

PNC FINANCIAL SERVICES GROUP, INC.

Form 10-K

March 01, 2013

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2012

Commission file number 001-09718

THE PNC FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation or organization)

25-1435979

(I.R.S. Employer Identification No.)

One PNC Plaza

249 Fifth Avenue

Pittsburgh, Pennsylvania 15222-2707

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code - **(412) 762-2000**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$5.00	New York Stock Exchange
Depository Shares Each Representing 1/4,000 Interest in a Share of 9.875%	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series L, par value \$1.00	
Depository Shares Each Representing a 1/4,000 Interest in a Share of	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series P	
Depository Shares Each Representing a 1/4,000 Interest in a Share of 5.375%	New York Stock Exchange
Non-Cumulative Perpetual Preferred Stock, Series Q	

Edgar Filing: PNC FINANCIAL SERVICES GROUP, INC. - Form 10-K

Warrants (expiring December 31, 2018) to purchase Common Stock

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

\$1.80 Cumulative Convertible Preferred Stock - Series B, par value \$1.00

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 Act). Yes ☐ No ☒

The aggregate market value of the registrant's outstanding voting common stock held by nonaffiliates on June 30, 2012, determined using the per share closing price on that date on the New York Stock Exchange of \$61.11, was approximately \$32.2 billion. There is no non-voting common equity of the registrant outstanding.

Number of shares of registrant's common stock outstanding at February 15, 2013: 528,435,413

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of The PNC Financial Services Group, Inc. to be filed pursuant to Regulation 14A for the 2013 annual meeting of shareholders (Proxy Statement) are incorporated by reference into Part III of this Form 10-K.

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to 2012 Form 10-K

TABLE OF CONTENTS

	Page
<u>PART I</u>	
Item 1 <u>Business.</u>	1
Item 1A <u>Risk Factors.</u>	12
Item 1B <u>Unresolved Staff Comments.</u>	24
Item 2 <u>Properties.</u>	24
Item 3 <u>Legal Proceedings.</u>	25
Item 4 <u>Mine Safety Disclosures.</u>	25
<u>Executive Officers of the Registrant</u>	25
<u>Directors of the Registrant</u>	26
<u>PART II</u>	
Item 5 <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.</u>	27
<u>Common Stock Performance Graph</u>	28
Item 6 <u>Selected Financial Data.</u>	29
Item 7 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	31
<u>Executive Summary</u>	31
<u>Consolidated Income Statement Review</u>	39
<u>Consolidated Balance Sheet Review</u>	42
<u>Off-Balance Sheet Arrangements And Variable Interest Entities</u>	53
<u>Fair Value Measurements</u>	54
<u>European Exposure</u>	55
<u>Business Segments Review</u>	57
<u>Critical Accounting Estimates And Judgments</u>	71
<u>Status Of Qualified Defined Benefit Pension Plan</u>	76
<u>Recourse And Repurchase Obligations</u>	78
<u>Risk Management</u>	83
<u>2011 Versus 2010</u>	108
<u>Glossary Of Terms</u>	111
<u>Cautionary Statement Regarding Forward-Looking Information</u>	116
Item 7A <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	117
Item 8 <u>Financial Statements and Supplementary Data.</u>	118
<u>Report of Independent Registered Public Accounting Firm</u>	118
<u>Consolidated Income Statement</u>	119
<u>Consolidated Statement of Comprehensive Income</u>	120
<u>Consolidated Balance Sheet</u>	121
<u>Consolidated Statement Of Changes In Equity</u>	122
<u>Consolidated Statement Of Cash Flows</u>	123

Edgar Filing: PNC FINANCIAL SERVICES GROUP, INC. - Form 10-K

<u>Notes To Consolidated Financial Statements</u>	125
<u>Note 1 Accounting Policies</u>	125
<u>Note 2 Acquisition and Divestiture Activity</u>	137

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to 2012 Form 10-K (continued)

TABLE OF CONTENTS (Continued)

