



## COMPANY UPDATE/ ESTIMATES CHANGE/ TARGET PRICE CHANGE

### Key Metrics

PNC - NYSE (as of 10/13/17)	\$133.75
Price Target	\$138.00
52-Week Range	\$87.59-\$137.41
Shares Outstanding (mm)	476.0
Market Cap. (\$mm)	\$63,665
3-Mo. Average Daily Volume (000)	2,093.5
Institutional Ownership	84.4%
Tangible Equity/ Tangible Assets	9.5%
ROE	8.6%
Tangible Book Value Per Share	\$69.12
Price/Tangible Book Value	193.5%
Dividend Yield	2.2%
Price/LTM Earnings	16.3x

### Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$1.68	\$1.94A	\$1.94A	\$2.19	\$2.22
2Q	\$1.82	\$2.08A	\$2.08A	\$2.47	\$2.48
3Q	\$1.84	\$2.08	\$2.17A	\$2.47	\$2.49
4Q	\$1.99	\$2.20	\$2.17	\$2.66	\$2.65
Year	\$7.33	\$8.31	\$8.36	\$9.80	\$9.85
P/E	18.2x		16.0x		13.6x

### Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.51	\$0.55A	7.8	\$0.75
2Q	\$0.51	\$0.55A	7.8	\$0.75
3Q	\$0.55	\$0.75A	36.4	\$0.85
4Q	\$0.55	\$0.75	36.4	\$0.85
Year	\$2.12	\$2.60	22.6	\$3.20

**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 -- Neutral -- 1

### Net Interest Margin Continues to Shine; Retaining Neutral Rating

- **Earnings Results:** Excluding \$0.01 of securities losses, PNC reported 3Q17 operating EPS of \$2.17, which exceeded our estimate of \$2.08 and the Street consensus of \$2.12.
- **Positive Highlights:** Net interest income rose 3.9% linked-quarter (LQ) to \$2.35 billion on seven bps of net interest margin expansion to 2.91%, 0.8% of lift in average earning assets and an extra day in the quarter. We had projected net interest income of \$2.32 billion and a margin of 2.88%.

Operating noninterest income increased 1.2% LQ to \$1.78 billion primarily as gains in wealth management (5.8%), deposit service charges (6.5%) and "other" noninterest income (3.3%) more than offset a 14.5% plunge in corporate services. Results were essentially in line with our estimate of \$1.77 billion.

Noninterest expense fell 0.9% sequentially to \$2.46 billion, which was modestly below our estimate of \$2.48 billion. Drivers of the decline included equipment expense (0.8%) and "other" noninterest expense (1.4%).

End-of-period loans increased 1.4% LQ, while average loans rose 1.3%.

- **Negative Highlights:** The provision for loan losses increased \$32 million LQ to \$130 million due primarily to loan growth, seasonal consumer loan credit trends and \$10 million of provisions related to Hurricanes Harvey and Irma. Nonperforming Assets/Assets fell three bps to 0.55%, while the net charge-off ratio fell one bp to 0.19%. We had modeled a provision of \$105 million and net charge-offs of 21 bps.
- **Estimates:** We are increasing our 2017 and 2018 operating EPS estimates to \$8.36 and \$9.85 from \$8.31 and \$9.80, respectively. We are raising our price target by \$8.00 to \$138.00 and reaffirming our Neutral rating.

