

PNC FINANCIAL SERVICES GROUP INC
Form 10-Q
August 09, 2010
Table of Contents

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, 2010

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 Identification No.)

incorporation or organization)

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 30, 2010, there were 525,399,769 shares of the registrant's common stock (\$5 par value) outstanding.

Table of Contents**The PNC Financial Services Group, Inc.****Cross-Reference Index to Second Quarter 2010 Form 10-Q**

	Pages
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited).	
<u>Consolidated Income Statement</u>	58
<u>Consolidated Balance Sheet</u>	59
<u>Consolidated Statement Of Cash Flows</u>	60
<u>Notes To Consolidated Financial Statements (Unaudited)</u>	
<u>Note 1 Accounting Policies</u>	61
<u>Note 2 Divestiture</u>	62
<u>Note 3 Loan Sale and Servicing Activities and Variable Interest Entities</u>	63
<u>Note 4 Loans and Commitments To Extend Credit</u>	68
<u>Note 5 Asset Quality</u>	69
<u>Note 6 Purchased Impaired Loans Related to National City</u>	70
<u>Note 7 Investment Securities</u>	71
<u>Note 8 Fair Value</u>	76
<u>Note 9 Goodwill and Other Intangible Assets</u>	88
<u>Note 10 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities</u>	90
<u>Note 11 Certain Employee Benefit And Stock-Based Compensation Plans</u>	91
<u>Note 12 Financial Derivatives</u>	93
<u>Note 13 Earnings Per Share</u>	100
<u>Note 14 Total Equity And Other Comprehensive Income</u>	101
<u>Note 15 Income Taxes</u>	102
<u>Note 16 Summarized Financial Information of BlackRock</u>	103
<u>Note 17 Legal Proceedings</u>	103
<u>Note 18 Commitments and Guarantees</u>	105
<u>Note 19 Segment Reporting</u>	108
<u>Statistical Information (Unaudited)</u>	
<u>Average Consolidated Balance Sheet And Net Interest Analysis</u>	111-112
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.	1-57
Financial Review	
<u>Consolidated Financial Highlights</u>	1-2
<u>Executive Summary</u>	3
<u>Consolidated Income Statement Review</u>	8
<u>Consolidated Balance Sheet Review</u>	11
<u>Off-Balance Sheet Arrangements And Variable Interest Entities</u>	21
<u>Fair Value Measurements</u>	27
<u>Business Segments Review</u>	28
<u>Critical Accounting Estimates And Judgments</u>	39
<u>Status Of Qualified Defined Benefit Pension Plan</u>	41
<u>Risk Management</u>	42
<u>Internal Controls And Disclosure Controls And Procedures</u>	52
<u>Glossary Of Terms</u>	52
<u>Cautionary Statement Regarding Forward-Looking Information</u>	55
Item 3. Quantitative and Qualitative Disclosures About Market Risk.	42-51 and 93-99
Item 4. Controls and Procedures.	52
PART II OTHER INFORMATION	
<u>Item 1. Legal Proceedings.</u>	113
<u>Item 1A. Risk Factors.</u>	113

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<u>Item 2. Unregistered Sales Of Equity Securities And Use Of Proceeds.</u>	113
<u>Item 6. Exhibits.</u>	114
<u>Exhibit Index.</u>	114
<u>Signature</u>	114
<u>Corporate Information</u>	115

Table of Contents**FINANCIAL REVIEW****CONSOLIDATED FINANCIAL HIGHLIGHTS**

THE PNC FINANCIAL SERVICES GROUP, INC.

