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 104 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 September 30 2021	Three months ended September 30 2020	Nine months ended September 30 2021	Nine months ended September 30 2020
Financial Results (a)				
Revenue				
Net interest income	$ 2,856	$ 2,484	$ 7,785	$ 7,522
Noninterest income	2,341	1,797	6,299	5,171
Total revenue	5,197	4,281	14,084	12,693
Provision for (recapture of) credit losses	(203)	52	(452)	3,429
Noninterest expense	3,587	2,531	9,211	7,589
Income from continuing operations before income taxes and noncontrolling interests	$ 1,813	$ 1,698	$ 5,325	$ 1,675
Income taxes from continuing operations	323	166	906	128
Net income from continuing operations	$ 1,490	$ 1,532	$ 4,419	$ 1,547
Income from discontinued operations before taxes				$ 5,777
Income taxes from discontinued operations				1,222
Net income from discontinued operations				$ 4,555
Net income	$ 1,490	$ 1,532	$ 4,419	$ 6,102
Less:				
Net income attributable to noncontrolling interests	16	13	38	27
Preferred stock dividends (b)	57	63	162	181
Preferred stock discount accretion and redemptions	1	1	3	3
Net income attributable to common shareholders	$ 1,416	$ 1,455	$ 4,216	$ 5,891
Per Common Share				
Basic earnings from continuing operations	$ 3.31	$ 3.40	$ 9.84	$ 3.11
Basic earnings from discontinued operations				10.61
Total basic earnings	$ 3.31	$ 3.40	$ 9.84	$ 13.73
Diluted earnings from continuing operations	$ 3.30	$ 3.39	$ 9.83	$ 3.11
Diluted earnings from discontinued operations				10.59
Total diluted earnings	$ 3.30	$ 3.39	$ 9.83	$ 13.70
Cash dividends declared per common share	$ 1.25	$ 1.15	$ 3.65	$ 3.45
Effective tax rate from continuing operations (c)	17.8 %	9.8 %	17.0 %	7.6 %
Performance Ratios				
Net interest margin (d)	2.27 %	2.39 %	2.28 %	2.57 %
Noninterest income to total revenue	45 %	42 %	45 %	41 %
Efficiency	69 %	59 %	65 %	60 %
Return on:				
Average common shareholders' equity	10.95 %	11.76 %	11.17 %	16.57 %
Average assets	1.06 %	1.32 %	1.16 %	1.83 %

(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 R and Series S preferred stock, which are payable semiannually. On September 13, 2021, PNC issued 1,500,000 depositary shares each representing 1/100th ownership in a share of 3.400% fixed-rate reset non-cumulative perpetual preferred stock, Series T, with a par value of $1 per share. Beginning on December 15, dividends will be paid on the Series T on a quarterly basis (March 15, June 15, September 15 and December 15 of each year).
(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	September 30 2021	December 31 2020	September 30 2020
Balance Sheet Data (dollars in millions, except per share data)			
Assets	$ 553,515	$ 466,679	$ 461,817
Loans	$ 290,230	$ 241,928	$ 249,279
Allowance for loan and lease losses	$ 5,355	$ 5,361	$ 5,751
Interest-earning deposits with banks (b)	$ 75,478	$ 85,173	$ 70,959
Investment securities	$ 125,606	$ 88,799	$ 91,185
Loans held for sale	$ 2,121	$ 1,597	$ 1,787
Equity investments	$ 7,737	$ 6,052	$ 4,938
Mortgage servicing rights	$ 1,833	$ 1,242	$ 1,113
Goodwill	$ 10,885	$ 9,233	$ 9,233
Other assets	$ 36,137	$ 30,999	$ 32,445
Noninterest-bearing deposits	$ 156,305	$ 112,637	$ 107,281
Interest-bearing deposits	$ 292,597	$ 252,708	$ 247,798
Total deposits	$ 448,902	$ 365,345	$ 355,079
Borrowed funds	$ 33,471	$ 37,195	$ 42,110
Allowance for unfunded lending related commitments	$ 646	$ 584	$ 689
Total shareholders' equity	$ 56,259	$ 54,010	$ 53,276
Common shareholders' equity	$ 51,250	$ 50,493	$ 49,760
Accumulated other comprehensive income	$ 1,079	$ 2,770	$ 2,997
Book value per common share	$ 121.16	$ 119.11	$ 117.44
Period-end common shares outstanding (in millions)	423	424	424
Loans to deposits	65 %	66 %	70 %
Common shareholders' equity to total assets	9.3 %	10.8 %	10.8 %
Client Assets (in billions)			
Discretionary client assets under management	$ 183	$ 170	$ 158
Nondiscretionary client assets under administration	170	154	142
Total client assets under administration	353	324	300
Brokerage account client assets	81	59	55
Total client assets	$ 434	$ 383	$ 355
Basel III Capital Ratios (c) (d)			
Common equity Tier 1	10.3 %	12.2 %	11.7 %
Common equity Tier 1 fully implemented (e)	10.0 %	11.8 %	11.3 %
Tier 1 risk-based	11.6 %	13.2 %	12.8 %
Total capital risk-based (f)	13.6 %	15.6 %	15.2 %
Leverage	8.2 %	9.5 %	9.4 %
Supplementary leverage	7.0 %	9.9 %	9.5 %
Asset Quality			
Nonperforming loans to total loans	0.87 %	0.94 %	0.84 %
Nonperforming assets to total loans, OREO and foreclosed assets	0.88 %	0.97 %	0.86 %
Nonperforming assets to total assets	0.46 %	0.50 %	0.47 %
Net charge-offs to average loans (for the three months ended) (annualized)	0.11 %	0.37 %	0.24 %
Allowance for loan and lease losses to total loans	1.85 %	2.22 %	2.31 %
Allowance for credit losses to total loans (g)	2.07 %	2.46 %	2.58 %
Allowance for loan and lease losses to nonperforming loans	212 %	235 %	276 %
Accruing loans past due 90 days or more (in millions)	$ 492	$ 509	$ 448

(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 $75.1 billion, $84.9 billion and $70.6 billion as of September 30, 2021, December 31, 2020 and September 30, 2020, respectively.
(c) 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.
(d) Ratios are calculated to reflect PNC's election to adopt the CECL optional five-year transition provision, unless noted differently.
(e) The fully implemented CET1 ratio is calculated to reflect the full impact of CECL and excludes the benefits of the five-year transition provision.
(f) 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.
(g) 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 coast-to-coast. 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.

Acquisition of BBVA USA Bancshares, Inc.

On June 1, 2021, PNC acquired BBVA USA Bancshares Inc. (BBVA), a U.S. financial holding company conducting its business operations primarily through its U.S. banking subsidiary, BBVA USA. PNC paid $11.5 billion in cash as consideration for the acquisition.

On October 8, 2021, BBVA USA merged into PNC Bank. As of October 12, 2021, PNC has converted approximately 2.6 million customers, 9,000 employees and over 600 branches across seven states. PNC's third quarter results reflect the full quarter benefit of BBVA's acquired business operations. Our results for the first nine months of 2021 reflect the benefit of BBVA's acquired business operations for the period since the acquisition closed on June 1, 2021. PNC's balance sheet at September 30, 2021 includes BBVA's balances. See the Recent Regulatory Developments portion of this Report for more detail on the approval and merger process.

For additional information on the acquisition of BBVA, see Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements included in Item 1 of this Report.

Throughout this Report, BBVA USA Bancshares, Inc. will be referred to as BBVA.

Discontinued Operations

In the second quarter of 2020, we divested our 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 $1.5 billion for the third quarter of 2021 decreased $42.0 million compared to the third quarter of 2020. Earnings were $3.30 per diluted common share for the third quarter of 2021 compared to $3.39 per diluted common share for the third quarter of 2020. Other than the impact of the BBVA acquisition, the decrease was primarily due to a lower effective tax rate in the third quarter of 2020 as a result of tax credit benefits and the favorable resolution of certain tax matters.

- For the three months ended September 30, 2021 compared to the same period in 2020:
    - Total revenue increased $916 million, or 21%, to $5.2 billion.
        - Net interest income of $2.9 billion increased $372 million, or 15%, primarily due to the benefit of BBVA.
        - Net interest margin decreased 12 basis points to 2.27% reflecting lower securities yields.
        - Noninterest income increased $544 million, or 30%, to $2.3 billion, primarily due to record merger and acquisition advisory fees and the benefit of BBVA.
    - Provision recapture was $203 million for the third quarter of 2021 driven by continued improvements in credit quality and changes in portfolio composition. Provision for credit losses was $52 million for the third quarter of 2020.
    - Noninterest expense increased $1.1 billion, or 42%, to $3.6 billion, due to BBVA operating expenses, integration expenses and increased business 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 September 30, 2021 and December 31, 2020. In comparison to December 31, 2020, changes in our balance sheet were primarily driven by the BBVA acquisition.

- Total assets increased $86.8 billion, or 19%, to $553.5 billion.
- Total loans increased $48.3 billion, or 20%, to $290.2 billion.
    - Total commercial loans increased $28.0 billion, or 17%, to $195.2 billion driven by BBVA loans, partially offset by PPP loan forgiveness.
        - At September 30, 2021, PNC had $6.8 billion of PPP loans. PPP loans outstanding at December 31, 2020 were $12.0 billion.
    - Total consumer loans increased $20.3 billion, or 27%, to $95.0 billion driven by loans from BBVA and increased originations of PNC legacy residential mortgages, partially offset by declines in PNC legacy home equity and auto loan portfolios.
- Investment securities increased $36.8 billion, or 41%, to $125.6 billion, resulting from increased purchase activity and securities from BBVA.
- Interest-earning deposits with banks, primarily with the Federal Reserve Bank, decreased $9.7 billion to $75.5 billion, and included the payment for the purchase of BBVA.
- Total deposits increased $83.6 billion, or 23%, to $448.9 billion, reflecting deposits from BBVA and growth in PNC legacy commercial and consumer liquidity.
- Borrowed funds decreased $3.7 billion, or 10%, to $33.5 billion, due to lower FHLB borrowings reflecting the use of liquidity from deposit growth, partially offset by borrowed funds from BBVA.

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

Credit Quality Highlights

Third quarter 2021 credit quality performance reflected the acquisition of BBVA, continued improvements in credit quality and changes in portfolio composition.

