# 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 2021 Annual Report on Form 10-K (2021 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 2021 Form 10-K; Item 1A Risk Factors included in our 2021 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 our first quarter 2022 Form 10-Q and Item 8 of our 2021 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 2021 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 13 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 98 for a glossary of certain terms and acronyms used in this Report.*

### *Table 1: Consolidated Financial Highlights*

| Dollars in millions, except per share data<br>Unaudited | Three months ended<br>June 30<br>2022 | <br>March 31<br>2022 | <br>June 30<br>2021 | Six months ended<br>June 30<br>2022 | <br>June 30<br>2021 |
|---|---|---|---|---|---|
| **Financial Results (a)** | | | | | |
| Net interest income | $ 3,051 | $ 2,804 | $ 2,581 | $ 5,855 | $ 4,929 |
| Noninterest income | 2,065 | 1,888 | 2,086 | 3,953 | 3,958 |
| Total revenue | 5,116 | 4,692 | 4,667 | 9,808 | 8,887 |
| Provision for (recapture of) credit losses | 36 | (208) | 302 | (172) | (249) |
| Noninterest expense | 3,244 | 3,172 | 3,050 | 6,416 | 5,624 |
| Income before income taxes and noncontrolling interests | $ 1,836 | $ 1,728 | $ 1,315 | $ 3,564 | $ 3,512 |
| Income taxes | 340 | 299 | 212 | 639 | 583 |
| Net income | $ 1,496 | $ 1,429 | $ 1,103 | $ 2,925 | $ 2,929 |
| Net income attributable to common shareholders | $ 1,409 | $ 1,361 | $ 1,042 | $ 2,770 | $ 2,800 |
| **Per Common Share** | | | | | |
| Basic | $ 3.39 | $ 3.23 | $ 2.43 | $ 6.62 | $ 6.54 |
| Diluted | $ 3.39 | $ 3.23 | $ 2.43 | $ 6.61 | $ 6.53 |
| Book value per common share | $ 101.39 | $ 106.47 | $ 120.25 | | |
| **Performance Ratios** | | | | | |
| Net interest margin (b) | 2.50 % | 2.28 % | 2.29 % | 2.39 % | 2.28 % |
| Noninterest income to total revenue | 40 % | 40 % | 45 % | 40 % | 45 % |
| Efficiency | 63 % | 68 % | 65 % | 65 % | 63 % |
| Return on: | | | | | |
| Average common shareholders' equity | 13.52 % | 11.64 % | 8.32 % | 12.53 % | 11.29 % |
| Average assets | 1.10 % | 1.05 % | 0.88 % | 1.07 % | 1.21 % |

(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) See explanation and reconciliation of this non-GAAP measure in Average Consolidated Balance Sheet and Net Interest Analysis and 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)*

| Dollars in millions, except as noted<br>Unaudited | | June 30<br>2022 | | December 31<br>2021 | | June 30<br>2021 |
|---|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | | |
| Assets | $ | 540,786 | $ | 557,191 | $ | 554,212 |
| Loans | $ | 310,800 | $ | 288,372 | $ | 294,704 |
| Allowance for loan and lease losses | $ | 4,462 | $ | 4,868 | $ | 5,730 |
| Interest-earning deposits with banks | $ | 28,404 | $ | 74,250 | $ | 72,447 |
| Investment securities | $ | 132,732 | $ | 132,962 | $ | 126,543 |
| Total deposits | $ | 440,811 | $ | 457,278 | $ | 452,883 |
| Borrowed funds | $ | 35,984 | $ | 30,784 | $ | 34,813 |
| Total shareholders' equity | $ | 47,652 | $ | 55,695 | $ | 54,627 |
| Common shareholders' equity | $ | 41,648 | $ | 50,685 | $ | 51,107 |
| **Other Selected Ratios** | | | | | | |
| Common equity Tier 1 | | 9.6 % | | 10.3 % | | 10.1 % |
| Loans to deposits | | 71 % | | 63 % | | 65 % |
| Common shareholders' equity to total assets | | 7.7 % | | 9.1 % | | 9.2 % |

(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.

## 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 needs. Our business model is built on customer loyalty and engagement, understanding our customers' financial goals and offering our diverse products and services to help them achieve financial well-being. Our approach is concentrated on organically growing and deepening client relationships across our businesses that meet our risk/return measures.

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

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

Our capital and liquidity priorities are to support customers, fund business investments and return excess capital to shareholders, while maintaining appropriate capital in light of economic conditions, the Basel III framework and other regulatory expectations. 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 2021 Form 10-K.

### Presentation of Noninterest Income

Effective for the first quarter of 2022, PNC updated the presentation of its noninterest income categorization to be based on product and service type, and accordingly, has changed the basis of presentation of its noninterest income revenue streams to: (i) Asset management and brokerage, (ii) Capital markets related, (iii) Card and cash management, (iv) Lending and deposit services, (v) Residential and commercial mortgage and (vi) Other noninterest income. For a description of each updated noninterest income revenue stream, see Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Item 1 of this Report.

**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. On October 12, 2021, PNC converted approximately 2.6 million customers, 9,000 employees and over 600 branches across seven states. Our results of operations and balance sheets for all periods presented in this Report reflect the benefit of BBVA's acquired businesses for the period since the acquisition closed on June 1, 2021.

For additional information on the acquisition of BBVA, see Note 2 Acquisition Activity in the Notes To Consolidated Financial Statements included in Item 1 of this Report and Note 2 Acquisition and Divestiture Activity in the Notes To Consolidated Financial Statements included in Item 8 of our 2021 Form 10-K.

**Income Statement Highlights**

Net income of $1.5 billion, or $3.39 per diluted common share for the second quarter of 2022 increased $67 million, or 5%, compared to $1.4 billion, or $3.23 per diluted common share for the first quarter of 2022, driven by higher net interest and noninterest income, partially offset by a higher provision for credit losses and higher expenses.

- For the three months ended June 30, 2022 compared to the three months ended March 31, 2022:
  - Total revenue increased $424 million, or 9%, to $5.1 billion.
    - Net interest income of $3.1 billion increased $247 million, or 9%, driven by higher yields on interest-earning assets and increased loan balances, partially offset by higher funding costs.
      - Net interest margin increased 22 basis points to 2.50% due to higher yields on interest-earning assets.
    - Noninterest income increased $177 million, or 9%, to $2.1 billion, primarily due to increases in capital markets related fees.
    - The second quarter of 2022 included a provision for credit losses of $36 million. The first quarter of 2022 included a provision recapture of $208 million.
  - Noninterest expense increased $72 million, or 2%, to $3.2 billion, driven by increased business activity, annual employee merit increases and higher marketing spend.
  - We generated positive operating leverage of 7% in the second quarter of 2022 compared to the first quarter of 2022.

Net income of $2.9 billion, or $6.61 per diluted common share for the first six months of 2022 decreased $4 million, compared to $2.9 billion, or $6.53 per diluted common share for the six months ended 2021, as higher net interest income was largely offset by higher expenses and a lower provision recapture.

- For the six months ended June 30, 2022 compared to the six months ended June 30, 2021:
  - Total revenue increased $921 million, or 10%, to $9.8 billion.
    - Net interest income increased $926 million, or 19%, as a result of higher interest-earning asset balances, reflecting the benefit of BBVA, and higher yields, partially offset by higher funding costs.
      - Net interest margin increased 11 basis points, due to higher yields on interest-earning assets.
    - Noninterest income decreased $5 million.
  - Noninterest expense increased $792 million, or 14%, driven by the addition of BBVA operating expenses and increased business activity, partially offset by lower integration expenses.

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

**Balance Sheet Highlights**

Our balance sheet was well positioned at June 30, 2022. In comparison to December 31, 2021:
- Total assets decreased $16.4 billion, or 3%, to $540.8 billion.
- Total loans increased $22.4 billion, or 8%, to $310.8 billion.
  - Total commercial loans increased $19.4 billion, or 10%, to $212.5 billion, driven by new production, and higher utilization of loan commitments, partially offset by PPP loan forgiveness.
    - PPP loans outstanding were $1.0 billion and $3.4 billion at June 30, 2022 and December 31, 2021, respectively.
  - Total consumer loans increased $3.0 billion to $98.3 billion, primarily due to increases in residential mortgages and home equity, partially offset by declines in the remaining portfolios as paydowns outpaced new originations.
- Investment securities decreased $0.2 billion to $132.7 billion, resulting from net unrealized losses, which reflected the impact of higher interest rates, partially offset by net purchase activity.
- Interest-earning deposits with banks, primarily with the Federal Reserve Bank, decreased $45.8 billion, or 62%, to $28.4 billion, reflecting higher loans outstanding and lower deposits, partially offset by an increase in borrowed funds.
- Total deposits decreased $16.5 billion, to $440.8 billion reflecting deposit outflows and seasonal declines.
- Borrowed funds increased $5.2 billion, or 17%, to $36.0 billion, primarily due to increased FHLB borrowings, partially offset by lower bank notes and senior debt.

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

**Credit Quality Highlights**

The second quarter of 2022 reflected strong credit quality performance.
- At June 30, 2022 compared to December 31, 2021:
  - Nonperforming assets of $2.1 billion decreased $431 million, or 17%, primarily driven by lower nonperforming commercial loans.
  - Overall loan delinquencies of $1.5 billion decreased $474 million, or 24%, driven by lower consumer and commercial delinquencies, which included the resolution of BBVA USA conversion-related administrative and operational delays.
  - The ACL related to loans, which consists of the ALLL and the allowance for unfunded lending related commitments, decreased to $5.1 billion, or 1.65% of total loans, at June 30, 2022, compared to $5.5 billion, or 1.92% of total loans at December 31, 2021. The decrease was primarily driven by the impacts from portfolio changes and improved COVID-19 related economic conditions.
- Net charge-offs of $83 million, or 0.11% of average loans in the second quarter of 2022 decreased $54 million, or 39%, compared to $137 million, or 0.19% of average loans, for the first quarter of 2022, driven by lower consumer net charge-offs, primarily within auto.

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

**Capital Highlights**

We maintained our strong capital position.
- Common shareholders' equity of $41.6 billion at June 30, 2022, decreased $9.1 billion, or 18%, compared to December 31, 2021 as net income was more than offset by a decrease in AOCI, reflecting the impact of higher interest rates on net unrealized losses on securities and swaps. The decline was also attributable to common share repurchases and dividends paid.
- In the second quarter, we returned $1.4 billion of capital to shareholders through common share repurchases of $737 million, representing 4.3 million shares, and dividends on common shares of $627 million.
  - The SCB framework allows for capital returns in amounts up to the level of capital in excess of the firm's SCB plus the regulatory minimum level of capital (e.g., CET1 of 4.5%). Consistent with the flexibility provided under the SCB framework, our Board of Directors has recently authorized a new share repurchase structure, under the already approved authorization for repurchases of up to 100 million common shares, of which approximately 59% were still available at June 30, 2022. This framework and our capital flexibility allow for the continuation of our recent quarterly average share repurchase levels in dollars as well as the ability to increase those levels should conditions warrant. PNC's SCB for the four-quarter period beginning October 1, 2022 is 2.9%.
- On July 1, 2022, the PNC Board of Directors declared a quarterly cash dividend on common stock of $1.50 per share payable on August 5, 2022.
- Our CET1 ratio decreased to 9.6% at June 30, 2022 from 10.3% at December 31, 2021.
  - Capital was impacted by our election to delay the estimated impact of CECL on CET1 capital through December 31, 2021, followed by a three-year transition period. 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 adoption. Effective for the first quarter of 2022, PNC is now in the three-year transition period, and the full impact of the CECL standard is being phased-in to regulatory capital through December 31, 2024.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for more detail on our 2022 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 an SCB 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 2021 Form 10-K.

**Business Outlook**

Statements regarding our business outlook are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. 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 that:

- The U.S. economy continues to recover from the pandemic-caused recession in the first half of 2020. Growth is likely to be lower than the economy's long-run average throughout this year. Consumer spending growth will remain solid in 2022 due to good underlying fundamentals.
- Supply-chain difficulties will gradually ease over the course of 2022. Labor shortages will remain a constraint this year, although strong wage growth will support consumer spending.
- Inflation accelerated in the second half of 2021 to its fastest pace in decades. Inflation will slow in the second half of 2022 as pandemic-related supply and demand imbalances recede and energy prices stabilize. However, inflation will also broaden throughout the economy due to wage growth. The annual inflation rate will end 2022 above the Federal Reserve's long-run objective of 2%.
- The FOMC raised the federal funds rate by 0.75% in July, to a range of 2.25% to 2.50%. PNC expects further increases in the federal funds rate through the rest of this year, to a range of 3.25% to 3.50% at the end of 2022. The federal funds rate is expected to peak between 3.50% and 3.75% in mid-early 2023, before falling in the second half of next year as inflation ebbs and economic growth slows.
- Uncertainty about the outlook has increased with the Russian invasion of Ukraine. It has created additional risk to higher inflation this year, which could lead the FOMC to tighten more aggressively than currently anticipated. In addition, risks to growth and the likelihood of a recession in late 2022 or 2023 have increased.