Dollars in millions, except per share data Unaudited	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
FINANCIAL RESULTS (a)				
Revenue				
Net interest income	\$ 2,435	\$ 2,193	\$ 4,814	\$ 4,513
Noninterest income	1,477	1,610	2,861	2,976
Total revenue	3,912	3,803	7,675	7,489
Noninterest expense	2,002	2,492	4,115	4,650
Pretax, pre-provision earnings (b)	\$ 1,910	\$ 1,311	\$ 3,560	\$ 2,839
Provision for credit losses	\$ 823	\$ 1,087	\$ 1,574	\$ 1,967
Income from continuing operations before noncontrolling interests	\$ 781	\$ 195	\$ 1,429	\$ 715
Income from discontinued operations, net of income taxes (c)	\$ 22	\$ 12	\$ 45	\$ 22
Net income	\$ 803	\$ 207	\$ 1,474	\$ 737
Net income attributable to common shareholders (d)	\$ 786	\$ 65	\$ 1,119	\$ 525
Diluted earnings per common share				
Continuing operations	\$ 1.43	\$.11	\$ 2.06	\$ 1.11
Discontinued operations (c)	.04	.03	.09	.05
Net income	\$ 1.47	\$.14	\$ 2.15	\$ 1.16
Cash dividends declared per common share	\$.10	\$.10	\$.20	\$.76
Total preferred dividends declared, including TARP	\$ 25	\$ 119	\$ 118	\$ 170
TARP Capital Purchase Program preferred dividends (d)		\$ 95	\$ 89	\$ 142
Impact of TARP Capital Purchase Program preferred dividends per diluted common share		\$.21	\$.17	\$.32
Redemption of TARP preferred stock discount accretion (d)			\$ 250	
PERFORMANCE RATIOS				
From continuing operations				
Noninterest income to total revenue	38%	42%	37%	40%
Efficiency	51	66	54	62
From net income				
Net interest margin (e)	4.35%	3.60%	4.29%	3.70%
Return on:				
Average common shareholders' equity	11.52	1.52	8.63	5.72
Average assets	1.22	.30	1.12	.53

See page 52 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) We believe that pretax, pre-provision earnings, a non-GAAP measure, is useful as a tool to help evaluate our ability to provide for credit costs through operations.
- (c) Includes results of operations for PNC Global Investment Servicing Inc. (GIS) for all periods presented. We entered into a definitive agreement to sell GIS in February 2010, and closed the sale on July 1, 2010. See Sale of PNC Global Investment Servicing in the Executive Summary section of the Financial Review section of this Report and Note 2 Divestiture in the Notes To Consolidated Financial Statements of this Report for additional information.
- (d) We redeemed the Series N (TARP) Preferred Stock on February 10, 2010. In connection with the redemption, we accelerated the accretion of the remaining issuance discount on the Series N Preferred Stock and recorded a corresponding reduction in retained earnings of \$250 million in the first quarter of 2010. This resulted in a one-time, noncash reduction in net income attributable to common shareholders and related basic and diluted earnings per share.
- (e)

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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 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 GAAP in the Consolidated Income Statement. The taxable-equivalent adjustments to net interest income for the three months ended June 30, 2010 and June 30, 2009 were \$19 million and \$16 million, respectively. The taxable-equivalent adjustments to net interest income for the six months ended June 30, 2010 and June 30, 2009 were \$37 million and \$31 million, respectively.

Table of Contents**CONSOLIDATED FINANCIAL HIGHLIGHTS (CONTINUED) (a)**

Unaudited	June 30 2010	December 31 2009	June 30 2009
BALANCE SHEET DATA (dollars in millions, except per share data)			
Assets	\$ 261,695	\$ 269,863	\$ 279,754
Loans (b) (c)	154,342	157,543	165,009
Allowance for loan and lease losses (b)	5,336	5,072	4,569
Interest-earning deposits with banks (b)	5,028	4,488	10,190
Investment securities (b)	53,717	56,027	49,969
Loans held for sale (c)	2,756	2,539	4,662
Goodwill and other intangible assets	12,138	12,909	12,890
Equity investments (b)	10,159	10,254	8,168
Noninterest-bearing deposits	44,312	44,384	41,806
Interest-bearing deposits	134,487	142,538	148,633
Total deposits	178,799	186,922	190,439
Transaction deposits	125,712	126,244	120,324
Borrowed funds (b)	40,427	39,261	44,681
Shareholders' equity	28,377	29,942	27,294
Common shareholders' equity	27,725	22,011	19,363
Accumulated other comprehensive loss	442	1,962	3,101
Book value per common share	52.77	47.68	42.00
Common shares outstanding (millions)	525	462	461
Loans to deposits	86%	84%	87%
ASSETS UNDER ADMINISTRATION (billions)			
Discretionary assets under management	\$ 99	\$ 103	\$ 98
Nondiscretionary assets under administration	100	102	124
Total assets under administration	\$ 199	\$ 205	\$ 222
CAPITAL RATIOS			
Tier 1 risk-based (d) (e)	10.7%	11.4%	10.5%
Tier 1 common (e)	8.3	6.0	5.3
Total risk-based (d)	14.3	15.0	14.1
Leverage (d)	9.1	10.1	9.1
Common shareholders' equity to assets	10.6	8.2	6.9
ASSET QUALITY RATIOS			
Nonperforming loans to total loans	3.31%	3.60%	2.52%
Nonperforming assets to total loans and foreclosed and other assets	3.81	3.99	