- At September 30, 2021 compared to December 31, 2020:
    - Nonperforming assets of $2.6 billion, increased $222 million, or 9%, due to nonperforming assets from BBVA, partially offset by lower PNC legacy nonperforming assets reflecting improved credit performance.
    - Overall loan delinquencies of $1.4 billion increased $33 million, or 2%, as lower PNC legacy consumer and commercial delinquencies were more than offset by delinquencies from the BBVA acquisition.
    - The ACL related to loans, which consists of the ALLL and the allowance for unfunded lending related commitments, totaled $6.0 billion at September 30, 2021, an increase of $0.1 billion since December 31, 2020. The increase was primarily attributable to the addition of reserves related to the BBVA acquisition, partially offset by continued improvements in credit quality and macroeconomic factors along with changes in portfolio composition.
- Net charge-offs were $81 million, or 0.11% of average loans on an annualized basis in the third quarter of 2021 compared to $155 million, or 0.24%, 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 and liquidity positions.

- Our CET1 ratio decreased to 10.3% at September 30, 2021 from 12.2% at December 31, 2020, primarily due to the BBVA acquisition.

    - Capital was impacted by 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, excluding the initial allowance for PCD loans from BBVA, compared to CECL ACL at transition. The estimated CECL impact is added to CET1 capital through December 31, 2021, then phased-out over the following three years.
- Common shareholders' equity increased to $51.3 billion at September 30, 2021, compared to $50.5 billion at December 31, 2020.
- In the third quarter, we returned $0.9 billion of capital to shareholders through dividends on common shares of $0.5 billion and $0.4 billion of common share repurchases representing 2.1 million shares. Repurchases were made under the share repurchase programs of up to $2.9 billion for the four-quarter period beginning in the third quarter of 2021.
- On October 1, 2021, the PNC Board of Directors declared a quarterly cash dividend on common stock of $1.25 per share payable on November 5, 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. 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.
- The Delta COVID-19 variant and supply chain difficulties have been drags on economic growth in the second half of 2021, although the economy continues to expand. Growth will pick up at the end of 2021 as the impact of the Delta variant fades and supply chains normalize and will remain solid into 2022. Employment in September 2021 was still down by almost 5 million from before the pandemic; PNC expects employment to return to its pre-pandemic level in mid-2022.
- Compared to the spring of 2020 (when prices were falling), inflation accelerated in mid-2021 due to strong demand in specific segments and supply chain disruptions. Inflation has started to slow on a month-over-month basis but will remain elevated in the near term.
- PNC expects the FOMC to keep the fed funds rate in its current range of 0.00% to 0.25% until late 2022.

For the fourth quarter of 2021, compared to the third quarter of 2021 where appropriate, we expect:
- Average loans, excluding PPP loans, up modestly,
- Net interest income to be up modestly,
- Fee income to be down approximately 3% to 5%,
- Other noninterest income, excluding net securities gains and Visa activity, to be between $375 million and $425 million,
- Noninterest expense, excluding integration expense, to be down 3% to 5%, and
- Net loan charge-offs to be between $100 million and $150 million.

Additionally, we are on track to realize $900 million in net expense savings of our forecast of BBVA's 2022 expense base. We also expect to incur merger and integration costs of approximately $980 million, inclusive of the write-off of certain technology and other assets. During the fourth quarter, we expect to incur the majority of the remaining merger and integration costs of $450 million.

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 $1.5 billion for the third quarter of 2021 decreased $42.0 million compared to the third quarter of 2020. Earnings were $3.30 per diluted common share for the third quarter of 2021 compared to $3.39 per diluted common share for the third quarter of 2020. Other than the impact of the BBVA acquisition, the decrease in the quarterly comparison was primarily due to a lower effective tax rate in the third quarter of 2020 as a result of tax credit benefits and the favorable resolution of certain tax matters.

For the first nine months of 2021, net income from continuing operations was $4.4 billion, or $9.83 per diluted common share, compared to $1.5 billion, or $3.11 per diluted common share, for the first nine months of 2020. The year-to-date comparison reflects a lower provision for credit losses in 2021 due to continued improvements in credit quality and macroeconomic factors and higher noninterest income driven by the benefit of BBVA, partially offset by expenses related to the BBVA acquisition and increased business activity.

Net Interest Income

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

Three months ended September 30 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	$ 120,586	1.54 %	$ 465	$ 90,502	2.18 %	$ 496
Loans	291,326	3.32 %	2,454	253,092	3.32 %	2,127
Interest-earning deposits with banks	80,274	0.16 %	31	60,327	0.10 %	15
Other	9,113	2.03 %	47	9,752	2.23 %	55
Total interest-earning assets/interest income	$ 501,299	2.36 %	2,997	$ 413,673	2.57 %	2,693
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$ 298,471	0.04 %	29	$ 248,551	0.12 %	74
Borrowed funds	34,352	1.03 %	90	43,344	1.06 %	118
Total interest-bearing liabilities/interest expense	$ 332,823	0.14 %	119	$ 291,895	0.26 %	192
Net interest margin/income (non-GAAP)		2.27 %	2,878		2.39 %	2,501
Taxable-equivalent adjustments			(22)			(17)
Net interest income (GAAP)			$ 2,856			$ 2,484

Nine months ended September 30 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	$ 105,287	1.73 %	$ 1,366	$ 87,795	2.45 %	$ 1,617
Loans	261,884	3.36 %	6,629	254,919	3.58 %	6,893
Interest-earning deposits with banks	81,383	0.12 %	74	37,582	0.28 %	80
Other	8,345	2.27 %	142	10,028	2.64 %	199
Total interest-earning assets/interest income	$ 456,899	2.38 %	8,211	$ 390,324	2.98 %	8,789
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$ 273,498	0.05 %	99	$ 235,160	0.34 %	590
Borrowed funds	34,562	1.05 %	275	51,225	1.59 %	619
Total interest-bearing liabilities/interest expense	$ 308,060	0.16 %	374	$ 286,385	0.56 %	1,209
Net interest margin/income (non-GAAP)		2.28 %	7,837		2.57 %	7,580
Taxable-equivalent adjustments			(52)			(58)
Net interest income (GAAP)			$ 7,785			$ 7,522

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

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

Net interest income increased $372 million, or 15%, for the third quarter of 2021, and increased $263 million, or 3%, for the first nine months of 2021 compared to the same periods in 2020. The increase in both comparisons was primarily due to the benefit of BBVA interest-earning asset balances and lower deposit rates, partially offset by lower yields on securities.

Net interest margin in the quarterly and year-to-date comparisons decreased 12 basis points and 29 basis points, respectively. The decrease in both comparisons was largely due to lower yields on securities. The decrease in the year-to-date comparison also reflected higher balances held at the Federal Reserve Bank and lower yields on loans, partially offset by lower rates paid on deposits and borrowings.

Average investment securities increased $30.1 billion, or 33%, and $17.5 billion, or 20%, in the quarterly and year-to-date comparisons, respectively. Both comparisons increased primarily due to the acquisition of BBVA. The increase in the quarterly comparison was also attributable to increased purchase activity. Average investment securities represented 24% of average interest-earning assets for the third quarter of 2021 and 23% for the first nine months of 2021, compared to 22% for both periods in 2020.

Average loans increased $38.2 billion, or 15%, and $7.0 billion, or 3%, in the quarterly and year-to-date comparisons, respectively. The increase in both comparisons was primarily a result of the BBVA acquisition. In the year-to-date comparison, the increase was partially offset by lower utilization of loan commitments by commercial customers and lower consumer loans. Average loans represented 58% of average interest-earning assets for the third quarter of 2021 and 57% for the nine months ended September 30, 2021, compared to 61% and 65% for the same periods in 2020.

Average interest-earning deposits with banks increased $19.9 billion and $43.8 billion in the respective quarterly and year-to-date comparisons, as average balances held with the Federal Reserve Bank increased due to higher liquidity from deposit growth.

Average interest-bearing deposits grew $49.9 billion, or 20%, and $38.3 billion, or 16% in the respective quarterly and year-to-date comparisons due to overall growth in commercial and consumer liquidity, including deposits from BBVA. In total, average interest-bearing deposits increased to 90% and 89% of average interest-bearing liabilities for the three and nine months ended September 30, 2021, compared to 85% and 82% for the same periods in 2020.

Average borrowed funds decreased $9.0 billion, or 21%, compared with the third quarter of 2020 and $16.7 billion, or 33%, compared with the first nine months of 2020 primarily due to a decline in FHLB borrowings reflecting 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 September 30				Nine months ended September 30			
			Change				Change	
Dollars in millions	2021	2020	$	%	2021	2020	$	%
Noninterest income								
Asset management	$ 248	$ 215	$ 33	15 %	$ 713	$ 615	$ 98	16 %
Consumer services	496	390	106	27 %	1,337	1,097	240	22 %
Corporate services	842	479	363	76 %	2,085	1,517	568	37 %
Residential mortgage	147	137	10	7 %	355	505	(150)	(30)%
Service charges on deposits	159	119	40	34 %	409	366	43	12 %
Other	449	457	(8)	(2)%	1,400	1,071	329	31 %
Total noninterest income	$ 2,341	$ 1,797	$ 544	30 %	$ 6,299	$ 5,171	$ 1,128	22 %

Noninterest income as a percentage of total revenue was 45% for the third quarter and first nine months of 2021, compared to 42% and 41% for the same periods in 2020.

Asset management revenue increased in the quarterly and year-to-date comparisons due to the impact of higher average equity markets and the benefit of the BBVA acquisition. PNC's discretionary client assets under management increased to $183 billion at September 30, 2021 from $158 billion at September 30, 2020, primarily driven by higher spot equity markets and the BBVA acquisition.

Consumer services revenue increased in the quarterly and year-to-date comparisons reflecting the addition of BBVA customers and the impacts of higher consumer spending on debit cards, merchant services revenues, credit card fees and growth in brokerage fees primarily due to higher average equity markets.

Corporate services revenue increased in the quarterly and year-to-date comparisons primarily due to higher merger and acquisition advisory fees, treasury management product revenue and equity capital markets advisory fees. The year-to-date comparison also benefited from higher revenue from commercial mortgage servicing activities.

Residential Mortgage revenue increased in the quarterly comparison primarily due to higher loan sales revenue and higher mortgage servicing rights valuation, net of economic hedge. The decrease in the year-to-date comparison was primarily a result of lower servicing fee revenue primarily due to higher payoffs and lower mortgage servicing rights valuation, net of economic hedge.

Service charges on deposits increased in the quarterly and year-to-date comparisons primarily due to the addition of BBVA customers, partially offset by the impact of Low Cash Mode[SM] on overdraft revenue.