For the third quarter of 2022, compared to the second quarter of 2022, we expect:
- Average loans to be up 1% to 2%,
- Net interest income to be up 10% to 12%,
- Noninterest income, excluding net securities gains and Visa activity, to be down 3% to 5%,
- Revenue to be up 4% to 6%,
- Noninterest expense to be stable to up 1%, and
- Net loan charge-offs to be between $125 million and $175 million.

For the full year 2022, compared to full year 2021, we expect:
- Average loans to be up approximately 13%,
- Period-end loans to be up approximately 8%,
- Revenue to be up 9% to 11%,
- Noninterest expense, excluding integration expense, to be up 4% to 6%, and
- The effective tax rate to be approximately 19%.

See the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2021 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 of $1.5 billion, or $3.39 per diluted common share for the second quarter of 2022 increased $67 million, or 5%, compared to $1.4 billion, or $3.23 per diluted common share for the first quarter of 2022, driven by higher net interest and noninterest income, partially offset by a higher provision for credit losses and higher expenses. Net income of $2.9 billion, or $6.61 per diluted common share for the first six months of 2022 decreased $4 million, compared to $2.9 billion, or $6.53 per diluted common share, for the same period in 2021, as higher net interest income was largely offset by higher expenses and a lower provision recapture.

**Net Interest Income**

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

| Three months ended<br>Dollars in millions | June 30, 2022 Average Balances | June 30, 2022 Average Yields/ Rates | June 30, 2022 Interest Income/ Expense | March 31, 2022 Average Balances | March 31, 2022 Average Yields/ Rates | March 31, 2022 Interest Income/ Expense |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Interest-earning assets | | | | | | |
| Investment securities | $ 134,724 | 1.89 % | $ 636 | $ 133,897 | 1.64 % | $ 548 |
| Loans | 304,790 | 3.29 % | 2,524 | 290,701 | 3.19 % | 2,311 |
| Interest-earning deposits with banks | 39,689 | 0.79 % | 78 | 62,540 | 0.19 % | 29 |
| Other | 9,935 | 2.76 % | 68 | 9,417 | 2.07 % | 48 |
| Total interest-earning assets/interest income | $ 489,138 | 2.69 % | 3,306 | $ 496,555 | 2.37 % | 2,936 |
| **Liabilities** | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing deposits | $ 297,096 | 0.12 % | 88 | $ 299,543 | 0.04 % | 27 |
| Borrowed funds | 35,656 | 1.58 % | 142 | 30,312 | 1.10 % | 83 |
| Total interest-bearing liabilities/interest expense | $ 332,752 | 0.27 % | 230 | $ 329,855 | 0.13 % | 110 |
| Net interest margin/income (non-GAAP) | | 2.50 % | 3,076 | | 2.28 % | 2,826 |
| Taxable-equivalent adjustments | | | (25) | | | (22) |
| Net interest income (GAAP) | | | $ 3,051 | | | $ 2,804 |

| Six months ended<br>Dollars in millions | June 30, 2022 Average Balances | June 30, 2022 Average Yields/ Rates | June 30, 2022 Interest Income/ Expense | June 30, 2021 Average Balances | June 30, 2021 Average Yields/ Rates | June 30, 2021 Interest Income/ Expense |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Interest-earning assets | | | | | | |
| Investment securities | $ 134,313 | 1.76 % | $ 1,184 | $ 97,511 | 1.85 % | $ 901 |
| Loans | 297,785 | 3.24 % | 4,835 | 246,919 | 3.38 % | 4,175 |
| Interest-earning deposits with banks | 51,120 | 0.42 % | 107 | 81,947 | 0.10 % | 43 |
| Other | 9,677 | 2.42 % | 116 | 7,955 | 2.40 % | 95 |
| Total interest-earning assets/interest income | $ 492,895 | 2.53 % | 6,242 | $ 434,332 | 2.40 % | 5,214 |
| **Liabilities** | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing deposits | $ 298,313 | 0.08 % | 115 | $ 260,804 | 0.05 % | 70 |
| Borrowed funds | 32,998 | 1.36 % | 225 | 34,670 | 1.06 % | 185 |
| Total interest-bearing liabilities/interest expense | $ 331,311 | 0.20 % | 340 | $ 295,474 | 0.17 % | 255 |
| Net interest margin/income (non-GAAP) | | 2.39 % | 5,902 | | 2.28 % | 4,959 |
| Taxable-equivalent adjustments | | | (47) | | | (30) |
| Net interest income (GAAP) | | | $ 5,855 | | | $ 4,929 |

(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 $247 million, or 9%, for the second quarter of 2022 compared to the first quarter of 2022, driven by higher yields on interest-earning assets and increased loan balances, partially offset by higher funding costs. Net interest income increased $926 million, or 19%, for the first six months of 2022 compared to the same period in 2021, as a result of higher interest-earning asset balances, reflecting the benefit of BBVA, and higher yields, partially offset by higher funding costs.

Net interest margin in the quarterly and year-to-date comparisons increased 22 basis points and 11 basis points, respectively. In both comparisons, the increase was primarily due to higher yields on interest-earning assets.

Average investment securities for the second quarter of 2022 increased $827 million, or 1% compared to the first quarter of 2022 reflecting net purchases, primarily of agency residential mortgage-backed securities. Average investment securities increased $36.8 million, or 38% in the year-to-date comparison, due to net securities purchases, primarily of U.S. Treasury and government agency securities purchases and the addition of BBVA. Average investment securities represented 28% of average interest-earning assets for the second quarter of 2022 compared to 27% for the first quarter of 2022, and 27% for the first six months of 2022 compared to 22% for the first six months of 2021.

In the quarterly and year-to-date comparisons, average loans increased $14.1 billion, or 5%, and $50.9 billion, or 21%, respectively. In both comparisons, the increase was due to growth in commercial and consumer loans, partially offset by PPP loan forgiveness. The increase in the year-to-date comparison also reflects the impact of the BBVA acquisition. Average loans represented 62% of average interest-earning assets for the second quarter of 2022 compared to 59% for the first quarter of 2022, and 60% for the first six months of 2022 compared to 57% for the first six months of 2021.

Average interest-earning deposits with banks for the second quarter of 2022 decreased $22.9 billion, or 37%, compared to the first quarter of 2022, primarily due to higher loans outstanding and lower deposits. In the year-to-date comparison, average interest-earning deposits with banks decreased $30.8 billion, or 38%, reflecting higher loan and securities balances, partially offset by higher deposits.

Average interest-bearing deposits for the second quarter of 2022 decreased $2.4 billion, or 1%, compared to the first quarter of 2022. The decrease was driven by lower commercial deposits reflecting deposit outflows and seasonal declines. Average interest-bearing deposits increased $37.5 billion, or 14% in the year-to-date comparison, primarily attributable to the BBVA acquisition. In total, average interest-bearing deposits represented 89% of average interest-bearing liabilities for the second quarter of 2022 compared to 91% for the first quarter of 2022, and 90% for the first six months of 2022 compared to 88% for the first six months of 2021.

Average borrowed funds for the second quarter of 2022 increased $5.3 billion, or 18%, compared to the first quarter of 2022 due to increased FHLB borrowings. Average borrowed funds for the first six months of 2022 decreased $1.7 billion, or 5%, compared to the first six months of 2021, reflecting lower bank notes and senior debt, partially offset by higher FHLB borrowings.

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 | | | | Six months ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30 | March 31 | Change | | June 30 | June 30 | Change | |
| Dollars in millions | 2022 | 2022 | $ | % | 2022 | 2021 | $ | % |
| Noninterest income | | | | | | | | |
| Asset management and brokerage | $ 365 | $ 377 | $ (12) | (3)% | $ 742 | $ 678 | $ 64 | 9 % |
| Capital markets related | 409 | 252 | 157 | 62 % | 661 | 635 | 26 | 4 % |
| Card and cash management | 671 | 620 | 51 | 8 % | 1,291 | 1,089 | 202 | 19 % |
| Lending and deposit services | 282 | 269 | 13 | 5 % | 551 | 524 | 27 | 5 % |
| Residential and commercial mortgage | 161 | 159 | 2 | 1 % | 320 | 393 | (73) | (19)% |
| Other | 177 | 211 | (34) | (16)% | 388 | 639 | (251) | (39)% |
| Total noninterest income | $ 2,065 | $ 1,888 | $ 177 | 9 % | $ 3,953 | $ 3,958 | $ (5) | — |

Noninterest income as a percentage of total revenue was 40% for the second and first quarters of 2022, and 40% for the first six months of 2022 compared to 45% for the same period in 2021.

Asset management and brokerage fees decreased compared to the first quarter of 2022, primarily as a result of lower average equity markets. The increase in the year-to-date comparison was due to higher average equity markets and the benefit of BBVA. PNC's discretionary client assets under management of $167 billion at June 30, 2022 decreased from $182 billion at March 31, 2022 and $183 billion at June 30, 2021, primarily driven by lower spot equity markets.

Capital markets related revenue increased in the quarterly and year-to-date comparisons, and included higher merger and acquisition advisory fees.

Card and cash management revenue increased compared to the first quarter of 2022, due to higher consumer spending and increased treasury management product revenue. The increase compared to the first six months of 2021 also reflected the addition of BBVA customers.

Lending and deposit services increased compared to the first quarter of 2022 and included lower integration related fee waivers. The increase in the year-to-date comparison was due to the benefit of BBVA, partially offset by the impact of Low Cash Mode® on overdraft fees and integration related fee waivers.

Residential and commercial mortgage increased compared to the first quarter of 2022 as higher revenue from commercial mortgage banking activities was largely offset by lower residential mortgage loan sales revenue. The decrease in the year-to-date comparison was due to lower residential and commercial mortgage banking activities.

Other noninterest income decreased compared to the first quarter of 2022, and included $16 million of negative Visa Class B derivative fair value adjustments related to litigation escrow funding and other valuation changes. The first quarter of 2022 included $4 million of positive Visa Class B fair value adjustments. The decrease in the year-to-date comparison included the impact of lower private equity revenue.

**Noninterest Expense**

***Table 4: Noninterest Expense***

| | Three months ended | | | | Six months ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30 | March 31 | Change | | June 30 | June 30 | Change | |
| Dollars in millions | 2022 | 2022 | $ | % | 2022 | 2021 | $ | % |
| Noninterest expense | | | | | | | | |
| Personnel | $ 1,779 | $ 1,717 | $ 62 | 4 % | $ 3,496 | $ 3,117 | $ 379 | 12 % |
| Occupancy | 246 | 258 | (12) | (5)% | 504 | 432 | 72 | 17 % |
| Equipment | 351 | 331 | 20 | 6 % | 682 | 619 | 63 | 10 % |
| Marketing | 95 | 61 | 34 | 56 % | 156 | 119 | 37 | 31 % |
| Other | 773 | 805 | (32) | (4)% | 1,578 | 1,337 | 241 | 18 % |
| Total noninterest expense | $ 3,244 | $ 3,172 | $ 72 | 2 % | $ 6,416 | $ 5,624 | $ 792 | 14 % |

Noninterest expense increased compared to the first quarter of 2022, driven by increased business activity, annual employee merit increases and higher marketing spend. These increases were partially offset by seasonally lower occupancy expenses and lower other expenses as we continued our focus on expense management. The increase in the first six months of 2022 compared to the same period of 2021 was driven by the addition of BBVA operating expenses and increased business activity, partially offset by lower integration expenses.

**Effective Income Tax Rate**

The effective income tax rate was 18.5% in the second quarter of 2022, compared to 17.3% in the first quarter of 2022, and 17.9% in the first six months of 2022 compared to 16.6% for the same period in 2021.

**Provision For (Recapture of) Credit Losses**

***Table 5: Provision for (Recapture of) Credit Losses***

| | Three months ended | | | Six months ended | | |
|---|---|---|---|---|---|---|
| | June 30 | March 31 | Change | June 30 | June 30 | Change |
| Dollars in millions | 2022 | 2022 | $ | 2022 | 2021 | $ |
| Provision for (recapture of) credit losses | | | | | | |
| Loans and leases | $ (10) | $ (172) | $ 162 | $ (182) | $ (296) | $ 114 |
| Unfunded lending related commitments | 42 | (23) | 65 | 19 | 15 | 4 |
| Investment securities | 3 | 1 | 2 | 4 | 26 | (22) |
| Other financial assets | 1 | (14) | 15 | (13) | 6 | (19) |
| Total provision for (recapture of) credit losses | $ 36 | $ (208) | $ 244 | $ (172) | $ (249) | $ 77 |

The second quarter of 2022 included a provision for credit losses of $36 million. The first quarter of 2022 included a provision recapture of $208 million.

