



## COMPANY UPDATE/ ESTIMATES CHANGE/ TARGET PRICE CHANGE/ RATING CHANGE

### Key Metrics

PNC - NYSE (as of 03/01/17)	\$130.85
Price Target	\$127.00
52-Week Range	\$77.40-\$131.83
Shares Outstanding (mm)	485.0
Market Cap. (\$mm)	\$63,462
3-Mo. Average Daily Volume (000)	2,565.5
Institutional Ownership	85.1%
Tangible Equity/ Tangible Assets	9.5%
ROE	8.6%
Tangible Book Value Per Share	\$66.69
Price/Tangible Book Value	196.2%
Dividend Yield	1.7%
Price/LTM Earnings	17.9x

### Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$1.68	\$1.79	\$1.80	\$2.12	\$2.13
2Q	\$1.82	\$2.01	\$2.04	\$2.41	\$2.41
3Q	\$1.84	\$2.06	\$2.06	\$2.46	\$2.47
4Q	\$1.99	\$2.14	\$2.17	\$2.57	\$2.57
Year	\$7.33	\$7.99	\$8.07	\$9.56	\$9.58
P/E	17.9x		16.2x		13.7x

### Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.51	\$0.55	7.8	\$0.60
2Q	\$0.51	\$0.55	7.8	\$0.60
3Q	\$0.55	\$0.60	9.1	\$0.65
4Q	\$0.55	\$0.60	9.1	\$0.65
Year	\$2.12	\$2.30	8.5	\$2.50

**Company Description** – PNC Financial is a commercial banking organization headquartered in Pittsburgh, Pennsylvania and one of the largest financial services firms in the country. The company's products and services include retail banking, corporate and institutional banking, asset management and residential mortgage banking. PNC's primary markets are located in the Mid-Atlantic, Midwest and Southeast regions of the U.S., although many of its products and services are provided nationally. The company also provides certain financial services internationally.

### Banks

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## The PNC Financial Services Group, Inc.

PNC -- NYSE -- Underperform -- 1

### Revising Estimates; Reducing Rating to Underperform on Valuation

- Given that Fed rate hikes in 2017 will likely be implemented sooner than we anticipated, we are revising our PNC estimates. We are now modeling rate hikes in March and September versus our previous assumptions of June and December. As a result of these and other, more minor, adjustments, we are increasing our 2017 and 2018 EPS estimates to \$8.07 and \$9.58 from \$7.99 and \$9.56, respectively.
- We are increasing our 12-month price target by \$4 to \$127, which we derive through our discounted dividend model and the application of the stock's historical forward multiple of approximately 12.3X to our 2Q18-1Q19 EPS estimates.
- With the recent advance in PNC's share price, our price target suggests potential depreciation of 2.9%. Accordingly, we are reducing our rating to Underperform from Neutral in accordance with our rating system.
- PNC's share price is up 35.4% since the presidential election. There are valid reasons for the advance such as prospects for higher interest rates, lower corporate taxes and a strengthening economy. There are also considerable risks and uncertainties regarding these and other factors that could impact bank valuations. We encourage investors to take profits.

**Note Important Disclosures on pages 4 and 5**  
**Note Analyst Certification on page 4**

**SUITABILITY**

Our suitability rating on PNC is 1 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

**RISK FACTORS**

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are primarily clustered in three regions. Accordingly, its earnings are vulnerable to any regional shock and/or slowdown.
- **Competition** – The industry is highly competitive and is impacted by non-bank financial services firms.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders. Moreover, the company is one of the largest commercial banking organizations in the nation and, accordingly, is subject to greater regulatory scrutiny compared to smaller financial institutions.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.

