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 incorporation or organization)	(I.R.S. Employer 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.

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
Depositary Shares Each Representing a 1/4,000 Interest in a Share of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series P	PNC P	New York Stock Exchange
Depositary Shares Each Representing a 1/4,000 Interest in a Share of 5.375% Non-Cumulative Perpetual Preferred Stock, Series Q	PNC Q	New York Stock Exchange

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

THE PNC FINANCIAL SERVICES GROUP, INC.
Cross-Reference Index to First Quarter 2019 Form 10-Q

THE PNC FINANCIAL SERVICES GROUP, INC.
Cross-Reference Index to First Quarter 2019 Form 10-Q (continued)

MD&A TABLE REFERENCE

THE PNC FINANCIAL SERVICES GROUP, INC.
Cross-Reference Index to First Quarter 2019 Form 10-Q (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE

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		

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.

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

(b)

Amounts include balances held with the Federal Reserve Bank of Cleveland (Federal Reserve Bank) of $15.0 billion, $10.5 billion and $28.6 billion as of March 31, 2019, December 31, 2018 and March 31, 2018, respectively.

(c) Amounts include our equity interest in BlackRock.

(d) All ratios are calculated based on the standardized approach. See Basel III Capital discussion in the Capital Management portion of the Risk Management section of this Financial Review and the capital discussion in the Banking Regulation and Supervision section of Item 1 Business and Item 1A Risk Factors in our 2018 Form 10-K.

(e) The 2019 and 2018 Basel III Total risk-based capital ratios include nonqualifying trust preferred capital securities of $60 million and $80 million, respectively, that are subject to a phase-out period that runs through 2021.

EXECUTIVE SUMMARY

Headquartered in Pittsburgh, Pennsylvania, we are one of the largest diversified financial services companies in the United States. 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 in markets across the Mid-Atlantic, Midwest and Southeast. We also have strategic international offices in four countries outside the U.S.

Key Strategic Goals

At PNC we manage our company for the long term. We are focused on the fundamentals of growing customers, loans, deposits and revenue and improving profitability, while investing for the future and managing risk, expenses and capital. We continue to invest in our products, markets and brand, and embrace our commitments to our customers, shareholders, employees and the communities where we do business.

We strive to expand and deepen customer relationships by offering a broad range of deposit, credit and fee-based products and services. We are focused on delivering those products and services to our customers with the goal of addressing their financial objectives and putting customers' needs first. Our business model is built on customer loyalty and engagement, understanding our customers' financial goals and offering our diverse products and services to help them achieve financial well-being. Our approach is concentrated on 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 priorities are to support client growth and business investment, maintain appropriate capital in light of economic conditions, the Basel III framework, and other regulatory expectations, and return excess capital to shareholders. For more detail, see the Capital Highlights portion of this Executive Summary and 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 2018 Form 10-K.

Income Statement Highlights

Net income for the first quarter of 2019 increased 3% to $1.3 billion, or $2.61 per diluted common share, compared to $1.2 billion, or $2.43 per diluted common share, for the first quarter of 2018.
- Total revenue increased $175 million, or 4%, to $4.3 billion.
- Net interest income increased $114 million, or 5%, to $2.5 billion.
- Net interest margin increased to 2.98% compared to 2.91% for the first quarter of 2018.
- Noninterest income increased $61 million, or 3%, to $1.8 billion.
- Provision for credit losses was $189 million compared to $92 million for the first quarter of 2018.
- Noninterest expense increased $51 million, or 2%, to $2.6 billion.

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

Balance Sheet Highlights

Our balance sheet was strong and well positioned at March 31, 2019 and December 31, 2018. In comparison to December 31, 2018:
- Total assets increased $10.5 billion to $392.8 billion.
- Total loans increased $6.0 billion, or 3%, to $232.3 billion.
- Total commercial lending grew $6.1 billion, or 4%.

- Total consumer lending decreased $.1 billion.
- Investment securities increased $1.2 billion, or 1%, to $83.9 billion.
- Interest-earning deposits with banks, primarily with the Federal Reserve Bank, increased $4.4 billion, or 40%, to $15.3 billion.
- Total deposits increased $3.4 billion, or 1%, to $271.2 billion.

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

Credit Quality Highlights

Overall credit quality remained strong.