Other noninterest income decreased in the quarterly comparison due to a negative Visa Class B derivative fair value adjustment primarily related to the extension of anticipated litigation resolution timing, partially offset by higher private equity revenue. In the year-to-date comparison, the increase was primarily driven by higher private equity revenue and the addition of BBVA, partially offset by a larger negative Visa Class B derivative fair value adjustment.

Noninterest Expense

Table 4: Noninterest Expense

	Three months ended September 30				Nine months ended September 30			
			Change				Change	
Dollars in millions	2021	2020	$	%	2021	2020	$	%
Noninterest expense								
Personnel	$ 1,986	$ 1,410	$ 576	41 %	$ 5,103	$ 4,152	$ 951	23 %
Occupancy	248	205	43	21 %	680	611	69	11 %
Equipment	355	292	63	22 %	974	880	94	11 %
Marketing	103	67	36	54 %	222	172	50	29 %
Other	895	557	338	61 %	2,232	1,774	458	26 %
Total noninterest expense	$ 3,587	$ 2,531	$ 1,056	42 %	$ 9,211	$ 7,589	$ 1,622	21 %

The increase in noninterest expense in the quarterly and year-to-date comparisons reflected BBVA operating and integration expenses as well as increased business and marketing activity.

Effective Income Tax Rate

The effective income tax rate from continuing operations was 17.8% in the third quarter of 2021 compared to 9.8% in the third quarter of 2020, and 17.0% in the first nine months of 2021 compared to 7.6% in the same period of 2020. The increase in both comparisons was due to overall lower pre-tax income, tax benefits and the favorable resolution of certain tax matters in 2020.

Provision For (Recapture of) Credit Losses

Table 5: Provision for (Recapture of) Credit Losses

	Three months ended September 30			Nine months ended September 30		
			Change			Change
Dollars in millions	2021	2020	$	2021	2020	$
Provision for (recapture of) credit losses						
Loans and leases	$ (229)	$ (23)	$ (206)	$ (525)	$ 3,149	$ (3,674)
Unfunded lending related commitments	1	27	(26)	16	192	(176)
Investment securities	25	39	(14)	51	69	(18)
Other financial assets		9	(9)	6	19	(13)
Total provision for (recapture of) credit losses	$ (203)	$ 52	$ (255)	$ (452)	$ 3,429	$ (3,881)

The provision recapture for the third quarter of 2021 reflected continued improvements in credit quality and changes in portfolio composition.

Net Income from 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 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	September 30 2021	December 31 2020	Change $	Change %
Assets				
Interest-earning deposits with banks	$ 75,478	$ 85,173	$ (9,695)	(11)%
Loans held for sale	2,121	1,597	524	33 %
Investment securities	125,606	88,799	36,807	41 %
Loans	290,230	241,928	48,302	20 %
Allowance for loan and lease losses	(5,355)	(5,361)	6	—
Mortgage servicing rights	1,833	1,242	591	48 %
Goodwill	10,885	9,233	1,652	18 %
Other	52,717	44,068	8,649	20 %
Total assets	$ 553,515	$ 466,679	$ 86,836	19 %
Liabilities				
Deposits	$ 448,902	$ 365,345	$ 83,557	23 %
Borrowed funds	33,471	37,195	(3,724)	(10)%
Allowance for unfunded lending related commitments	646	584	62	11 %
Other	14,199	9,514	4,685	49 %
Total liabilities	497,218	412,638	84,580	20 %
Equity				
Total shareholders' equity	56,259	54,010	2,249	4 %
Noncontrolling interests	38	31	7	23 %
Total equity	56,297	54,041	2,256	4 %
Total liabilities and equity	$ 553,515	$ 466,679	$ 86,836	19 %

Our balance sheet was strong and well positioned at September 30, 2021 and December 31, 2020.

- Total asset growth reflected the addition of loans and investment securities from the BBVA acquisition, partially offset by a decrease in interest-earning deposits with banks.
- Total liabilities increased primarily due to deposit growth reflecting higher commercial and consumer deposits driven by the acquisition of BBVA, partially offset by lower borrowed funds.
- Total equity increased as net income and the issuance of preferred stock was partially offset by lower AOCI, reflecting the impact of higher rates on net unrealized securities gains, dividends and share repurchases.

The ACL related to loans totaled $6.0 billion at September 30, 2021, an increase of $0.1 billion since December 31, 2020. The increase was primarily attributable to the addition of reserves related to the BBVA acquisition, partially offset by continued improvements in credit quality and macroeconomic factors along with changes in portfolio composition. 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,
- Critical Accounting Estimates and Judgments 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	September 30 2021	December 31 2020	Change $	Change %
Commercial				
Commercial and industrial	$ 152,735	$ 132,073	$ 20,662	16 %
Commercial real estate	36,195	28,716	7,479	26 %
Equipment lease financing	6,257	6,414	(157)	(2)%
Total commercial	195,187	167,203	27,984	17 %
Consumer				
Residential real estate	38,214	22,560	15,654	69 %
Home Equity	24,479	24,088	391	2 %
Automobile	17,265	14,218	3,047	21 %
Credit card	6,466	6,215	251	4 %
Education	2,653	2,946	(293)	(10)%
Other consumer	5,966	4,698	1,268	27 %
Total consumer	95,043	74,725	20,318	27 %
Total loans	$ 290,230	$ 241,928	$ 48,302	20 %

Commercial loans increased driven by BBVA loans, partially offset by PPP loan forgiveness. At September 30, 2021, PNC had $6.8 billion of PPP loans outstanding. 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.

Consumer loans increased primarily due to the addition of BBVA loans and increased originations of PNC legacy residential mortgages, partially offset by declines in the remaining PNC legacy portfolios as paydowns outpaced new originations.

For information on our residential real estate and home equity 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 $125.6 billion at September 30, 2021 increased $36.8 billion, or 41%, compared to December 31, 2020, resulting from increased purchase activity and the BBVA acquisition.

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

	September 30, 2021		December 31, 2020		Ratings as of September 30, 2021 (a)				
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	$ 41,437	$ 41,860	$ 20,616	$ 21,631	100 %				
Agency residential mortgage-backed	64,412	65,185	47,355	48,911	100 %				
Non-agency residential mortgage-backed	1,003	1,242	1,272	1,501	8 %		2 %	49 %	41 %
Agency commercial mortgage-backed	2,008	2,060	2,571	2,688	100 %				
Non-agency commercial mortgage-backed (c)	3,637	3,671	3,678	3,689	85 %	1 %	2 %		12 %
Asset-backed (d)	5,999	6,067	5,060	5,150	95 %	1 %		4 %	
Other (e)	5,392	5,625	5,061	5,393	54 %	26 %	15 %		5 %
Total investment securities (f)	$ 123,888	$ 125,710	$ 85,613	$ 88,963	96 %	1 %	1 %	1 %	1 %

(a) Ratings percentages allocated based on amortized cost, net of allowance for investment securities.

(b) Amortized cost is presented net of applicable allowance for investment securities of $133 million and $82 million at September 30, 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 investment 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 included in Item 1 of this Report for additional details regarding the amount of the allowance for investment securities.

The duration of investment securities was 3.8 years at September 30, 2021. We estimate that at September 30, 2021 the effective duration of investment securities was 4 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 4.4 years at September 30, 2021 compared to 3.4 years at December 31, 2020.

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

September 30, 2021	Years
Agency residential mortgage-backed	4.6
Non-agency residential mortgage-backed	6.8
Agency commercial mortgage-backed	5.0
Non-agency commercial mortgage-backed	2.1
Asset-backed	2.8

Additional information regarding our investment securities portfolio is included in Note 3 Investment Securities and Note 11 Fair Value in the Notes To Consolidated Financial Statements included in Item 1 of this Report.

Funding Sources

Table 10: Details of Funding Sources

Dollars in millions	September 30 2021	December 31 2020	Change $	Change %
Deposits				
Noninterest-bearing	$ 156,305	$ 112,637	$ 43,668	39 %
Interest-bearing				
Money market	79,829	59,737	20,092	34 %
Demand	103,569	92,294	11,275	12 %
Savings	90,288	80,985	9,303	11 %
Time deposits	18,911	19,692	(781)	(4)%
Total interest-bearing deposits	292,597	252,708	39,889	16 %
Total deposits	448,902	365,345	83,557	23 %
Borrowed funds				
Federal Home Loan Bank borrowings		3,500	(3,500)	(100)%
Bank notes and senior debt	22,993	24,271	(1,278)	(5)%
Subordinated debt	7,074	6,403	671	10 %
Other	3,404	3,021	383	13 %
Total borrowed funds	33,471	37,195	(3,724)	(10)%
Total funding sources	$ 482,373	$ 402,540	$ 79,833	20 %

Total deposits increased reflecting deposits from BBVA and growth in PNC legacy commercial and consumer liquidity.

Borrowed funds decreased due to lower FHLB borrowings, bank notes and senior debt reflecting the use of liquidity from deposit growth, which more than offset borrowed funds from BBVA.

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 $56.3 billion at September 30, 2021, an increase of $2.3 billion compared to December 31, 2020. The increase primarily resulted from net income of $4.4 billion and a preferred stock issuance of $1.5 billion, partially offset by lower AOCI of $1.7 billion reflecting the impact of higher rates on net unrealized securities gains, common and preferred stock dividends of $1.7 billion and common share repurchases of $0.4 billion.

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.

Our business segment results for the first nine months of 2021 reflect the benefit of BBVA's business operations for the period since the acquisition closed on June 1, 2021. Period end information presented includes BBVA's balances at September 30, 2021. Until the conversion of bank systems and branches as of October 12, 2021, PNC Bank and BBVA customers were served through their respective PNC Bank and BBVA USA branches, websites and mobile apps, financial advisors and relationship managers. Following conversion, there will be changes in the segmentation of BBVA USA customers as we continue to integrate data to PNC applications, finalize the review of customer relationships and better align customers with PNC's products and services. These changes will be reflected in fourth quarter reporting. See Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements included in Item 1 of this Report for additional information on the acquisition of BBVA.

