loans decreased $5.4 billion, or 2%, primarily due to lower consumer loans, partially offset by higher commercial loans as a result of PPP loan originations. Average loans represented 57% of average interest-earning assets for the first quarter of 2021 compared to 69% for the same period in 2020.

Average interest-earning deposits with banks increased $67.8 billion as average balances held with the Federal Reserve Bank increased due to higher deposits.

Average interest-bearing deposits grew $36.7 billion, or 17% due to overall growth in commercial and consumer liquidity. In total, average interest-bearing deposits increased to 88% of average interest-bearing liabilities compared to 79% for the same period in 2020.

Average borrowed funds decreased $22.0 billion, or 38%, primarily due to a decline in FHLB borrowingsreflecting the use of liquidity from deposit growth.

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 March 31		Change	
Dollars in millions	2021	2020	$	%
Noninterest income				
Asset management	$ 226	$ 201	$ 25	12 %
Consumer services	384	377	7	2 %
Corporate services	555	526	29	6 %
Residential mortgage	105	210	(105)	(50)%
Service charges on deposits	119	168	(49)	(29)%
Other	483	343	140	41 %
Total noninterest income	$ 1,872	$ 1,825	$ 47	3 %

Noninterest income as a percentage of total revenue was 44% for the first quarter of 2021 compared to 42% for the same period in 2020.

Asset management revenue increased due to the impact of higher average equity markets. PNC's discretionary client assets under management increased to $173 billion at March 31, 2021 from $136 billion at March 31, 2020, primarily driven by higher spot equity markets.

Consumer services revenue increased reflecting higher brokerage fees.

Corporate services revenue increased primarily due to higher revenue from commercial mortgage servicing activities, loan commitment fees and treasury management product revenue.

Residential mortgage revenue decreased driven by lower mortgage servicing rights valuation, net of economic hedge.

Service charges on deposits decreased primarily due to lower transaction volumes.

Other noninterest income increased primarily due to higher private equity revenue and capital markets-related revenue, partially offset by lower net securities gains.

Noninterest Expense

Table 4: Noninterest Expense

	Three months ended March 31		Change	
Dollars in millions	2021	2020	$	%
Noninterest expense				
Personnel	$ 1,477	$ 1,369	$ 108	8 %
Occupancy	215	207	8	4 %
Equipment	293	287	6	2 %
Marketing	45	58	(13)	(22)%
Other	544	622	(78)	(13)%
Total noninterest expense	$ 2,574	$ 2,543	$ 31	1 %

The increase in noninterest expense is due to higher personnel expense, reflecting higher deferred compensation and benefits expense, partially offset by lower costs associated with business travel and marketing activity.

Effective Income Tax Rate

The effective income tax rate from continuing operations was 16.9% in the first quarter of 2021 compared to 13.7% in the first quarter of 2020. The increase is primarily due to higher earnings in the first quarter of 2021 and a favorable resolution of certain tax matters in the first quarter of 2020.

Provision For (Recapture of) Credit Losses

Table 5: Provision for (Recapture of) Credit Losses

Dollars in millions	Three months ended March 31 2021	2020
Provision for (recapture of) credit losses		
Loans and leases	$ (502)	$ 952
Unfunded lending related commitments	(77)	(47)
Investment securities	26	
Other financial assets	2	9
Total provision for (recapture of) credit losses	$ (551)	$ 914

The provision recapture for the first quarter of 2021 reflected improvements in macroeconomic factors and lower loans outstanding.

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

Net Income from Discontinued Operations

Net income from discontinued operations was $156 million for the three months ended March 31, 2020. For additional details on the divestiture of our equity investment in BlackRock, see Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements of this Report.

Consolidated Balance Sheet Review

The summarized balance sheet data in Table 6 is based upon our Consolidated Balance Sheet in Part I, Item 1 of this Report.

Table 6: Summarized Balance Sheet Data

Dollars in millions	March 31 2021	December 31 2020	Change $	Change %
Assets				
Interest-earning deposits with banks	$ 86,161	$ 85,173	$ 988	1 %
Loans held for sale	1,967	1,597	370	23 %
Investment securities	98,255	88,799	9,456	11 %
Loans	237,013	241,928	(4,915)	(2)%
Allowance for loan and lease losses	(4,714)	(5,361)	647	12 %
Mortgage servicing rights	1,680	1,242	438	35 %
Goodwill	9,317	9,233	84	1 %
Other	44,735	44,068	667	2 %
Total assets	$ 474,414	$ 466,679	$ 7,735	2 %
Liabilities				
Deposits	$ 375,067	$ 365,345	$ 9,722	3 %
Borrowed funds	33,030	37,195	(4,165)	(11)%
Allowance for unfunded lending related commitments	507	584	(77)	(13)%
Other	11,931	9,514	2,417	25 %
Total liabilities	420,535	412,638	7,897	2 %
Equity				
Total shareholders' equity	53,849	54,010	(161)	—
Noncontrolling interests	30	31	(1)	(3)%
Total equity	53,879	54,041	(162)	—
Total liabilities and equity	$ 474,414	$ 466,679	$ 7,735	2 %

Our balance sheet was strong and well positioned at March 31, 2021 and December 31, 2020.

- Total assets increased as a result of higher investment securities, partially offset by a decrease in loans.
- Total liabilities increased primarily due to deposit growth reflecting customer liquidity accumulation, partially offset by lower borrowed funds.
- Total equity decreased primarily due to lower AOCI and dividends on common and preferred stock, partially offset by higher net income.

The ACL related to loans totaled $5.2 billion at March 31, 2021, a decrease of $0.7 billion since December 31, 2020. The decrease was attributable to lower expected losses within the loan portfolio, resulting in a $0.6 billion provision recapture for credit losses and net charge-offs of $0.1 billion. The provision recapture primarily reflected improvements in macroeconomic factors and lower loans outstanding. See the following for additional information regarding our ACL related to loans:

- Allowance for Credit Losses in the Credit Risk Management section of this Financial Review, 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 20 Regulatory Matters in the Notes To Consolidated Financial Statements included in our 2020 Form 10-K.

Loans

Table 7: Loans

Dollars in millions	March 31 2021	December 31 2020	Change $	Change %
Commercial				
Commercial and industrial	$ 129,798	$ 132,073	$ (2,275)	(2)%
Commercial real estate	28,319	28,716	(397)	(1)%
Equipment lease financing	6,389	6,414	(25)	—
Total commercial	164,506	167,203	(2,697)	(2)%
Consumer				
Home equity	23,493	24,088	(595)	(2)%
Residential real estate	22,418	22,560	(142)	(1)%
Automobile	13,584	14,218	(634)	(4)%
Credit card	5,675	6,215	(540)	(9)%
Education	2,842	2,946	(104)	(4)%
Other consumer	4,495	4,698	(203)	(4)%
Total consumer	72,507	74,725	(2,218)	(3)%
Total loans	$ 237,013	$ 241,928	$ (4,915)	(2)%

Commercial loans decreased reflecting lower utilization of loan commitments and softer loan demand. At March 31, 2021, PNC had $14.0 billion of PPP loans outstanding, $10.1 billion from the first round of PPP and $3.9 billion from the second round. PPP loans outstanding at December 31, 2020 were $12.0 billion.

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.

Total consumer loans declined as paydowns outpaced new originations.

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 4 Loans and Related Allowance for Credit Losses in the Notes To Consolidated Financial Statements included in this Report.

Investment Securities

Investment securities of $98.3 billion at March 31, 2021 increased $9.5 billion, or 11%, compared to December 31, 2020, resulting from accelerated purchase activity near the end of the first quarter as the interest rate environment improved. Purchase activity was primarily focused on U.S. Treasury and government agency securities as well as agency residential mortgage-backed 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 LCR and other internal and external guidelines and constraints.

Table 8: Investment Securities

	March 31, 2021		December 31, 2020		Ratings (a) as of March 31, 2021				
Dollars in millions	Amortized Cost (b)	Fair Value	Amortized Cost (b)	Fair Value	AAA/ AA	A	BBB	BB and Lower	No Rating
U.S. Treasury and government agencies	$ 26,470	$ 26,824	$ 20,616	$ 21,631	100 %				
Agency residential mortgage-backed	50,499	51,554	47,355	48,911	100 %				
Non-agency residential mortgage-backed	1,181	1,424	1,272	1,501	9 %	1 %	2 %	48 %	40 %
Agency commercial mortgage-backed	2,219	2,284	2,571	2,688	100 %				
Non-agency commercial mortgage-backed (c)	4,191	4,236	3,678	3,689	88 %	1 %	1 %	4 %	6 %
Asset-backed (d)	5,969	6,041	5,060	5,150	94 %	1 %		5 %	
Other (e)	5,733	5,995	5,061	5,393	58 %	25 %	15 %		2 %
Total investment securities (f)	$ 96,262	$ 98,358	$ 85,613	$ 88,963	95 %	2 %	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 $108 million and $82 million at March 31, 2021 and December 31, 2020, in accordance with the adoption of the CECL accounting standard.
(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 8 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 3 Investment Securities in the Notes To Consolidated Financial Statements of this Report for additional details regarding the amount of the allowance for investment securities, respectively.

The duration of investment securities was 3.8 years at March 31, 2021. We estimate that at March 31, 2021 the effective duration of investment securities was 4.1 years for an immediate 50 basis points parallel increase in interest rates and 3.5 years for an immediate 50 basis points parallel decrease in interest rates.

Based on expected prepayment speeds, the weighted-average expected maturity of the investment securities portfolio was 4.3 years at March 31, 2021 compared to 3.4 years at December 31, 2020.