- At March 31, 2019 compared to December 31, 2018:
- Nonperforming assets decreased $23 million, or 1%.
- Overall loan delinquencies decreased $49 million, or 3%, to $1.4 billion.
- Net charge-offs were $136 million in the first quarter of 2019 compared to $113 million for the first quarter of 2018.
- The allowance for loan and lease losses to total loans of 1.16% at March 31, 2019 was unchanged compared to December 31, 2018.

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

Capital Highlights

We maintained a strong capital position and continued to return capital to shareholders.

- The Basel III common equity Tier 1 capital ratio was 9.8% at March 31, 2019, compared with 9.6% at December 31, 2018.
- In the first quarter of 2019, we returned $1.2 billion of capital to shareholders through repurchases of 5.9 million common shares for $725 million and dividends on common shares of $438 million.
- Common shareholders' equity increased to $44.5 billion at March 31, 2019 compared to $43.7 billion at December 31, 2018.

See the Liquidity and Capital Management portion of the Risk Management section of this Financial Review for more detail on our 2019 liquidity and capital actions as well as our capital ratios.

Our ability to take certain capital actions, including plans to pay or increase common stock dividends or to repurchase shares under current or future programs, is subject to the results of the supervisory assessment of capital adequacy undertaken by the Board of Governors of the Federal Reserve System (Federal Reserve) as part of the Comprehensive Capital Analysis and Review (CCAR) process. For additional information, see the Supervision and Regulation section in Item 1 Business of our 2018 Form 10-K.

Business Outlook

Our forward-looking financial statements are subject to the risk that economic and financial market conditions will be substantially different than those we are currently expecting and do not take into account potential legal and regulatory contingencies. These statements are based on our view that:

- U.S. economic growth has accelerated over the past two years to above its long-run trend.
- Growth is expected to rebound in the second quarter following a soft first quarter 2019, and slow over the remaining course of 2019 and into 2020.
- Further gradual improvement in the labor market will occur this year, including job gains and rising wages, which would be a positive indicator for consumer spending.
- Trade restrictions and geopolitical concerns are downside risks to the forecast.
- Inflation has slowed in early 2019, to below the Federal Open Market Committee's (FOMC) 2% objective, but is expected to rise in the second half of the year.
- Our baseline forecast is for no change to the federal funds rate in 2019 and 2020, with the rate staying in its current range of 2.25% to 2.50%.

For the second quarter of 2019 compared to the first quarter of 2019, we expect:

- Average loan growth to be up approximately 1%;
- Net interest income to increase by low-single digits, on a percentage basis;

- Fee income to increase by mid-single digits, on a percentage basis. Fee income consists of asset management, consumer services, corporate services, residential mortgage and service charges on deposits;
- The quarterly run rate of other noninterest income to be in the range of $275 million to $325 million, excluding net securities gains (losses) and Visa activity;
- Provision for credit losses to be between $125 million and $200 million; and
- Noninterest expense to increase by low-single digits, on a percentage basis.

For full year 2019 compared to full year 2018, we expect:
- Average loan growth to be between 3% and 4%;
- Revenue growth on the higher end of low-single digits, on a percentage basis;
- Noninterest expense to increase on the lower end of low-single digits, on a percentage basis;
- The effective tax rate to be approximately 17%; and
- To generate positive operating leverage.

See the Cautionary Statement Regarding Forward-Looking Information section in this Financial Review and Item 1A Risk Factors in our 2018 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 for the first quarter of 2019 was $1.3 billion, or $2.61 per diluted common share, an increase of 3% compared to $1.2 billion, or $2.43 per diluted common share, for the first quarter of 2018. The increase was driven by a 4% increase in revenue, partially offset by a higher provision for credit losses and a 2% increase in noninterest expense. Higher revenue in the comparison reflected a 5% increase in net interest income and a 3% increase in noninterest income.

