COMPANY PROFILE

The PNC Financial Services Group, Inc.

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COMPANY OVERVIEW

The PNC Financial Services Group, Inc. (PNC or 'the group') is a US based diversified financial services group, involved in providing retail and business banking; residential mortgage banking; specialized services for corporations and government entities, including corporate banking, real estate finance and asset-backed lending; wealth management and asset management. The group primarily operates in the US, where it is headquartered in Pittsburgh, Pennsylvania, and employed 54,433 people as on December 31, 2013.

The group recorded revenues of $16,012 million during the financial year ended December 2013 (FY2013), an increase of 3.2% over FY2012. The operating profit of the group was $5,568 million during FY2013, an increase of 41.2% over FY2012. The net profit was $3,971 million in FY2013, an increase of 40.2% over FY2012.

KEY FACTS

Head Office	The PNC Financial Services Group, Inc. One PNC Plaza 249 Fifth Avenue Pittsburgh Pennsylvania 15222-2707 USA
Phone	1 412 762 2000
Fax	
Web Address	http://www.pnc.com/
Revenue / turnover (USD Mn)	16,012.0
Financial Year End	December
Employees	54,433
New York Stock Exchange Ticker	PNC

SWOT ANALYSIS

The PNC Financial Services Group, Inc. (PNC or 'the group') is a US based diversified financial services group, involved in providing retail and business banking; residential mortgage banking; specialized services for corporations and government entities, including corporate banking, real estate finance and asset-backed lending; wealth management and asset management. The group's strong regional presence and distribution network in the retail banking segment, not only provides it a strong customer reach, but also enables it to cross-sell products and services. However, competitive pressures could impact its financial performance.

Strengths	**Weaknesses**
Strong franchise value providing revenue visibility Improving asset quality contributing to higher operating profits Adequate capital to cover its risk exposure	Inability to reverse contractions in revenue Geographic concentration increases risk
Opportunities	**Threats**
Acquisitions likely to enhance growth Buoyant asset management and custody banks sector Growing mobile banking market to help in retaining customers and arresting costs	Competitive pressures likely to intensify pressure on margins Increasing regulatory challenges

Strengths

Strong franchise value providing revenue visibility

PNC's franchise value is deemed stronger as its operating businesses hold significant market positions across their key markets. For instance, PNC owns approximately 22% of BlackRock, one of the largest publicly traded investment management firms in the US. It is the holding company for one of the largest bank-held asset managers in the US. PNC's Harris Williams & Co. is considered as one of the leaders in serving middle-market customers and government entities. PNC Equipment Finance is the fourth largest bank-affiliated leasing company with over $11 billion in equipment finance assets. Furthermore, the group strengthened its franchise by making several strategic investment in 21 new branches in FY2013. PNC's retail banking’s footprint extends across 17 states and Washington, D.C., covering nearly half the US population with 2,714 branches and 7,445 ATMs serving 5.9 million consumers and 765 thousand small business relationships. Strong franchise value is providing revenue visibility to the group.

Improving asset quality contributing to higher operating profits

The group's asset quality has improved significantly during the last few years ending December 2013. For instance, PNC's non-performing loans declined to $3.1 billion in FY2013 from $4.5 billion in FY2010. Also its non-performing assets declined to $3.4 billion in FY2013 from $5.3 billion in FY2010. Further the group's net charge-offs declined significantly to $1.1 billion in FY2013 from $2.9 billion in FY2010. Moreover, PNC's provision for credit losses declined to $643 million in FY2013 from $2.5 billion in FY2010. As a result, the group recorded significant margins in FY2013 with operating margin of 34.8% and net profit margin of 24.8%. PNC's improving asset quality is contributing to higher operating profits.

Adequate capital to cover its risk exposure

PNC's capital strength is more than adequate to cover its risk exposure as measured by regulatory capital ratios such as tier 1 ratio and tier 1 risk based capital ratio. During FY2013, the group's capital position as per the regulatory standards was 'well capitalized' with tier 1 common capital ratio at 10.5%, tier 1 risk-based capital ratio at 12.4% and total risk-based capital ratio at 15.8%. The strong capital ratios reflect PNC's 2012 capital actions of issuing approximately $2 billion of preferred stock and redeeming approximately $2.3 billion of trust preferred securities and hybrid capital securities. The group's capital position is more than adequate to cover its risk exposure as calculated under the US regulatory standards.

Weaknesses

Inability to reverse contractions in revenue

The group's revenues have been declining since FY2009. For instance, PNC's net interest income declined to $8,700 million in FY2011 from $9,083 million in FY2009. Also its total non-interest income declined to $5,626 million in FY2011 from $7,145 million in FY2009. As a result of which, the group's total revenues declined to $14,326 million in FY2011 from $16,228 million in FY2009. Contractions in revenues during FY2009–11 were despite acquisitions. Though, in FY2013, the group's revenues increased by 3.2% over previous year, it’s still not able to reach FY2009 levels. PNC's inability to reverse contractions in revenue is affecting its adjusted profits and could continue to do so in future as well.