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 82 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) Nine months ended September 30 Dollars in millions, except as noted	2021	2020	Change $	Change %
Income Statement				
Net interest income	$ 4,572	$ 4,229	$ 343	8 %
Noninterest income	2,022	2,046	(24)	(1)%
Total revenue	6,594	6,275	319	5 %
Provision for (recapture of) credit losses	(156)	1,049	(1,205)	*
Noninterest expense	5,042	4,537	505	11 %
Pretax earnings	1,708	689	1,019	148 %
Income taxes	396	161	235	146 %
Noncontrolling interest	26	20	6	30 %
Earnings	$ 1,286	$ 508	$ 778	153 %
Average Balance Sheet				
Loans held for sale	$ 1,296	$ 769	$ 527	69 %
Loans				
Consumer				
Residential real estate	$ 23,323	$ 18,215	$ 5,108	28 %
Home equity	22,324	22,723	(399)	(2)%
Automobile	15,398	16,449	(1,051)	(6)%
Credit card	6,070	6,767	(697)	(10)%
Education	2,820	3,226	(406)	(13)%
Other consumer	2,326	2,417	(91)	(4)%
Total consumer	72,261	69,797	2,464	4 %
Commercial	14,819	12,298	2,521	20 %
Total loans	$ 87,080	$ 82,095	$ 4,985	6 %
Total assets	$ 103,820	$ 98,764	$ 5,056	5 %
Deposits				
Noninterest-bearing demand	$ 55,107	$ 38,390	$ 16,717	44 %
Interest-bearing demand	58,700	46,501	12,199	26 %
Money market	31,639	23,210	8,429	36 %
Savings	78,907	67,000	11,907	18 %
Certificates of deposit	10,321	11,579	(1,258)	(11)%
Total deposits	$ 234,674	$ 186,680	$ 47,994	26 %
Performance Ratios				
Return on average assets	1.66 %	0.69 %		
Noninterest income to total revenue	31 %	33 %		
Efficiency	76 %	72 %		

At or for nine months ended September 30 Dollars in millions, except as noted	2021	2020	Change $	Change %
Supplemental Noninterest Income Information				
Consumer services	$ 1,273	$ 1,058	$ 215	20 %
Residential mortgage	$ 355	$ 505	$ (150)	(30)%
Service charges on deposits	$ 406	$ 364	$ 42	12 %
Residential Mortgage Information				
Residential mortgage servicing statistics (in billions, except as noted) (a)				
Serviced portfolio balance (b)	$ 139	$ 119	$ 20	17 %
Serviced portfolio acquisitions	$ 42	$ 21	$ 21	100 %
MSR asset value (b)	$ 1.1	$ 0.6	$ 0.5	83 %
MSR capitalization value (in basis points) (b)	81	50	31	62 %
Servicing income: (in millions)				
Servicing fees, net (c)	$ 20	$ 105	$ (85)	(81)%
Mortgage servicing rights valuation, net of economic hedge	$ 62	$ 138	$ (76)	(55)%
Residential mortgage loan statistics				
Loan origination volume (in billions)	$ 18.2	$ 11.4	$ 6.8	60 %
Loan sale margin percentage	2.95 %	3.51 %		
Percentage of originations represented by:				
Purchase volume (d)	45 %	38 %		
Refinance volume	55 %	62 %		
Other Information (b)				
Customer-related statistics (average) (e)				
Non-teller deposit transactions (f)	66 %	63 %		
Digital consumer customers (g)	80 %	73 %		
Credit-related statistics				
Nonperforming assets	$ 1,220	$ 1,077	$ 143	13 %
Net charge-offs - loans and leases	$ 269	$ 433	$ (164)	(38)%
Other statistics				
ATMs	9,572	9,058	514	6 %
Branches (h)	2,712	2,207	505	23 %
Brokerage account client assets (in billions) (i)	$ 76	$ 55	$ 21	38 %

*- Not Meaningful
(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 nine 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) Represents PNC legacy only, statistics will include BBVA activity in the fourth quarter reporting following the conversion of bank systems and branches.
(f) Percentage of total consumer and business banking deposit transactions processed at an ATM or through our mobile banking application.
(g) Represents consumer checking relationships that process the majority of their transactions through non-teller channels.
(h) Excludes stand-alone mortgage offices and satellite offices (*e.g.*, drive-ups, electronic branches and retirement centers) that provide limited products and/or services.
(i) Includes cash and money market balances.

Retail Banking earnings for the first nine months of 2021 increased $778 million compared with the same period in 2020 driven by a provision recapture and higher net interest income, partially offset by higher noninterest expense. Results for the first nine months of 2021 reflect the benefit of BBVA's business operations since the acquisition closed on June 1, 2021.

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

Noninterest income decreased due to a larger negative derivative Visa Class B fair value adjustment related to the extension of litigation timing in the first nine months of 2021, along with declines in residential mortgage revenue, driven by lower servicing fees primarily due to higher payoffs and lower revenue from residential mortgage servicing rights valuation, net of economic hedge. The decrease in noninterest income was partially offset by the BBVA acquisition, increased consumer services revenue driven by debit card and brokerage fees, as well as higher service charges on deposits.

Provision recapture in the first nine months of 2021 was driven by improvements in credit quality and macroeconomic factors along with changes in portfolio composition, partially offset by the additional provision for credit losses related to the BBVA acquisition.

Noninterest expense increased primarily as a result of the impact of BBVA operating expenses, increased marketing activity and non-credit losses due to additions to litigation reserves.

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 nine 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 continued government stimulus payments.

Retail Banking average total loans increased in the first nine months of 2021 compared with the same period in 2020 due to the impact of the BBVA acquisition on all loan classes except education loans, which BBVA did not have in their loan portfolio.

- Average residential real estate loans increased due to originations outpacing paydowns.
- Average commercial loans increased primarily due to PPP loans.
- 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 changes in customer behavior resulting in higher balance paydowns driven by government stimulus payments combined with credit tightening actions taken as a result of the pandemic.
- Average education loans decreased driven by a continued decline in the runoff portfolio of government guaranteed education loans.
- 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.

Our national expansion strategy is designed to grow customers with digitally-led banking and a thin branch network as we expand into new markets. In 2018, we 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 nine months of 2021 we opened ten new solution centers and expanded into two new markets, Denver and Phoenix. In total, we have thirty-two open solution centers within the markets of Boston, Dallas/Fort Worth, Denver, Houston, Kansas City, Nashville and Phoenix. We also offer digital unsecured installment and small business loans in the expansion markets. As a result of the BBVA acquisition, we have become a coast-to-coast Retail Bank and added over 600 branches across seven states to our network.

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 gives 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. Through the end of September, we have successfully rolled out Low Cash Mode℠ to 3.8 million PNC legacy Virtual Wallet® customers and have delivered over 10 million Low Cash Mode℠ alerts.

Upon conversion, BBVA customers became eligible for the full suite of PNC products and services, including Low Cash Mode℠. Our full year 2021 guidance includes the impact of fee reductions on both PNC legacy and the conversion of BBVA customers.
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 112 branches in the first nine months of 2021, consistent with our plan.

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) Nine months ended September 30 Dollars in millions	2021	2020	Change $	Change %
Income Statement				
Net interest income	$ 3,343	$ 3,055	$ 288	9 %
Noninterest income	2,730	2,143	587	27 %
Total revenue	6,073	5,198	875	17 %
Provision for (recapture of) credit losses	(277)	2,254	(2,531)	*
Noninterest expense	2,504	2,055	449	22 %
Pretax earnings	3,846	889	2,957	333 %
Income taxes	846	201	645	321 %
Noncontrolling interest	10	6	4	67 %
Earnings	$ 2,990	$ 682	$ 2,308	338 %
Average Balance Sheet				
Loans held for sale	$ 598	$ 669	$ (71)	(11)%
Loans				
Commercial				
Commercial and industrial	$ 123,505	$ 127,149	$ (3,644)	(3)%
Commercial real estate	30,919	27,070	3,849	14 %
Equipment lease financing	6,321	6,957	(636)	(9)%
Total commercial	160,745	161,176	(431)	—
Consumer	14	9	5	56 %
Total loans	$ 160,759	$ 161,185	$ (426)	—
Total assets	$ 184,964	$ 185,001	$ (37)	—
Deposits				
Noninterest-bearing demand	$ 76,105	$ 50,104	$ 26,001	52 %
Interest-bearing demand	30,718	26,182	4,536	17 %
Money market	33,706	34,373	(667)	(2)%
Other	7,723	8,789	(1,066)	(12)%
Total deposits	$ 148,252	$ 119,448	$ 28,804	24 %
Performance Ratios				
Return on average assets	2.16 %	0.49 %		
Noninterest income to total revenue	45 %	41 %		
Efficiency	41 %	40 %		
Other Information				
Consolidated revenue from: (a)				
Treasury Management (b)	$ 1,609	$ 1,412	$ 197	14 %
Capital Markets (b)	$ 1,412	$ 1,077	$ 335	31 %
Commercial mortgage banking activities:				
Commercial mortgage loans held for sale (c)	$ 103	$ 117	$ (14)	(12)%
Commercial mortgage loan servicing income (d)	244	212	32	15 %
Commercial mortgage servicing rights valuation, net of economic hedge (e)	64	58	6	10 %
Total	$ 411	$ 387	$ 24	6 %
MSR asset value (f)	$ 703	$ 515	$ 188	37 %
Average loans by C&IB business				
Corporate Banking	$ 78,975	$ 83,762	$ (4,787)	(6)%
Real Estate	42,313	40,030	2,283	6 %
Business Credit	23,367	23,009	358	2 %
Commercial Banking	12,435	10,093	2,342	23 %
Other	3,669	4,291	(622)	(14)%
Total average loans	$ 160,759	$ 161,185	$ (426)	—
Credit-related statistics				
Nonperforming assets (f)	$ 1,061	$ 832	$ 229	28 %
Net charge-offs - loans and leases	$ 290	$ 181	$ 109	60 %

*- 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 September 30.

Corporate & Institutional Banking earnings in the first nine months of 2021 increased $2.3 billion compared with the same period in 2020 driven by a provision recapture and higher total revenue, partially offset by higher noninterest expense. Results for the first nine months of 2021 reflect the benefit of BBVA's business operations since the acquisition closed on June 1, 2021.

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

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

Provision recapture in the first nine months of 2021 was driven by improvements in credit quality and macroeconomic factors along with changes in portfolio composition, partially offset by the additional provision for credit losses related to the BBVA acquisition.

Noninterest expense increased in the comparison largely due to higher variable costs associated with increased business activity and the BBVA acquisition.