Net Interest Income

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

Three months ended March 31 Dollars in millions	2019 Average Balances	Average Yields/ Rates	Interest Income/ Expense	2018 Average Balances	Average Yields/ Rates	Interest Income/ Expense
Assets						
Interest-earning assets						
Investment securities	$82,318	3.05 %	$627	$74,656	2.78 %	$519
Loans	228,545	4.61 %	2,622	221,104	4.09 %	2,250
Interest-earning deposits with banks	15,017	2.43 %	91	25,667	1.52 %	98
Other	11,068	4.14 %	115	7,904	4.11 %	80
Total interest-earning assets/interest income	$336,948	4.11 %	3,455	$329,331	3.59 %	2,947
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits	$195,816	.98 %	472	$183,438	.47 %	213
Borrowed funds	59,783	3.21 %	481	59,638	2.31 %	344
Total interest-bearing liabilities/interest expense	$255,599	1.50 %	953	$243,076	.91 %	557
Net interest margin/income (Non-GAAP)		2.98 %	2,502		2.91 %	2,390
Taxable-equivalent adjustments			(27)			(29)
Net interest income (GAAP)			$2,475			$2,361

(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 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 by $114 million, or 5%, in the first quarter of 2019 compared with the first quarter of 2018. This increase reflected higher loan and securities yields and balances, partially offset by higher deposit and borrowing costs and balances. Net interest margin increased 7 basis points reflecting the impact of higher interest rates.

Average investment securities increased $7.7 billion, or 10%, driven by net purchase activity of agency residential mortgage-backed securities of $4.4 billion and U.S. Treasury and government agency securities of $3.9 billion.

Average investment securities increased to 24% of average interest-earning assets for the first quarter of 2019 compared to 23% for the first quarter of 2018.

Average loans grew $7.4 billion, or 3%, reflecting an increase in average commercial lending of $6.5 billion, or 4%, driven by growth in the Corporate Banking and Business Credit businesses in our Corporate & Institutional Banking segment.

Average consumer lending increased $.9 billion, or 1%. Growth in residential real estate, automobile and credit card was partially offset by declines in home equity and education loans. Lower home equity loans reflected paydowns and payoffs exceeding new originated volume. In addition, runoff of brokered home equity and government guaranteed education loans contributed to the declines. Average loans represented 68% of average interest-earning assets for the first quarter of 2019 compared to 67% for the first quarter of 2018.

Average interest-earning deposits with banks decreased $10.7 billion, or 41%, reflecting lower average balances held with the Federal Reserve Bank as investment of liquidity continued.

Average interest-bearing deposits grew $12.4 billion, or 7%, reflecting overall deposit and customer growth. Additionally, the increase reflects a shift of commercial deposits to interest-bearing from noninterest-bearing deposits, which declined $5.8 billion to $71.4 billion, as deposit rates have risen. In total, average interest-bearing deposits increased to 77% of average interest-bearing liabilities compared to 75% for the first quarter of 2018.

Further details regarding average loans and deposits are included in the Business Segments Review section of this Financial Review.

Noninterest Income

Table 3: Noninterest Income

	Three months ended March 31			
			Change	
Dollars in millions	2019	2018	$	%
Noninterest income				
Asset management	$437	$455	$(18)	(4)%
Consumer services	371	357	14	4%
Corporate services	462	429	33	8%
Residential mortgage	65	97	(32)	(33)%
Service charges on deposits	168	167	1	1%
Other	308	245	63	26%
Total noninterest income	$1,811	$1,750	$61	3%

Noninterest income as a percentage of total revenue was 42% for the first quarter of 2019 compared to 43% for the same period in 2018.

Asset management revenue declined due to changes in the mix of assets under management and lower earnings from our equity investment in BlackRock. PNC's discretionary client assets under management increased to $158 billion at March 31, 2019 compared to $148 billion at March 31, 2018.

Growth in consumer service fees resulted from increases in debit card, credit card, net of rewards, and brokerage fees reflecting continued momentum in customer activity in both transaction trends and customer growth.

Higher corporate services revenue was primarily driven by growth in merger and acquisition advisory fees of $15 million and treasury management product revenue of $14 million.

Residential mortgage revenue decreased as a result of a negative adjustment for residential mortgage servicing rights valuation, net of economic hedge, compared with a benefit in first quarter 2018, and lower loan sales revenue.

The increase in other noninterest income was largely attributable to higher gains on asset sales and higher revenue from private equity investments, partially offset by negative derivative fair value adjustments related to Visa Class B common shares of $31 million in the first quarter of 2019 compared to $2 million in the first quarter of 2018.

Provision For Credit Losses

The provision for credit losses increased $97 million to $189 million in the first quarter of 2019 compared to $92 million in the first quarter of 2018 reflecting loan growth, including new loans and increased utilization, and reserve increases in the auto loan portfolio.