**Note Important Disclosures on pages 5 and 6**  
**Note Analyst Certification on page 5**

**OTHER KEY TAKEAWAYS & VALUATION**

- The NIM benefitted from higher yields on loans and investment securities, while funding costs were relatively contained. The yield on earning assets rose 10 bps sequentially versus a five bp increase in the cost of interest bearing liabilities. However, due to the continued flattening of the yield curve, 3Q17 reinvestment yields were below the average yield of the securities portfolio. We do not expect PNC to increase the securities portfolio until spreads become more attractive.
- Loan growth continued to be primarily driven by gains in commercial & industrial loans. The company noted that growth rates in its newer markets is running about twice that of its legacy markets.
- The large LQ decline in corporate services income was attributable to Q2 results being exceptionally strong as well as the general volatility that this line items tends to exhibit.
- Management indicated there has been some intensification in competition on retail deposit rates. However, they expect that it will take one or two more rate hikes before increases in deposit pricing will correlate more closely with Fed rate hikes.
- While Nonperforming Assets/Assets and the net charge-off ratio improved, delinquencies ticked up slightly following two consecutive quarters of declines.
- The company returned 86% of 3Q17 earnings to shareholders through \$535 million in share repurchases and \$363 million in common stock dividends.
- PNC has approximately \$2.2 billion remaining of the \$2.7 billion share buyback authorization announced in June of this year for the four quarter period beginning in 3Q17.
- PNC offered the following guidance for 4Q17 on its call:
  - Modest sequential loan growth
  - Low single-digit expansion in net interest income, fee income and noninterest expense on a LQ basis
  - A loan loss provision of \$100 million to \$150 million
  - A full year 2017 effective tax rate of approximately 25%-26%
- Our price target is derived through our discounted dividend model and the application of a 12.5X forward multiple to our 4Q18-3Q19 EPS estimates. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018, continued flattening of the yield curve and a 28% corporate tax rate in 2018.