Table 9: Weighted-Average Expected Maturities of Mortgage and Asset-Backed Debt Securities

March 31, 2021	Years
Agency residential mortgage-backed	4.2
Non-agency residential mortgage-backed	6.4
Agency commercial mortgage-backed	4.5
Non-agency commercial mortgage-backed	2.3
Asset-backed	2.6

Additional information regarding our investment securities is included in Note 3 Investment Securities and Note 11 Fair Value in the Notes To Consolidated Financial Statements included in this Report.

Funding Sources

Table 10: Details of Funding Sources

Dollars in millions	March 31 2021	December 31 2020	Change $	Change %
Deposits				
Noninterest-bearing	$ 120,641	$ 112,637	$ 8,004	7 %
Interest-bearing				
Money market	55,799	59,737	(3,938)	(7)%
Demand	93,840	92,294	1,546	2 %
Savings	85,974	80,985	4,989	6 %
Time deposits	18,813	19,692	(879)	(4)%
Total interest-bearing deposits	254,426	252,708	1,718	1 %
Total deposits	375,067	365,345	9,722	3 %
Borrowed funds				
Federal Home Loan Bank borrowings	1,500	3,500	(2,000)	(57)%
Bank notes and senior debt	22,139	24,271	(2,132)	(9)%
Subordinated debt	6,241	6,403	(162)	(3)%
Other	3,150	3,021	129	4 %
Total borrowed funds	33,030	37,195	(4,165)	(11)%
Total funding sources	$ 408,097	$ 402,540	$ 5,557	1 %

Total deposits increased reflecting growth in consumer deposits primarily driven by government stimulus payments.

Borrowed funds decreased due to lower bank notes and senior debt as well as lower FHLB borrowings reflecting the use of liquidity from deposit growth.

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 2021 liquidity and capital activities. See Note 10 Borrowed Funds in the Notes to Consolidated Financial Statements in Item 8 of our 2020 Form 10-K for additional information related to our borrowings.

Shareholders' Equity

Total shareholders' equity was $53.8 billion at March 31, 2021, a decrease of $0.2 billion compared to December 31, 2020. The decrease resulted from lower AOCI of $1.5 billion reflecting the impact of higher rates on net unrealized securities gains and common and preferred stock dividends of $0.5 billion, partially offset by net income of $1.8 billion.

During the first quarter, PNC refrained from repurchasing shares and expects to continue to do so for the remainder of the period leading up to the close of our pending BBVA transaction. Following the close, PNC expects to resume repurchases in the second half of 2021.

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 14 Segment Reporting in the Notes To Consolidated Financial Statements included in Item 1 of this Report. Certain amounts included in this Business Segments Review differ from those amounts shown in Note 14, primarily due to the presentation in this Financial Review of business net interest income on a taxable-equivalent basis.

During the second quarter of 2020, we divested our entire 22.4% investment in BlackRock, which had previously been reported as a separate business segment. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements included in Item 1 of this Report for additional information.

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 72 in Note 14 Segment Reporting in the Notes To Consolidated Financial Statements included 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).

Retail Banking

Retail Banking's core strategy is to help all of our consumer and small business customers move financially forward. We aim to grow our primary checking and transaction relationships through strong acquisition and retention. 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 leveraging technology to make banking easier for our customers. 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 are focused on consistently engaging both our employees and customers, which is a strong driver of customer growth, retention and relationship expansion.

Table 11: Retail Banking Table

(Unaudited) Three months ended March 31 Dollars in millions, except as noted	2021	2020	Change $	Change %
Income Statement				
Net interest income	$ 1,362	$ 1,456	$ (94)	(6)%
Noninterest income	654	788	(134)	(17)%
Total revenue	2,016	2,244	(228)	(10)%
Provision for (recapture of) credit losses	(257)	445	(702)	(158)%
Noninterest expense	1,476	1,528	(52)	(3)%
Pretax earnings	797	271	526	194 %
Income taxes	183	62	121	195 %
Noncontrolling interest	7	8	(1)	(13)%
Earnings	$ 607	$ 201	$ 406	202 %
Average Balance Sheet				
Loans held for sale	$ 891	$ 779	$ 112	14 %
Loans				
Consumer				
Home equity	$ 21,833	$ 22,736	$ (903)	(4)%
Residential real estate	17,468	17,964	(496)	(3)%
Automobile	13,890	17,096	(3,206)	(19)%
Credit card	5,819	7,207	(1,388)	(19)%
Education	2,938	3,343	(405)	(12)%
Other consumer	1,898	2,533	(635)	(25)%
Total consumer	63,846	70,879	(7,033)	(10)%
Commercial	13,743	10,524	3,219	31 %
Total loans	$ 77,589	$ 81,403	$ (3,814)	(5)%
Total assets	$ 92,891	$ 97,062	$ (4,171)	(4)%
Deposits				
Noninterest-bearing demand	$ 44,845	$ 32,225	$ 12,620	39 %
Interest-bearing demand	54,269	42,865	11,404	27 %
Money market	24,198	22,866	1,332	6 %
Savings	75,180	62,781	12,399	20 %
Certificates of deposit	9,742	12,233	(2,491)	(20)%
Total deposits	$ 208,234	$ 172,970	$ 35,264	20 %
Performance Ratios				
Return on average assets	2.65 %	0.84 %		
Noninterest income to total revenue	32 %	35 %		
Efficiency	73 %	68 %		

At or for three months ended March 31 Dollars in millions, except as noted	2021	2020	Change $	Change %
Supplemental Noninterest Income Information				
Consumer services	$ 368	$ 372	$ (4)	(1)%
Residential mortgage	$ 105	$ 210	$ (105)	(50)%
Service charges on deposits	$ 119	$ 166	$ (47)	(28)%
Residential Mortgage Information				
Residential mortgage servicing statistics (in billions, except as noted) (a)				
Serviced portfolio balance (b)	$ 117	$ 118	$ (1)	(1)%
Serviced portfolio acquisitions	$ 7	$ 2	$ 5	250 %
MSR asset value (b)	$ 1.0	$ 0.6	$ 0.4	67 %
MSR capitalization value (in basis points) (b)	83	51	32	63 %
Servicing income: (in millions)				
Servicing fees, net (c)	$ 5	$ 44	$ (39)	(89)%
Mortgage servicing rights valuation, net of economic hedge	$ 14	$ 101	$ (87)	(86)%
Residential mortgage loan statistics				
Loan origination volume (in billions)	$ 4.3	$ 3.2	$ 1.1	34 %
Loan sale margin percentage	3.28 %	3.16 %		
Percentage of originations represented by:				
Purchase volume (d)	34 %	36 %		
Refinance volume	66 %	64 %		
Other Information (b)				
Customer-related statistics (average)				
Non-teller deposit transactions (e)	66 %	59 %		
Digital consumer customers (f)	79 %	71 %		
Credit-related statistics				
Nonperforming assets	$ 1,229	$ 1,011	$ 218	22 %
Net charge-offs - loans and leases	$ 108	$ 166	$ (58)	(35)%
Other statistics				
ATMs	8,874	9,048	(174)	(2)%
Branches (g)	2,137	2,277	(140)	(6)%
Brokerage account client assets (in billions) (h)	$ 61	$ 49	$ 12	24 %

(a) Represents mortgage loan servicing balances for third parties and the related income.
(b) Presented as of period end, except for average customer-related statistics and net charge-offs, which are both shown for the three 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) Excludes stand-alone mortgage offices and satellite offices (*e.g.*, drive-ups, electronic branches and retirement centers) that provide limited products and/or services.
(h) Includes cash and money market balances.

Retail Banking earnings for the first quarter of 2021 increased $406 million, or 202%, compared with the first quarter of 2020. The increase was attributable to a provision recapture and lower noninterest expense, partially offset by a decline in total revenue.

Net interest income decreased primarily due to narrower interest rate spreads on the value of deposits and loans, as well as declines in average loan balances, partially offset by growth in average deposit balances.
Noninterest income decreased largely due to declines in residential mortgage revenue, driven by lower revenue from residential mortgage servicing rights valuation, net of economic hedge and lower service charges on deposits driven primarily by lower overdraft instances as a result of higher average deposit account balances due to government stimulus. The decrease in noninterest income was partially offset by the favorable impact of derivative fair value adjustments related to Visa Class B common shares in the first quarter of 2021.

Provision recapture in the first three months of 2021 was driven by improvements in macroeconomic factors and lower loans outstanding.

Noninterest expense decreased primarily as a result of lower customer related transaction costs, personnel, and marketing expenses, partially offset by increased technology investments.

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 three months of 2021, average total deposits increased compared to the same period in 2020 primarily driven by growth in demand and savings deposits which benefited from the impact of government stimulus payments and lower consumer spending due to the pandemic. Savings and demand deposits also increased due, in part, to a shift from money market deposits to relationship-based savings products.

Retail Banking average total loans decreased in the first three months of 2021 compared with the same period in 2020:

- Average auto loan balances declined due to impacts of the pandemic on the auto industry and proactive credit tightening.
- Average credit card balances decreased due to credit tightening actions taken as a result of the pandemic combined with changes in customer behavior resulting in lower consumer spending and higher balance paydowns driven by government stimulus.
- Average home equity loans decreased as paydowns and payoffs exceeded new originated volume.
- Average other consumer loans declined driven by lower originations due to the pandemic and the effects of government stimulus and credit tightening.
- Average residential real estate loans decreased due to paydowns outpacing originations.
- Average education loans decreased driven by a decline in the runoff portfolio of government guaranteed education loans.
- Average commercial loans increased primarily due to PPP loans.