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

Noninterest Expense

Table 4: Noninterest Expense

	Three months ended March 31			
			Change	
Dollars in millions	2019	2018	$	%
Noninterest expense				
Personnel	$1,414	$1,354	$60	4 %
Occupancy	215	218	(3)	(1)%
Equipment	273	273	—	—
Marketing	65	55	10	18 %
Other	611	627	(16)	(3)%
Total noninterest expense	$2,578	$2,527	$51	2 %

Noninterest expense increased in the comparison as investments in support of business growth were reflected in higher personnel and marketing expense, which included costs for PNC's national retail digital strategy. These increases were offset in part by a decrease in Federal Deposit Insurance Corporation (FDIC) deposit insurance as a result of the elimination of the surcharge assessment.

PNC continued to focus on disciplined expense management, and for full-year 2019 we have a goal of $300 million in cost savings through our continuous improvement program, which we expect will help fund a portion of our strategic investments.

Effective Income Tax Rate

The effective income tax rate was 16.3% in the first quarter of 2019 compared to 17.0% in the first quarter of 2018.

CONSOLIDATED BALANCE SHEET REVIEW

Table 5: Summarized Balance Sheet Data

	March 31	December 31	Change	
Dollars in millions	2019	2018	$	%
Assets				
Interest-earning deposits with banks	$15,261	$10,893	$4,368	40 %
Loans held for sale	686	994	(308)	(31)%
Investment securities	83,869	82,701	1,168	1 %
Loans	232,293	226,245	6,048	3 %
Allowance for loan and lease losses	(2,692)	(2,629)	(63)	(2)%
Mortgage servicing rights	1,812	1,983	(171)	(9)%
Goodwill	9,218	9,218	—	—
Other, net	52,390	52,910	(520)	(1)%
Total assets	$392,837	$382,315	$10,522	3 %
Liabilities				
Deposits	$271,221	$267,839	$3,382	1 %
Borrowed funds	59,860	57,419	2,441	4 %
Other	13,181	9,287	3,894	42 %
Total liabilities	344,262	334,545	9,717	3 %
Equity				
Total shareholders’ equity	48,536	47,728	808	2 %

Noncontrolling interests	39	42	(3)	(7)%
Total equity	48,575	47,770	805	2 %
Total liabilities and equity	$392,837	$382,315	$10,522	3 %

The summarized balance sheet data in Table 5 is based upon our Consolidated Balance Sheet in Part 1, Item 1 of this Report.

Our balance sheet was strong and well positioned at both March 31, 2019 and December 31, 2018.

- Total assets increased driven by loan growth, higher interest-earning deposits with banks and higher investment securities;
- Total liabilities increased due to deposit growth, higher federal funds purchased and timing of securities purchases;
- Total equity increased as higher retained earnings driven by net income and higher accumulated other comprehensive income (AOCI) was partially offset by share repurchases.

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 18 Regulatory Matters in the Notes To Consolidated Financial Statements included in our 2018 Form 10-K.

Loans

Table 6: Loans

	March 31	December 31	Change	
Dollars in millions	2019	2018	$	%
Commercial lending				
Commercial	$122,993	$116,834	$6,159	5 %
Commercial real estate	28,101	28,140	(39)	—
Equipment lease financing	7,348	7,308	40	1 %
Total commercial lending	158,442	152,282	6,160	4 %
Consumer lending				
Home equity	25,500	26,123	(623)	(2)%
Residential real estate	19,107	18,657	450	2 %
Automobile	14,707	14,419	288	2 %
Credit card	6,267	6,357	(90)	(1)%
Education	3,707	3,822	(115)	(3)%
Other consumer	4,563	4,585	(22)	—
Total consumer lending	73,851	73,963	(112)	—
Total loans	$232,293	$226,245	$6,048	3 %

Commercial loans increased reflecting broad-based growth across our Corporate Banking, Business Credit and Real Estate businesses within our Corporate & Institutional Banking segment. In Corporate Banking, commercial loans increased primarily driven by asset-backed finance securitizations as well as increased lending to large and midsize corporate clients. In Business Credit, commercial loans increased driven by new originations and higher utilization. In the Real Estate business, increased multifamily agency warehouse lending also contributed to the growth in commercial loans.

For commercial loans by industry and commercial real estate loans by geography, see Loan Portfolio Characteristics and Analysis in the Credit Risk Management portion of the Risk Management section in this Financial Review.