**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.

THE PNC FINANCIAL SERVICES GROUP, INC.											PNC: NEUTRAL					
\$Millions, Except for Per Share Data											FY 2016 A	FY 2017 E	FY 2018 E			
Balance Sheet Data:											YOY Change - %					
End-of-Period Assets	360,985	361,335	369,348	366,380	370,944	372,190	375,191	375,941	375,941	396,067	358,493	366,380	375,941	2.2%	2.8%	5.4%
EOP Loans Held for Investment	207,485	209,100	210,446	210,833	212,826	218,034	221,109	223,873	223,873	235,858	206,696	210,833	223,873	2.0%	6.2%	5.4%
Average Loans Held for Investment	207,184	208,330	208,850	210,882	212,253	216,373	219,218	222,491	222,491	229,322	205,348	208,812	217,584	1.7%	4.2%	5.4%
Average Earning Assets	310,750	312,436	314,688	320,145	321,093	324,828	324,788	326,675	326,675	334,960	306,710	309,541	324,346	0.9%	4.8%	3.3%
End-of-Period Deposits	250,359	249,778	259,895	257,164	260,710	259,176	260,735	261,256	261,256	263,353	249,002	257,164	261,256	3.3%	1.6%	0.8%
End-of-Period Equity	41,677	42,103	42,251	41,797	41,774	42,103	42,406	42,379	42,379	42,655	41,258	41,797	42,379	1.3%	1.4%	0.7%
<b>Statement of Operations:</b>																
FTE Net Interest Income	2,146	2,116	2,144	2,130	2,212	2,312	2,400	2,396	2,396	9,320	8,594	8,586	9,320	-0.1%	8.5%	6.2%
Net Interest Income	2,098	2,068	2,095	2,130	2,160	2,258	2,345	2,341	2,341	9,104	8,278	8,391	9,104	1.4%	8.5%	6.2%
Provision for Loan Losses	152	127	87	67	88	98	130	125	125	681	255	433	441	69.8%	1.7%	54.6%
<b>Non-Interest Income:</b>																
Asset Management	341	377	404	399	403	398	421	434	434	1,656	1,567	1,521	1,656	-2.9%	8.8%	8.2%
Consumer Services	337	354	348	349	332	360	357	356	356	1,442	1,335	1,388	1,405	4.0%	1.2%	2.6%
Corporate Services	325	403	389	387	393	434	371	400	400	1,678	1,491	1,504	1,598	0.9%	6.3%	5.0%
Residential Mortgage	100	165	142	142	113	104	104	111	111	444	566	567	432	0.2%	-23.8%	2.8%
Deposit Service Charges	158	163	174	172	161	170	181	178	178	690	651	667	690	2.5%	3.4%	3.4%
Other	297	260	252	299	324	336	346	275	275	1,109	1,294	1,108	1,281	-14.4%	15.6%	-13.4%
Securities Gains	9	4	4	4	2	13	1	0	0	10	43	16	10	-62.8%	-37.5%	-100.0%
Total Non-Interest Income	1,567	1,726	1,734	1,744	1,724	1,815	1,779	1,754	1,754	7,072	6,947	6,771	7,072	-2.5%	4.4%	1.5%
Non-Core Adjustment	-9	-4	-7	4	-45	-13	1	0	0	-57	-43	-16	-57	-62.8%	256.3%	-100.0%
Adjusted Non-Interest Income	1,558	1,722	1,727	1,748	1,679	1,802	1,780	1,754	1,754	7,015	6,904	6,755	7,015	-2.2%	3.8%	2.3%
<b>Non-Interest Expense:</b>																
Personnel	1,145	1,226	1,239	1,231	1,249	1,263	1,274	1,278	1,278	5,064	4,831	4,841	5,064	0.2%	4.6%	2.8%
Occupancy	221	215	215	210	222	202	204	205	205	841	842	861	833	2.3%	-3.3%	1.0%
Equipment	234	240	246	254	251	281	259	261	261	1,065	925	974	1,052	5.3%	8.0%	1.2%
Marketing	54	61	72	60	55	67	62	63	63	247	249	247	247	-0.8%	-0.2%	2.0%
Other	627	618	622	686	625	666	657	659	659	2,676	2,616	2,553	2,607	-2.4%	2.1%	2.7%
Total Non-Interest Expense	2,281	2,360	2,394	2,441	2,402	2,479	2,456	2,465	2,465	10,039	9,463	9,476	9,802	0.1%	3.4%	2.4%
Non-Core Adjustment	0	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	2,402	2,479	2,456	2,465	2,465	9,802	9,463	9,476	9,802	0.1%	3.4%	2.4%
Operating Pretax Income	1,223	1,303	1,341	1,370	1,349	1,483	1,539	1,504	1,504	5,875	5,464	5,237	5,875	-4.2%	12.2%	4.3%
Operating Net Income for EPS	853	920	919	985	963	1,022	1,049	1,037	1,037	4,070	3,851	3,678	4,070	-4.5%	10.7%	12.3%
<b>Share &amp; Per Share Data:</b>																
Diluted EPS	1.68	1.81	1.84	1.97	1.96	2.10	2.16	2.17	2.17	8.39	7.39	7.30	8.39	-1.2%	15.0%	17.3%
Operating EPS	1.68	1.82	1.84	1.99	1.94	2.08	2.17	2.17	2.17	8.36	7.37	7.33	8.36	-0.5%	14.1%	17.7%
Dividends Per Share	0.51	0.51	0.55	0.55	0.55	0.55	0.75	0.75	0.75	2.60	2.01	2.12	2.60	5.5%	22.6%	23.1%
Tangible Book Value	65.15	66.00	67.30	66.85	66.84	67.87	69.12	69.89	69.89	73.76	62.72	66.85	69.89	6.6%	4.5%	5.5%
Common Shares Outstanding	499,000	493,000	488,000	485,000	485,000	480,000	476,000	470,750	470,750	451,070	485,000	485,000	470,750	0.0%	-2.9%	-4.2%
Average Diluted Shares	507,000	503,000	496,000	494,500	492,000	488,000	483,000	477,375	477,375	464,614	517,245	500,125	485,094	-3.3%	-3.0%	-4.2%
<b>Key Financial Statistics:</b>																
Return on Assets	1.06%	1.10%	1.11%	1.14%	1.17%	1.18%	1.21%	1.17%	1.17%	1.26%	1.17%	1.10%	1.18%	(7)	8	8
Return on Equity	8.27%	8.54%	8.75%	9.31%	9.50%	9.81%	9.92%	9.70%	9.70%	10.77%	9.49%	8.72%	9.73%	(77)	102	103
Net Interest Margin	2.75%	2.70%	2.68%	2.77%	2.84%	2.91%	2.91%	2.91%	2.91%	2.86%	2.73%	2.71%	2.86%	(3)	15	10
Noninterest Income/Operating Revenues	42.61%	45.44%	45.19%	43.74%	43.74%	44.38%	43.15%	42.83%	42.83%	43.52%	45.47%	44.58%	43.52%	(90)	(105)	(92)
Efficiency Ratio	61.60%	61.43%	61.09%	62.21%	61.03%	61.06%	58.76%	58.84%	58.84%	59.92%	60.80%	61.58%	59.92%	79	(166)	(166)
Tangible Common Ratio	9.17%	9.28%	9.12%	9.08%	8.97%	8.98%	9.00%	8.98%	8.98%	8.60%	9.10%	9.08%	8.98%	(2)	(10)	(37)
Reserves/Loans	1.31%	1.28%	1.24%	1.23%	1.20%	1.17%	1.18%	1.17%	1.17%	1.16%	1.32%	1.23%	1.17%	(9)	(6)	(1)
NCOs/Average Loans	0.29%	0.26%	0.29%	0.20%	0.22%	0.20%	0.19%	0.20%	0.20%	0.25%	0.19%	0.26%	0.20%	7	(6)	5