	Page
Item 8	
Financial Statements and Supplementary Data. (continued)	
<u>Note 3 Loan Sale and Servicing Activities and Variable Interest Entities</u>	139
<u>Note 4 Loans and Commitments to Extend Credit</u>	145
<u>Note 5 Asset Quality</u>	146
<u>Note 6 Purchased Loans</u>	159
<u>Note 7 Allowances for Loan and Lease Losses and Unfunded Loan Commitments and Letters of Credit</u>	162
<u>Note 8 Investment Securities</u>	165
<u>Note 9 Fair Value</u>	171
<u>Note 10 Goodwill and Other Intangible Assets</u>	187
<u>Note 11 Premises, Equipment and Leasehold Improvements</u>	190
<u>Note 12 Time Deposits</u>	191
<u>Note 13 Borrowed Funds</u>	191
<u>Note 14 Capital Securities of Subsidiary Trusts and Perpetual Trust Securities</u>	192
<u>Note 15 Employee Benefit Plans</u>	195
<u>Note 16 Stock Based Compensation Plans</u>	202
<u>Note 17 Financial Derivatives</u>	205
<u>Note 18 Earnings Per Share</u>	213
<u>Note 19 Equity</u>	214
<u>Note 20 Other Comprehensive Income</u>	216
<u>Note 21 Income Taxes</u>	217
<u>Note 22 Regulatory Matters</u>	219
<u>Note 23 Legal Proceedings</u>	219
<u>Note 24 Commitments and Guarantees</u>	226
<u>Note 25 Parent Company</u>	231
<u>Note 26 Segment Reporting</u>	232
<u>Note 27 Subsequent Events</u>	235
<u>Statistical Information (Unaudited)</u>	236
Item 9	
<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.</u>	243
Item 9A	
<u>Controls and Procedures.</u>	243
Item 9B	
<u>Other Information.</u>	243
<u>PART III</u>	
Item 10	
<u>Directors, Executive Officers and Corporate Governance.</u>	243
Item 11	
<u>Executive Compensation.</u>	244
Item 12	
<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>	244
Item 13	
<u>Certain Relationships and Related Transactions, and Director Independence.</u>	246

Edgar Filing: PNC FINANCIAL SERVICES GROUP, INC. - Form 10-K

Item 14	<u>Principal Accounting Fees and Services.</u>	246
<u>PART IV</u>		
Item 15	<u>Exhibits, Financial Statement Schedules.</u>	246
<u>SIGNATURES</u>		247
<u>EXHIBIT INDEX</u>		E-1

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to 2012 Form 10-K (continued)