Consumer lending balances decreased as lower home equity loans, education loans, and credit card balances were partially offset by growth in residential real estate and automobile loans.

Home equity loans declined as paydowns and payoffs exceeded new originated volume and brokered home equity loans continued to runoff. Education loans declined primarily due to runoff of the guaranteed education loan portfolio. Credit card balances declined due to seasonally lower consumer spending.

Residential real estate loans increased primarily from originations of nonconforming loans, which are loans that do not meet government agency standards as a result of exceeding agency conforming loan limits. The growth in automobile loans was due to higher indirect auto loans as a result of continued new loan growth and expansion into franchised dealers in new markets.

For information on home equity and residential real estate loans, including by geography, and automobile loans, see Loan Portfolio Characteristics and Analysis in the Credit Risk Management portion of the Risk Management section in this Financial Review.

See the Credit Risk Management portion of the Risk Management section of this Financial Review, Note 3 Asset Quality and Note 4 Allowance for Loan and Lease Losses in our Notes To Consolidated Financial Statements included in this Report, and Note 1 Accounting Policies in our 2018 Form 10-K for additional information regarding our loan portfolio.

Investment Securities

Investment securities of $83.9 billion at March 31, 2019 increased $1.2 billion, or 1%, compared to December 31, 2018, driven by net purchases of U.S. Treasury and government agency securities of $.9 billion and asset-backed securities of $.6 billion, partially offset by a decline of other securities of $.5 billion.

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 Liquidity Coverage Ratio (LCR) and other internal and external guidelines and constraints.

Table 7: Investment Securities

	March 31, 2019		December 31, 2018		Ratings (a) as of March 31, 2019				
Dollars in millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value	AAA/ AA	A	BBB	BB and Lower	No Rating
U.S. Treasury and government agencies	$19,621	$19,778	$18,862	$18,863	100 %				
Agency residential mortgage-backed	44,866	44,750	45,153	44,407	100 %				
Non-agency residential mortgage-backed	1,983	2,278	2,076	2,365	13 %	2 %	2 %	48 %	35 %
Agency commercial mortgage-backed	2,705	2,681	2,773	2,720	100 %				
Non-agency commercial mortgage-backed (b)	3,304	3,308	3,177	3,145	88 %	5 %			7 %
Asset-backed (c)	5,682	5,739	5,115	5,155	88 %	3 %	3 %	5 %	1 %
Other (d)	5,181	5,325	5,670	5,753	72 %	15 %	9 %	1 %	3 %
Total investment securities (e)	$83,342	$83,859	$82,826	$82,408	95 %	1 %	1 %	2 %	1 %

(a) Ratings percentages allocated based on amortized cost.
(b) Collateralized primarily by retail properties, office buildings, lodging properties and multi-family housing.
(c) Collateralized primarily by corporate debt, government guaranteed education loans and other consumer credit products.
(d) Includes state and municipal securities.
(e) Includes available for sale and held to maturity securities, which are recorded on our balance sheet at fair value and amortized cost, respectively.

Table 7 presents the distribution of our total investment securities portfolio by amortized cost and fair value, as well as by credit rating. We have included credit ratings information because we believe that the information is an indicator of the degree of credit risk to which we are exposed, which could affect our risk-weighted assets and, therefore, our risk-based regulatory capital ratios under the current regulatory capital rules. 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.

The duration of investment securities was 3.1 years at March 31, 2019. We estimate that at March 31, 2019 the effective duration of investment securities was 3.3 years for an immediate 50 basis points parallel increase in interest rates and 2.9 years for an immediate 50 basis points parallel decrease in interest rates.

Based on expected prepayment speeds, the weighted-average expected maturity of the investment securities portfolio was 4.9 years at March 31, 2019 compared to 5.3 years at December 31, 2018.

Table 8: Weighted-Average Expected Maturities of Mortgage and Asset-Backed Debt Securities

March 31, 2019	Years
Agency residential mortgage-backed	5.6
Non-agency residential mortgage-backed	6.2
Agency commercial mortgage-backed	4.1
Non-agency commercial mortgage-backed	2.7
Asset-backed	2.1

Additional information regarding our investment securities is included in Note 5 Investment Securities and Note 6 Fair Value in the Notes To Consolidated Financial Statements included in this Report.