Our national expansion strategy is designed to grow customers with digitally-led banking and a thin branch network in markets outside of our existing retail branch network and began offering our 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 services, beyond deposits and withdrawals. In 2020, we expanded into three new markets, Boston, Houston and Nashville and opened seventeen new solution centers. In the first quarter of 2021 we opened three new solution centers, bringing the total open solution centers to 25 within our existing markets of Boston, Dallas/Fort Worth, Houston, Kansas City and Nashville. We also offer digital unsecured installment and small business loans in the expansion markets. Beginning in mid-2021, we expect the BBVA acquisition will accelerate our Retail National expansion efforts to become a coast-to-coast Retail Bank.

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. In April 2021, we announced our Low Cash Mode℠ Virtual Wallet® feature which will give all Virtual Wallet® customers the ability to avoid unnecessary overdraft fees through real-time intelligent alerts, extra time to prevent or address overdrafts, and controls to choose whether to return certain debits rather than the bank making the decision. During our pre-launch pilot to nearly 20,000 Virtual Wallet® customers, overdraft fees were collectively reduced by more than 60 percent. As a result of these changes, we expect to help Virtual Wallet® customers avoid $125 to $150 million in overdraft fees annually. Our full year 2021 revenue outlook anticipated this fee reduction, and as a result is not impacted by this change. See the Executive Summary section in this Financial Review for additional information on our business outlook.

Retail Banking 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 and as a result have closed 29 branches in the first three months of 2021 consistent with our plan.

- Approximately 79% of consumer customers used non-teller channels for the majority of their transactions in the first three months of 2021 compared with 71% in 2020, in part reflecting consumer transaction behavior changes during the pandemic.
- Deposit transactions via ATM and mobile channels increased to 66% of total deposit transactions in the first three months of 2021 from 59% in 2020, in part reflecting consumer transaction behavior changes during the pandemic.

Retail Banking completed its multi-year initiative to redesign the home lending process, including integrating mortgage and home equity lending into a common platform. Technology enhancements have 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 enhanced product is currently available in 43 states and we are moving toward offering the product in most of the remaining states in 2021. Additional improvements for both mortgage and home equity are planned to continue throughout 2021.

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 12: Corporate & Institutional Banking Table

(Unaudited) Three months ended March 31 Dollars in millions	2021	2020	Change $	Change %
Income Statement				
Net interest income	$ 1,001	$ 966	$ 35	4 %
Noninterest income	807	694	113	16 %
Total revenue	1,808	1,660	148	9 %
Provision for (recapture of) credit losses	(282)	458	(740)	(162)%
Noninterest expense	711	722	(11)	(2)%
Pretax earnings	1,379	480	899	187 %
Income taxes	318	110	208	189 %
Noncontrolling interest	3		3	*
Earnings	$ 1,058	$ 370	$ 688	186 %
Average Balance Sheet				
Loans held for sale	$ 691	$ 395	$ 296	75 %
Loans				
Commercial				
Commercial and industrial	$ 114,944	$ 117,288	$ (2,344)	(2)%
Commercial real estate	27,182	26,589	593	2 %
Equipment lease financing	6,332	7,066	(734)	(10)%
Total commercial	148,458	150,943	(2,485)	(2)%
Consumer	9	9	—	—
Total loans	$ 148,467	$ 150,952	$ (2,485)	(2)%
Total assets	$ 170,531	$ 172,502	$ (1,971)	(1)%
Deposits				
Noninterest-bearing demand	$ 66,666	$ 40,651	$ 26,015	64 %
Interest-bearing demand	28,118	21,101	7,017	33 %
Money market	33,182	28,468	4,714	17 %
Other	8,368	7,868	500	6 %
Total deposits	$ 136,334	$ 98,088	$ 38,246	39 %
Performance Ratios				
Return on average assets	2.52 %	0.87 %		
Noninterest income to total revenue	45 %	42 %		
Efficiency	39 %	43 %		
Other Information				
Consolidated revenue from: (a)				
Treasury Management (b)	$ 494	$ 491	$ 3	1 %
Capital Markets (b)	$ 403	$ 344	$ 59	17 %
Commercial mortgage banking activities:				
Commercial mortgage loans held for sale (c)	$ 30	$ 29	$ 1	3 %
Commercial mortgage loan servicing income (d)	90	69	21	30 %
Commercial mortgage servicing rights valuation, net of economic hedge (e)	17	20	(3)	(15)%
Total	$ 137	$ 118	$ 19	16 %
MSR asset value (f)	$ 702	$ 477	$ 225	47 %
Average Loans by C&IB business				
Corporate Banking	$ 74,459	$ 78,057	$ (3,598)	(5)%
Real Estate	38,395	37,368	1,027	3 %
Business Credit	21,552	23,251	(1,699)	(7)%
Commercial Banking	10,807	7,784	3,023	39 %
Other	3,254	4,492	(1,238)	(28)%
Total average loans	$ 148,467	$ 150,952	$ (2,485)	(2)%
Credit-related statistics				
Nonperforming assets (f)	$ 658	$ 508	$ 150	30 %
Net charge-offs - loans and leases	$ 44	$ 50	$ (6)	(12)%

*- Not Meaningful

(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 March 31.

Corporate & Institutional Banking earnings for the first quarter of 2021 increased $688 million, or 186%, compared with the first quarter of 2020 driven by a provision recapture and higher total revenue.

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

Growth in noninterest income in the comparison reflected broad-based increases in capital markets-related revenue, treasury management product revenue and revenue from commercial mortgage banking activities.

Provision recapture in the first three months of 2021 was driven by improvements in macroeconomic factors and lower loans outstanding.

Nonperforming assets at March 31, 2021 increased over the comparative period of 2020 primarily due to higher nonperforming commercial real estate loans, reflecting the impacts of the pandemic.

Noninterest expense decreased in the comparison and included lower costs associated with business travel.

Average loans decreased compared with the three months ended March 31, 2020 due to declines in Corporate Banking and Business Credit, partially offset by increases in Commercial Banking and Real Estate:

- Corporate Banking provides lending, equipment finance, 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 declined reflecting lower average utilization of loan commitments, partially offset by new production, including PPP loan originations.
- Business Credit provides asset-based lending and equipment financing solutions. The loan and lease portfolio is relatively high yielding, with acceptable risk as the loans are mainly secured by marketable collateral. Average loans for this business declined primarily driven by lower average utilization of loan commitments, partially offset by new production, including PPP loan originations.
- 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, partially offset by lower average utilization of loan commitments and softer new production.
- Real Estate provides banking, financing and servicing solutions for commercial real estate clients across the country. Average loans for this business increased reflecting higher multifamily agency warehouse lending and higher project loans.

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 impacts 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 executed on our expansion plans into the Seattle and Portland markets in 2020, and in 2021, we expect the BBVA acquisition to accelerate our expansion efforts across the Southwest, but this has not changed our strategy regarding our de novo expansion efforts. 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 12 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 three months of 2020, treasury management revenue was relatively unchanged as higher deposit balances and higher noninterest income was mostly offset by narrower interest rate spreads on the value of deposits.

Capital markets-related products and services include foreign exchange, derivatives, fixed income, 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 primarily driven by higher fixed income trading, equity capital market advisory fees and underwriting fees, partially offset by lower customer-related derivative fees.

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 primarily due to higher commercial mortgage servicing income.

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 13: Asset Management Group Table

(Unaudited) Three months ended March 31 Dollars in millions, except as noted	2021	2020	Change $	Change %
Income Statement				
Net interest income	$ 93	$ 88	$ 5	6 %
Noninterest income	229	204	25	12 %
Total revenue	322	292	30	10 %
Provision for (recapture of) credit losses	(9)	3	(12)	*
Noninterest expense	202	219	(17)	(8)%
Pretax earnings	129	70	59	84 %
Income taxes	30	16	14	88 %
Earnings	$ 99	$ 54	$ 45	83 %
Average Balance Sheet				
Loans				
Consumer				
Residential real estate	$ 3,635	$ 2,385	$ 1,250	52 %
Other consumer	4,008	4,052	(44)	(1)%
Total consumer	7,643	6,437	1,206	19 %
Commercial	756	856	(100)	(12)%
Total loans	$ 8,399	$ 7,293	$ 1,106	15 %
Total assets	$ 8,873	$ 7,801	$ 1,072	14 %
Deposits				
Noninterest-bearing demand	$ 1,754	$ 1,468	$ 286	19 %
Interest-bearing demand	9,104	6,850	2,254	33 %
Money market	1,520	1,709	(189)	(11)%
Savings	7,747	7,197	550	8 %
Other	454	847	(393)	(46)%
Total deposits	$ 20,579	$ 18,071	$ 2,508	14 %
Performance Ratios				
Return on average assets	4.52 %	2.81 %		
Noninterest income to total revenue	71 %	70 %		
Efficiency	63 %	75 %		
Supplemental Noninterest Income Information				
Asset management fees	$ 226	$ 201	$ 25	12 %
Other Information				
Nonperforming assets (a)	$ 68	$ 34	$ 34	100 %
Net charge-offs (recoveries) - loans and leases		$ (1)	$ (1)	(100)%
Client Assets Under Administration (in billions) (a) (b)				
Discretionary client assets under management	$ 173	$ 136	$ 37	27 %
Nondiscretionary client assets under administration	161	128	33	26 %
Total	$ 334	$ 264	$ 70	27 %
Discretionary client assets under management				
Personal	$ 110	$ 84	$ 26	31 %
Institutional	63	52	11	21 %
Total	$ 173	$ 136	$ 37	27 %

* - Not meaningful
(a) As of March 31.
(b) Excludes brokerage account client assets.