Average loans decreased compared with the nine months ended September 30, 2020 due to declines in Corporate Banking, partially offset by increases in Commercial Banking, Real Estate and Business Credit:

- 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 loans from BBVA and new production.
- 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 loans from BBVA and PPP loan originations.
- Real Estate provides banking, financing and servicing solutions for commercial real estate clients across the country. Average loans for this business increased reflecting loans from BBVA, partially offset by lower commercial mortgage and multifamily agency warehouse lending.
- 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 increased primarily driven by new production and loans from BBVA, partially offset by lower average utilization of loan commitments.

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, the BBVA acquisition accelerated our expansion efforts across the Southwest; however 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 corporations with cash and investment management services, receivables and disbursement management services, funds transfer services, international payment services and access to online/mobile information management and reporting services. Within Treasury Management, PNC Global Transfers (formerly BBVA Transfer Services, Inc.) provides wholesale money transfer processing capabilities between the U.S. and Mexico and other countries primarily in Central America and South America. 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 nine months of 2020, treasury management revenue increased due to higher deposit balances and higher noninterest income, partially 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 mostly driven by higher merger and acquisition advisory fees as well as higher equity capital market advisory 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, partially offset by lower revenue from commercial mortgage loans held for sale.

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) Nine months ended September 30 Dollars in millions, except as noted	2021	2020	Change $	Change %
Income Statement				
Net interest income	$ 346	$ 266	$ 80	30 %
Noninterest income	729	629	100	16 %
Total revenue	1,075	895	180	20 %
Provision for credit losses	8	23	(15)	(65)%
Noninterest expense	676	647	29	4 %
Pretax earnings	391	225	166	74 %
Income taxes	91	52	39	75 %
Earnings	$ 300	$ 173	$ 127	73 %
Average Balance Sheet				
Loans				
Consumer				
Residential real estate	$ 4,608	$ 2,667	$ 1,941	73 %
Other consumer	4,249	4,031	218	5 %
Total consumer	8,857	6,698	2,159	32 %
Commercial	1,629	849	780	92 %
Total loans	$ 10,486	$ 7,547	$ 2,939	39 %
Total assets	$ 11,124	$ 8,041	$ 3,083	38 %
Deposits				
Noninterest-bearing demand	$ 2,884	$ 1,528	$ 1,356	89 %
Interest-bearing demand	9,597	7,566	2,031	27 %
Money market	3,610	1,616	1,994	123 %
Savings	7,755	7,279	476	7 %
Other	628	707	(79)	(11)%
Total deposits	$ 24,474	$ 18,696	$ 5,778	31 %
Performance Ratios				
Return on average assets	3.61 %	2.88 %		
Noninterest income to total revenue	68 %	70 %		
Efficiency	63 %	72 %		
Supplemental Noninterest Income Information				
Asset management fees	$ 713	$ 615	$ 98	16 %
Brokerage fees	6		6	*
Total	$ 719	$ 615	$ 104	17 %
Other Information				
Nonperforming assets (a)	$ 80	$ 39	$ 41	105 %
Net charge-offs - loans and leases	$ 1		$ 1	*
Brokerage account client assets (in billions) (a)	$ 5		$ 5	*
Client Assets Under Administration (in billions) (a) (b)				
Discretionary client assets under management	$ 183	$ 158	$ 25	16 %
Nondiscretionary client assets under administration	170	142	28	20 %
Total	$ 353	$ 300	$ 53	18 %
Discretionary client assets under management				
Personal	$ 117	$ 99	$ 18	18 %
Institutional	66	59	7	12 %
Total	$ 183	$ 158	$ 25	16 %

* - Not meaningful
(a) As of September 30.
(b) Excludes brokerage account client assets.

Asset Management Group earnings in the first nine months of 2021 increased $127 million compared with the same period in 2020 driven by higher revenue and lower provision for credit losses. Results for the first nine months of 2021 reflect the benefit of BBVA's business operations since the acquisition closed in June 2021.

Net interest income increased due to growth in average loan and deposit balances, reflecting the BBVA acquisition and wider interest rate spreads on loans. This was partially offset by narrower interest rate spreads on deposits.

The increase in noninterest income was primarily attributable to increases in the average equity markets and the benefit of BBVA.

Noninterest expense increased due to the impact of BBVA operations, partially offset by intangible asset amortization run-off.

Provision for credit losses in the first nine months of 2021 was driven by the additional provision for credit losses related to the BBVA acquisition, partially offset by improvements in credit quality and macroeconomic factors.

Discretionary client assets under management increased in comparison to the prior year primarily due to the higher equity markets as of September 30, 2021.

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

With the inclusion of BBVA, PNC Private Bank has approximately 100 offices operating in eight 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 retirement plan fiduciary investment services to institutional clients including corporations, healthcare systems, insurance companies, unions, municipalities and non-profits.

Risk Management

The Risk Management section included in Item 7 of our 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).

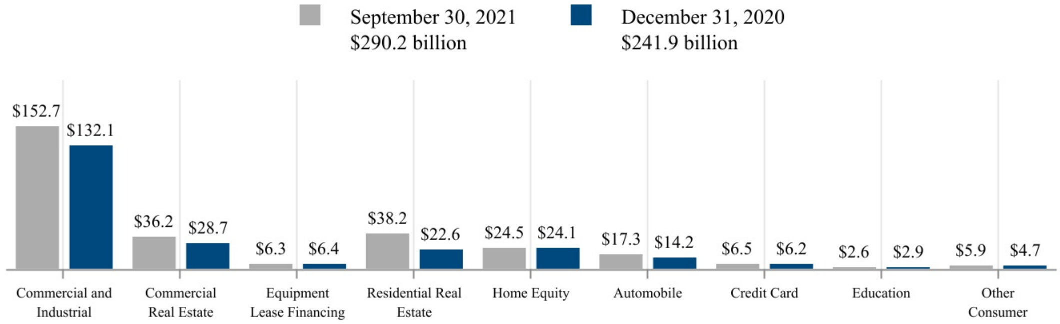
Upon closing of the acquisition of BBVA, the PNC Enterprise Risk Management Framework applied to the legal entities acquired from BBVA S.A., including BBVA USA. Prior to closing, PNC’s Independent Risk Management group evaluated and updated the frameworks, policies and procedures of the acquired BBVA entities as necessary. The updates were made to align the acquired BBVA entities with PNC’s risk appetite and connected the elements of their respective risk governance and reporting into PNC’s existing enterprise risk framework. Connecting the existing BBVA risk governance and reporting framework into PNC’s existing enterprise risk framework allowed separate risk profiles, governance, and reporting for PNC Bank and the acquired BBVA entities during the period from acquisition through conversion, while also providing the ability to consolidate into one enterprise risk profile that was communicated through the established risk governance and reporting for PNC. Upon the merger of BBVA USA into PNC Bank, completed on October 8, 2021, the updated BBVA risk governance and reporting framework is no longer applicable as all acquired BBVA entities are under PNC’s framework.

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 included 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.

<u>Commercial</u>

<u>Commercial and Industrial</u>
Commercial and industrial loans comprised 53% and 55% of our total loan portfolio at September 30, 2021 and December 31, 2020, respectively. The majority of our commercial and industrial loans are secured by collateral that provides a secondary source of repayment for the loan should the borrower experience cash generation difficulties. Examples of this collateral include short-term assets, such as accounts receivable, inventory and securities, and long-lived assets, such as equipment, owner-occupied 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

	September 30, 2021		December 31, 2020	
Dollars in millions	Amount	% of Total	Amount	% of Total
Commercial and industrial				
Manufacturing	$ 22,760	15 %	$ 20,712	16 %
Retail/wholesale trade	22,238	15	20,218	15
Service providers	20,969	14	19,419	15
Financial services	18,022	12	14,909	11
Real estate related (a)	14,809	10	13,369	10
Health care	10,567	7	8,987	7
Transportation and warehousing	7,318	5	7,095	5
Other industries	36,052	22	27,364	21
Total commercial and industrial loans	$ 152,735	100 %	$ 132,073	100 %

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

The increase in commercial and industrial loans compared to December 31, 2020 primarily reflects the acquisition of BBVA. Amounts also include $6.8 billion of PPP loans outstanding at September 30, 2021. 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 $20.9 billion related to commercial mortgages, $8.4 billion of real estate project loans and $6.9 billion of intermediate term financing loans as of September 30, 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

	September 30, 2021		December 31, 2020	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography (a)				
California	$ 5,953	16 %	$ 4,458	16 %
Texas	4,052	11	2,031	7
Florida	3,497	10	2,991	10
Virginia	1,798	5	1,586	6
Maryland	1,683	5	1,770	6
Pennsylvania	1,556	4	1,425	5
Ohio	1,262	3	1,247	4
Colorado	1,237	3	584	2
Illinois	1,182	3	900	3
Arizona	1,141	3	636	2
Other	12,834	37	11,088	39
Total commercial real estate loans	$ 36,195	100 %	$ 28,716	100 %
Property Type				
Multifamily	$ 12,148	34 %	$ 9,617	33 %
Office	9,959	28	7,691	27
Retail	3,759	10	3,490	12
Industrial/warehouse	2,832	8	1,999	7
Seniors housing	2,403	7	1,417	5
Hotel/motel	2,355	7	1,954	7
Mixed use	756	2	835	3
Other	1,983	4	1,713	6
Total commercial real estate loans	$ 36,195	100 %	$ 28,716	100 %

(a) Presented in descending order based on loan balances at September 30, 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 September 30, 2021, our outstanding loan balances in these industries totaled $21.2 billion, or approximately 7% of our total loan portfolio, while additional unfunded loan commitments totaled $13.3 billion. We continue to carefully monitor and manage these loans, and while we have not yet experienced material charge-offs in these industries, we believe uncertainty relative to the timing and level of long-term recovery remains high.

In our non-real estate related category we have $12.3 billion in loans outstanding, $1.7 billion of which are funded through the PPP and guaranteed by the SBA. Nonperforming loans in these industries totaled $0.2 billion, or 2% of total loans outstanding in the non-real estate related category, while criticized assets totaled $1.8 billion at September 30, 2021 with the greatest stress seen in the leisure recreation and leisure travel sectors.

Within the real estate related category we have $8.9 billion in loans outstanding, which includes real estate projects of $6.6 billion and unsecured real estate of $2.3 billion. Nonperforming loans in these industries totaled $0.2 billion at September 30, 2021, or 2% of total loans outstanding in the commercial real estate related category. In this category, while loan performance has not materially deteriorated, these industries continue to face headwinds that have resulted in a slower recovery compared with the pace of the overall economy.