<b>THE PNC FINANCIAL SERVICES GROUP, INC.</b>															
\$Millions, Except for Per Share Data															
	1Q16 A	2Q16 A	3Q16 A	4Q16 A	1Q17 E	2Q17 E	3Q17 E	4Q17 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	<b>PNC: UNDERPERFORM</b>		
													FY 2016 A	FY 2017 E	FY 2018 E
<b>Balance Sheet Data:</b>															
Assets	360,985	361,335	369,348	366,380	372,792	375,867	380,519	385,227	358,493	366,380	385,227	402,443	2.2%	5.1%	4.5%
Loans Held for Investment	207,485	209,100	210,446	210,833	211,676	213,793	217,000	220,255	206,696	210,833	220,255	230,098	2.0%	4.5%	4.5%
Average Earning Assets	310,750	312,436	314,688	318,109	321,540	325,183	328,539	332,605	311,966	318,109	326,967	290,296	2.0%	2.8%	-11.2%
Deposits	250,359	249,778	259,895	257,164	254,462	251,788	249,142	246,524	249,002	257,164	246,524	236,324	3.3%	-4.1%	-4.1%
Equity	41,677	42,103	42,251	41,797	41,807	41,845	41,994	42,149	41,258	41,797	42,149	42,814	1.3%	0.8%	1.6%
<b>Statement of Operations:</b>															
FTE Net Interest Income	2,146	2,116	2,144	2,180	2,162	2,236	2,287	2,353	8,594	8,586	9,038	9,618	-0.1%	5.3%	6.4%
Net Interest Income	2,098	2,068	2,095	2,130	2,113	2,184	2,235	2,299	8,278	8,391	8,831	9,398	1.4%	5.2%	6.4%
Provision for Loan Losses	152	127	87	67	100	131	158	160	255	433	549	787	69.8%	26.9%	43.3%
Non-Interest Income:															
Asset Management	341	377	404	399	403	420	426	438	1,567	1,521	1,688	1,819	-2.9%	11.0%	7.8%
Consumer Services	337	354	348	348	354	372	376	377	1,335	1,388	1,478	1,575	4.0%	6.5%	6.5%
Corporate Services	325	403	389	387	350	422	407	405	1,491	1,504	1,585	1,664	0.9%	5.4%	5.0%
Residential Mortgage	100	165	160	142	125	135	132	115	566	567	508	437	0.2%	-10.4%	-13.9%
Deposit Service Charges	158	163	174	172	160	165	174	172	651	667	670	670	2.5%	0.5%	0.0%
Other	297	260	252	295	265	266	268	269	1,294	1,104	1,068	1,089	-14.7%	-3.3%	2.0%
Securities Gains	9	4	7	0	0	0	0	0	43	20	0	0	-53.5%	-100.0%	NA
Total Non-Interest Income	1,567	1,726	1,734	1,744	1,657	1,780	1,783	1,777	6,947	6,771	6,997	7,255	-2.5%	3.3%	3.7%
Non-Core Adjustment	-9	-4	-7	0	0	0	0	0	-43	-20	0	0	-53.5%	-100.0%	NA
Adjusted Non-Interest Income	1,558	1,722	1,727	1,744	1,657	1,780	1,783	1,777	6,904	6,751	6,997	7,255	-2.2%	3.6%	3.7%
Non-Interest Expense:															
Personnel	1,145	1,226	1,239	1,231	1,231	1,244	1,253	1,255	4,831	4,841	4,983	5,127	0.2%	2.9%	2.9%
Occupancy	221	215	215	210	215	210	211	212	842	861	848	865	2.3%	-1.5%	2.0%
Equipment	234	240	246	254	247	249	251	253	925	974	999	1,029	5.3%	2.6%	3.0%
Marketing	54	61	72	60	62	62	63	63	249	247	251	258	-0.8%	1.5%	3.0%
Other	627	618	622	686	630	633	636	639	2,616	2,553	2,539	2,598	-2.4%	-0.5%	2.3%
Total Non-Interest Expense	2,281	2,360	2,394	2,441	2,385	2,398	2,414	2,423	9,463	9,476	9,620	9,879	0.1%	1.5%	2.7%
Non-Core Adjustment	0	0	0	0	0	0	0	0	0	0	0	0	NA	NA	NA
Adjusted Non-Interest Expense	2,281	2,360	2,394	2,441	2,385	2,398	2,414	2,423	9,463	9,476	9,620	9,879	0.1%	1.5%	2.7%
Operating Pretax Income	1,223	1,303	1,341	1,366	1,284	1,434	1,447	1,492	5,464	5,233	5,658	5,987	-4.2%	8.1%	5.8%
Operating Net Income for EPS	853	920	919	982	880	989	990	1,032	3,851	3,675	3,891	4,433	-4.6%	5.9%	13.9%
<b>Share &amp; Per Share Data:</b>															
Diluted EPS	1.68	1.81	1.84	1.97	1.80	2.04	2.06	2.17	7.39	7.30	8.07	9.58	-1.2%	10.6%	18.7%
Operating EPS	1.68	1.82	1.84	1.99	1.80	2.04	2.06	2.17	7.37	7.33	8.07	9.58	-0.6%	10.2%	18.7%
Dividends Per Share	0.51	0.51	0.55	0.55	0.55	0.55	0.60	0.60	2.01	2.12	2.30	2.50	5.5%	8.5%	8.7%
Tangible Book Value	65.15	66.00	67.30	66.85	67.60	68.54	69.56	70.65	62.72	66.85	70.65	75.54	6.6%	5.7%	6.9%
Common Shares Outstanding	499,000	493,000	488,000	485,000	480,000	474,400	469,920	465,202	485,000	485,000	465,202	445,197	0.0%	-4.1%	-4.3%
Average Diluted Shares	507,000	503,000	496,000	494,500	490,000	484,700	479,660	475,061	517,245	500,125	482,355	462,974	-3.3%	-3.6%	-4.0%
<b>Key Financial Statistics:</b>															
Return on Assets	1.06%	1.10%	1.11%	1.14%	1.06%	1.14%	1.13%	1.15%	1.17%	1.10%	1.12%	1.21%	(7)	2	9
Return on Equity	8.27%	8.54%	8.75%	9.31%	8.54%	9.48%	9.37%	9.73%	9.49%	8.72%	9.28%	10.43%	(77)	57	115
Net Interest Margin	2.75%	2.70%	2.68%	2.68%	2.73%	2.76%	2.76%	2.81%	2.73%	2.70%	2.76%	2.82%	(3)	6	6
Noninterest Income/Operating Revenues	42.61%	45.44%	45.19%	45.02%	43.96%	44.90%	44.38%	43.59%	45.47%	44.56%	44.21%	43.57%	(91)	(36)	(64)
Efficiency Ratio	61.60%	61.43%	61.09%	62.21%	61.79%	59.11%	58.68%	58.07%	60.80%	61.58%	59.41%	57.99%	79	(217)	(142)
Tangible Common Ratio	9.17%	9.28%	9.12%	9.08%	8.93%	8.87%	8.81%	8.74%	9.10%	9.08%	8.74%	8.55%	(2)	(34)	(19)
Reserves/Loans	1.31%	1.28%	1.24%	1.23%	1.21%	1.20%	1.18%	1.17%	1.32%	1.23%	1.17%	1.16%	(9)	(6)	(1)
NCOs/Average Loans	0.29%	0.26%	0.29%	0.20%	0.25%	0.25%	0.27%	0.27%	0.19%	0.26%	0.26%	0.32%	7	(0)	6