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

**Analyst Certification**

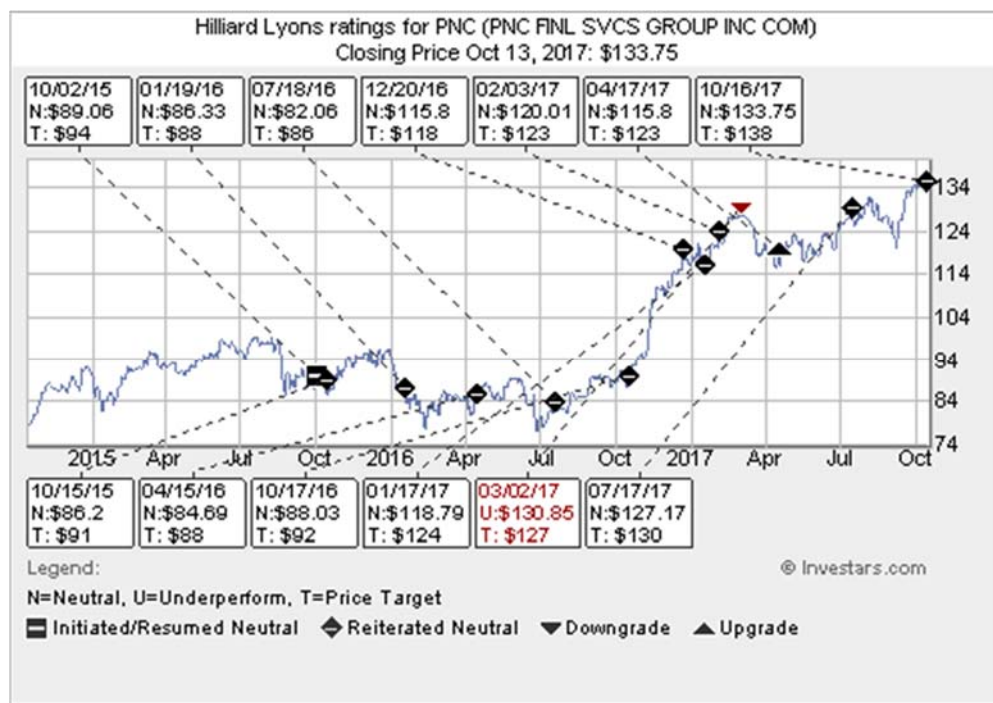
I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing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



Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.		
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 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 an average 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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