## 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 | June 30 2022 | December 31 2021 | Change $ | Change % |
|---|---|---|---|---|
| Assets | | | | |
| Interest-earning deposits with banks | $ 28,404 | $ 74,250 | $ (45,846) | (62)% |
| Loans held for sale | 1,191 | 2,231 | (1,040) | (47)% |
| Investment securities | 132,732 | 132,962 | (230) | — |
| Loans | 310,800 | 288,372 | 22,428 | 8 % |
| Allowance for loan and lease losses | (4,462) | (4,868) | 406 | 8 % |
| Mortgage servicing rights | 2,608 | 1,818 | 790 | 43 % |
| Goodwill | 10,916 | 10,916 | | — |
| Other | 58,597 | 51,510 | 7,087 | 14 % |
| Total assets | $ 540,786 | $ 557,191 | $ (16,405) | (3)% |
| Liabilities | | | | |
| Deposits | $ 440,811 | $ 457,278 | $ (16,467) | (4)% |
| Borrowed funds | 35,984 | 30,784 | 5,200 | 17 % |
| Allowance for unfunded lending related commitments | 681 | 662 | 19 | 3 % |
| Other | 15,622 | 12,741 | 2,881 | 23 % |
| Total liabilities | 493,098 | 501,465 | (8,367) | (2)% |
| Equity | | | | |
| Total shareholders' equity | 47,652 | 55,695 | (8,043) | (14)% |
| Noncontrolling interests | 36 | 31 | 5 | 16 % |
| Total equity | 47,688 | 55,726 | (8,038) | (14)% |
| Total liabilities and equity | $ 540,786 | $ 557,191 | $ (16,405) | (3)% |

Our balance sheet was well-positioned at June 30, 2022 and December 31, 2021.

- Total assets decreased primarily due to lower balances held with the Federal Reserve Bank, partially offset by higher loans.
- Total liabilities decreased driven by lower commercial and consumer deposits, partially offset by higher borrowed funds.
- Total equity decreased as net income and the issuance of preferred stock were more than offset by a decrease in AOCI, reflecting the impact of higher interest rates on net unrealized losses on securities and swaps. The decline was also attributable to common share repurchases and dividends paid.

The ACL related to loans totaled $5.1 billion at June 30, 2022, a decrease of $0.4 billion since December 31, 2021, primarily driven by the impacts from portfolio changes and improved COVID-19 related economic conditions. 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 2021 Form 10-K.

## Loans

*Table 7: Loans*

| Dollars in millions | June 30 2022 | December 31 2021 | Change $ | Change % |
|---|---|---|---|---|
| Commercial | | | | |
| Commercial and industrial | $ 171,831 | $ 152,933 | $ 18,898 | 12 % |
| Commercial real estate | 34,452 | 34,015 | 437 | 1 % |
| Equipment lease financing | 6,240 | 6,130 | 110 | 2 % |
| Total commercial | 212,523 | 193,078 | 19,445 | 10 % |
| Consumer | | | | |
| Residential real estate | 43,717 | 39,712 | 4,005 | 10 % |
| Home equity | 24,693 | 24,061 | 632 | 3 % |
| Automobile | 15,323 | 16,635 | (1,312) | (8)% |
| Credit card | 6,650 | 6,626 | 24 | — |
| Education | 2,332 | 2,533 | (201) | (8)% |
| Other consumer | 5,562 | 5,727 | (165) | (3)% |
| Total consumer | 98,277 | 95,294 | 2,983 | 3 % |
| Total loans | $ 310,800 | $ 288,372 | $ 22,428 | 8 % |

Commercial loans increased driven by new production and higher utilization of loan commitments, partially offset by PPP loan forgiveness. PPP loans outstanding were $1.0 billion and $3.4 billion at June 30, 2022 and December 31, 2021, respectively.

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 increases in residential mortgages and home equity, partially offset by declines in the remaining 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 the Credit Risk Management portion of the Risk Management section in this Item 1 and 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 $132.7 billion at June 30, 2022 decreased $0.2 billion compared to December 31, 2021, resulting from net unrealized losses, which reflected the impact of higher interest rates, partially offset by net purchase activity.

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, NSFR and other internal and external guidelines and constraints.

***Table 8: Investment Securities***

| Dollars in millions | June 30, 2022 Amortized Cost (b) | June 30, 2022 Fair Value | December 31, 2021 Amortized Cost (b) | December 31, 2021 Fair Value | Ratings as of June 30, 2022 (a) AAA/AA | A | BBB | BB and Lower | No Rating |
|---|---|---|---|---|---|---|---|---|---|
| U.S. Treasury and government agencies | $ 45,459 | $ 44,231 | $ 47,024 | $ 47,054 | 100 % | | | | |
| Agency residential mortgage-backed | 71,120 | 68,227 | 67,326 | 67,632 | 100 % | | | | |
| Non-agency residential mortgage-backed | 1,050 | 1,207 | 927 | 1,158 | 8 % | | 1 % | 38 % | 53 % |
| Agency commercial mortgage-backed | 2,126 | 2,032 | 1,740 | 1,773 | 100 % | | | | |
| Non-agency commercial mortgage-backed (c) | 3,238 | 3,175 | 3,423 | 3,436 | 85 % | 1 % | 2 % | | 12 % |
| Asset-backed (d) | 6,802 | 6,764 | 6,380 | 6,409 | 95 % | 1 % | | 3 % | 1 % |
| Other (e) | 5,928 | 5,762 | 5,404 | 5,596 | 49 % | 31 % | 17 % | | 3 % |
| Total investment securities (f) | $ 135,723 | $ 131,398 | $ 132,224 | $ 133,058 | 97 % | 1 % | 1 % | | 1 % |

(a) Ratings percentages allocated based on amortized cost, net of allowance for investment securities.
(b) Amortized cost is presented net of the allowance for investment securities, which totaled $137 million at June 30, 2022 and primarily related to non-agency commercial mortgage-backed securities. The comparable amount at December 31, 2021 was $133 million.
(c) Collateralized primarily by office buildings, multifamily housing, retail properties, lodging properties and industrial properties.
(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 investment securities portfolio by amortized cost and fair value, as well as by credit rating. The relationship of fair value to amortized cost at June 30, 2022 compared to December 31, 2021 primarily reflected the impact of higher interest rates on the valuation of fixed rate securities. 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 allowance for investment securities.

In the first and second quarters of 2022, we transferred securities with a fair value of $18.7 billion and $59.1 billion, respectively, from available for sale to held to maturity. We changed our intent and committed to hold these high-quality securities to maturity in order to reduce the impact of price volatility on AOCI and tangible capital. See Note 3 Investment Securities in the Notes To Consolidated Financial Statements included in Item 1 of this Report for additional details regarding this transfer.

On July 28, 2022, we transferred an additional $5.0 billion of available for sale securities to held to maturity. See Note 17 Subsequent Events in the Notes To Consolidated Financial Statements in this Report for additional details on this transfer.

The duration of investment securities was 4.5 years at June 30, 2022. We estimate that at June 30, 2022 the effective duration of investment securities was 4.5 years for an immediate 50 basis points parallel increase in interest rates and 4.5 years for an immediate 50 basis points parallel decrease in interest rates. Comparable amounts at December 31, 2021 for the effective duration of investment securities were 3.8 years and 3.5 years, respectively.

Based on expected prepayment speeds, the weighted-average expected maturity of the investment securities portfolio was 5.4 years at June 30, 2022 compared to 4.4 years at December 31, 2021.

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

| June 30, 2022 | Years |
|---|---|
| Agency residential mortgage-backed | 6.6 |
| Non-agency residential mortgage-backed | 9.1 |
| Agency commercial mortgage-backed | 4.9 |
| Non-agency commercial mortgage-backed | 1.7 |
| Asset-backed | 2.7 |

Additional information regarding our investment securities portfolio is included in Note 3 Investment Securities and Note 12 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 | June 30 2022 | December 31 2021 | Change $ | Change % |
|---|---|---|---|---|
| Deposits | | | | |
| Noninterest-bearing | $ 146,438 | $ 155,175 | $ (8,737) | (6)% |
| Interest-bearing | | | | |
| Money market | 59,425 | 61,229 | (1,804) | (3)% |
| Demand | 116,359 | 115,910 | 449 | — |
| Savings | 108,471 | 107,598 | 873 | 1 % |
| Time deposits | 10,118 | 17,366 | (7,248) | (42)% |
| Total interest-bearing deposits | 294,373 | 302,103 | (7,730) | (3)% |
| Total deposits | 440,811 | 457,278 | (16,467) | (4)% |
| Borrowed funds | | | | |
| Federal Home Loan Bank borrowings | 10,000 | | 10,000 | — |
| Bank notes and senior debt | 14,358 | 20,661 | (6,303) | (31)% |
| Subordinated debt | 7,487 | 6,996 | 491 | 7 % |
| Other | 4,139 | 3,127 | 1,012 | 32 % |
| Total borrowed funds | 35,984 | 30,784 | 5,200 | 17 % |
| Total funding sources | $ 476,795 | $ 488,062 | $ (11,267) | (2)% |

Total deposits decreased as a result of lower commercial and consumer deposits, reflecting deposit outflows and seasonal declines.

Borrowed funds increased primarily due to increased FHLB borrowings, partially offset by lower bank notes and senior debt.

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 and NSFR 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 2022 liquidity and capital activities. See Note 8 Borrowed Funds in the Notes To Consolidated Financial Statements in this Report and Note 10 Borrowed Funds in the Notes To Consolidated Financial Statements in Item 8 of our 2021 Form 10-K for additional information related to our borrowings.

**Shareholders' Equity**

Total shareholders' equity was $47.7 billion at June 30, 2022, a decrease of $8.0 billion compared to December 31, 2021 as increases related to net income of $2.9 billion and a preferred stock issuance of $1.0 billion were more than offset by a decrease in AOCI of $8.8 billion, reflecting the impact of higher interest rates on net unrealized losses on securities and swaps. The decline was also attributable to common share repurchases of $1.9 billion and preferred stock dividends of $1.2 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 15 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 15, primarily due to the presentation in this Financial Review of business net interest income on a taxable-equivalent basis.

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 78 in Note 15 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 forward financially. We aim to grow our primary checking and transaction relationships through strong customer acquisition and retention. We seek to deepen relationships by meeting the broad range of our customers' financial needs with savings, liquidity, lending, payments, 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 and ATM access, 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)<br>Six months ended June 30<br>Dollars in millions, except as noted | 2022 | 2021 | Change $ | Change % |
|---|---|---|---|---|
| **Income Statement** | | | | |
| Net interest income | $ 3,193 | $ 2,859 | $ 334 | 12 % |
| Noninterest income | 1,493 | 1,360 | 133 | 10 % |
| Total revenue | 4,686 | 4,219 | 467 | 11 % |
| Provision for (recapture of) credit losses | (26) | (43) | 17 | 40 % |
| Noninterest expense | 3,805 | 3,153 | 652 | 21 % |
| Pretax earnings | 907 | 1,109 | (202) | (18)% |
| Income taxes | 214 | 256 | (42) | (16)% |
| Noncontrolling interests | 31 | 14 | 17 | 121 % |
| Earnings | $ 662 | $ 839 | $ (177) | (21)% |
| **Average Balance Sheet** | | | | |
| Loans held for sale | $ 1,070 | $ 1,150 | $ (80) | (7)% |
| Loans | | | | |
| Consumer | | | | |
| Residential real estate | $ 32,389 | $ 19,573 | $ 12,816 | 65 % |
| Home equity | 22,673 | 21,957 | 716 | 3 % |
| Automobile | 15,918 | 14,392 | 1,526 | 11 % |
| Credit card | 6,455 | 5,860 | 595 | 10 % |
| Education | 2,470 | 2,875 | (405) | (14)% |
| Other consumer | 2,261 | 2,036 | 225 | 11 % |
| Total consumer | 82,166 | 66,693 | 15,473 | 23 % |
| Commercial | 11,325 | 14,272 | (2,947) | (21)% |
| Total loans | $ 93,491 | $ 80,965 | $ 12,526 | 15 % |
| Total assets | $ 112,415 | $ 96,942 | $ 15,473 | 16 % |
| Deposits | | | | |
| Noninterest-bearing | $ 64,833 | $ 49,578 | $ 15,255 | 31 % |
| Interest-bearing | 201,916 | 171,211 | 30,705 | 18 % |
| Total deposits | $ 266,749 | $ 220,789 | $ 45,960 | 21 % |
| **Performance Ratios** | | | | |
| Return on average assets | 1.19 % | 1.75 % | | |
| Noninterest income to total revenue | 32 % | 32 % | | |
| Efficiency | 81 % | 75 % | | |

| At or for six months ended June 30<br>Dollars in millions, except as noted | 2022 | 2021 | Change $ | Change % |
|---|---|---|---|---|
| **Supplemental Noninterest Income Information** | | | | |
| Asset management and brokerage | $ 269 | $ 212 | $ 57 | 27 % |
| Card and cash management | $ 659 | $ 588 | $ 71 | 12 % |
| Lending and deposit services | $ 331 | $ 282 | $ 49 | 17 % |
| Residential and commercial mortgage | $ 170 | $ 208 | $ (38) | (18)% |
| **Residential Mortgage Information** | | | | |
| Residential mortgage servicing statistics (in billions, except as noted) (a) | | | | |
| Serviced portfolio balance (b) | $ 145 | $ 145 | | — |
| Serviced portfolio acquisitions | $ 21 | $ 40 | $ (19) | (48)% |
| MSR asset value (b) | $ 1.6 | $ 1.1 | $ 0.5 | 45 % |
| MSR capitalization value (in basis points) (b) | 112 | 77 | 35 | 45 % |
| Servicing income: (in millions) | | | | |
| Servicing fees, net (c) | $ 69 | $ 2 | $ 67 | * |
| Mortgage servicing rights valuation, net of economic hedge | $ 15 | $ 38 | $ (23) | (61)% |
| Residential mortgage loan statistics | | | | |
| Loan origination volume (in billions) | $ 9.9 | $ 10.8 | $ (0.9) | (8)% |
| Loan sale margin percentage | 2.18 % | 2.92 % | | |
| Percentage of originations represented by: | | | | |
| Purchase volume (d) | 57 % | 43 % | | |
| Refinance volume | 43 % | 57 % | | |
| **Other Information (b)** | | | | |
| Customer-related statistics (average) | | | | |
| Non-teller deposit transactions (e) | 64 % | 66 % | | |
| Digital consumer customers (f) | 78 % | 80 % | | |
| Credit-related statistics | | | | |
| Nonperforming assets | $ 1,088 | $ 1,245 | $ (157) | (13)% |
| Net charge-offs - loans and leases | $ 229 | $ 187 | $ 42 | 22 % |
| Other statistics | | | | |
| ATMs | 9,301 | 9,636 | (335) | (3)% |
| Branches (g) | 2,535 | 2,724 | (189) | (7)% |
| Brokerage account client assets (in billions) (h) | $ 68 | $ 83 | $ (15) | (18)% |