Asset Management Group earnings for the first quarter of 2021 increased $45 million, or 83%, compared with the first quarter of 2020. The increase was attributable to a provision recapture, higher revenue and lower noninterest expense.

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

The increase in noninterest income was primarily attributable to increases in the average equity markets.

Noninterest expense declined due to intangible asset amortization run-off and lower costs associated with business travel.

Provision recapture in the first three months of 2021 was driven by improvements in macroeconomic factors.

Asset Management Group's discretionary client assets under management increased in comparison to the prior year primarily attributable to the higher equity markets as of March 31, 2021.

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.

Personal Wealth Management has 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 business provides 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.

We expect that the BBVA acquisition will allow meaningful opportunities to grow the Asset Management Group segment by entering into new markets for both the Personal Wealth Management and Institutional Asset Management businesses.

Risk Management

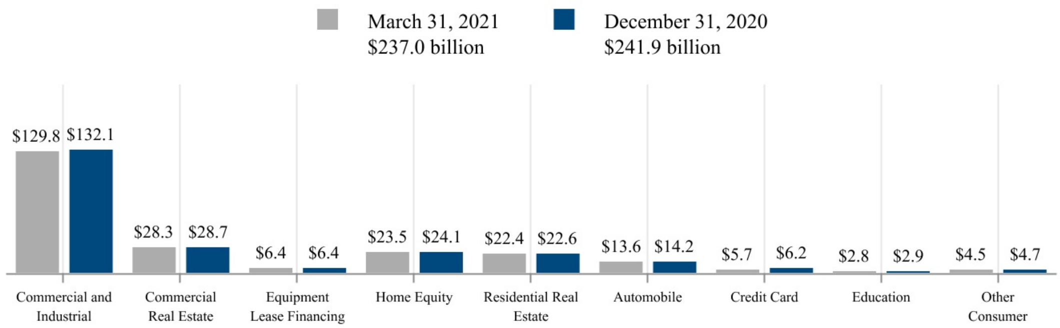
The Risk Management section included in Item 7 of our 2020 Form 10-K describes our enterprise risk management framework including risk culture, enterprise strategy, risk governance and oversight framework, risk identification, risk assessment, risk controls and monitoring, and risk aggregation and reporting. Additionally, our 2020 Form 10-K provides an analysis of the firm's Capital Management and our key areas of risk, which include but are not limited to Credit, Market, Liquidity and Operational (including 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 designed to be 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 14: Details of Loans
In billions



We use several credit quality indicators, as further detailed in Note 4 Loans and Related Allowance for Credit Losses in the Notes To Consolidated Financial Statements in Item 1 of this Report, to monitor and measure our exposure to credit risk within our loan portfolio. The following provides additional information about the significant loan classes that comprise our Commercial and Consumer portfolio segments.

Commercial

Commercial and Industrial
Commercial and industrial loans comprised 55% of our total loan portfolio at both March 31, 2021 and December 31, 2020. 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 PD and 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 NAICS).

Table 15: Commercial and Industrial Loans by Industry

	March 31, 2021		December 31, 2020	
Dollars in millions	Amount	% of Total	Amount	% of Total
Commercial and industrial				
Retail/wholesale trade	$ 20,349	16 %	$ 20,218	15 %
Manufacturing	20,032	15	20,712	16
Service providers	19,403	15	19,419	15
Financial services	13,382	10	14,909	11
Real estate related (a)	13,052	10	13,369	10
Health care	8,741	7	8,987	7
Transportation and warehousing	6,751	5	7,095	5
Other industries	28,088	22	27,364	21
Total commercial and industrial loans	$ 129,798	100 %	$ 132,073	100 %

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

The decrease in commercial and industrial loans compared to December 31, 2020 reflects lower utilization of loan commitments and softer loan demand. Amounts include $14.0 billion of PPP loans outstanding at March 31, 2021, $10.1 billion from the first round of PPP and $3.9 billion from the second round. PPP loans outstanding at December 31, 2020 totaled $12.0 billion. For additional information on PPP lending, see the COVID-19 Relief section within Item I of our 2020 Form 10-K.

See the Commercial High Impact Industries discussion within this Credit Risk Management section 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 $17.0 billion related to commercial mortgages, $6.5 billion of real estate project loans and $4.8 billion of intermediate term financing loans as of March 31, 2021. Comparable amounts as of December 31, 2020 were $17.3 billion, $6.3 billion and $5.1 billion, respectively.

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 16: Commercial Real Estate Loans by Geography and Property Type

	March 31, 2021		December 31, 2020	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography (a)				
California	$ 4,367	15 %	$ 4,458	16 %
Florida	2,954	10	2,991	10
Texas	1,977	7	2,031	7
Maryland	1,741	6	1,770	6
Virginia	1,571	6	1,586	6
Pennsylvania	1,410	5	1,425	5
Ohio	1,190	4	1,247	4
New Jersey	1,051	4	1,117	4
Illinois	895	3	900	3
North Carolina	805	3	851	3
Other	10,358	37	10,340	36
Total commercial real estate loans	$ 28,319	100 %	$ 28,716	100 %
Property Type				
Multifamily	$ 9,683	34 %	$ 9,617	33 %
Office	7,546	27	7,691	27
Retail	3,308	12	3,490	12
Industrial/warehouse	1,952	7	1,999	7
Hotel/motel	1,900	7	1,954	7
Seniors housing	1,434	5	1,417	5
Mixed use	805	3	835	3
Other	1,691	5	1,713	6
Total commercial real estate loans	$ 28,319	100 %	$ 28,716	100 %

(a) Presented in descending order based on loan balances at March 31, 2021.

Commercial High Impact Industries

In light of the economic circumstances related to COVID-19, we are continuing to evaluate and monitor our entire commercial portfolio for elevated levels of credit risk; however, the industry sectors that have been and we believe will continue to be most likely 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
    - Seniors housing: assisted living, independent living

As of March 31, 2021, our outstanding loan balances in these industries totaled $17.1 billion, or approximately 7% of our total loan portfolio, while additional unfunded loan commitments totaled $11.0 billion. We continue to carefully monitor and manage these loans, and while we have not yet experienced material charge-offs in these industries, we do expect to see continued stress.

In our non-real estate related category we have $9.9 billion in loans outstanding, $2.6 billion of which are funded through the PPP and guaranteed by the SBA. Nonperforming loans in these industries totaled $0.1 billion, or 1% of total loans outstanding in the non-real estate related category, while criticized assets totaled $1.3 billion at March 31, 2021 with the greatest stress seen in the leisure recreation and leisure travel sectors.

Within the real estate related category we have $7.2 billion in loans outstanding, which includes real estate projects of $4.8 billion and unsecured real estate of $2.4 billion. Nonperforming loans in these industries totaled $0.1 billion at March 31, 2021, or 1% of total loans outstanding in the commercial real estate related category, driven primarily by one real estate investment trust. 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 March 31, 2021, our outstanding loans in the oil and gas sector totaled $3.0 billion, or 1.0% of total loans.This portfolio comprised approximately $1.3 billion in the midstream and downstream sectors, $0.9 billion of oil services companies and $0.8 billion related to exploration and production companies. Of the oil services category, approximately $0.2 billion is not asset-based or investment grade. Nonperforming loans in the oil and gas sector as of March 31, 2021 totaled $0.1 billion, or 3% of total loans outstanding in this sector. Additional unfunded loan commitments for the oil and gas portfolio totaled $7.2 billion at March 31, 2021.

Consumer

Home Equity
Home equity loans comprised $12.6 billion of primarily variable-rate home equity lines of credit and $10.9 billion of closed-end home equity installment loans at March 31, 2021. Comparable amounts were $12.6 billion and $11.5 billion, as of December 31, 2020, respectively.

We track borrower performance monthly, including obtaining original LTVs and updated FICO scores, LTVs and other credit metrics at least quarterly, including the historical performance of any related mortgage loans regardless of whether we hold the lien. 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). This information is used for internal reporting and risk management. 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.

Newly originated loans over the last twelve months had a weighted-average LTV on originations of 66% and a weighted-average FICO score of 779.

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 17: Home Equity Loans by Geography and by Lien Type

	March 31, 2021		December 31, 2020	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography (a)				
Pennsylvania	$ 5,416	23 %	$ 5,602	23 %
New Jersey	3,340	14	3,462	14
Ohio	2,647	11	2,753	11
Florida	1,520	6	1,536	6
Michigan	1,350	6	1,398	6
Illinois	1,346	6	1,411	6
Maryland	1,297	6	1,332	6
North Carolina	1,011	4	1,043	4
Kentucky	875	4	922	4
Indiana	779	3	813	3
Other	3,912	17	3,816	17
Total home equity loans	$ 23,493	100 %	$ 24,088	100 %
Lien type				
1st lien		64 %		63 %
2nd lien		36		37
Total		100 %		100 %

(a) Presented in descending order based on loan balances at March 31, 2021.

<u>*Residential Real Estate*</u>
Residential real estate loans primarily consisted of residential mortgage loans at both March 31, 2021 and December 31, 2020.

We track borrower performance of this portfolio monthly similarly to home equity loans. We also segment the mortgage portfolio into pools based on product type (*e.g.*, nonconforming, conforming). This information is used for internal reporting and risk management. 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.

