

PNC FINANCIAL SERVICES GROUP, INC.

Form 10-Q

August 07, 2014

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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)

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Pennsylvania
(State or other jurisdiction of

25-1435979
(I.R.S. Employer

incorporation or organization)

Identification No.)

One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222-2707

(Address of principal executive offices, including zip code)

(412) 762-2000

(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 25, 2014, there were 540,566,475 shares of the registrant's common stock (\$5 par value) outstanding.

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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 Report and with Items 6, 7, 8 and 9A of our 2013 Annual Report on Form 10-K (2013 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. Prior period amounts have also been updated to reflect the first quarter 2014 adoption of Accounting Standards Update (ASU) 2014-01 related to investments in low income housing tax credits. See Note 1 Accounting Policies in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for more detail. For information regarding certain business, regulatory and legal risks, see the following sections as they appear in this Report and in our 2013 Form 10-K and our First Quarter 2014 Form 10-Q: the Risk Management and Recourse And Repurchase Obligations sections of the Financial Review portion of the respective report; Item 1A Risk Factors included in our 2013 Form 10-K; and the Legal Proceedings and Commitments and Guarantees Notes of the Notes To Consolidated Financial Statements included in the respective report. 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 2013 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 18 Segment Reporting in the Notes To Consolidated Financial Statements included in Part I, Item 1 of this Report for a reconciliation of total business segment earnings to total PNC consolidated net income as reported on a GAAP basis.

TABLE 1: CONSOLIDATED FINANCIAL HIGHLIGHTS

THE PNC FINANCIAL SERVICES GROUP, INC. (PNC)

Dollars in millions, except per share data Unaudited	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Financial Results (a)				
Revenue				
Net interest income	\$ 2,129	\$ 2,258	\$ 4,324	\$ 4,647
Noninterest income	1,681	1,806	3,263	3,372
Total revenue	3,810	4,064	7,587	8,019
Noninterest expense (b)	2,328	2,405	4,592	4,773
Pretax, pre-provision earnings (c)	1,482	1,659	2,995	3,246
Provision for credit losses	72	157	166	393
Income before income taxes and noncontrolling interests	\$ 1,410	\$ 1,502	\$ 2,829	\$ 2,853
Net income (b)	\$ 1,052	\$ 1,115	\$ 2,112	\$ 2,110
Less:				
Net income (loss) attributable to noncontrolling interests (b)	3	4	1	(4)
Preferred stock dividends and discount accretion and redemptions	48	53	118	128
Net income attributable to common shareholders	\$ 1,001	\$ 1,058	\$ 1,993	\$ 1,986
Less:				
Dividends and undistributed earnings allocated to nonvested restricted shares	3	5	6	9
Impact of BlackRock earnings per share dilution	3	4	9	9
Net income attributable to diluted common shares	\$ 995	\$ 1,049	\$ 1,978	\$ 1,968
Diluted earnings per common share	\$ 1.85	\$ 1.98	\$ 3.67	\$ 3.72
Cash dividends declared per common share	\$.48	\$.44	\$.92	\$.84
Performance Ratios				
Net interest margin (d)	3.12%	3.58%	3.19%	3.69%
Noninterest income to total revenue	44	44	43	42
Efficiency	61	59	61	60
Return on:				
Average common shareholders' equity	10.12	11.71	10.24	11.16
Average assets	1.31	1.48	1.33	1.41

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See page 56 for a glossary of certain terms used in this Report.

Certain prior period amounts have been reclassified to conform with the current period presentation, which we believe is more meaningful to readers of our consolidated financial statements.

- (a) The Executive Summary and Consolidated Income Statement Review portions of the Financial Review section of this Report provide information regarding items impacting the comparability of the periods presented.
- (b) Amounts for 2013 periods have been updated to reflect the first quarter 2014 adoption of Accounting Standards Update (ASU) 2014-01 related to investments in low income housing tax credits.
- (c) We believe that pretax, pre-provision earnings, a non-GAAP measure, is useful as a tool to help evaluate the ability to provide for credit costs through operations.
- (d) Calculated as annualized taxable-equivalent net interest income divided by average earning assets. The interest income earned on certain earning assets is completely or partially exempt from federal income tax. As such, these tax-exempt instruments typically yield lower returns than taxable investments. To provide more meaningful comparisons of net interest margins for all earning assets, 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 generally accepted accounting principles (GAAP) in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended June 30, 2014 and June 30, 2013 were \$47 million and \$40 million, respectively. The taxable-equivalent adjustments to net interest income for the six months ended June 30, 2014 and June 30, 2013 were \$93 million and \$80 million, respectively.

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Unaudited	June 30 2014	December 31 2013	June 30 2013
Balance Sheet Data (dollars in millions, except per share data)			
Assets (b)	\$ 327,064	\$ 320,192	\$ 304,306
Loans	200,984	195,613	189,775
Allowance for loan and lease losses	3,453	3,609	3,772
Interest-earning deposits with banks (c)	16,876	12,135	3,797
Investment securities	56,602	60,294	57,449
Loans held for sale	2,228	2,255	3,814
Goodwill and other intangible assets	11,071	11,290	11,228
Equity investments (b) (d)	10,583	10,560	9,945
Other assets	23,527	22,552	24,297
Noninterest-bearing deposits	71,001	70,306	66,708
Interest-bearing deposits	151,553	150,625	145,571
Total deposits	222,554	220,931	212,279
Transaction deposits	188,489	186,391	175,564
Borrowed funds	49,066	46,105	39,864
Total shareholders' equity (b)	44,205	42,334	40,210
Common shareholders' equity (b)	40,261	38,392	36,271
Accumulated other comprehensive income	881	436	45
Book value per common share	\$ 75.62	\$ 72.07	\$ 68.32
Common shares outstanding (millions)	532	533	531
Loans to deposits	90%	89%	89%
Client Assets (billions)			
Discretionary assets under management	\$ 131	\$ 127	\$ 117
Nondiscretionary assets under administration	126	120	116
Total assets under administration	257	247	233
Brokerage account assets	43	41	39
Total client assets	\$ 300	\$ 288	\$ 272
Capital Ratios			
Transitional Basel III (e) (f)			
Common equity Tier 1 (g)	11.0%	N/A(h)	N/A
Tier 1 risk-based	12.7	N/A	N/A
Total capital risk-based	16.0	N/A	N/A
Leverage	11.2	N/A	N/A
Pro forma Fully Phased-In Basel III (f) (i)			
Common equity Tier 1 (g)	10.0%	9.4%	8.2%
Common shareholders' equity to assets	12.3%	12.0%	11.9%
Asset Quality			
Nonperforming loans to total loans	1.39%	1.58%	1.75%
Nonperforming assets to total loans, OREO and foreclosed assets	1.57	1.76	1.99
Nonperforming assets to total assets	.97	1.08	1.24
Net charge-offs to average loans (for the three months ended) (annualized)	.29	.39	.44
Allowance for loan and lease losses to total loans	1.72	1.84	