Geographic concentration increases risk

PNC's derives substantially all of its consolidated revenues from the US market, which makes it highly susceptible to domestic market fluctuations. The group has a relatively no presence in growing markets such as India, China and other Latin American countries, which put it at a competitive disadvantage against global players with diversified geographic operations. Going forward the group's market concentration may increase the company's risk.

Opportunities

Acquisitions likely to enhance growth

PNC has been an active acquirer in the recent years. For instance, in 2008, PNC completed the acquisition of Sterling Financial. In the same year, PNC acquired National City for approximately $6.1 billion. During 2010, KBC Group NV, a Belgium-based provider of banking and insurance services, sold its KBC Business Capital, a UK based provider of asset-based lending solutions division, to PNC. In 2011, PNC Bank acquired St. Petersburg franchise from BankAtlantic Bancorp, Inc., a diversified financial services holding company. In 2011, PNC acquired 27 branches in the northern metropolitan Atlanta, Georgia area from Flagstar Bank, FSB, a subsidiary of Flagstar Bancorp, Inc. Further, during March 2012, PNC acquired RBC Bank (USA) and the credit card portfolio from RBC Bank (Georgia), National Association. Recent acquisitions and likely future acquisitions could enhance the group's growth significantly.

Buoyant asset management and custody banks sector

The global asset management industry has been growing at a positive rate and the trend is expected to continue in the coming years. According to industry estimates, the volume of investable assets is set to increase at a compound growth rate of nearly 6% to $102 trillion by 2020. Assets under management in the South America, Asia, Africa and the Middle East economies are set to grow faster than in the developed economies. Growth in assets will be driven by the government-incentivized shift to individual retirement plans; the increase of high-net-worth-individuals from emerging economies; and the growth of sovereign wealth funds.

BlackRock is one of the leading players in the global asset management and custody banks sector, generating about 4.3% share of the sector's value. PNC holds an equity investment in BlackRock. PNC can thus leverage its strong position to take advantage of the growing demand for asset management and custody bank products to strengthen its revenues and profitability.

Growing mobile banking market to help in retaining customers and arresting costs

The US mobile banking market is expected to grow at a rapid pace in the near future. According to industry estimates, the number of the US household mobile banking users will exceed 30 million by 2017, despite the challenging economic climate and threat of further global recession. PNC has taken several initiatives in the recent past to improve its mobile banking services. For instance, in 2006, PNC introduced remote deposit for business customers. Virtual Wallet was launched along with mobile banking in 2008, followed by Virtual Wallet Student and a new iPhone app in 2009. In 2010, PNC added new features to Virtual Wallet that help customers save more, manage spending and avoid mistakes. Furthermore, PNC Bank launched its PINACLE Mobile App for iPad, in April 2014. In June 2014, PNC Investments introduced a suite of online and mobile financial management tools, PNC Total Insight.

These initiatives will not only help the group to retain the existing customers, but also attract the new ones. It will also help the group to arrest the rising cost, as it will have to spend less on less physical infrastructure to service additional clients.

Threats

Competitive pressures likely to intensify pressure on margins

The US financial services market is one of the most mature markets worldwide. Especially, the market for life insurance, retirement, and investment products continues to be highly fragmented and competitive. PNC, for instance, faces stiff competition from companies such as Citigroup, Bank of America Corporation, and US Bancorp. Further, the competitive pressure is growing due to several factors, which includes cross marketing alliances between unaffiliated businesses, as well as consolidation activity in the whole financial services industry. The group is already facing the consequences of increased competition in terms of lower revenue growth against many of its competitors. Owing to increasing competition in the market, the group could witness further sluggishness in its financial performance.

Increasing regulatory challenges

Financial institutions in the US and other regions have been facing increasing regulatory challenges. For instance, Dodd-Frank Act which was signed into law on July 21, 2010 could have significant impact on the US banking industry. The Dodd-Frank Act imposes new regulatory requirements and oversight over banks and other financial institutions in a number of ways, among which are (i) creating of the Bureau of Consumer Financial Protection Bureau (CFPB) to regulate consumer financial products and services; (ii) creating of the Financial Stability Oversight Council (FSOC) to identify systemic risks and promote stronger financial regulation. It also affects the way equity capital of a bank is calculated. Under the Dodd-Frank Act, trust preferred securities that formerly constituted tier 1 capital are no longer be included in tier 1 capital. Also in July 2011, CFPB assumed responsibility for examining compliance with consumer financial protection laws. Further in November, 2011, the Federal Reserve adopted a final rule implementing an annual capital plan review process for domestic bank holding companies (BHCs) that have $50 billion or more in total consolidated assets. Increasing regulatory challenges on one hand pose non-compliance risk and on the other hand increase compliance spending.