Newly originated loans that we retained on our balance sheet over the last twelve months had a weighted-average LTV on originations of 67% and a weighted-average FICO score of 777.

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

Table 18: Residential Real Estate Loans by Geography

	March 31, 2021		December 31, 2020	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography (a)				
California	$ 7,846	35 %	$ 7,828	35 %
Florida	1,604	7	1,620	7
New Jersey	1,565	7	1,635	7
Washington	1,160	5	1,104	5
New York	1,042	5	1,020	5
Illinois	1,014	5	1,039	5
Pennsylvania	1,005	4	1,036	5
Maryland	839	4	857	4
Virginia	839	4	864	4
North Carolina	786	4	796	4
Other	4,718	20	4,761	19
Total residential real estate loans	$ 22,418	100 %	$ 22,560	100 %

(a) Presented in descending order based on loan balances at March 31, 2021.

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 at March 31, 2021 had an average original LTV of 68% and an average original FICO score of 776. Our portfolio of originated nonconforming residential mortgage loans totaled $17.9 billion at March 31, 2021 with 41% located in California.

Automobile
Auto loans comprised $12.2 billion in the indirect auto portfolio and $1.4 billion in the direct auto portfolio as of March 31, 2021. Comparable amounts as of December 31, 2020 were $12.7 billion and $1.5 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.

The following table presents certain key statistics related to our indirect and direct auto portfolios:

Table 19: Auto Loan Key Statistics

	March 31, 2021	December 31, 2020
Weighted-average loan origination FICO score (a)		
Indirect auto	793	784
Direct auto	769	768
Weighted-average term of loan originations - in months (a)		
Indirect auto	71	72
Direct auto	62	62

(a) Weighted-averages calculated for the twelve months ended March 31, 2021 and December 31, 2020, respectively.

We continue to focus on borrowers with strong credit profiles as evidenced by the weighted-average loan origination FICO scores noted in Table 19. We offer both new and used auto financing to customers through our various channels. The portfolio balance was composed of 56% new vehicle loans and 44% used vehicle loans at both March 31, 2021 and December 31, 2020.

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 TDRs and PCD loans, 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. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Item 8 of our 2020 Form 10-K for details on our nonaccrual policies.

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

Table 20: Nonperforming Assets by Type

Dollars in millions	March 31, 2021	December 31, 2020	Change $	Change %
Nonperforming loans				
Commercial	$ 749	$ 923	$ (174)	(19)%
Consumer (a)	1,389	1,363	26	2 %
Total nonperforming loans	2,138	2,286	(148)	(6)%
OREO and foreclosed assets	41	51	(10)	(20)%
Total nonperforming assets	$ 2,179	$ 2,337	$ (158)	(7)%
TDRs included in nonperforming loans	$ 870	$ 902	$ (32)	(4)%
Percentage of total nonperforming loans	41 %	39 %		
Nonperforming loans to total loans	0.90 %	0.94 %		
Nonperforming assets to total loans, OREO and foreclosed assets	0.92 %	0.97 %		
Nonperforming assets to total assets	0.46 %	0.50 %		
Allowance for loan and lease losses to nonperforming loans	220 %	235 %		

(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.

The decrease in nonperforming assets at March 31, 2021 was primarily attributable to lower nonperforming commercial loans, partially offset by higher consumer nonperforming loans in the residential real estate and home equity loan classes. See the discussion 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 three months ended March 31, 2021 and 2020:

Table 21: Change in Nonperforming Assets

In millions	2021	2020
January 1	$ 2,337	$ 1,752
New nonperforming assets	249	391
Charge-offs and valuation adjustments	(70)	(145)
Principal activity, including paydowns and payoffs	(186)	(158)
Asset sales and transfers to loans held for sale	(86)	(20)
Returned to performing status	(65)	(65)
March 31	$ 2,179	$ 1,755

As of March 31, 2021 approximately 97% of total nonperforming loans were secured by collateral which lessened reserve requirements and is expected to reduce credit losses. As of March 31, 2021, commercial nonperforming loans were carried at approximately 75% of their unpaid principal balance, due to charge-offs and interest applied to principal, before consideration of the ALLL.

Within consumer nonperforming loans, residential real estate TDRs comprised 46% of total residential real estate nonperforming loans while home equity TDRs comprised 40% of home equity nonperforming loans at March 31, 2021. Comparable amounts at December 31, 2020 were 47% and 41%, 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 March 31, 2021, our largest nonperforming asset was $141 million in the Real Estate and Rental and Leasing industry and the ten largest individual nonperforming assets represented 17% 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 PCD loans. Amounts exclude loans held for sale.

Pursuant to the interagency guidance issued in April 2020 and in connection with the credit reporting rules from the CARES Act, the March 31, 2021 and December 31, 2020 delinquency status of loans modified due to COVID-19 related hardships aligns 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:

- if current at the time of modification, the loan remains current throughout the modification period,
- if delinquent at the time of modification and the borrower was not made current as part of the modification, the loan maintains its reported delinquent status during the modification period, or
- 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 March 31, 2021 and December 31, 2020 based on the contractual terms of the loan, even where borrowers may not be making payments on their loans during the modification period. Loan modifications due to COVID-19 related hardships that permanently reduce either the contractual interest rate or the principal balance of a loan do not qualify for TDR relief under the CARES Act or the interagency guidance. See the COVID-19 Relief section in Item 1 of our 2020 Form 10-K for more information on the CARES Act and the related interagency guidance.

Table 22: Accruing Loans Past Due (a)

	Amount		Change		% of Total Loans Outstanding	
Dollars in millions	March 31 2021	December 31 2020	$	%	March 31 2021	December 31 2020
Early stage loan delinquencies						
Accruing loans past due 30 to 59 days	$ 485	$ 620	$ (135)	(22)%	0.20 %	0.26 %
Accruing loans past due 60 to 89 days	182	234	(52)	(22)%	0.08 %	0.10 %
Total early stage loan delinquencies	667	854	(187)	(22)%	0.28 %	0.35 %
Late stage loan delinquencies						
Accruing loans past due 90 days or more	479	509	(30)	(6)%	0.20 %	0.21 %
Total accruing loans past due	$ 1,146	$ 1,363	$ (217)	(16)%	0.48 %	0.56 %

(a) Past due loan amounts include government insured or guaranteed loans of $0.6 billion at both March 31, 2021 and December 31, 2020.

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 have been restructured but that meet certain criteria under the CARES Act are not categorized as TDRs. For additional information on the CARES Act, including TDR treatment under the CARES Act and interagency guidance, see the COVID-19 Relief section within Item 1 of our 2020 Form 10-K.

The following table provides a summary of Troubled Debt Restructurings at March 31, 2021 and December 31, 2020, respectively:

Table 23: Summary of Troubled Debt Restructurings (a)

Dollars in millions	March 31 2021	December 31 2020	Change $	Change %
Commercial	$ 500	$ 528	$ (28)	(5) %
Consumer	1,072	1,116	(44)	(4) %
Total TDRs	$ 1,572	$ 1,644	$ (72)	(4) %
Nonperforming	$ 870	$ 902	$ (32)	(4) %
Accruing (b)	702	742	(40)	(5) %
Total TDRs	$ 1,572	$ 1,644	$ (72)	(4) %

(a) Amounts in table do not include associated valuation allowances.
(b) Accruing loans include consumer credit card loans and certain 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 41% of total nonperforming loans and 55% of total TDRs at March 31, 2021. Comparable amounts at December 31, 2020 were 39% and 55%, 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 4 Loans and Related Allowance for Credit Losses in the Notes to Consolidated Financial Statements included in Item 1 of this Report for additional information on TDRs.

Loan Modifications
During the first quarter of 2021, PNC continued to provide relief to our customers from the economic impacts of COVID-19 through a variety of solutions, including additional grants and extensions of loan and lease modifications under our hardship relief programs. We continued to see a reduction in the number of customers in active assistance from the peak in the summer of 2020, which led to additional declines in loans under modification that present credit risk to PNC at March 31, 2021.

The impact of these modifications was considered within the quarterly reserve determination. See the Allowance for Credit Losses discussion within the Critical Accounting Estimates and Judgments section of this Financial Review for additional information. Refer to the Loan Delinquencies discussion in this Credit Risk Management section for information on how these hardship related loan modifications are reported from a delinquency perspective as of March 31, 2021.

Under the CARES Act, loan modifications meeting certain criteria qualify the loan for relief from TDR treatment. Loans that do not meet the criteria for TDR relief under the CARES Act may also be evaluated under interagency guidance. For additional information on this criteria, see the Loan Modifications discussion in the Credit Risk Management section within Item 7 of our 2020 Form 10-K.

Consumer Loan Modifications Under Hardship Relief Programs
Our consumer loan modification programs are being granted in response to customer hardships that extended beyond the initial relief period. These loan and line modifications include all hardship related modifications. See the Loan Modifications discussion within Credit Risk Management in Item 7 of our 2020 Form 10-K for additional details.

The following table provides a summary of consumer accounts in active assistance under hardship relief programs that were on our balance sheet at March 31, 2021. Excluded from Table 24 are government insured or guaranteed loans totaling $444 million and $282 million in the Residential real estate and Education loans classes, respectively. These loans present minimal credit risk to PNC.