*- 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 six months ended.
(c) Servicing fees net of impact of decrease in MSR value due to passage of time, including the impact from both regularly scheduled loan payments, prepayments and loans that were paid down or paid off during the period.
(d) Mortgages with borrowers as part of residential real estate purchase transactions.
(e) Percentage of total consumer and business banking deposit transactions processed at an ATM or through our mobile banking application.
(f) Represents consumer checking relationships that process the majority of their transactions through non-teller channels.
(g) Excludes stand-alone mortgage offices and satellite offices ( *e.g.*, drive-ups, electronic branches and retirement centers) that provide limited products and/or services.
(h) Includes cash and money market balances.

Retail Banking earnings for the first six months of 2022 decreased $177 million compared with the same period in 2021 primarily due to increased noninterest expense, partially offset by higher net interest and noninterest income.

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 increased due to higher card and cash management revenue, increased asset management and brokerage fees and higher lending and deposit related fees. All of these categories benefited from the addition of BBVA customers and increased business activity.

Noninterest expense increased primarily due to the impact of BBVA operating expenses, increased business activity and continued investments in strategic initiatives.

The deposit strategy of Retail Banking is to remain disciplined on pricing and focused on growing and retaining relationship-based balances, executing on market-specific deposit growth strategies and providing a source of low-cost funding and liquidity to PNC. In the first six months of 2022, average total deposits increased compared to the same period in 2021 primarily driven by growth in demand and savings deposits which included the impact of the BBVA acquisition.

Retail Banking average total loans increased in the first six months of 2022 compared with the same period in 2021. Average consumer loans increased 23% due to the impact of the BBVA acquisition on all loan classes except education loans, which BBVA did not have in their loan portfolio. In addition, average residential real estate loans increased due to continued strength in portfolio originations. Average commercial loans decreased primarily due to forgiveness of PPP loans.

As part of our strategic focus on growing customers and meeting their financial needs, we have established a coast-to-coast network of retail branches and ATMs that operate alongside PNC's suite of digital capabilities. Over time, we plan to continue to convert a portion of these branches to solution centers, which have a distinctive layout and the capability to support transactions, sales and advice using a combination of technology and personalized banker assistance. PNC began to deploy solution centers in 2018.

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 customers by providing a broad range of liquidity, banking, payments and investment products. In 2021, we successfully rolled out Low Cash Mode® to all Virtual Wallet® customers providing them with 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.

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 96 branches in the first six months of 2022, 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)<br>Six months ended June 30<br>Dollars in millions | 2022 | 2021 | Change $ | Change % |
|---|---|---|---|---|
| **Income Statement** | | | | |
| Net interest income | $ 2,413 | $ 2,093 | $ 320 | 15 % |
| Noninterest income | 1,772 | 1,674 | 98 | 6 % |
| Total revenue | 4,185 | 3,767 | 418 | 11 % |
| Provision for (recapture of) credit losses | (135) | (178) | 43 | 24 % |
| Noninterest expense | 1,771 | 1,524 | 247 | 16 % |
| Pretax earnings | 2,549 | 2,421 | 128 | 5 % |
| Income taxes | 583 | 547 | 36 | 7 % |
| Noncontrolling interests | 7 | 7 | | — |
| Earnings | $ 1,959 | $ 1,867 | $ 92 | 5 % |
| **Average Balance Sheet** | | | | |
| Loans held for sale | $ 559 | $ 627 | $ (68) | (11)% |
| Loans | | | | |
| Commercial | | | | |
| Commercial and industrial | $ 147,819 | $ 118,106 | $ 29,713 | 25 % |
| Commercial real estate | 32,640 | 28,658 | 3,982 | 14 % |
| Equipment lease financing | 6,150 | 6,332 | (182) | (3)% |
| Total commercial | 186,609 | 153,096 | 33,513 | 22 % |
| Consumer | 11 | 10 | 1 | 10 % |
| Total loans | $ 186,620 | $ 153,106 | $ 33,514 | 22 % |
| Total assets | $ 210,171 | $ 176,182 | $ 33,989 | 19 % |
| Deposits | | | | |
| Noninterest-bearing | $ 83,589 | $ 71,142 | $ 12,447 | 17 % |
| Interest-bearing | 66,780 | 69,555 | (2,775) | (4)% |
| Total deposits | $ 150,369 | $ 140,697 | $ 9,672 | 7 % |
| **Performance Ratios** | | | | |
| Return on average assets | 1.88 % | 2.14 % | | |
| Noninterest income to total revenue | 42 % | 44 % | | |
| Efficiency | 42 % | 40 % | | |
| **Other Information** | | | | |
| Consolidated revenue from: (a) | | | | |
| Treasury Management (b) | $ 1,205 | $ 1,017 | $ 188 | 18 % |
| Commercial mortgage banking activities: | | | | |
| Commercial mortgage loans held for sale (c) | $ 36 | $ 59 | $ (23) | (39)% |
| Commercial mortgage loan servicing income (d) | 138 | 156 | (18) | (12)% |
| Commercial mortgage servicing rights valuation, net of economic hedge | 46 | 50 | (4) | (8)% |
| Total | $ 220 | $ 265 | $ (45) | (17)% |
| MSR asset value (e) | $ 988 | $ 682 | $ 306 | 45 % |
| Average loans by C&IB business | | | | |
| Corporate Banking | $ 98,079 | $ 75,806 | $ 22,273 | 29 % |
| Real Estate | 43,710 | 39,799 | 3,911 | 10 % |
| Business Credit | 27,395 | 22,263 | 5,132 | 23 % |
| Commercial Banking | 9,751 | 11,919 | (2,168) | (18)% |
| Other | 7,685 | 3,319 | 4,366 | 132 % |
| Total average loans | $ 186,620 | $ 153,106 | $ 33,514 | 22 % |
| Credit-related statistics | | | | |
| Nonperforming assets (e) | $ 674 | $ 1,274 | $ (600) | (47)% |
| Net charge-offs - loans and leases | $ 10 | $ 277 | $ (267) | (96)% |

(a) See the additional revenue discussion regarding treasury management 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 commercial mortgage banking income for valuations on commercial mortgage loans held for sale and related commitments, derivative valuations, origination 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 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) As of June 30.

Corporate & Institutional Banking earnings in the first six months of 2022 increased $92 million compared with the same period in 2021 driven by higher net interest income and noninterest income, partially offset by higher noninterest expense and a lower provision recapture.

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

Noninterest income increased in the comparison primarily driven by higher treasury management product revenue and capital markets related fees, partially offset by lower commercial mortgage banking activities.

Provision recapture in the first six months of 2022 was primarily driven by the impacts from improvements in credit quality and COVID-19 related economic conditions, partially offset by loan growth.

Noninterest expense increased in the comparison largely due to the addition of BBVA operating expenses, higher variable costs associated with increased business activity and continued investments in strategic initiatives.

Average loans increased compared with the six months ended June 30, 2021 due to increases in Corporate Banking, Business Credit and Real Estate, partially offset by a decrease in Commercial Banking:

- 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 increased reflecting loans from BBVA, strong new production and higher average utilization of loan commitments.
- 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 business assets. Average loans for this business increased primarily driven by loans from BBVA, higher utilization of loan commitments and new production.
- Real Estate provides banking, financing and servicing solutions for commercial real estate clients across the country. Average loans for this business increased reflecting loans from BBVA, partially offset by lower commercial mortgage lending.
- Commercial Banking provides lending, treasury management and capital markets related products and services to smaller corporations and businesses. Average loans for this business declined primarily driven by PPP loan forgiveness, partially offset by loans from BBVA.

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 deposits from BBVA. We continue to actively monitor the interest rate environment and make adjustments to evolving market conditions, bank funding needs and client relationship dynamics.

In 2021, the BBVA acquisition accelerated Corporate & Institutional Banking's geographic expansion. Following the BBVA acquisition and our de novo expansion efforts, we are now a coast-to-coast franchise and have a presence in the largest 30 U.S. metropolitan statistical areas. These expanded locations complement Corporate & Institutional Banking's national businesses with a significant presence in these cities and our full suite of commercial products and services is now offered nationally.

**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 and 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 treasury management and commercial mortgage banking 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 provides wholesale money transfer processing capabilities between the U.S. and Mexico and other countries primarily in Central 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 six months of 2021, treasury management revenue increased due to higher noninterest income and higher deposit balances, including the impact of the BBVA acquisition and wider interest rate spreads on the value of deposits.

Commercial mortgage banking activities include revenue derived from commercial mortgage servicing (both net interest income and noninterest income), revenue derived from commercial mortgage loans held for sale and hedges related to those activities. Total revenue from commercial mortgage banking activities decreased in the comparison primarily due to lower revenue from commercial mortgage loans held for sale and lower commercial mortgage servicing income.

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 noninterest income generated from these revenue streams is reflected in the capital markets related category on the Consolidated Income Statement. Compared with the first six months of 2021, capital markets related noninterest income increased due to higher merger and acquisition fees, higher fees on customer-related derivatives activities and higher loan syndication fees. These increases were partially offset by lower equity capital markets advisory fees, lower underwriting fees and lower credit valuation on customer-related derivatives activities.

**Asset Management Group**

The Asset Management Group strives to be the leading relationship-based provider of investment, planning, credit and cash management solutions and fiduciary services to affluent individuals and institutions by endeavoring to proactively deliver value-added ideas, solutions and exceptional service. 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)<br>Six months ended June 30<br>Dollars in millions, except as noted | 2022 | 2021 | Change $ | Change % |
|---|---|---|---|---|
| **Income Statement** | | | | |
| Net interest income | $ 291 | $ 205 | $ 86 | 42 % |
| Noninterest income | 482 | 473 | 9 | 2 % |
| Total revenue | 773 | 678 | 95 | 14 % |
| Provision for credit losses | 7 | 14 | (7) | (50)% |
| Noninterest expense | 521 | 421 | 100 | 24 % |
| Pretax earnings | 245 | 243 | 2 | 1 % |
| Income taxes | 57 | 57 | | — |
| Earnings | $ 188 | $ 186 | $ 2 | 1 % |
| **Average Balance Sheet** | | | | |
| Loans | | | | |
| Consumer | | | | |
| Residential real estate | $ 7,414 | $ 4,040 | $ 3,374 | 84 % |
| Other consumer | 4,587 | 4,099 | 488 | 12 % |
| Total consumer | 12,001 | 8,139 | 3,862 | 47 % |
| Commercial | 1,704 | 1,087 | 617 | 57 % |
| Total loans | $ 13,705 | $ 9,226 | $ 4,479 | 49 % |
| Total assets | $ 14,126 | $ 9,761 | $ 4,365 | 45 % |
| Deposits | | | | |
| Noninterest-bearing | $ 3,140 | $ 2,148 | $ 992 | 46 % |
| Interest-bearing | 29,331 | 19,865 | 9,466 | 48 % |
| Total deposits | $ 32,471 | $ 22,013 | $ 10,458 | 48 % |
| **Performance Ratios** | | | | |
| Return on average assets | 2.68 % | 3.84 % | | |
| Noninterest income to total revenue | 62 % | 70 % | | |
| Efficiency | 67 % | 62 % | | |
| **Supplemental Noninterest Income Information** | | | | |
| Asset management fees | $ 469 | $ 465 | $ 4 | 1 % |
| Brokerage fees | 4 | 2 | 2 | 100 % |
| Total | $ 473 | $ 467 | $ 6 | 1 % |
| **Other Information** | | | | |
| Nonperforming assets (a) | $ 114 | $ 85 | $ 29 | 34 % |
| Net charge-offs - loans and leases | $ 1 | $ 2 | $ (1) | (50)% |
| Brokerage account client assets (in billions) (a) | $ 4 | $ 5 | $ (1) | (20)% |
| **Client Assets Under Administration** (in billions) (a) (b) | | | | |
| Discretionary client assets under management | $ 167 | $ 183 | $ (16) | (9)% |
| Nondiscretionary client assets under administration | 153 | 172 | (19) | (11)% |
| Total | $ 320 | $ 355 | $ (35) | (10)% |
| Discretionary client assets under management | | | | |
| PNC Private Bank | $ 103 | $ 119 | $ (16) | (13)% |
| Institutional Asset Management | 64 | 64 | | — |
| Total | $ 167 | $ 183 | $ (16) | (9)% |

(a) As of June 30.
(b) Excludes brokerage account client assets.

