

PNC FINANCIAL SERVICES GROUP, INC.
Form 10-Q
May 03, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-09718
The PNC Financial Services Group, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania 25-1435979
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
The Tower at PNC Plaza, 300 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2401
(Address of principal executive offices, including zip code)

(888) 762-2265
(Registrant's telephone number including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$5.00	PNC	New York Stock Exchange
Depository Shares Each Representing a 1/4,000 Interest in a Share of Fixed-to-	PNC P	New York Stock Exchange
Floating Rate Non-Cumulative Perpetual Preferred Stock, Series P Depository Shares Each Representing a 1/4,000 Interest in a Share of 5.375%	PNC Q	New York Stock Exchange
Non-Cumulative Perpetual Preferred Stock, Series Q		

As of April 19, 2019, there were 451,437,916 shares of the registrant's common stock (\$5 par value) outstanding.

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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 2018 Annual Report on Form 10-K (2018 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 2018 Form 10-K; Item 1A Risk Factors included in our 2018 Form 10-K; and the Legal Proceedings and Commitments Notes of the Notes To Consolidated Financial Statements included in Item 1 of this Report and Item 8 of our 2018 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 2018 Form 10-K for certain other factors that could cause actual results or future events to differ, perhaps materially, from historical performance and from those anticipated in the forward-looking statements included in this Report. See Note 14 Segment Reporting in the Notes To Consolidated Financial Statements included in this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a generally accepted accounting principles (GAAP) basis. In this Report, "PNC", "we" or "us" refers to The PNC Financial Services Group, Inc. and its subsidiaries on a consolidated basis (except when referring to PNC as a public company, its common stock or other securities issued by PNC, which just refer to The PNC Financial Services Group, Inc.). References to The PNC Financial Services Group, Inc. or to any of its subsidiaries are specifically made where applicable.

Table 1: Consolidated Financial Highlights

Dollars in millions, except per share data Unaudited	Three months ended March 31	
	2019	2018
Financial Results (a)		
Revenue		
Net interest income	\$2,475	\$2,361
Noninterest income	1,811	1,750
Total revenue	4,286	4,111
Provision for credit losses	189	92
Noninterest expense	2,578	2,527
Income before income taxes and noncontrolling interests	\$1,519	\$1,492
Net income	\$1,271	\$1,239
Less:		
Net income attributable to noncontrolling interests	10	10
Preferred stock dividends	63	63
Preferred stock discount accretion and redemptions	1	1
Net income attributable to common shareholders	1,197	1,165
Less:		
Dividends and undistributed earnings allocated to participating securities	5	5
Impact of BlackRock earnings per share dilution	3	2
Net income attributable to diluted common shares	\$1,189	\$1,158
Diluted earnings per common share	\$2.61	\$2.43
Cash dividends declared per common share	\$.95	\$.75
Effective tax rate (b)	16.3	% 17.0
Performance Ratios		%

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Net interest margin (c)	2.98	%2.91	%
Noninterest income to total revenue	42	%43	%
Efficiency	60	%61	%
Return on:			
Average common shareholders' equity	11.13	%11.04	%
Average assets	1.34	%1.34	%

(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) The effective income tax rates are generally lower than the statutory rate due to the relationship of pretax income to tax credits and earnings that are not subject to tax.

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

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

Unaudited	March 31 2019	December 31 2018	March 31 2018	
Balance Sheet Data (dollars in millions, except per share data)				
Assets	\$392,837	\$382,315	\$379,161	
Loans	\$232,293	\$226,245	\$221,614	
Allowance for loan and lease losses	\$2,692	\$2,629	\$2,604	
Interest-earning deposits with banks (b)	\$15,261	\$10,893	\$28,821	
Investment securities	\$83,869	\$82,701	\$74,562	
Loans held for sale	\$686	\$994	\$965	
Equity investments (c)	\$12,567	\$12,894	\$12,008	
Mortgage servicing rights	\$1,812	\$1,983	\$1,979	
Goodwill	\$9,218	\$9,218	\$9,218	
Other assets	\$34,761	\$34,408	\$27,949	
Noninterest-bearing deposits	\$71,606	\$73,960	\$78,303	
Interest-bearing deposits	\$199,615	\$193,879	\$186,401	
Total deposits	\$271,221	\$267,839	\$264,704	
Borrowed funds	\$59,860	\$57,419	\$58,039	
Total shareholders' equity	\$48,536	\$47,728	\$46,969	
Common shareholders' equity	\$44,546	\$43,742	\$42,983	
Accumulated other comprehensive income (loss)	\$(5)	\$(725)	\$(699)	
Book value per common share	\$98.47	\$95.72	\$91.39	
Period-end common shares outstanding (in millions)	452	457	470	
Loans to deposits	86	%84	%84	%
Common shareholders' equity to total assets	11.3	%11.4	%11.3	%
Client Assets (in billions)				
Discretionary client assets under management	\$158	\$148	\$148	
Nondiscretionary client assets under administration	130	124	129	
Total client assets under administration	288	272	277	
Brokerage account client assets	51	47	49	
Total client assets	\$339	\$319	\$326	
Basel III Capital Ratios (d)				
Common equity Tier 1	9.8	%9.6	%9.6	%
Tier 1 risk-based	10.9	%10.8	%10.8	%
Total capital risk-based (e)	13.0	%13.0	%12.8	%
Leverage	9.6	%9.4	%9.4	%
Supplementary leverage	8.0	%7.8	%7.9	%
Asset Quality				
Nonperforming loans to total loans	.71	% .75	% .83	%
Nonperforming assets to total loans, OREO and foreclosed assets	.77	% .80	% .90	%
Nonperforming assets to total assets	.45	% .47	% .53	%
Net charge-offs to average loans (for the three months ended) (annualized)	.24	% .19	% .21	%
Allowance for loan and lease losses to total loans	1.16	% 1.16	% 1.18	%
Allowance for loan and lease losses to total nonperforming loans	163	% 155	% 141	%
Accruing loans past due 90 days or more (in millions)	\$590	\$629	\$628	

(a)