Table 24: Consumer Loans in Active Hardship Relief Programs (a) (b)

As of March 31, 2021 - Dollars in millions	Number of Accounts	Unpaid Principal Balance	% of Loan Class (c)	% Making Payment in Last Payment Cycle
Consumer				
Home equity	1,031	$ 84	0.4 %	69.0 %
Residential real estate	2,080	540	2.4 %	26.0 %
Automobile	4,218	105	0.8 %	70.7 %
Credit card	9,107	60	1.1 %	72.4 %
Education	4,219	64	2.3 %	62.1 %
Other consumer	1,244	16	0.4 %	74.8 %
Total consumer (d)	21,899	$ 869	1.2 %	67.9 %

(a) In cases where there have been multiple modifications on an individual loan, regardless of the number of modifications granted, each loan is counted only once in this table.
(b) Amounts include loan modifications that qualify for TDR accounting totaling $145 million.
(c) Based on total loans outstanding at March 31, 2021.
(d) Approximately 84% of these loan balances were secured by collateral at March 31, 2021.

Modifications are considered to have exited active assistance after the modification period has expired or the modification was exited. As of March 31, 2021, approximately 97% of the accruing consumer loans that have exited hardship relief program modifications were current or less than 30 days past due.

See the Credit Risk Management section within Item 7 of our 2020 Form 10-K for information on the TDR impacts of our modification programs.

Allowance for Credit Losses

Our ACL is based on historical loss experience, current borrower risk 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, equipment finance leases (including residual values), other financial assets and unfunded lending related commitments 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.

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Item 8 of our 2020 Form 10-K and the Credit Risk Management section within Item 7 of our 2020 Form 10-K for additional discussion of our ACL, including details of our methodologies. 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 as of March 31, 2021.

The following table summarizes our allowance for credit losses by loan class:

Table 25: Allowance for Credit Losses by Loan Class (a)

	March 31, 2021			December 31, 2020		
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	$ 1,815	$ 129,798	1.40 %	$ 2,300	$ 132,073	1.74 %
Commercial real estate	1,126	28,319	3.98 %	880	28,716	3.06 %
Equipment lease financing	142	6,389	2.22 %	157	6,414	2.45 %
Total commercial	3,083	164,506	1.87 %	3,337	167,203	2.00 %
Consumer						
Home equity	239	23,493	1.02 %	313	24,088	1.30 %
Residential real estate	(17)	22,418	(0.08)%	28	22,560	0.12 %
Automobile	344	13,584	2.53 %	379	14,218	2.67 %
Credit card	693	5,675	12.21 %	816	6,215	13.13 %
Education	112	2,842	3.94 %	129	2,946	4.38 %
Other consumer	260	4,495	5.78 %	359	4,698	7.64 %
Total consumer	1,631	72,507	2.25 %	2,024	74,725	2.71 %
Total	4,714	$ 237,013	1.99 %	5,361	$ 241,928	2.22 %
Allowance for unfunded lending related commitments	507			584		
Allowance for credit losses	$ 5,221			$ 5,945		
Allowance for credit losses to total loans			2.20 %			2.46 %
Commercial			2.12 %			2.29 %
Consumer			2.39 %			2.84 %

(a) Excludes allowances for investment securities and other financial assets, which together totaled $136 million and $109 million at March 31, 2021 and December 31, 2020, respectively.

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

Table 26: Loan Charge-Offs and Recoveries

Three months ended March 31 Dollars in millions	Gross Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	% of Average Loans (Annualized)
2021				
Commercial				
Commercial and industrial	$ 59	$ 14	$ 45	0.14 %
Commercial real estate	5	1	4	0.06 %
Equipment lease financing	5	3	2	0.13 %
Total commercial	69	18	51	0.13 %
Consumer				
Home equity	7	17	(10)	(0.17) %
Residential real estate	4	5	(1)	(0.02) %
Automobile	52	38	14	0.41 %
Credit card	69	12	57	3.97 %
Education	5	2	3	0.41 %
Other consumer	37	5	32	2.84 %
Total consumer	174	79	95	0.53 %
Total	$ 243	$ 97	$ 146	0.25 %
2020				
Commercial				
Commercial and industrial	$ 78	$ 18	$ 60	0.19 %
Commercial real estate		4	(4)	(0.06) %
Equipment lease financing	5	2	3	0.17 %
Total commercial	83	24	59	0.14 %
Consumer				
Home equity	11	14	(3)	(0.05) %
Residential real estate	2	4	(2)	(0.04) %
Automobile	84	35	49	1.15 %
Credit card	78	8	70	3.90 %
Education	6	2	4	0.48 %
Other consumer	40	5	35	2.83 %
Total consumer	221	68	153	0.77 %
Total	$ 304	$ 92	$ 212	0.35 %

Total net charge-offs decreased $66 million, or 31%, for the first three months of 2021 compared to the same period in 2020, primarily driven by decreases in the commercial and industrial, automobile, and credit card loan classes.

See Note 1 Accounting Policies in the Notes to Consolidated Financial Statements included in Item 8 of our 2020 Form 10-K and Note 4 Loans and Related Allowance for Credit Losses in the Notes To Consolidated Financial Statements in Item 1 of 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 2020 Form 10-K.

One of the ways we monitor our liquidity is by reference to the 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 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 March 31, 2021, 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 2020 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 $375.1 billion at March 31, 2021 from $365.3 billion at December 31, 2020, driven by growth in both noninterest-bearing and interest-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 March 31, 2021, 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 $96.0 billion and securities available for sale totaling $96.8 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 $21.7 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, $0.1 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 the Funding Sources section of the Consolidated Balance Sheet Review in this Report and Note 10 Borrowed Funds in Item 8 of our 2020 Form 10-K for additional information related to our borrowings.

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

Table 27: Senior and Subordinated Debt

In billions		2021
January 1	$	30.7
Issuances		
Calls and maturities		(1.7)
Other		(0.6)
March 31	$	28.4

Bank Liquidity

Under PNC Bank's 2014 bank note program, as amended, PNC Bank may from time to time offer up to $40.0 billion aggregate principal amount outstanding at any one time of its unsecured senior and subordinated notes with maturity dates more than nine months (in the case of senior notes) and five years or more (in the case of subordinated notes) from their date of issue. At March 31, 2021, PNC Bank had $17.6 billion of notes outstanding under this program of which $12.6 billion were senior bank notes and $5.0 billion were subordinated bank notes.

On March 30, 2021, PNC Bank redeemed $1.25 billion of outstanding Senior Notes with an original scheduled maturity date of April 29, 2021. The securities had a distribution rate of 2.150%. The redemption price was equal to $1,000 per $1,000 in principal amount, plus any accrued and unpaid distributions to the redemption date of March 30, 2021.

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 March 31, 2021, our unused secured borrowing capacity at the FHLB-Pittsburgh and the Federal Reserve Bank totaled $81.8 billion. In March 2021, the Federal Reserve extended its PPP Liquidity Facility to June 30, 2021. For additional information on this special liquidity facility see the Recent Regulatory Developments section of this Report.

PNC Bank has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. As of March 31, 2021, there were no issuances outstanding under this program.

Additionally, PNC Bank may also access funding from the parent company through deposits placed at the bank, or through issuing senior unsecured notes.

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 March 31, 2021, available parent company liquidity totaled $14.2 billion. Parent company liquidity is primarily held in intercompany cash. Investments with longer durations may also be acquired, and 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 $2.2 billion at March 31, 2021. See Note 20 Regulatory Matters in the Notes To Consolidated Financial Statements in our 2020 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 March 31, 2021, 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. See Note 16 Subsequent Events for information on the April 2021 issuance of $1.0 billion of senior notes by the parent company.

Parent company senior and subordinated debt outstanding totaled $10.2 billion and $10.6 billion at March 31, 2021 and December 31, 2020, respectively.

PNC will use approximately $11.6 billion of parent company cash to acquire BBVA.

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 2020 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 8 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.

The following table presents credit ratings for PNC and PNC Bank as of March 31, 2021:

Table 28: Credit Ratings for PNC and PNC Bank

	March 31, 2021		
	Moody's	Standard & Poor's	Fitch
PNC			
Senior debt	A3	A-	A
Subordinated debt	A3	BBB+	A-
Preferred stock	Baa2	BBB-	BBB
PNC Bank			
Senior debt	A2	A	A+
Subordinated debt	A3	A-	A
Long-term deposits	Aa2	A	AA-
Short-term deposits	P-1	A-1	F1+
Short-term notes	P-1	A-1	F1

Capital Management

Detailed information on our capital management processes and activities, including additional information on our previous CCAR submissions and capital plans, is included in the Capital Management portion of the Risk Management section in our 2020 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.

We paid dividends on common stock of $0.5 billion during the first quarter of 2021.On April 1, 2021, the PNC board of directors declared a quarterly cash dividend on common stock of $1.15 per share payable on May 5, 2021.

During the first quarter, we refrained from repurchasing shares and expect to continue to do so for the remainder of the period leading up to the close of our pending BBVA transaction. Following the close, we expect to resume repurchases in the second half of 2021.

The Federal Reserve has also imposed special limitations on dividends and share repurchases by CCAR-participating BHCs. These restrictions limit increases in dividends and generally restrict dividends and share repurchases to an amount based on income over the past year. For a firm with capital levels above those required by the current round of stress tests, these restrictions will end on June 30, 2021. Firms that fall below any of their minimum risk-based requirements in the stress tests will remain subject to the additional restrictions for three extra months, through September 30, 2021.