The Asset Management Group consists of two primary businesses: PNC Private Bank and Institutional Asset Management.

The PNC Private Bank is focused on being a premier private bank in each of the markets it serves. The business seeks to deliver high quality banking, trust, and investment management services to our emerging affluent, high net worth and ultra-high net worth clients through a broad array of products and services.

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.

With the inclusion of BBVA, PNC Private Bank has approximately 100 offices operating in nine out of the ten most affluent states in the U.S. with a majority co-located with retail banking branches.

Asset Management Group earnings in the first six months of 2022 increased $2 million compared with the same period in 2021 driven by higher net interest income, higher noninterest income and lower provision for credit losses, partially offset by increases in noninterest expense.

Net interest income increased in the comparison due to growth in average deposit and loan balances, reflecting the BBVA acquisition and organic growth.

Noninterest income increased in the comparison primarily attributable to increases in the average equity markets and the benefit of BBVA.

Noninterest expense increased in the comparison due to the impact of BBVA operations and higher personnel expense.

Discretionary client assets under management decreased in comparison to the prior year, primarily due to lower equity markets as of June 30, 2022.

## RISK MANAGEMENT

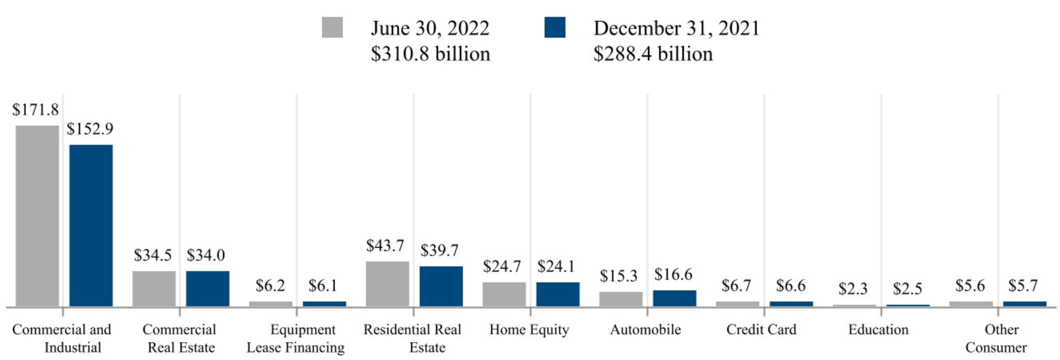
The Risk Management section included in Item 7 of our 2021 Form 10-K describes our enterprise risk management framework including risk culture, enterprise strategy, risk governance and oversight framework, risk identification, risk assessments, risk controls and monitoring, and risk aggregation and reporting. Additionally, our 2021 Form 10-K provides an analysis of the firm's Capital Management and our key areas of risk, which include but are not limited to Credit, Market, Liquidity and Operational (including Compliance and Information Security).

### Credit Risk Management

Credit risk, including our credit risk management processes, is described in further detail in the Credit Risk Management section of our 2021 Form 10-K. The following provides additional information around our loan portfolio, which is our most significant concentration of credit risk.

**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.

Commercial

*Commercial and Industrial*
Commercial and industrial loans comprised 55% and 53% of our total loan portfolio at June 30, 2022 and December 31, 2021, 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 geographies that may exist in our portfolio. Our commercial and industrial portfolio is well-diversified as shown in the following table which provides a breakout by industry classification (classified based on the North American Industry Classification System).

***Table 15: Commercial and Industrial Loans by Industry***

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Dollars in millions | Amount | % of Total | Amount | % of Total |
| Commercial and industrial | | | | |
| Manufacturing | $ 27,179 | 16 % | $ 22,597 | 15 % |
| Retail/wholesale trade | 26,475 | 15 | 22,803 | 15 |
| Service providers | 21,184 | 12 | 20,750 | 14 |
| Financial services | 19,594 | 11 | 17,950 | 12 |
| Technology, media & telecommunications | 16,249 | 10 | 10,070 | 7 |
| Real estate related (a) | 16,179 | 10 | 15,123 | 10 |
| Health care | 10,153 | 6 | 9,944 | 7 |
| Transportation and warehousing | 7,604 | 4 | 7,136 | 5 |
| Other industries | 27,214 | 16 | 26,560 | 15 |
| Total commercial and industrial loans | $ 171,831 | 100 % | $ 152,933 | 100 % |

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

Commercial and industrial loan growth from December 31, 2021 was driven by new production and higher utilization of loan commitments, partially offset by PPP loan forgiveness. PPP loans outstanding totaled $1.0 billion and $3.4 billion at June 30, 2022 and December 31, 2021, respectively.

*Commercial Real Estate*
Commercial real estate loans comprised $20.2 billion related to commercial mortgages on income-producing properties, $6.7 billion of real estate construction project loans and $7.6 billion of intermediate-term financing loans as of June 30, 2022. Comparable amounts as of December 31, 2021 were $18.6 billion, $7.3 billion and $8.1 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 and quality, 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***

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Dollars in millions | Amount | % of Total | Amount | % of Total |
| Geography (a) | | | | |
| California | $ 5,925 | 17 % | $ 5,561 | 16 % |
| Texas | 3,708 | 11 | 3,458 | 10 |
| Florida | 2,920 | 8 | 2,987 | 9 |
| Virginia | 1,653 | 5 | 1,720 | 5 |
| Maryland | 1,590 | 5 | 1,557 | 5 |
| Pennsylvania | 1,550 | 4 | 1,482 | 4 |
| Illinois | 1,360 | 4 | 970 | 3 |
| Ohio | 1,168 | 3 | 1,219 | 4 |
| Colorado | 1,142 | 3 | 1,126 | 3 |
| New Jersey | 986 | 3 | 982 | 3 |
| Other | 12,450 | 37 | 12,953 | 38 |
| Total commercial real estate loans | $ 34,452 | 100 % | $ 34,015 | 100 % |
| Property Type (a) | | | | |
| Multifamily | $ 11,744 | 34 % | $ 10,581 | 31 % |
| Office | 9,406 | 27 | 9,547 | 28 |
| Industrial/warehouse | 3,265 | 9 | 2,413 | 7 |
| Retail | 3,071 | 9 | 3,570 | 10 |
| Seniors housing | 2,298 | 7 | 2,602 | 8 |
| Hotel/motel | 1,976 | 6 | 2,008 | 6 |
| Mixed use | 723 | 2 | 724 | 2 |
| Other | 1,969 | 6 | 2,570 | 8 |
| Total commercial real estate loans | $ 34,452 | 100 % | $ 34,015 | 100 % |

(a) Presented in descending order based on loan balances at June 30, 2022.

As remote work continues to be a feasible alternative and notable portions of leased space remain unoccupied, real estate related to the office sector is an area of growing uncertainty. Evolving conditions suggest a structural change for office demand moving forward; however, the change is anticipated to develop over time. PNC continues to closely monitor our exposure in the office sector as these concerns develop, and while internal risk assessments have moved moderately higher, we have not seen a notable change in performance at this time.

Consumer

*Residential Real Estate*
Residential real estate loans primarily consisted of residential mortgage loans at both June 30, 2022 and December 31, 2021.

We obtain loan attributes at origination, including 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.

The following table presents certain key statistics related to our residential real estate portfolio:

***Table 17: Residential Real Estate Loan Statistics***

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Dollars in millions | Amount | % of Total | Amount | % of Total |
| Geography (a) | | | | |
| California | $ 17,245 | 39 % | $ 15,041 | 38 % |
| Texas | 4,223 | 10 | 4,397 | 11 |
| Florida | 3,263 | 7 | 3,124 | 8 |
| Washington | 2,564 | 6 | 1,909 | 5 |
| New Jersey | 1,805 | 4 | 1,660 | 4 |
| New York | 1,446 | 3 | 1,279 | 3 |
| Arizona | 1,398 | 3 | 1,435 | 4 |
| Colorado | 1,147 | 3 | 1,145 | 3 |
| Pennsylvania | 1,131 | 3 | 1,069 | 3 |
| Illinois | 936 | 2 | 957 | 2 |
| Other | 8,559 | 20 | 7,696 | 19 |
| Total residential real estate loans | $ 43,717 | 100 % | $ 39,712 | 100 % |

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Weighted-average loan origination statistics (b) | | |
| Loan origination FICO score | 772 | 775 |
| LTV of loan originations | 68 % | 67 % |

(a) Presented in descending order based on loan balances at June 30, 2022.
(b) Weighted-averages calculated for the twelve months ended June 30, 2022 and December 31, 2021, respectively.

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 $38.4 billion at June 30, 2022 with 44% located in California. Comparable amounts at December 31, 2021 were $34.9 billion and 42%, respectively.

*Home Equity*

Home equity loans comprised $17.6 billion of primarily variable-rate home equity lines of credit and $7.1 billion of closed-end home equity installment loans at June 30, 2022. Comparable amounts were $15.8 billion and $8.3 billion as of December 31, 2021, 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.

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 a 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 certain key statistics related to our home equity portfolio:

***Table 18: Home Equity Loan Statistics***

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| Dollars in millions | Amount | % of Total | Amount | % of Total |
| Geography (a) | | | | |
| Pennsylvania | $ 5,105 | 21 % | $ 5,108 | 21 % |
| New Jersey | 3,188 | 13 | 3,117 | 13 |
| Ohio | 2,364 | 10 | 2,398 | 10 |
| Florida | 1,854 | 8 | 1,701 | 7 |
| Michigan | 1,262 | 5 | 1,246 | 5 |
| Maryland | 1,220 | 5 | 1,206 | 5 |
| Illinois | 1,125 | 5 | 1,154 | 5 |
| Texas | 999 | 4 | 978 | 4 |
| North Carolina | 941 | 4 | 918 | 4 |
| California | 881 | 4 | 705 | 3 |
| Other | 5,754 | 21 | 5,530 | 23 |
| Total home equity loans | $ 24,693 | 100 % | $ 24,061 | 100 % |
| Lien type | | | | |
| 1st lien | | 62 % | | 62 % |
| 2nd lien | | 38 | | 38 |
| Total | | 100 % | | 100 % |
| Weighted-average loan origination statistics (b) | June 30, 2022 | | December 31, 2021 | |
| Loan origination FICO score | | 777 | | 782 |
| LTV of loan originations | | 67 % | | 66 % |

(a) Presented in descending order based on loan balances at June 30, 2022.
(b) Weighted-averages calculated for the twelve months ended June 30, 2022 and December 31, 2021, respectively.

<u>*Automobile*</u>
Auto loans comprised $14.2 billion in the indirect auto portfolio and $1.1 billion in the direct auto portfolio as of June 30, 2022. Comparable amounts as of December 31, 2021 were $15.4 billion and $1.2 billion, respectively. The indirect auto portfolio consists of loans originated primarily 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 Statistics (a)***

| | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Weighted-average loan origination FICO score (b) | | |
| Indirect auto | 786 | 791 |
| Direct auto | 777 | 775 |
| Weighted-average term of loan originations - in months | | |
| Indirect auto | 73 | 72 |
| Direct auto | 62 | 62 |

(a) Weighted-averages calculated for the twelve months ended June 30, 2022 and December 31, 2021, respectively.
(b) Calculated 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. At June 30, 2022, the portfolio balance was composed of 52% new vehicle loans and 48% used vehicle loans. Comparable amounts at December 31, 2021 were 53% and 47%, 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**

Nonperforming Assets
Nonperforming assets include nonperforming loans and leases for which ultimate collectability of the full amount of contractual principal and interest is not probable and include nonperforming TDRs and PCD loans, OREO and foreclosed assets. Loans held for sale, certain government insured or guaranteed loans and loans accounted for under the fair value option are excluded from nonperforming loans. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Item 8 of our 2021 Form 10-K for details on our nonaccrual policies.