MD&A TABLE REFERENCE

Table	Description	Page
1	<u>Summary Financial Results</u>	35
2	<u>Net Interest Income and Net Interest Margin</u>	39
3	<u>Summarized Balance Sheet Data</u>	42
4	<u>Details Of Loans</u>	43
5	<u>Accretion Purchased Impaired Loans</u>	44
6	<u>Accretable Net Interest Purchased Impaired Loans</u>	44
7	<u>Valuation of Purchased Impaired Loans</u>	44
8	<u>Weighted Average Life of the Purchased Impaired Portfolios</u>	45
9	<u>Accretable Difference Sensitivity Total Purchased Impaired Loans</u>	45
10	<u>Net Unfunded Credit Commitments</u>	45
11	<u>Details of Investment Securities</u>	46
12	<u>Vintage, Current Credit Rating, and FICO Score for Asset-Backed Securities</u>	47
13	<u>Other-Than-Temporary Impairments</u>	48
14	<u>Net Unrealized Gains and Losses on Non-Agency Securities</u>	48
15	<u>Loans Held For Sale</u>	49
16	<u>Details Of Funding Sources</u>	50
17	<u>Risk-Based Capital</u>	51
18	<u>Fair Value Measurements Summary</u>	54
19	<u>Summary of European Exposure</u>	55
20	<u>Results Of Businesses Summary</u>	58
21	<u>Retail Banking Table</u>	59
22	<u>Corporate & Institutional Banking Table</u>	62
23	<u>Asset Management Group Table</u>	65
24	<u>Residential Mortgage Banking Table</u>	67
25	<u>BlackRock Table</u>	69
26	<u>Non-Strategic Assets Portfolio Table</u>	69
27	<u>Pension Expense Sensitivity Analysis</u>	77
28	<u>Analysis of Quarterly Residential Mortgage Repurchase Claims by Vintage</u>	79
29	<u>Analysis of Quarterly Residential Mortgage Unresolved Asserted Indemnification and Repurchase Claims</u>	80
30	<u>Analysis of Residential Mortgage Indemnification and Repurchase Claim Settlement Activity</u>	80
31	<u>Analysis of Home Equity Unresolved Asserted Indemnification and Repurchase Claims</u>	81
32	<u>Analysis of Home Equity Indemnification and Repurchase Claim Settlement Activity</u>	82
33	<u>Nonperforming Assets By Type</u>	87
34	<u>OREO and Foreclosed Assets</u>	88
35	<u>Change in Nonperforming Assets</u>	88
36	<u>Accruing Loans Past Due 30 To 59 Days</u>	89
37	<u>Accruing Loans Past Due 60 To 89 Days</u>	89
38	<u>Accruing Loans Past Due 90 Days Or More</u>	90
39	<u>Home Equity Lines of Credit Draw Period End Dates</u>	91
40	<u>Bank-Owned Consumer Real Estate Related Loan Modifications</u>	92
41	<u>Bank-Owned Consumer Real Estate Related Loan Modifications Re-Default by Vintage</u>	93
42	<u>Summary of Troubled Debt Restructurings</u>	94
43	<u>Loan Charge-Offs And Recoveries</u>	95
44	<u>Allowance for Loan and Lease Losses</u>	97
45	<u>Credit Ratings as of December 31, 2012 for PNC and PNC Bank, N.A.</u>	103
46	<u>Contractual Obligations</u>	103
47	<u>Other Commitments</u>	104

Edgar Filing: PNC FINANCIAL SERVICES GROUP, INC. - Form 10-K

48	<u>Interest Sensitivity Analysis</u>	104
49	<u>Net Interest Income Sensitivity to Alternative Rate Scenarios (Fourth Quarter 2012)</u>	105
50	<u>Alternate Interest Rate Scenarios: One Year Forward</u>	105
51	<u>Enterprise-Wide Trading-Related Gains/Losses Versus Value at Risk</u>	106
52	<u>Trading Revenue</u>	106
53	<u>Equity Investments Summary</u>	106
54	<u>Financial Derivatives Summary</u>	108

Table of Contents

THE PNC FINANCIAL SERVICES GROUP, INC.

Cross-Reference Index to 2012 Form 10-K (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS TABLE REFERENCE

Table	Description	Page
55	<u>RBC Bank (USA) Purchase Accounting</u>	137
56	<u>RBC Bank (USA) Intangible Assets</u>	137
57	<u>RBC Bank (USA) and PNC Unaudited Pro Forma Results</u>	138
58	<u>Certain Financial Information and Cash Flows Associated with Loan Sale and Servicing Activities</u>	140
59	<u>Consolidated VIEs Carrying Value</u>	141
60	<u>Assets and Liabilities of Consolidated VIEs</u>	142
61	<u>Non-Consolidated VIEs</u>	142
62	<u>Loans Outstanding</u>	145
63	<u>Net Unfunded Credit Commitments</u>	145
64	<u>Age Analysis of Past Due Accruing Loans</u>	146
65	<u>Nonperforming Assets</u>	147
66	<u>Commercial Lending Asset Quality Indicators</u>	149
67	<u>Home Equity and Residential Real Estate Balances</u>	150
68	<u>Consumer Real Estate Secured Asset Quality Indicators Excluding Purchased Impaired Loans</u>	&n