Funding Sources
Table 9: Details of Funding Sources

	March 31	December 31	Change	
Dollars in millions	2019	2018	$	%
Deposits				
Noninterest-bearing	$71,606	$73,960	$(2,354)	(3)%
Interest-bearing				
Money market	53,037	53,368	(331)	(1)%
Demand	65,643	65,211	432	1 %
Savings	61,315	56,793	4,522	8 %
Time deposits	19,620	18,507	1,113	6 %
Total interest-bearing deposits	199,615	193,879	5,736	3 %
Total deposits	271,221	267,839	3,382	1 %
Borrowed funds				
Federal Home Loan Bank (FHLB) borrowings	20,501	21,501	(1,000)	(5)%
Bank notes and senior debt	25,598	25,018	580	2 %
Subordinated debt	5,977	5,895	82	1 %
Other	7,784	5,005	2,779	56 %
Total borrowed funds	59,860	57,419	2,441	4 %
Total funding sources	$331,081	$325,258	$5,823	2 %

Total deposits increased as growth in interest-bearing deposits was partially offset by a decrease in noninterest-bearing deposits. The increase in interest-bearing deposits reflected consumer deposit growth, including from the national retail digital strategy. Noninterest-bearing deposits decreased due to seasonal declines in commercial deposits as well as a shift of commercial deposits to interest-bearing.

Borrowed funds increased due to higher federal funds purchased, included in other borrowed funds, and bank notes and senior debt, which were partially offset by decreases in FHLB borrowings. 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 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 2019 liquidity and capital activities.

Shareholders' Equity
Total shareholders' equity was $48.5 billion at March 31, 2019, an increase of $.8 billion compared to December 31, 2018. The increase resulted from net income of $1.3 billion and higher AOCI of $.7 billion related to net unrealized securities gains, partially offset by common share repurchases of $725 million and common and preferred dividends of $438 million.

Common shares outstanding were 452 million and 457 million at March 31, 2019 and December 31, 2018, respectively, as repurchases of 5.9 million shares during the period were partially offset by stock-based compensation activity.
BUSINESS SEGMENTS REVIEW

We have four reportable business segments:

- Retail Banking
- Corporate & Institutional Banking
- Asset Management Group
- BlackRock

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

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 71 in Note 14 Segment Reporting 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, other-than-temporary impairment of 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, gains or losses related to BlackRock transactions, exited businesses, and differences between business segment performance reporting and financial statement reporting (GAAP), including the presentation of net income attributable to noncontrolling interests as the segments’ results exclude their portion of net income attributable to noncontrolling interests.

Retail Banking

Retail Banking's core strategy is to acquire and retain customers who maintain their primary checking and transaction relationships with us. We seek to deepen relationships by meeting the broad range of our customers’ financial needs with savings, liquidity, lending, investment and retirement solutions. A strategic priority for us is to differentiate the customer experience and drive transformation and automation. A key element of our strategy is to expand the use of lower-cost alternative distribution channels, with an emphasis on digital capabilities, while continuing to optimize the traditional branch network. In addition, we have a disciplined process to continually improve the engagement of both our employees and customers, which is a strong driver of customer growth, retention and relationship expansion. In 2018, we launched our national retail digital strategy designed to grow customers with digitally-led banking and an ultra-thin branch network in markets outside of our existing retail branch network.

Table 10: Retail Banking Table
(Unaudited)

Three months ended March 31			Change	
Dollars in millions, except as noted	2019	2018	$	%
Income Statement				
Net interest income	$1,349	$1,218	$131	11 %
Noninterest income	595	635	(40)	(6)%
Total revenue	1,944	1,853	91	5 %
Provision for credit losses	128	69	59	86 %
Noninterest expense	1,468	1,456	12	1 %
Pretax earnings	348	328	20	6 %
Income taxes	84	79	5	6 %
Earnings	$264	$249	$15	6 %
Average Balance Sheet				
Loans held for sale	$441	$652	$(211)	(32)%
Loans				
Consumer				
Home equity	$22,990	$24,608	$(1,618)	(7)%
Automobile	14,608	13,105	1,503	11 %
Education	3,816	4,409	(593)	(13)%
Credit cards	6,204	5,619	585	10 %
Other	2,068	1,765	303	17 %
Total consumer	49,686	49,506	180	—
Commercial and commercial real estate	10,461	10,527	(66)	(1)%
Residential mortgage	15,034	13,420	1,614	12 %