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

***Table 20: Nonperforming Assets by Type***

| Dollars in millions | June 30, 2022 | December 31, 2021 | Change $ | Change % |
|---|---|---|---|---|
| Nonperforming loans | | | | |
| Commercial | $ 815 | $ 1,168 | $ (353) | (30)% |
| Consumer (a) | 1,231 | 1,312 | (81) | (6)% |
| Total nonperforming loans | 2,046 | 2,480 | (434) | (18)% |
| OREO and foreclosed assets | 29 | 26 | 3 | 12 % |
| Total nonperforming assets | $ 2,075 | $ 2,506 | $ (431) | (17)% |
| TDRs included in nonperforming loans | $ 715 | $ 988 | $ (273) | (28)% |
| Percentage of total nonperforming loans | 35 % | 40 % | | |
| Nonperforming loans to total loans | 0.66 % | 0.86 % | | |
| Nonperforming assets to total loans, OREO and foreclosed assets | 0.67 % | 0.87 % | | |
| Nonperforming assets to total assets | 0.38 % | 0.45 % | | |
| Allowance for loan and lease losses to nonperforming loans | 218 % | 196 % | | |
| Allowance for credit losses to nonperforming loans (b) | 251 % | 223 % | | |

(a) Excludes most unsecured consumer loans and lines of credit, which are charged off after 120 to 180 days past due and are not placed on nonperforming status.
(b) Calculated excluding allowances for investment securities and other financial assets.

The following table provides details on the change in nonperforming assets for the six months ended June 30, 2022 and 2021:

***Table 21: Change in Nonperforming Assets***

| In millions | 2022 | 2021 |
|---|---|---|
| January 1 | $ 2,506 | $ 2,337 |
| Acquired nonperforming assets (a) | | 880 |
| New nonperforming assets | 739 | 456 |
| Charge-offs and valuation adjustments | (117) | (131) |
| Principal activity, including paydowns and payoffs | (547) | (450) |
| Asset sales and transfers to loans held for sale | (27) | (101) |
| Returned to performing status | (479) | (173) |
| June 30 | $ 2,075 | $ 2,818 |

(a) Represents the June 30, 2021 balance of nonperforming assets attributable to BBVA.

As of June 30, 2022, approximately 98% 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 46% of total residential real estate nonperforming loans while home equity TDRs comprised 32% of home equity nonperforming loans at June 30, 2022. Comparable amounts at December 31, 2021 were 42% and 36%, 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. See Troubled Debt Restructurings and Loan Modifications within this Credit Risk

Management section for more information on how certain loans to borrowers experiencing COVID-19 related difficulties were treated prior to the expiration of CARES Act TDR relief.

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.

We manage credit risk based on the risk profile of the borrower, repayment sources, underlying collateral, and other support given current events, economic conditions and expectations. We refine our practices to meet the changing environment resulting from rising inflation levels, supply chain disruptions, higher rates, and secular changes fostered by the COVID-19 pandemic. To mitigate losses and enhance customer support, we have customer assistance, loan modification and collection programs that align with the CARES Act and subsequent interagency guidance. As a result, under the CARES Act credit reporting rules, certain loans modified due to COVID-19 related hardships are not being reported as past due as of June 30, 2022 and December 31, 2021 based on the contractual terms of the loan, even where borrowers may not be making payments on their loans during the modification period.

The following table presents a summary of accruing loans past due by delinquency status:

***Table 22: Accruing Loans Past Due (a)***

| | Amount | | Change | | % of Total Loans Outstanding | |
|---|---|---|---|---|---|---|
| Dollars in millions | June 30 2022 | December 31 2021 | $ | % | June 30 2022 | December 31 2021 |
| Early stage loan delinquencies | | | | | | |
| Accruing loans past due 30 to 59 days | $ 696 | $ 1,011 | $ (315) | (31)% | 0.22 % | 0.35 % |
| Accruing loans past due 60 to 89 days | 345 | 355 | (10) | (3)% | 0.11 % | 0.12 % |
| Total early stage loan delinquencies | 1,041 | 1,366 | (325) | (24)% | 0.33 % | 0.47 % |
| Late stage loan delinquencies | | | | | | |
| Accruing loans past due 90 days or more | 470 | 619 | (149) | (24)% | 0.15 % | 0.21 % |
| Total accruing loans past due | $ 1,511 | $ 1,985 | $ (474) | (24)% | 0.49 % | 0.69 % |

(a) Past due loan amounts include government insured or guaranteed loans of $0.4 billion and $0.5 billion at June 30, 2022 and December 31, 2021, respectively.

The decline in accruing loans past due from December 31, 2021 was due to reductions in both consumer and commercial delinquencies, driven by the resolution of BBVA conversion-related administrative and operational delays.

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 met certain criteria under the CARES Act were not categorized as TDRs during the relief period, which expired on January 1, 2022. Consistent with the expiration of the CARES Act TDR relief (and as amended by the Consolidated Appropriations Act), loans that experience a COVID-19 related hardship and are restructured after January 1, 2022 are subject to existing GAAP guidance related to TDRs.

The following table provides a summary of troubled debt restructurings at June 30, 2022 and December 31, 2021, respectively:

***Table 23: Summary of Troubled Debt Restructurings (a)***

| Dollars in millions | June 30 2022 | December 31 2021 | Change $ | Change % |
|---|---|---|---|---|
| Commercial | $ 517 | $ 672 | $ (155) | (23)% |
| Consumer | 867 | 919 | (52) | (6)% |
| Total TDRs | $ 1,384 | $ 1,591 | $ (207) | (13)% |
| Nonperforming | $ 715 | $ 988 | $ (273) | (28)% |
| Accruing (b) | 669 | 603 | 66 | 11 % |
| Total TDRs | $ 1,384 | $ 1,591 | $ (207) | (13)% |

(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 35% of total nonperforming loans and 52% of total TDRs at June 30, 2022. Comparable amounts at December 31, 2021 were 40% and 62%, 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

PNC provides relief to our customers through a variety of solutions. Commercial loan and lease modifications are based on each individual borrower’s situation and may involve reduction of the interest rate, extension of the loan term and/or forgiveness of principal. Consumer loan modifications are evaluated under our hardship relief programs, including COVID-19 related hardships that extended beyond the initial relief period.

See Troubled Debt Restructurings within this Credit Risk Management section for more information on how certain loans to borrowers experiencing COVID-19 related difficulties were treated prior to the expiration of CARES Act TDR relief.

For additional information related to loan modifications granted in response to the economic impacts of COVID-19, see the Credit Risk Management portion of the Risk Management section of our 2021 Form 10-K.

**Allowance for Credit Losses**

Our determination of the ACL is based on historical loss and performance experience, current economic conditions, reasonable and supportable forecasts of future conditions and other relevant factors, including current borrower and/or transaction characteristics. We maintain the ACL at an appropriate level for expected losses on our existing investment securities, loans, equipment finance leases, trade receivables and other financial assets and off-balance sheet credit exposures and determine this allowance based on quarterly assessments of the remaining estimated contractual term of the assets or exposures as of the balance sheet date.

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Item 8 of our 2021 Form 10-K and the Credit Risk Management section within Item 7 of our 2021 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 June 30, 2022.

The following table summarizes our ACL related to loans:

***Table 24: Allowance for Credit Losses by Loan Class (a)***

| | June 30, 2022 | | | December 31, 2021 | | |
|---|---|---|---|---|---|---|
| Dollars in millions | Allowance Amount | Total Loans | % of Total Loans | Allowance Amount | Total Loans | % of Total Loans |
| Allowance for loans and lease losses | | | | | | |
| Commercial | | | | | | |
| Commercial and industrial | $ 1,853 | $ 171,831 | 1.08 % | $ 1,879 | $ 152,933 | 1.23 % |
| Commercial real estate | 993 | 34,452 | 2.88 % | 1,216 | 34,015 | 3.57 % |
| Equipment lease financing | 91 | 6,240 | 1.46 % | 90 | 6,130 | 1.47 % |
| Total commercial | 2,937 | 212,523 | 1.38 % | 3,185 | 193,078 | 1.65 % |
| Consumer | | | | | | |
| Residential real estate | 36 | 43,717 | 0.08 % | 21 | 39,712 | 0.05 % |
| Home equity | 190 | 24,693 | 0.77 % | 149 | 24,061 | 0.62 % |
| Automobile | 254 | 15,323 | 1.66 % | 372 | 16,635 | 2.24 % |
| Credit card | 715 | 6,650 | 10.75 % | 712 | 6,626 | 10.75 % |
| Education | 63 | 2,332 | 2.70 % | 71 | 2,533 | 2.80 % |
| Other consumer | 267 | 5,562 | 4.80 % | 358 | 5,727 | 6.25 % |
| Total consumer | 1,525 | 98,277 | 1.55 % | 1,683 | 95,294 | 1.77 % |
| Total | 4,462 | $ 310,800 | 1.44 % | 4,868 | $ 288,372 | 1.69 % |
| Allowance for unfunded lending related commitments | 681 | | | 662 | | |
| Allowance for credit losses | $ 5,143 | | | $ 5,530 | | |
| Allowance for credit losses to total loans | | | 1.65 % | | | 1.92 % |
| Commercial | | | 1.68 % | | | 1.94 % |
| Consumer | | | 1.60 % | | | 1.87 % |

(a) Excludes allowances for investment securities and other financial assets, which together totaled $163 million and $171 million at June 30, 2022 and December 31, 2021, respectively.

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

***Table 25: Loan Charge-Offs and Recoveries***

| Six months ended June 30<br>Dollars in millions | Gross Charge-offs | Recoveries | Net Charge-offs / (Recoveries) | % of Average Loans (Annualized) |
|---|---|---|---|---|
| **2022** | | | | |
| Commercial | | | | |
| Commercial and industrial | $ 71 | $ 45 | $ 26 | 0.03 % |
| Commercial real estate | 15 | 2 | 13 | 0.08 % |
| Equipment lease financing | 3 | 6 | (3) | (0.10) % |
| Total commercial | 89 | 53 | 36 | 0.04 % |
| Consumer | | | | |
| Residential real estate | 7 | 11 | (4) | (0.02) % |
| Home equity | 6 | 39 | (33) | (0.27) % |
| Automobile | 86 | 70 | 16 | 0.20 % |
| Credit card | 135 | 31 | 104 | 3.24 % |
| Education | 8 | 3 | 5 | 0.41 % |
| Other consumer | 115 | 19 | 96 | 3.45 % |
| Total consumer | 357 | 173 | 184 | 0.39 % |
| Total | $ 446 | $ 226 | $ 220 | 0.15 % |
| **2021** | | | | |
| Commercial | | | | |
| Commercial and industrial | $ 304 | $ 43 | $ 261 | 0.39 % |
| Commercial real estate | 33 | 3 | 30 | 0.20 % |
| Equipment lease financing | 6 | 6 | | |
| Total commercial | 343 | 52 | 291 | 0.34 % |
| Consumer | | | | |
| Residential real estate | 7 | 11 | (4) | (0.03) % |
| Home equity | 14 | 38 | (24) | (0.20) % |
| Automobile | 87 | 79 | 8 | 0.11 % |
| Credit card | 134 | 23 | 111 | 3.81 % |
| Education | 8 | 4 | 4 | 0.28 % |
| Other consumer | 78 | 12 | 66 | 2.75 % |
| Total consumer | 328 | 167 | 161 | 0.42 % |
| Total | $ 671 | $ 219 | $ 452 | 0.37 % |

Total net charge-offs decreased $232 million, or 51%, for the first six months of 2022 compared to the same period in 2021. Commercial net charge-offs in the comparative period included $248 million attributable to BBVA, which were largely the result of required purchase accounting treatment for the acquisition.

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Item 8 of our 2021 Form 10-K and Note 4 Loans and Related Allowance for Credit Losses in the Notes To Consolidated Financial Statements included in this Report for additional information.

## Liquidity and Capital Management

Liquidity risk, including our liquidity monitoring measures and tools, is described in further detail in the Liquidity and Capital Management section of our 2021 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. PNC and PNC Bank calculate the LCR daily, and as of June 30, 2022, the LCR for PNC and PNC Bank exceeded the minimum requirement of 100%.

The NSFR is designed to measure the stability of the maturity structure of assets and liabilities of banking organizations over a one-year time horizon. PNC and PNC Bank are required to calculate the NSFR on an ongoing basis, and as of June 30, 2022, the NSFR for PNC and PNC Bank exceeded the minimum requirement of 100%.

We provide additional information regarding regulatory liquidity requirements and their potential impact on us in the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors of our 2021 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 decreased to $440.8 billion at June 30, 2022 from $457.3 billion at December 31, 2021, driven by decreases in both noninterest-bearing and interest-bearing deposits. See the Funding Sources portion of the Consolidated Balance Sheet Review section of this Financial Review for additional information related to our deposits. Additionally, certain assets determined by us to be liquid as well as unused borrowing capacity from a number of sources are also available to manage our liquidity position.

At June 30, 2022, 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 $40.8 billion and securities available for sale totaling $53.0 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 an insignificant amount 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, $21.2 billion of securities held to maturity were also pledged as collateral.