Table 29: Basel III Capital

Dollars in millions	March 31, 2021 Basel III (a)	March 31, 2021 Fully Implemented (estimated) (b)
Common equity Tier 1 capital		
Common stock plus related surplus, net of treasury stock	$ 927	$ 927
Retained earnings	$ 49,168	$ 48,113
Goodwill, net of associated deferred tax liabilities	$ (9,109)	$ (9,109)
Other disallowed intangibles, net of deferred tax liabilities	$ (191)	$ (191)
Other adjustments/(deductions)	$ (36)	$ (42)
Common equity Tier 1 capital	$ 40,759	$ 39,698
Additional Tier 1 capital		
Preferred stock plus related surplus	$ 3,518	$ 3,518
Tier 1 capital	$ 44,277	$ 43,216
Additional Tier 2 capital		
Qualifying subordinated debt	$ 3,498	$ 3,498
Trust preferred capital securities	$ 20	
Eligible credit reserves includable in Tier 2 capital	$ 4,019	$ 4,019
Total Basel III capital	$ 51,814	$ 50,733
Risk-weighted assets		
Basel III standardized approach risk-weighted assets (c)	$ 323,630	$ 322,649
Average quarterly adjusted total assets	$ 457,588	$ 456,526
Supplementary leverage exposure (d)	$ 437,601	$ 546,241
Basel III risk-based capital and leverage ratios (a)(e)		
Common equity Tier 1	12.6 %	12.3 %
Tier 1	13.7 %	13.4 %
Total (f)	16.0 %	15.7 %
Leverage (g)	9.7 %	9.5 %
Supplementary leverage ratio (d)	10.1 %	7.9 %

(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 the expiration of the final SLR rule that temporarily revised the calculation of supplementary leverage exposure (the denominator of the SLR).
(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 March 31, 2021, the BHC's Supplementary leverage exposure and Supplementary leverage ratio reflects the temporary exclusions of U.S. Treasury securities and deposits at Federal Reserve Banks. The Supplementary leverage ratio is calculated based on Tier 1 capital divided by Supplementary leverage exposure, which takes into account both on balance sheets assets as well as certain off-balance sheet items, including loan commitments and potential future exposure under derivative contracts.
(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 $20 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.

PNC's regulatory risk-based capital ratios 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, nonaccruals, TDRs, past due exposures and equity exposures are generally subject to higher risk weights than other types of exposures.

The regulatory agencies have adopted a 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 as of March 31, 2020. See additional discussion of this rule in the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors of our 2020 Form 10-K.

In response to the economic conditions caused by the pandemic, the Federal Reserve has adopted a final rule that revises, on a temporary basis, the calculation of supplementary leverage exposure (the denominator of the SLR) by BHCs 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 remained in effect through March 31, 2021. The OCC also has permitted national banks to exclude such on-balance sheet amounts from the bank's supplementary leverage exposure, provided the bank agrees to obtain OCC approval of capital distributions during the effective period of the exclusion. PNC Bank has not elected to take advantage of this OCC rule.

At March 31, 2021, 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%.

Federal banking regulators have stated that they expect the largest U.S. 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 March 31, 2021 capital levels were aligned with them.

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 20 Regulatory Matters in the Notes To Consolidated Financial Statements in Item 8 of our 2020 Form 10-K.

Market Risk Management

See the Market Risk Management portion of the Risk Management Section in our 2020 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 first quarter of 2021 and 2020 follow.

Table 30: Interest Sensitivity Analysis

	First Quarter 2021	First Quarter 2020
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	4.8 %	1.4 %
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	12.1 %	6.1 %
Key Period-End Interest Rates		
One-month LIBOR	0.11 %	0.99 %
Three-month LIBOR	0.19 %	1.45 %
Three-year swap	0.51 %	0.46 %

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

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

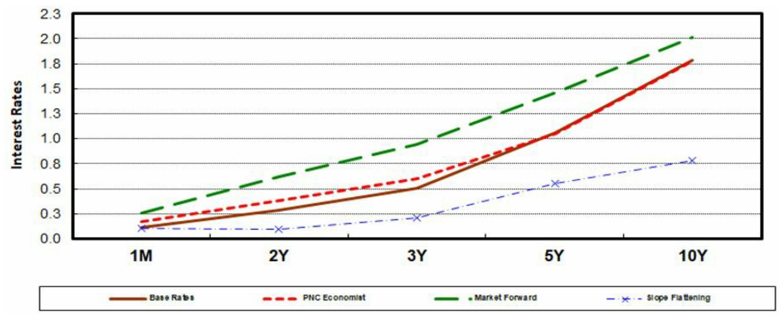
Table 31: Net Interest Income Sensitivity to Alternative Rate Scenarios

	March 31, 2021		
	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	0.0 %	0.8 %	(2.1) %
Second year sensitivity	1.3 %	4.7 %	(6.7) %

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

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

Table 32: Alternate Interest Rate Scenarios: One Year Forward



The first quarter 2021 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.

As discussed in Item 1A Risk Factors in our 2020 Form 10-K, the planned discontinuance of the requirement that banks submit rates for the calculation of LIBOR after 2023 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, like other financial participants, to financial, legal, operational, and reputational risks.

In order to address LIBOR cessation and the associated 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 also established an enterprise-level program, which is actively monitoring PNC's overall firm-wide exposure to LIBOR and using these results to plan transitional strategies and track progress versus these goals. Program workstreams were formed by Line of Business to ensure accountability and alignment with the appropriate operational, technology, and customer-facing stakeholders, while establishing a centralized Program Management Office to ensure consistency in execution and communication. Project plans and established milestones have been developed and have continued to evolve and be refined in line with industry developments and internal decisions and progress. PNC is also involved in industry discussions, preparing milestones for readiness and assessing progress against those milestones, along with developing and delivering on internal and external LIBOR cessation communication plans.

Key efforts in 2020 included:

- 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 PNC's infrastructure, including systems, models, valuation tools and processes,

- Developing and delivering on internal and external LIBOR cessation communication plans,
- Engaging with PNC clients, industry working groups and regulators, and
- Monitoring developments associated with LIBOR alternatives and industry practices related to LIBOR-indexed instruments.

PNC also has been an active participant in efforts with the Federal Reserve and other regulatory agencies to explore the potential need for a credit-sensitive rate or add-on to SOFR for use in commercial loans. Those efforts led to the formation of the Credit Sensitive Group, which has held a series of workshops to assess how a credit-sensitive rate or add-on to SOFR might be constructed and discuss associated implementation issues.

In addition, in the third quarter of 2020, PNC began offering conforming adjustable rate mortgages using SOFR instead of USD LIBOR in line with Fannie Mae and Freddie Mac requirements. Plans are in place to begin offering private student loans and portfolio loans using non-LIBOR rates in the second quarter of 2021. PNC has provided regular updates to Federal Reserve, OCC and Federal Deposit Insurance Corporation examination staff regarding its LIBOR cessation and transition plans.

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 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. VaR is calculated for each of the portfolios that comprise our customer related trading activities of which the majority are covered positions as defined by the Market Risk Rule. VaR is computed with positions and market risk factors updated daily to ensure each portfolio is operating within its acceptable limits.

See the Market Risk Management – Customer-Related Trading Risk section of our 2020 Form 10-K for more information on our models used to calculate VaR and our backtesting process.

Customer related trading revenue was $111 million for the three months ended March 31, 2021 compared to $71 million for the same period in 2020. The increase was primarily due to improved client related trading results as 2020 was negatively impacted by liquidity concerns and market volatility related to the pandemic.

Market Risk Management – Equity And Other Investment Risk

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

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

A summary of our equity investments follows:

Table 33: Equity Investments Summary

Dollars in millions	March 31 2021	December 31 2020	Change $	Change %
Tax credit investments	$ 2,808	$ 2,870	$ (62)	(2)%
Private equity and other	3,578	3,182	396	12 %
Total	$ 6,386	$ 6,052	$ 334	6 %

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 $1.4 billion at both March 31, 2021 and December 31, 2020. These unfunded commitments are included in Other liabilities on our Consolidated Balance Sheet.

Note 5 Loan Sale and Servicing Activities and Variable Interest Entities in the Notes To Consolidated Financial Statements in our 2020 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 $1.5 billion at both March 31, 2021 and December 31, 2020. As of March 31, 2021, $1.3 billion was invested directly in a variety of companies and $0.2 billion was invested indirectly through various private equity funds. See the Supervision and Regulation section in Item 1 of our 2020 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 March 31, 2021 per share closing price of $211.73 for a Visa Class A common share, the estimated value of our total investment in the Class B common shares was approximately $1.2 billion at the current conversion rate of Visa B shares to Visa A shares, while our cost basis was not significant. See Note 15 Fair Value and Note 21 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of our 2020 Form 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 $38 million at March 31, 2021 and were not significant at March 31, 2020.

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 15 Fair Value and Note 16 Financial Derivatives in our Notes To Consolidated Financial Statements in our 2020 Form 10-K and in Note 11 Fair Value and Note 12 Financial Derivatives in the Notes To Consolidated Financial Statements in Item 1 of 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

The U.S. Government continues to take action 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. In March 2021, President Biden signed the American Rescue Plan (The American Rescue Plan Act of 2021), which provides an additional $1.9 trillion in relief. Among other things, the American Rescue Plan provides for stimulus payments of up to $1,400 per-person, funding for various housing and education programs, grants to small businesses, extension of expanded unemployment benefits, and expansion of the child tax credit. The President also signed the PPP Extension Act of 2021, which extends the PPP application deadline to May 31, 2021, and extends the PPP authorization through June 30, 2021, to provide the SBA additional time to process applications received by the application deadline. PNC continues to participate in the PPP and assist customers with their PPP loans.