Total loans	$75,181	$73,453	$1,728	2 %
Total assets	$91,255	$88,734	$2,521	3 %
Deposits				
Noninterest-bearing demand	$30,389	$29,779	$610	2 %
Interest-bearing demand	42,477	41,939	538	1 %
Money market	26,773	32,330	(5,557)	(17)%
Savings	53,100	43,838	9,262	21 %
Certificates of deposit	12,381	12,082	299	2 %
Total deposits	$165,120	$159,968	$5,152	3 %
Performance Ratios				
Return on average assets	1.17 %	1.14 %		
Noninterest income to total revenue	31 %	34 %		
Efficiency	76 %	79 %		

Three months ended March 31			Change	
Dollars in millions, except as noted	2019	2018	$	%
Supplemental Noninterest Income Information				
Consumer services	$277	$266	$11	4 %
Brokerage	$89	$86	$3	3 %
Residential mortgage	$65	$97	$(32)	(33)%
Service charges on deposits	$162	$160	$2	1 %
Residential Mortgage Information				
Residential mortgage servicing statistics (in billions, except as noted) (a)				
Serviced portfolio balance (b)	$123	$125	$(2)	(2)%
Serviced portfolio acquisitions	$1	$1	—	—
MSR asset value (b)	$1.1	$1.3	$(.2)	(15)%
MSR capitalization value (in basis points) (b)	92	101	(9)	(9)%
Servicing income: (in millions)				
Servicing fees, net (c)	$53	$51	$2	4 %
Mortgage servicing rights valuation, net of economic hedge	$(9)	$9	$(18)	(200)%
Residential mortgage loan statistics				
Loan origination volume (in billions)	$1.7	$1.7	—	—
Loan sale margin percentage	2.35 %	2.83 %		
Percentage of originations represented by:				
Purchase volume (d)	56 %	56 %		
Refinance volume	44 %	44 %		
Other Information (b)				
Customer-related statistics (average)				
Non-teller deposit transactions (e)	57 %	54 %		
Digital consumer customers (f)	68 %	64 %		
Credit-related statistics				
Nonperforming assets (g)	$1,109	$1,131	$(22)	(2)%
Net charge-offs	$132	$100	$32	32 %
Other statistics				
ATMs	9,112	9,047	65	1 %
Branches (h)	2,347	2,442	(95)	(4)%
Brokerage account client assets (in billions) (i)	$51	$49	$2	4 %

(a) Represents mortgage loan servicing balances for third parties and the related income.

(b) Presented as of March 31, except for customer-related statistics, which are averages for the three months ended, and net charge-offs, which are for the three months ended.

(c) Servicing fees net of impact of decrease in MSR value due to passage of time, including the impact from both regularly scheduled loan 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) Includes nonperforming loans of $1.0 billion and $1.1 billion at March 31, 2019 and March 31, 2018, respectively.

(h) Excludes stand-alone mortgage offices and satellite offices (e.g., drive-ups, electronic branches and retirement centers) that provide limited products and/or services.

(i) Includes cash and money market balances.

Retail Banking earned $264 million in the first three months of 2019 compared with $249 million for the same period in 2018. The increase in earnings was attributable to higher net interest income partially offset by lower noninterest income and increased noninterest expense and provision for credit losses.

Net interest income increased primarily due to wider interest rate spreads on the value of deposits.

The decrease in noninterest income was largely attributed to lower residential mortgage noninterest income, reflecting a negative adjustment for residential mortgage servicing rights valuation, net of economic hedge, compared with a benefit in first quarter 2018, and a decline in loan sales revenue. The decline in loan sales revenue reflected lower gain on sales margins as a result of increased competition in the marketplace. In addition, the impact of negative derivative fair value adjustments related to Visa Class B common shares of $31 million for the first quarter of 2019 compared with $2 million in the same period in 2018 also contributed to the decrease in noninterest income. These decreases were partially offset by growth in consumer service fees, including higher debit and credit card fees, as well as higher brokerage fees and service charges on deposits.

Provision for credit losses increased in 2019 compared to 2018 primarily due to portfolio growth and reserve increases in the auto portfolio.
Higher noninterest expense primarily resulted from an increase in marketing activity, customer-related transactional costs and investments in equipment and technology.