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

**Analyst Certification**

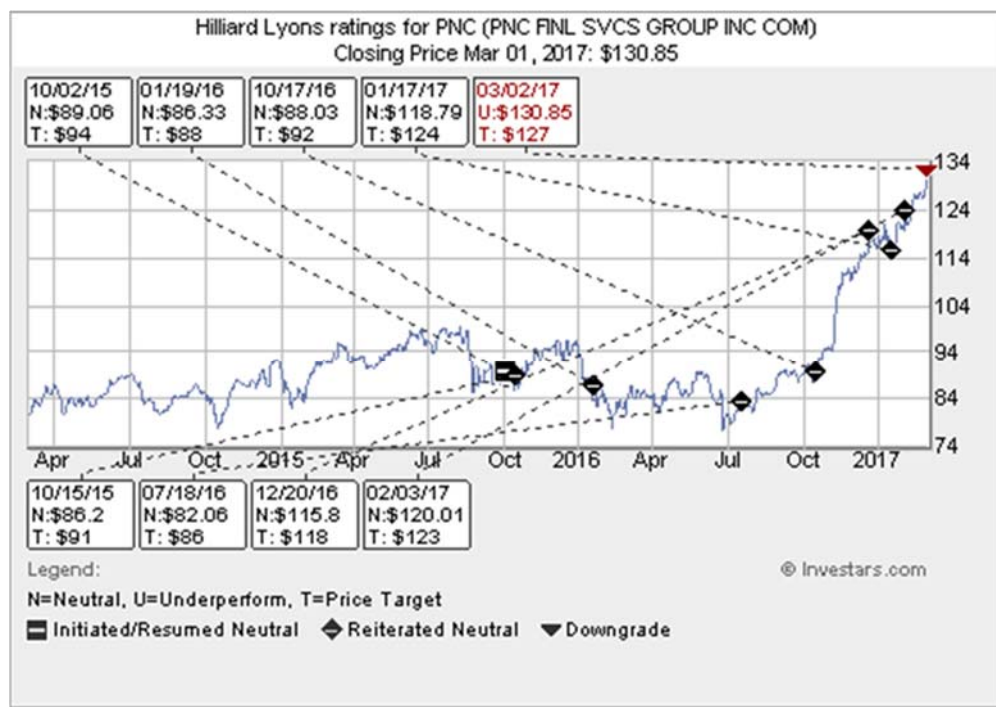
I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

**Important Disclosures**

Hilliard Lyons’ analysts receive bonus compensation based on Hilliard Lyons’ profitability. They do not receive direct payments from investment banking activity.

From 1998 to 2008, Hilliard Lyons was owned by PNC Financial.

PNC Financial is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	17%	83%
Hold/Neutral	76	62%	7%	93%
Sell	10	8%	0%	100%

As of 6 February 2017

**Definitions of Ratings:**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

**Definitions of Suitabilities:**

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

**Other Disclosures**

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