Oil and Gas Loan Portfolio

As of September 30, 2021, our outstanding loans in the oil and gas sector totaled $3.9 billion, or 1% of total loans. This portfolio comprised approximately $1.4 billion in the midstream and downstream sectors, $1.0 billion of oil services companies and $1.5 billion related to exploration and production companies. Of the oil services category, approximately $0.3 billion is not asset-based or investment grade. Nonperforming loans in the oil and gas sector as of September 30, 2021 totaled $0.2 billion, or 5% of total loans outstanding in this sector. Additional unfunded loan commitments for the oil and gas portfolio totaled $10.1 billion at September 30, 2021.

Consumer

Residential Real Estate

Residential real estate loans primarily consisted of residential mortgage loans at both September 30, 2021 and December 31, 2020.

We obtain loan attributes at origination, including original FICO scores and LTVs, and we update these and other credit metrics at least quarterly. We track borrower performance monthly. 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 776.

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

Table 17: Residential Real Estate Loans by Geography

	September 30, 2021		December 31, 2020	
Dollars in millions	Amount	% of Total	Amount	% of Total
Geography (a)				
California	$ 13,930	36 %	$ 7,828	35 %
Texas	4,524	12	409	2
Florida	3,089	8	1,620	7
Washington	1,657	4	1,104	5
New Jersey	1,594	4	1,635	7
Arizona	1,464	4	163	1
New York	1,184	3	1,020	5
Colorado	1,174	3	262	1
Pennsylvania	1,037	3	1,036	5
Illinois	963	3	1,039	5
Other	7,598	20	6,444	27
Total residential real estate loans	$ 38,214	100 %	$ 22,560	100 %

(a) Presented in descending order based on loan balances at September 30, 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. Our portfolio of originated nonconforming residential mortgage loans totaled $29.9 billion at September 30, 2021 with 43% located in California. Comparable amounts at December 31, 2020 were $17.9 billion and 41%, respectively.

Home Equity

Home equity loans comprised $15.3 billion of primarily variable-rate home equity lines of credit and $9.2 billion of closed-end home equity installment loans at September 30, 2021. Comparable amounts were $12.6 billion and $11.5 billion as of December 31, 2020, respectively.

We track borrower performance of this portfolio monthly similarly to residential real estate loans. 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) and track the historical performance of any related mortgage loans regardless of whether we hold the lien. 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 782.

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

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

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

	September 30, 2021			December 31, 2020		
Dollars in millions		Amount	% of Total		Amount	% of Total
Geography (a)						
Pennsylvania	$	5,169	21 %	$	5,602	23 %
New Jersey		3,151	13		3,462	14
Ohio		2,459	10		2,753	11
Florida		1,703	7		1,536	6
Michigan		1,271	5		1,398	6
Maryland		1,216	5		1,332	6
Illinois		1,200	5		1,411	6
Texas		1,026	4		7	
North Carolina		937	4		1,043	4
Kentucky		800	3		922	4
Other		5,547	23		4,622	20
Total home equity loans	$	24,479	100 %	$	24,088	100 %
Lien type						
1st lien			61 %			63 %
2nd lien			39			37
Total			100 %			100 %

(a) Presented in descending order based on loan balances at September 30, 2021.

<u>*Automobile*</u>
Auto loans comprised $16.0 billion in the indirect auto portfolio and $1.3 billion in the direct auto portfolio as of September 30, 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

	September 30, 2021	December 31, 2020
Weighted-average loan origination FICO score (a)		
Indirect auto	793	784
Direct auto	774	768
Weighted-average term of loan originations - in months (a)		
Indirect auto	72	72
Direct auto	62	62

(a) Weighted-averages calculated for the twelve months ended September 30, 2021 and December 31, 2020, respectively, using the auto enhanced FICO scale.

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 53% new vehicle loans and 47% used vehicle loans at September 30, 2021. Comparable amounts at December 31, 2020 were 56% and 44%, respectively.

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

Nonperforming Assets and Loan Delinquencies

<u>Nonperforming Assets</u>
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 (a)

Dollars in millions	September 30, 2021	December 31, 2020	Change $	Change %
Nonperforming loans				
Commercial	$ 1,204	$ 923	$ 281	30 %
Consumer (b)	1,324	1,363	(39)	(3)%
Total nonperforming loans	2,528	2,286	242	11 %
OREO and foreclosed assets	31	51	(20)	(39)%
Total nonperforming assets	$ 2,559	$ 2,337	$ 222	9 %
TDRs included in nonperforming loans	$ 798	$ 902	$ (104)	(12)%
Percentage of total nonperforming loans	32 %	39 %		
Nonperforming loans to total loans	0.87 %	0.94 %		
Nonperforming assets to total loans, OREO and foreclosed assets	0.88 %	0.97 %		
Nonperforming assets to total assets	0.46 %	0.50 %		
Allowance for loan and lease losses to nonperforming loans	212 %	235 %		

(a) Includes $715 million of nonperforming assets at September 30, 2021, $666 million in the commercial portfolio, $41 million in the consumer portfolio and $8 million of OREO and foreclosed assets, attributable to BBVA.
(b) 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.

Increases in nonperforming assets from December 31, 2020 primarily reflects the impact of BBVA, partially offset by improved credit performance throughout 2021.

The following table provides details on the change in nonperforming assets for the nine months ended September 30, 2021 and 2020:

Table 21: Change in Nonperforming Assets

In millions	2021	2020
January 1	$ 2,337	$ 1,752
New nonperforming assets	821	1,361
Acquired nonperforming assets (a)	880	
Charge-offs and valuation adjustments	(202)	(324)
Principal activity, including paydowns and payoffs	(783)	(418)
Asset sales and transfers to loans held for sale	(131)	(68)
Returned to performing status	(363)	(151)
September 30	$ 2,559	$ 2,152

(a) Represents the June 30, 2021 balance of nonperforming assets attributable to BBVA. Changes in this acquired portfolio for the three months ended September 30, 2021 are reflected in the appropriate category based on activity.

As of September 30, 2021, approximately 99% of total nonperforming loans were secured by collateral which lessened reserve requirements and is expected to reduce credit losses.

Within consumer nonperforming loans, residential real estate TDRs comprised 44% of total residential real estate nonperforming loans while home equity TDRs comprised 38% of home equity nonperforming loans at September 30, 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.

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 September 30, 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 September 30, 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	September 30 2021 (b)	December 31 2020	$	%	September 30 2021	December 31 2020
Early stage loan delinquencies						
Accruing loans past due 30 to 59 days	$ 659	$ 620	$ 39	6 %	0.23 %	0.26 %
Accruing loans past due 60 to 89 days	245	234	11	5 %	0.08 %	0.10 %
Total early stage loan delinquencies	904	854	50	6 %	0.31 %	0.35 %
Late stage loan delinquencies						
Accruing loans past due 90 days or more	492	509	(17)	(3)%	0.17 %	0.21 %
Total accruing loans past due	$ 1,396	$ 1,363	$ 33	2 %	0.48 %	0.56 %

(a) Past due loan amounts include government insured or guaranteed loans of $0.5 billion and $0.6 billion at September 30, 2021 and December 31, 2020, respectively.
(b) Amounts as of September 30, 2021 include $300 million of early stage loan delinquencies and $72 million of late stage loan delinquencies attributable to BBVA.

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 September 30, 2021 and December 31, 2020, respectively:

Table 23: Summary of Troubled Debt Restructurings (a)

Dollars in millions	September 30 2021	December 31 2020	Change $	Change %
Commercial	$ 486	$ 528	$ (42)	(8)%
Consumer	970	1,116	(146)	(13)%
Total TDRs	$ 1,456	$ 1,644	$ (188)	(11)%
Nonperforming	$ 798	$ 902	$ (104)	(12)%
Accruing (b)	658	742	(84)	(11)%
Total TDRs	$ 1,456	$ 1,644	$ (188)	(11)%

(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 32% of total nonperforming loans and 55% of total TDRs at September 30, 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 nine months 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 September 30, 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 September 30, 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 September 30, 2021. Excluded from Table 24 are government insured or guaranteed loans totaling $284 million in each of the Residential real estate and Education loan classes. These loans present minimal credit risk to PNC. Loans in active hardship assistance programs offered by BBVA prior to acquisition were $59 million at September 30, 2021 and are excluded from Table 24.

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

As of September 30, 2021 - Dollars in millions	Number of Accounts	Unpaid Principal Balance	% of Loan Class (c)	% Making Payment in Last Payment Cycle
Consumer				
Residential real estate	1,334	$ 234	0.6 %	36.5 %
Home equity	665	46	0.2 %	82.8 %
Automobile	2,556	57	0.3 %	74.3 %
Credit card	6,519	41	0.6 %	71.6 %
Education	2,449	37	1.4 %	55.9 %
Other consumer	553	7	0.1 %	77.2 %
Total consumer (d)	14,076	$ 422	0.4 %	69.0 %

(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 $101 million.
(c) Based on total loans outstanding at September 30, 2021.
(d) Approximately 80% of these loan balances were secured by collateral at September 30, 2021.

Modifications are considered to have exited active assistance after the modification period has expired or the modification was exited. As of September 30, 2021, approximately 97% of the accruing consumer loans that have exited hardship relief program modifications offered by legacy PNC 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 and performance experience, which is captured through PD, as well as current borrower risk characteristics including collateral type and quality, 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, 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 September 30, 2021.

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

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

	September 30, 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	$ 2,173	$ 152,735	1.42 %	$ 2,300	$ 132,073	1.74 %
Commercial real estate	1,312	36,195	3.62 %	880	28,716	3.06 %
Equipment lease financing	118	6,257	1.89 %	157	6,414	2.45 %
Total commercial	3,603	195,187	1.85 %	3,337	167,203	2.00 %
Consumer						
Residential real estate	42	38,214	0.11 %	28	22,560	0.12 %
Home equity	167	24,479	0.68 %	313	24,088	1.30 %
Automobile	365	17,265	2.11 %	379	14,218	2.67 %
Credit card	701	6,466	10.84 %	816	6,215	13.13 %
Education	81	2,653	3.05 %	129	2,946	4.38 %
Other consumer	396	5,966	6.64 %	359	4,698	7.64 %
Total consumer	1,752	95,043	1.84 %	2,024	74,725	2.71 %
Total	5,355	$ 290,230	1.85 %	5,361	$ 241,928	2.22 %
Allowance for unfunded lending related commitments	646			584		
Allowance for credit losses	$ 6,001			$ 5,945		
Allowance for credit losses to total loans			2.07 %			2.46 %
Commercial			2.12 %			2.29 %
Consumer			1.96 %			2.84 %

(a) Excludes allowances for investment securities and other financial assets, which together totaled $162 million and $109 million at September 30, 2021 and December 31, 2020, respectively.