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 quarter of 2019, average total deposits increased compared to the same period in 2018, as both interest-bearing and noninterest-bearing demand deposits increased. Savings deposits increased, reflecting, in part, a shift from money market deposits to relationship-based savings products as well as growth in consumer deposits, including from the national retail digital strategy. Certificates of deposit increased slightly due to shifts in consumer preferences to time deposits.

Retail Banking average total loans increased in the first quarter of 2019 compared with the same period in 2018.

- Average residential mortgages increased as a result of growth in nonconforming residential mortgage loans.
- Average automobile loans increased primarily due to strong new indirect auto loan volumes, including in our Southeast and new markets, as well as growth in direct auto loans.
- Average credit card balances increased as we continued to focus on our long-term objective of deepening penetration within our existing customer base.
- Average home equity loans decreased as paydowns and payoffs on loans exceeded new originated volume.
- Average education loans decreased driven by a decline in the runoff portfolio of government guaranteed education loans.
- Average commercial and commercial real estate loans declined as paydowns and payoffs on loans exceeded new volume.

Retail Banking continues to enhance the customer experience with refinements to product and service offerings that drive value for consumers and small businesses. We are focused on meeting the financial needs of our customers by providing a broad range of liquidity, banking and investment products. In 2018, Retail Banking launched its national retail digital strategy by offering a high yield savings account in markets outside of our existing retail branch network and opened a retail location in Kansas City. Deposit balances generated through the national retail digital strategy totaled $1.2 billion as of March 31, 2019.

Retail Banking continued to focus on its strategy of transforming the customer experience through transaction migration, branch network and home lending transformations and multi-channel engagement and service strategies.

- Approximately 68% of consumer customers used non-teller channels for the majority of their transactions in the first three months of 2019 compared with 64% for the same period in 2018.
- Deposit transactions via ATM and mobile channels increased to 57% of total deposit transactions versus 54% for the same period in 2018.

Retail Banking continues to make progress on its multi-year initiative to redesign the home lending process. In 2019, the home equity origination cycle will be the focus as we enhance current capabilities in order to improve speed of delivery and convenience for customers.

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 11: Corporate & Institutional Banking Table
(Unaudited)

Three months ended March 31			Change	
Dollars in millions	2019	2018	$	%
Income Statement				
Net interest income	$898	$882	$16	2 %
Noninterest income	576	547	29	5 %
Total revenue	1,474	1,429	45	3 %
Provision for credit losses	71	41	30	73 %
Noninterest expense	686	653	33	5 %
Pretax earnings	717	735	(18)	(2)%
Income taxes	165	172	(7)	(4)%
Earnings	$552	$563	$(11)	(2)%
Average Balance Sheet				
Loans held for sale	$347	$1,189	$(842)	(71)%
Loans				
Commercial	$108,641	$100,802	$7,839	8 %
Commercial real estate	25,971	26,732	(761)	(3)%
Equipment lease financing	7,264	7,845	(581)	(7)%
Total commercial lending	141,876	135,379	6,497	5 %
Consumer	20	77	(57)	(74)%
Total loans	$141,896	$135,456	$6,440	5 %
Total assets	$157,169	$151,909	$5,260	3 %
Deposits				
Noninterest-bearing demand	$39,551	$45,896	$(6,345)	(14)%
Money market	25,630	23,406	2,224	10 %
Other	23,374	18,592	4,782	26 %
Total deposits	$88,555	$87,894	$661	1 %
Performance Ratios				
Return on average assets	1.42 %	1.50 %		
Noninterest income to total revenue	39 %	38 %		
Efficiency	47 %	46 %		
Other Information				
Consolidated revenue from: (a)				
Treasury Management (b)	$445	$419	$26	6 %
Capital Markets (b)	$246	$258	$(12)	(5)%
Commercial mortgage banking activities:				
Commercial mortgage loans held for sale (c)	$15	$14	$1	7 %
Commercial mortgage loan servicing income (d)	54	55	(1)	(2)%
Commercial mortgage servicing rights valuation, net of economic hedge (e)	5	4	1	25 %
Total	$74	$73	$1	1 %

Commercial mortgage servicing rights asset value (f)	$681	$723	$(42)	(6)%
Average Loans by C&IB business (g)				
Corporate Banking	$71,089	$65,548	$	