In March 2021, the Federal Reserve extended its PPP Liquidity Facility by three months to June 30, 2021. The PPP Liquidity Facility extends term credit to financial institutions making PPP loans, accepting the PPP loans as collateral. The other currently active Federal Reserve liquidity facilities—the Commercial Paper Funding Facility, the Money Market Mutual Fund Liquidity Facility, and the Primary Dealer Credit Facility—expired on March 31, 2021.

Capital, Capital Planning and Liquidity

In March 2021, the Federal Reserve announced that its temporary modifications to the SLR to exclude U.S. Treasury securities and central bank reserves would expire on March 31, 2021. The temporary modifications had allowed BHCs like PNC to exclude U.S. Treasury securities and balances held at Federal Reserve Banks from the BHCs' total leverage exposure for purposes of calculating its SLR. The Federal Reserve also announced that it would seek comment on measures to ensure the SLR remains effective in an environment of higher reserves.

Separately, the Federal Reserve extended the temporary and additional restrictions on BHC dividends and share repurchases that it put in place as a result of ongoing economic uncertainty from COVID-19. These restrictions limit increases in dividends and generally restrict dividends and share repurchases to an amount based on income over the past year. For a firm with capital levels above those required by the current round of stress tests, these restrictions will end on June 30, 2021. Firms that fall below any of their minimum risk-based requirements in the stress tests will remain subject to the additional restrictions for three extra months, through September 30, 2021.

Other Developments

In April 2021, the CFPB proposed a set of rule changes intended to prevent foreclosures as the emergency federal foreclosure protections expire. The CFPB's proposal would provide a special pre-foreclosure review period that would generally prohibit servicers from starting foreclosure until after December 31, 2021, permit servicers to offer certain streamlined loan modification options to borrowers with COVID-19-related hardships based on the evaluation of an incomplete application, and make temporary changes to certain required servicer communications that borrowers receive regarding their options. Comments on the proposal are due by May 10, 2021.

Critical Accounting Estimates and Judgments

Note 1 Accounting Policies in our 2020 Form 10-K describes the most significant accounting policies that we use to prepare our consolidated financial statements. Certain of these policies require us to make estimates or economic assumptions that may vary under different assumptions or conditions, and such variations may significantly affect our reported results and financial position for the period or in future periods. The policies and judgments related to residential and commercial MSRs and fair value measurements are described in Critical Accounting Estimates and Judgments in Item 7 of our 2020 Form 10-K. The following details the critical estimates and judgments around the ACL.

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, equipment finance leases (including residual values), other financial assets and unfunded lending related commitments, for the remaining contractual term of the assets or exposures, taking into consideration expected prepayments. Our determination of the ACL is based on historical loss experience, current 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 limitations. 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 economic conditions and portfolio quality as of the estimation date. As current economic conditions evolve, forecasted losses could be materially affected.
- Scenario weights and design: Our loss estimates are sensitive to the shape, direction and rate of change 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 Note 1 Accounting Policies in our 2020 Form 10-K.

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 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. Credit losses estimated in our reasonable and supportable forecast period 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 reasonable and supportable forecast period. Each scenario is then given an associated probability (weight) in order to represent our current expectation within that distribution over the forecast period. This process is informed by current economic conditions, expected business cycle evolution and the expert judgment of PNC’s 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 RAC and the committee determines and approves CECL scenarios' weights for use for the current reporting period.

The scenarios used for the period ended March 31, 2021 were designed to reflect an improved near-term economic outlook in comparison to the scenarios used for the period ended December 31, 2020. This improvement was the result of declining COVID-19 cases, more rapid vaccine distribution, the passage of the American Rescue Plan stimulus package and economic momentum fueled by increased consumer spending. We used a number of economic variables in our scenarios, with the most significant drivers being GDP and unemployment rate measures. Using the weighted-average of our four economic forecast scenarios, we estimated that GDP grows 4.3% in 2021, recovering to pre-recession peak levels in the third quarter of 2021. The weighted-average unemployment rate reflects continued recovery in the labor market in 2021, with the unemployment rate estimated at 5.9% by the end of the year. Employment gains were estimated to continue through the forecast period with the unemployment rate reaching 4.9% and 4.4% by the end of 2022 and 2023, respectively. One of the scenarios included in our weighted-average is our baseline prediction of the most likely economic outcome; which includes estimated GDP recovering to pre-pandemic levels in third quarter of 2021, with unemployment expected to return to its pre-pandemic levels in the second half of 2022. See our Business Outlook and the Cautionary Statement Regarding Forward-Looking Information in this Financial Review for additional discussion on our baseline prediction of the most likely economic outcome. While the economy saw significant recovery from the onset of the pandemic in national level macroeconomic indicators, considerable uncertainty remains regarding overall lifetime loss content for both our commercial and consumer portfolios, specifically as it relates to our customers that are less likely to benefit from the economic recovery currently underway. For commercial borrowers, there are concerns around industries that are dependent on in-person gatherings, hospitality and tourism. For consumer borrowers, payment behavior once the government stimulus wanes is also difficult to predict. We believe the highest uncertainty is concentrated with consumer borrowers who have been afforded payment deferrals or forbearance and borrowers at the low end of our credit standards. As such, for both our commercial and consumer loan portfolios, PNC identified and performed significant analysis around these key, highly impacted segments to ensure our reserves were adequate in light of the improved economic environment. We believe that the economic assumptions used in the scenarios for the first quarter of 2021, in combination with increased reserves for borrowers in segments most adversely impacted by the pandemic, sufficiently reflect the life of loan losses in the current portfolio.

To provide additional context regarding the sensitivity of the ACL to a more pessimistic forecast of expected economic outcomes, we considered what our ACL would be when applying a 100% probability weighting to the most severely adverse scenario. This severely adverse scenario estimates real GDP contracting and ending 2021 down 1.3% compared to 2020 levels, with recovery to pre-pandemic levels not expected until first quarter 2023, while the unemployment rate increases to end 2021 at 10.5% with the labor market beginning to improve again in 2022. Excluding consideration of qualitative adjustments, this sensitivity analysis would result in a hypothetical increase in our ACL of $2.0 billion at March 31, 2021. This scenario was not our expectation at March 31, 2021 and does not reflect our current expectation, nor does it capture all the potential unknown variables that would likely arise over 2021, but it provides an approximation of a possible outcome under hypothetical severe conditions. The CECL methodology inherently requires a high degree of judgment, and 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:

- Allowance For Credit Losses in the Credit Risk Management section of this Financial Review, and
- 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 2020 Form 10-K and in Note 5 Loan Sale and Servicing Activities and Variable Interest Entities and Note 8 Commitments in the Notes To Consolidated Financial Statements included in this Report.

A summary and further description of VIEs is included in Note 1 Accounting Policies and Note 5 Loan Sale and Servicing Activities and Variable Interest Entities in our 2020 Form 10-K.

Trust Preferred Securities

See Note 10 Borrowed Funds in the Notes To Consolidated Financial Statements in our 2020 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 March 31, 2021, 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 March 31, 2021, and that there has been no change in PNC’s internal control over financial reporting that occurred during the first quarter of 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

We make statements in this Report, and we may from time to time make other statements, regarding our outlook for earnings, revenues, expenses, tax rates, capital and liquidity levels and ratios, asset levels, asset quality, financial position, and other matters regarding or affecting us and our future business and operations that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are typically identified by words such as "believe," "plan," "expect," "anticipate," "see," "look," "intend," "outlook," "project," "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 any obligation 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,
  - The impact of the results of the recent U.S. elections on the regulatory landscape, capital markets, and the response to and management of the COVID-19 pandemic, including the effectiveness of already-enacted fiscal stimulus from the federal government and a potential infrastructure bill, and
  - 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:
  - The U.S. economy is in an economic recovery, following a very severe but very short economic contraction in the first half of 2020 due to the COVID-19 pandemic and public health measures to contain it.
  - Despite the improvement in the economy since the spring of 2020, economic activity remains below its pre-pandemic level and unemployment remains elevated.
  - Growth will pick up in the spring of 2021 as vaccine distribution continues and the federal government provides aid to households, small and medium-sized businesses, and state and local governments. PNC expects real GDP to return to its pre-pandemic level in the third quarter of 2021, and employment in the second half of 2022.
  - PNC expects the FOMC to keep the fed funds rate in its current range of 0.00% to 0.25 % until at least late 2023.
- PNC's ability to take certain capital actions, including returning capital to shareholders, 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 CCAR process. The Federal Reserve also has imposed additional limitations on capital distributions through the second quarter of 2021 by CCAR-participating bank holding companies.
- 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.
- Our planned acquisition of BBVA presents us with risks and uncertainties related both to the acquisition transaction itself and to the integration of the acquired business into PNC after closing:
  - The business of BBVA, including its U.S. banking subsidiary, BBVA USA, going forward may not perform as we currently project or in a manner consistent with historical performance. As a result, the anticipated benefits, including estimated cost savings, of the transaction may be significantly more difficult or take longer to achieve than expected or may not be achieved in their entirety as a result of unexpected factors or events, including those that are outside of our control.
  - The combination of BBVA, including its U.S. banking subsidiary, BBVA USA, with PNC and PNC Bank, respectively, may be more difficult to achieve than anticipated or have unanticipated adverse results relating to BBVA, including its U.S. banking subsidiary, BBVA USA, or our existing businesses.
  - Completion of the transaction is dependent on the satisfaction of customary closing conditions, which cannot be assured. The timing of completion of the transaction is dependent on various factors that cannot be predicted with precision at this point.
- In addition to the planned BBVA transaction, 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 2020 Form 10-K 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. 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.