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

Table 26: Loan Charge-Offs and Recoveries

Nine months ended September 30 Dollars in millions	Gross Charge-offs	Recoveries	Net Charge-offs / (Recoveries)	% of Average Loans (Annualized)
2021				
Commercial				
Commercial and industrial	$ 350	$ 68	$ 282	0.27 %
Commercial real estate	34	5	29	0.12 %
Equipment lease financing	9	8	1	0.02 %
Total commercial	393	81	312	0.23 %
Consumer				
Residential real estate	11	20	(9)	(0.04) %
Home equity	16	63	(47)	(0.26) %
Automobile	120	117	3	0.03 %
Credit card	196	36	160	3.52 %
Education	11	6	5	0.24 %
Other consumer	130	21	109	2.77 %
Total consumer	484	263	221	0.36 %
Total	$ 877	$ 344	$ 533	0.27 %
2020				
Commercial				
Commercial and industrial	$ 249	$ 52	$ 197	0.19 %
Commercial real estate	1	6	(5)	(0.02) %
Equipment lease financing	19	7	12	0.23 %
Total commercial	269	65	204	0.15 %
Consumer				
Residential real estate	4	12	(8)	(0.05) %
Home equity	31	44	(13)	(0.07) %
Automobile	210	95	115	0.93 %
Credit card	228	26	202	3.98 %
Education	13	6	7	0.29 %
Other consumer	110	14	96	2.61 %
Total consumer	596	197	399	0.68 %
Total	$ 865	$ 262	$ 603	0.32 %

Total net charge-offs decreased $70 million, or 12%, for the first nine months of 2021 compared to the same period in 2020. Commercial net charge-offs increased in the comparative primarily related to charge-offs attributable to BBVA, which were largely the result of required purchase accounting treatment for the acquisition. This increase was more than offset by declines in consumer net-charge-offs, driven primarily by decreases in automobile and credit card due to the continued favorable impact of government stimulus programs benefiting consumers, as well as the increase in automobile collateral values which has limited our losses in the auto portfolio.

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.

<u>Liquidity and Capital Management</u>

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 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 September 30, 2021, the LCR for PNC and PNC Bank exceeded the requirement of 100%.

Due to certain transition provisions in the LCR rules, BBVA USA was not subject to the LCR on a standalone basis prior to the merger into PNC Bank as the merger was completed prior to the effective date for BBVA USA's LCR compliance in 2022.

We provide additional information regarding regulatory liquidity requirements and their potential impact on us in the Supervision and Regulation and Recent Regulatory Developments 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 $448.9 billion at September 30, 2021 from $365.3 billion at December 31, 2020, driven by growth in both noninterest-bearing and interest-bearing deposits primarily due to the BBVA acquisition. 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 September 30, 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 $87.0 billion and securities available for sale totaling $124.1 billion. The level of liquid assets fluctuates over time based on many factors, including market conditions, loan and deposit growth and balance sheet management activities. Our liquid assets included $25.2 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	1.7
Calls and maturities	(3.9)
Other	(0.7)
Impact from BBVA acquisition	2.2
September 30	$ 30.0

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 September 30, 2021, PNC Bank had $15.9 billion of notes outstanding under this program of which $10.9 billion were senior bank notes and $5.0 billion were subordinated bank notes.

At September 30, 2021, BBVA USA had $2.1 billion of notes outstanding, of which $1.3 billion were senior bank notes and $0.8 billion were subordinated banks notes.

See Note 16 Subsequent Events for details on the $750 million bank note redemption announced on October 29, 2021.

PNC Bank maintains additional secured borrowing capacity with the FHLB 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 September 30, 2021, our unused secured borrowing capacity at the FHLB and the Federal Reserve Bank totaled $95.3 billion.

PNC Bank has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. At September 30, 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.

At September 30, 2021, available parent company liquidity totaled $6.0 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 or other capital distributions 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 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 $3.1 billion at September 30, 2021. See Note 20 Regulatory Matters in the Notes To Consolidated Financial Statements in our 2020 Form 10-K for further discussion of these limitations. Due to the net earnings restrictions on dividend distributions under Alabama law, BBVA USA was not permitted to pay dividends any time between the BBVA acquisition on June 1, 2021 and the bank merger on October 8, 2021 without regulatory approval.

See Note 16 Subsequent Events for details on PNC Bank's return of capital of $3.0 billion to the parent company.

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. At September 30, 2021, there were no commercial paper issuances outstanding.

On August 4, 2021, PNC redeemed all of the outstanding senior notes due September 3, 2021 issued by PNC in the amount of $500 million. The securities had a distribution rate of 3.250%. The redemption price was equal to $1,000 per $1,000 in principal amount, plus any accrued and unpaid distributions to the redemption date.

On August 13, 2021, the parent company issued $700 million of senior notes with a maturity date of August 13, 2026. Interest is payable semi-annually in arrears at a fixed rate of 1.15% per annum, on August 13 and February 13 of each year, beginning on February 13, 2022.

Parent company senior and subordinated debt outstanding totaled $11.4 billion and $10.6 billion at September 30, 2021 and December 31, 2020, respectively.

Contractual Obligations and Commitments
We have contractual obligations representing required future payments on borrowed funds, time deposits, leases, pension and postretirement benefits and purchase obligations. See the Liquidity and Capital Management portion of the Risk Management section in our 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 September 30, 2021:

Table 28: Credit Ratings for PNC and PNC Bank

	September 30, 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	Aa3	A	AA-
Short-term deposits	P-1	A-1	F1+
Short-term notes	P-1	A-1	F1

On July 12, 2021, Moody's downgraded PNC Bank's long-term deposit rating from Aa2 to Aa3. The rating action was driven by a change in Moody's rating methodology and no impact to PNC or its businesses is expected as a result of this downgrade. PNC Bank's senior unsecured and subordinated debt ratings were affirmed at A2 and A3, respectively. At the same time, the Moody's rating outlook on PNC Bank's long-term deposit, senior unsecured debt and issuer ratings were raised from negative to stable. The credit rating agencies have withdrawn ratings on BBVA USA as the entity no longer exists.

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.

On September 13, 2021, PNC issued 1,500,000 depositary shares each representing 1/100th ownership in a share of 3.400% fixed-rate reset non-cumulative perpetual preferred stock, Series T, with a par value of $1 per share.

In the third quarter of 2021, we returned capital to shareholders through dividends on common shares of $0.5 billion and $0.4 billion of common share repurchases, representing 2.1 million shares. Repurchases were made under the share repurchase programs of up to $2.9 billion for the four-quarter period beginning in the third quarter of 2021.

On October 1, 2021, the PNC Board of Directors declared a quarterly cash dividend on common stock of $1.25 per share payable on November 5, 2021.

Table 29: Basel III Capital

Dollars in millions	September 30, 2021 Basel III (a)	Fully Implemented (estimated) (b)
Common equity Tier 1 capital		
Common stock plus related surplus, net of treasury stock	$ 630	$ 630
Retained earnings	50,598	49,541
Goodwill, net of associated deferred tax liabilities	(10,673)	(10,673)
Other disallowed intangibles, net of deferred tax liabilities	(469)	(469)
Other adjustments/(deductions)	(48)	(53)
Common equity Tier 1 capital	40,038	38,976
Additional Tier 1 capital		
Preferred stock plus related surplus	5,009	5,009
Tier 1 capital	45,047	43,985
Additional Tier 2 capital		
Qualifying subordinated debt	3,724	3,724
Trust preferred capital securities	20	
Eligible credit reserves includable in Tier 2 capital	4,191	4,838
Total Basel III capital	$ 52,982	$ 52,547
Risk-weighted assets		
Basel III standardized approach risk-weighted assets (c)	$ 389,911	$ 389,887
Average quarterly adjusted total assets	$ 547,840	$ 546,777
Supplementary leverage exposure (d)	$ 643,732	$ 643,727
Basel III risk-based capital and leverage ratios (a)(e)		
Common equity Tier 1	10.3 %	10.0 %
Tier 1	11.6 %	11.3 %
Total (f)	13.6 %	13.5 %
Leverage (g)	8.2 %	8.0 %
Supplementary leverage ratio (d)	7.0 %	6.8 %

(a) The ratios are calculated to reflect PNC's election to adopt the CECL optional five-year transition provision.
(b) The ratios are calculated to reflect the full impact of CECL and excludes the benefits of phase-ins.
(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) The Supplementary leverage ratio is calculated based on Tier 1 capital divided by Supplementary leverage exposure, which takes into account the quarterly average of both on balance sheet 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 banking organizations 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, excluding the initial allowance for PCD loans from BBVA, compared to CECL ACL at transition. 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.

At September 30, 2021, PNC, PNC Bank and BBVA USA were 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 and BBVA USA 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 September 30, 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 third quarter of 2021 and 2020 follow:

Table 30: Interest Sensitivity Analysis

	Third Quarter 2021 (a)	Third Quarter 2020
Net Interest Income Sensitivity Simulation		
Effect on net interest income in first year from gradual interest rate change over the following 12 months of:		
100 basis point increase	4.5 %	4.3 %
Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of:		
100 basis point increase	11.3 %	10.9 %
Key Period-End Interest Rates		
One-month LIBOR	0.08 %	0.15 %
Three-month LIBOR	0.13 %	0.23 %
Three-year swap	0.65 %	0.24 %

(a) Results include BBVA USA.

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, including BBVA USA, 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.