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 Financial Review, Note 8 Borrowed Funds in the Notes To Consolidated Financial Statements included in this Report and Note 10 Borrowed Funds in the Notes To Consolidated Financial Statements included in Item 8 of our 2021 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 26: Senior and Subordinated Debt***

| In billions | 2022 |
|---|---|
| January 1 | $ 27.7 |
| Issuances | 0.9 |
| Calls and maturities | (5.3) |
| Other | (1.5) |
| June 30 | $ 21.8 |

**Bank Liquidity**
Under PNC Bank’s 2014 bank note program, as amended, PNC Bank may from time to time offer up to $40.0 billion aggregate principal amount outstanding at any one time of its unsecured senior and subordinated notes with maturity dates more than nine months (in the case of senior notes) and five years or more (in the case of subordinated notes) from their date of issue. At June 30, 2022, PNC Bank had $10.2 billion of notes outstanding under this program of which $5.2 billion were senior bank notes and $5.0 billion were subordinated bank notes.

The following table details PNC Bank note redemptions in the second quarter of 2022:

***Table 27: PNC Bank Notes Redeemed***

| Redemption Date | Amount | Description of Redemption |
|---|---|---|
| May 31, 2022 | $750 million | All outstanding senior bank notes with an original scheduled maturity date of June 29, 2022. The securities had a distribution rate of 2.875%. The redemption price was equal to $1,000 per $1,000 in principal amount, plus any accrued and unpaid distributions to the redemption date of May 31, 2022. |
| June 28, 2022 | $750 million | All outstanding senior bank notes with an original scheduled maturity date of July 28, 2022. The securities had a distribution rate of 2.450%. The redemption price was equal to $1,000 per $1,000 in principal amount, plus any accrued and unpaid distributions to the redemption date of June 28, 2022. |

PNC Bank maintains additional secured borrowing capacity with the FHLB-Pittsburgh and through the Federal Reserve Bank discount window. The Federal Reserve Bank, however, is not viewed as a primary means of funding our routine business activities, but rather as a potential source of liquidity in a stressed environment or during a market disruption. At June 30, 2022, our unused secured borrowing capacity at the FHLB-Pittsburgh and the Federal Reserve Bank totaled $79.5 billion.

PNC Bank has the ability to offer up to $10.0 billion of its commercial paper to provide additional liquidity. At June 30, 2022, 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 its 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 liquidity to fund discretionary activities such as paying dividends to our shareholders, share repurchases and acquisitions.

At June 30, 2022, available parent company liquidity totaled $8.2 billion. Parent company liquidity is held in intercompany cash and investments. For investments with longer durations, 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, regulations and the results of supervisory activities,
- Corporate policies,
- Contractual restrictions, and
- Other factors.

There are statutory and regulatory limitations on the ability of a national bank to pay dividends or make other capital distributions or to extend credit to the parent company or its non-bank subsidiaries. The amount available for dividend payments by PNC Bank to the parent company without prior regulatory approval was $2.1 billion at June 30, 2022. See Note 20 Regulatory Matters in the Notes To Consolidated Financial Statements included in Item 8 of our 2021 Form 10-K for further discussion of these limitations.

In addition to dividends from PNC Bank, other sources of parent company liquidity include cash and investments, as well as dividends and loan repayments from other subsidiaries and dividends or distributions from equity investments. We can also generate liquidity for the parent company and PNC's non-bank subsidiaries through the issuance of debt and equity securities, including certain capital instruments, in public or private markets and commercial paper. Authorized by the Board of Directors, the parent company has the ability to offer up to $5.0 billion of commercial paper to provide additional liquidity. At June 30, 2022, there were no commercial paper issuances outstanding.

The following table details Parent Company note issuances in the second quarter of 2022:

***Table 28: Parent Company Notes Issued***

| Issuance Date | Amount | Description of Issuance |
|---|---|---|
| June 6, 2022 | $850 million | $850 million of subordinated fixed-to-floating rate notes with a maturity date of June 6, 2033. Interest is payable semi-annually in arrears at a fixed rate of 4.626% per annum, on June 6 and December 9 of each year, beginning on December 6, 2022. Beginning on June 6, 2032, interest is payable quarterly in arrears at a floating rate per annum equal to Compounded SOFR (determined with respect to each quarterly interest period using the SOFR Index), plus 1.850%, on September 6, 2032, December 6, 2032, March 6, 2033 and at the maturity date. |

Parent company senior and subordinated debt outstanding totaled $10.4 billion and $11.4 billion at June 30, 2022 and December 31, 2021, 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 of our 2021 Form 10-K for more information on these future cash outflows. Additionally, in the normal course of business we have various commitments outstanding, certain of which are not included on our Consolidated Balance Sheet. We provide information on our commitments in Note 9 Commitments in the Notes To Consolidated Financial Statements of this Report.

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

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

The following table presents credit ratings for PNC and PNC Bank as of June 30, 2022:

***Table 29: Credit Ratings for PNC and PNC Bank***

| | June 30, 2022 | | |
|---|---|---|---|
| | 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 |

**Capital Management**
Detailed information on our capital management processes and activities is included in the Supervision and Regulation section of Item 1 of our 2021 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 April 26, 2022, PNC issued 1,000,000 depositary shares each representing 1/100th ownership in a share of 6.000% fixed-rate reset non-cumulative perpetual preferred stock, Series U, with a par value of $1 per share.

In the second quarter of 2022, PNC returned $1.4 billion of capital to shareholders through $737 million of common share repurchases, representing 4.3 million shares, and $627 million of dividends on common shares. Consistent with the SCB framework, which allows for capital return in amounts in excess of the SCB minimum levels, our Board of Directors recently authorized a new repurchase framework under the previously approved repurchase program of up to 100 million common shares, of which approximately 59% were still available for repurchase at June 30, 2022. This framework and our capital flexibility allow for the continuation of our recent quarterly average share repurchase levels in dollars as well as the ability to increase those levels should conditions warrant. PNC's SCB for the four-quarter period beginning October 1, 2022 is 2.9%.

On July 1, 2022, the PNC Board of Directors declared a quarterly cash dividend on common stock of $1.50 per share payable on August 5, 2022.

*Table 30: Basel III Capital*

| Dollars in millions | June 30, 2022 Basel III (a) | June 30, 2022 Fully Implemented (estimated) (b) |
|---|---|---|
| **Common equity Tier 1 capital** | | |
| Common stock plus related surplus, net of treasury stock | (1,834) | (1,834) |
| Retained earnings | 52,564 | 51,841 |
| Goodwill, net of associated deferred tax liabilities | (10,699) | (10,699) |
| Other disallowed intangibles, net of deferred tax liabilities | (395) | (395) |
| Other adjustments/(deductions) | (99) | (107) |
| **Common equity Tier 1 capital (c)** | 39,537 | 38,806 |
| **Additional Tier 1 capital** | | |
| Preferred stock plus related surplus | 6,004 | 6,004 |
| **Tier 1 capital** | 45,541 | 44,810 |
| **Additional Tier 2 capital** | | |
| Qualifying subordinated debt | 3,793 | 3,793 |
| Eligible credit reserves includable in Tier 2 capital | 4,070 | 4,785 |
| **Total Basel III capital** | $ 53,404 | $ 53,388 |
| **Risk-weighted assets** | | |
| Basel III standardized approach risk-weighted assets (d) | $ 413,432 | $ 413,706 |
| **Average quarterly adjusted total assets** | $ 539,996 | $ 539,265 |
| **Supplementary leverage exposure (e)** | $ 637,236 | $ 637,229 |
| **Basel III risk-based capital and leverage ratios (f)** | | |
| Common equity Tier 1 | 9.6 % | 9.4 % |
| Tier 1 | 11.0 % | 10.8 % |
| Total | 12.9 % | 12.9 % |
| Leverage (g) | 8.4 % | 8.3 % |
| Supplementary leverage ratio (e) | 7.1 % | 7.0 % |

(a) The ratios are calculated to reflect PNC's election to adopt the CECL five-year transition provisions. Effective for the first quarter 2022, PNC is now in the three-year transition period and the full impact of the CECL standard is being phased-in to regulatory capital through December 31, 2024.
(b) The ratios are calculated to reflect the full impact of CECL and excludes the benefits of the optional five-year transition.
(c) As permitted, PNC and PNC Bank have elected to exclude AOCI related to both available for sale securities and pension and other post-retirement plans from CET1 capital.
(d) Basel III standardized approach risk-weighted assets are based on the Basel III standardized approach rules and include credit and market risk-weighted assets.
(e) 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.
(f) All ratios are calculated using the regulatory capital methodology applicable to PNC and calculated based on the standardized approach.
(g) Leverage ratio is calculated based on Tier 1 capital divided by Average quarterly adjusted total assets.

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

The regulatory agencies have adopted a rule permitting banks to delay the estimated impact on regulatory capital stemming from implementing CECL. CECL's estimated impact on CET1 capital, as defined by the rule, is the change in retained earnings at adoption plus or minus 25% of the change in CECL ACL at the balance sheet date, excluding the initial allowance for PCD loans from BBVA, compared to CECL ACL at adoption. Effective for the first quarter of 2022, PNC is now in the three-year transition period, and the full impact of the CECL standard is being phased-in to regulatory capital through December 31, 2024. See additional discussion of this rule in the Supervision and Regulation section of Item 1 Business and Item 1A Risk Factors of our 2021 Form 10-K.

At June 30, 2022, PNC and PNC Bank 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 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 June 30, 2022 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 2021 Form 10-K.

## Market Risk Management

See the Market Risk Management portion of the Risk Management Section in our 2021 Form 10-K for additional discussion regarding market risk.

### Market Risk Management – Interest Rate Risk

Interest rate risk results primarily from our traditional banking activities of gathering deposits and extending loans. Many factors, including economic and financial conditions, movements in interest rates and consumer preferences, affect the difference between the interest that we earn on assets and the interest that we pay on liabilities and the level of our noninterest-bearing funding sources. Due to the repricing term mismatches and embedded options inherent in certain of these products, changes in market interest rates not only affect expected near-term earnings, but also the economic values of these assets and liabilities.

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

Sensitivity results and market interest rate benchmarks for the second quarters of 2022 and 2021 follow:

***Table 31: Interest Sensitivity Analysis***

| | Second Quarter 2022 | Second Quarter 2021 |
|---|---|---|
| **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 | 3.2 % | 5.2 % |
| 100 basis point decrease (a) | (3.4)% | N/A |
| Effect on net interest income in second year from gradual interest rate change over the preceding 12 months of: | | |
| 100 basis point increase | 5.6 % | 13.1 % |
| 100 basis point decrease (a) | (6.4)% | N/A |

(a) Due to the prevailing low interest rate environment post pandemic, the reporting of Net interest income sensitivities for the 100 basis point decrease scenario was suspended from the first quarter of 2020 to the first quarter of 2022.

In addition to measuring the effect on net interest income assuming parallel changes in current interest rates, we routinely simulate the effects of a number of nonparallel interest rate environments. Table 32 reflects the percentage change in net interest income over the next two 12-month periods, assuming (i) the PNC Economist's most likely rate forecast, (ii) implied market forward rates and (iii) yield curve slope flattening (a 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.

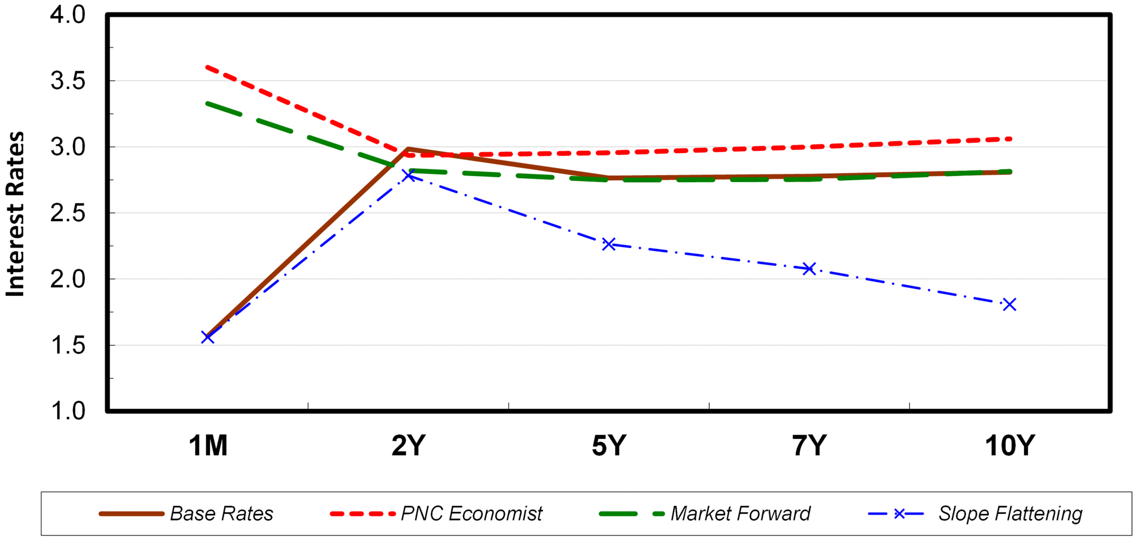
***Table 32: Net Interest Income Sensitivity to Alternative Rate Scenarios***

| | June 30, 2022 | | |
|---|---|---|---|
| | PNC Economist | Market Forward | Slope Flattening |
| First year sensitivity | 5.8 % | 6.5 % | (0.8) % |
| Second year sensitivity | (0.5) % | (1.2)% | (3.1) % |

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

The following graph presents the SOFR curves for the base rate scenario and each of the alternate scenarios one year forward.

***Table 33: Alternate Interest Rate Scenarios: One Year Forward***




The second quarter 2022 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.

**LIBOR Transition**

The scheduled discontinuance of the requirement that banks submit rates for the calculation of LIBOR after June 30, 2023 presents risks to the financial instruments originated, held or serviced by PNC that use LIBOR as a reference rate. For more discussion regarding the transition from LIBOR, see the Risk Management section in Item 7 of our 2021 Form 10-K.

Key efforts related to our transition plan to date have 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,
- Monitoring developments associated with LIBOR alternatives and industry practices related to LIBOR-indexed instruments,
- Incorporating BBVA into PNC’s LIBOR transition effort, and
- Initiating the offering of instruments referencing alternative rates in order to align with regulatory guidance encouraging the transition away from the use of USD LIBOR in new contracts after December 31, 2021.

PNC began offering conforming adjustable rate mortgages using SOFR instead of USD LIBOR, in line with Fannie Mae and Freddie Mac requirements, and nonconforming adjustable rate residential mortgages using SOFR and private education 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. The focus for 2022 is planning for the cessation event in 2023 for all lines of business. Corporate & Institutional Banking has initiated amending contracts with inadequate fallback language, working on systems enhancements and continuing with client outreach and education. PNC has provided regular updates to Federal Reserve, OCC and FDIC 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 2021 Form 10-K for more information on our models used to calculate VaR and our backtesting process.

Customer-related trading revenue was $198 million for the six months ended June 30, 2022, compared to $179 million for the six months ended June 30, 2021. The increase was primarily due to improved interest rate derivative and foreign exchange client sales revenues, partially offset by the impact of changes in credit valuations for customer-related derivative activities.

**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, consistent with regulatory limitations. The economic and/or book value of these investments and other assets are directly affected by changes in market factors.

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

A summary of our equity investments follows:

***Table 34: Equity Investments Summary***

| Dollars in millions | June 30 2022 | December 31 2021 | Change $ | Change % |
|---|---|---|---|---|
| Tax credit investments | $ 4,081 | $ 3,954 | $ 127 | 3 % |
| Private equity and other | 4,360 | 4,226 | 134 | 3 % |
| Total | $ 8,441 | $ 8,180 | $ 261 | 3 % |

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 $2.3 billion and $2.2 billion at June 30, 2022 and December 31, 2021, 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 Item 8 of our 2021 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 $2.0 billion and $1.8 billion at June 30, 2022 and December 31, 2021, respectively. As of June 30, 2022, $1.9 billion was invested directly in a variety of companies and $0.1 billion was invested indirectly through various private equity funds.

Included in our other equity investments are Visa Class B common shares, which are recorded at cost. Visa Class B common shares that we own are transferable only under limited circumstances until they can be converted into shares of the publicly-traded Class A common shares, which cannot happen until the resolution of the pending interchange litigation. Based upon the June 30, 2022 per share closing price of $196.89 for a Visa Class A common share, the estimated value of our total investment in the Class B common shares was approximately $1.1 billion at the current conversion rate of Visa B shares to Visa A shares, while our cost basis was insignificant. See Note 15 Fair Value and Note 21 Legal Proceedings in the Notes To Consolidated Financial Statements in Item 8 of our 2021 Form 10-K for additional information regarding our Visa agreements. The estimated value does not represent fair value of the Visa B common shares given the shares' 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 $23 million for the six months ended June 30, 2022 and $42 million for the six months ended June 30, 2021.

**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 Item 8 of our 2021 Form 10-K and in Note 12 Fair Value and Note 13 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

Capital, Capital Planning, and Liquidity
In June 2022, the Federal Reserve announced the results of its supervisory stress tests conducted as part of the 2022 CCAR process. PNC remained well above its risk-based minimum capital requirements in the supervisory stress tests, and PNC’s SCB for the four-quarter period beginning October 1, 2022, is 2.9%. See the Liquidity and Capital Management portion of the Risk Management section in this Financial Review for a discussion of PNC’s capital actions.

Other Developments
In May 2022, the federal banking agencies issued a notice of proposed rulemaking to amend the regulations implementing the Community Reinvestment Act (CRA), which requires the agencies to assess a bank’s record of meeting the credit needs of the communities in which they do business, including low- and moderate-income neighborhoods. The proposal would significantly expand the number of areas in which a bank is evaluated, materially change the tests used to evaluate the bank in those areas, and expand the data a bank must collect and report. The proposal, if finalized, could increase PNC Bank’s obligations and compliance costs necessary to achieve a “Satisfactory” or “Outstanding” rating under the CRA framework, which factor into the ability of banks to expand and engage in new activities.

In June 2022, the FDIC issued a notice of proposed rulemaking to increase the assessment rates on deposit insurance by two basis points for all insured depository institutions like PNC Bank. Under the proposal, the new assessment rate schedule would begin with the first assessment period of 2023 and continue until the Deposit Insurance Fund reaches a reserve ratio of two percent.

## Critical Accounting Estimates and Judgments

Note 1 Accounting Policies in our 2021 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 level 3 fair value measurements are described in Critical Accounting Estimates and Judgments in Item 7 of our 2021 Form 10-K. The following details the critical estimates and judgments around the ACL.

**Allowance for Credit Losses**

We maintain the ACL at levels that we believe to be appropriate as of the balance sheet date to absorb expected credit losses on our existing investment securities, loans, equipment finance leases, 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, as well as current borrower and transaction 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 and to estimate expected credit losses. We evaluate and, when appropriate, enhance the quality of our data and models and other methods used to estimate the 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: Our forecast of expected losses depends on economic conditions 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. Changes to probability weights assigned to these scenarios and timing of peak business cycles reflected by the scenarios could materially affect our loss estimates.
- Current borrower quality: Our forecast of expected losses depends on current borrower and transaction characteristics, including credit metrics and collateral type/quality. As borrower quality evolves, forecasted losses could be materially affected.
- 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 2021 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 also determines and approves CECL scenarios' weights for use for the current reporting period.

The scenarios used for the period ended June 30, 2022 reflect an increase in downside risk compared to December 31, 2021. The current outlook considers the inflationary pressures that have broadened and intensified in recent months, along with our expectation that the FOMC will raise interest rates more aggressively than what was expected at December 31, 2021, increasing the risk of a broader-ranged economic slowdown. Though the most-likely expectation continues to be that the U.S. economy avoids recession, growth is expected to slow noticeably from current levels, and the primary downside risk to the outlook has shifted from the pandemic to monetary policy tightening and inflation.

We used a number of economic variables in our scenarios, with the most significant drivers being Real GDP and the U.S. unemployment rate. The following table presents a comparison of these two economic variables based on the weighted-average scenario forecasts used in determining our ACL at June 30, 2022 and December 31, 2021.

***Table 35: Key Macroeconomic Variables in CECL Weighted-Average Scenarios***

| | Assumptions as of June 30, 2022 | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| U.S. Real GDP (a) | 1.6% | 0.5% | 1.2% |
| U.S. Unemployment Rate (b) | 3.6% | 4.5% | 4.5% |
| | Assumptions as of December 31, 2021 | | |
| | 2022 | 2023 | 2024 |
| U.S. Real GDP (a) | 2.8% | 1.4% | 1.3% |
| U.S. Unemployment Rate (b) | 4.4% | 4.1% | 3.9% |

(a) Represents year-over-year growth rates.
(b) Represents quarterly average rate at December 31, 2022, 2023 and 2024, respectively.

Real GDP growth is expected to end 2022 at 1.6% on a weighted average basis, down from the 2.8% assumed at December 31, 2021 due primarily to weaker expected growth in the second half of 2022, along with the unexpected contraction of GDP in the first quarter of 2022. Growth continues to slow to 0.5% and 1.2% in 2023 and 2024. In line with the slowing in overall economic activity, the weighted average unemployment rate is expected to increase modestly to 4.5% in 2023, remaining at that level through 2024.

The economy has seen significant improvement from the onset of the pandemic, as containment of the virus has permitted recovery in many industries. However, the pandemic fostered structural/secular changes that persist in certain subsegments of the economy. Additionally, recent challenges related to inflation, increased pressure on supply chain and rising interest rates have emerged. The current state of the economy has created considerable uncertainty around losses for certain portions of our commercial and consumer portfolios. For commercial borrowers, supply chain, inflation, rising rates and advancing secular changes are the primary drivers of uncertainty. For consumer borrowers, higher inflation risk, rising interest rates and the fading effects of government stimulus could reduce consumer liquidity and change payment hierarchy. 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 effectively reflect the distribution of potential economic outcomes. Additionally, through in-depth and granular analysis we have addressed reserve requirements for the specific populations most affected in the current environment. Through this approach, we believe the reserve levels appropriately reflect the expected credit losses in the portfolio as of the balance sheet date.

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.

**Recently Issued Accounting Standards**

| Accounting Standards Update | Description | Financial Statement Impact |
|---|---|---|
| **Troubled Debt Restructurings and Vintage Disclosures - ASU 2022-02**<br><br>Issued March 2022 | • Required effective date of January 1, 2023; early adoption is permitted.<br>• Eliminates the accounting guidance for TDRs and requires an entity to apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan.<br>• Enhances disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.<br>• Requires disclosure of current-period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of CECL.<br>• Requires a prospective transition approach to all amendments except those related to the recognition and measurement of TDRs (which allow a modified retrospective transition approach through a cumulative-effect adjustment to retained earnings in the period of adoption). | • We do not expect the adoption of this standard to materially impact our consolidated results of operations or our consolidated financial position. The amendments will require changes to disclosures on information related to loan modifications and current-period gross write-offs. |

**Recently Adopted Accounting Pronouncements**

See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in this Report regarding the impact of new accounting pronouncements which we have adopted.

## Internal Controls And Disclosure Controls And Procedures

As of June 30, 2022, we performed an evaluation under the supervision of and with the participation of our management, including the Chairman, President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures and of changes in our internal control over financial reporting.

Based on that evaluation, our Chairman, President and Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) were effective as of June 30, 2022, and that there has been no change in PNC's internal control over financial reporting that occurred during the second quarter of 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Cautionary Statement Regarding Forward-Looking Information

We make statements in this Report, and we may from time to time make other statements, regarding our outlook for financial performance, such as 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 impact of the Russia-Ukraine conflict, and associated sanctions, on the global and U.S. economy,
  - The length and extent of the economic impacts of the COVID-19 pandemic,
  - Impacts of changes in federal, state and local governmental policy, including on the regulatory landscape, capital markets, taxes, 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 views that:
  - The U.S. economy continues to recover from the pandemic-caused recession in the first half of 2020. Growth is likely to be lower than the economy’s long-run average throughout this year. Consumer spending growth will remain solid in 2022 due to good underlying fundamentals.
  - Supply-chain difficulties will gradually ease over the course of 2022. Labor shortages will remain a constraint this year, although strong wage growth will support consumer spending.
  - Inflation accelerated in the second half of 2021 to its fastest pace in decades. Inflation will slow in the second half of 2022 as pandemic-related supply and demand imbalances recede and energy prices stabilize. However, inflation will also broaden throughout the economy due to wage growth. The annual inflation rate will end 2022 above the Federal Reserve's long-run objective of 2%.
  - The FOMC raised the federal funds rate by 0.75% in July, to a range of 2.25% to 2.50%. PNC expects further increases in the federal funds rate through the rest of this year, to a range of 3.25% to 3.50% at the end of 2022. The federal funds rate is expected to peak between 3.50% and 3.75% in mid-early 2023, before falling in the second half of next year as inflation ebbs and economic growth slows.
  - Uncertainty about the outlook has increased with the Russian invasion of Ukraine. It has created additional risk to higher inflation this year, which could lead the FOMC to tighten more aggressively than currently anticipated. In addition, risks to growth and the likelihood of a recession in late 2022 or 2023 have increased.
- PNC’s ability to take certain capital actions, including returning capital to shareholders, is subject to PNC meeting or exceeding an SCB 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.
- 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. Many of these risks and uncertainties are present in our acquisition and integration of BBVA, including its U.S. banking subsidiary, BBVA USA.
- 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 2021 Form 10-K, first quarter 2022 Form 10-Q and elsewhere in this Report, including in the Risk Factors and Risk Management sections and the Legal Proceedings and Commitments Notes of the Notes To Consolidated Financial Statements in these reports. Our forward-looking statements may also be subject to other risks and uncertainties, including those discussed elsewhere in this Report or in our other filings with the SEC.