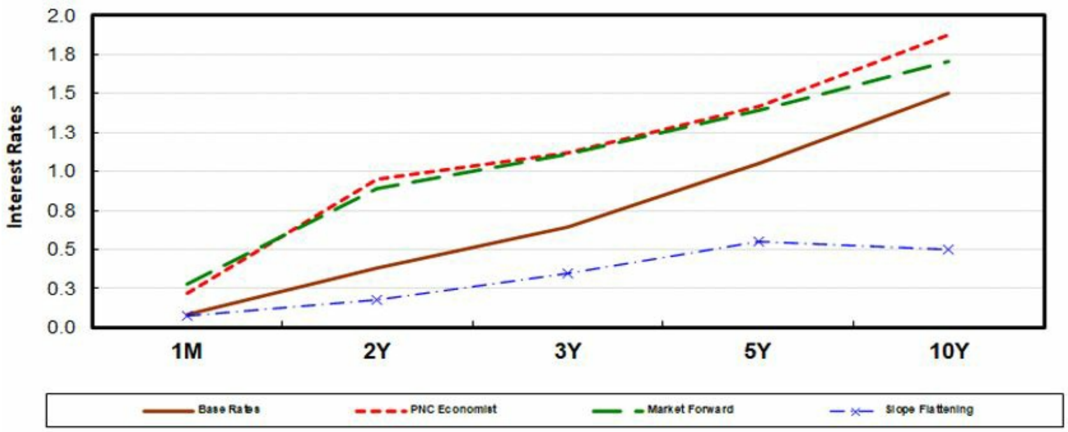
Table 31: Net Interest Income Sensitivity to Alternative Rate Scenarios

	September 30, 2021		
	PNC Economist	Market Forward	Slope Flattening
First year sensitivity	1.6 %	1.0 %	(2.2) %
Second year sensitivity	6.7 %	5.0 %	(7.3) %

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 third 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. A 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 and the first nine months of 2021 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 Sensitivity

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 late 2020, PNC began offering conforming adjustable rate mortgages using SOFR instead of USD LIBOR in line with Fannie Mae and Freddie Mac requirements. In the second quarter of 2021, PNC began offering nonconforming adjustable rate mortgages using SOFR and private student loans using Prime. Alternative rates including, but not limited to, the Bloomberg Short-Term Bank Yield Index and SOFR are currently being offered to our corporate and commercial customers. LIBOR will cease to be offered for new loans by year end 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 $278 million for the nine months ended September 30, 2021, compared to $293 million for the same period in 2020. The decrease was primarily due to lower interest rate derivative client sales revenues partially offset by improved foreign exchange client sales revenues. For the quarterly period, customer-related trading revenue was $99 million for the third quarter of 2021, compared to $108 million in 2020. The decrease was primarily due to changes in the credit valuation for customer-related derivatives activities partially offset by improved foreign exchange client revenues.

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	September 30 2021 (a)	December 31 2020	Change $	Change %
Tax credit investments	$ 3,723	$ 2,870	$ 853	30 %
Private equity and other	4,014	3,182	832	26 %
Total	$ 7,737	$ 6,052	$ 1,685	28 %

(a) Includes $0.7 billion of investments from BBVA, of which $0.6 billion are tax credit investments and $0.1 billion are private equity and other.

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 $2.0 billion and $1.4 billion at September 30, 2021 and December 31, 2020, respectively. 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 largest component of our other equity investments is 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 $1.7 billion and $1.5 billion at September 30, 2021 and December 31, 2020, respectively. As of September 30, 2021, $1.5 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 September 30, 2021 per share closing price of $222.75 for a Visa Class A common share, the estimated value of our total investment in the Class B common shares was approximately $1.3 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 shares and related 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 $44 million for the nine months ended September 30, 2021 and were not significant for the nine months ended September 30, 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

BBVA USA Merger
On October 8, 2021 and following regulatory approval from the Federal Reserve and the OCC, PNC consummated the merger of its U.S. state member bank subsidiary, BBVA USA, Birmingham, Alabama, with and into PNC Bank, with PNC Bank remaining as the surviving bank. The regulatory approval process also included approvals from the banking departments of the states of Alabama and Texas. With completion of the merger and conversion of BBVA USA branches to PNC Bank branches, PNC Bank has added branches in Texas, Alabama, Arizona, California, Florida, Colorado and New Mexico. The merger of the two banks did not affect PNC or PNC Bank's classification as Category III institutions for purposes of federal bank regulations.

Other Developments
In September 2021, the OCC issued a notice of proposed rulemaking to rescind its June 2020 CRA rule. The OCC's June 2020 rule made significant changes to the OCC's regulations implementing the CRA for national banks, like PNC Bank, and replaced the previous CRA rule jointly issued with the Federal Reserve and the FDIC (1995 rule). The June 2020 rule would have required significant changes to PNC Bank's CRA framework. The OCC is proposing to replace its June 2020 rule, including provisions of the rule that were effective October 1, 2020, with rules largely based on the 1995 rule subject to a transition for certain aspects of the June 2020 rule. The proposal would facilitate the OCC's ongoing work with the Federal Reserve and the FDIC to modernize the regulations implementing the CRA and create consistent rules for all insured depository institutions. Comments on the proposal are due October 29, 2021.

In September 2021, the CFPB issued a notice of proposed rulemaking to implement the small business lending data collection requirements set forth in section 1071 of the Dodd-Frank Act. Section 1071 amended the Equal Credit Opportunity Act to require financial institutions to collect and report to the CFPB data regarding certain small business credit applications. Under the proposal, financial institutions that meet small business credit transaction thresholds, like PNC Bank, would be required to collect and report significant amounts of data regarding applications for small business credit, including on the race, sex and ethnicity of the principal owners of the business, among other requirements. The CFPB has proposed that any final rule, when issued, would be effective 90 days after publication in the Federal Register, with compliance mandated 18 months after publication. Comments on the proposal are due January 6, 2022.

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. For additional information on fair value measurements of assets and liabilities assumed in the BBVA acquisition, see Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements included in this Report. 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, 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 and performance experience, which is captured through PD, as well as current borrower characteristics including collateral type and quality, 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 major drivers of ACL estimates include, but are not limited to:

- 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 September 30, 2021 reflect an improved near-term economic outlook compared to the scenarios used for the period ended December 31, 2020. The overall improvement in the comparison was driven largely by improvements in both the outlook for consumer spending and the labor market, along with the impact from continued vaccine distribution, while also considering the lingering effects of COVID-19 that slowed the momentum of economic recovery in recent months, as the Delta variant continued to drive increased COVID-19 cases throughout the U.S. and abroad.

We used a number of economic variables in our scenarios, with the most significant drivers being Real GDP and unemployment rate measures. Using the weighted-average of our four economic forecast scenarios, we estimated that:

- Real GDP grows 5.4% in 2021, ending the year 3.1% above pre-recession levels. Annual growth continues but slows to 2.9% and 1.9% in 2022 and 2023, respectively.
- Unemployment rates reflect continued recovery in the labor market in 2021, with the unemployment rate falling to 5.3% by the end of the year. Employment gains were estimated to continue through the forecast period with the unemployment rate reaching 4.8% and 4.3% 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. This scenario includes estimated Real GDP growing to 5.8% in 2021 and ending the year 3.4% above its pre-recession peak levels, with annual growth slowing to 3.2% and 1.6% in 2022 and 2023, respectively. Unemployment rates in this most likely scenario reach 5.0% by the end of 2021, 4.3% by the end of 2022 and 3.9% by the end of 2023. 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.

Though the outlook of near-term growth is less optimistic than it was last quarter due to the emergence of the Delta COVID-19 variant and continued supply chain challenges, the economy has seen significant recovery from the onset of the pandemic. National macroeconomic indicators, forecasts and performance expectations have all steadily improved, helping to lower overall loss expectations. These improvements have been reflected in the reserve releases through the first nine months of 2021. However, for certain portions of our commercial and consumer portfolios, considerable uncertainty remains regarding lifetime losses. For commercial borrowers, there are still lingering concerns around industries that have been affected by COVID-19 related restrictions and emerging secular changes. For these industries, where unrestricted commerce has recently returned, the recovery will lag the broader economy. Where restrictions persist and/or secular changes have emerged, the impact and eventual level of recovery are less certain. For consumer borrowers, payment behavior upon expiration of government stimulus, including recently expired enhanced unemployment benefits is still difficult to predict. As such, for both our commercial and consumer loan portfolios, PNC identified and performed significant analysis around these segments to ensure our reserves are adequate in the current economic environment. We believe the economic scenarios have effectively provided sufficient variation to capture probable recovery paths. Additionally, through in depth and granular analysis of COVID-19 related impacts, we have adequately addressed reserve requirements for specific populations most affected in the current environment. Through this approach, we believe the reserve levels sufficiently reflect the expectation for life of loan losses of the current portfolio.

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 September 30, 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 September 30, 2021, and that there has been no change in PNC’s internal control over financial reporting that occurred during the third quarter of 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

As permitted by SEC guidance that an assessment of internal controls over financial reporting of a recently acquired business may be excluded from management's evaluation of disclosure controls and procedures for up to a year from the date of acquisition, we have excluded BBVA from management's reporting on internal control over financial reporting for the quarter ended September 30, 2021. We will continue to evaluate the effectiveness of internal controls over financial reporting post-integration of BBVA, including BBVA USA, with that of PNC and PNC Bank and will make changes to our internal control framework, as necessary. The acquisition of BBVA contributed $86.6 billion of assets, or 16% of our total assets, to our balance sheet at September 30, 2021. The BBVA acquisition also contributed $737 million of revenue, or 14% of total revenue, for the three months ended September 30, 2021 and $1.1 billion of revenue, or 7% of total revenue, for the nine months ended September 30, 2021.

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:
  - 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, market interest rates and inflation,
  - 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 the economic impacts of the COVID-19 pandemic,
  - The impact of the results of the 2020 U.S. elections, including on the regulatory landscape, capital markets, tax policy, infrastructure spending and social programs, 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.
  - The Delta COVID-19 variant and supply chain difficulties have been drags on economic growth in the second half of 2021, although the economy continues to expand. Growth will pick up at the end of 2021 as the impact of the Delta variant fades and supply chains normalize and will remain solid into 2022. Employment in September 2021 was still down by almost 5 million from before the pandemic; PNC expects employment to return to its pre-pandemic level in mid-2022.
  - Compared to the spring of 2020 (when prices were falling), inflation accelerated in mid-2021 due to strong demand in specific segments and supply chain disruptions. Inflation has started to slow on a month-over-month basis but will remain elevated in the near term.
  - PNC expects the FOMC to keep the fed funds rate in its current range of 0.00% to 0.25 % until late 2022.
- 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.
- 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 acquisition of BBVA presents us with risks and uncertainties related to the integration of the acquired business into PNC including:
   - The business of BBVA going forward may not perform as we 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 integration of BBVA, including its U.S. banking subsidiary, BBVA USA, with that of PNC and PNC Bank may be more difficult to achieve than anticipated or have unanticipated adverse results. Our ability to integrate BBVA, including its U.S. banking subsidiary, BBVA USA, successfully may be adversely affected by the fact that this transaction results in us entering several geographic markets where we did not previously have any meaningful presence.
- In addition to the 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 subsequent Form 10-Qs 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.